

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE TOWN OF FRONT ROYAL AND
THE COUNTY OF WARREN, VIRGINIA**

DBA

ECONOMIC DEVELOPMENT AUTHORITY

Front Royal, Virginia

FINANCIAL REPORT

June 30, 2019 and 2018

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INTRODUCTORY SECTION

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**INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE TOWN OF FRONT ROYAL AND
THE COUNTY OF WARREN, VIRGINIA**

DBA

ECONOMIC DEVELOPMENT AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS

FY 2018

Starting July 2017

Patty Wines
Chairman Passed Away July 11, 2017

Greg Drescher
Incoming Chairman after Patty Wines Death

Bruce Drummond
Vice-Chair

William M. Biggs
(Bill)
Treasurer

Brendan Arbuckle, Resigned Sep/Oct 2017
Member, Secretary

Ron Llewellyn
Secretary December 2017

Gray Blanton
Director

Mark Baker, Installed October 2017
Director

Jim Eastham, passed away in November 2017
Director

Tom Patteson, Installed February 2018
Director

FY 2019

Greg Drescher, Resigned March 2019
Chairman

Bruce Drummond, Resigned July 9, 2019
Vice-Chair

William M. Biggs, Resigned October 2018
Treasurer

Ron Llewellyn, Resigned March 2019
Secretary

Thomas Patteson
Treasurer, Installed November 2018

Ed Daley
Director, Installed November 20, 2018

Mark Baker
Director

Gray Blanton
Chairman, Installed April 2019

Jeffrey Browne
Secretary, Appointed June 18, 2019

Greg Harold
Director, Appointed June 18, 2019

EXECUTIVE DIRECTOR

Jennifer McDonald – (through December 20, 2018)

John Anzivino – (January 2019 – May 2019)

Douglas Parsons – (May 8, 2019 – Current)

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FINANCIAL SECTION

**Financial Section contains the
Basic Financial Statements.**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Industrial Development Authority of the
Town of Front Royal and the County of Warren, Virginia
Front Royal, Virginia

We have audited the accompanying basic financial statements of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia, dba Economic Development Authority (the "Authority"), a component unit of the County of Warren, Virginia, as of and for the years ended June 30, 2019 and 2018, 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 an opinion on these financial statements based on our audits. We conducted our audits 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 *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 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 qualified audit opinion.

Basis for Qualified Opinion

As disclosed in these financial statements, the Authority is involved in significant litigation as the result of alleged fraud related to the periods under audit as well as prior periods, and certain members of current management were not employed by the Authority during the periods in which those transactions were conducted. As a result, we are unable to obtain appropriate audit evidence as follows:

- We were unable to obtain written representations from previous management of the Authority concerning transactions prior to May 8, 2019, which took place under the previous management.
- We are unable to perform procedures to conclude on completeness of all identified related parties and related party transactions or completeness of commitments and liabilities associated with the alleged fraud as discussed in Notes 12 and 14 to the financial statements.
- Our procedures related to transactions alleged to be fraudulent or unauthorized were limited to reliance on current management's conclusion and limited corroboration for the basis of these matters.
- Current management attempted to secure, but was unable to obtain an update from the Environmental Protection Agency (EPA) and FMC Corporation (FMC) as referenced in Note 10 related to the Front Royal site of Avtex Fibers.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraph, 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 2018, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2021 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 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 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 4, 2021

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**BASIC FINANCIAL
STATEMENTS**

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**INDUSTRIAL ECONOMIC DEVELOPMENT AUTHORITY OF THE TOWN OF
OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

STATEMENTS OF NET POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted (Note 2)	\$ 2,895,351	\$ 1,983,686
Prepaid expenses	14,035	10,682
Bond administration and other receivables	27,692	10
Due from Town of Front Royal, Virginia (Note 13)	9,044,938	3,790,616
Due from County of Warren, Virginia (Note 13)	679,335	6,424,017
Notes receivable, current portion (Note 4)	308,213	472,928
Total current assets	12,969,564	12,681,939
NONCURRENT ASSETS:		
Notes receivable, net of allowance for doubtful accounts (Note 4)	9,342,931	9,453,485
Construction in progress (Note 3)	492,846	73,350
Land investments (Note 3)	8,674,855	8,636,689
Capital assets, net (Note 3)	6,556,541	7,131,322
Total noncurrent assets	25,067,173	25,294,846
Total assets	38,036,737	37,976,785
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	122,352	1,924,162
Accrued interest payable	59,354	25,837
Accrued expenses	936	5,351
Deposits	6,836	8,556
Unearned revenue	900	900
Current portion of long-term debt and lines of credit (Note 5)	10,173,051	18,491,802
Total current liabilities	10,363,429	20,456,608
COMMITMENTS AND CONTINGENCIES (Note 6 and 14)	-	-
NONCURRENT LIABILITIES:		
Long-term debt and lines of credit (Note 5)	34,212,006	21,696,114
Total liabilities	44,575,435	42,152,722
NET POSITION		
Net investment in capital assets	1,078,290	1,800,160
Unrestricted	(7,616,988)	(5,976,097)
Total net position	\$ (6,538,698)	\$ (4,175,937)

The Notes to Financial Statements are an integral part of these statements.

**INDUSTRIAL ECONOMIC DEVELOPMENT AUTHORITY OF THE TOWN OF
OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Town of Front Royal, debt service	\$ 245,389	\$ 158,740
County of Warren, operating	54,117	108,117
County of Warren, debt service	481,529	395,131
Administrative fees and other miscellaneous	272,693	17,045
Rental income (Note 8)	92,604	116,591
	<u>1,146,332</u>	<u>795,624</u>
OPERATING EXPENSES		
Advertising	3,092	16,454
Auto expense	3,000	6,000
Bad debt expense	2,492	82,543
Computer expenses	9,798	1,991
Community project	2,530	2,582
Contingency	4	14,700
Copier lease, supplies and printing	3,171	3,326
Depreciation	148,006	43,834
Dues and subscriptions	1,913	4,889
Employee benefits	34,569	50,587
Engineering and other	10,883	25,055
Existing industry	757	2,732
Insurance	36,375	24,199
Miscellaneous	(297)	1,278
Office supplies	2,159	2,084
Payroll taxes	13,334	16,047
Personnel	174,460	209,450
Postage and delivery	1,308	1,212
Professional fees	231,228	39,759
Prospect expenses	1,127	1,031
Scholarships	1,000	3,690
Telephone	6,659	7,702
Travel and training, general	14,155	1,234
Utilities and maintenance	154,667	92,438
	<u>856,390</u>	<u>654,817</u>
Total operating expenses		
Operating income	<u>289,942</u>	<u>140,807</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	300,405	311,250
Interest expense	(1,546,532)	(953,447)
Loss on disposal of assets	(445,000)	(15,968)
Unauthorized expenses (Note 12)	(961,576)	(1,616,758)
	<u>(2,652,703)</u>	<u>(2,274,923)</u>
Total nonoperating revenues (expenses)		
Change in net position	(2,362,761)	(2,134,116)
NET POSITION		
BEGINNING OF THE YEAR, as restated (Note 12)	<u>(4,175,937)</u>	<u>(2,041,821)</u>
END OF THE YEAR	<u>\$ (6,538,698)</u>	<u>\$ (4,175,937)</u>

The Notes to Financial Statements are an integral part of these statements.

**INDUSTRIAL ECONOMIC DEVELOPMENT AUTHORITY OF THE TOWN OF
OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Cash received from governmental support and grants	\$ 381,033	\$ 622,191
Cash received from loan program and administration	245,011	17,035
Cash received from rental activities	90,884	119,032
Cash payments to suppliers for goods and services	(445,021)	(348,909)
Cash payments to employees	<u>(229,778)</u>	<u>(330,198)</u>
Net cash provided by operating activities	<u>42,129</u>	<u>79,151</u>
NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Cash payments for unauthorized expenses	<u>(961,576)</u>	<u>(1,616,758)</u>
Net cash used in noncapital and related financing activities	<u>(961,576)</u>	<u>(1,616,758)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Net payments for Town and County projects	(950,309)	(5,537,846)
Proceeds from issuance of long-term debt and lines of credit	24,906,472	8,449,471
Principal payments on long-term debt and lines of credit	(20,709,331)	(343,522)
Purchase of capital assets	(18,225)	(14,759)
Interest paid	<u>(1,513,015)</u>	<u>(983,204)</u>
Net cash provided by capital and related financing activities	<u>1,715,592</u>	<u>1,570,140</u>
INVESTING ACTIVITIES		
Purchase of construction in progress	(419,496)	(73,352)
Purchase of land investments	(38,166)	(10,694)
Interest received	300,405	311,250
Loans made to others	(61,000)	(144,000)
Loan repayments received	<u>333,777</u>	<u>332,278</u>
Net cash provided by investing activities	<u>115,520</u>	<u>415,482</u>
Net increase in cash and cash equivalents	911,665	448,014
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,983,686</u>	<u>1,535,672</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,895,351</u>	<u>\$ 1,983,686</u>

(Continued)

The Notes to Financial Statements are an integral part of these statements.

**INDUSTRIAL ECONOMIC DEVELOPMENT AUTHORITY OF THE TOWN OF
OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA**

**STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2019 and 2018**

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2019</u>	<u>2018</u>
OPERATING INCOME	\$ 289,942	\$ 140,807
Adjustments to reconcile operating income to net cash provided by operating activities		
Bad debt expense	2,492	82,543
Depreciation	148,006	43,834
Other operating items	-	(15,968)
(Increase) decrease in assets:		
Bond administration and other receivables	(27,682)	(10)
Prepaid expenses	(3,353)	(2,342)
Due from County (related to debt service)	(137,265)	(22,450)
Due from Town (related to debt service)	(262,737)	(17,347)
Increase (decrease) in liabilities:		
Accounts payable	38,861	(84,894)
Accrued expenses	(4,415)	(47,463)
Deposits	(1,720)	2,441
	<u>42,129</u>	<u>79,151</u>
Net cash provided by operating activities	<u>\$ 42,129</u>	<u>\$ 79,151</u>
NONCASH INVESTING ACTIVITIES		
Construction related items included in accounts payable to be reimbursed by the Town or County as applicable	<u>\$ 14,654</u>	<u>\$ 1,855,325</u>
Capital assets financed with long-term debt	<u>\$ -</u>	<u>\$ 5,325,000</u>

The Notes to Financial Statements are an integral part of these statements.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
DBA
ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 1. Nature of Business and Summary of Significant Accounting Policies

The Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Town Council of the Town of Front Royal and the Board of Supervisors of the County of Warren to be effective on December 21, 1967 pursuant to the provisions of the Economic Development and Revenue Bond Act (Chapter 33, Section 15.1-1373 through 15.1-1390, et seq., of the Code of Virginia (1950), as amended.) The Authority is governed by directors appointed by the Town of Front Royal and County of Warren, Virginia.

The general purpose of the Authority is to foster and stimulate the development of industry in the Front Royal-Warren County area for the general good of its people and the Commonwealth of Virginia.

The Authority may acquire, own, lease, and dispose of properties to the end that the Authority may be able to promote industry and develop trade by inducing manufacturing, industrial, governmental and commercial enterprises and institutions of higher education to locate in or remain in this Commonwealth and further the use of its agricultural products and natural resources, and to vest the Authority with all powers that may be necessary to enable them to accomplish such purposes, which powers shall be exercised for the benefit of the inhabitants of the Commonwealth, either through the increase of their commerce, or through the promotion of their safety, health, welfare, convenience or prosperity. The Authority shall not operate any such manufacturing, industrial or commercial enterprise or any facility of an institution of higher education.

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 whom 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 those facilities.

Basis of Accounting:

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
DBA
ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits and certificates of deposit, regardless of maturity date.

Capital Assets:

The costs of major improvements and additions are capitalized in the year incurred. Normal repairs and maintenance are expensed as incurred.

The Authority depreciates its assets, using the straight line method, over the following estimated useful lives:

	Years
Buildings and improvements	20-40
Furniture, fixtures and equipment	5-10

Land Investments

The Authority purchases land for resale to fulfill its general purpose. Improvements to land are made to enhance development. The land investments and improvements are stated on the statements of net position at fair market value based on the most recent tax assessments, which approximates fair value.

Notes Receivable:

The Authority occasionally finances a portion of the purchase price when selling real estate and improvements.

The Authority participates in the Intermediary Relending Program with the U.S. Department of Agriculture whereby federal funds are received by the Authority and passed through to rural businesses in the form of loans. The EDA has a related note payable on the program loan that is paid annually. See Note 4 for further details.

Notes receivable are stated at the amount of unpaid principal less an allowance for credit losses, as deemed necessary. The allowance for credit losses is increased through a provision for credit losses charged to income, and decreased by charge-offs, net of recoveries, when management determines that collectability of all amounts when due is unlikely. The allowance is based on management's estimate of the amount necessary to absorb losses on existing loans. Management's estimate is based on a review of specific loans. As of both June 30, 2019 and 2018, management estimated an allowance of \$167,958. Cash collections on loans that are impaired are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Unearned Revenues:

Unearned revenue represent amounts received, however, the Authority has not met all eligibility requirements in order to recognize them as income in the current period.

Accrued Sick and Vacation Leave:

The Authority allows up to 12 days sick leave each calendar year. Sick days may be accumulated up to a maximum of 130 days. Sick leave accumulation shall be forfeited upon separation from employment. However, upon retirement at a minimum age of 55 years, employees shall receive one-half of their accumulated sick leave to a maximum of 60 days. Such payment shall be made at the employee's regular rate of pay at the time of retirement. There was no accrued sick leave as of June 30, 2019 and 2018. Accrued sick leave is estimated based on the employees who had reached the minimum retirement age as of June 30. Vacation leave is earned based on years of service. No vacation leave will be permitted to accrue from calendar year to calendar year. Upon termination or retirement, the Authority pays unused vacation leave based on the employee's regular rate that is in effect.

Net Position:

Net position is the difference between assets and liabilities. Restricted net position, when present, represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

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

Fair Value:

To the extent available, the Authority's land investments are recorded at fair value as of June 30, 2019 and 2018. 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. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Contributions and grants from local governments:

Contributions and grants from local governments are recognized as income of the Authority when the activities for which the contributions and grants were designated have been completed.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Under the Virginia Security for Public Deposits Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits.

Statutes authorize the Authority 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 formally adopted an investment policy on January 20, 2006. The objective of the Authority's investment portfolio is to meet cash requirements for ongoing operations as well as long term investment strategy. The Authority has no investment policies that would further limit its investment choices.

Cash and cash equivalents include cash on hand, cash deposits and certificates of deposit, for which fair value approximated cost. These investments of the Authority are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia*, or covered by federal depository insurance.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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ECONOMIC DEVELOPMENT AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 3. Capital Assets, Construction in Progress and Land Investments

Capital assets as of June 30, 2019 includes the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land-404 Fairground Road	\$ 90,000	\$ -	\$ -	\$ 90,000
Land-1325 Progress Drive	38,579	-	-	38,579
Land-Stephens Industrial Park	470,607	-	-	470,607
Land-Royal Lane Property	445,000	-	(445,000)	-
Land-426 Baugh Drive	905,838	-	-	905,838
Total capital assets not being depreciated	<u>1,950,024</u>	<u>-</u>	<u>(445,000)</u>	<u>1,505,024</u>
Capital assets, being depreciated:				
Building-404 Fairground Road	335,184	18,225	-	353,409
Building-1325 Progress Drive	177,315	-	-	177,315
Building-426 Baugh Drive	4,422,621	-	-	4,422,621
Improvements-404 Fairground Road	23,932	-	-	23,932
Improvements-1325 Progress Drive	219,408	-	-	219,408
Improvements-404 Kendrick Lane (Earthright Energy)	73,629	927,037	(927,037)*	73,629
Improvements-Stephens Industrial Park	279,544	-	-	279,544
Furniture, Fixtures and Equipment	131,080	-	-	131,080
Total capital assets being depreciated	<u>5,662,713</u>	<u>945,262</u>	<u>(927,037)</u>	<u>5,680,938</u>
Less accumulated depreciation for:				
Buildings and improvements	(354,313)	(145,867)	-	(500,180)
Furniture, Fixtures and Equipment	(127,102)	(2,139)	-	(129,241)
Total accumulated depreciation	<u>(481,415)</u>	<u>(148,006)</u>	<u>-</u>	<u>(629,421)</u>
Total capital assets being depreciated, net	<u>5,181,298</u>	<u>797,256</u>	<u>(927,037)</u>	<u>5,051,517</u>
Total capital assets, net	<u>\$ 7,131,322</u>	<u>\$ 797,256</u>	<u>\$ (1,372,037)</u>	<u>\$ 6,556,541</u>

* - Decreases consists of items as discussed in Note 12.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 3. Capital Assets, Construction in Progress and Land Investments (Continued)

Capital assets as of June 30, 2018 includes the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land-404 Fairground Road	\$ 90,000	\$ -	\$ -	\$ 90,000
Land-1325 Progress Drive	38,579	-	-	38,579
Land-Stephens Industrial Park	470,607	-	-	470,607
Land-Royal Lane Property	577,511	-	(132,511) *	445,000
Land-426 Baugh Drive	-	905,838	-	905,838
	<u>1,176,697</u>	<u>905,838</u>	<u>(132,511)</u>	<u>1,950,024</u>
Total capital assets not being depreciated				
Capital assets, being depreciated:				
Building-404 Fairground Road	335,184	-	-	335,184
Building-1325 Progress Drive	177,315	-	-	177,315
Building-426 Baugh Drive	-	4,422,621	-	4,422,621
Improvements-404 Fairground Road	19,407	4,525	-	23,932
Improvements-1325 Progress Drive	214,508	4,900	-	219,408
Improvements-404 Kendrick Lane	135,000	1,875	(63,246) **	73,629
Improvements-Stephens Industrial Park	279,544	-	-	279,544
Improvements-Workforce Housing	57,623	-	(57,623) *	-
Furniture, Fixtures and Equipment	131,080	-	-	131,080
	<u>1,349,661</u>	<u>4,433,921</u>	<u>(120,869)</u>	<u>5,662,713</u>
Total capital assets being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(354,682)	(34,932)	35,301 **	(354,313)
Furniture, Fixtures and Equipment	(118,200)	(8,902)	-	(127,102)
	<u>(472,882)</u>	<u>(43,834)</u>	<u>35,301</u>	<u>(481,415)</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>876,779</u>	<u>4,390,087</u>	<u>(85,568)</u>	<u>5,181,298</u>
Total capital assets, net	<u>\$ 2,053,476</u>	<u>\$ 5,295,925</u>	<u>\$ (218,079)</u>	<u>\$ 7,131,322</u>

* - Decreases consists of items as discussed in Note 12.

** - Related to restatement of note receivable due from NSVRC.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 3. Capital Assets, Construction in Progress and Land Investments (Continued)

Construction in progress as of June 30, 2019 includes the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Afton Inn improvements	\$ 73,350	\$ 426,035	\$ (6,539)*	\$ 492,846
Total construction in progress	\$ 73,350	\$ 426,035	\$ (6,539)	\$ 492,846

Construction in progress as of June 30, 2018 includes the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Leach Run Parkway	\$ 5,985,671	\$ 344,808	\$ (6,330,479)*	-
Criminal Justice Academy	506,632	2,569	(509,201)*	-
IT Federal Project	495,834	159,815	(655,649)*	-
Various County Projects	5,770,036	5,069,509	(10,839,545)*	-
West Main Extension Project	483,625	110,682	(594,307)*	-
Afton Inn improvements	-	118,726	(45,376)*	73,350
Health and Human Services building	-	69,529	(69,529)*	-
Voter Registration and Special Services	-	21,078	(21,078)*	-
Total construction in progress	\$ 13,241,798	\$ 5,896,716	\$ (19,065,164)	\$ 73,350

* - Decreases consist of both items restated, as discussed in Note 12, and adjustments to reflect previously reported construction in progress as due from or due to the Town of Front Royal and the County of Warren, as applicable, as discussed in Note 13.

(Continued)

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**NOTES TO FINANCIAL STATEMENTS
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Note 3. Capital Assets, Construction in Progress and Land Investments (Continued)

Land investments as of June 30, 2019 includes the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land, Happy Creek Industrial Park	\$ 1,213,694	\$ -	\$ -	\$ 1,213,694
Land, Success Industrial Park	2,142,800	-	-	2,142,800
Avtex	3,530,982	10,899	-	3,541,881
Land, Ramsey Property	137,013	-	-	137,013
Land, Leach Run Property	432,800	-	-	432,800
Land, Benson Property	20,000	-	-	20,000
Land, 1425 Happy Creek Road	40,000	-	-	40,000
Land, 1433 Happy Creek Road	40,000	-	-	40,000
Land, 1546 John Marshall Highway	153,600	-	-	153,600
Land, 1532 John Marshall Highway	88,500	-	-	88,500
Land, 1528 John Marshall Highway	99,000	-	-	99,000
Land and Improvements, Stokes Mart	477,000	45,267	(18,000)*	504,267
Land, Afton Inn Property	261,300	-	-	261,300
Total land investments	<u>\$ 8,636,689</u>	<u>\$ 56,166</u>	<u>\$ (18,000)</u>	<u>\$ 8,674,855</u>

* - Decreases consist of items as discussed in Note 12.

(Continued)

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**NOTES TO FINANCIAL STATEMENTS
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Note 3. Capital Assets, Construction in Progress and Land Investments (Continued)

Land investments as of June 30, 2018 includes the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land, Happy Creek Industrial Park	\$ 1,213,694	\$ -	\$ -	\$ 1,213,694
Land, Success Industrial Park	2,142,800	-	-	2,142,800
Avtex	3,568,888	1,318,101	(1,356,007)*	3,530,982
Land, Ramsey Property	137,013	-	-	137,013
Land, Leach Run Property	432,800	-	-	432,800
Land, Benson Property	20,000	-	-	20,000
Land, 1425 Happy Creek Road	40,000	-	-	40,000
Land, 1433 Happy Creek Road	40,000	-	-	40,000
Land, 1546 John Marshall Highway	153,600	-	-	153,600
Land, 1532 John Marshall Highway	88,500	-	-	88,500
Land, 1528 John Marshall Highway	99,000	-	-	99,000
Land and Improvements, Stokes Mart	477,000	-	-	477,000
Land, Afton Inn Property	261,300	-	-	261,300
			-	
Total land investments	<u>\$ 8,674,595</u>	<u>\$ 1,318,101</u>	<u>\$ (1,356,007)</u>	<u>\$ 8,636,689</u>

* - Decreases consist of items as discussed in Note 12.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 4. Notes Receivable

Notes receivable as of June 30, 2019 and 2018 are as follows:

	2019	2018
Note receivable from Judith Canterbury, \$10,000, interest at 6.5%, payable in monthly installments of \$196. Note was due in full April 10, 2013. Due to economic hardships, note holder is currently making installments of \$50 until they are able to pay the loan in full.	\$ -	\$ 3,742
Note receivable from Kathleen Helm-Soranzo, \$15,000, interest at 4.75%, payable in monthly installments of \$106. Note was due in full August 15, 2014. The Authority negotiated new repayment terms in August 2014 as follows: interest at 4.5%, payable in monthly installments of \$101 due in 2026.	10,282	10,282
Note receivable from Bruce Coulliette, \$50,000, interest at 6.5%, monthly installments of \$436 due in full December 2, 2013. The Authority negotiated new repayment terms in April 2014 as follows: interest at 6.5%, payable in monthly installments of \$436, originally due in full March 18, 2019.	1,719	6,514
Note receivable from Anita Johnson and Jay Olexa, \$25,000, interest at 6.5%, payable in monthly installments of \$284, was originally due in full November 3, 2018.	15,980	16,563
Note receivable from Front Royal Cardinals, Inc., \$6,000, interest at 4.5%, payable in monthly installments of \$83, due in full June 14, 2018. The Authority negotiated new terms in February 2016 that increased the note receivable balance to \$8,211. The new repayment terms are as follows: interest at 4.5%, payable in monthly installments of \$153, due in full February 10, 2021.	2,941	4,397
Note receivable from Megan Sidorov, \$9,800, interest at 4.25%, payable in monthly installments of \$155, was originally due in full February 15, 2019.	5,066	5,066

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 4. Notes Receivable (Continued)

	2019	2018
Note receivable from Tammy Carlyle, \$9,000, interest at 4.5%, payable in monthly installments of \$125, due in full October 2, 2020.	\$ 6,610	\$ 6,610
Note receivable from The Rusty Den, \$10,000, interest at 4.5%, payable in monthly installments of \$186, was originally due in full April 17, 2019.	9,017	9,017
Note receivable from Michael Kitts and Eric Adamson, \$100,000, interest at 4%, payable in monthly installments of \$1,012, due in full May 28, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.	37,912	66,298
Note receivable from Fork Improvement Association, Inc., \$8,500, interest at 4.0%, payable in monthly installments of \$157, due in full May 1, 2020.	1,386	3,460
Note receivable from Shenandoah Confections, \$7,000, interest at 4.5%, payable in monthly installments of \$131, due in full September 11, 2019. The Authority negotiated new terms in July 2015 that increased the note receivable balance to \$8,048. The new repayment terms are as follows: interest at 4.0%, payable in monthly installments of \$148, due in full July 2020.	2,229	3,900
Note receivable from Optimum Impact, LLC, \$10,000, interest at 4.0%, payable in monthly installments of \$137, due in full April 9, 2022.	7,085	7,085
Note receivable from Arthi Marti (AKM Properties), \$125,000, interest at 4.5%, payable in monthly installments of \$1,295, due in full September 25, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.	72,570	84,556

(Continued)

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**NOTES TO FINANCIAL STATEMENTS
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Note 4. Notes Receivable (Continued)

	2019	2018
<p>Note receivable from William Ellis (Keystone Transport Solutions, LLC), \$150,000, interest at 5.0%, payable in monthly installments of \$1,591, due in full December 18, 2024. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.</p>	\$ 125,671	\$ 125,671
<p>Note receivable from David and Stacy Gedney (J's Gourmet), \$150,000, interest at 4.5%, payable in monthly installments of \$1,555, due in full April 3, 2025. Note receivable is a result of the Authority entering into an intermediary relending program with the U.S. Department of Agriculture. Proceeds received by the Authority from the borrower will be used to pay back the Authority's note payable with the USDA.</p>	93,156	109,564
<p>Note receivable from HotShots Photography, \$3,500, interest at 4.5%, payable in monthly installments of \$65, due in full July 23, 2020.</p>	899	1,672
<p>Note receivable from Property Management Plus, LLC, \$10,000, interest at 4.5%, payable in monthly installments of \$186, due in full October 9, 2020.</p>	2,344	4,567
<p>Note receivable from AMS, LLC, \$5,000, interest at 4.5%, Payable in monthly installments of \$93, due in full October 23, 2020.</p>	4,227	4,227

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 4. Notes Receivable (Continued)

	2019	2018
Note receivable from IT Federal, LLC, \$10,000,000, interest at 3.0%, payable in monthly installments of \$42,160, due in full September 16, 2045.	\$ 9,183,747	\$ 9,410,459
Note receivable from Adventure Enablers, \$40,000, interest at 4.0%, payable in monthly installments of \$405, due in full March 10, 2027.	32,340	35,829
Note receivable from Skyline Tech, \$7,000, interest at 4.5%, payable in monthly installments of \$131, due in full April 15, 2022.	2,308	5,504
Note receivable from Front Royal Premier Copiers, \$20,000 interest at 4.5%, payable in monthly installments of \$278, due in full August 15, 2024	16,162	17,937
Note receivable from Karen Ermert, \$5,000, interest at 4.5%, payable in monthly installments of \$114, due in full October 12, 2021.	3,004	4,270
Note receivable from Center for Workforce Development, \$10,000, interest at 3.5% payable in monthly installments of \$182, due in full November 2, 2022.	9,314	9,314
Note receivable from All Smiles Dentistry, \$10,000, interest at 3.5%, payable in monthly installments of \$182 due in full November 30, 2022.	7,021	8,921
Note receivable from Boita Coffee, \$7,000, interest at 4.5%, payable in monthly installments of \$131, due in full January 26, 2023.	5,173	6,475
Note receivable from C&C Frozen Treats, \$7,000, interest at 4.5%, payable in monthly installments of \$131, due in full January 25, 2022.	5,177	6,475
Note receivable from Apple House Restaurant & Gift Shop \$45,000, interest at 3.5%, payable in monthly installments of \$322, due in full March 29, 2033.	39,381	43,892

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
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**NOTES TO FINANCIAL STATEMENTS
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Note 4. Notes Receivable (Continued)

	2019	2018
Note receivable from Main Street Travel World, \$10,000, interest at 3.5%, payable in monthly installments of \$182, due in full March 15, 2023.	\$ 7,662	\$ 9,541
Note receivable from Steve Ontiveros, \$10,000, interest at 3.5%, payable in monthly installments of \$182, due in full April 16, 2023.	8,451	9,694
Note receivable from Fork & Awesome, \$10,000, interest at 3.5%, payable in monthly installments of \$182, due in full September 1, 2023.	9,486	10,000
Note receivable from On Cue Sports & Billiards, LLC, \$10,000, interest at 3.5%, payable in monthly installments of \$182, due in full July 1, 2023.	8,100	10,000
Note receivable from Northern Shenandoah Valley Regional, Commission (NSVRC) for \$63,246, interest at 0%, payable in monthly installments of \$375, due in full September 30, 2026.	28,371	32,869
Note receivable from Home Repair Central of Front Royal, \$10,000, interest at 3.5%, payable in monthly installments of \$182, due in full July 11, 2023.	8,267	-
Note receivable from Christi Heflin, \$10,000, interest at 3.5%, payable in monthly installments of \$182, due in full July 23, 2023.	8,609	-
Note receivable from Joseph and Stacy Sullivan, \$3,000 interest at 3.5%, payable in monthly installments of \$88 due in full July 25, 2021.	2,449	-
Note receivable from Main Street Market, \$20,000, interest at 3.5%, payable in monthly installments of \$268, due in full June 6, 2030.	18,514	-

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
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**NOTES TO FINANCIAL STATEMENTS
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Note 4. Notes Receivable (Continued)

	2019	2018
Note receivable from Our Hometown Diner, LLC, \$10,000 interest at 3.5%, payable in monthly installments of \$134, due in full October 4, 2025.	\$ 9,114	\$ -
Note receivable from The Vine and Leaf, \$8,000 interest at 3.5%, payable in monthly installments of \$146, due in full December 20, 2023.	7,358	-
	9,819,102	10,094,371
Less allowance for doubtful accounts	(167,958)	(167,958)
Less current maturities	(308,213)	(472,928)
	\$ 9,342,931	\$ 9,453,485

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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 5. Long-Term Debt and Lines of Credit

The following is a summary of the changes in long-term debt for the years ended June 30, 2019 and 2018:

	<u>Balance June 30, 2018</u>	<u>Proceeds</u>	<u>Retirements</u>	<u>Balance June 30, 2019</u>
Avtex project	\$ 2,060,000	\$ -	\$ -	\$ 2,060,000
IRP Loan	500,000	-	(16,320)	483,680
United Bank (Line of Credit)	1,999,887	-	(1,999,887)	-
United Bank (Avtex Administration Building)	19,219	-	(19,219)	-
First Bank (Success Industrial Park)	184,640	-	(11,614)	173,026
First Bank (404 Fairground Road)	272,939	-	(6,122)	266,817
First Bank (Happy Creek Technology Park)	444,843	-	(4,173)	440,670
First Bank (Stephens Industrial Park)	612,699	-	(14,231)	598,468
First Bank (Baugh Drive)	341,537	-	(5,557)	335,980
First Bank (Ramsey)	827,537	-	(19,535)	808,002
First Bank (1497 Happy Creek)	310,269	-	(7,479)	302,790
First Bank (NVA)	233,537	-	(5,592)	227,945
First Bank (Benson)	24,652	-	(591)	24,061
First Bank (1425 Happy Creek)	130,582	-	(3,613)	126,969
First Bank (1433 Happy Creek)	352,097	-	(8,609)	343,488
First Bank (Stokes Building)	468,016	-	(10,830)	457,186
First Bank & Trust Company (ITFederal)	9,890,388	-	(62,866)	9,827,522
First Bank & Trust Company (Line of Credit)	16,198,768	-	(6,425,155)	9,773,613
United Bank (Baugh Drive)	5,316,306	-	(109,223)	5,207,083
United Bank (Ressie Jeffries)	-	5,651,653	(5,651,653)	-
United Bank (Leach Run Parkway)	-	7,165,538	(6,261,716)	903,822
United Bank (Avtex Refinance)	-	3,310,575	(65,346)	3,245,229
United Bank (Happy Creek Phase II)	-	6,100	-	6,100
United Bank (Police Department)	-	8,755,639	-	8,755,639
United Bank (Kendrick-West Main)	-	16,967	-	16,967
	<u>\$ 40,187,916</u>	<u>\$ 24,906,472</u>	<u>\$ (20,709,331)</u>	<u>\$ 44,385,057</u>

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**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
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**NOTES TO FINANCIAL STATEMENTS
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Note 5. Long-Term Debt and Lines of Credit (Continued)

	<u>Balance</u> <u>June 30, 2017</u>	<u>Proceeds</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>
Avtex project	\$ 2,060,000	\$ -	\$ -	\$ 2,060,000
IRP Loan	500,000	-	-	500,000
United Bank (Line of Credit)	2,000,000	-	(113)	1,999,887
United Bank (Avtex Administration Building)	51,165	-	(31,946)	19,219
First Bank (Success Industrial Park)	187,974	-	(3,334)	184,640
First Bank (404 Fairground Road)	278,100	-	(5,161)	272,939
First Bank (Happy Creek Technology Park)	452,876	-	(8,033)	444,843
First Bank (Stephens Industrial Park)	623,762	-	(11,063)	612,699
First Bank (Baugh Drive)	347,706	-	(6,169)	341,537
First Bank (Ramsey)	847,458	-	(19,921)	827,537
First Bank (1497 Happy Creek)	318,891	-	(8,622)	310,269
First Bank (NVA)	237,753	-	(4,216)	233,537
First Bank (Benson)	25,283	-	(631)	24,652
First Bank (1425 Happy Creek)	134,203	-	(3,621)	130,582
First Bank (1433 Happy Creek)	361,842	-	(9,745)	352,097
First Bank (Stokes Building)	478,759	-	(10,743)	468,016
First Bank & Trust Company (ITFederal)	9,926,140	-	(35,752)	9,890,388
First Bank & Trust Company (Line of Credit)	7,925,055	8,449,471	(175,758)	16,198,768
United Bank (Baugh Drive)	-	5,325,000	(8,694)	5,316,306
	<u>\$ 26,756,967</u>	<u>\$ 13,774,471</u>	<u>\$ (343,522)</u>	<u>\$ 40,187,916</u>

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**NOTES TO FINANCIAL STATEMENTS
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Note 5. Long-Term Debt and Lines of Credit (Continued)

Notes payable as of June 30, 2019 and 2018, are as follows:

	2019	2018
Note payable to FMC Corporation, the Bankruptcy Trustee for Avtex Corporation and the U.S. Government related to the Avtex property, \$1,275,372 with interest at 6.50% payable in one lump sum installment due June 30, 2008. This note is secured by a deed of trust on real property. FMC Corporation did not require payment to be made on June 30, 2008. The Authority is waiting for a revised note payable to be received from FMC and the EPA. The terms of the new note could differ from the current terms but have not yet been determined. See also discussions of Avtex site in Note 10.	\$ 2,060,000	\$ 2,060,000
Note payable to United Bank (Avtex Administration Building), \$400,000 with interest at 4.6%. This note was refinanced in January 2015 with interest at 3.98%, payable in monthly interest and principal payments of \$2,785 to January 2019 when the remaining balance was due. This note was secured by A deed of trust on real property.	-	19,219
Note payable to First Bank (Success Industrial Park), \$215,067 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$723 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.	173,026	184,640
Note payable to First Bank (404 Fairground Road), \$320,289 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$1,126 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.	266,817	272,939
Note payable to First Bank (Happy Creek Technology Park), \$518,165 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$1,743 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.	440,670	444,843

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**NOTES TO FINANCIAL STATEMENTS
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Note 5. Long-Term Debt and Lines of Credit (Continued)

	2019	2018
<p>Note payable to First Bank (Stephens Industrial Park), \$713,949 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$2,400 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	\$ 598,468	\$ 612,699
<p>Note payable to First Bank (Baugh Drive), \$397,832 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$1,338 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	335,980	341,537
<p>Note payable to First Bank (Ramsey), \$1,013,405, with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$4,460 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	808,002	827,537
<p>Note payable to First Bank (1497 Happy Creek), \$391,530 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$1,954 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	302,790	310,269
<p>Note payable to First Bank (NVA Properties), \$271,869 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$914 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	227,945	233,537
<p>Note payable to First Bank (Benson), \$30,580 with interest at 2.56%. This note was refinanced in April 2018 with interest at 3.5%, payable in monthly principal and interest payments of \$142 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.</p>	24,061	24,652

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**NOTES TO FINANCIAL STATEMENTS
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Note 5. Long-Term Debt and Lines of Credit (Continued)

	2019	2018
Note payable to First Bank (1425 Happy Creek), \$164,710 with interest at 2.56%. This note was refinanced in April 2022 with interest at 3.5%, payable in monthly principal and interest payments of \$821 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.	\$ 126,969	\$ 130,582
Note payable to First Bank (1433 Happy Creek), \$449,245 with interest at 2.56%. This note was refinanced in April 2025 with interest at 3.5%, payable in monthly principal and interest payments of \$2,209 to April 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.	343,488	352,097
Note payable to the U.S. Department of Agriculture as a result of the Authority entering into an intermediary relending program. Interest at 1%. Interest only payments beginning in April 2015. Interest payments began in April 2018 and principal and interest payments began in August 2018; to be paid in full by April 2048. Note is secured by related notes receivable and the equipment of the Authority.	483,680	500,000
Line of credit with United Bank for \$2,000,000. Interest at 2.05%. Interest only payments began in July 2014. Payment in full plus any accrued unpaid interest was due in September 2017. The due date for line was extended to December 2017 and again to December 2018. The line was satisfied with proceeds and modifications of the United Bank loan (91006) in October 2018.	-	1,999,887
Note payable to First Bank (Stokes Property), \$510,000 with interest at 2.75%. This note was refinanced in March, 2018 with interest at 3.25%, payable in monthly interest and principal payments of \$2,173 to March 2025 when the remaining balance is due. This note is secured by a deed of trust on real property.	457,186	468,016

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**NOTES TO FINANCIAL STATEMENTS
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Note 5. Long-Term Debt and Lines of Credit (Continued)

	2019	2018
<p>Note payable to First Bank & Trust Company, \$10,000,000, with interest at 4.35% payable in monthly principal and interest payments of \$40,000 to December 2022 when the remaining balance is due. This note is secured by a deed of trust on property located in Front Royal, VA consisting of 117 acres known as the former Avtex site as well as a \$2,000,000 deed of trust in the name of the EPA and FMC. The purpose of the loan is to provide financing for the benefit of IT Federal, LLC in its relocation to the Avtex Site.</p>	\$ 9,827,522	\$ 9,890,388
<p>The Authority borrowed against a \$12,000,000 line of credit payable to First Bank & Trust Company. Interest at 2.4375% Interest only payments began in July 2017. Refinanced in December 2017, March 2018, and again in March 2019 increasing amount to \$17,000,000, interest rate at 3.753% due in full June 30, 2019. Secured by future rights to payment for rents, future government payments and payments appropriated by the Town of Front Royal and County of Warren.</p>	9,773,613	16,198,768
<p>Note payable to United Bank, \$5,325,000, with interest at 3% payable in monthly principal and interest payments of \$22,450 to May 2025. Note is secured by a deed of trust on property located in Front Royal, VA consisting of 13.9393 acres.</p>	5,207,083	5,316,306
<p>Note payable to United Bank, \$5,651,653, with interest at 3% payable in monthly principal and interest payments of \$22,993 to July 2025. Note paid in full during 2019.</p>	-	-
<p>Note payable to United Bank, \$3,506,100, with interest at 3% payable in interest only payments until July 1, 2020. After this date, monthly principal and interest payments of \$14,782 to July 2027. Note is unsecured.</p>	6,100	-

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Note 5. Long-Term Debt and Lines of Credit (Continued)

	2019	2018
Note payable to United Bank, \$2,506,100, with interest at 3% payable in interest only payments until July 1, 2020. After this date, monthly principal and interest payments of \$10,566 to July 2027. Note is unsecured.	\$ 16,967	\$ -
Note payable to United Bank, \$3,302,908, with interest at 3% payable in monthly principal and interest payments of \$14,022 to July 2025. Note is unsecured.	3,245,229	-
Note payable to United Bank, \$12,000,000, with interest at 3% payable in interest only payments until October 1, 2020. After this date, monthly principal and interest payments of \$50,592 to October 2027. Note is unsecured.	8,755,639	-
Note payable to United Bank, \$7,165,538, with interest at 3% payable in monthly principal and interest payments of \$30,210 to July 2025. Note was refinanced in October 2018 with new principal balance of \$933,417, with interest at 3% payable in monthly principal and interest payments of \$3,963 to July 2025. Note is unsecured.	903,822	-
Total long-term debt and lines of credit	44,385,057	40,187,916
Less current maturities, including lines of credit	(10,173,051)	(18,491,802)
	\$ 34,212,006	\$ 21,696,114

Annual principal requirements to amortize long-term debt and interest, including lines of credit are as follows:

Year Ending June 30,	Principal	Interest
2020	\$ 10,173,051	\$ 1,112,760
2021	620,359	1,098,335
2022	757,740	1,075,767
2023	10,380,362	842,567
2024	742,876	610,631
Thereafter	21,710,669	1,070,228
Totals	\$ 44,385,057	\$ 5,810,288

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Note 6. Commitments and Contingencies

County of Warren Debt:

The Authority is contingently liable for a bond entered into on May 1, 2010, revised in 2013, for \$7,635,000 with the County of Warren. In any year the County does not allocate bond payments, the Authority becomes liable for the County's portion of the bond payment. As of June 30, 2019 and 2018, the remaining principal portion was approximately \$5,445,000 and \$5,915,000, respectively.

Conduit Debt:

In September 2016, the Authority issued \$6,000,000 in Revenue Bonds, Series 2016. The bonds were issued for the purpose of financing purpose of building a new dormitory for Christendom College. The bonds will be solely paid back by Christendom College and are not an obligation of the Authority. As of June 30, 2019, the remaining principal portion was approximately \$5,500,000.

In July 2018, the Authority issued \$54,365,000 in Hospital Revenue Bonds, Series 2018. The bonds were issued for the purpose of financing certain healthcare facilities operated by Warren Memorial Hospital. The bonds will be solely paid back by Valley Health System and are not an obligation of the Authority. As of June 30, 2019, the remaining principal portion was approximately \$54,365,000.

In February 2019, the Authority issued \$16,400,000 in Revenue Bonds, Series 2019. The bonds were issued for the purpose of assisting Royal Arms Community Partners, LP in the financing the purchase and renovation of a 144 unit complex. The bonds will be solely paid back by Royal Arms Community Partners, LP and are not an obligation of the Authority. As of June 30, 2019, the remaining principal portion was approximately \$16,400,000.

Construction Commitments:

The Authority has active construction projects related to various items. At June 30, 2019, commitments with contractors on the projects are as follows:

	<u>Total Contracts</u>	<u>Total Payments</u>	<u>Future Amounts to be Expended</u>
Leach Run Parkway	\$ 13,811,505	\$ 13,703,766	\$ 107,739

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Note 7. 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; and natural disasters. The Authority is insured through insurance policies. There were no significant reductions in insurance coverages from the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Leases

The Authority has entered into various leases as the lessor of properties including 1325 Progress Drive, 400 Kendrick Street, 404 Fairgrounds Road and 514 E. Main Street. Terms of the leases vary for each of the tenants of the properties. Rental income for the years ending June 30, 2019 and 2018 was \$92,604 and \$116,591, respectively.

Future minimum rent under these leases is as follows:

	Year Ending June 30,
2020	\$ 54,338
2021	55,350
2023	50,513
2024	30,000
2025	30,000
Thereafter	37,500
Totals	\$ 257,701

On August 1, 2017, the Authority entered into a five month lease with Optimum Impact, LLC for 2,600 square feet in a building at 400-B Kendrick Lane with an expiration date of December 31, 2017. The Authority received monthly payments of \$250 from August 1, 2017 to December 31, 2017.

On June 27, 2017, the Authority renewed a two year lease with Visionary Optics, LLC for 6,000 square feet in a building at 1325 Progress Drive with an expiration date of July 31, 2019. Under the lease, the Authority receives monthly payments of \$2,250.

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Note 8. Leases (Continued)

On February 2, 2018, the Authority renewed a month to month lease with Amerisist dba, (America House Assisted Living, LLC) for 3,330 square feet in a building at 400-A Kendrick Lane. Under the lease, the Authority receives monthly payments of \$3,150.

On September 26, 2011, the Authority entered into a fifteen-year lease with Northern Shenandoah Valley Regional Commission for 3,620 square feet in a building at 400-E Kendrick Lane. The lease will expire on September 30, 2026. The authority will receive monthly payments of \$1,500 for the first two years, \$1,750 for years three to five, \$2,000 for years six through eight, \$2,250 for years nine through twelve, and \$2,500 for years thirteen through fifteen. The Authority will also receive, in addition to monthly rental payments, a fee for improvements to the space in monthly installments of \$375.

On February 10, 2017, the Authority entered into a six month lease with Anthony Dane for space at 404 Fairground Road. The lease expired on July 31, 2017. Under the lease, the Authority receives monthly payments of \$500. The lease was renewed on August 1, 2017 for an additional six months under the same rental terms.

On February 27, 2018, the Authority entered into a one year lease with Front Royal Premiere Copiers for space at 404 Fairground Road. The lease expired February 15, 2019, was extended, and was terminated in July 2019. Under the lease, the Authority received monthly payments of \$750.

On January 31, 2018, the Authority entered into a one year lease with Selah Theatre Project for 2,600 square feet in a building at 400-B Kendrick Lane. The lease expired March 1, 2019, was extended, and was terminated in July 2019. The Authority is scheduled to receive monthly payments of \$1,000.

On December 27, 2017, the Authority entered into a one year lease with Joseph Baldwin for approximately 150 acres of land at Happy Creek Industrial Park with an expiration date of December 31, 2018. Under the lease, the Authority receives one payment of \$1,000 for the term. The lease was renewed on December 21, 2018 for an additional year with the same rental terms.

Lease agreement and Agreement to Purchase Property

On May 10, 2018, the Authority entered into a lease with 2 East Main, LLC for the Afton Inn property with an expiration date of April 30, 2023, with the option to renew for additional one year periods. The rent shall fully cover the required debt service each month on the renovation loan. 2 East Main, LLC has the option to purchase the property when the certificate of occupancy is received or when the property receives a final inspection that serves as a certificate of occupancy. At that date, the sales price is agreed to be the balance of the renovation loan at the time of the sale. No rent payments were received by the Authority for the years ending June 30, 2019 or 2018, as certain negotiations and other terms were being discussed. See further updates to these agreements as discussed in Note 15.

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Note 9. Deferred Compensation

The Authority has a deferred compensation plan (the Plan) covering their two full-time employees. The Authority makes a discretionary contribution to the Plan each year. For 2019 and 2018, the contribution was equal to 10% of the participants' salary. Total expense for the years ended June 30, 2019 and 2018 was \$- and \$17,555, respectively.

Note 10. Avtex

In March 2000, a deed of trust was executed which transferred the Front Royal site of Avtex Fibers to the Authority. The environmental contamination at the site was being remediated by FMC Corporation under a consent decree with the U.S. Department of Justice. The Authority is developing the 500-acre site into a 305-acre park and wildlife refuge, a 30-acre soccer complex, and a 165-acre business park. The Authority is pursuing various Federal and state grants to assist with the redevelopment. The U.S. Department of Justice and the Environmental Protection Agency have entered into an agreement with the Authority for a covenant not-to-sue relating to the possible environmental liabilities. Additionally, the Authority purchased a \$10,000,000, three year third party Pollution Legal Liability policy to cover potential additional environmental exposure. The policy expired on August 30, 2013. At that time, the Authority decided not to renew insurance coverage as the remediation has been completed and coverage is no longer considered necessary. On the eighth anniversary of the transfer date, the Authority has the option to pay FMC Corporation an amount equal to the net proceeds that would have been payable to FMC Corporation had the unsold property been sold for fair market value. At this time, the Authority also has the option to convey the unsold property, with general warranties of title, to one or more persons, entities, bodies politic or political subdivisions designated by FMC Corporation upon which the Authority would receive payment of \$1,000.

Note 11. Warren County Manager, LLC and Warren County Landlord, LLC

Warren County Manager, LLC and Warren County Landlord, LLC were incorporated as Virginia Limited Liability Companies on August 16, 2010. Warren County Manager, LLC is owned 100% by the Authority. Warren County Landlord, LLC is owned 97% by Warren County Manager, LLC and 3% by Anthem Health Plans of Virginia, Inc. The LLC's were created to obtain Historic Rehabilitation Tax Credits from the renovation of the Luray Avenue Middle School. Warren County Landlord, LLC was granted \$4,678,522 of Historic Rehabilitation Tax Credits in April 2011 from the Commonwealth of Virginia. The credits have been passed through to Warren County Public Schools. These two entities dissolved as of December 31, 2018. While the Authority was a member of the above entities, it did not record an asset related to the ownership, as the funds for the renovation were paid by the County.

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**NOTES TO FINANCIAL STATEMENTS
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Note 12. Restatement of Net Position and Alleged Unauthorized Expenses

The Authority has identified a number of transactions that it considers to be unauthorized, or errors related to prior periods.

Net position, July 1, 2017, as previously reported	\$ 3,725,979
Remove and expense erroneous asset related to Royal Lane property	(190,134)
Remove and expense unauthorized expenditures related to Criminal Justice Academy	(506,632)
Remove and expense unauthorized expenditures related to various projects recorded previously recorded as Leach Run Parkway, New Hope Bible Church, New Market Tax Credits and Town Police Department	(3,955,849)
Remove and expense unauthorized expenditures related to wetland credits	(1,126,706)
Remove and expense unauthorized expenditures related to Leach Run Parkway	(131,589)
Remove and expense unauthorized payments to ITFederal, LLC and correct receivable balance	(435,795)
Subtotal – items related to alleged fraud	<u>(6,346,705)</u>
Errors related to Leach Run Parkway project	8,618
Correct unrecorded note receivable from NVSRC	9,426
Correct amortization errors related to erroneous easements	455,000
Remove and expense miscellaneous accounts receivable	(110)
Remove petty cash	(100)
Zero balance for B&G escrow	1,691
Remove unearned revenue related to Criminal Justice Academy	200,000
Correct interest income	(93,531)
Reclassify refund from Pennoni	(2,840)
Miscellaneous	751
Subtotal – items related to errors	<u>578,905</u>
Total adjustments	<u>(5,767,800)</u>
Net position, July 1, 2017, as restated	<u>\$ (2,041,821)</u>

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Note 12. Restatement of Net Position and Alleged Unauthorized Expenses (Continued)

Detail of amounts presented as “Unauthorized expenses” on the Statement of Revenues, Expenses, and Changes in Net Position are as follows for 2018:

Unauthorized activity for Afton Inn Improvements	\$ 45,376
Unauthorized Criminal Justice Academy activity	23,588
Unauthorized payments to ITFederal, LLC (Avtex)	1,554,148
Remove alleged fraud for Shenandoah Shores	5,850
Correct amount related to recording of check	(5,868)
Correct reimbursement from Town of Front Royal	<u>(6,336)</u>
 Total for 2018	 <u>\$ 1,616,758</u>

Detail of amounts presented as “Unauthorized expenses” on the Statement of Revenues, Expenses, and Changes in Net Position are as follows for 2019:

Unauthorized activity for Afton Inn Improvements	\$ 6,539
Unauthorized draw on line of credit	10,000
Unauthorized payments to EarthRight Energy	<u>945,037</u>
 Total for 2019	 <u>\$ 961,576</u>

The amounts classified above as unauthorized represent current management’s judgment based on investigations of management, and relate to matters discussed in Note 14.

Note 13. Due from Town of Front Royal, Virginia and Due from County of Warren, Virginia

The Authority has identified certain amounts previously reported as construction in progress and has reclassified them as amounts due from the Town of Front Royal, Virginia and Due from County of Warren, Virginia, as applicable, for various construction projects the Authority administers. The Town and County also reimburse the Authority for certain debt service.

Balances due from the Town of Front Royal, net of reimbursements, as of June 30, 2019 include the following:

<u>Project or Other</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Leach Run Parkway	\$ 278,733	\$ 4,239	\$ (3,723)	\$ 279,249
West Main Extension	64,514	-	-	64,514
Town Police Department	3,430,022	4,990,781	-	8,420,803
Debt service and other items	17,347	263,025	-	280,372
	<u>\$ 3,790,616</u>	<u>\$ 5,258,045</u>	<u>\$ (3,723)</u>	<u>\$ 9,044,938</u>

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**Note 13. Due from Town of Front Royal, Virginia and Due from County of Warren, Virginia
(Continued)**

Balances due from the County of Warren, net of reimbursements, as of June 30, 2019 include the following:

Project or Other	Beginning Balance	Increases	Decreases	Ending Balance
Leach Run Parkway	\$ 541,070	\$ 8,229	\$ (7,229)	\$ 542,070
RJES Parking Lot	1,134,920	7,000	(1,141,920)	-
RJES Construction	4,244,932	136,471	(4,381,403)	-
Crooked Run Revenue Sharing	236,488	15,228	(251,716)	-
Health and Human Service Building	125,329	586,699	(712,028)	-
Voter Registration and Special Services	118,828	1,307,447	(1,426,275)	-
Rivermont Fire Department	-	130,048	(130,048)	-
Debt service and other items	22,450	137,265	(22,450)	137,265
	<u>\$ 6,424,017</u>	<u>\$ 2,328,387</u>	<u>\$ (8,073,069)</u>	<u>\$ 679,335</u>

Balances due from the Town of Front Royal, net of reimbursements, as of June 30, 2018 include the following:

Project or Other	Beginning Balance	Increases	Decreases	Ending Balance
Leach Run Parkway	\$ 157,304*	\$ 121,429	\$ -	\$ 278,733
West Main Extension	2,834*	61,680	-	64,514
Town Police Department	-*	3,430,022	-	3,430,022
Debt service and other items	-	17,347	-	17,347
	<u>\$ 160,138</u>	<u>\$ 3,630,478</u>	<u>\$ -</u>	<u>\$ 3,790,616</u>

Balances due from the County of Warren, net of reimbursements, as of June 30, 2018 include the following:

Project or Other	Beginning Balance	Increases	Decreases	Ending Balance
Leach Run Parkway	\$ 305,356*	\$ 235,714	\$ -	\$ 541,070
RJES Parking Lot	1,004,822*	130,098	-	1,134,920
RJES Construction	3,192,780*	1,052,152	-	4,244,932
Crooked Run Revenue Sharing	10,334*	1,639,645	(1,413,491)	236,488
Health and Human Service Building	-	125,329	-	125,329
Voter Registration and Special Services	-	118,828	-	118,828
Debt service and other items	-	22,450	-	22,450
	<u>\$ 4,513,292</u>	<u>\$ 3,324,216</u>	<u>\$ (1,413,491)</u>	<u>\$ 6,424,017</u>

* - Certain items have been restated, as discussed in Note 12.

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Note 14. Litigation and Alleged Fraud

The Town of Front Royal filed a complaint on June 25, 2019 against the Authority for breach of fiduciary duty claiming damages of \$3,000,000.00. Pending is the Authority's demurrer including a plea of sovereign immunity. The Town has sought to amend the complaint on March 13, 2020 but as of the date of this report, the Court has not given the Town leave to do so. Management is vigorously defending the case and disputes liability as well as the Town's calculation of damages. The likely outcome is unknown at this time.

The Authority filed a Complaint and Petition for Writ of Mandamus against the Town of Front Royal seeking \$8,946,742.04 plus interest, as well as injunctive and mandamus relief for the financing and funding obtained by the EDA on behalf of and at the request of the Town of Front Royal for the construction of the Front Royal Police Headquarters. The Town of Front Royal filed a demurrer which is still pending. Management has been working with the Town toward an out of court of settlement. If unsuccessful, the case will be vigorously pursued. The likely outcome is favorable to the Authority.

In 2018, the Authority became aware of a series of alleged frauds committed against the Authority beginning in 2014. The alleged frauds consisted of the unauthorized use of funds from the Authority's borrowings. The unauthorized use of funds was aided in part, by forged documents and unauthorized wire transfers of money and were used to pay amounts to a wide variety of third parties. Among the parties who allegedly benefited from the unauthorized funds was the Authority's former Executive Director. The Authority's attempts to recover losses associated with these unauthorized payments include the following claims seeking to recover assets:

- A claim for theft and loss insurance benefits provided by the Commonwealth of Virginia resulting in a \$250,000 recovery.
- A claim for insurance benefits from Cincinnati Insurance Company resulting in a \$500,000 recovery.
- Subsequent to year end 2019, the Authority received two settlements in the total amount of \$106,000.
- A claim for return to the Authority from Aikens Group Company of certain real estate on Royal Lane in the Town of Front Royal for which the Authority had previously agreed to pay \$450,000.
- A claim against a confidential party resulting in a settlement of \$460,000 in favor of the Authority and the confidential party agreeing to forego \$180,000 in indemnification claims against the Authority. Note that this settlement is confidential and may not be disclosed under the terms of the settlement.

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**NOTES TO FINANCIAL STATEMENTS
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Note 14. Litigation and Alleged Fraud (Continued)

- A lawsuit filed in the Circuit Court for Warren County by the Authority in 2018 and pending now against Jennifer R. McDonald, Donald F. Poe, Earth Right Energy Solar-Commercial, LLC, Truc “Curt” Tran, DaBoyz, LLC, MoveOn8, LLC, IT Federal, LLC, Michelle Leigh Henry, Linda C. Hassenplug, William Lambert, Little Rugratz Daycare, LLC, Jesse F. Poe, Samuel D. North, and April Petty. This lawsuit seeks recovery against these defendants for fraud, conspiracy, conversion, unjust enrichment, ultra vires actions, breach of fiduciary duty, and, in the case of IT Federal, LLC, breach of contract. This lawsuit is in discovery, trial is set for July of 2022, and some of the defendants are seeking review by way of interlocutory appeal in the Supreme Court of Virginia. Defendants McDonald, MoveOn8, LLC, and Jesse F. Poe, have petitioned for bankruptcy and legal counsel, for the Authority is seeking to perfect claims against those bankruptcy estates and protects the Authority’s interests in the federal bankruptcy court. Also, in this suit, IT Federal, LLC has filed a counter-claim against the Authority to which claim the Authority has demurred. Also, in this suit, Earth Right Energy Solar-Commerical, LLC has filed a counter-claim against the Authority to which the Authority has demurred. The Authority seeks \$20,655,105.17 in direct damages in connection with this lawsuit in addition to treble damages for conspiracy, attorney fees, court costs, and punitive damages.
- A lawsuit filed in the Circuit Court for Warren County by the Authority in 2020 against TLC Settlements, LLC, Tracy L. Bowers, Service Title of Front Royal, LLC, Victoria L. Williams, Century 21, Campbell Realty, Inc., Jeannette M. Campbell, Walter L. Campbell, Rappawan, Inc., and William T. Vaught, Jr. This lawsuit seeks recovery against these defendants for fraud, conversion, conspiracy, unjust enrichment, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, and ultra vires expenditures. This case is in discovery. No trial date has yet been set. The Authority seeks \$4,454,100.04 in direct damages in connection with this lawsuit in addition to treble damages for conspiracy, attorney fees, court costs, and punitive damages.
- In 2019 and separately in 2020, legal counsel filed on behalf of the Authority petitions for attachment of property titled in the names of defendants sued in either the 2019 or the 2020 actions. The Warren Circuit Court has issued attachment orders preventing certain defendants from encumbering, conveying, or otherwise disposing of approximately \$4 million in real and personal property.

The claims by and against the Authority are numerous and complex. Management and legal counsel believe the Authority is likely to recover additional assets in the course of litigation and settlement. A range of possible outcomes cannot be precisely described in light of the cases’ complexity, the numerous defendants involved in the cases, and the numerous forums in which the cases are pending.

The Authority believes the counter-claims filed against it by IT Federal, LLC and Earth Right Energy Solar-Commercial, LLC are without merit and the Authority will vigorously contest the claim.

See further discussion and adjustments of alleged and suspected unauthorized transactions in the financial statements as disclosed in Note 12.

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Note 15. Subsequent Events

In June 2020, the Authority and 2 East Main LLC entered into a termination agreement in which the lease agreement entered into in May 2018 was terminated, and no ongoing liabilities related to that agreement remain. Also as a part of the termination agreement, both the Authority and 2 East Main LLC agreed to waive all claims related to 2 East Main LLC's work on the Afton Inn property.

Authority owned properties at 506 and 514 E. Main St., Front Royal, were sold during December 2019 and June 2020, respectively. Proceeds from these transactions totaled \$317,500 and were used to retire the First Bank Strasburg loan #50625 Note Payable. Remaining proceeds were applied to the First Bank Strasburg loan #48682 Note Payable.

The Afton Inn property was sold to 2 East Main LLC in February 2021 for \$325,000

The Authority sold 404 Fairgrounds Road in January 2020 for \$335,200.

In the spring of 2020, property on Royal Lane was reacquired by the Authority as a part of a settlement.

In March, 2021, the Town of Front Royal received a loan from United Bank for permanent financing of the Front Royal Police Department building. The proceeds were used to retire the balance on the Authority's United Bank loan #91007 in the amount of \$8,350,931, effective March 11, 2021.

Beginning June 1, 2021, the Authority entered into a 12-month lease of the 426 Baugh Drive building with Sysco Foods. The terms include a monthly lease payment is \$28,800 and an agreement to reimburse the Authority the difference in the electric bill if the amount exceeds \$1,500 a month and the gas bill if the amount exceeds \$500 a month.

In March 2021, the Town of Front Royal established its own economic development authority. Management is currently evaluating the impact of this decision on the operations of the Authority.

In January 2021, the Authority settled a civil dispute for \$460,000 with a confidential party.

The First Bank and Trust line of credit expired on June 30, 2019 and was extended to June 2021, and a subsequent renewal until September 2021.

On August 12, 2021, the Warren County Circuit Court approved an order of Partial Final Judgment of \$9 million in favor of the Authority and jointly and severally against Defendants Jennifer McDonald, MoveOn8, LLC, and DaBoyz, LLC. That Partial Final Judgment also requires MoveOn8, LLC to execute a deed in favor of the Authority of certain property on Happy Creek Road in Front Royal, Virginia.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 16. Related Party Transactions

The Authority incurred maintenance related costs of \$700 and \$43,135 during the years ended June 30, 2019 and 2018, respectively, which were paid to individuals related to the former executive director.

Note 17. COVID-19

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 Authority’s operations are dependent on access to funding, including potential grants and contracts from federal, state and local governments which may decrease or may not be available depending on appropriations. The outbreak could continue to have an impact on economic and market conditions. As such, the Authority’s financial condition and liquidity could be negatively impacted for the fiscal year 2020 and beyond

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Authority’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity and operations. Given the daily evolution of the COVID-19 outbreak and the 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 2020 and beyond.

Note 18. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance** due to the COVID-19 pandemic.

In January 2017, the GASB issued **Statement No. 84, Fiduciary Activities**. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, The GASB issued **Statement No. 87, Leases**. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
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**NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018**

Note 18. New Accounting Pronouncements (Continued)

In March 2018, the GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information disclosed in the notes to government financial statements related to debt. The requirements of this Statement are effective for fiscal years beginning after June 15, 2019.

In January 2020, the GASB issued **Statement No. 92**, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 93**, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In June 2020, the GASB issued **Statement No. 97**, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

COMPLIANCE SECTION

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**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 the
Town of Front Royal and the County
of Warren, Virginia

We have audited, 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, the financial statements of the Industrial Development Authority of the Town of Front Royal and the County of Warren, Virginia, dba Economic Development Authority, (the “Authority”) a component unit of the County of Warren, Virginia, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 4, 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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 that we consider to be material weaknesses.**

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-003.**

Economic Development Authority of the Town of Front Royal and the County of Warren, Virginia's Response to Findings

The Authority's responses to the findings identified in our engagement are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
October 4, 2021

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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**SUMMARY OF COMPLIANCE MATTERS
June 30, 2019 and 2018**

As more fully described in the “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*,” we performed tests of the Authority’s compliance with certain provisions of the laws, regulations, contracts and grant agreements, and other matters shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

- Cash and Investment Laws
- Conflicts of Interest Act
- Procurement Laws

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
TOWN OF FRONT ROYAL AND THE COUNTY OF WARREN, VIRGINIA
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SUMMARY OF FINDINGS AND RESPONSES
June 30, 2019 and 2018**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001: Segregation of Duties and Insufficient Entity Level Controls (Material Weakness)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. We noted proper segregation of duties was not established in various functions related to cash receipts, cash disbursements, wires, related party transactions, noncash transactions, credit cards and accounts payable.

We also noted a lack of review and approval of journal entries, disbursements, wire transfers, and bank reconciliations at the Authority. Lack of review and approval increases the risk of unauthorized transactions remaining undetected.

Finally, we noted weaknesses in entity level controls including the overall control environment and monitoring controls. There was not appropriate oversight and monitoring at the entity level as well as those who were charged with governance.

The lack of the controls also are relevant to the findings reported in Item 2018-003.

Recommendation:

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

In addition, all journal entries, receipts, disbursements, and bank reconciliations should be reviewed and approved by an individual other than the preparer.

Finally, the Authority should consider policies to address entity level controls, which could include review of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) report. The COSO Framework provides broadly accepted and practical criteria for establishing internal control and for assessing its effectiveness. The COSO Framework addresses matters such as the definition of internal control; the requirements for effective internal control (including both components and relevant principles); and the approach users may follow when designing, implementing, and conducting internal control and assessing its effectiveness.

Management's Response:

The auditee heartily agrees. Specifically, the following changes in internal procedures at the EDA and the County have been implemented:

- The Authority has entered into a fiscal agency agreement with the County of Warren for current financial operations, governing all aspects of expenditures, check writing, and financial controls.
- This fiscal agreement requires all expenses to be independently reviewed and approved by the Chairman of the EDA Board of Directors and the EDA Treasurer, prior to processing by the County's financial administration.

**INDUSTRIAL DEVELOPMENT AUTHORITY OF THE
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**SUMMARY OF FINDINGS AND RESPONSES
June 30, 2019 and 2018**

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

- Warren County’s finance department personnel must approve all EDA expenditures, prior to final review by the County Board of Supervisors. The Board of Supervisors must approve all expenditures prior to payment.
- No final expenditure authority remains with the EDA management, and no checks may be written or signed by EDA personnel.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2018-002: Audit Adjustments (Material Weakness)

Condition:

We noted significant errors in the financial statements which required material adjustments to financial statements for both 2018 and 2019, indicating a material weakness in controls over financial reporting.

Recommendation:

The Authority should implement steps to improve its financial reporting process. These steps should include a detailed analysis of all intergovernmental agreements beyond simply understanding the cash flows of those transactions.

Management’s Response:

Current Management heartily agrees. Significant time and expense have been incurred in determining the alleged fraud committed by Previous Management. A detailed forensic review of the financial records of fiscal years 2018 and 2019 has been conducted in order to determine, to the best of Current Management’s ability, unauthorized expenditures in those years. Current Management has recommended that the financial statements and notes be organized in such a way as to provide transparent disclosure to the public separating any minor errors or adjustments, and the significant items resulting from the alleged fraud. Intergovernmental agreements, notes, and correspondence have been reviewed, in addition to third-party contracts and alleged agreements. Details of such findings have been provided to the auditors, and to outside legal counsel, for use in pursuit of any valid claims for recovery.

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SUMMARY OF FINDINGS AND RESPONSES
June 30, 2019 and 2018**

C. FINDINGS – COMMONWEALTH OF VIRGINIA

2018-003: Procurement, Conflicts of Interest, Fraud and Abuse (Material Noncompliance)

Condition:

Former members of management were allegedly able to override internal procurement and contract procedures. Non-compliance with the Virginia Public Procurement Act and internal policies could result in a direct and material effect on the financial statement amounts. Additionally, these transactions include significant and material transactions with related parties, which indicates abuse as defined by *Government Auditing Standards* as misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. The State and Local Government Conflict of Interests Act prohibits local government officers or employees from participating in certain transactions in which they or their family members have a material financial interest. Current management has identified \$961,576 in transactions in 2019 which are considered to have been unauthorized and allegedly fraudulent. Additionally, current management has identified \$1,616,758 and \$5,691,705 in transactions in 2018 and for periods prior to 2018, respectively, which are considered by management to have been unauthorized and allegedly fraudulent.

Recommendation:

The Authority should implement steps to address and adhere to its internal policies regarding procurement, contract approval and compliance with the Virginia Public Procurement Act. Additionally, the Authority should implement steps to ensure compliance with the State and Local Government Conflict of Interests Act, including application to employees and management.

Management's Response:

Current Management heartily agrees. The auditee has undertaken steps to address and adhere to improved internal policies regarding procurement, contract approval and compliance with the Virginia Public Procurement Act. Internal policies regarding procurement and contract approval have been implemented where needed. Additionally, the EDA has implemented steps to ensure compliance with the State and Local Government Conflict of Interests Act, including application to employees and management. Regular annual training on conflicts of interest, as required by Virginia law, has been implemented.