

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE
(A Component Unit of the City of Danville, Virginia)**

FINANCIAL REPORT

June 30, 2020

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

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INTRODUCTORY SECTION

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2020**

DIRECTORS

Neal Morris – Chairman
Richard Turner – Treasurer
Russell Reynolds – Secretary
Dr. Max Glass
John Laramore
Landon Wyatt
Kirsten Barker

OFFICIALS

Joy JarvisSecretary
Corrie BobeEconomic Development Director
Ken Larking.....City Manager
Linwood WrightEconomic Development Consultant
Kim Custer.....Economic Development Project Manager
W. Clarke Whitfield, Jr.....City Attorney
Michael L. AdkinsCity Director of Finance

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Industrial Development Authority of Danville
Danville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Industrial Development Authority of Danville (the "Authority"), a discretely presented component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Report on the Financial Statements (Continued)

Opinion

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

Report on Summarized Comparative Information

We have previously audited the Authority's 2019 financial statements, on which, in our report dated November 25, 2019, we expressed an unmodified opinion. The 2019 financial information is provided for comparative purposes only.

Other Matters

Required Supplementary Information

Management has omitted a 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 omitted 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 and schedule of bonds outstanding are presented for purposes of additional analysis and are not a required part of the basic financial statements. Neither section has 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2020 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, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

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**BASIC FINANCIAL
STATEMENTS**

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF NET POSITION
June 30, 2020**

	<u>2020</u>	<u>(For Comparative Purposes Only) 2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 761,140	\$ 676,205
Accounts receivable	71,250	32,206
Due from City of Danville, current portion	763,435	486,000
Net investment in sales-type leases, current portion (Note 6)	19,504	18,555
	<u>1,615,329</u>	<u>1,212,966</u>
NONCURRENT ASSETS		
Notes receivable, net (Note 3)	3,480,269	614,215
Cash and cash equivalents, restricted	103,022	2,832,202
Due from City of Danville, net of current portion	4,039,000	4,542,000
Long-term net investment in sales-type leases, net (Note 6)	277,269	296,773
Capital assets (Note 4)		
Nondepreciable	10,434,379	10,022,216
Depreciable, net	22,657,885	26,764,473
Property held for sale	1,292,430	1,292,430
	<u>42,284,254</u>	<u>46,364,309</u>
Total noncurrent assets		
	<u>43,899,583</u>	<u>47,577,275</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	354,332	87,506
Security deposits	77,767	69,317
Unearned revenues	17,780	10,130
Accrued interest	39,580	74,614
Current portion of noncurrent liabilities (Note 5)	1,834,583	4,097,934
	<u>2,324,042</u>	<u>4,339,501</u>
Total current liabilities		
NONCURRENT LIABILITIES		
Revolving loan fund – USDA	99,000	99,000
Due in more than one year (Note 5)	13,350,155	16,711,911
	<u>13,449,155</u>	<u>16,810,911</u>
Total noncurrent liabilities		
Total liabilities	<u>15,773,197</u>	<u>21,150,412</u>
COMMITMENTS AND CONTINGENCIES (Note 8)		
	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	17,907,526	15,876,844
Restricted (Note 7)	3,000,000	3,000,000
Unrestricted	7,218,860	7,550,019
	<u>17,907,526</u>	<u>15,876,844</u>
Total net position	<u>\$ 28,126,386</u>	<u>\$ 26,426,863</u>

The Notes to Financial Statements are an integral part of this statement.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2020**

	2020	(For Comparative Purposes Only) 2019
OPERATING REVENUES		
Lease revenue	\$ 1,100,257	\$ 1,078,700
Economic development incentives – City of Danville	3,811,969	2,879,934
Tax credit program fees	133,200	132,500
Interest income from capital leases and notes receivable	96,585	1,104
	5,142,011	4,092,238
OPERATING EXPENSES		
Economic development contributions and incentives	756,517	1,296,490
Bad debt expense	1,951	44,138
Professional services	337,438	221,235
Repairs and maintenance	158,397	144,655
Insurance and other	463,054	467,723
Depreciation	767,601	878,438
	2,484,958	3,052,679
Total operating expenses	2,484,958	3,052,679
Operating income	2,657,053	1,039,559
NONOPERATING REVENUES (EXPENSES)		
Interest income	4,850	3,670
Interest expense	(715,453)	(1,005,467)
Contributions from City of Danville – loan fund	-	3,000,000
Miscellaneous revenue	46,224	3,030
Incentive grant	75,000	-
Loss on sale of property	(368,151)	-
	(957,530)	2,001,233
Total net nonoperating revenue (expenses)	(957,530)	2,001,233
Change in net position	1,699,523	3,040,792
NET POSITION		
Beginning, as restated (Note 11)	26,426,863	23,386,071
Ending	\$ 28,126,386	\$ 26,426,863

The Notes to Financial Statements are an integral part of this statement.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF CASH FLOWS
Year Ended June 30, 2020**

	2020	(For Comparative Purposes Only) 2019
OPERATING ACTIVITIES		
Receipts from lessees	\$ 1,116,357	\$ 1,178,900
Receipts from City for economic development	3,811,969	1,968,421
Receipts from notes receivable and sales-type leases	51,234	29,236
Notes receivable issued	(2,804,099)	(375,501)
Other receipts	215,380	161,637
Payments to economic incentive grant recipients	(756,517)	(908,585)
Payments to suppliers	(948,395)	(1,029,670)
	<u>685,929</u>	<u>1,024,438</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of capital assets	376,390	843,284
Proceeds from issuance of debt	4,157,015	417,896
Repayment of debt	(3,948,927)	(1,022,908)
Payments for the purchase and construction of capital assets	(3,405,923)	(1,331,691)
Interest paid on debt	(739,144)	(1,003,129)
	<u>(3,560,589)</u>	<u>(2,096,548)</u>
NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Contribution from City, net	225,565	3,532,767
	<u>225,565</u>	<u>3,532,767</u>
INVESTING ACTIVITIES		
Interest received	4,850	3,670
	<u>4,850</u>	<u>3,670</u>
Net cash provided by investing activities	4,850	3,670
	<u>4,850</u>	<u>3,670</u>
Net increase (decrease) in cash and cash equivalents	(2,644,245)	2,464,327
CASH AND CASH EQUIVALENTS		
Beginning of year	3,508,407	1,044,080
Ending of year	<u>\$ 864,162</u>	<u>\$ 3,508,407</u>
RECONCILIATION TO EXHIBIT 1		
Cash and cash equivalents	\$ 761,140	\$ 676,205
Cash and cash equivalents, restricted	103,022	2,832,202
	<u>\$ 864,162</u>	<u>\$ 3,508,407</u>

(Continued)

The Notes to Financial Statements are an integral part of this statement.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF CASH FLOWS
Year Ended June 30, 2020**

	<u>2020</u>	<u>(For Comparative Purposes Only) 2019</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,657,053	\$ 1,039,559
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	767,601	878,438
Non-cash portion of change in sales-type leases	18,555	18,392
Non-cash economic development contributions and incentives	-	387,905
Non-cash items included in expenses	-	9,955
Forgiveness of debt included in revenues	-	(911,513)
Other income	121,224	3,030
Change in		
Accounts receivable	(39,044)	114,407
Accounts payable and accrued expenses	10,494	(206,012)
Security deposits	8,450	11,800
Unearned revenues	7,650	100
Notes receivable	(2,866,054)	(321,623)
	<u>\$ 685,929</u>	<u>\$ 1,024,438</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset contributed to City	<u>\$ 123,162</u>	<u>\$ -</u>
Capital asset additions included in accounts payable	<u>\$ 256,332</u>	<u>\$ -</u>
Principal on debt forgiven by the City	<u>\$ -</u>	<u>\$ 911,513</u>

The Notes to Financial Statements are an integral part of this statement.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 1. Summary of Significant Accounting Policies

Reporting entity

The Industrial Development Authority of Danville (the “Authority”) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City Council of Danville on April 25, 1967, pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373 *et. seq.*, of the *Code of Virginia* (1950) as amended). The Authority is governed by seven directors appointed by the City Council. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia. The Authority is also authorized to issue debt to aid it in these activities as well.

For financial reporting purposes, the Authority is a discretely presented component unit of the City of Danville, Virginia (the “City”). The Authority is so classified because its members are appointed by City Council and the City provides significant funding to the Authority; thus, the City is financially accountable for the Authority.

Measurement focus and basis of accounting

The Authority’s financial statements consist of a single enterprise fund and are reported using 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. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority arise from the sale of property, lease revenue, and economic development grants. Operating expenses include contributions to industries, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating.

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

Cash and cash equivalents

The Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities three months or less from the date of acquisition.

Accounts receivable

Accounts receivable consist of amounts owed to the Authority from a lessee for rent and invoices for maintenance and repairs.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets

Capital assets are defined by the Authority as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Land improvements	15-40 years
Equipment	5-15 years

Property held for sale

Property held for sale is recorded at the lower of cost or market. Cost is determined by the acquisition price, if purchased, or at estimated fair value at the date of gift, if donated. Costs of property improvements are capitalized.

The Authority has land available for sale in the Airside and Riverview Industrial Parks.

Security deposits

Deposits consist of amounts received from lessees that may be used to offset future lease payments or any damages that may occur to the property during the lease term.

Unearned revenues

Unearned revenues consist of operating lease payments that have been received but not earned at year end.

Revolving loan fund – USDA

The Authority has received an advance from the United States Department of Agriculture (USDA) to use as seed money in a revolving loan program for economic development. These funds are repayable to the USDA upon conclusion of the program.

Revolving loan fund – City

During the year ended June 30, 2019, the Authority received \$3 million from the City to fund a special projects loan program. The program is intended to support economic development through a construction loan as described in Note 3. All of the funds were loaned in 2020.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 1. Summary of Significant Accounting Policies (Continued)

Tax credit program fees

The Authority has an agreement with Danville, Virginia CDE, Inc. (the "CDE"), whereby the Authority provides the CDE management services for certain of the CDE's daily operating functions. Under this agreement, the Authority receives all fees and payments due the CDE related to tax credits. Under this agreement, the Authority is not responsible for providing assistance in obtaining tax credits or applying for credits directly. The Authority essentially provides the CDE management and accounting support. This agreement is through December 31, 2020 and will continue year to year thereafter until terminated.

Estimates

Management uses estimates and assumptions in preparing the financial statements. Actual results could differ from those estimates.

Related party transactions

The City provides the Authority with personnel and office space at no charge and such costs are not reflected in the accompanying financial statements.

Comparative information

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the prior year from which the summarized information was derived.

Note 2. Deposits and Investments

Deposits

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

Restricted cash consists of amounts remaining to be loaned out from the revolving loan funds provided by the USDA and the City as noted in Note 1.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 2. Deposits and Investments (Continued)

Investments

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, the State Treasurer’s Local Government Investment Pool (LGIP), and the State Treasurer’s Non-Arbitrage Program (SNAP). As of June 30, 2020, the Authority did not hold any investments.

Note 3. Notes Receivable

Notes receivable consist of loans to companies to provide support and economic development. The 2011 incentive agreement loan relates to an economic incentive agreement awarded in March 2011, and will be forgiven if performance requirements are met by the recipient. The special project revolving loan, with a balance of \$3,000,000 as of June 30, 2020, was awarded by the Authority to support a construction project at 123 South Union. This loan bears interest of 5% per annum and is due in full in fiscal year 2022. It is guaranteed by a personal guarantee up to \$2,000,000. Other notes receivable consist of various economic development loans to companies. Balances are due over time, are not expected to be collected in full within one year, and bear interest at 4% per annum.

Based on the Authority’s analysis of loans at June 30, 2020, \$51,010 was recorded as an allowance. Management evaluates the performance and payment history of companies annually in determining the required allowance.

Notes receivable consist of the following:

2011 Incentive agreement loan	\$ 232,000
Special project revolving loan	3,000,000
Other loans receivable	220,851
Interest receivable on special project revolving loan	<u>78,428</u>
	3,531,279
Less allowance for doubtful accounts	<u>(51,010)</u>
Total notes receivable	<u><u>\$ 3,480,269</u></u>

The Authority has a \$400,000 nonrecourse note receivable from Westmoreland and Schoolfield Senior Apartments, LLC due in 2038. Since it is nonrecourse to the maker, the Authority’s legal counsel has concluded the Authority legally has no right to collect the note and it is not repayable unless there is a default, which would be as a result of a sale or other transfer of the underlying property. Based on these factors and the fact that there is no default as of June 30, 2020, the Authority has not recorded this note.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 4. Capital Assets

The Authority's capital assets are held for lease to businesses operating or wishing to locate in the City. Capital asset activity for the year was as follows:

	<u>Beginning Balance*</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 9,988,226	\$ 259,000	\$ (493,255)	\$ 9,753,971
Construction in progress	33,990	646,418	-	680,408
Total capital assets, not depreciated	<u>10,022,216</u>	<u>905,418</u>	<u>(493,255)</u>	<u>10,434,379</u>
Capital assets, being depreciated:				
Buildings	33,100,240	2,756,837	(9,432,238)	26,424,839
Equipment	75,000	-	-	75,000
Total capital assets being depreciated, net	<u>33,175,240</u>	<u>2,756,837</u>	<u>(9,432,238)</u>	<u>26,499,839</u>
Less accumulated depreciation	<u>(6,410,767)</u>	<u>(767,601)</u>	<u>3,336,414</u>	<u>(3,841,954)</u>
Total capital assets being depreciated, net	<u>26,764,473</u>	<u>1,989,236</u>	<u>(6,095,824)</u>	<u>22,657,885</u>
Total capital assets, net	<u>\$ 36,786,689</u>	<u>\$ 2,894,654</u>	<u>\$ (6,589,079)</u>	<u>\$ 33,092,264</u>

* As restated. See Note 11.

Of the properties above, approximately \$10,650,611 of the net book value was invested in properties which are not currently under lease, but are available for lease or sale.

Note 5. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes from direct borrowings	\$ 15,781,845	\$ 4,157,015	\$ (9,296,122)	\$ 10,642,738	\$ 1,331,583
Bonds payable	5,028,000	-	(486,000)	4,542,000	503,000
	<u>\$ 20,809,845</u>	<u>\$ 4,157,015</u>	<u>\$ (9,782,122)</u>	<u>\$ 15,184,738</u>	<u>\$ 1,834,583</u>

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 5. Long-Term Liabilities (Continued)

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

Fiscal Year	Bonds Payable			Notes from Direct Borrowings		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 503,000	\$ 144,590	\$ 647,590	\$ 1,331,583	\$ 439,023	\$ 1,770,606
2022	520,000	127,352	647,352	615,317	392,727	1,008,044
2023	538,000	109,525	647,525	869,760	358,469	1,228,229
2024	557,000	91,074	648,074	907,939	320,290	1,228,229
2025	576,000	71,983	647,983	918,364	250,775	1,169,139
2026-2030	1,848,000	94,832	1,942,832	3,868,901	848,367	4,717,268
2031-2035	-	-	-	1,743,195	232,321	1,975,516
2036-2040	-	-	-	387,679	83,913	471,592
2041-2045	-	-	-	-	-	-
	<u>\$ 4,542,000</u>	<u>\$ 639,356</u>	<u>\$ 5,181,356</u>	<u>\$ 10,642,738</u>	<u>\$ 2,925,885</u>	<u>\$ 13,568,623</u>

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
<u>Notes from Direct Borrowings:</u>					
American National Bank & Trust Company	Jan 2011	Feb 2022	\$ 2,700,000	5.25 %	\$ 1,916,885
American National Bank & Trust Company	May 2013	May 2022	1,100,000	5.00	686,069
American National Bank & Trust Company	Sept 2013	Oct 2023	1,500,000	5.00	1,183,949
American National Bank & Trust Company	May 2016	April 2021	880,000	4.50	793,402
American National Bank & Trust Company	Jan 2017	Dec 2021	500,000	4.50	350,221
American National Bank & Trust Company	Oct 2019	July 2020	956,250	4.75	956,250
American National Bank & Trust Company	June 2020	June 2028	3,200,765	4.05	3,200,765
					<u>9,087,541</u>
Virginia Small Business Financing Authority	April 2013	April 2033	\$ 500,000	4.00%	370,680
Virginia Community Capital	April 2013	May 2033	1,500,000	5.00	1,184,517
					<u>1,555,197</u>
					<u>\$ 10,642,738</u>
<u>General Obligation Bonds:</u>					
Taxable Revenue Bonds, Series 2017	March 2017	Dec 2027	\$ 5,920,000	3.37%	\$ 4,542,000

Bank notes payable are generally collateralized by real property.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 6. Leasing Arrangements

Operating leases

The Authority has various operating leases to local companies with various terms and renewal options. These businesses have received incentives through the Authority to locate, expand, or remain in the Danville area. Lease payments are based on the principal loan balance the Authority owes on the individual properties. These leases have remaining terms of 3-5 years with options to extend between 8 and 15 years.

Future estimated minimum payments receivable under the operating leases are as follows:

<u>Fiscal Year</u>	
2021	\$ 702,982
2022	547,274
2023	366,610
2024	253,700
2025	247,950
2026-2030	<u>1,184,813</u>
	<u>\$ 3,303,329</u>

The Authority also has entered into the following sales-type lease. This agreement provides for periodic rental payments in amounts which are equal to the principal and interest payments due to project bond holders. The Authority has assigned all rights to the rental payments to the trustees of the bond holders and the lessees have assumed responsibility for all operating costs such as utilities, repairs, and property taxes. In such cases, the Authority neither receives nor disburses funds.

Although title to this property rests with the Authority, bargain purchase options or other lease provisions eliminate any equity interest that would otherwise be retained. Deeds of trust collateralize outstanding bond obligations and title will revert to the lessee when the bonds or notes are fully paid.

Sales-type lease – GSO Aviation

In January 2012, the Authority entered into a 20-year lease agreement with GSO Aviation (GSO). Terms of the lease stipulate that GSO will make monthly lease payments in the amount of \$2,950 beginning February 1, 2012 through January 1, 2032. GSO has the right to purchase the property at any time during the term of the lease for \$676,500 minus the total payments paid over the term of the lease.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 6. Leasing Arrangements (Continued)

The Authority's net investment in sales-type leases consist of the following minimum future lease payments:

Fiscal Year	GSO Aviation
2021	\$ 33,900
2022	33,900
2023	33,900
2024	33,900
2025	33,900
Thereafter	221,675
	391,175
Unearned income	(94,402)
Net investment in sales-type lease	296,773
Less current portion	(19,504)
Long-term investment in sales-type leases	\$ 277,269

Note 7. Net Position

Restricted net position at June 30, 2020 consists of \$3,000,000 that the Authority has received from the City for use for a revolving loan fund to aid new and existing local businesses.

Note 8. Commitments and Contingencies

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 participates with other localities in a public entity risk pool for coverage of general liability with the Virginia Municipal League Liability Pool (VMLLP). Each member of this risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Authority pays VMLLP contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims, and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance coverage and there have not been any significant reductions in insurance coverage over the previous year.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 8. Commitments and Contingencies (Continued)

The Authority may be involved in potential lawsuits arising from the ordinary course of business. It is management's belief that any liability resulting from such lawsuits would not be material in relation to the Authority's financial position.

Other contingencies related to incentive grants and agreements are discussed elsewhere in these notes.

Note 9. Conduit Debt Obligations

From time to time, the Authority has issued Economic Revenue Bonds (Bonds) to provide financial assistance to private sector entities for the acquisition and construction of industrial, commercial, and educational facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the state, nor any political subdivision thereof, including the Authority, is obligated in any manner for repayment of the Bonds. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

At June 30, 2020, there was a single Revenue Bond outstanding, with a principal amount payable of \$14,415,000.

Note 10. Incentive Grants

The City, often in conjunction with the Authority, has awarded performance grants to companies within the City to foster economic development. Disbursements under these grants vary based on the performance requirements and period in which the company has to perform. During the current fiscal year, the City awarded approximately \$3,100,000 in new grants and paid approximately \$790,000 in such grant funds for awards for current and prior years from the Economic Development Fund. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$4,800,000, and will be funded by the City through the Authority.

In fiscal year 2017, the Authority, the City, and the Commonwealth of Virginia entered into a performance agreement with Overfinch for the location of a facility in the City of Danville, Virginia. The Authority will lease to Overfinch a facility suitable for its operations. Overfinch can choose to remain in this facility or have the Authority build a new facility on a certain parcel of land. No decision has been reached on that construction. Overfinch's capital investment requirements vary based on the option chosen for the facility, however, the job requirements remain the same. During fiscal year 2020, Overfinch was operating in the leased facility and was considered delinquent with its performance requirements.

In fiscal year 2020, the Authority, the City, and the Commonwealth of Virginia entered into a performance agreement with PRA Group Inc. ("PRA"), for the location of a facility in the City of Danville, Virginia. PRA purchased real property from the Authority during fiscal year 2020. PRA agreed to capital investment and employment performance requirements.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 10. Incentive Grants (Continued)

In addition to those agreements previously described, the Authority also has multiple performance grants outstanding under which funds have been paid to the companies involved, but the performance period is not yet complete. Should a company fail to perform under the terms of the agreement, all or part of the funds awarded could become due and payable to the Authority. The Authority would then owe funds to the City, which may also owe certain funds back to the various granting authorities. Ultimate repayment responsibility rests with the City for these funds. Total outstanding grants with respect to which the City is contingently liable total approximately \$112,000 for funds from the Tobacco Commission.

Note 11. Restatement

The following is a summary of the restatements to net position:

Net position July 1, 2018, as previously reported	\$ 23,400,860
Lease amortization related to sales-lease type lease adjustment	<u>(14,789)</u>
Net position July 1, 2018, as restated	<u>\$ 23,386,071</u>
Net position July 1, 2019, as previously reported	\$ 26,341,652
Deposit on building purchase that was erroneously expensed	100,000
Lease amortization related to sales-type lease adjustment	<u>(14,789)</u>
Net position July 1, 2019, as restated	<u>\$ 26,426,863</u>

Note 12. COVID-19 Impact

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 heavily dependent on the City’s ability to raise taxes, assess fees, and access the capital markets. Additionally, access to grants and contracts from federal and state governments may decrease or may not be available depending on appropriations. The outbreak will have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation has depressed certain tax bases and other areas in which the Authority received revenue during fiscal year 2020. As such, our financial condition and liquidity could be negatively impacted for fiscal year 2021.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 12. COVID-19 Impact (Continued)

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, operations, suppliers, industry, and workforce. 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 2021.

Note 13. New Accounting Standards

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.

In June 2018, the GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2020. The requirements of this Statement should be applied prospectively.

In August 2018, the GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 13. New Accounting Standards (Continued)

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued **Statement No. 91, *Conduit Debt Obligations***. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

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.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 13. New Accounting Standards (Continued)

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.

SUPPLEMENTARY SCHEDULE

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**SCHEDULE OF BONDS OUTSTANDING – CONDUIT DEBT
June 30, 2020**

<u>Type of Issue</u>	<u>Date Issued</u>	<u>Amount of Bonds Issued</u>	<u>Bonds Outstanding June 30, 2020</u>	<u>Bonds Outstanding June 30, 2019</u>	<u>Project Financed</u>
Revenue Bond	Dec 17, 2017	\$ 15,035,000	\$ 14,415,000	\$ 14,675,000	Averett University Capital Projects and debt repayment

COMPLIANCE SECTION

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

Board of Directors
Industrial Development Authority of Danville
Danville, 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 Danville (the “Authority”), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated November 25, 2020.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of Authority’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in Item 2014-001, that we consider to be a material weakness.**

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

Industrial Development Authority of Danville's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 25, 2020

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**SUMMARY OF COMPLIANCE MATTERS
June 30, 2020**

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
Unclaimed Property

LOCAL COMPLIANCE

Authority By-Laws

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2020**

A. FINDING – FINANCIAL STATEMENT AUDIT

2014-001: Segregation of Duties (Material Weakness)

Condition:

An important aspect of any internal control system is the segregation of duties. Not all duties at the Authority have been adequately segregated. In an ideal system, no individual would perform more than one duty in connection with any transaction or series of transactions. With limited staff, sufficiently separating duties can be difficult or even impossible. As with all areas of internal control, management and those charged with governance should make careful decisions about the cost versus benefit of any internal control.

Recommendation:

Management should continue to take steps to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response:

Management will continue to evaluate possible actions and take steps where feasible.