

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

**FINANCIAL REPORT**

**June 30, 2018**



**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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# **INTRODUCTORY SECTION**

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**DIRECTORY OF PRINCIPAL OFFICIALS  
June 30, 2018**

**DIRECTORS**

Neal Morris – Chairman  
C. G. Hairston – Vice Chairman  
Richard Turner – Treasurer  
Russell Reynolds – Secretary  
Dr. Max Glass  
John Laramore  
Landon Wyatt

**OFFICIALS**

Gabriela Woodard .....Secretary  
Telly D. Tucker .....Economic Development Director  
Ken Larking ..... City Manager  
Linwood Wright .....Economic Development Consultant  
Kim Custer..... Economic Development Project Manager  
W. Clarke Whitfield, Jr. .... City Attorney  
Michael L. Adkins ..... City Director of Finance

**INDEPENDENT AUDITORS**

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

## **FINANCIAL SECTION**

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**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, 2018, 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, 2018, 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 2017 financial statements, on which, in our report dated November 22, 2017, we expressed an unmodified opinion. The 2017 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 28, 2018 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 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

Lynchburg, Virginia  
November 28, 2018

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# **BASIC FINANCIAL STATEMENTS**

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF NET POSITION  
June 30, 2018**

	<b>2018</b>	<b>(For Comparative Purposes Only) 2017</b>
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 1,044,080	\$ 1,980,786
Accounts receivable	146,613	104,506
Due from City of Danville, current portion	5,560,767	6,100,521
Net investment in sales-type leases, current portion (Note 6)	18,392	205,144
	6,769,852	8,390,957
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	-	1,197,658
Notes receivable, net (Note 3)	292,592	296,466
Long-term net investment in sales-type leases, net (Note 6)	330,117	6,788,891
Capital assets (Note 4)		
Nondepreciable	14,612,419	10,935,414
Depreciable, net	26,856,482	26,268,282
Property held for sale	1,292,430	1,292,430
	43,384,040	46,779,141
Total noncurrent assets	43,384,040	46,779,141
Total assets	50,153,892	55,170,098
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	598,848	573,193
Security deposits	57,517	42,350
Grants payable	-	100,000
Reserve deposits held for others	-	567,137
Unearned revenues	10,030	63,362
Accrued interest	84,662	149,484
Current portion of noncurrent liabilities (Note 5)	4,234,573	2,527,772
	4,985,630	4,023,298
Total current liabilities	4,985,630	4,023,298
<b>NONCURRENT LIABILITIES</b>		
Revolving loan fund – USDA	99,000	99,000
Due in more than one year (Note 5)	21,668,402	29,166,697
	21,767,402	29,265,697
Total noncurrent liabilities	21,767,402	29,265,697
Total liabilities	26,753,032	33,288,995
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>		
	-	-
<b>NET POSITION</b>		
Net investment in capital assets	15,565,926	12,168,469
Restricted (Note 7)	88,580	588,105
Unrestricted	7,746,354	9,124,529
	23,400,860	21,881,103
Total net position	\$ 23,400,860	\$ 21,881,103

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, 2018**

	<u>2018</u>	<u>(For Comparative Purposes Only) 2017</u>
<b>OPERATING REVENUES</b>		
Lease revenue	\$ 1,977,166	\$ 1,417,197
Economic development incentives – City of Danville	3,723,796	5,191,559
Tax credit program revenue	132,500	162,500
Interest income from capital leases and notes receivable	381,542	430,484
	<u>6,215,004</u>	<u>7,201,740</u>
<b>OPERATING EXPENSES</b>		
Economic development contributions and incentives	1,802,427	2,168,570
Bad debt expense	36,364	-
Professional services	231,926	238,110
Repairs and maintenance	104,294	115,342
Insurance and other	207,914	209,940
Depreciation	858,556	777,153
	<u>3,241,481</u>	<u>3,509,115</u>
Total operating expenses	<u>3,241,481</u>	<u>3,509,115</u>
Operating income	<u>2,973,523</u>	<u>3,692,625</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	32,907	17,729
Interest expense	(1,414,043)	(1,444,359)
Debt issuance costs	(46,981)	(132,429)
Danville Regional Foundation grant	-	50,000
Miscellaneous revenue	-	11,698
Loss on sale of property	(25,649)	(3,905)
Contribution from City of Danville	-	150,000
	<u>(1,453,766)</u>	<u>(1,351,266)</u>
Total net nonoperating revenue (expenses)	<u>(1,453,766)</u>	<u>(1,351,266)</u>
Change in net position	1,519,757	2,341,359
Net position – beginning	<u>21,881,103</u>	<u>19,539,744</u>
Net position – ending	<u>\$ 23,400,860</u>	<u>\$ 21,881,103</u>

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, 2018**

	<b>2018</b>	<b>(For Comparative Purposes Only) 2017</b>
	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Receipts from lessees	\$ 1,923,834	\$ 1,424,197
Receipts from City for economic development	3,723,796	5,191,559
Receipts from notes and sales-type leases	318,547	107,132
Notes receivable issued	-	(12,935)
Other receipts	138,395	150,009
Payments to economic incentive grant recipients	(1,887,260)	(2,155,870)
Payments to suppliers	(303,230)	(587,428)
	<u>3,914,082</u>	<u>4,116,664</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from the sale of capital assets	1,397,875	11,375
Proceeds from issuance of debt	3,170,310	7,781,025
Repayment of debt	(2,333,775)	(6,698,035)
Payments for the purchase and construction of capital assets	(6,762,534)	(5,134,058)
Debt issuance costs	(46,981)	(132,429)
Interest paid on debt	(1,478,865)	(1,035,541)
	<u>(6,053,970)</u>	<u>(5,207,663)</u>
<b>NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Danville Regional Foundation grant	-	50,000
Contribution from City	539,754	254,813
Distributions to external companies into debt reserve	(567,137)	-
	<u>(27,383)</u>	<u>304,813</u>
<b>INVESTING ACTIVITIES</b>		
Interest received	32,907	17,729
	<u>(2,134,364)</u>	<u>(768,457)</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	3,178,444	3,946,901
Ending of year	<u>\$ 1,044,080</u>	<u>\$ 3,178,444</u>
<b>RECONCILIATION TO EXHIBIT 1</b>		
Cash and cash equivalents	\$ 1,044,080	\$ 1,980,786
Cash and cash equivalents, restricted	-	1,197,658
	<u>\$ 1,044,080</u>	<u>\$ 3,178,444</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, 2018**

	<b>2018</b>	<b>(For Comparative Purposes Only) 2017</b>
	<b>2018</b>	<b>2017</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 2,973,523	\$ 3,692,625
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	858,556	777,153
Non-cash portion of change in sales-type leases	17,497	(178,775)
Non-cash portion of capital leases	-	(403,130)
Other income	-	11,698
Change in		
Accounts receivable	(42,107)	(45,358)
Accounts payable and accrued expenses	240,904	(24,036)
Security deposits	15,167	12,700
Unearned revenues	(53,332)	7,000
Grants payable	(100,000)	-
Notes receivable	3,874	79,202
Net investment in sales-type leases	-	187,585
	<b>\$ 3,914,082</b>	<b>\$ 4,116,664</b>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributed capital asset addition	<b>\$ -</b>	<b>\$ 150,000</b>
Capital asset additions included in accounts payable	<b>\$ 305,330</b>	<b>\$ 520,579</b>
Principal payments on debt paid by lessee directly to lender	<b>\$ 6,645,526</b>	<b>\$ 178,775</b>

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

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**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.

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**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

Capitalization of interest

The Authority capitalizes interest costs on funds borrowed to finance the construction of capital assets.

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.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 1. Summary of Significant Accounting Policies (Continued)**

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.

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). At the end of 2018, the Authority did not hold any investments.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 3. Notes Receivable**

Notes receivable consist of various economic development loans to companies. The interest rate on each of the loans is 4.00%. Balances are due over time and are not expected to be collected in full within one year. Approximately \$232,000 of the loans outstanding at June 30, 2018, relates to an economic incentive agreement awarded in March 2011, and will be forgiven if performance requirements are met by the recipient.

Based on the Authority's analysis of loans at June 30, 2018, no allowance was recorded. Management evaluates the performance and payment history of companies annually in determining the required allowance.

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, 2018, the Authority has not recorded this note.

**Note 4. Capital Assets**

The Authority's capital assets are held for lease to businesses 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	\$ 10,070,348	\$ 175,000	\$ (164,822)	\$ 10,080,526
Construction in progress	865,066	4,199,588	(532,761)	4,531,893
Total capital assets, not depreciated	<u>10,935,414</u>	<u>4,374,588</u>	<u>(697,583)</u>	<u>14,612,419</u>
Capital assets, being depreciated:				
Buildings	30,937,270	2,705,458	(1,328,917)	32,313,811
Equipment	75,000	-	-	75,000
Total capital assets being depreciated, net	<u>31,012,270</u>	<u>2,705,458</u>	<u>(1,328,917)</u>	<u>32,388,811</u>
Less accumulated depreciation	<u>4,743,988</u>	<u>(858,556)</u>	<u>70,215</u>	<u>5,532,329</u>
Total capital assets being depreciated, net	<u>26,268,282</u>	<u>1,846,902</u>	<u>(1,258,702)</u>	<u>26,856,482</u>
Total capital assets, net	<u>\$ 37,203,696</u>	<u>\$ 6,221,490</u>	<u>\$ (1,956,285)</u>	<u>\$ 41,468,901</u>

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**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 payable	\$ 24,748,443	\$ 3,170,310	\$ 8,478,383	\$ 19,440,370	\$ 3,700,649
Note payable, City	1,026,026	-	61,421	964,605	63,924
Bonds payable	5,920,000	-	422,000	5,498,000	470,000
	<u>\$ 31,694,469</u>	<u>\$ 3,170,310</u>	<u>\$ 8,961,804</u>	<u>\$ 25,902,975</u>	<u>\$ 4,234,573</u>

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

<u>Fiscal Year</u>	<u>Bonds Payable</u>			<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 470,000	\$ 177,363	\$ 647,363	\$ 3,764,573	\$ 815,356	\$ 4,579,929
2020	486,000	161,255	647,255	3,683,779	665,021	4,348,800
2021	503,000	144,590	647,590	619,355	595,318	1,214,673
2022	522,000	127,352	649,352	649,051	565,621	1,214,672
2023	538,000	109,525	647,525	680,083	534,590	1,214,673
2024-2028	2,979,000	257,889	3,236,889	3,797,610	2,181,794	5,979,404
2029-2033	-	-	-	4,125,799	1,249,442	5,375,241
2034-2038	-	-	-	2,150,325	508,584	2,658,909
2039-2043	-	-	-	934,400	232,714	1,167,114
	<u>\$ 5,498,000</u>	<u>\$ 977,974</u>	<u>\$ 6,475,974</u>	<u>\$ 20,404,975</u>	<u>\$ 7,348,440</u>	<u>\$ 27,753,415</u>

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 5. Long-Term Liabilities (Continued)**

Details of long-term indebtedness are as follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
<u>Notes Payable:</u>					
American National Bank & Trust Company	June 2015	June 2020	\$ 6,440,000	5.00%	\$ 6,025,252
American National Bank & Trust Company	Jan 2011	Feb 2022	2,700,000	5.25	2,134,280
American National Bank & Trust Company	May 2013	May 2022	1,100,000	5.00	750,797
American National Bank & Trust Company	Sept 2013	Oct 2018	1,500,000	5.00	1,294,904
American National Bank & Trust Company	May 2016	April 2021	880,000	4.50	836,979
American National Bank & Trust Company	Jan 2017	Dec 2021	500,000	4.50	438,682
American National Bank & Trust Company	Oct 2017	Oct 2018	3,170,310	5.50	3,170,310
					14,651,204
Virginia Small Business Financing Authority	April 2013	April 2033	\$ 500,000	4.00%	406,935
Virginia Bank and Trust Company	Aug 2014	Sept 2019	3,250,000	5.25	3,122,019
Virginia Community Capital	April 2013	May 2033	1,500,000	5.00	1,260,212
					4,789,166
					\$ 19,440,370
<u>Note Payable, City:</u>					
	June 2006	June 2030	\$ 1,600,000	4.00%	\$ 964,605
<u>General Obligation Bonds:</u>					
Taxable Revenue Bonds, Series 2017	March 2017	Dec 2027	\$ 5,920,000	3.37%	\$ 5,498,000

Bank notes payable are generally collateralized by real property.

**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.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 6. Leasing Arrangements (Continued)**

Operating leases (Continued)

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

<u>Fiscal Year</u>	
2019	\$ 788,872
2020	904,969
2021	888,068
2022	925,502
2023	461,660
2024-2028	2,140,000
2029-2033	1,219,600
2034-2038	1,020,000
2039-2043	204,000
	<hr/>
	\$ 8,552,671

In 2018, one lessee terminated its lease agreement in exchange for \$385,018 in cash.

The Authority also has entered into the following sales-type leases. These agreements provide 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 these properties 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 principal paid over the term of the lease.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 6. Leasing Arrangements (Continued)**

Sales-type lease – EsselPropack America, LLC

In 2011, the Authority entered into a construction agreement to expand the building being leased by EsselPropack America, LLC (Essel). Upon completion of this expansion, a new loan was obtained in the amount of \$7,500,000 in June 2011. These funds were used to finance the construction costs, pay off the existing loans, and set up a debt service fund. A new sales-type lease agreement was executed with Essel in June 2011 with a term of 25 years. Terms of the lease stipulated that Essel would make the monthly loan payments directly to the financial institution in the amount of \$48,323 beginning August 1, 2011 through July 1, 2018. Essel had the right to purchase the property at any time during the term of the lease for the principal balance of the loan. In May 2018, Essel purchased the building and the lease arrangement terminated.

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

Fiscal Year	GSO Aviation
2019	\$ 35,400
2020	35,400
2021	35,400
2022	35,400
2023	35,400
Thereafter	303,850
	480,850
Unearned income	(132,341)
Net investment in sales-type lease	348,509
Less current portion	(18,392)
Long-term investment in sales-type leases	\$ 330,117

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 7. Net Position**

Restricted net position at June 30, 2018 consists of \$88,580 that the Authority was required to contribute to a debt reserve account and may only be used for the debt service of the 2011 loan from VCC.

**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.

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.

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, 2019 and will continue year to year thereafter until terminated.

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, 2018, there was a single Revenue Bond outstanding, with a principal amount payable of \$15,035,000.

(Continued)



**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**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 \$3,160,000 in new grant funds and paid approximately \$660,000 in such grant funds awarded in current and prior years from the Economic Development Fund. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$4,100,000, and will be funded by the City through the Authority.

In fiscal year 2017, the Authority in conjunction with City of Danville, the Danville-Pittsylvania Regional Industrial Facility Authority and the Commonwealth of Virginia, entered into a performance agreement with Kyocera SGS, for a location of a facility in Danville. Under the agreement, the IDA, City and Commonwealth agree to provide certain grant and cash incentives to Kyocera as long as Kyocera meets all capital investment and job creation requirements as provided in the performance agreement. The performance agreement also provides for leasing of facilities while a new facility is being constructed. The Company will purchase the facility being constructed from the IDA upon completion of the construction. During fiscal year 2018, construction was ongoing on this facility and Kyocera was progressing toward its required performance markers.

Additionally, in fiscal year 2017, the IDA, the City of Danville and the Commonwealth of Virginia entered into a performance agreement with Overfinch for the location of a facility in the City of Danville. The IDA will lease to Overfinch a facility suitable for its operations. The Company can choose to remain in this facility or have the IDA build a new facility on a certain parcel of land. No decision has been reached on that construction. The Company's capital investment requirements vary based on the option chosen for the facility, however, the job requirements remain the same. During fiscal year 2018, the Company was operating in the leased facility and was considered in compliance with performance requirements to date.

In fiscal year 2018, the Authority, in conjunction with the City of Danville, the County of Pittsylvania, the IDA of Pittsylvania County, and the Danville-Pittsylvania Regional Industrial Development Authority, entered into a performance agreement with Unison Tube. The Authority and other parties agreed to provide certain grant and cash incentives to Unison provided Unison meets the capital investment and job requirements set forth in the agreement. Additionally, the IDA is the lessor to Unison Tube for the facility the Company is locating their operations in. The lease contains an option for the Company to purchase the facility in the future as long as it is not in default with any requirements of the lease or the performance agreement.

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 \$1.8 million for funds from the Tobacco Commission.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 10. Incentive Grants (Continued)**

At June 30, 2018, the Authority was aware of the default of five companies who had received grant funds that were originally awarded to the City from the Tobacco Commission. These funds, totaling \$4.7 million, are being repaid by the City over four years under an agreement negotiated with the Commission. The balance remaining at June 30, 2018 on these repayments was \$526,875, and is reflected as a liability of the City.

**Note 11. Subsequent Events**

In October 2018, the Authority approved a loan for approximately \$1.2 million for the refinancing of debt associated with Authority property at Lockett Drive.

**Note 12. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. 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, 2019. The requirements of this Statement should be applied prospectively.

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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

**Note 12. New Accounting Standards (continued)**

The GASB issued **Statement No. 90**, *Majority Equity Interests*, an amendment of *GASB Statements No. 14 and No. 61* in August 2018. 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 the reporting for a majority equity interest in a legally separate organization

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

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## **SUPPLEMENTARY SCHEDULE**

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SCHEDULE OF BONDS OUTSTANDING – CONDUIT DEBT  
June 30, 2018**

<b>Type of Issue</b>	<b>Date Issued</b>	<b>Amount of Bonds Issued</b>	<b>Bonds Outstanding June 30, 2018</b>	<b>Bonds Outstanding June 30, 2017</b>	<b>Project Financed</b>
Revenue Bond	Dec 17, 2010	\$ 15,000,000	\$ -	\$ 11,362,371	Averett University Capital Projects and debt repayment
Revenue Bond	Dec 17, 2017	15,035,000	15,035,000	-	Averett University Capital Projects and debt repayment

## **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**

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, 2018, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated November 28, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

## **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 28, 2018

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SUMMARY OF COMPLIANCE MATTERS  
June 30, 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  
Unclaimed Property

**LOCAL COMPLIANCE**

Authority By-Laws

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2018**

**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 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.