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

FINANCIAL REPORT

June 30, 2019

INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY BLANK

INTRODUCTORY SECTION

INDUSTRIAL DEVELOPMENT AUTHORITY OF DANVILLE

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2019

DIRECTORS

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

OFFICIALS

Joy Jarvis	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

Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

2102 Langhorne Road, Suite 200 • Lynchburg, Virginia 24501 • 434-948-9000 • Fax: 434-948-9029 • www.BEcpas.com

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, 2019, 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 2018 financial statements, on which, in our report dated November 28, 2018, we expressed an unmodified opinion. The 2018 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, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 25, 2019

THIS PAGE INTENTIONALLY BLANK

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

INDUSTRIAL DEVELOPMENT AUTHORITY OF DANVILLE

STATEMENT OF NET POSITION
June 30, 2019

	2019	(For Comparative Purposes Only) 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$ 676,205	$ 894,510
Accounts receivable	32,206	146,613
Due from City of Danville, current portion	486,000	532,767
Net investment in sales-type leases, current portion (Note 6)	19,333	18,392
Total current assets	1,213,744	1,592,282
NONCURRENT ASSETS		
Notes receivable, net (Note 3)	614,215	292,592
Cash and cash equivalents, restricted	2,832,202	149,570
Due from City of Danville, net of current portion	4,542,000	5,028,000
Long-term net investment in sales-type leases, net (Note 6)	310,784	330,117
Capital assets (Note 4)		
Nondepreciable	10,022,216	14,612,419
Depreciable, net	26,664,473	26,856,482
Property held for sale	1,292,430	1,292,430
Total noncurrent assets	46,278,320	48,561,610
Total assets	47,492,064	50,153,892
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	87,506	598,848
Security deposits	69,317	57,517
Unearned revenues	10,130	10,030
Accrued interest	74,614	84,662
Current portion of noncurrent liabilities (Note 5)	4,097,934	4,234,573
Total current liabilities	4,339,501	4,985,630
NONCURRENT LIABILITIES		
Revolving loan fund – USDA	99,000	99,000
Due in more than one year (Note 5)	16,711,911	21,668,402
Total noncurrent liabilities	16,810,911	21,767,402
Total liabilities	21,150,412	26,753,032
COMMITMENTS AND CONTINGENCIES (Note 8)	-	-
NET POSITION		
Net investment in capital assets	15,876,844	15,565,926
Restricted (Note 7)	3,044,245	238,150
Unrestricted	7,420,563	7,596,784
Total net position	$ 26,341,652	$ 23,400,860

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

EXHIBIT 2

INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2019

	2019	(For Comparative Purposes Only) 2018
OPERATING REVENUES		
Lease revenue	$ 1,078,700	$ 1,977,166
Economic development incentives – City of Danville	2,879,934	3,723,796
Tax credit program revenue	132,500	132,500
Interest income from capital leases and notes receivable	1,104	381,542
Total operating revenues	4,092,238	6,215,004
OPERATING EXPENSES		
Economic development contributions and incentives	1,396,490	1,802,427
Bad debt expense	44,138	36,364
Professional services	221,235	231,926
Repairs and maintenance	144,655	104,294
Insurance and other	467,723	207,914
Depreciation	878,438	858,556
Total operating expenses	3,152,679	3,241,481
Operating income	939,559	2,973,523
NONOPERATING REVENUES (EXPENSES)		
Interest income	3,670	32,907
Interest expense	(1,005,467)	(1,414,043)
Debt issuance costs	-	(46,981)
Contributions from City of Danville – Loan Fund	3,000,000	-
Miscellaneous revenue	3,030	-
Loss on sale of property	-	(25,649)
Total net nonoperating revenue (expenses)	2,001,233	(1,453,766)
Change in net position	2,940,792	1,519,757
NET POSITION		
Beginning	23,400,860	21,881,103
Ending	$ 26,341,652	$ 23,400,860

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

EXHIBIT 3

INDUSTRIAL DEVELOPMENT AUTHORITY OF DANVILLE

STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

	2019	(For Comparative Purposes Only) 2018
OPERATING ACTIVITIES		
Receipts from lessees	$ 1,178,900	$ 1,923,834
Receipts from City for economic development	1,968,421	3,723,796
Receipts from notes receivable and sales-type leases	29,236	318,547
Notes receivable issued	(375,501)	-
Other receipts	161,637	138,395
Payments to economic incentive grant recipients	(1,008,585)	(1,887,260)
Payments to suppliers	(1,029,670)	(303,230)
Net cash provided by operating activities	924,438	3,914,082
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of capital assets	843,284	1,397,875
Proceeds from issuance of debt	417,896	3,170,310
Repayment of debt	(1,022,908)	(2,333,775)
Payments for the purchase and construction of capital assets	(1,231,691)	(6,762,534)
Debt issuance costs	-	(46,981)
Interest paid on debt	(1,003,129)	(1,478,865)
Net cash used in capital and related financing activities	(1,996,548)	(6,053,970)
NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Contribution from City	3,532,767	539,754
Distributions to external companies into debt reserve	-	(567,137)
Net cash provided by (used in) non-capital and related financing activities	3,532,767	(27,383)
INVESTING ACTIVITIES		
Interest received	3,670	32,907
Net cash provided by investing activities	3,670	32,907
Net increase (decrease) in cash and cash equivalents	2,464,327	(2,134,364)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,044,080	3,178,444
Ending of year	$ 3,508,407	$ 1,044,080

(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, 2019

	2019	(For Comparative Purposes Only) 2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 939,559	$ 2,973,523
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	878,438	858,556
Non-cash portion of change in sales-type leases	18,392	17,497
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	3,030	-
Change in		
Accounts receivable	114,407	(42,107)
Accounts payable and accrued expenses	(206,012)	240,904
Security deposits	11,800	15,167
Unearned revenues	100	(53,332)
Grants payable	-	(100,000)
Notes receivable	(321,623)	3,874
Net cash provided by operating activities	$ 924,438	$ 3,914,082
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on debt paid by lessee directly to lender	$ -	$ 6,645,526
Capital asset additions included in accounts payable	$ -	$ 305,330
Principal on debt forgiven by the City	$ 911,513	$ -

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

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)

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.

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 will aid in providing loans to businesses and new businesses to aid in economic development growth and expansion. The amounts on hand available to be loaned at year end are shown as restricted cash.

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 2019, the Authority did not hold any investments.

(Continued)

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, 2019, 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, 2019, approximately $61,000 was recorded as an allowance. 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, 2019, 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:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 10,080,526	$ 57,700	$ 150,000	$ 9,988,226
Construction in progress	4,531,893	182,232	4,680,135	33,990
Total capital assets, not depreciated	14,612,419	239,932	4,830,135	10,022,216
Capital assets, being depreciated:				
Buildings	32,313,811	686,429	-	33,000,240
Equipment	75,000	-	-	75,000
Total capital assets being depreciated, net	32,388,811	686,429	-	33,075,240
Less accumulated depreciation	5,532,329	878,438	-	6,410,767
Total capital assets being depreciated, net	26,856,482	(192,009)	-	26,664,473
Total capital assets, net	$ 41,468,901	$ 47,923	$ 4,830,135	$ 36,686,689

(Continued)

Note 4. Capital Assets (Continued)

Of the properties above, approximately $16,920,000 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:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	$ 19,440,370	$ 417,896	$ 4,076,421	$ 15,781,845	$ 3,611,934
Note payable, City	964,605	-	964,605	-	-
Bonds payable	5,498,000	-	470,000	5,028,000	486,000
	$ 25,902,975	$ 417,896	$ 5,511,026	$ 20,809,845	$ 4,097,934

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

	Bonds Payable			Notes Payable		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2020	$ 486,000	$ 161,255	$ 647,255	$ 3,611,934	$ 630,204	$ 4,242,138
2021	503,000	144,590	647,590	550,116	563,212	1,113,328
2022	522,000	127,352	649,352	576,991	536,336	1,113,327
2023	538,000	109,525	647,525	605,087	508,240	1,113,327
2024	557,000	91,074	648,074	645,600	479,070	1,124,670
2025-2029	2,422,000	166,815	2,588,815	3,507,166	1,943,710	5,450,876
2030-2034	-	-	-	3,644,698	1,069,541	4,714,239
2035-2039	-	-	-	2,334,216	412,867	2,747,083
2040-2044	-	-	-	306,037	17,488	323,525
	$ 5,028,000	$ 800,611	$ 5,828,611	$ 15,781,845	$ 6,160,668	$ 21,942,513

(Continued)

Note 5. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
Notes Payable:					
American National Bank & Trust Company	June 2015	June 2020	$ 6,440,000	5.00%	$ 5,872,107
American National Bank & Trust Company	Jan 2011	Feb 2022	2,700,000	5.25	2,027,937
American National Bank & Trust Company	May 2013	May 2022	1,100,000	5.00	722,449
American National Bank & Trust Company	Sept 2013	Oct 2018	1,500,000	5.00	1,244,446
American National Bank & Trust Company	May 2016	April 2021	880,000	4.50	815,637
American National Bank & Trust Company	Jan 2017	Dec 2021	500,000	4.50	395,435
					11,078,011
Virginia Small Business Financing Authority	April 2013	April 2033	$ 500,000	4.00%	391,189
Virginia Bank and Trust Company	Aug 2014	Sept 2019	3,250,000	5.25	3,087,345
Virginia Community Capital	April 2013	May 2033	1,500,000	5.00	1,225,300
					4,703,834
					$ 15,781,845
General Obligation Bonds:					
Taxable Revenue Bonds, Series 2017	March 2017	Dec 2027	$ 5,920,000	3.37%	$ 5,028,000

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.

Note 6. Leasing Arrangements (Continued)

Operating leases (Continued)

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

Fiscal Year		
2020	$	886,369
2021		869,468
2022		906,902
2023		443,060
2024		409,400
2025-2029		1,877,000
2030-2034		1,143,900
2035-2039		1,020,000
	$	7,556,099

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 principal paid over the term of the lease.

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
2020	$ 35,400
2021	35,400
2022	35,400
2023	35,400
2024	35,400
Thereafter	268,450
	445,450
Unearned income	(115,333)
Net investment in sales-type lease	330,117
Less current portion	(19,333)
Long-term investment in sales-type leases	$ 310,784

Note 7. Net Position

Restricted net position at June 30, 2019 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; as well as $44,245 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.

(Continued)

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.

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, 2019, there was a single Revenue Bond outstanding, with a principal amount payable of $14,675,000.

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 $865,000 in new grant funds and paid approximately $1,000,000 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 $2,700,000, and will be funded by the City through the Authority.

(Continued)

Note 10. Incentive Grants (Continued)

In fiscal year 2017, the Authority in conjunction with the City, 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, the City, and the 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. During fiscal year 2019, construction was completed and Kyocera purchased the building from the Authority.

Additionally, 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. The 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 2019, Overfinch was operating in the leased facility and was considered delinquent with its performance requirements.

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 $1,800,000 for funds from the Tobacco Commission.

Note 11. Subsequent Events

In July 2019, the Authority purchased property for approximately $189,000. The buildings on that property were subsequently demolished for approximately $223,500.

In September 2019, the Authority sold a property for approximately $150,000.

In September 2019, the Authority sold the former Televista facility for approximately $6,125,000. This sale also resulted in the extinguishment of approximately $5.9 million in outstanding Authority debt.

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. 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.

Note 12. New Accounting Standards (Continued)

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. 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 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.

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 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.

The GASB issued **Statement No. 91**, *Conduit Debt Obligations* in May 2019. 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, 2020.

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, 2019

Type of Issue	Date Issued	Amount of Bonds Issued	Bonds Outstanding June 30, 2019	Bonds Outstanding June 30, 2018	Project Financed
Revenue Bond	Dec 17, 2017	$ 15,035,000	$ 14,675,000	$ 15,035,000	Averett University Capital Projects and debt repayment

COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2019, 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, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.**

2102 Langhorne Road, Suite 200 • Lynchburg, Virginia 24501 • 434-948-9000 • Fax: 434-948-9029 • www.BEcpas.com

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 25, 2019

INDUSTRIAL DEVELOPMENT AUTHORITY OF DANVILLE

SUMMARY OF COMPLIANCE MATTERS
June 30, 2019

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, 2019

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.