

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

**FINANCIAL REPORT**

**June 30, 2017**



**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, 2017**

**DIRECTORS**

Neil Morris – Chairman  
C. G. Hairston – Vice Chairman  
Richard Turner – Treasurer  
Dr. Max Glass  
John Laramore  
Russell Reynolds  
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, 2017, 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, 2017, 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 2016 financial statements, on which, in our report dated November 30, 2016 we expressed an unmodified opinion. The 2016 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 22, 2017 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, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 22, 2017

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# **BASIC FINANCIAL STATEMENTS**

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF NET POSITION  
June 30, 2017**

	<b>2017</b>	<b>(For Comparative Purposes Only) 2016</b>
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 1,980,786	\$ 2,569,458
Accounts receivable	104,506	59,148
Due from City of Danville, current portion	6,100,521	6,205,334
Net investment in sales-type leases, current portion (Note 6)	205,144	193,391
Total current assets	8,390,957	9,027,331
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	1,197,658	1,377,443
Notes receivable, net (Note 3)	296,466	375,668
Long-term net investment in sales-type leases, net (Note 6)	6,788,891	6,988,229
Capital assets (Note 4)		
Nondepreciable	10,935,414	10,426,455
Depreciable, net	26,268,282	22,012,617
Property held for sale	1,292,430	1,292,430
Total noncurrent assets	46,779,141	42,472,842
Total assets	55,170,098	51,500,173
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	573,193	174,230
Security deposits	42,350	29,650
Grants payable	100,000	100,000
Reserve deposits held for others	567,137	567,137
Unearned revenues	63,362	56,362
Accrued interest	149,484	143,796
Current portion of noncurrent liabilities (Note 5)	2,527,772	9,097,330
Total current liabilities	4,023,298	10,168,505
Noncurrent liabilities		
Revolving loan fund – USDA	99,000	99,000
Due in more than one year (Note 5)	29,166,697	21,692,924
Total noncurrent liabilities	29,265,697	21,791,924
Total liabilities	33,288,995	31,960,429
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>	-	-
<b>NET POSITION</b>		
Net investment in capital assets	12,168,469	8,413,177
Restricted (Note 7)	588,105	588,105
Unrestricted	9,124,529	10,538,462
Total net position	\$ 21,881,103	\$ 19,539,744

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
Year Ended June 30, 2017**

	<u>2017</u>	<u>(For Comparative Purposes Only) 2016</u>
<b>OPERATING REVENUES</b>		
Lease revenue	\$ 1,417,197	\$ 1,330,005
Economic development incentives – City of Danville	5,191,559	1,766,868
Tax credit program revenue	162,500	709,133
Interest income from capital leases and notes receivable	430,484	445,936
	<hr/>	<hr/>
Total operating revenues	7,201,740	4,251,942
	<hr/>	<hr/>
<b>OPERATING EXPENSES</b>		
Economic development contributions and incentives	2,168,570	2,711,222
Professional services	238,110	395,004
Repairs and maintenance	115,342	159,103
Insurance and other	209,940	159,435
Depreciation	777,153	690,467
	<hr/>	<hr/>
Total operating expenses	3,509,115	4,115,231
	<hr/>	<hr/>
Operating income	3,692,625	136,711
	<hr/>	<hr/>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	17,729	9,354
Interest expense	(1,444,359)	(1,451,687)
Debt issuance costs	(132,429)	-
Danville Regional Foundation grant	50,000	50,000
Miscellaneous revenue	11,698	101,264
Incentive grant recoveries	-	385,950
Loss on sale of property	(3,905)	(117,576)
Contribution from City of Danville	150,000	-
	<hr/>	<hr/>
Total net nonoperating revenue (expenses)	(1,351,266)	(1,022,695)
	<hr/>	<hr/>
Change in net position	2,341,359	(885,984)
	<hr/>	<hr/>
<b>Net position – beginning</b>	19,539,744	20,425,728
	<hr/>	<hr/>
<b>Net position – ending</b>	<u>\$ 21,881,103</u>	<u>\$ 19,539,744</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF CASH FLOWS  
Year Ended June 30, 2017**

	<b>2017</b>	<b>(For Comparative Purposes Only) 2016</b>
	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Receipts from lessees	\$ 1,424,197	\$ 1,419,697
Receipts from City for economic development	5,191,559	1,800,816
Receipts from notes and sales-type leases	107,132	82,982
Notes receivable issued	(12,935)	(10,000)
Other receipts	150,009	1,225,643
Payments to economic incentive grant recipients	(2,155,870)	(2,760,922)
Payments to suppliers	(587,428)	(727,907)
	<u>4,116,664</u>	<u>1,030,309</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from the sale of capital assets	11,375	352,000
Proceeds from issuance of debt	7,781,025	1,380,000
Repayment of debt	(6,698,035)	(944,565)
Payments for the purchase and construction of capital assets	(5,134,058)	(2,697,038)
Debt issuance costs	(132,429)	-
Interest paid on debt	(1,035,541)	(1,033,413)
	<u>(5,207,663)</u>	<u>(2,943,016)</u>
<b>NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Danville Regional Foundation grant	50,000	50,000
Contribution from City	254,813	477,333
Contributions from external companies into debt reserve	-	(653)
	<u>304,813</u>	<u>526,680</u>
<b>INVESTING ACTIVITIES</b>		
Interest received	17,729	9,354
	<u>(768,457)</u>	<u>(1,376,673)</u>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	3,946,901	5,323,574
Ending of year	<u>\$ 3,178,444</u>	<u>\$ 3,946,901</u>
<b>RECONCILIATION TO EXHIBIT 1</b>		
Cash and cash equivalents	\$ 1,980,786	\$ 2,569,458
Cash and cash equivalents, restricted	1,197,658	1,377,443
	<u>\$ 3,178,444</u>	<u>\$ 3,946,901</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, 2017**

	<u>2017</u>	<u>(For Comparative Purposes Only) 2016</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 3,692,625	\$ 136,711
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	777,153	690,467
Non-cash portion of change in sales-type leases	(178,775)	(159,783)
Non-cash portion of capital leases	(403,130)	(420,088)
Other income	11,698	487,214
Change in		
Accounts receivable	(45,358)	96,574
Accounts payable and accrued expenses	(24,036)	(14,365)
Security deposits	12,700	(14,700)
Unearned revenues	7,000	56,362
Grants payable	-	(35,000)
Notes receivable	79,202	31,298
Net investment in sales-type leases	187,585	175,619
	<u>\$ 4,116,664</u>	<u>\$ 1,030,309</u>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributed capital asset addition	<u>\$ 150,000</u>	<u>\$ -</u>
Capital asset additions included in accounts payable	<u>\$ 520,579</u>	<u>\$ 97,580</u>
Principal payments on debt paid by lessee directly to lender	<u>\$ 178,775</u>	<u>\$ 159,783</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

**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.



**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**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. For the current year, no amounts were capitalized.

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.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

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

Net position:

Net position is the difference between assets and liabilities. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

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).

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**Note 2. Deposits and Investments (Continued)**

Investments: (Continued)

The Authority has invested bond proceeds subject to rebate of arbitrage earnings in SNAP. SNAP is an open-end management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of general obligation, and revenue tax-exempt financing of Virginia counties, cities, and towns. At the end of 2017 all of the Authority's investments were in SNAP.

At June 30, 2017, cash and cash equivalents consists of:

Demand deposits	\$ 3,147,231
Virginia SNAP	<u>31,213</u>
	<u>\$ 3,178,444</u>

As reported on the Statement of Net Position:

Cash and cash equivalents	\$ 1,980,786
Restricted cash and cash equivalents	<u>1,197,658</u>
	<u>\$ 3,178,444</u>

Restricted cash consists of \$1,166,445 debt service reserve for the 2011 loan from Virginia Community Capital Bank (VCC) and \$31,213 of unspent debt proceeds.

**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, 2017, will be forgiven if performance requirements are met by the recipient.

Based on the Authority's analysis of loans at June 30, 2017, 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, 2017, the Authority has not recorded this note.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**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:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 8,783,119	\$ 1,302,509	\$ 15,280	\$ 10,070,348
Construction in progress	1,643,336	837,076	1,615,346	865,066
Total capital assets, not depreciated	<u>10,426,455</u>	<u>2,139,585</u>	<u>1,630,626</u>	<u>10,935,414</u>
Capital assets, being depreciated:				
Building	25,904,452	5,032,818	-	30,937,270
Equipment	75,000	-	-	75,000
Total capital assets being depreciated, net	<u>25,979,452</u>	<u>5,032,818</u>	<u>-</u>	<u>31,012,270</u>
Less accumulated depreciation	<u>3,966,835</u>	<u>777,153</u>	<u>-</u>	<u>4,743,988</u>
Total capital assets being depreciated, net	<u>22,012,617</u>	<u>4,255,665</u>	<u>-</u>	<u>26,268,282</u>
Total capital assets, net	<u><u>\$ 32,439,072</u></u>	<u><u>\$ 6,395,250</u></u>	<u><u>\$ 1,630,626</u></u>	<u><u>\$ 37,203,696</u></u>

**Note 5. Long-Term Liabilities**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Notes payable	\$ 23,499,877	\$ 1,861,025	\$ 612,459	\$ 24,748,443	\$ 2,044,350
Note payable, City	1,085,043	-	59,017	1,026,026	61,422
Bonds payable	6,205,334	5,920,000	6,205,334	5,920,000	422,000
	<u>\$ 30,790,254</u>	<u>\$ 7,781,025</u>	<u>\$ 6,876,810</u>	<u>\$ 31,694,469</u>	<u>\$ 2,527,772</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**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 Payable		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 422,000	\$ 177,363	\$ 599,363	\$ 2,105,772	\$ 1,236,529	\$ 3,342,301
2019	470,000	161,255	631,255	794,313	1,197,998	1,992,311
2020	486,000	144,590	630,590	3,892,809	1,035,467	4,928,276
2021	503,000	127,352	630,352	841,724	952,825	1,794,549
2022	522,000	108,352	630,352	887,455	907,094	1,794,549
2023-2027	2,786,000	227,215	3,013,215	5,123,918	3,816,646	8,940,564
2028-2032	731,000	31,846	762,846	6,054,317	2,403,893	8,458,210
2033-2037	-	-	-	4,707,604	913,173	5,620,777
2038-2042	-	-	-	1,366,557	120,134	1,486,691
	<u>\$ 5,920,000</u>	<u>\$ 977,973</u>	<u>\$ 6,897,973</u>	<u>\$ 25,774,469</u>	<u>\$ 12,583,759</u>	<u>\$ 38,358,228</u>

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
<u>Notes Payable:</u>					
American National Bank & Trust Company	June 2015	June 2020	\$ 6,440,000	5.00%	\$ 6,170,847
American National Bank & Trust Company	Jan 2011	Feb 2017	2,700,000	5.25	2,235,887
American National Bank & Trust Company	May 2013	May 2018	1,100,000	5.00	783,600
American National Bank & Trust Company	Sept 2013	Oct 2018	1,500,000	5.00	1,314,776
American National Bank & Trust Company	May 2016	April 2021	880,000	4.50	857,371
American National Bank & Trust Company	Jan 2017	Dec 2021	500,000	4.50	480,002
					<u>11,842,483</u>
Virginia Small Business Financing Authority	April 2013	April 2033	\$ 500,000	4.00%	425,725
Virginia Bank and Trust Company	Aug 2014	Sept 2019	2,700,000	5.25	3,154,922
Virginia Community Capital	April 2013	May 2033	1,500,000	5.00	1,347,284
Virginia Community Capital	July 2011	July 2036	7,500,000	5.25	6,628,029
White Mill Development	June 2017	July 2017	1,350,000	12.00	1,350,000
					<u>12,905,960</u>
					<u>\$ 24,748,443</u>
<u>Note Payable, City:</u>	June 2006	June 2030	\$ 1,600,000	4.00%	<u>\$ 1,026,026</u>
<u>General Obligation Bonds:</u>					
Taxable Revenue Bonds, Series 2017	March 2017	Dec 2027	\$ 5,920,000	3.37%	<u>\$ 5,920,000</u>

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

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

Bank notes payable are generally collateralized by real property.

Debt covenants related to the first deed of trust with VCC for the July 2011 note payable include a debt service reserve that would be used to make payments in the event of a default and is included in restricted cash on the statement of net position in the amount of \$1,166,445 at June 30, 2017. Monthly payments in the amount of \$12,080 were required to be deposited into this separate account at VCC by EsselPropack until the account attained a balance of \$1,159,743, which is approximately two years of debt service. Should the account be used for any debt payments and the balance drop below the required amount, EsselPropack would then be obligated to begin making the required deposits to the account again until the required balance was fully restored. There are no future requirements for the Authority to fund the debt service reserve. All other financial covenants related to this loan have been met at June 30, 2017.

**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>	
2018	\$ 1,243,178
2019	1,192,078
2020	984,870
2021	538,877
2022	341,019
2023-2027	1,290,000
2028-2032	1,238,200
2033-2037	1,020,000
2038-2042	<u>408,000</u>
	<u>\$ 8,256,222</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

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

Operating leases: (Continued)

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.

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 stipulate that Essel will 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 has the right to purchase the property at any time during the term of the lease for the principal balance of the loan. If Essel does not exercise the option to purchase the property on or before July 31, 2018, the lease payments will increase to \$96,645 per month throughout the term of the lease. In addition, Essel will pay the Authority a premium amount of \$1,000,000 if it chooses to not exercise its purchase option on or before July 31, 2018. The minimum lease payments presented below presume that Essel will exercise its option to purchase the property by July 31, 2018, and will avoid the premium payment.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

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

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

<u>Fiscal Year</u>	<u>GSO Aviation</u>	<u>EsselPropack America, LLC</u>	<u>Total</u>
2018	\$ 35,400	\$ 579,876	\$ 615,276
2019	35,400	6,430,164	6,465,564
2020	35,400	-	35,400
2021	35,400	-	35,400
2022	35,400	-	35,400
Thereafter	336,300	-	336,300
	<u>513,300</u>	<u>7,010,040</u>	<u>7,523,340</u>
Unearned income	<u>(147,294)</u>	<u>(382,011)</u>	<u>(529,305)</u>
Net investment in sales-type lease	366,006	6,628,029	6,994,035
Less current portion	<u>(17,497)</u>	<u>(187,647)</u>	<u>(205,144)</u>
Long-term investment in sales-type leases	<u>\$ 348,509</u>	<u>\$ 6,440,382</u>	<u>\$ 6,788,891</u>

**Note 7. Net Position**

Restricted net position at June 30, 2017 consists of \$588,105 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 (VM LLP). Each member of this risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Authority pays VM LLP 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.



**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

**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, 2017, there was a single Revenue Bond outstanding, with a principal amount payable of \$11,362,371.

**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 \$3,200,000 in new grant funds and paid approximately \$2,080,000 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 \$1,500,000, and will be funded by the City through the Authority.

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 \$1.3 million for funds from the Tobacco Commission.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

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

At June 30, 2017, 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, will be repaid by the City over four years under an agreement negotiated with the Commission. The balance remaining at June 30, 2017 on these repayments was \$1.5 million, and is reflected as a liability of the City. The City and the Authority will weigh available legal options for recovery of funds from these companies.

**Note 11. Subsequent Events**

In October 2017, the Authority approved a loan for approximately \$3.8 million for the construction of a 28,000 square foot facility.

**Note 12. New Accounting Standards**

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

**GASB Statement No. 81, *Irrevocable Split-Interest Agreements*** provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 83, *Certain Asset Retirement Obligations*** establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2017**

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

**GASB Statement No. 84, *Fiduciary Activities*** establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

**GASB Statement No. 85, *Omnibus 2017*** addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and “negative” goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 86, *Certain Debt Extinguishment Issues***, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

**GASB Statement No. 87, *Leases*** establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. This Statement will be effective for the year ending June 30, 2021.

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# **SUPPLEMENTARY SCHEDULE**

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SCHEDULE OF BONDS OUTSTANDING – CONDUIT DEBT  
June 30, 2017**

<u>Type of Issue</u>	<u>Date Issued</u>	<u>Amount of Bonds Issued</u>	<u>Bonds Outstanding June 30, 2017</u>	<u>Bonds Outstanding June 30, 2016</u>	<u>Project Financed</u>
Revenue Bond	Dec 17, 2010	\$ 15,000,000	\$ 11,362,371	\$ 11,988,659	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, 2017, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated November 22, 2017.

**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, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 22, 2017

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SUMMARY OF COMPLIANCE MATTERS  
June 30, 2017**

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, 2017**

**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.