

**DANVILLE-PITTSYLVANIA REGIONAL
INDUSTRIAL FACILITY AUTHORITY**

FINANCIAL REPORT

June 30, 2020

Danville-Pittsylvania Regional Industrial Facility Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Danville-Pittsylvania Regional
Industrial Facility Authority
Danville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Danville-Pittsylvania Regional Industrial Facility Authority (the "Authority"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Summarized Comparative Information

We have previously audited the Authority's 2019 financial statements, on which, in our report dated November 26, 2019, we expressed an unmodified opinion. The 2019 financial information is provided for comparative purposes only.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 8, 2020

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Net Position
June 30, 2020

	2020	(For Comparative Purposes Only) 2019
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,820,513	\$ 1,959,232
Due from other governments	1,700,265	-
Prepays	-	254
<i>Total current assets</i>	<u>3,520,778</u>	<u>1,959,486</u>
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	80,223	1,155,496
Due from City of Danville	333,159	596,792
Capital assets not being depreciated	24,560,850	23,832,535
Capital assets being depreciated, net	22,136,589	22,615,940
Construction in progress	19,115,392	14,628,421
<i>Total noncurrent assets</i>	<u>66,226,213</u>	<u>62,829,184</u>
Total assets	<u>69,746,991</u>	<u>64,788,670</u>
Liabilities		
<i>Current liabilities</i>		
Accounts payable - general	313,204	140,241
Accounts payable - construction	816,325	50,000
Accrued interest payable	37,497	18,979
Retainage payable	57,292	2,500
Unearned revenue - current	187,819	3,892
Bonds payable - current	445,000	1,349,740
<i>Total current liabilities</i>	<u>1,857,137</u>	<u>1,565,352</u>
<i>Noncurrent liabilities</i>		
Due to Pittsylvania County	333,159	596,792
Unearned revenue	315,000	-
Bonds payable	1,675,000	2,120,000
<i>Total noncurrent liabilities</i>	<u>2,323,159</u>	<u>2,716,792</u>
Total liabilities	<u>4,180,296</u>	<u>4,282,144</u>
Net position		
Net investment in capital assets	63,736,280	57,757,518
Restricted - debt reserves	36,774	1,005,134
Unrestricted	1,793,641	1,743,874
Total net position	<u>\$ 65,566,695</u>	<u>\$ 60,506,526</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2020

	2020	(For Comparative Purposes Only) 2019
Operating revenues		
Virginia Tobacco Commission grants	\$ 3,728,829	\$ 4,222,145
Economic development incentives - Danville Regional Foundation	-	692,500
Economic development incentives - City of Danville	428,913	398,372
Economic development incentives - County of Pittsylvania	-	398,372
Economic development incentives - Other	777,656	315,000
Other income	309,949	277,654
Total operating revenues	<u>5,245,347</u>	<u>6,304,043</u>
Operating expenses		
Depreciation and amortization	808,461	812,665
Economic development - Cyber Park	67,406	216,434
Economic development - Cane Creek Centre	29,717	2,203,275
Economic development - Mega Park	100,563	45,919
Other operating expenses	733,108	525,522
Total operating expenses	<u>1,739,255</u>	<u>3,803,815</u>
Operating income	<u>3,506,092</u>	<u>2,500,228</u>
Non-operating revenues (expenses)		
Bond issuance costs	-	(28,894)
Interest income	11,143	30,310
Interest expense	(87,844)	(114,037)
Total non-operating expenses	<u>(76,701)</u>	<u>(112,621)</u>
Net income before capital contributions	<u>3,429,391</u>	<u>2,387,607</u>
Capital contributions		
Contribution - City of Danville	815,389	785,918
Contribution - Pittsylvania County	815,389	785,918
Total capital contributions	<u>1,630,778</u>	<u>1,571,836</u>
Change in net position	5,060,169	3,959,443
Net position at July 1, as restated (Note 12)	<u>60,506,526</u>	<u>56,547,083</u>
Net position at June 30	<u>\$ 65,566,695</u>	<u>\$ 60,506,526</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Cash Flows
Year Ended June 30, 2020

	2020	(For Comparative Purposes Only) 2019
	<u>2020</u>	<u>2019</u>
Operating activities		
Receipts from operating grants and activities	\$ 1,626,173	\$ 380,887
Payments to suppliers for goods and services	386,430	(1,477,761)
Other payments	986,101	1,623,012
Net cash provided by operating activities	<u>2,998,704</u>	<u>526,138</u>
Capital and related financing activities		
Purchase of capital assets	(4,268,651)	(837,651)
Capital contributions	1,463,878	979,593
Interest paid on bonds	(69,066)	(127,009)
Bond issuance costs paid	-	(28,894)
Principal repayments on bonds	(1,350,000)	(1,290,000)
Net cash used in capital and related financing activities	<u>(4,223,839)</u>	<u>(1,303,961)</u>
Investing activities		
Interest received	11,143	30,310
Net cash provided by investing activities	<u>11,143</u>	<u>30,310</u>
Net decrease in cash and cash equivalents	(1,213,992)	(747,513)
Cash and cash equivalents - beginning of year	3,114,728	3,862,241
Cash and cash equivalents - end of year	<u>\$ 1,900,736</u>	<u>\$ 3,114,728</u>
Reconciliation to Statement of Net Position		
Cash and cash equivalents	\$ 1,820,513	\$ 1,959,232
Restricted cash and cash equivalents	80,223	1,155,496
	<u>\$ 1,900,736</u>	<u>\$ 3,114,728</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Cash Flows
Year Ended June 30, 2020

	<u>2020</u>	<u>(For Comparative Purposes Only) 2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,506,092	\$ 2,500,228
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	808,461	812,665
Non-cash economic incentive expenses	58,555	951,836
Non-cash County grant capital asset additions	(401,974)	(4,068,176)
Operating in-kind expenses	55,691	66,636
Changes in assets and liabilities:		
Change in prepaids	254	2,171
Change in other receivables	(1,700,265)	226,301
Change in accounts payable - general	172,963	33,860
Change in unearned revenue	498,927	617
Net cash provided by operating activities	<u>\$ 2,998,704</u>	<u>\$ 526,138</u>
Supplemental cash flow information		
Capital asset additions financed by retainage payable	<u>\$ 57,292</u>	<u>\$ 2,500</u>
Capital asset additions financed by accounts payable	<u>\$ 816,325</u>	<u>\$ 50,000</u>
Capital asset additions financed by locality contribution	<u>\$ 513,183</u>	<u>\$ 4,360,099</u>
Refunding of bonds payable	<u>\$ 2,545,000</u>	<u>\$ -</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

1. Organization and Nature of Activities

The *Danville-Pittsylvania Regional Industrial Facility Authority* (“the Authority”) was created by ordinance of the Board of Supervisors of Pittsylvania County, Virginia, and the City Council of the City of Danville, Virginia, to promote and further the purposes of the *Virginia Regional Industrial Facilities Act*, Chapter 64, Title 15.2 of the *Code of Virginia*, (1950) as amended (the Act). The Authority is an entity jointly owned by the City of Danville and Pittsylvania County and is a political subdivision of the Commonwealth of Virginia. The Authority is empowered, among other things, to borrow money to purchase real estate and finance all improvements in industrial parks intended to be occupied by manufacturing, warehousing, distribution, office or other commercial enterprises. In addition, the Authority is authorized under the Act to issue revenue bonds to finance facilities for such enterprises. The Authority has no taxing power. The City of Danville acts as the fiscal agent of the Authority. As fiscal agent, the City provides office space to the Authority at no charge.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Authority utilizes the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred, regardless of the timing of the related cash flow. The Authority follows all applicable Governmental Accounting Standards Board (GASB) pronouncements.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues generally consist of grant income from various state or federal agencies; operating expenses generally consist of economic incentive grants, infrastructure development, depreciation and amortization expense, and other operating expenses which include bank charges, legal fees, accounting fees, meals and other miscellaneous fees. Non-operating items consist of interest income and expense as well as incidental items not directly related to the primary operations of the Authority. Capital contributions consist of subsidies from the City of Danville and Pittsylvania County.

Economic Incentive Grants

One important function of the Authority is to provide incentives for businesses to locate in the industrial parks constructed by the Authority. In some cases, the Authority agrees that if a business reaches certain investment and employment goals, the Authority will transfer capital assets (such as land and improvements) to the business at very favorable terms at the end of a specified period - usually five to ten years. The Authority reports these transfers as expenses when the grantee reaches its initial investment and employment goals and it appears unlikely that the grantee will fail to maintain these goals throughout the specified period.

Non-exchange transactions, in which the Authority either gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. Revenues and expenses from grants and donations are recognized in the fiscal year in which, in management’s judgment, all eligibility requirements have been substantially satisfied.

Cash and Cash Equivalents

Cash and cash equivalents represent checking and savings accounts of the Authority, which are available on demand or within a three-month period.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

2. Summary of Significant Accounting Policies (Continued)

Due From Other Governments

Due from other governments generally consists of grant reimbursements receivable from the Virginia Tobacco Commission or other grantor agencies. There was \$1,700,265 due from the Virginia Tobacco Commission or other grantor agencies at June 30, 2020.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Resources

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

Capital Assets

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the related assets, ranging from 10 to 50 years. Normal maintenance and repairs are charged to operations when incurred. Capital assets that are later transferred to other governments or businesses are capitalized at cost as constructed or purchased, and are later recorded as expenses when transferred to the recipient entity. The expense of capital assets that are transferred as part of economic incentive grants is generally recognized at the time the recipient has met all eligibility requirements and is expected to continue to meet the requirements throughout the period required by the incentive agreement.

Management does not believe the Authority's real estate and improvements has declined materially in value below the reported cost; however, no formal appraisals of the Authority's real property have been obtained since it was acquired.

Unearned Revenue

Unearned revenue represents revenue received but not recognized since it has not been earned. Unearned revenue is comprised of rent payments received in advance of the rent period and future economic development incentives.

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 used for the acquisition or improvement of those assets. Restricted net position consists of reserves the Authority is required to maintain under its bond agreements.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

2. Summary of Significant Accounting Policies (Continued)

Estimates

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

Income Taxes

The Authority is exempt from all federal, state, and local income taxes.

3. Deposits, Restricted Cash 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 in the amounts from 50% to 130% of excess deposits. All deposits are considered fully collateralized.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of the following at June 30, 2020:

Bond funds to be used for improvements to Cane Creek Centre	\$ 36,774
Restricted funds for Cane Creek Centre debt service	43,449
	<u>\$ 80,223</u>

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 and the State Treasurer’s Local Government Investment Pool (LGIP). At June 30, 2020, the Authority’s investments consisted of a money market fund primarily invested in U.S. Government repurchase agreements, floating and fixed rate securities, and U.S. treasury bills and coupons. The fund was rated AAAM by Standard and Poor’s and has a weighted average maturity of less than one year. These funds are carried at a stable \$1.00 net asset value, and thus reported at amortized cost.

The Authority has no custodial credit risk policy. However, the Authority had no custodial credit risk related to its investments at June 30, 2020. The Authority does not have a policy related to interest rate risk.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

4. Due To/From Member Localities

The Authority is equally funded by the City of Danville and Pittsylvania County. The two localities have signed agreements to share all costs of the Authority equally. At times, one locality may front all costs associated with a transaction, creating an amount owed by the other. The Authority reflects these balances as all transactions associated with the Authority are recorded on the Authority's books. At June 30, 2020, the Authority reflects amounts due to Pittsylvania County of \$333,159 and a corresponding due from the City of Danville for the same amount. This stems from items paid for or contributed by Pittsylvania County in excess of its share. It is not expected that the City of Danville will repay this amount in full in fiscal year 2021, but rather that the balance will be adjusted annually based on contributions made by both localities.

5. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	June 30, 2019 Balance*	Increases	Decreases	June 30, 2020 Balance
<i>Capital assets not being depreciated:</i>				
Cyber Park - Land	\$ 5,614,792	\$ -	\$ -	\$ 5,614,792
Cane Creek Centre - Land	5,152,203	-	-	5,152,203
Industrial Park - Land	13,065,540	786,870	58,555	13,793,855
<i>Total capital assets not being depreciated</i>	<u>23,832,535</u>	<u>786,870</u>	<u>58,555</u>	<u>24,560,850</u>
<i>Capital assets being depreciated:</i>				
Buildings	25,617,874	-	-	25,617,874
Building Improvements	310,697	-	-	310,697
Land Improvements	6,265,238	-	-	6,265,238
Infrastructure	2,006,965	-	-	2,006,965
Machinery and equipment	441,580	329,110	-	770,690
<i>Total capital assets being depreciated</i>	<u>34,642,354</u>	<u>329,110</u>	<u>-</u>	<u>34,971,464</u>
<i>Less accumulated depreciation for:</i>				
Buildings	9,793,215	601,811	-	10,395,026
Building Improvements	94,454	8,126	-	102,580
Land Improvements	1,653,640	159,152	-	1,812,792
Infrastructure	481,668	40,139	-	521,807
Machinery and equipment	3,437	-	767	2,670
<i>Total accumulated depreciation</i>	<u>12,026,414</u>	<u>809,228</u>	<u>767</u>	<u>12,834,875</u>
<i>Total capital assets being depreciated, net</i>	<u>22,615,940</u>	<u>(480,118)</u>	<u>(767)</u>	<u>22,136,589</u>
<i>Total capital assets, net</i>	<u>\$ 46,448,475</u>	<u>\$ 306,752</u>	<u>\$ 57,788</u>	<u>\$ 46,697,439</u>

*As restated. See note 12.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

6. Construction in Progress

Construction in progress consisted of the following at June 30:

	<u>June 30, 2019</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2020</u> <u>Balance</u>
Industrial Park*	\$ 14,628,421	\$ 4,486,971	\$ -	\$ 19,115,392

* Current year additions do not include interest. The construction in progress total for this project includes an accumulated total of \$1,307,712 capitalized interest at June 30, 2020. Per GASB Statement No. 89, interest related to construction will be expensed prospectively.

7. Long-Term Debt

The following schedule represents all bonds payable:

<u>Description</u>	<u>Original Issue</u>	<u>Annual Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding</u> <u>June 30, 2020</u>
2019 Revenue Refunding bonds – direct borrowing	\$ 2,545,000	\$ 205,000 – 515,000	2.27%	1/1/2025	\$ 2,120,000

In August 2019, the Authority issued \$2,545,000 in revenue refunding bonds. These bonds were issued to satisfy the outstanding balance of the Series 2016 revenue bonds. Debt service payments are made with funds received from the City of Danville and Pittsylvania County.

Long-term debt activity for the year ended June 30, 2020 was as follows:

<u>Description</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds – direct borrowing	\$ 3,470,000	\$ 2,545,000	\$ 3,895,000	\$ 2,120,000	\$ 445,000
Original issue discount	(260)	-	(260)	-	-
	<u>\$ 3,469,740</u>	<u>\$ 2,545,000</u>	<u>\$ 3,894,740</u>	<u>\$ 2,120,000</u>	<u>\$ 445,000</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

7. Long-Term Debt (Continued)

Debt service on the preceding bonds in future years is as follows:

Debt Maturity Schedule

Year Ending June 30	Principal	Interest	Total
2021	\$ 445,000	\$ 66,602	\$ 511,602
2022	465,000	50,632	515,632
2023	490,000	33,872	523,872
2024	515,000	16,234	531,234
2025	205,000	3,598	208,598
	<u>\$ 2,120,000</u>	<u>\$ 170,938</u>	<u>\$ 2,290,938</u>

8. Economic Development

In July 2019, the Authority entered into a local performance agreement with Gefertec LLC. The company has agreed to establish a North American Application Center for 3D metal printing/additive manufacturing within the Institute for Advanced Learning and Research. Incentives from the Authority of up to \$95,752 are being offered to assist with the construction of the new facility and towards the payment of base rent. No related incentive expense has been recorded.

In fiscal year 2020, the Authority purchased property containing approximately 192 acres in support of the Southern Virginia Megasite at Berry Hill project. In June 2020, the Authority provided a land grant of approximately 16 acres located in the Southern Virginia Megasite at Berry Hill for the construction and operation of a power substation. The related incentive expense was recorded in fiscal year 2020.

In October 2019, the Authority entered into a local performance agreement with Morgan Olson, LLC, North America's leading manufacturer of all-aluminum walk-in step vans. The company established its manufacturing facility within the plant previously owned by IKEA. The Authority entered into an agreement to provide a ground lease with a term of 15 years with an annual base rent of \$1 per year with an option to purchase the land after employment criteria have been met. The Authority is also committed to providing grant funds of up to \$851,500 towards capital investment and the creation of new jobs. No related incentive expense has been recorded.

In April 2020, the Authority entered into a local performance agreement with Just Greens, LLC, doing business as AeroFarms. The company will establish and operate a vegetable growing and processing facility in the Authority's Cane Creek Centre Industrial Park. The Authority and RealtyLink executed a contract for sale for the purchase of the Project Site which has not closed as of June 30, 2020. An Industrial Enhancement Grant in the form of annual tax rebates on real estate and tangible personal property totaling \$1,723,404 will be provided as an incentive by the Authority. No related incentive expense has been recorded.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

8. Economic Development (Continued)

In fiscal year 2019, the Authority entered into a local performance with Harlow Fastech LLC. As part of the local performance agreement, the Authority has a \$500,000 Enhancement Grant to purchase machinery and equipment on behalf of Harlow Fastech. Also, the Authority was awarded a \$630,000 Tobacco Region Opportunity Fund Loan on behalf of the Company for equipment and employment incentives. Per the agreements, the Authority has rights to the machinery and equipment until Harlow Fastech meets the obligations and then at that point, the equipment ownership would be transferred to the Company. As a result, there is approximately \$436,000 of machinery and equipment capitalized in Note 5 at June 30, 2020 that is expected to be disposed of through a future economic incentive expense.

9. Short-Term Operating Leases

The Authority leases land to tenants under lease terms of one year or less. Under the terms of the agreements, the future rental income for the year ending June 30, 2021 is estimated to be \$3,475.

10. Long-Term Operating Leases

In October 2006, the Authority entered into agreements with Swedwood Danville, LLC that provide the Authority will lease 94 acres (valued at \$1,027,947) to Swedwood for 120 months at a rate of \$1 per year. Swedwood has the option to purchase the above-mentioned land for \$1 at the end of the 120-month lease if it meets certain investment and employment criteria. In fiscal year 2008, Swedwood met its initial investment and employment criteria and the Authority recorded the transfer of land to Swedwood. If Swedwood chooses to expand its operations within the terms of the agreement, it also has the right to lease from the Authority certain parcels of land known as lots 7B and/or 7C, consisting of approximately 103 acres and 11 acres, respectively. Swedwood also has the right of first refusal to purchase a certain parcel of land from the Authority known as Lot 6 consisting of 68.8 acres. In fiscal year 2019, the Authority sold 87.04 acres, known as Lot 7A, in the Cane Creek Centre Industrial Park to IKEA Industry Danville, LLC for \$1 in accordance with the agreement dated October 25, 2006. The Authority's cost of the land was \$951,836 and the sale was made in exchange for a quitclaim, release and waiver by IKEA of any and all options or rights to the real property owned by the Authority in Cane Creek Centre.

The Research Building, which has a carrying value of \$4,793,853 at June 30, 2020 and accumulated depreciation of \$2,241,957, is leased to the Institute for Advanced Learning & Research (IALR) for \$10 per year per square foot occupied. The lease was renewed at the same rent terms on June 1, 2013 for a one-year period and will automatically renew annually thereafter for successive one year periods. The rent for the renewal is set forth in the lease agreement. Insurance costs are the responsibility of the lessee. Maintenance costs are the responsibility of the Authority; however, the lessee is engaged to provide for the maintenance obligations and is compensated for these services in an amount equal to the rent paid by the lessee. For fiscal year 2020, \$304,950 of rental income was received through this lease.

The Institute Building is leased to the IALR for \$1 per year. The lease term began June 2004 for a 15 year period and will automatically renew on an annual basis thereafter for successive one year period. Insurance and maintenance costs are the responsibility of the lessee.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

10. Long-Term Operating Leases (Continued)

In fiscal year 2011, the Authority entered into a ground lease with the IALR to allow for the construction of the Sustainable Energy Technology Center Building (SEnTeC). The lease term is 240 months and began in September 2010. The property is leased to the IALR at a rate of \$1 per year and the IALR has the option to purchase the premises for \$100 at the end of the lease term, as long as all related grant requirements have been satisfied.

11. Commitments and Contingencies

At June 30, 2020, the Authority had approximately \$15.5 million in outstanding engineering and consulting contracts, of which approximately \$5,344,294 had not been expended.

12. Restatement

The following is a summary of the restatement to net position, resulting from a correction of machinery and equipment that was not capitalized:

Net position July 1, 2019, as previously reported	\$ 60,396,091
Machinery and equipment not properly capitalized	110,435
Net position July 1, 2019, as restated	<u>\$ 60,506,526</u>

13. COVID-19 Uncertainty

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on rapid increase in exposure globally.

The Authority’s operations are heavily dependent on the ability to provide incentives and attract businesses to the Authority’s industrial parks. The outbreak could have a continued material adverse impact on economic and market conditions. This situation has depressed the tax bases and other areas in which the Authority operates during fiscal year 2020. As such, the Authority’s financial condition and liquidity may be negatively impacted in future fiscal years.

14. Subsequent Events

In August 2020, the Authority signed an agreement with Mountain Valley Pipeline, LLC regarding a right-of-way easement. The agreement notes a \$750,000 payment to the Authority, however, the full agreement has yet to be finalized.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2020

15. Dissolution of Authority

If dissolution of the Authority should occur, such dissolution shall be made pursuant to *Code of Virginia*, Section 15.2-6415. Pittsylvania County constructed a Multi-Port Access Point (MSAP), at an approximate cost of \$2 million that will benefit areas served by the Authority. Should the Authority ever be dissolved, the MSAP will be considered part of the County's investment in the Authority.

* * * * *

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

To the Board of Directors of
Danville-Pittsylvania Regional
Industrial Facility Authority
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 Danville-Pittsylvania Regional Industrial Facility Authority (the “Authority”), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated December 8, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.**

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
December 8, 2020

DANVILLE-PITTSYLVANIA REGIONAL INDUSTRIAL FACILITY AUTHORITY

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

As more fully described in the **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Conflicts of Interest