

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA**

FINANCIAL REPORT

DECEMBER 31, 2019

DIRECTORS

RANDY ANDERSON

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JOEY FAUCETTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Industrial Development Authority of
Pittsylvania County, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Industrial Development Authority of Pittsylvania County, Virginia (the "Authority"), a component unit of Pittsylvania County, Virginia, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, with the exception of the exclusion of the Management's Discussion and Analysis, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Industrial Development Authority of Pittsylvania County, Virginia as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The Authority has omitted 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 May 12, 2020 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Industrial Development Authority of Pittsylvania County, Virginia'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 Industrial Development Authority of Pittsylvania County, Virginia's internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
May 12, 2020

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

STATEMENTS OF NET POSITION
December 31, 2019 and 2018
See Independent Auditors' Report

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 871,291	\$ 963,150
Note receivable	<u>1,716,711</u>	<u>460,715</u>
Total current assets	<u>2,588,002</u>	<u>1,423,865</u>
ASSETS HELD FOR RESALE		
Industrial sites	<u>1,894,163</u>	<u>1,894,163</u>
NONCURRENT ASSETS		
Note receivable - net of current portion	<u>3,404,269</u>	<u>4,737,457</u>
PROPERTY AND EQUIPMENT		
Total assets	<u>\$ 7,886,434</u>	<u>\$ 8,055,485</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,725,065	\$ 356,472
Deferred revenue	<u>76,899</u>	<u>147,493</u>
Total current liabilities	<u>1,801,964</u>	<u>503,965</u>
LONG-TERM DEBT, less current maturities	<u>3,916,904</u>	<u>5,437,242</u>
Total liabilities	<u>5,718,868</u>	<u>5,941,207</u>
NET POSITION		
Unrestricted	<u>2,167,566</u>	<u>2,114,278</u>
Total liabilities and net position	<u>\$ 7,886,434</u>	<u>\$ 8,055,485</u>

The accompanying notes are an integral part of the financial statements.

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
Years Ended December 31, 2019 and 2018
See Independent Auditors' Report

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Rent revenue	\$ 44,000	\$ -
Contributions from Pittsylvania County	<u>51,226</u>	<u>-</u>
Total revenues	<u>95,226</u>	<u>-</u>
Operating expenditures:		
Bank fees	\$ 177	\$ -
Insurance	1,468	1,487
Professional services	12,379	14,835
Travel	946	1,245
Grant expense	<u>-</u>	<u>35,281</u>
Total operating expenditures	<u>14,970</u>	<u>52,848</u>
Operating income (loss)	<u>80,256</u>	<u>(52,848)</u>
Nonoperating revenues (expenses):		
Expense reimbursement	-	-
Interest income	230,275	216,532
Interest expense	<u>(257,243)</u>	<u>(221,963)</u>
Total nonoperating (loss)	<u>(26,968)</u>	<u>(5,431)</u>
Change in net position	53,288	(58,279)
Net position, beginning of year	<u>2,114,278</u>	<u>2,172,557</u>
Net position, end of year	<u>\$ 2,167,566</u>	<u>\$ 2,114,278</u>

The accompanying notes are an integral part of the financial statements.

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018
See Independent Auditors' Report

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from others	\$ 95,226	\$ 147,493
Cash paid to suppliers and consultants	<u>(14,970)</u>	<u>(52,848)</u>
Net cash provided by operating activities	<u>80,256</u>	<u>94,645</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property	<u>-</u>	<u>(906,463)</u>
Net cash (used in) investing activities	<u>-</u>	<u>(906,463)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Note receivable revenue	582,281	496,183
Note receivable issued	(511,783)	-
Proceeds from long-term borrowings	201,589	1,050,175
Debt reserve revenue	166,375	88,206
Principal paid on debt	(353,334)	(285,713)
Interest payments on borrowings	<u>(257,243)</u>	<u>(221,963)</u>
Net cash provided by (used in) capital and related financing activities	<u>(172,115)</u>	<u>1,126,888</u>
Net increase (decrease) in cash	(91,859)	315,070
Cash, beginning balance	<u>963,150</u>	<u>648,080</u>
Cash, ending balance	<u>\$ 871,291</u>	<u>\$ 963,150</u>
Reconciliation of excess (deficit) of revenues over (under) expenditures to net cash provided by operating activities:		
Operating income (loss)	\$ 80,256	\$ (52,848)
Adjustments to reconcile excess of expenditures over revenues to net cash provided by operating activities:		
Increase in deferred revenue	<u>-</u>	<u>147,493</u>
Net cash provided by operating activities	<u>\$ 80,256</u>	<u>\$ 94,645</u>

The accompanying notes are an integral part of the financial statements.

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization:

The Industrial Development Authority of Pittsylvania County, Virginia was created as a political subdivision of the Commonwealth of Virginia by ordinance of the Board of Supervisors of Pittsylvania County, Virginia on November 4, 1969, 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 Board of Supervisors of Pittsylvania County, Virginia. 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 Pittsylvania County, Virginia. The Authority is a component unit of Pittsylvania County, Virginia.

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for whom facilities are constructed. Collection of revenues pledged to liquidate the bonds may be assigned to a trustee. The revenue bonds are not deemed to constitute a debt or pledge of the faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease of the facilities constructed and may be secured by a deed of trust on those facilities.

Accounting policies:

Basis of accounting:

The Authority operates as an enterprise activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority follows all applicable GASB pronouncements and FASB pronouncements issued before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

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 are contributions and charges for services. Operating expenses include the cost of administration and related expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could vary from the estimates that were used.

Cash and cash equivalents:

For purposes of the statement of cash flows and the statement of net assets, cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

Pass-through financing leases and installment sales:

The principal activities of the Authority represent pass-through leases of installment sales. These agreements provide for periodic 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 payments to the trustees, agents or the holders of the bonds, and the lessees or purchasers 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 may rest with the Authority, bargain purchase options or other provisions eliminate any equity interest that would otherwise be retained in the lease transactions. Deeds of trust secure outstanding bond obligations and title will pass to the lessee or purchaser at such time as the bonds are fully paid.

Although the Authority provides a conduit to execute such transactions, it does not retain either the benefits of asset ownership or the liability for bond liquidation. Accordingly, the Authority does not recognize assets, liabilities, rental income, or interest expense in its financial statements.

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Property and equipment:

Property, plant, and equipment are carried at cost. No depreciation is taken on industrial projects, which are held for the purpose of development and resale. Buildings are depreciated over twenty years using the straight-line method.

Net position:

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

Note 2. Deposits

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

Note 3. Long-Term Debt

Annual requirements to amortize the Authority's long term debt and related interest are as follows:

Year Ending December 31,	Lease Revenue Bonds/Notes	
	Principal	Interest
2020	\$ 1,725,065	\$ 246,356
2021	381,981	217,923
2022	2,721,503	148,521
2023	136,707	85,246
2024	142,654	29,409
Thereafter	573,966	61,908
	\$ 5,681,876	\$ 789,364

Changes in long term debt:

	Balance December 31, 2018	Issuances	Retirements	Balance December 31, 2019
Note payable	\$ 5,833,621	\$ 201,589	\$ (353,334)	\$ 5,681,876

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 3. Long-Term Debt (Continued)

Long-term debt at December 31, 2019 consists of the following:

Notes payable:

<p>On July 29, 2003, the Authority issued a \$5,350,000 note. This note was modified on June 1, 2015 in order to advance an additional amount of \$907,207 to refinance a loan with Virginia Community Capital. Interest shall accrue at the rate 3.95% per annum. Combined principal and interest payments of \$30,325 are due monthly until June 1, 2022, with the remaining balance to be paid in full on June 1, 2022. The note is secured by a deed of trust against land and buildings occupied by Intertape Polymer Group.</p>	3,093,444
<p>On September 29, 2017, the Authority issued a \$1,512,500 note bearing interest at 4.95%. Combined principal and interest payments of \$11,981 are due monthly until September 1, 2020, with the remaining balance to be paid in full on October 1, 2020. The note is secured by a deed of trust and land and buildings occupied by Axxor, Inc.</p>	1,357,606
<p>On January 30, 2018, the Authority issued a \$1,079,198 taxable bond bearing interest at 4.39%. Installments of principal and interest are due on each August 1 and February 1, through February 1, 2029. The note is secured by a deed of trust and land and buildings occupied by Panacea Biomatx, Inc.</p>	1,035,160
<p>On January 17, 2019, the Authority issued a note up to \$650,000 bearing interest at 4.05% on behalf of Panacea Biomatx, Inc. for the purpose of purchasing equipment. As funds are needed they will request a draw down. A repayment schedule will be determined once all the necessary equipment is purchased.</p>	195,666
	5,681,876
Less: Unamortized debt issuance costs	39,907
Long-term debt, less unamortized debt issuance costs	5,641,969
Less current portion	1,725,065
Total long-term debt, less current portion	\$ 3,916,904

On January 30, 2018, the Authority issued a \$1,803,802 tax-exempt bond bearing interest at 3.59% and mature on June 30, 2028. The bond proceeds were used for various projects for the benefit of Pittsylvania County, Virginia (the County). The County has agreed to report the debt on their financial statements, and therefore, are not reported on the statement of net position of the Authority.

INDUSTRIAL DEVELOPMENT AUTHORITY
OF PITTSYLVANIA COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 4. Notes Receivable

A lease agreement was entered into with Intertape Polymer Group, Inc., as of July 29, 2003, for the construction and permanent financing for a 200,000 square foot distribution facility that would be leased to Intertape Polymer Group. Terms of the lease agreement require Intertape Polymer Group to make payments to the Industrial Development Authority of Pittsylvania County that are sufficient to redeem and pay interest on the Industrial Development's notes payable dated July 29 and October 30, 2003. At December 31, 2019, the amount of principal due under this agreement totaled \$3,093,444.

A lease purchase agreement was entered into with Axxor N.A., LLC, as of September 30, 2011, for the construction and permanent financing for a facility that would be leased to Axxor N.A., LLC. Terms of the lease agreement require Axxor N.A., LLC to purchase the property on or before the lease's termination date at a price equal to the outstanding balance plus \$900,000.

Axxor, N.A., LLC is making payments to the Industrial Development Authority of Pittsylvania County in the amount of \$20,000 for sixty months, consisting of principal and interest on the Industrial Development Authority's note dated September 29, 2017 and the remaining amount paid into a debt reserve fund towards the additional purchase price. At December 31, 2019, the amount of principal and debt reserve due under this agreement totaled \$1,699,068. Of this amount, \$1,357,606 represents principal due and \$341,462 represents debt reserve due.

The Authority purchased manufacturing equipment on behalf of Panacea Biomax, Inc. which they need to produce their product. On April 19, 2018 the Authority entered into a manufacturing equipment lease with the Panacea Biomax, Inc. (the "Company"). The Company is making payments of \$9,100 consisting of principal and interest on the Authority's note dated January 17, 2019 and the remaining amount paid into a debt reserve. At December 31, 2019, the amount of principal due under this agreement is \$195,666.

The Authority also financed \$143,710 of required upfitting of the building that was purchased in which Panacea Biomax, Inc. is leasing. The total cost of the upfit was \$310,194, of which Panacea Biomax, Inc. funded \$166,484. Panacea Biomax, Inc. is paying monthly payments of \$1,364 until the note is paid off. At December 31, 2019 the balance of the note is \$132,801.

Note 5. Leasing Activities

The Authority entered into a facility lease on July 10, 2018 with Panacea Biomax, Inc. (Tenant). The Tenant and Authority entered into a Local Performance Agreement under which the Tenant agreed to locate and establish a manufacturing operation in Pittsylvania County. The Authority obtained financing to purchase property and for upfitting of the building for the Tenant. The lease agreement provides for a monthly base rent of \$5,500 for 120 months.

The Authority also applied and received a Commonwealth Opportunity Fund grant \$105,000 through the Virginia Economic Development Partnership for Panacea. The funds are being held by Pittsylvania County, Virginia and will be paid once performance measures are met.

Note 6. Subsequent Events

Management has evaluated subsequent events through May 12, 2020, the date which the financial statements were available for issue.

INDEPENDENT AUDITORS' 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
Industrial Development Authority of
Pittsylvania County, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Industrial Development Authority of Pittsylvania County, Virginia, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which comprise the Industrial Development Authority of Pittsylvania County, Virginia's basic financial statements, and have issued our report thereon dated May 12, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Industrial Development Authority of Pittsylvania County, Virginia'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Industrial Development Authority of Pittsylvania County, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of Industrial Development Authority of Pittsylvania County, Virginia'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.

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 Industrial Development Authority of Pittsylvania County, Virginia'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 or other matters 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harris Harvey Neal & Co. LLP

Danville, Virginia
May 12, 2020