

Financial Statements
Years Ended
June 30, 2013 and 2012

Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

Industrial Development Authority of Danville

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

Board of Directors
Industrial Development Authority of Danville

We have audited the accompanying financial statements of *Industrial Development Authority of Danville*, a component unit of the City of Danville, Virginia, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the *Industrial Development Authority of Danville'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 opinions 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 General of the United States; and *Specifications for Audits of Authorities* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audits 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Industrial Development Authority of Danville*** as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the ***Industrial Development Authority of Danville's*** basic financial statements. The schedule of bonds outstanding on page 23 is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the ***Industrial Development Authority of Danville***. Such additional information, except as described in the preceding paragraph, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Correction of an Error

As disclosed in Note 11 to the financial statements, net position of ***Industrial Development Authority of Danville*** as of June 30, 2012 has been restated for the correction of a material error in previously issued financial statements due to the recording of a note receivable as a grant incentive expense. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013 on our consideration of ***Industrial Development Authority of Danville'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 25, 2013

Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Management's Discussion and Analysis of the *Industrial Development Authority of Danville's* (Authority's) financial performance provides an overview of the financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- ❖ The Authority's change in net position was \$2,767,588 in fiscal 2013 and \$6,454,491 in fiscal 2012.
- ❖ Total assets were \$33,719,846 at June 30, 2013 and \$28,734,390 at June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a component unit of the City of Danville, Virginia and prepares its financial statements in accordance with the *Uniform Financial Reporting Manual* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The financial statements for the year ended June 30, 2012 have been restated to reflect the correction of an error in recording a note receivable issued in FY2012 as an incentive grant expense.

STATEMENTS OF NET POSITION

The following condensed comparative balance sheets show the financial position of the Authority:

	2013	Restated 2012	2011
Assets			
Cash and cash equivalents	\$ 1,075,658	\$ 538,380	\$ 464,233
Property and land - net	21,690,087	17,745,003	12,735,812
Net investment in sales type leases	7,883,353	8,049,951	7,500,000
Other	3,070,748	2,401,056	1,468,686
Total assets	<u>\$ 33,719,846</u>	<u>\$ 28,734,390</u>	<u>\$ 22,168,731</u>
Liabilities			
Notes payable	\$ 18,938,361	\$ 16,800,785	\$ 16,338,901
Other	688,217	607,925	958,641
Total liabilities	19,626,578	17,408,710	17,297,542
Net position	14,093,268	11,325,680	4,871,189
	<u>\$ 33,719,846</u>	<u>\$ 28,734,390</u>	<u>\$ 22,168,731</u>

Cash increased approximately \$475,400 in FY2013. Property held for sale represents land held for sale in Airside Industrial Park and River View Industrial Park. The major properties held for lease by the Authority include the property located in Airside Industrial Park leased to Telvista, Inc., 529 Bridge Street property currently occupied by five (5) tenants and property located at 512 Bridge Street occupied by Averett University and the Danville Regional Foundation. Space at 529 Bridge Street has been up fitted in the past year to provide offices for The Launch Place, a local entity whose mission is to promote entrepreneurial business development in the River District. The Authority has also participated with the City of Danville in its economic development activities by providing lease/purchase contracts on four significant properties to GOK International, GSO Aviation, Hybrid Vehicles, and Commonwealth Machine Company.

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET POSITION

Condensed statements of revenue and expenses and changes in net position are as follows:

	2013	Restated 2012	2011
Revenue			
Lease income	\$ 1,055,374	\$ 823,065	\$ 814,722
Other revenue - City of Danville, Virginia	2,562,917	6,008,691	342,469
Economic development	3,681,974	2,196,328	2,188,041
Other	1,113,127	869,596	739,721
Gain (loss) on sale of property	(17,987)	-	29,155
Total revenue	\$ 8,395,405	\$ 9,897,680	\$ 4,114,108
Expenses			
Economic development	\$ 3,238,458	\$ 1,744,842	\$ 2,167,645
Interest	943,412	938,162	502,023
Depreciation and amortization	461,743	327,804	304,984
Other	984,204	432,381	17,306
Total expenses	5,627,817	3,443,189	2,991,958
Change in net position	\$ 2,767,588	\$ 6,454,491	\$ 1,122,150

Economic development revenue and expenses have increased primarily due to the increase in appropriation of such funds from the City of Danville.

The Authority has issued Economic Revenue 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. As of June 30, 2013 and 2012, there was a series of Economic Revenue Bonds outstanding, with a principal amount payable of \$15 million. It should be noted this debt is all conduit debt. Although conduit debt obligations bear the name of the governmental issuer, which is the Authority, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

ECONOMIC OUTLOOK

During FY2011 the City of Danville initiated a study of its Downtown, Tobacco Warehouse and adjacent areas, which resulted in a plan to initiate major improvements in what was to be called the River District. The Authority has acquired a number of properties in the River District. Of these, two were sold during the current year to the private sector. Further, the Authority has contracts pending for the possible sale of four (4) additional properties to the private sector. The purchase and improvement of these properties was funded through Capital Improvement Plan funds from the City.

The Authority's overall financial position is positive. The tenants in its existing buildings are already ahead of their committed work force plan. As the City of Danville, Virginia continues to recruit new businesses, it will increase economic opportunities for the Authority.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. If you have any questions regarding this report or need additional financial information, please contact the Authority, P. O. Box 3300, Danville, Virginia 24543.

Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)

Statements of Net Position

June 30,	2013	Restated 2012 (Note 11)
Assets		
Cash and cash equivalents	\$ 1,075,658	\$ 538,380
Restricted cash	863,469	777,276
Notes receivable (net of allowance for loan loss of \$13,784 in 2013 and \$13,635 in 2012)	1,745,443	1,191,819
Miscellaneous receivables	48,370	27,370
Net investment in sales type leases	7,883,353	8,049,951
Loan origination costs (net of accumulated amortization of \$100,740 in 2013 and \$68,415 in 2012)	413,466	404,591
Property held for lease - net	20,393,716	16,044,963
Construction in progress	29,840	335,501
Property held for sale	1,266,531	1,364,539
Total assets	33,719,846	28,734,390
Liabilities		
Due to City of Danville	34,972	34,972
Accrued expenses	85,431	64,767
Revolving loan fund - USDA	99,000	99,000
Reserve deposits held for others	277,855	132,887
Notes payable		
Due within one year	540,573	453,479
Due in more than one year	18,397,788	16,347,306
Unrealized gain on capital lease	190,959	276,299
Total liabilities	19,626,578	17,408,710
Net Position		
Net investment in capital assets	9,368,548	7,629,630
Restricted	863,469	777,276
Unrestricted	3,861,251	2,918,774
Total net position	\$ 14,093,268	\$ 11,325,680

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

Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)

Statements of Revenue, Expenses and Changes in Net Position

Years Ended June 30,	2013	Restated 2012 (Note 11)
Operating revenues		
Lease income	\$ 1,055,374	\$ 823,065
Other revenue - City of Danville	2,562,917	6,008,691
Economic development - City of Danville	3,681,974	2,196,328
Interest income from capital leases and notes receivable	488,017	471,192
Total operating revenue	7,788,282	9,499,276
Operating expenses		
Economic development incentive grants	3,238,458	1,744,842
Depreciation and amortization	461,743	327,804
Legal and professional	510,046	320,655
Other	124,283	111,726
Total operating expenses	4,334,530	2,505,027
Operating income	3,453,752	6,994,249
Nonoperating revenue (expenses)		
Investment income	4,064	2,940
Interest expense	(943,412)	(938,162)
Danville Regional Foundation grant	530,000	300,000
Bad debt recovery	5,706	-
Loss on sale of property	(17,987)	-
Recognized gain on capital lease	85,340	95,464
Return of grant funds to City of Danville	(349,875)	-
Total nonoperating revenue (expenses)	(686,164)	(539,758)
Change in net position	2,767,588	6,454,491
Net position - beginning of year	11,325,680	4,871,189
Net position - end of year	\$ 14,093,268	\$ 11,325,680

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

Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)

Statements of Cash Flows

Years Ended June 30,	2013	Restated 2012 (Note 11)
Cash flows from operating activities		
Received from lessees	\$ 1,075,874	\$ 824,565
Received from City of Danville	6,244,891	8,280,253
Payments to suppliers for goods and services	(634,329)	(422,583)
Payments to economic incentive grant recipients	(3,238,458)	(1,744,842)
Payments received on capital lease	35,400	14,750
Notes receivable issued	(731,686)	(936,000)
Payments on notes receivable	196,570	55,229
Net cash from operating activities	2,948,262	6,071,372
Cash flows from capital and related financing activities		
Payments for construction in progress	(17,130)	(443,224)
Purchase of property held for lease	(4,722,856)	(5,965,887)
Purchase of equipment	(75,000)	-
Proceeds from sale of property	479,580	-
Proceeds from note payable	2,600,000	851,668
Principal payments on notes payable	(328,265)	(276,708)
Interest payments on notes payable	(490,302)	(466,014)
Net cash from capital and related financing activities	(2,553,973)	(6,300,165)
Cash flows from non-capital and related financing activities		
Danville Regional Foundation grant	530,000	300,000
Return of grant funds to City of Danville	(349,875)	-
Cash paid for loan costs	(41,200)	-
Net cash from capital and related financing activities	138,925	300,000
Cash flows from investing activities		
Investment income	4,064	2,940
Net change in cash and cash equivalents	537,278	74,147
Cash and cash equivalents - beginning of year	538,380	464,233
Cash and cash equivalents - end of year	\$ 1,075,658	\$ 538,380

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

Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)

Statements of Cash Flows

Years Ended June 30,	2013	Restated 2012 (Note 11)
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 3,453,752	\$ 6,994,249
Adjustments to reconcile net cash from operating activities:		
Depreciation and amortization	461,743	327,804
Bad debt on notes receivable	5,855	13,635
Non-cash portion of change in sales type leases	(134,159)	42,127
Non-cash interest income from capital leases	(445,712)	-
Change in:		
Miscellaneous receivables	(21,000)	75,234
Accrued expenses	20,664	24,895
Notes receivable	(559,479)	(856,621)
Net investment in sales type leases	166,598	(549,951)
Net cash from operating activities	\$ 2,948,262	\$ 6,071,372
Supplemental disclosures of cash flows information		
Cash paid for interest	\$ 490,302	\$ 466,014

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

Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)

Notes to Financial Statements

June 30, 2013 and 2012

1. Organization, Description of the Entity and its Activities

The ***Industrial Development Authority of Danville*** (Authority) was created as a political subdivision in the Commonwealth of Virginia by ordinance of the City Council of Danville, Virginia pursuant to provisions of the ***Industrial Revenue and Bond Act*** of the ***Code of Virginia***. The Authority is governed by seven directors appointed by the City Council of Danville, 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 Virginia. The Authority is considered to be a component unit of the City of Danville, Virginia (City).

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

Most activities of the Authority represent pass-through financing 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. Although the Authority provides a conduit to execute such transactions, it does not retain the benefits of asset ownership nor the liability for bond and note liquidation. Accordingly, the Authority does not recognize associated assets, liabilities, rental income or interest expense in its financial statements from these transactions.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Authority is required to follow the accounting and reporting practices of the Government Accounting Standards Board (GASB). The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The Authority's statements of net position reflect full accrual basis of accounting incorporating long-term assets as well as long-term debt and other obligations. Net position is classified as either amounts invested in capital assets, reported net of any outstanding debt related to the acquisition of capital assets, unrestricted, or temporarily restricted net position. The statements of revenue, expenses and changes in net position are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is reported as increases in unrestricted net position. Expenses are reported as decreases in unrestricted net position. Net position invested in capital assets include acquisition costs of capital assets net of applicable depreciation and outstanding debt related to the acquisition of the capital assets.

Cash and Cash Equivalents

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

Property Held for Lease

Property is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the buildings (25-40 years).

Loan Origination Costs

Loan origination costs are amortized over the term of the loan.

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 one industrial park (Airside Industrial Park). This land was financed initially by non-interest bearing notes (payable as the land was sold) from the City of Danville, Virginia. In 2002, the City passed an ordinance forgiving the Authority of all notes payable to the City relating to properties at the River View and Airside Industrial Parks. In connection with this ordinance, all remaining land at River View Industrial Park was transferred to the City in 2002. In 2008, the Authority purchased a parcel of land in River View Industrial Park which is also held for sale.

Restricted Cash

At June 30, 2013, restricted cash represents amounts held in a reserve fund which may only be used for debt service of the loan from Virginia Community Capital Bank (VCC). At June 30, 2012, restricted cash also included \$61,920 of restricted USDA grant funds as well as the VCC reserve fund of \$715,356.

Lease Income

The Authority leases its properties under certain capital and operating leases. Lease income is recognized ratably over the lease terms.

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 disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 25, 2013, the date the financial statements were available to be issued.

3. New GASB Standard

In the fiscal year ending June 30, 2013, the Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB 63)*. The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position (net assets/balance sheet). Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separated section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets or equity. GASB 63 was implemented retroactively. The adoption of this statement resulted in a change in the presentation of the Statement of Net Assets to net position.

4. Deposits

Under the provisions of the Virginia Security for Public Deposits Act (Act), banks holding public deposits in excess of the amounts insured by federal depository insurance must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100% of deposits in excess of federal depository insurance limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments and authorities of compliance by banks and savings institutions.

At June 30, 2013 and 2012, the carrying value of the Authority's deposits was \$1,939,127 and \$1,315,656 respectively. The entire bank balance was covered by federal deposit insurance or collateralized in accordance with the Act.

5. Leasing Arrangements

Operating Leases:

The Authority leases certain properties and equipment under operating leases with remaining terms of 3-5 years with options to extend between 8 and 15 years. Property held for lease consists of the following:

	2013	2012
Land	\$ 3,032,691	\$ 2,228,899
Buildings	19,449,147	15,551,030
Equipment	75,000	-
	22,556,838	17,779,929
Less - accumulated depreciation	(2,163,122)	(1,734,966)
	\$ 20,393,716	\$ 16,044,963

The Authority has various operating leases to local companies with various terms and various 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.

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

2014	\$ 984,638
2015	581,270
2016	520,950
2017	469,800
2018	463,800
2019 - 2023	<u>1,146,450</u>
	<u>\$ 4,166,908</u>

Sales-Type Lease – GSO Aviation

During January 2012, the Authority entered into a lease agreement with GSO Aviation (GSO). The lease began on the commencement date and will end two hundred forty months after the commencement date. 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.

Minimum future lease payments due under the sales-type lease are as follows:

2014	\$ 35,400
2015	35,400
2016	35,400
2017	35,400
2018	35,400
Thereafter	<u>480,850</u>
	<u>\$ 657,850</u>

The Authority's net investment in the sales-type lease consists of the following:

	<u>2013</u>	<u>2012</u>
Minimum future lease payments	\$ 657,850	\$ 693,250
Executory costs and related profit	-	-
Allowance for uncollectible payments	-	-
Net minimum lease payments	<u>657,850</u>	<u>693,250</u>
Unearned income	<u>(27,262)</u>	<u>(30,223)</u>
Net investment in sales-type lease	<u>\$ 630,588</u>	<u>\$ 663,027</u>

The Authority recorded an unrealized loss on the conversion of this property to a sales-type lease which is recognized ratably over the term of the lease. The deferred loss was determined as follows:

Initial net investment in sales-type lease	\$ 676,500
Less:	
Land	(96,959)
Existing building	(926,641)
Unrealized loss	(347,100)
Loss recognized in 2012	7,231
Unrealized loss at June 30, 2012	(339,869)
Loss recognized in 2013	17,355
Unrealized loss at June 30, 2013	<u>\$ (322,514)</u>

Sales-Type Lease - EsselPropack America, LLC

During 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 their 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 they choose to not exercise their purchase option on or before July 31, 2018.

Minimum future lease payments due under the sales-type lease is as follows:

2014	\$ 579,871
2015	579,871
2016	579,871
2017	579,871
2018	579,871
Thereafter	6,430,185
	<u>\$ 9,329,540</u>

The Authority's net investment in the sales-type lease consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Minimum future lease payments	\$ 9,329,540	\$ 9,909,411
Executory costs and related profit	-	-
Allowance for uncollectible payments	-	-
Net minimum lease payments	9,329,540	9,909,411
Unearned income	(2,076,775)	(2,522,487)
Net investment in sales-type lease	<u>\$ 7,252,765</u>	<u>\$ 7,386,924</u>

The Authority recorded an unrealized gain on the conversion of this property to a sales-type lease which is being recognized ratably over the term of the lease. The deferred gain was determined as follows:

Initial net investment in sales-type lease	\$ 7,500,000
Less:	
Land	(381,580)
Existing building	(3,082,840)
Cost of expansion	(3,984,037)
Add:	
Accumulated depreciation	667,320
Unrealized gain	718,863
Loss recognized in 2012	(102,695)
Unrealized loss at June 30, 2012	616,168
Loss recognized in 2013	(102,695)
Unrealized loss at June 30, 2013	<u>\$ 513,473</u>

6. Construction in Progress

Construction in progress consisted of the following:

	<u>2013</u>	<u>2012</u>
544 Craghead Street	\$ -	\$ 133,229
Lynn Street	-	600
High Bay	3,850	-
521 Loyal Street	1,300	-
415 Main Street	-	175,682
Riverview Industrial	25,990	25,990
	<u>\$ 31,140</u>	<u>\$ 335,501</u>

7. Notes Receivable and Revolving Loan Fund - USDA

Notes receivable consisted of the following:

	<u>2013</u>	<u>2012</u>
Economic development - IDA	\$ 1,733,646	\$ 1,154,739
Economic development - USDA	11,797	37,080
	<u>\$ 1,745,443</u>	<u>\$ 1,191,819</u>

The Authority makes economic development loans to local companies under various term agreements. Interest rate on each of the loans is 4%.

During the fiscal year ended June 30, 2010, the Authority began an Economic Development Revolving Loan program (Loan Program) in partnership with the United States Department of Agriculture Rural Development (USDA). A grant in the amount of \$99,000 was approved by the USDA to be used by the Authority for making loans to local organizations for community development projects. The funds are interest free to the Authority and may only be used in the Loan Program. If the Authority ceases to administer the Loan Program, the full amount of all funds drawn will be due and payable to the USDA. At June 30, 2013, \$99,000 had been drawn and recorded as a revolving loan fund liability. Repayments on the USDA loans are revolved into the IDA revolving loan funds. Loans made by the Authority carry an interest rate of 4% and are payable in monthly principal and interest payments over 24 months.

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 property intended for or not starting construction on the project. Based on these factors and the fact that there is no default as of June 30, 2013 or 2012, the Authority has not recorded this note.

8. Transactions with Related Parties

During the fiscal years 2013 and 2012, the Authority received monies from the City of Danville, totaling \$3,681,974 and \$2,196,328, respectively, for economic development. During fiscal years 2013 and 2012, the Authority received monies from the City of Danville, totaling \$2,562,917 and \$6,008,691, respectively, for the purchase of new properties and related construction projects. The Authority also has a \$1.3 million loan with the City, as discussed in Note 9.

During the year ended June 30, 2013, the Authority returned grant funds to the City of Danville. These funds provided to the Authority by the City of Danville when the property was initially purchased and then returned to the City upon the sale of property. During the fiscal year, \$349,875 was returned to the City.

9. Notes Payable

The Authority has the following notes payable at June 30:

	2013	2012
First lien deed of trust payable to American National Bank and Trust Company, which is payable in monthly installments of principal and interest of \$39,557. The deed of trust, in an original amount of \$6,905,000, is for an initial period of ten (10) years with interest at a rate of 6.32% for the first five (5) years and for the second five (5) years, beginning January 2010, at 5.14%. In January 2015, the Authority and the bank will negotiate the terms of the loan for the unpaid amount. The initial payment rate is based on a twenty-five (25) year amortization. \$330,000 of the loan has not been drawn and is not expected to be drawn.	\$ 5,264,452	\$ 5,459,206
Second lien deed of trust payable to the City of Danville, which is payable in monthly installments of principal and interest of \$8,445. The deed of trust, in an original amount of \$1,600,000, is for a period of twenty-five (25) years with interest at a rate of 4.00%, due in June 2030.	1,248,591	1,298,896
First lien deed of trust in the amount of \$2,700,000 payable to American National Bank and Trust Company, the proceeds of which are used to purchase and renovate real property. The note is a fixed interest rate of 5.25%, with a balloon payment due in 2017. Once construction is complete, the loan will convert to a term loan of five (5) years with payment of principal and interest based on a twenty (20) year term.	2,575,552	2,655,759
Totals (carried forward)	\$ 9,088,595	\$ 9,413,861

	<u>2013</u>	<u>2012</u>
Totals (brought forward)	\$ 9,088,595	\$ 9,413,861
First lien deed of trust in an amount not to exceed \$1,100,000 payable to American National Bank and Trust Company, the proceeds of which are used to fund leasehold improvements and provide permanent financing on the property located at 527 Bridge Street, also known as the Old Belt No. 1 Building. The note is a sixty (60) month balloon note, with interest only payments for the first twelve (12) months followed by forty-eight (48) monthly principal and interest payments, due in May 2018. The note accrues interest at 5% per annum. Not more than \$600,000 should be allocated for the upfit of space to be leased to Southside Business Technology Center, and not more than \$500,000 should be allocated for the upfit of space proposed to be leased to a tenant.	600,000	-
First lien deed of trust in the amount of \$500,000 payable to the Virginia Small Business Financing Authority, the proceeds of which are used to finance the acquisition, construction and upfit of 500 Crane Creek Parkway. The note accrues interest at 4% per annum, with monthly principal and interest payments of \$3,030, due in April 2033.	497,001	-
First lien deed of trust in the amount of \$1,500,000 payable to Virginia Community Capital. The 20-year note is interest only for the first four (4) months, and then principal and interest for the next 236 months, with monthly payments of \$9,997 of principal and interest, and accrues interest at 5% per annum, due in July 2036.	1,500,000	-
First lien deed of trust payable to Virginia Community Capital, which is payable in monthly installments of principal and interest of \$48,323. The deed of trust, in an original amount of \$7,500,000, is for a period of twenty-five (25) years with interest at a rate of 5.25%, due in July 2036.	7,252,765	7,386,924
	18,938,361	16,800,785
Less - current portion	(540,573)	(453,479)
	<u>\$ 18,397,788</u>	<u>\$ 16,347,306</u>

Estimated principal maturities for future years ending June 30 are as follows:

2014	\$ 540,573
2015	593,990
2016	627,392
2017	2,865,582
2018	1,119,802
2019-2022	3,438,630
2023-2027	4,597,630
2028-2032	3,311,453
2033-2037	1,843,309
	<u>\$ 18,938,361</u>

Debt covenants related to the first deed of trust with Virginia Community Capital (VCC) include a debt service reserve which is included in restricted cash on the statement of net position in the amount of \$863,469 and \$777,276 at June 30, 2013 and 2012, respectively. Monthly payments in the amount of \$12,080 are required to be deposited into this separate account at VCC by EsselPropack. 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, 2013.

10. 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. Upon repayment of the Bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. 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, 2013 and 2012, there was a single Revenue Bond outstanding, with a principal amount payable of approximately \$13.3 million and \$14.2 million, respectively.

11. Correction of an Error

A prior period adjustment was made to correct an error in previously issued financial statements. During the year ended June 30, 2012, a loan made to a borrower in the amount of \$480,000 was recorded as a grant incentive payment. During the year ended June 30, 2013, the loan documents were obtained and the amount was correctly recorded as a note receivable and an increase to unrestricted net position.

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Industrial Development Authority of Danville

Compliance Section

June 30, 2013 and 2012



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***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

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 ***Industrial Development Authority of Danville*** as of June 30, 2013 and 2012, and have issued our report thereon dated October 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***Industrial Development Authority of Danville'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 ***Industrial Development Authority of Danville's*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***Industrial Development Authority of Danville'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. We identified a material weakness in internal control over financial reporting, described in the accompanying schedule of findings and responses (FS 13-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***Industrial Development Authority of Danville'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*.

We noted certain matters that we reported to management of *Industrial Development Authority of Danville*, in a separate letter dated October 25, 2013.

Industrial Development Authority of Danville's Response to Findings

Industrial Development Authority of Danville's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The *Industrial Development Authority of Danville'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 *Industrial Development Authority of Danville'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.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 25, 2013

Industrial Development Authority

Schedule of Findings and Responses

Year Ended June 30, 2013

Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding No. FS 13-01

Comment: Procedures should be established to ensure that the financial records of the Authority are maintained accurately and completely.

Condition: It was noted during audit procedures that a significant and material expense payment was erroneously recorded as a property purchase.

Context: Finding noted during detailed testing procedures performed during audit fieldwork.

Criteria: Generally accepted accounting principles (GAAP) provide guidance for the recording of expenses and capitalization of costs as applicable.

Effect: Preliminary financial statements reported property assets overstated by \$800,000, grant expense understated by \$800,000, and resulting change in net position overstated by \$800,000.

Cause: A wire transfer directly to a title company was recorded in the financial records of the Authority as a property purchase. The transfer was actually a grant payment which was provided to assist the recipient in purchasing property. Documentation supporting the transfer of funds was not provided to or obtained by the personnel charged with financial reporting for the Authority. The Board of Directors did not review the subsequently provided financial statements in sufficient detail to detect that the property account had increased significantly when they had not authorized a purchase of property for that material amount nor that there was significantly less recorded in grant incentive payments than they had authorized.

Recommendation: We recommend that all transactions entered into by the Authority be supported with complete and accurate documentation and that this documentation be provided to the financial reporting personnel timely to avoid material misstatements in the internal financial records. We also recommend that the Treasurer of the Board of Directors perform a detailed review of the internal financial statements at least quarterly to ensure that the internal financial reporting is accurate and complete.

Response of Management: Proper documentation for financial transactions is usually made available to support staff for proper recording. The Authority and support staff will make efforts to ensure this is the case for every future transaction. Each month, a financial and project review meeting is held with representation from the Authority, the City's Economic Development Department and the City's Finance Department. An agenda item will be added to review internal financial statements, with particular attention to the purchase of real property and the payment of grants and incentives to ensure the nature of each transaction is accurately reflected.

**Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)**

Schedule of Prior Audit Findings and Corrective Action Plan - Financial Statements

Year Ended June 30, 2013		In-Process		Valid		Description of Action Taken by Authority
Finding	Comment Description	Corrected Yes/No	of Correcting	Yes/No		
	Audit Report for the Year Ended June 30, 2012					
FS 12-01	There were multiple financial transactions which had occurred throughout the year which had not been recorded in the financial records or had been recorded in a manner not in accordance to accounting principles generally accepted in the United States (GAAP).	Yes	No	Yes		During FY 2013, communications between the IDA Chairman, the City's Finance Department, the City Attorney's office, and the City's Office of Economic Development were greatly improved. On a monthly basis, the IDA chairman meets with Economic Development and Finance Department staff members to review current and upcoming projects. The City Attorney's office now provides Finance with closing statements for every property transaction. Contributions between the City of Danville and the IDA are now periodically reconciled during the fiscal year. A financial report review is conducted at each of the monthly IDA board meetings. All ACH and wire transactions are emailed to the accounting personnel at the time the request is made of the IDA's

Industrial Development Authority of Danville

Supplementary Information

June 30, 2013 and 2012

***Industrial Development Authority of Danville
(A Component Unit of the City of Danville, Virginia)***

Schedule of Bonds Outstanding - Conduit Debt

June 30, 2013

Type of issue	Date issued	Amount of Bonds Issued	Bonds Outstanding June 30, 2013	Bonds Outstanding June 30, 2012	Project Financed
Revenue Bond	December 17, 2010	\$ 15,000,000	\$ 13,279,440	\$ 14,265,586	Averett University Capital projects and debt repayment