

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

**FINANCIAL REPORT**

**June 30, 2015**

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

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# **INTRODUCTORY SECTION**

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**DIRECTORY OF PRINCIPAL OFFICIALS  
June 30, 2015**

**DIRECTORS**

Neil Morris – Chairman  
C. G. Hairston – Vice Chairman  
Richard Turner – Treasurer  
Dr. Shirley Primiano – Secretary  
Dr. Max Glass  
Russell Reynolds  
Landon Wyatt

**OFFICIALS**

Gabriela Woodard .....Secretary  
Joseph C. King..... City Manager  
Linwood Wright .....Economic Development Consultant  
Corrie Teague ..... Economic Development Project Manager  
W. Clarke Whitfield, Jr. .... City Attorney  
Michael L. Adkins ..... City Director of Finance  
Telly D. Tucker .....Economic Development Director

**INDEPENDENT AUDITORS**

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

## **FINANCIAL SECTION**

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**Financial Section contains the  
Basic Financial Statements.**

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Industrial Development Authority of Danville  
Danville, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the Industrial Development Authority of Danville (the "Authority"), a discretely presented component unit of the City of Danville, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2015, and its changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Authority's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and schedule of bonds outstanding are presented for purposes of additional analysis and are not a required part of the basic financial statements. Neither section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 24, 2015



# **BASIC FINANCIAL STATEMENTS**

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**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF NET POSITION  
June 30, 2015**

	<b>2015</b>	<b>(For Comparative Purposes Only) 2014</b>
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 3,647,017	\$ 613,795
Accounts receivable, net	155,722	74,447
Due from City of Danville, current portion	477,333	477,333
Net investment in sales-type leases, current portion	183,772	173,245
Total current assets	4,463,844	1,338,820
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	1,676,557	2,732,312
Notes receivable, net (Note 3)	406,966	289,634
Due from City of Danville	6,205,334	6,682,667
Net investment in sales-type leases (Note 6)	7,173,467	7,350,526
Capital assets: (Note 4)		
Nondepreciable	9,975,102	8,822,181
Depreciable, net	21,142,111	21,632,083
Property held for sale	1,292,430	1,276,930
Total noncurrent assets	47,871,967	48,786,333
Total assets	52,335,811	50,125,153
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	403,731	231,928
Security deposits	44,350	26,350
Grants payable	135,000	425,000
Reserve deposits held for others	567,790	422,823
Unearned revenues	-	35,507
Accrued interest	145,610	133,675
Current portion of noncurrent liabilities (Note 5)	1,137,851	1,589,092
Total current liabilities	2,434,332	2,864,375
Noncurrent liabilities		
Revolving loan fund – USDA	99,000	99,000
Due in more than one year (Note 5)	29,376,751	25,724,939
Total noncurrent liabilities	29,475,751	25,823,939
Total liabilities	31,910,083	28,688,314
<b>COMMITMENTS AND CONTINGENCIES (Note 8)</b>	-	-
<b>NET POSITION</b>		
Net investment in capital assets	8,079,300	11,971,837
Restricted (Note 7)	588,105	588,105
Unrestricted	11,758,323	8,876,897
Total net position	\$ 20,425,728	\$ 21,436,839

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
Year Ended June 30, 2015**

	<b>2015</b>	<b>(For Comparative Purposes Only) 2014</b>
	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES</b>		
Lease revenue	\$ 1,556,088	\$ 1,236,730
Economic development incentives – City of Danville	1,360,272	5,382,400
Interest income from capital leases and notes receivable	453,665	493,981
	<u>3,370,025</u>	<u>7,113,111</u>
<b>OPERATING EXPENSES</b>		
Economic development contributions and incentives	959,213	3,099,551
Bad debt expense	286,002	863,506
Professional services	291,122	357,027
Repairs and maintenance	75,266	15,089
Insurance and other	156,671	102,567
Depreciation	648,768	514,702
	<u>2,417,042</u>	<u>4,952,442</u>
Total operating expenses	<u>2,417,042</u>	<u>4,952,442</u>
Operating income	<u>952,983</u>	<u>2,160,669</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	7,653	7,307
Interest expense	(1,363,858)	(1,238,868)
Debt issuance costs	(36,617)	(7,227)
Danville Regional Foundation grant	50,000	50,000
Miscellaneous revenue	13,222	36,902
Loss on sale of property	(661,327)	-
Contribution from City of Danville	26,833	7,160,000
Return of incentive grant to City of Danville	-	(400,000)
	<u>(1,964,094)</u>	<u>5,608,114</u>
Total net nonoperating revenue (expenses)	<u>(1,964,094)</u>	<u>5,608,114</u>
Change in net position	(1,011,111)	7,768,783
<b>Net position – beginning</b>	<u>21,436,839</u>	<u>13,668,056</u>
<b>Net position – ending</b>	<u>\$ 20,425,728</u>	<u>\$ 21,436,839</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF CASH FLOWS  
Year Ended June 30, 2015**

	<b>2015</b>	<b>(For Comparative Purposes Only) 2014</b>
	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES</b>		
Receipts from lessees	\$ 1,456,542	\$ 1,270,414
Receipts from City for economic development	1,326,325	5,331,449
Receipts from notes and sales-type leases	(147,474)	437,289
Notes receivable issued	(213,987)	(32,000)
Other receipts	53,094	40,100
Payments to economic incentive grant recipients	(1,249,213)	(2,674,551)
Payments to suppliers	(432,045)	(522,005)
	793,242	3,850,696
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from the sale of capital assets	289,840	-
Proceeds from issuance of debt	9,190,000	8,926,970
Repayment of debt	(5,837,961)	(408,755)
Payments for the purchase of property held for sale	(15,500)	-
Payments for the purchase and construction of capital assets	(2,182,096)	(10,042,381)
Debt issuance costs	(36,617)	(7,227)
Interest paid on debt	(930,227)	(714,598)
	477,439	(2,245,991)
<b>NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Danville Regional Foundation grant	50,000	50,000
Contribution from City	504,166	-
Return of grant funds	-	(400,000)
Contributions from external companies into debt reserve	144,967	144,968
	699,133	(205,032)
<b>INVESTING ACTIVITIES</b>		
Interest received	7,653	7,307
	1,977,467	1,406,980
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	3,346,107	1,939,127
	\$ 5,323,574	\$ 3,346,107
<b>RECONCILIATION TO EXHIBIT 1</b>		
Cash and cash equivalents	\$ 3,647,017	\$ 613,795
Cash and cash equivalents, restricted	1,676,557	2,732,312
	\$ 5,323,574	\$ 3,346,107

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**STATEMENT OF CASH FLOWS  
Year Ended June 30, 2015**

	<b>2015</b>	<b>(For Comparative Purposes Only) 2014</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 952,983	\$ 2,160,669
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	648,768	514,702
Non-cash portion of change in sales-type leases	(151,468)	(142,545)
Non-cash portion of capital leases	(421,696)	(437,326)
Other income	13,222	36,902
Change in:		
Accounts receivable	(81,275)	(26,077)
Due to other governments	-	(34,972)
Accounts payable and accrued expenses	91,015	(12,350)
Security deposits	18,000	-
Unearned revenues	(35,507)	35,507
Grants payable	(290,000)	425,000
Notes receivable	(117,332)	1,174,309
Net investment in sales-type leases	166,532	156,877
	<b>\$ 793,242</b>	<b>\$ 3,850,696</b>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital asset addition received to satisfy note receivable	<b>\$ -</b>	<b>\$ 281,500</b>
Capital asset additions included in accounts payable	<b>\$ 312,716</b>	<b>\$ 231,928</b>
Principal payments on debt paid by lessee directly to lender	<b>\$ 151,468</b>	<b>\$ 142,545</b>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

Reporting entity:

The Industrial Development Authority of Danville (the "Authority") was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City Council of Danville on April 25, 1967 pursuant to the provisions of the Industrial Development and Revenue Bond Act (Chapter 33, Section 15.1-1373 *et seq.*, of the *Code of Virginia* (1950) as amended). The Authority is governed by seven directors appointed by the City Council. It is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Virginia. The Authority is also authorized to issue debt to aid it in these activities as well.

For financial reporting purposes, the Authority is a discretely presented component unit of the City of Danville, Virginia (the "City"). The Authority is so classified because its members are appointed by City Council and the City provides significant funding to the Authority; thus, the City is financially accountable for the Authority.

Measurement focus and basis of accounting:

The Authority's financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority arise from the sale of property, lease revenue, and economic development grants. Operating expenses include contributions to industries, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating.

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

Cash and cash equivalents:

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities three months or less from the date of acquisition.

Accounts receivable:

Accounts receivable consist of amounts owed to the Authority from a lessee for rent and invoices for maintenance and repairs.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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

Capital assets:

Capital assets are defined by the Authority as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Land improvements	15-40 years
Equipment	5-15 years

Capitalization of interest:

The Authority capitalizes interest costs on funds borrowed to finance the construction of capital assets. For the current year, no amounts were capitalized.

Property held for sale:

Property held for sale is recorded at the lower of cost or market. Cost is determined by the acquisition price, if purchased, or at estimated fair value at the date of gift, if donated. Costs of property improvements are capitalized.

The Authority has land available for sale in the Airside and Riverview Industrial Park.

Deposits:

Deposits consist of amounts received from lessees that may be used to offset future lease payments or any damages that may occur to the property during the lease term.

Unearned revenues:

Unearned revenues consist of lease payments that have been received but not earned at year end.

Revolving loan fund – USDA:

The Authority has received an advance from the United States Department of Agriculture (USDA) to use as seed money in a revolving loan program for economic development. These funds are repayable to the USDA upon conclusion of the program.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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

Net position:

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

Estimates:

Management uses estimates and assumptions in preparing the financial statements. Actual results could differ from those estimates.

Related party transactions:

The City provides the Authority with personnel and office space at no charge and such costs are not reflected in the accompanying financial statements.

Comparative information:

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the prior year from which the summarized information was derived.

**Note 2. Deposits and Investments**

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. Seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank); the Asian Development Bank; the African Development Bank; "prime quality" commercial paper; and certain corporate notes, banker's acceptances, repurchase agreements, the State Treasurer's Local Government Investment Pool (LGIP) and the State Treasurer's Non-Arbitrage Program (SNAP).



**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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

Investments: (Continued)

The Authority has invested bond proceeds subject to rebate of arbitrage earnings in SNAP. SNAP is an open-end management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation, and revenue tax-exempt financing of Virginia counties, cities, and towns. At the end of 2015 all of the Authority's investments were in SNAP.

Restricted cash consists of \$1,158,619 debt service reserve for the 2011 loan from Virginia Community Capital Bank (VCC) and \$517,938 of unspent debt proceeds.

**Note 3. Notes Receivable**

Notes receivable consist of the following:

Economic development loans to companies	\$ 896,387
Less: Allowance for doubtful accounts	<u>(489,421)</u>
	<u><u>\$ 406,966</u></u>

The Authority makes economic development loans to local companies under various term agreements. The interest rate on each of the loans is 4.00%. Approximately \$232,000 of the above loans will be forgiven if performance requirements are met by the recipient.

The Authority's allowance for doubtful accounts is based on specific loan analysis, including repayment history and other known factors regarding a company's operating status.

The Authority has a \$400,000 nonrecourse note receivable from Westmoreland and Schoolfield Senior Apartments, LLC due in 2038. Since it is nonrecourse to the maker, the Authority's legal counsel has concluded the Authority legally has no right to collect the note and it is not repayable unless there is a default, which would be as a result of a sale or other transfer of the underlying property. Based on these factors and the fact that there is no default as of June 30, 2015, the Authority has not recorded this note.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

**Note 4. Capital Assets**

The Authority's following capital assets are held for lease to business and industry wishing to locate in the City. Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 8,522,443	\$ 190,341	\$ 61,600	\$ 8,651,184
Construction in progress	299,738	1,024,180	-	1,323,918
Total capital assets, not depreciated	<u>8,822,181</u>	<u>1,214,521</u>	<u>61,600</u>	<u>9,975,102</u>
Capital assets, being depreciated:				
Building	24,234,907	1,048,363	911,555	24,371,715
Equipment	75,000	-	-	75,000
Total capital assets being depreciated, net	<u>24,309,907</u>	<u>1,048,363</u>	<u>911,555</u>	<u>24,446,715</u>
Less accumulated depreciation	<u>2,677,824</u>	<u>648,768</u>	<u>21,988</u>	<u>3,304,604</u>
Total capital assets being depreciated, net	<u>21,632,083</u>	<u>399,595</u>	<u>889,567</u>	<u>21,142,111</u>
Total capital assets, net	<u><u>\$ 30,454,264</u></u>	<u><u>\$ 1,614,116</u></u>	<u><u>\$ 951,167</u></u>	<u><u>\$ 31,117,213</u></u>

**Note 5. Long-Term Liabilities**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable	\$ 18,957,794	\$ 9,190,000	\$ 5,457,609	\$ 22,690,185	\$ 603,811
Note payable, City	1,196,237	-	54,487	1,141,750	56,707
Bonds Payable	7,160,000	-	477,333	6,682,667	477,333
	<u>\$ 27,314,031</u>	<u>\$ 9,190,000</u>	<u>\$ 5,989,429</u>	<u>\$ 30,514,602</u>	<u>\$ 1,137,851</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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

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

Fiscal Year	Bonds Payable			Notes Payable		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 477,333	\$ 172,055	\$ 649,388	\$ 660,518	\$ 1,227,122	\$ 1,887,640
2017	6,205,334	82,841	6,288,175	2,905,245	1,152,931	4,058,176
2018	-	-	-	628,042	1,041,271	1,669,313
2019	-	-	-	660,862	1,008,451	1,669,313
2020	-	-	-	3,111,681	866,932	3,978,613
2021-2025	-	-	-	3,659,491	3,698,319	7,357,810
2036-2030	-	-	-	4,726,789	2,631,021	7,357,810
2031-2035	-	-	-	4,929,798	1,323,760	6,253,558
2036-2040	-	-	-	2,549,509	267,251	2,816,760
	<u>\$ 6,682,667</u>	<u>\$ 254,896</u>	<u>\$ 6,937,563</u>	<u>\$ 23,831,935</u>	<u>\$ 13,217,058</u>	<u>\$ 37,048,993</u>

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
<u>Notes Payable:</u>					
American National Bank & Trust Company	June 2015	June 2020	\$ 6,440,000	5.00%	\$ 6,440,000
American National Bank & Trust Company	Jan 2011	Feb 2017	2,700,000	5.25	2,401,774
American National Bank & Trust Company	May 2013	May 2018	1,100,000	5.00	839,217
American National Bank & Trust Company	Sept 2013	Oct 2018	1,500,000	5.00	1,444,234
					<u>11,125,225</u>
Virginia Small Business Financing Authority	April 2013	April 2033	\$ 500,000	4.00%	462,871
Virginia Bank and Trust Company	Aug 2014	Sept 2019	2,750,000	5.25	2,727,564
Virginia Community Capital	April 2013	May 2033	1,500,000	5.00	1,415,773
Virginia Community Capital	July 2011	July 2036	7,500,000	5.25	6,958,752
					<u>11,564,960</u>
					<u>\$ 22,690,185</u>
<u>Note Payable, City:</u>					
	June 2006	June 2030	\$ 1,600,000	4.00%	\$ 1,141,750
<u>General Obligation Bonds:</u>					
Taxable Revenue Bonds, Series 2013	Sept 2013	Oct 2016	\$ 7,160,000	2.67%	\$ 6,682,667

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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

Debt covenants related to the first deed of trust with Virginia Community Capital (VCC) for the July 2011 note payable include a debt service reserve that would be used to make payments in the event of a default and is included in restricted cash on the statement of net position in the amount of \$1,158,619 at June 30, 2015. 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, 2015.

**Note 6. Leasing Arrangements**

Operating leases:

The Authority has various operating leases to local companies with various terms and renewal options. These businesses have received incentives through the Authority to locate, expand, or remain in the Danville area. Lease payments are based on the principal loan balance the Authority owes on the individual properties. These leases have remaining terms of 3-5 years with options to extend between 8 and 15 years.

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

<u>Fiscal Year</u>	
2016	\$ 1,162,046
2017	1,055,726
2018	1,054,226
2019	1,052,626
2020	845,418
2021-2025	1,326,500
2026-2030	1,197,000
2031-2035	1,073,100
2036-2039	<u>816,000</u>
	<u>\$ 9,582,642</u>

The Authority also has entered into the following sales-type leases. These agreements provide for periodic rental payments in amounts which are equal to the principal and interest payments due to project bond holders. The Authority has assigned all rights to the rental payments to the trustees of the bond holders and the lessees have assumed responsibility for all operating costs such as utilities, repairs, and property taxes. In such cases, the Authority neither receives nor disburses funds.

Although title to these properties rests with the Authority, bargain purchase options or other lease provisions eliminate any equity interest that would otherwise be retained. Deeds of trust collateralize outstanding bond obligations and title will revert to the lessee when the bonds or notes are fully paid.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

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

Sales-type lease – GSO Aviation:

In January 2012, the Authority entered into a 20 year lease agreement with GSO Aviation (GSO). Terms of the lease stipulate that GSO will make monthly lease payments in the amount of \$2,950 beginning February 1, 2012 through January 1, 2032. GSO has the right to purchase the property at any time during the term of the lease for \$676,500 minus the principal paid over the term of the lease.

Sales-type lease – EsselPropack America, LLC:

In 2011, the Authority entered into a construction agreement to expand the building being leased by EsselPropack America, LLC (Essel). Upon completion of this expansion, a new loan was obtained in the amount of \$7,500,000 in June 2011. These funds were used to finance the construction costs, pay off the existing loans and set up a debt service fund. A new sales-type lease agreement was executed with Essel in June 2011 with a term of 25 years. Terms of the lease stipulate that Essel will make the monthly loan payments directly to the financial institution in the amount of \$48,323 beginning August 1, 2011 through July 1, 2018. Essel has the right to purchase the property at any time during the term of the lease for the principal balance of the loan. If Essel does not exercise 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. The minimum lease payments presented below presume that Essel will exercise their option to purchase the property by July 31, 2018, and will avoid the premium payment.

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

<u>Fiscal Year</u>	<u>GSO Aviation</u>	<u>EsselPropack America, LLC</u>	<u>Total</u>
2016	\$ 35,400	\$ 579,875	\$ 615,275
2017	35,400	579,876	615,276
2018	35,400	579,876	615,276
2019	35,400	6,430,165	6,465,565
2020	35,400	-	35,400
Thereafter	410,050	-	410,050
	587,050	8,169,792	8,756,842
Unearned income	(188,563)	(1,211,040)	(1,399,603)
Net investment in sales-type lease	<u>\$ 398,487</u>	<u>\$ 6,958,752</u>	<u>\$ 7,357,239</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

**Note 7. Net Position**

Restricted net position at June 30, 2015 consists of \$588,105 that the Authority was required to contribute to a debt reserve account and may only be used for the debt service of the 2011 loan from VCC.

**Note 8. Commitments and Contingencies**

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other localities in a public entity risk pool for coverage of general liability with the Virginia Municipal League Liability Pool (VM LLP). Each member of this risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Authority pays VM LLP contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from these risks have not exceeded commercial insurance coverage and there have not been any significant reductions in insurance coverage over the previous year.

The Authority may be involved in potential lawsuits arising from the ordinary course of business. It is management's belief that any liability resulting from such lawsuits would not be material in relation to the Authority's financial position.

Other contingencies related to incentive grants and agreements are discussed elsewhere in these notes.

**Note 9. Conduit Debt Obligations**

From time to time, the Authority has issued Economic Revenue Bonds (Bonds) to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial, and educational facilities deemed to be in the public interest. The Bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the state, nor any political subdivision thereof, including the Authority, is obligated in any manner for repayment of the Bonds. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

At June 30, 2015, there was a single Revenue Bond outstanding, with a principal amount payable of \$12,591,128.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

**Note 10. Incentive Grants**

The City, often in conjunction with the Authority, has awarded performance grants to companies within the City to foster economic development. Disbursements under these grants vary based on the performance requirements and period in which the company has to perform. During the current fiscal year the City awarded and paid approximately \$825,000 in such grant funds from the Economic Development Fund. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$1.3 million, and will be funded by the City through the Authority.

The Authority also has multiple performance grants outstanding under which funds have been paid to the companies involved, but the performance period is not yet complete. Should a company fail to perform under the terms of the agreement, all or part of the funds awarded could become due and payable to the Authority. The Authority would then owe funds to the City, which would also owe certain funds back to the various granting authorities. Ultimate repayment responsibility rests with the City for these funds. Total outstanding grants with respect to which the City is contingently liable total approximately \$4.6 million for funds from the Tobacco Commission.

At June 30, 2015, the Authority was aware of the default of six companies who received grant funds that were originally awarded to the City from the Tobacco Commission. These funds, totaling \$5.3 million, will be repaid by the City over four years under an agreement negotiated with the Commission. The balance remaining at June 30, 2015 on these repayments was \$3.9 million, and is reflected as a liability of the City. The City and the Authority will weigh legal options available to them to attempt to recover funds from these companies.

**Note 11. New Accounting Standards**

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

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2015**

**Note 13. New Accounting Standards (Continued)**

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

Management has not fully evaluated the effect of adopting these statements.



## **SUPPLEMENTARY SCHEDULE**

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SCHEDULE OF BONDS OUTSTANDING – CONDUIT DEBT  
June 30, 2015**

<b>Type of Issue</b>	<b>Date Issued</b>	<b>Amount of Bonds Issued</b>	<b>Bonds Outstanding June 30, 2015</b>	<b>Bonds Outstanding June 30, 2014</b>	<b>Project Financed</b>
Revenue Bond	Dec 17, 2010	\$ 15,000,000	\$ 12,591,128	\$ 13,171,317	Averett University Capital Projects and debt repayment

## **COMPLIANCE SECTION**

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

Board of Directors  
Industrial Development Authority of Danville  
Danville, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Industrial Development Authority of Danville (the “Authority”), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated November 24, 2015.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency that we consider to be a material weakness.

*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. **We consider Item 14-1, described in the accompanying schedule of findings and responses to be a material weakness.**

*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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

## Industrial Development Authority of Danville's Response to Finding

The Authority's responses to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
November 24, 2015

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SUMMARY OF COMPLIANCE MATTERS  
June 30, 2015**

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

**STATE COMPLIANCE MATTERS**

Code of Virginia:

Cash and Investment Laws  
Conflicts of Interest Act  
Procurement Laws  
Unclaimed Property

**LOCAL COMPLIANCE**

Authority By-Laws

**INDUSTRIAL DEVELOPMENT AUTHORITY  
OF DANVILLE**

**SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2015**

**A. FINDING – FINANCIAL STATEMENT AUDIT**

**14-1: Segregation of Duties (Material Weakness)**

*Condition:*

An important aspect of any internal control system is the segregation of duties. Not all duties at the Authority have been adequately segregated. In an ideal system, no individual would perform more than one duty in connection with any transaction or series of transactions. With limited staff, sufficiently separating duties can be difficult or even impossible. As with all areas of internal control, management and those charged with governance should make careful decisions about the cost versus benefit of any internal control.

*Recommendation:*

Management should take steps to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

*Management's Response:*

Management has taken steps to improve controls in 2015, and will continue to evaluate other possible actions going forward.