

*Financial Statements
Years Ended
June 30, 2012 and 2011*

*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
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Report of Independent Auditors

Board of Directors
Industrial Development Authority of Danville

We have audited the accompanying financial statements of the ***Industrial Development Authority of Danville*** as of and for the year ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the ***Industrial Development Authority of Danville's*** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Industrial Development Authority of Danville*** as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2012, on our consideration of the ***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 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.

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.

The schedule of bonds outstanding on page 21 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.

Dixon Hughes Goodman LLP

Danville, Virginia
December 6, 2012

**Industrial Development Authority of Danville
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011**

Management's Discussion and Analysis of the *Industrial Development Authority's* (Authority's) financial performance provides an overview of the financial activities for the years ended June 30, 2012 and 2011. It should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- ❖ The Authority's change in net assets was \$5,974,491 in fiscal 2012 and \$1,122,150 in fiscal 2011.
- ❖ Total assets were \$28,254,390 at June 30, 2012 and \$22,168,731 at June 30, 2011.

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.

STATEMENTS OF NET ASSETS

The following condensed comparative balance sheets show the financial position of the Authority at June 30:

	2012	2011	2010
Assets			
Cash and cash equivalents	\$ 538,380	\$ 464,233	\$ 342,685
Property and land	17,745,003	12,735,812	13,241,574
Net investment in sales type leases	8,049,951	7,500,000	-
Other	1,921,056	1,468,686	207,928
Total assets	\$ 28,254,390	\$ 22,168,731	\$ 13,792,187
	2012	2011	2010
Liabilities			
Notes payable	\$ 16,800,785	\$ 16,338,901	\$ 9,847,908
Other	607,925	958,641	195,240
Total liabilities	\$ 17,408,710	\$ 17,297,542	\$ 10,043,148
Net assets	10,845,680	4,871,189	3,749,039
	\$ 28,254,390	\$ 22,168,731	\$ 13,792,187

**Industrial Development Authority of Danville
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011**

Cash increased approximately \$74,100 in 2012. Property held for sale represents land held for sale in Airside Industrial Park and River View Industrial Park. During FY 2010, construction was completed on the 527 - 529 Bridge Street property with the initial tenant, LifeBATT, moving into the building in early 2011. In June 2011, it was announced that Noblis, a leading nonprofit science, technology, and strategy organization, in collaboration with Cray, a global leader in supercomputing, would establish the Center for Applied High Performance Computing (CAHPC) in Danville to be located in the Bridge Street property.

In January 2011 the Authority purchased the former office building of Dimon, Inc. located at 512 Bridge Street, borrowing a total of \$2.5 million for the purchase and upfit of a portion of the property. In March 2011, it was announced that Averett University (Averett) and the Danville Regional Foundation (Foundation) would occupy approximately 60,000 square feet of the property. Averett has begun using its space for classrooms for graduate and professional students and administrative offices for the education program and health sciences initiatives. The Foundation now occupies the building as well, using their space for offices and conference rooms.

The Authority began an economic development revolving loan program during 2010. Through the United States Department of Agriculture Rural Development (USDA), the Authority was initially approved for funding up to \$99,000. The Authority must use these funds to provide loans to local organizations for economic development projects. At June 30, 2012, the Authority had drawn and subsequently loaned the full \$99,000 plus portions of repayments on its initial loans to local businesses.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS

Condensed statements of revenues and expenses for fiscal years ended June 30 are as follows:

	2012	2011	2010
Revenues			
Lease income	\$ 823,065	\$ 814,722	\$ 833,470
Other revenue – City of Danville, Virginia	6,008,691	342,469	900,607
Economic development	2,196,328	2,188,041	3,576,083
Other	869,596	739,721	103,658
Gain on sale of property	-	29,155	-
Total revenues	\$ 9,897,680	\$ 4,114,108	\$ 5,413,818
Expenses			
Economic development	\$ 2,224,842	\$ 2,167,645	\$ 3,681,581
Interest	938,162	502,023	547,375
Depreciation and amortization	327,804	304,984	305,673
Other	432,381	17,306	22,053
Total expenses	3,923,189	2,991,958	4,556,682
Change in net assets	\$ 5,974,491	\$ 1,122,150	\$ 857,136

Economic development revenues and expenses have decreased primarily due to the decrease in appropriation of such funds from the City of Danville. The gain on sale of property in 2011 was due to

**Industrial Development Authority of Danville
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011**

the sale of Old Belt II to Luna Technologies who exercised their option to buy the building they were then leasing from the Authority.

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, 2012 and 2011, 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 2011 the City of Danville initiated a study of its Downtown, Tobacco Warehouse and adjacent area, which resulted in a plan to initiate major improvements in what was to be called the River District. In connection with the initiative and funding from the Danville Regional Foundation, the Authority acquired the former Downtowner Motor Inn located at 500 Main Street in the downtown area. The Authority also acquired the former River View Hardware property located at 527 Main Street, also in the downtown area. The Downtowner building was demolished and the hardware property was renovated during 2012. The Authority has acquired nearly a dozen additional properties in the Tobacco and River Districts. 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 expected 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

Statements of Net Assets

June 30,	2012	2011
Assets		
Cash and cash equivalents	\$ 538,380	\$ 464,233
Restricted cash	777,276	622,579
Notes receivable (net of allowance for loan loss of \$13,635 in 2012 and \$0 in 2011)	711,819	321,563
Miscellaneous receivables	27,370	102,604
Net investment in sales type leases	8,049,951	7,500,000
Loan origination costs - net	404,591	421,940
Property held for lease - net	16,044,963	10,535,239
Construction in progress	335,501	742,225
Property held for sale	1,364,539	1,458,348
Total assets	28,254,390	22,168,731
Liabilities		
Due to City of Danville	34,972	34,972
Accrued expenses	64,767	105,806
Deferred liability	231,887	99,000
Notes payable		
Due within one year	453,479	402,416
Due in more than one year	16,347,306	15,936,485
Deferred gain	276,299	718,863
Total liabilities	17,408,710	17,297,542
Net Assets		
Invested in capital assets - net of related debt	7,629,630	2,840,979
Unrestricted	3,216,050	2,030,210
Total net assets	\$ 10,845,680	\$ 4,871,189

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

Industrial Development Authority of Danville

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,	2012	2011
Operating revenues		
Lease income	\$ 823,065	\$ 814,722
Other revenue - City of Danville, Virginia	6,008,691	342,469
Economic development - City of Danville, Virginia	2,196,328	2,188,041
Interest income from capital leases and notes receivable	471,192	-
Total operating revenues	9,499,276	3,345,232
Operating expenses		
Economic development incentive grants	2,224,842	2,167,645
Depreciation and amortization	327,804	304,984
Legal and professional	320,655	4,650
Other	111,726	12,656
Total operating expenses	2,985,027	2,489,935
Operating income	6,514,249	855,297
Nonoperating revenues (expenses)		
Investment income	2,940	4,378
Interest expense	(938,162)	(502,023)
Danville Regional Foundation grant	300,000	617,843
Bond issue fees	-	17,500
Loan fees	-	100,000
Gain on sale of building	-	29,155
Recognized gain on capital lease	95,464	-
Total nonoperating revenues (expenses)	(539,758)	266,853
Change in net assets	5,974,491	1,122,150
Net assets - beginning of year	4,871,189	3,749,039
Net assets - end of year	\$ 10,845,680	\$ 4,871,189

The accompanying notes are an integral part of these financial statements

Industrial Development Authority of Danville

Statements of Cash Flows

Years Ended June 30,	2012	2011
Cash flows from operating activities		
Received from lessees	\$ 824,565	\$ 766,720
Received from City of Danville, Virginia	8,280,253	2,523,030
Payments to suppliers for goods and services	(2,647,425)	(2,184,951)
Payments received on capital lease	14,750	-
Notes receivable issued	(456,000)	(308,521)
Payments on notes receivable	55,229	43,250
Net cash from operating activities	<u>6,071,372</u>	<u>839,528</u>
Cash flows from capital and related financing activities		
Payments for construction in progress	(443,224)	(742,225)
Purchase of property held for lease	(5,965,887)	(1,824,351)
Proceeds from sale of property	-	69,556
Proceeds from note payable	851,668	1,848,332
Principal payments on notes payable	(276,708)	(308,294)
Fees received from debt issuance	-	117,500
Interest payments on notes payable	(466,014)	(500,719)
Net cash from capital and related financing activities	<u>(6,300,165)</u>	<u>(1,340,201)</u>
Cash flows from non-capital and related financing activities		
Danville Regional Foundation grant	300,000	617,843
Net cash from capital and related financing activities	<u>300,000</u>	<u>617,843</u>
Cash flows from investing activities		
Investment income	2,940	4,378
Net change in cash and cash equivalents	74,147	121,548
Cash and cash equivalents - beginning of year	464,233	342,685
Cash and cash equivalents - end of year	<u>\$ 538,380</u>	<u>\$ 464,233</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 6,514,249	\$ 855,297
Adjustments to reconcile net cash from operating activities:		
Depreciation and amortization	327,804	304,984
Bad debt on notes receivable	13,635	-
Non-cash portion of change in sales type leases	42,127	7,500,000
Change in:		
Miscellaneous receivables	75,234	(55,482)
Accounts payable and security deposits	24,895	(48,828)
Notes receivable	(376,621)	(216,443)
Net investment in sales type leases	(549,951)	(7,500,000)
Net cash from operating activities	<u>\$ 6,071,372</u>	<u>\$ 839,528</u>
Supplemental disclosures of cash flows information:		
Cash paid for interest	\$ 466,014	\$ 500,719
Noncash transactions:		
Capital lease financed by debt	\$ -	\$ 7,500,000
Debt refinanced	\$ -	\$ 2,549,044

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

Industrial Development Authority of Danville

Notes to Financial Statements

June 30, 2012 and 2011

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 revenues 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 revenues 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 assets reflect full accrual basis of accounting incorporating long-term assets as well as long-term debt and other obligations. Net assets are classified as either amounts invested in capital assets, reported net of any outstanding debt related to the acquisition of capital assets, or unrestricted net assets. The statements of revenues, expenses and changes in net

assets are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Net assets 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, 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

Restricted cash represents amounts which may only be used for the economic development revolving loan program or debt service of the loan from Virginia Community Capital Bank. There was \$777,276 and \$622,579 in restricted cash at June 30, 2012 and 2011, respectively.

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 revenues 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 December 6, 2012, the date the financial statements were available to be issued.

3. Deposits

At year-end 2012 and 2011, the carrying value of the Authority's deposits was \$1,315,656 and \$1,086,812 respectively. The entire bank balance was covered by federal deposit insurance or collateralized in accordance with the Act.

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.

4. Leasing Arrangements

Operating Leases:

The Authority leases certain properties 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 at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,228,899	\$ 1,056,507
Buildings	15,551,030	10,903,243
	<u>17,779,929</u>	<u>11,959,750</u>
Less – accumulated depreciation	(1,734,966)	(1,424,511)
	<u>\$ 16,044,963</u>	<u>\$ 10,535,239</u>

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. Payments are based on the principal balance the Authority owes on the individual properties.

Future estimated minimum payments receivable under the operating leases at June 30, 2012 were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2013	\$ 817,258
2014	737,138
2015	347,120
2016	282,750
2017	231,600
2018 – 2022	<u>1,220,100</u>
	<u>\$ 3,635,966</u>

Sales-Type Lease

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:

Year Ending June 30	Amount
2013	\$ 35,400
2014	35,400
2015	35,400
2016	35,400
2017	35,400
Thereafter	516,250
	<u>\$ 693,250</u>

The Authority's net investment in the sales-type lease consists of the following at June 30, 2012:

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

The Authority recorded a deferred 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	<u>(926,641)</u>
Deferred loss	(347,100)
Loss recognized in 2012	<u>7,231</u>
Deferred loss at June 30, 2012	<u>\$ (339,869)</u>

Sales-Type Lease

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:

Year Ending June 30	Amount
2013	\$ 579,871
2014	579,871
2015	579,871
2016	579,871
2017	579,871
Thereafter	<u>7,010,054</u>
	<u>\$ 9,909,409</u>

The Authority's net investment in the sales-type lease consists of the following at June 30, 2012:

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

The Authority recorded a deferred 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	<u>667,320</u>
Deferred gain	<u>718,863</u>
Gain recognized in 2012	<u>(102,695)</u>
Deferred gain at June 30, 2012	<u>\$ 616,168</u>

5. Construction in Progress

Construction in progress consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
512 Bridge Street	\$ -	\$ 742,225
544 Craghead Street	133,229	-
Lynn Street	600	-
415 Main Street	175,682	-
Riverview Industrial	25,990	-
	<u>\$ 335,501</u>	<u>\$ 742,225</u>

Total capitalized interest included in construction in progress at June 30, 2011 amount to \$27,681 and no capitalized interest at June 30, 2012.

6. Notes Receivable and Deferred Liability

Notes receivable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Economic development - IDA	\$ 674,739	\$ 265,271
Economic development - USDA	37,080	56,292
	<u>\$ 711,819</u>	<u>\$ 321,563</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 Jun 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, 2012, \$99,000 had been drawn and is recorded as a deferred liability. Loans made by the Authority carry an interest rate of 4% and are payable in monthly principal and interest payments over 24 months. Amounts available to be loaned under this program, \$61,920 and \$42,708 at June 30, 2012 and 2011, respectively, are held in restricted cash.

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, 2012 or 2011, the Authority has not recorded this note.

7. Transactions with Related Parties

During fiscal 2012 and 2011, the Authority received monies from the City of Danville, Virginia totaling \$2,196,328 and \$2,423,268, respectively, for economic development. During fiscal year

2012, the Authority received monies from the City of Danville, Virginia totaling \$6,008,691 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 8.

8. Notes Payable

The Authority has the following notes payable at June 30:

	<u>2012</u>	<u>2011</u>
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.	\$ 5,459,206	\$ 5,643,338
Second lien deed of trust payable to the City of Danville, Virginia, 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%.	1,298,896	1,347,231
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%. 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. The remaining \$851,668 of the loan was drawn in FY2012.	2,655,759	1,848,332
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%.	7,386,924	7,500,000
	\$ 16,800,785	\$ 16,338,901
Less - current portion	(453,479)	(402,416)
Total	<u>\$ 16,347,306</u>	<u>\$ 15,936,485</u>

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

2013	\$	453,479
2014		481,711
2015		510,444
2016		539,754
2017		2,772,879
2018 – 2022		2,828,510
2023 – 2027		4,736,592
2028 – 2032		2,181,465
2033 – 2037		2,295,951
		<hr/>
	\$	16,800,785

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 assets in the amount of \$715,356. Monthly payments in the amount of \$12,080 are required to be deposited into a 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, 2012.

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. 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 is obligated in any manner for repayment of the Bonds. Accordingly, the Bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2012, there was a single Revenue Bond outstanding, with a principal amount payable of approximately \$14.3 million.

10. Commitment

In fiscal year 2011, the Authority purchased property known as the former Downtowner Motor Inn, which is located in the City's River District. In connection with this purchase, the Authority entered into an agreement with The Danville Regional Foundation to provide funding for the demolition of the Downtowner building to allow for additional parking or green space in the development of the City's River District. In fiscal year 2012, the Authority signed a \$730,625 demolition contract with a North Carolina wrecking company for the removal of the building. At June 30, 2012, \$275,500 had been paid on this contract, leaving a balance of \$455,125.

11. Subsequent Event

In October 2012, the Authority secured additional funding from the City of Danville to approve change orders amounting to \$232,350 on the demolition contract described in Note 10.

* * * * *



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 the financial statements of the ***Industrial Development Authority of Danville*** as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated December 6, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of ***Industrial Development Authority of Danville*** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ***Industrial Development Authority of Danville's*** internal control over financial reporting as a basis for designing our auditing procedures 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 over the financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Industrial Development Authority of Danville's*** internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a material weakness in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a material weakness in internal control over financial reporting (FS 12-01).

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Industrial Development Authority of Danville's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the preceding paragraph.

We noted certain matters that we reported to management of the *Industrial Development Authority of Danville* in a separate letter dated December 6, 2012.

Industrial Development Authority of Danville's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Industrial Development Authority of Danville's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Danville, Virginia
December 6, 2012

Industrial Development Authority

Schedule of Findings and Responses

For the Year Ended June 30, 2012

1. Summary of Auditors' Results

- a) The type of report issued on the financial statements: **unqualified opinion**
- b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **No**
Material weaknesses: **Yes**
- c) Noncompliance which is material to the financial statements: **No**

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

Finding No. FS 12-01

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 multiple financial transactions which had occurred throughout the year 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).

Context

Finding noted during detailed testing procedures performed during audit fieldwork.

Criteria

GAAP requires that all financial transactions be recorded in the period in which they occur or are earned or incurred. GAAP also provides guidance for capitalization of costs incurred in the acquisition of capital assets.

Effect

The net effect of the unrecorded transactions and transactions recorded erroneously resulted in total assets understated by approximately \$2.2 million, total liabilities understated by approximately \$338,000, and net income understated by approximately \$2.5 million.

Cause

During fiscal year 2012, the accounting responsibilities were transferred to the finance department of the City of Danville from personnel of the Authority. However, the documentation supporting the financial information remained with the Authority personnel. The finance department did not receive all of the supporting records required to accurately maintain the financial records of the Authority. Also, proper reconciliations between the books and records of the City of Danville and the Authority were not completed. In addition, the Authority did not review the financial statements to ensure accurate and complete recording of all financial transactions.

Recommendation

We recommend that account reconciliations be completed timely, including reconciliation between the City of Danville records and the Authority, at least, on a quarterly basis. We further recommend that the responsible accounting personnel be provided all supporting documentation related to financial information including, but not limited to, notes receivable including amortization schedules, HUD-1 settlement statements, lease agreements, and all wire and ACH authorizations. In addition, we recommend that the Authority receive and review financial statements at their regular board meetings at least quarterly.

Response of Management

The recording of several Authority transactions had not occurred prior to the annual audit due to time and human resource constraints, combined with the significant increase in Authority activity during fiscal year 2012. Because efforts had to be focused on completing the City's year-end closing and audit, a thorough review of Authority accounting records could not be performed before the audit began. Communication of Authority financial matters was also under transition during the year. Presently, communication and sharing of financial related documentation have improved between the Authority Board, the City Attorney's office, the City's Department of Economic Development and Finance Departments, and will continue to do so. The City's Finance Department will begin reconciling grant receipts between the City and the Authority on a quarterly basis.

3. Schedule of Prior Year Audit Findings

No findings reported in the prior year.

Supplementary Information

Industrial Development Authority of Danville
Schedule of Bonds Outstanding

June 30, 2012

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