

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

FINANCIAL REPORT

June 30, 2014

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Directory of Principal Officials	i

FINANCIAL SECTION

Independent Auditor’s Report	1
Basic Financial Statements	
Exhibit 1 Statement of Net Position	4
Exhibit 2 Statement of Revenues, Expenses, and Changes in Fund Net Position	5
Exhibit 3 Statement of Cash Flows	6
Notes to Financial Statements	8
Supplementary Schedule	
Schedule of Bonds Outstanding – Conduit Debt	20

COMPLIANCE SECTION

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 <i>Government Auditing Standards</i>	21
Summary of Compliance Matters	23
Schedule of Findings and Responses	24

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INTRODUCTORY SECTION

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2014**

DIRECTORS

Richard Turner – Chairman
C. G. Hairston – Vice Chairman
Dr. Shirley Primiano – Treasurer

Dr. Max Glass
Neal Morris

Russell Reynolds
Landon Wyatt

OFFICIALS

Gabriela WoodardSecretary
Joseph C. King..... City Manager
Linwood WrightEconomic Development Consultant
Corrie Teague Economic Development Project Manager
W. Clarke Whitfield, Jr. City Attorney

INDEPENDENT AUDITORS

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

FINANCIAL SECTION

**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, 2014, 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 Industrial Development Authority of Danville, as of June 30, 2014, 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.

Change in Accounting Principle

As described in Note 13 to the financial statements, in 2014 the Authority adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

The financial statements of the Authority as of June 30, 2013 were audited by other auditors whose opinion dated October 25, 2013 expressed an unmodified opinion on those statements. As part of our audit of the June 30, 2014 basic financial statements, we also audited the adjustments described in Note 12 that were applied to restate the June 30, 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2013 basic financial statements of the Board other than with respect to the adjustments and accordingly, we do not express an opinion or any other form of assurance on the June 30, 2013 basic financial statements as a whole.

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.

The schedule of bonds outstanding is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of bonds outstanding is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matters (Continued)

Other Information (Continued)

The introductory section has not 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
January 27, 2015

BASIC FINANCIAL STATEMENTS

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF NET POSITION
June 30, 2014**

	2014	(For Comparative Purposes Only) 2013
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 613,795	\$ 1,075,658
Accounts receivable, net	74,447	48,370
Notes receivable, net (Note 3)	289,634	1,745,443
Due from City of Danville, current portion	477,333	-
Net investment in sales-type leases, current portion	173,245	156,877
Total current assets	<u>1,628,454</u>	<u>3,026,348</u>
Noncurrent assets		
Restricted cash and cash equivalents (Note 2)	2,732,312	863,469
Due from City of Danville	6,682,667	-
Net investment in sales-type leases (Note 6)	7,350,526	7,523,771
Capital assets: (Note 4)		
Nondepreciable	8,822,181	3,062,531
Depreciable, net	21,632,083	17,361,025
Property held for sale	1,276,930	1,266,531
Total noncurrent assets	<u>48,496,699</u>	<u>30,077,327</u>
Total assets	<u>50,125,153</u>	<u>33,103,675</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	231,928	15,000
Security deposits	26,350	23,700
Grants payable	425,000	-
Due to City of Danville	-	34,972
Reserve deposits held for others	422,823	277,855
Unearned revenues	35,507	-
Accrued interest	133,675	46,731
Current portion of noncurrent liabilities (Note 5)	1,589,092	540,573
Total current liabilities	<u>2,864,375</u>	<u>938,831</u>
Noncurrent liabilities		
Revolving loan fund – USDA	99,000	99,000
Due in more than one year (Note 5)	25,724,939	18,397,788
Total noncurrent liabilities	<u>25,823,939</u>	<u>18,496,788</u>
Total liabilities	<u>28,688,314</u>	<u>19,435,619</u>
COMMITMENTS AND CONTINGENCIES (Note 11)		
	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	11,971,837	8,737,960
Restricted (Note 7)	588,105	585,614
Unrestricted	8,876,897	4,344,482
Total net position	<u>\$ 21,436,839</u>	<u>\$ 13,668,056</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2014**

	2014	(For Comparative Purposes Only) 2013
OPERATING REVENUES		
Lease revenue	\$ 1,236,730	\$ 1,055,374
Economic development incentives – City	5,382,400	6,244,891
Interest income from capital leases and notes receivable	493,981	506,823
	7,113,111	7,807,088
OPERATING EXPENSES		
Economic development contributions and incentives	3,099,551	3,238,458
Bad debt expense	863,506	5,855
Professional services	357,027	510,046
Repairs and maintenance	15,089	37,903
Insurance and other	102,567	80,525
Depreciation	514,702	461,743
	4,952,442	4,334,530
Total operating expenses	4,952,442	4,334,530
Operating income	2,160,669	3,472,558
NONOPERATING REVENUES (EXPENSES)		
Investment income (Note 12)	7,307	4,064
Interest expense	(1,238,868)	(911,087)
Debt issuance costs	(7,227)	(41,200)
Danville Regional Foundation grant	50,000	530,000
Miscellaneous revenue	36,902	5,706
Loss on sale of property	-	(17,987)
Contribution from City	7,160,000	-
Return of incentive grant to City	(400,000)	(349,875)
	5,608,114	(780,379)
Total net nonoperating revenue (expenses)	5,608,114	(780,379)
Change in net position	7,768,783	2,692,179
Net position – beginning, as restated (Note 13)	13,668,056	10,975,877
Net position – ending	\$ 21,436,839	\$ 13,668,056

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF CASH FLOWS
Year Ended June 30, 2014**

	2014	(For Comparative Purposes Only) 2013
	2014	2013
OPERATING ACTIVITIES		
Receipts from lessees	\$ 1,270,414	\$ 1,055,374
Receipts from City for economic development	5,331,449	6,244,891
Receipts from notes and sales-type leases	437,289	225,951
Notes receivable issued	(32,000)	(731,686)
Other receipts	40,100	5,706
Payments to economic incentive grant recipients	(2,674,551)	(3,238,458)
Payments to suppliers	(522,005)	(592,973)
	3,850,696	2,968,805
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of capital assets	-	479,580
Proceeds from issuance of debt	8,926,970	2,600,000
Repayment of debt	(408,755)	(328,265)
Payments for the purchase and construction of capital assets	(10,042,381)	(4,926,629)
Debt issuance costs	(7,227)	(41,200)
Interest paid on debt	(714,598)	(457,977)
	(2,245,991)	(2,674,491)
NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Danville Regional Foundation grant	50,000	530,000
Return of grant funds	(400,000)	(349,875)
Contributions from external companies into debt reserve	144,968	144,968
	(205,032)	325,093
INVESTING ACTIVITIES		
Interest received	7,307	4,064
	7,307	4,064
Net cash provided by investing activities	7,307	4,064
Net increase in cash and cash equivalents	1,406,980	623,471
CASH AND CASH EQUIVALENTS		
Beginning of year	1,939,127	1,315,656
Ending of year	\$ 3,346,107	\$ 1,939,127
RECONCILIATION TO EXHIBIT 1		
Cash and cash equivalents	\$ 613,795	\$ 1,075,658
Cash and cash equivalents, restricted	2,732,312	863,469
	\$ 3,346,107	\$ 1,939,127

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**STATEMENT OF CASH FLOWS
Year Ended June 30, 2014**

	<u>2014</u>	<u>(For Comparative Purposes Only) 2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,160,669	\$ 3,472,558
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	514,702	461,743
Non-cash portion of change in sales-type leases	(142,545)	(134,159)
Non-cash portion of capital leases	(437,326)	(445,712)
Other income	36,902	5,706
Change in:		
Accounts receivable	(26,077)	(21,000)
Due to other governments	(34,972)	-
Accounts payable and accrued expenses	(12,350)	35,501
Unearned revenues	35,507	-
Grants payable	425,000	-
Notes receivable	1,174,309	(553,624)
Net investment in sales-type leases	156,877	147,792
	<u>\$ 3,850,696</u>	<u>\$ 2,968,805</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset addition received to satisfy note receivable	<u>\$ 281,500</u>	<u>\$ -</u>
Capital asset additions included in accounts payable	<u>\$ 231,928</u>	<u>\$ 22,235</u>
Principal payments on debt paid by company	<u>\$ 142,545</u>	<u>\$ 134,159</u>

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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.

The Authority also has entered into 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.

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.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 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. In 2008, the Authority purchased a parcel of land in River View Industrial Park, which is also held for sale.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 2. Deposits and Investments (Continued)

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).

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 2014 all of the Authority’s investments were in SNAP.

Restricted cash consists of \$1,010,928 debt service reserve for the 2011 loan from Virginia Community Capital Bank (VCC) and \$1,721,384 of unspent debt proceeds.

Note 3. Notes Receivable and Revolving Loan Fund – USDA

Notes receivable consist of the following:

Economic development loans to companies	\$ 732,022
Less: Allowance for doubtful accounts	<u>(442,388)</u>
	<u>\$ 289,634</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, 2014, the Authority has not recorded this note.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 4. Capital Assets

All of the Authority's 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	\$ 3,032,691	\$ 5,489,752	\$ -	\$ 8,522,443
Construction in progress	29,840	273,748	3,850	299,738
Total capital assets, not depreciated	<u>3,062,531</u>	<u>5,763,500</u>	<u>3,850</u>	<u>8,822,181</u>
Capital assets, being depreciated:				
Building	19,449,147	4,798,340	12,580	24,234,907
Equipment	75,000	-	-	75,000
Total capital assets being depreciated, net	<u>19,524,147</u>	<u>4,798,340</u>	<u>12,580</u>	<u>24,309,907</u>
Less accumulated depreciation for:				
Building	2,163,122	514,702	-	2,677,824
Equipment	-	-	-	-
Total accumulated depreciation	<u>2,163,122</u>	<u>514,702</u>	<u>-</u>	<u>2,677,824</u>
Total capital assets being depreciated, net	<u>17,361,025</u>	<u>4,283,638</u>	<u>12,580</u>	<u>21,632,083</u>
Total capital assets, net	<u>\$ 20,423,556</u>	<u>\$ 10,047,138</u>	<u>\$ 16,430</u>	<u>\$ 30,454,264</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	\$ 17,689,770	\$ 1,766,970	\$ 498,946	\$ 18,957,794	\$ 1,057,272
Note payable, City	1,248,591	-	52,354	1,196,237	54,487
Bonds Payable	-	7,160,000	-	7,160,000	477,333
	<u>\$ 18,938,361</u>	<u>\$ 8,926,970</u>	<u>\$ 551,300</u>	<u>\$ 27,314,031</u>	<u>\$ 1,589,092</u>

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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
2015	\$ 477,333	\$ 184,800	\$ 662,133	\$ 1,111,759	\$ 1,036,391	\$ 2,148,150
2016	477,333	172,055	649,388	1,169,378	978,772	2,148,150
2017	6,205,334	82,841	6,288,175	3,441,333	877,907	4,319,240
2018	-	-	-	1,171,126	738,392	1,909,518
2019	-	-	-	743,671	686,760	1,430,431
2020-2024	-	-	-	3,610,420	2,902,447	6,512,867
2025-2029	-	-	-	4,774,586	1,839,625	6,614,211
2030-2034	-	-	-	2,946,344	750,164	3,696,508
2035-2039	-	-	-	1,185,414	80,716	1,266,130
	<u>\$ 7,160,000</u>	<u>\$ 439,696</u>	<u>\$ 7,599,696</u>	<u>\$ 20,154,031</u>	<u>\$ 9,891,174</u>	<u>\$ 30,045,205</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	Jan 2010	Jan 2029	\$ 6,905,000	6.32%	\$ 5,059,312
American National Bank & Trust Company	Jan 2011	Feb 2017	2,700,000	5.25	2,490,971
American National Bank & Trust Company	May 2013	May 2018	1,100,000	5.00	865,042
American National Bank & Trust Company	Sept 2013	Oct 2018	1,500,000	5.00	1,489,251
					<u>9,904,576</u>
Virginia Small Business Financing Authority	April 2013	April 2033	\$ 500,000	4.00%	480,334
Virginia Community Capital	April 2013	May 2033	1,500,000	5.00	1,462,664
Virginia Community Capital	July 2011	July 2036	7,500,000	5.25	7,110,220
					<u>9,053,218</u>
					<u>\$ 18,957,794</u>
<u>Note Payable, City:</u>					
	June 2006	June 2030	\$ 1,600,000	4.00%	\$ 1,196,237
<u>General Obligation Bond:</u>					
Taxable Revenue Bond, Series 2013	Sept 2013	Oct 2016	\$ 7,160,000	2.67%	\$ 7,160,000

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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 \$1,010,928 at June 30, 2014. 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, 2014.

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. Property held for lease consists of the following:

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

<u>Fiscal Year</u>	
2015	\$ 1,162,996
2016	1,163,547
2017	1,055,726
2018	1,054,227
2019	1,052,626
2020-2024	1,932,518
2025-2029	1,197,000
2030-2034	1,108,500
2035-2039	<u>1,020,000</u>
	<u>\$ 10,747,140</u>

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.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 6. Leasing Arrangements (Continued)

Sales-Type Lease – GSO Aviation: (Continued)

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

<u>Fiscal Year</u>	
2015	\$ 35,400
2016	35,400
2017	35,400
2018	35,400
2019	35,400
Thereafter	<u>445,450</u>
	<u>\$ 622,450</u>

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

Net minimum future lease payments	<u>\$ 622,450</u>
Unearned income	<u>(208,898)</u>
Net investment in sales-type lease	<u>\$ 413,552</u>

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.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 6. Leasing Arrangements (Continued)

Sales-Type Lease – EsselPropack America, LLC: (Continued)

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

<u>Fiscal Year</u>	
2015	\$ 579,876
2016	579,876
2017	579,876
2018	579,876
2019	<u>6,430,184</u>
	<u>\$ 8,749,668</u>

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

Net minimum future lease payments	<u>\$ 8,749,668</u>
Unearned income	<u>(1,639,449)</u>
Net investment in sales-type lease	<u>\$ 7,110,219</u>

Note 7. Net Position

Restricted net position at June 30, 2014 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 Virginia Community Capital (VCC).

Note 8. Risk Management

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.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 9. Related Party Transactions

The City provides the Authority with personnel and office space at no charge.

Note 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, 2014, there was a single Revenue Bond outstanding, with a principal amount payable of approximately \$13.1 million.

Note 11. 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 has insurance through commercial carriers for comprehensive property and casualty and general liability. The Authority believes such coverage is sufficient to preclude any significant uninsured losses.

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.

Note 12. 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 \$1 million in such grant funds from the Economic Development Fund, substantially all of which was provided from the state Tobacco Commission. At June 30, 2014, there were \$425,000 in grants payable in the Authority for those agreements for which performance requirements have been met or substantially met. These payments are expected to be made within the upcoming year. Additional performance grants, for which performance requirements have not yet been substantially met, total approximately \$1.6 million, and will be funded by the City through the Authority.

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 12. Incentive Grants (Continued)

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 \$8.10 million for funds from the Tobacco Commission.

At June 30, 2014, the Authority was aware of the default of three companies on grant funds that were originally awarded to the City from the Tobacco Commission. These funds, totaling \$3.2 million at year end, will be repaid by the City over four years under an agreement negotiated with the Commission. The City and the Authority will weigh legal options available to them to attempt to recover funds from these companies. The City and the Authority are also monitoring three additional companies, which received approximately \$1.6 million in Commission grants, where it appears reasonably possible that the companies will fail to meet all of the performance requirements of the grants, at which point some or all of the grant funds will be required to be refunded to the Commission. In addition to the \$3.2 million which the City has already agreed to repay the Tobacco Commission, the City has estimated and recorded a provision of \$1 million, which in management's judgment is an estimate of additional amounts that are more likely than not to eventually be required to be repaid to the Tobacco Commission.

Note 13. Restatement

The following is a summary of the restatements to the financials:

	Net Position June 30, 2012	Net Position June 30, 2013	Recognized Gain On Capital Lease – Year Ended June 30, 2013	Interest Income On Capital Leases and Notes Receivable – Year Ended June 30, 2013	Interest Expense June 30, 2013	Debt Issuance Costs	Change In Net Position June 30, 2013
As previously reported	\$ 11,325,680	\$ 14,093,268	\$ 85,340	\$ 488,017	\$ (943,412)	\$ -	\$ 2,767,588
Write off of bond issuance costs,							
GASB 65 adoption	(404,591)	(413,466)	-	-	32,325	(41,200)	(8,875)
Remove Deferred Loss – GSO Aviation	(339,869)	(322,514)	17,355	-	-	-	17,355
Remove Deferred Gain – Essel Propack	616,168	513,473	(102,695)	-	-	-	(102,695)
Restate imputed interest – GSO Aviation	(221,511)	(202,705)	-	18,806	-	-	18,806
	<u>\$ 10,975,877</u>	<u>\$ 13,668,056</u>	<u>\$ -</u>	<u>\$ 506,823</u>	<u>\$ (911,087)</u>	<u>\$ (41,200)</u>	<u>\$ 2,692,179</u>

(Continued)

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 14. New Accounting Standards

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

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

Management has not fully evaluated the effect of adopting this statement.

Note 15. Subsequent Events

Subsequent to year end, the Authority authorized the issuance of two loans to businesses in the City totaling \$100,000. The Authority also authorized debt not to exceed \$2,750,000 to enable the Authority to repay the City for part of a capital asset purchase completed during fiscal year 2014. Additionally, the Authority purchased a parcel and approved renovations and repairs to other Authority assets totaling approximately \$330,000. The Authority also sold one location to a local business for \$60,000.

SUPPLEMENTARY SCHEDULE

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**SCHEDULE OF BONDS OUTSTANDING – CONDUIT DEBT
June 30, 2014**

<u>Type of Issue</u>	<u>Date Issued</u>	<u>Amount of Bonds Issued</u>	<u>Bonds Outstanding June 30, 2014</u>	<u>Bonds Outstanding June 30, 2013</u>	<u>Project Financed</u>
Revenue Bond	Dec 17, 2010	\$ 15,000,000	\$ 13,171,317	\$ 13,279,440	Averett University Capital Projects and debt repayment

COMPLIANCE SECTION

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

To the Honorable Members of the 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, 2014, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated January 27, 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 Items 14-1 and 14-2, described in the accompanying schedule of findings and responses to be material weaknesses.**

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 Findings

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

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
January 27, 20145

**INDUSTRIAL DEVELOPMENT AUTHORITY
OF DANVILLE**

**SUMMARY OF COMPLIANCE MATTERS
June 30, 2014**

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, 2014**

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 agrees and will evaluate areas for improvements within current staffing constraints.

14-2: Audit Adjustments (Material Weakness)

Condition:

Several adjustments related to notes receivable, capital assets, debt, and lease agreements were necessary for the financial statements to be in compliance with generally accepted accounting principles.

Recommendation:

Management should develop policies and procedures to capture all necessary adjustments, particularly those only occurring at year end.

Management's Response:

Management agrees and will take steps to capture adjustments in future years.