

*Financial Statements
Years Ended
June 30, 2011 and 2010*

*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, 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. The financial statements as of June 30, 2010 were audited by Goodman & Company, LLP, who merged into Dixon Hughes Goodman LLP as of April 1, 2011, and whose report dated October 18, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States of America and *Specifications for Audits of Authorities, Boards, and Commissions*, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 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, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of bonds outstanding on page 18 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Dixon Hughes Goodman LLP

Danville, Virginia
October 24, 2011

**Industrial Development Authority of Danville
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

Management's Discussion and Analysis of the *Industrial Development Authority of Danville's* (Authority's) financial performance provides an overview of the financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- ❖ The Authority's change in net assets was \$1,122,150 in fiscal 2011 and \$857,136 in fiscal 2010.
- ❖ Total assets were \$22,168,731 at June 30, 2011 and \$13,792,187 at June 30, 2010.

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:

	2011	2010	2009
Assets			
Cash and cash equivalents	\$ 464,233	\$ 342,685	\$ 435,040
Property and land	12,735,812	13,241,574	12,540,535
Capital lease receivable	7,500,000	-	-
Other	1,468,686	207,928	128,979
Total assets	\$ 22,168,731	\$ 13,792,187	\$ 13,104,554
	2011	2010	2009
Liabilities			
Notes payable	\$ 16,338,901	\$ 9,847,908	\$ 10,138,238
Other	958,641	195,240	74,413
Total liabilities	\$ 17,297,542	\$ 10,043,148	\$ 10,212,651
Net assets	4,871,189	3,749,039	2,891,903
	\$ 22,168,731	\$ 13,792,187	\$ 13,104,554

**Industrial Development Authority of Danville
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

Cash increased approximately \$121,500 in 2011. 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 will use its space for classrooms for graduate and professional students and administrative offices for the education program and health sciences initiatives. The Foundation will use its space for their offices and conference rooms. Over the course of the renovation, the project is expected to employ approximately 150 people in the region.

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, 2011, 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:

	2011	2010	2009
Revenues			
Lease income	\$ 814,722	\$ 833,470	\$ 866,028
Economic development	2,188,041	3,576,083	7,276,800
Other	1,082,190	1,004,265	1,008,310
Gain on sale of property	29,155	-	-
Total revenues	\$ 4,114,108	\$ 5,413,818	\$ 9,151,138
Expenses			
Economic development	\$ 2,167,645	\$ 3,681,581	\$ 8,271,689
Interest	502,023	547,375	598,705
Depreciation and amortization	304,984	305,673	305,673
Other	17,306	22,053	5,318
Total expenses	2,991,958	4,556,682	9,181,385
Change in net assets	\$ 1,122,150	\$ 857,136	\$ (30,247)

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 the sale of property to a company 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, 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 will be demolished and the hardware property will be renovated. Since June 30, 2011, the Authority has acquired three additional properties and executed two additional purchase contracts. The purchase of these properties are or will be funded through grant funds from the City and are all located in the general River District area.

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,	2011	2010
Assets		
Cash and cash equivalents	\$ 464,233	\$ 342,685
Restricted cash	622,579	13,130
Notes receivable	321,563	105,120
Miscellaneous receivables	102,604	47,122
Net investment in sales type lease	7,500,000	-
Loan origination costs - net	421,940	42,556
Property held for lease - net	10,535,239	11,783,226
Construction in progress	742,225	-
Property held for sale	1,458,348	1,458,348
Total assets	22,168,731	13,792,187
Liabilities		
Due to City of Danville	34,972	34,972
Accrued expenses	105,806	85,268
Deferred liability	99,000	75,000
Notes payable		
Due within one year	402,416	308,031
Due in more than one year	15,936,485	9,539,877
Deferred gain	718,863	-
Total liabilities	17,297,542	10,043,148
Net Assets		
Invested in capital assets - net of related debt	2,840,979	1,935,318
Unrestricted	2,030,210	1,813,721
Total net assets	\$ 4,871,189	\$ 3,749,039

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,	2011	2010
Operating revenues		
Lease income	\$ 814,722	\$ 833,470
Other revenue - City of Danville, Virginia	342,469	900,607
Economic development - City of Danville, Virginia	2,188,041	3,576,083
Total operating revenues	3,345,232	5,310,160
Operating expenses		
Economic development	2,167,645	3,681,581
Depreciation and amortization	304,984	305,673
Assessment expenses	-	10,000
Legal and professional	4,650	4,380
Other	12,656	7,673
Total operating expenses	2,489,935	4,009,307
Operating income	855,297	1,300,853
Nonoperating revenues (expenses)		
Interest income	4,378	3,658
Interest expense	(502,023)	(547,375)
Danville Regional Foundation grant	617,843	90,000
Bond issue fees	17,500	-
Loan fees	100,000	-
Gain on sale of building	29,155	-
Other grants	-	10,000
Total nonoperating revenues (expenses)	266,853	(443,717)
Change in net assets	1,122,150	857,136
Net assets - beginning of year	3,749,039	2,891,903
Net assets - end of year	\$ 4,871,189	\$ 3,749,039

The accompanying notes are an integral part of these financial statements

Industrial Development Authority of Danville

Statements of Cash Flows

Years Ended June 30,	2011	2010
Cash flows from operating activities		
Received from lessees	\$ 766,720	\$ 840,010
Received from City of Danville, Virginia	2,523,030	4,457,690
Payments to suppliers for goods and services	(2,184,951)	(3,703,634)
Net cash from operating activities	<u>1,104,799</u>	<u>1,594,066</u>
Cash flows from capital and related financing activities		
Payments for construction in progress	(742,225)	(945,608)
Purchase of property held for lease	(1,824,351)	-
Proceeds from sale of property	69,556	-
Proceeds from note payable	1,848,332	-
Principal payments on notes payable	(308,294)	(290,330)
Fees received from debt issuance	117,500	-
Interest payments on notes payable	(500,719)	(554,141)
Net cash from capital and related financing activities	<u>(1,340,201)</u>	<u>(1,790,079)</u>
Cash flows from non-capital and related financing activities		
Other grants	-	10,000
Danville Regional Foundation grant	617,843	90,000
Net cash from capital and related financing activities	<u>617,843</u>	<u>100,000</u>
Cash flows from investing activities		
Interest income	4,378	3,658
Notes receivable issued	(265,271)	-
Principal payments on notes receivable	43,250	-
	<u>(260,893)</u>	<u>3,658</u>
Net change in cash and cash equivalents	121,548	(92,355)
Cash and cash equivalents - beginning of year	<u>342,685</u>	<u>435,040</u>
Cash and cash equivalents - end of year	<u>\$ 464,233</u>	<u>\$ 342,685</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 855,297	\$ 1,300,853
Adjustments to reconcile net cash from operating activities:		
Depreciation and amortization	304,984	305,673
Change in:		
Miscellaneous receivables	(55,482)	(12,460)
Net cash from operating activities	<u>\$ 1,104,799</u>	<u>\$ 1,594,066</u>
Supplemental disclosures of cash flows information:		
Cash paid for interest	\$ 500,719	\$ 554,141
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, 2011 and 2010

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'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 \$622,579 and \$13,130 in restricted cash at June 30, 2011 and 2010, 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 October 24, 2011, the date the financial statements were available to be issued.

3. Deposits

At year-end 2011 and 2010, the carrying value of the Authority's deposits was \$1,086,812 and \$355,815 respectively. Of the bank balance of \$1,086,850 at June 30, 2011, \$513,431 was covered by federal depository insurance, and \$573,419 was collateralized in accordance with the Virginia Security for Public Deposits (Act).

Under the provisions of the Virginia Security for Public Deposits 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>2011</u>	<u>2010</u>
Land	\$ 1,056,507	\$ 641,438
Buildings	10,903,243	12,945,521
	<u>11,959,750</u>	<u>13,586,959</u>
Less – accumulated depreciation	<u>(1,424,511)</u>	<u>(1,803,733)</u>
	<u>\$ 10,535,239</u>	<u>\$ 11,783,226</u>

The Authority has a five year operating lease with TelVista, Inc. Monthly payment amounts are based on an amount equal to the Authority's debt service on the building. The lease also has up to four (4), five (5) year renewal periods.

Further, TelVista, Inc. retains an option to purchase their leased property during the term of the lease, including any extensions thereof, for the remaining principal balance owed by the Authority on its related loan on the property.

The Authority also leases buildings in the City's historic district to the Advanced Vehicle Research Center for \$1 per year and to LifeBATT, Inc. for \$850 per month. The Authority's building which was leased to Luna Technologies (Luna) was sold to Luna in December 2010 for \$69,556.

Future estimated minimum payments receivable under the operating leases at June 30, 2011 were as follows:

Year Ending June 30	Amount
2012	\$ 586,228
2013	586,228
2014	586,228
2015	586,228
2016	586,228
	<u>\$ 2,931,140</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. 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
2012	\$ 579,871
2013	579,871
2014	579,871
2015	579,871
2016	579,871
Thereafter	7,589,925
	<u>\$ 10,489,280</u>

The Authority's net investment in the sales-type lease consists of the following at June 30, 2011:

Minimum future lease payments	\$ 10,489,280
Executory costs and related profit	-
Allowance for uncollectible payments	-
Net minimum lease payments	<u>10,489,280</u>
Unearned income	<u>(2,989,280)</u>
Net investment in sales-type lease	<u>\$ 7,500,000</u>

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

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>

5. Construction in Progress

Construction in progress consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
512 Bridge Street land and building	\$ 742,225	\$ -

Total capitalized interest included in construction is progress at June 30, 2011 amount to \$27,681.

6. Notes Receivable and Deferred Liability

Notes receivable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Economic development - IDA	\$ 265,271	\$ 43,250
Economic development - USDA	56,292	61,870
	<u>\$ 321,563</u>	<u>\$ 105,120</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, 2011, \$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, \$42,708 and \$13,130 at June 30, 2011 and 2010, 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, 2011, the Authority has not recorded this note.

7. Transactions with Related Parties

During fiscal 2011 and 2010, the Authority received monies from the City of Danville, Virginia totaling \$2,423,268 and \$3,576,083, respectively, for economic development. During fiscal year 2011, the Authority received monies from the City of Danville, Virginia totaling \$107,243 for construction projects on Bridge Street. 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:

	2011	2010
First lien deed of trust payable to American National Bank and Trust Company, which is payable in monthly installments of principal and interest of \$11,324. The deed of trust, in an original amount of \$1,625,000, is for an initial period of ten (10) years with interest at a rate of 6.75% for the first five (5) years and for the second five (5) years at the then existing 5-year Treasury rate plus 2.50%. After the ten (10) year term, 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. Paid off June 2011.	\$ -	\$ 1,377,884
Second lien deed of trust payable to the Virginia Small Business Financing Authority, 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 ten (10) years with interest at a rate of 4.00%. After the ten (10) year term the Authority and the Virginia Small Business Financing Authority will negotiate the terms of the loan for the unpaid amount. The initial payment rate is based on a twenty-five (25) year amortization. Paid off June 2011.	-	1,261,248
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.	5,643,338	5,818,902
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%.	1,347,231	1,389,874
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. \$851,668 of the loan has not been drawn and is expected to be drawn in FY2012.	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%.	7,500,000	-
	<u>\$ 16,338,901</u>	<u>\$ 9,847,908</u>

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

2012	\$	402,416
2013		429,090
2014		454,810
2015		483,764
2016		2,057,563
2017 – 2021		2,665,318
2022 – 2026		3,589,454
2027 – 2031		3,545,688
2031 - 2036		2,710,798
		16,338,901
	\$	16,338,901

Debt covenants related to the first deed of trust with Virginia Community Capital (VCC) include a debt service reserve in the amount of \$579,871. This amount was withheld from the loan proceeds at the time of loan disbursement and deposited into a separate account at VCC. There are no future requirements for the Authority to fund the debt service reserve. The debt service reserve is included in restricted cash on the statement of net assets. All other financial covenants related to this loan have been met at June 30, 2011.

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, 2011, there was a single Revenue Bond outstanding, with a principal amount payable of approximately \$14.8 million.

10. Commitment

In January 2011, the Authority purchased property known as the former Dimon Headquarters' Building, which is located in the City's tobacco warehouse district. In connection with this purchase, the Authority entered into an agreement with American National Bank and Trust Company to provide funding for the purchase and upfit of a portion of the property for Averett University (Averett) and the Danville Regional Foundation (Foundation) at a total cost not to exceed \$2,700,000. In July 2011, the Authority signed a \$1.5 million construction contract with a local construction company for the renovation of the property. A lease with Averett and the Foundation was finalized in January 2011 and terms were set such that lease payments will provide for the debt service (as outlined in Note 8 for the \$2.7 million loan) of the financing on the property. The upfit is projected to be completed by September 2011 at which time the lease will be executed.

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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, 2011 and 2010, and have issued our report thereon dated October 24, 2011. 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

In planning and performing our audit, we considered the ***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 the ***Industrial Development Authority of Danville's*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ***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 would not necessarily identify all deficiencies in internal control that might be 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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the ***Industrial Development Authority of Danville*** in a separate letter dated October 24, 2011.

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
October 24, 2011

Supplementary Information

Industrial Development Authority of Danville

Schedule of Bonds Outstanding

June 30, 2011

Type of issue	Date issued	Amount of Bonds Issued	Bonds Outstanding June 30, 2011	Project Financed
Revenue Bond	December 17, 2010	\$ 15,000,000	\$ 14,799,964	Averett University Capital projects and debt repayment