

**DANVILLE-PITTSYLVANIA REGIONAL  
INDUSTRIAL FACILITY AUTHORITY**

**FINANCIAL REPORT**

**June 30, 2012**

# Danville-Pittsylvania Regional Industrial Facility Authority

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Danville-Pittsylvania Regional Industrial Facility Authority  
Danville, Virginia

We have audited the accompanying basic financial statements of the Danville-Pittsylvania Regional Industrial Facility Authority (the "Authority"), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Authority's 2011 financial statements on which, in our report dated December 9, 2011, we expressed an unqualified opinion.

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 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 Danville-Pittsylvania Regional Industrial Facility Authority, as of June 30, 2012, and the changes in its financial position and cash flows for the year 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 November 20, 2012 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 20, 2012

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Statement of Net Assets**  
**June 30, 2012**

	2012	(For Comparative Purposes Only) 2011
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,250,631	\$ 1,016,982
Due from other governments	158,281	282,441
Other receivables	17,886	3,500
Prepays	9,579	10,114
<i>Total current assets</i>	1,436,377	1,313,037
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	3,873,969	1,682,058
Due from City of Danville	236,479	37,824
Capital assets not being depreciated	24,839,271	24,865,370
Capital assets being depreciated, net	27,794,063	27,244,055
Construction in progress	2,277,130	1,930,750
Unamortized bond issuance costs	608,186	272,899
<i>Total noncurrent assets</i>	59,629,098	56,032,956
<b>Total assets</b>	61,065,475	57,345,993
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accrued interest payable	123,635	967
Accounts payable - general	46,802	23,708
Accounts payable - construction	38,050	407,676
Retainage payable	-	12,232
Due to City of Danville	-	10,479,073
Security deposit	1,500	1,000
Unearned revenue	9,106	6,700
Bonds payable - current	5,823,395	285,000
<i>Total current liabilities</i>	6,042,488	11,216,356
<i>Noncurrent liabilities</i>		
Due to Pittsylvania County	236,479	37,824
Bonds payable	11,301,885	5,895,000
<i>Total noncurrent liabilities</i>	11,538,364	5,932,824
<b>Total liabilities</b>	17,580,852	17,149,180
<b>Net assets</b>		
Invested in capital assets - net of related debt	42,267,338	39,063,160
Unrestricted	1,217,285	1,133,653
<b>Total net assets</b>	\$ 43,484,623	\$ 40,196,813

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

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Statement of Revenues and Expenses and Changes in Fund Net Assets**  
**Year Ended June 30, 2012**

	<b>2012</b>	<b>(For Comparative Purposes Only) 2011</b>
<b>Operating revenues</b>		
Virginia Tobacco Commission grants	\$ 316,932	\$ 77,120
Other grants	1,076,639	780,321
Other income	238,273	174,703
Reimbursement of incentive grant	-	327,664
<b>Total operating revenues</b>	<b>1,631,844</b>	<b>1,359,808</b>
<b>Operating expenses</b>		
Depreciation and amortization	1,004,543	925,624
Economic development - Cyber Park	-	592,018
Economic development - Cane Creek Centre	140,253	640,862
Economic development - Berry Hill Mega Park	-	500,000
Other operating expenses	222,091	223,432
<b>Total operating expenses</b>	<b>1,366,887</b>	<b>2,881,936</b>
<b>Operating income (loss)</b>	<b>264,957</b>	<b>(1,522,128)</b>
<b>Non-operating revenues (expenses)</b>		
Interest income	1,453	3,493
Interest expense	(31,458)	(19,264)
Loss on disposal	-	(2,000)
<b>Total non-operating expenses</b>	<b>(30,005)</b>	<b>(17,771)</b>
<b>Net income (loss) before capital contributions</b>	<b>234,952</b>	<b>(1,539,899)</b>
<b>Capital contributions</b>		
Contribution - City of Danville	1,526,429	451,729
Contribution - Pittsylvania County	1,526,429	451,729
<b>Total capital contributions</b>	<b>3,052,858</b>	<b>903,458</b>
<b>Change in net assets</b>	<b>3,287,810</b>	<b>(636,441)</b>
<b>Net assets at July 1, as restated</b>	<b>40,196,813</b>	<b>40,833,254</b>
<b>Net assets at June 30</b>	<b>\$ 43,484,623</b>	<b>\$ 40,196,813</b>

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Statement of Cash Flows**  
**Year Ended June 30, 2012**

	2012	(For Comparative Purposes Only) 2011
<b>Operating activities</b>		
Receipts from operating grants and activities	\$ 1,506,251	\$ 974,319
Payments to suppliers for goods and services	(116,624)	(875,307)
Other payments	32,664	196,765
<b>Net cash provided by operating activities</b>	<u>1,422,291</u>	<u>295,777</u>
<b>Capital and related financing activities</b>		
Purchase of capital assets	(1,478,727)	(76,760)
Payments on advances from the City of Danville	(10,485,134)	-
Capital contributions	2,674,783	566,117
Interest paid on bonds	(104,325)	(19,810)
Proceeds from bond issuance	11,250,000	-
Bond issuance costs paid	(548,456)	-
Original issue discount on bonds issued	(21,325)	-
Principal repayments on bonds	(285,000)	(275,000)
<b>Net cash provided by capital and related financing activities</b>	<u>1,001,816</u>	<u>194,547</u>
<b>Investing activities</b>		
Interest received	1,453	3,493
<b>Net cash provided by investing activities</b>	<u>1,453</u>	<u>3,493</u>
<b>Net increase in cash and cash equivalents</b>	2,425,560	493,817
<b>Cash and cash equivalents - beginning of year (including restricted cash)</b>	<u>2,699,040</u>	<u>2,205,223</u>
<b>Cash and cash equivalents - end of year (including restricted cash)</b>	<u>\$ 5,124,600</u>	<u>\$ 2,699,040</u>

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Statement of Cash Flows**  
**Year Ended June 30, 2012**

	2012	(For Comparative Purposes Only) 2011
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 264,957	\$ (1,522,128)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	955,492	917,854
Amortization of bond issue costs	49,051	7,770
Non-cash economic incentive expenses	-	1,104,904
Non-cash economic incentive reimbursements	-	(327,664)
Non-cash operating in-kind expenses	16,482	591
Changes in assets and liabilities:		
Change in prepaids	535	356
Change in due from other governments	124,160	(27,627)
Change in other receivables	(14,386)	381,708
Change in accounts payable - general	23,094	(247,687)
Change in security deposit	500	1,000
Change in unearned revenue	2,406	6,700
<b>Net cash provided by operating activities</b>	<u>\$ 1,422,291</u>	<u>\$ 295,777</u>
<b>Supplemental cash flow information – non-cash transactions</b>		
Capitalized interest	\$ 203,201	\$ 21,092
Capital asset additions financed by retainage payable	-	12,232
Capital asset additions financed by accounts payable	38,050	243,559
Capital asset additions financed by locality contribution	387,693	516,750
Accrual of bond issuance costs	-	164,117
	<u>\$ 628,944</u>	<u>\$ 957,750</u>



***Danville-Pittsylvania Regional Industrial Facility Authority***  
***Notes to Financial Statements***  
***June 30, 2012***

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**1. Organization and Nature of Activities**

The ***Danville-Pittsylvania Regional Industrial Facility Authority*** (“the Authority”) was created by ordinance of the Board of Supervisors of Pittsylvania County, Virginia, and the City Council of the City of Danville, Virginia, to promote and further the purposes of the *Virginia Regional Industrial Facilities Act*, Chapter 64, Title 15.2 of the *Code of Virginia*, (1950) as amended (Act). The Authority is an entity jointly owned by the City of Danville and Pittsylvania County and is a political subdivision of the Commonwealth of Virginia. The Authority is empowered, among other things, to borrow money to purchase real estate and finance all improvements in industrial parks intended to be occupied by manufacturing, warehousing, distribution, office or other commercial enterprises. In addition, the Authority is authorized under the Act to issue revenue bonds to finance facilities for such enterprises. The Authority has no taxing power. The City of Danville acts as the fiscal agent of the Authority. As fiscal agent, the City provides office space to the Authority at no charge.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The Authority utilizes the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred, regardless of the timing of the related cash flow. The Authority follows all applicable Governmental Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements that do not conflict with the GASB pronouncements, as they apply to its proprietary activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority’s financial statements to the extent that those standards do not conflict with guidance of the GASB. The Authority also has the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues generally consist of grant income from various state or federal agencies; operating expenses generally consist of economic incentive grants, infrastructure development, depreciation and amortization expense, and other operating expenses which include bank charges, legal fees, accounting fees, meals and other miscellaneous fees. Nonoperating items consist of interest income and expense as well as incidental items not directly related to the primary operations of the Authority. Capital contributions consist of subsidies from the City of Danville and Pittsylvania County.

**Economic Incentive Grants**

One important function of the Authority is to provide incentives for businesses to locate in the industrial parks constructed by the Authority. In some cases the Authority agrees that if a business reaches certain investment and employment goals, the Authority will transfer capital assets (such as land and improvements) to the business at very favorable terms at the end of a specified period – usually five to ten years. The Authority reports these transfers as expenses when the grantee reaches its initial investment and employment goals and it appears unlikely that the grantee will fail to maintain these goals throughout the specified period.

Non-exchange transactions, in which the Authority either gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. Revenues and expenses from grants and donations are recognized in the fiscal year in which, in management’s judgment, all eligibility requirements have been substantially satisfied.

***Danville-Pittsylvania Regional Industrial Facility Authority***  
***Notes to Financial Statements***  
***June 30, 2012***

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**2. Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

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

**Due From Other Governments**

Due from other governments consists of grant reimbursements receivable from the Virginia Tobacco Commission in the amount of \$158,281 at June 30, 2012.

**Other Receivables**

Other receivables primarily consist of rent payments due to the Authority at year-end.

**Prepays**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Restricted Resources**

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

**Capital Assets**

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the related assets, ranging from 10 to 50 years. Normal maintenance and repairs are charged to operations when incurred. Capital assets that are later transferred to other governments or businesses are capitalized at cost as constructed or purchased, and are later recorded as expenses when transferred to the recipient entity. The expense of capital assets that are transferred as part of economic incentive grants is generally recognized at the time the recipient has met all eligibility requirements and is expected to continue to meet the requirements throughout the period required by the incentive agreement.

Management does not believe the Authority's real estate has declined materially in value below the reported cost; however, no formal appraisals of the Authority's real property have been obtained since it was acquired.

**Unearned Revenue**

Unearned revenue represents revenue received but not recognized since it has not been earned. Unearned revenue is comprised of rent payments received in advance of the rent period.

*Danville-Pittsylvania Regional Industrial Facility Authority*  
*Notes to Financial Statements*  
*June 30, 2012*

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**2. Summary of Significant Accounting Policies (Continued)**

**Net Assets**

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represents capital assets less accumulated depreciation less any outstanding debt used for the acquisition or improvement of those assets.

**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 the 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.

**Bond Issuance Costs**

Bond issuance costs are amortized over the life of the bond using the straight-line method, which approximates the effective interest rate method.

**Income Taxes**

The Authority is exempt from all federal, state, and local income taxes.

**Subsequent Events**

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through November 20, 2012, the date the financial statements were available to be issued.

**3. Deposits, Restricted Cash 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 in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

**Investments**

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

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Notes to Financial Statements**  
**June 30, 2012**

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**3. Deposits, Restricted Cash and Investments (Continued)**

**Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents consist of the following at June 30, 2012:

Bond funds to be used for improvements to Cane Creek Centre	\$ 1,046,463
Restricted funds for Cane Creek Centre debt service	807,894
Bond funds to be used for improvements to Berry Hill Mega Park	19,512
Restricted funds for Berry Hill Mega Park debt service	2,000,100
	<u>\$ 3,873,969</u>

**Interest Rate Risk** - As a means of limiting its exposure to fair value losses due to rising interest rates, the Authority purchases investments having a maturity not greater than two years from the date of purchase.

**Credit Risk** - In accordance with State statutes, the Authority authorizes investments in obligations of the United States and agencies thereof, commercial paper, repurchase agreements which are collateralized with securities that are approved for direct investment, the Virginia Local Government Investment Pool (LGIP), and Virginia's State Non-Arbitrage Pool (SNAP). All cash of the Authority was held in money market or checking accounts at June 30, 2012.

**Concentration of Credit Risk** - The Authority places no limit on the amount that is invested in any one issuer. All Authority funds are currently maintained in checking accounts or money market accounts with two different financial institutions.

**4. Due To/From Member Localities**

The Authority is equally funded by the City of Danville and Pittsylvania County. The two localities have signed agreements to share all costs of the Authority equally. At times, one locality may front all costs associated with a transaction, creating an amount owed by the other. The Authority reflects these balances as all transactions associated with the Authority are recorded on the Authority's books. At June 30, 2012, the Authority reflects amounts due to Pittsylvania County of \$236,479 and a corresponding due from the City of Danville for the same amount. This stems from items paid for or contributed by Pittsylvania County in excess of its share. It is not expected that the City of Danville will repay this amount in full in fiscal year 2013, but rather that the balance will be adjusted annually based on contributions made by both localities.

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Notes to Financial Statements**  
**June 30, 2012**

**5. Capital Assets**

Capital asset activity was as follows:

	<b>June 30, 2011 Balance, as restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2012 Balance</b>
<i>Capital assets, not being depreciated:</i>				
Cyber Park – Land	\$ 5,930,882	\$ -	\$ 26,099	\$ 5,904,783
Cane Creek Centre – Land	5,871,948	-	-	5,871,948
Mega Park – Land	13,062,540	-	-	13,062,540
<i>Total capital assets not being depreciated</i>	<u>24,865,370</u>	<u>-</u>	<u>26,099</u>	<u>24,839,271</u>
<i>Capital assets, being depreciated:</i>				
Buildings	25,617,874	-	-	25,617,874
Building Improvements	267,000	-	-	267,000
Land Improvements	4,464,958	1,505,500	-	5,970,458
Infrastructure	2,006,965	-	-	2,006,965
<i>Total capital assets being depreciated</i>	<u>32,356,797</u>	<u>1,505,500</u>	<u>-</u>	<u>33,862,297</u>
<i>Less accumulated depreciation for:</i>				
Buildings	4,514,525	756,544	-	5,271,069
Building Improvements	35,130	7,026	-	42,156
Land Improvements	402,531	151,783	-	554,314
Infrastructure	160,556	40,139	-	200,695
<i>Total accumulated depreciation</i>	<u>5,112,742</u>	<u>955,492</u>	<u>-</u>	<u>6,068,234</u>
<i>Total capital assets being depreciated, net</i>	<u>27,244,055</u>	<u>550,008</u>	<u>-</u>	<u>27,794,063</u>
<i>Total capital assets, net</i>	<u>\$ 52,109,425</u>	<u>\$ 550,008</u>	<u>\$ 26,099</u>	<u>\$ 52,633,334</u>

**6. Construction in Progress**

Construction in progress consisted of the following at June 30:

	<b>June 30, 2011 Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2012 Balance</b>
Cane Creek Centre	\$ 268,882	\$ 1,236,618	\$ 1,505,500	\$ -
Mega Park*	1,661,868	615,262	-	2,277,130
	<u>\$ 1,930,750</u>	<u>\$ 1,851,880</u>	<u>\$ 1,505,500</u>	<u>\$ 2,277,130</u>

\* Current year additions include \$203,201 of capitalized interest.

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Notes to Financial Statements**  
**June 30, 2012**

**7. Long-Term Debt**

The following schedule represents all bonds payable:

<u>Description</u>	<u>Original Issue</u>	<u>Annual Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding June 30, 2012</u>
2005 Revenue bonds	\$ 7,300,000	\$ 100,000 – 565,000	Variable	1/1/2026	\$ 5,895,000
2011 Revenue bonds	11,250,000	\$ 730,000 – 5,525,000	2.50 – 4.75%	9/1/2019	11,250,000
	<u>\$ 18,550,000</u>				<u>\$ 17,145,000</u>

In August 2005, the Authority issued \$7,300,000 in revenue bonds. The bonds bear interest at a variable rate, which averaged 0.21% in fiscal year 2012. The variable rate is set by remarketing agents to reflect the current yields of similar bonds in the marketplace. Future interest payments for this bond issuance disclosed on the following page are calculated using the average rate for the current year. Debt service payments are made with funds received from the City of Danville and Pittsylvania County. In July 2012, the Authority extended the letter of credit agreement that supports the 2005 revenue bonds. The new letter of credit will expire in August 2013 with an option to extend it until August 2014. The letter of credit fee remained unchanged and is 0.78% per annum of the stated amount of the letter of credit, computed on the basis of a 360-day year and payable quarterly in advance.

In fiscal years 2009 and 2010, the City of Danville advanced funding to the Authority to acquire land for the Berry Hill Mega Park. The outstanding portion of the advances from the City was repaid by the Authority in January 2012 and totaled \$10,485,134, including interest on the advances.

In December 2011, the Authority issued \$11,250,000 in revenue bonds to repay the City's advances discussed in the previous paragraph. The debt service payments due on March 1, 2012 and September 1, 2012 are funded by a grant from the Virginia Tobacco Commission; debt service payments thereafter will be made with funds received from the City of Danville and Pittsylvania County.

Long-term debt activity for the year ended June 30, 2012 was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 6,180,000	\$ 11,250,000	\$ 285,000	17,145,000	\$ 5,825,000
Original issue discount	-	(21,325)	(1,605)	(19,720)	-
	<u>\$ 6,180,000</u>	<u>\$ 11,228,675</u>	<u>\$ 283,395</u>	<u>\$ 17,125,280</u>	<u>\$ 5,825,000</u>

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Notes to Financial Statements**  
**June 30, 2012**

**7. Long-Term Debt (Continued)**

Debt service on the preceding bonds in future years is as follows:

**Debt Maturity Schedule**

Year Ending June 30	Principal	Estimated Interest*	Total
2013	\$ 5,825,000	\$ 311,074	\$ 6,136,074
2014	1,045,000	230,431	1,275,431
2015	1,080,000	206,163	1,286,163
2016	1,130,000	178,676	1,308,676
2017	1,175,000	147,098	1,322,098
2018 – 2022	4,780,000	224,028	5,004,028
2023 – 2027	2,110,000	11,340	2,121,340
	<u>\$ 17,145,000</u>	<u>\$ 1,308,810</u>	<u>\$ 18,453,810</u>

\* Estimated interest is computed using rates in effect as of June 30, 2012.

**8. Economic Development**

In fiscal years 2009 and 2010, the Authority completed several land acquisitions to create a 3,500+ acre Mega Park. The City of Danville advanced funding to the Authority for these purchases. The Authority repaid the City, including interest, in January 2012 after it issued bonds for the project as discussed in Note 7.

In fiscal year 2012, the Authority transferred 0.90 acres of the Cyber Park land to the City of Danville for the Highway 58 widening project.

**9. Short-Term Operating Leases**

The Authority leases land to tenants under lease terms of one year or less. Under the terms of the agreements, the future rental income for the year ending June 30, 2013 is estimated to be \$16,956.

**10. Long-Term Operating Leases**

In October 2006, the Authority entered into agreements with Swedwood Danville, LLC that provide the Authority will lease 94 acres (valued at \$989,205) to Swedwood for 120 months at a rate of \$1 per year. Swedwood has the option to purchase the above-mentioned land for \$1 at the end of the 120-month lease if it meets certain investment and employment criteria. In fiscal year 2008 Swedwood met its initial investment and employment criteria and the Authority recorded the transfer of land to Swedwood. If Swedwood chooses to expand its operations within the terms of the agreement, it also has the right to lease from the Authority certain parcels of land known as lots 7B and/or 7C, consisting of approximately 103 acres and 11 acres, respectively. Swedwood also has the right of first refusal to purchase a certain parcel of land from the Authority known as Lot 6 consisting of 68.8 acres.

The Research building, which has a carrying value of \$6,201,395 at June 30, 2012 and accumulated depreciation of \$834,415, is leased to the Institute for Advanced Learning & Research (IALR) for \$10 per year per square foot occupied during the initial lease term of 5 years. The lease will automatically renew for up to two 5-year terms if both parties agree. The rent for the renewal is set forth in the lease agreement. Insurance and maintenance costs are the responsibility of the lessee. For fiscal year 2012, \$211,442 of rental income was received through this lease.

**Danville-Pittsylvania Regional Industrial Facility Authority**  
**Notes to Financial Statements**  
**June 30, 2012**

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**10. Long-Term Operating Leases (Continued)**

The Institute building is leased to the IALR for \$1 per year. The lease term is 15 years and began in June 2004. Insurance and maintenance costs are the responsibility of the lessee.

In fiscal year 2011, the Authority entered into a ground lease with the IALR to allow for the construction of the Sustainable Energy Technology Center Building (SEnTeC). The lease term is 240 months and began in September 2010. The property is leased to the IALR at a rate of \$1 per year and the IALR has the option to purchase the premises for \$100 at the end of the lease term.

**11. Commitments/Subsequent Events**

At June 30, 2012, the Authority had approximately \$1.2 million in outstanding engineering and consulting contracts, of which approximately \$166,000 had not been expended.

On October 9, 2012, the Authority entered into a \$1,781,119 contract for design and engineering of the Berry Hill connector road. A portion of those costs will be reimbursed by the Virginia Tobacco Indemnification and Community Revitalization Commission through a grant agreement between the Authority and the Commission.

**12. Dissolution of Authority**

If dissolution of the Authority should occur, such dissolution shall be made pursuant to *Code of Virginia*, Section 15.2-6415. Pittsylvania County is in the process of constructing a Multi-Port Access Point (MSAP), at an approximate cost of \$2 million that will benefit areas served by the Authority. Should the Authority ever be dissolved, the MSAP will be considered part of the County's investment in the Authority.

**13. Restatement of Net Assets**

The Authority's net assets as of June 30, 2011 have been restated to correct an understatement of incentive expense and a related overstatement of capital assets due to an error in the calculation of the cost per acre of land in the Cane Creek Centre.

Net assets June 30, 2011, as previously reported	\$ 40,294,373
Restatement for:	
Incentive expense and capital assets	<u>(97,560)</u>
Net assets June 30, 2011, as restated	<u>\$ 40,196,813</u>

\* \* \* \* \*



**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 Board of Directors of  
Danville-Pittsylvania Regional Industrial Facility Authority  
Danville, Virginia

We have audited the basic financial statements of the Danville-Pittsylvania Regional Industrial Facility Authority (the "Authority"), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 20, 2012. 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.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 that are required to be reported under Government Auditing Standards.**

We noted certain other matters that we reported to management of the Authority in a separate letter dated November 20, 2012.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response, and accordingly, we express no opinion it.

This report is intended solely for the information and use of management, the Board of Directors, others with the entity, state and 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 20, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

To the Board of Directors of  
Danville-Pittsylvania Regional Industrial Facility Authority  
Danville, Virginia

Compliance

We have audited the compliance of the Danville-Pittsylvania Regional Industrial Facility Authority (the "Authority"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2012. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

**In our opinion, the Danville-Pittsylvania Regional Industrial Facility Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.**

## Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

This report is intended solely for the information of management, the Board of Directors, others within the Authority, state and 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 20, 2012

*Danville-Pittsylvania Regional Industrial Facility Authority  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012*

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<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Department of Commerce		
Pass-through Payments:		
Economic Development Administration		
Public Works and Economic Development Facilities	11.300	\$ 1,076,639
Total expenditures of federal awards		<u>\$ 1,076,639</u>

Note 1. Basis of Accounting

This schedule is presented on the modified accrual basis of accounting.

**DANVILLE-PITTSYLVANIA REGIONAL INDUSTRIAL FACILITY AUTHORITY**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2012**

As more fully described in the 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 grants shown below.

**STATE COMPLIANCE MATTERS**

*Code of Virginia*

Cash and Investment Laws

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

**FEDERAL COMPLIANCE MATTERS**

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to the federal program selected for testing.

**DANVILLE-PITTSYLVANIA REGIONAL INDUSTRIAL FACILITY AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2012**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements is reported in the 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:

Public Works and Economic Development Facilities	CFDA #	11.300
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8. The threshold for distinguishing Type A and B programs was **\$300,000**.
9. The Authority was **not** determined to be a **low-risk auditee**.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.