

**DANVILLE-PITTSYLVANIA REGIONAL
INDUSTRIAL FACILITY AUTHORITY**

FINANCIAL REPORT

June 30, 2013

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, 2013, and the related notes to the financial statements, as listed in the table of contents. The prior year comparative information has been derived from the Authority's 2012 financial statements on which, in our report dated November 20, 2012, we expressed an unmodified opinion.

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 entity'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 entity'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 Danville-Pittsylvania Regional Industrial Facility Authority, as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013 on our consideration of the Board'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

Roanoke, Virginia
November 8, 2013

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Net Position
June 30, 2013

	2013	(For Comparative Purposes Only) 2012
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,396,911	\$ 1,250,631
Due from other governments	-	158,281
Other receivables	3,002	17,886
Prepays	6,264	9,579
<i>Total current assets</i>	<u>1,406,177</u>	<u>1,436,377</u>
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	3,844,078	3,873,969
Due from City of Danville	254,205	236,479
Capital assets not being depreciated	24,839,271	24,839,271
Capital assets being depreciated, net	26,838,571	27,794,063
Construction in progress	2,650,156	2,277,130
Unamortized bond issuance costs	339,123	608,186
<i>Total noncurrent assets</i>	<u>58,765,404</u>	<u>59,629,098</u>
Total assets	<u>60,171,581</u>	<u>61,065,475</u>
Liabilities		
<i>Current liabilities</i>		
Accrued interest payable	77,402	123,635
Accounts payable - general	29,347	46,802
Accounts payable - construction	-	38,050
Security deposit	-	1,500
Unearned revenue	5,850	9,106
Bonds payable - current	1,043,450	5,823,395
<i>Total current liabilities</i>	<u>1,156,049</u>	<u>6,042,488</u>
<i>Noncurrent liabilities</i>		
Due to Pittsylvania County	254,205	236,479
Bonds payable	10,266,990	11,301,885
<i>Total noncurrent liabilities</i>	<u>10,521,195</u>	<u>11,538,364</u>
Total liabilities	<u>11,677,244</u>	<u>17,580,852</u>
Net position		
Net investment in capital assets	47,200,758	42,267,338
Unrestricted	1,293,579	1,217,285
Total net position	<u>\$ 48,494,337</u>	<u>\$ 43,484,623</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Revenues and Expenses and Changes in Fund Net Position
Year Ended June 30, 2013

	2013	(For Comparative Purposes Only) 2012
Operating revenues		
Virginia Tobacco Commission grants	\$ 5,708,878	\$ 316,932
Other grants	-	1,076,639
Other income	67,860	238,273
Total operating revenues	<u>5,776,738</u>	<u>1,631,844</u>
Operating expenses		
Depreciation and amortization	1,224,555	1,004,543
Economic development - Cyber Park	150,000	-
Economic development - Cane Creek Centre	2,780	140,253
Other operating expenses	241,658	222,091
Total operating expenses	<u>1,618,993</u>	<u>1,366,887</u>
Operating income	<u>4,157,745</u>	<u>264,957</u>
Non-operating revenues (expenses)		
Interest income	589	1,453
Interest expense	(11,754)	(31,458)
Total non-operating expenses	<u>(11,165)</u>	<u>(30,005)</u>
Net income before capital contributions	<u>4,146,580</u>	<u>234,952</u>
Capital contributions		
Contribution - City of Danville	431,567	1,526,429
Contribution - Pittsylvania County	431,567	1,526,429
Total capital contributions	<u>863,134</u>	<u>3,052,858</u>
Change in net position	5,009,714	3,287,810
Net position at July 1	<u>43,484,623</u>	<u>40,196,813</u>
Net position at June 30	<u>\$ 48,494,337</u>	<u>\$ 43,484,623</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Cash Flows
Year Ended June 30, 2013

	2013	(For Comparative Purposes Only) 2012
Operating activities		
Receipts from operating grants and activities	\$ 5,877,287	\$ 1,506,251
Payments to suppliers for goods and services	(166,919)	(116,624)
Other payments	(156,375)	32,664
Net cash provided by operating activities	<u>5,553,993</u>	<u>1,422,291</u>
Capital and related financing activities		
Purchase of capital assets	(95,890)	(1,478,727)
Payments on advances from the City of Danville	-	(10,485,134)
Capital contributions	793,335	2,674,783
Interest paid on bonds	(310,638)	(104,325)
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	(5,825,000)	(285,000)
Net cash provided by (used in) capital and related financing activities	<u>(5,438,193)</u>	<u>1,001,816</u>
Investing activities		
Interest received	589	1,453
Net cash provided by investing activities	<u>589</u>	<u>1,453</u>
Net increase in cash and cash equivalents	116,389	2,425,560
Cash and cash equivalents - beginning of year (including restricted cash)	<u>5,124,600</u>	<u>2,699,040</u>
Cash and cash equivalents - end of year (including restricted cash)	<u>\$ 5,240,989</u>	<u>\$ 5,124,600</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Cash Flows
Year Ended June 30, 2013

	2013	(For Comparative Purposes Only) 2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,157,745	\$ 264,957
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	955,492	955,492
Amortization of bond issue costs	269,063	49,051
Non-cash operating in-kind expenses	17,424	16,482
Changes in assets and liabilities:		
Change in prepaids	3,315	535
Change in due from other governments	158,281	124,160
Change in other receivables	14,884	(14,386)
Change in accounts payable - general	(17,455)	23,094
Change in security deposit	(1,500)	500
Change in unearned revenue	(3,256)	2,406
Net cash provided by operating activities	\$ 5,553,993	\$ 1,422,291
Supplemental cash flow information		
Capitalized interest	\$ 262,812	\$ 203,201
Capital asset additions financed by accounts payable	-	38,050
Capital asset additions financed by locality contribution	52,375	387,693
	\$ 315,187	\$ 628,944

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2013

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.

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, 2013

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 generally consists of grant reimbursements receivable from the Virginia Tobacco Commission or other grant agencies. There were no amounts due from other governments at June 30, 2013.

Other Receivables

Other receivables consist of credits 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, 2013

2. Summary of Significant Accounting Policies (Continued)

Net Position

Net position is the difference between assets and liabilities. Net investment in capital assets represents capital assets less accumulated depreciation less any outstanding debt 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 8, 2013, 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 amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2013

3. Deposits, Restricted Cash 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 and the State Treasurer’s Local Government Investment Pool (LGIP). At June 30, 2013, the Authority held no investments.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of the following at June 30, 2013:

Bond funds to be used for improvements to Cane Creek Centre	\$ 871,016
Restricted funds for Cane Creek Centre debt service	972,945
Restricted funds for Berry Hill Mega Park debt service	<u>2,000,117</u>
	<u>\$ 3,844,078</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, 2013.

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, 2013, the Authority reflects amounts due to Pittsylvania County of \$254,205 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 2014, 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, 2013

5. Capital Assets

Capital asset activity was as follows:

	June 30, 2012			June 30, 2013
	Balance	Increases	Decreases	Balance
<i>Capital assets, not being depreciated:</i>				
Cyber Park – Land	\$ 5,904,783	\$ -	\$ -	\$ 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>24,839,271</u>	<u>-</u>	<u>-</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	5,970,458	-	-	5,970,458
Infrastructure	2,006,965	-	-	2,006,965
<i>Total capital assets being depreciated</i>	<u>33,862,297</u>	<u>-</u>	<u>-</u>	<u>33,862,297</u>
<i>Less accumulated depreciation for:</i>				
Buildings	5,271,069	756,544	-	6,027,613
Building Improvements	42,156	7,026	-	49,182
Land Improvements	554,314	151,783	-	706,097
Infrastructure	200,695	40,139	-	240,834
<i>Total accumulated depreciation</i>	<u>6,068,234</u>	<u>955,492</u>	<u>-</u>	<u>7,023,726</u>
<i>Total capital assets being depreciated, net</i>	<u>27,794,063</u>	<u>(955,492)</u>	<u>-</u>	<u>26,838,571</u>
<i>Total capital assets, net</i>	<u>\$ 52,633,334</u>	<u>\$ (955,492)</u>	<u>\$ -</u>	<u>\$ 51,677,842</u>

6. Construction in Progress

Construction in progress consisted of the following at June 30:

	June 30, 2012			June 30, 2013
	Balance	Increases	Decreases	Balance
Mega Park*	\$ 2,277,130	\$ 373,026	\$ -	\$ 2,650,156
	<u>\$ 2,277,130</u>	<u>\$ 373,026</u>	<u>\$ -</u>	<u>\$ 2,650,156</u>

* Current year additions include capitalized interest of \$262,812. The construction in progress total for this project includes an accumulated total of \$526,864 capitalized interest at June 30, 2013.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2013

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, 2013</u>
2005 Revenue bonds	\$ 7,300,000	\$ 100,000 – 565,000	Variable	1/1/2026	\$ 5,595,000
2011 Revenue bonds	11,250,000	\$ 730,000 – 5,525,000	2.50 – 4.75%	9/1/2019	5,725,000
	<u>\$ 18,550,000</u>				<u>\$ 11,320,000</u>

In August 2005, the Authority issued \$7,300,000 in revenue bonds. The bonds bear interest at a variable rate, which averaged 0.20% in fiscal year 2013. 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. The letter of credit fee remained unchanged during fiscal year 2013 at 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. The Authority chose not to extend the letter of credit agreement that supports the 2005 revenue bonds, which expired on August 1, 2013. As disclosed in Note 11, the Authority issued \$5,595,000 in revenue refunding bonds on August 1, 2013 to satisfy the outstanding balance of the 2005 revenue bonds.

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

Long-term debt activity for the year ended June 30, 2013 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	\$ 17,145,000	\$ -	\$ 5,825,000	\$ 11,320,000	\$ 1,045,000
Original issue discount	(19,720)	-	(10,160)	(9,560)	(1,550)
	<u>\$ 17,125,280</u>	<u>\$ -</u>	<u>\$ 5,814,840</u>	<u>\$ 11,310,440</u>	<u>\$ 1,043,450</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2013

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
2014	\$ 1,045,000	\$ 229,871	\$ 1,274,871
2015	1,080,000	205,635	1,285,635
2016	1,130,000	178,181	1,308,181
2017	1,175,000	146,638	1,321,638
2018	1,230,000	110,717	1,340,717
2019 – 2023	4,040,000	115,819	4,155,819
2024 – 2028	1,620,000	6,580	1,626,580
	<u>\$ 11,320,000</u>	<u>\$ 993,441</u>	<u>\$ 12,313,441</u>

* Estimated interest is computed using rates in effect as of June 30, 2013.

8. Economic Development

In fiscal year 2013, the Authority awarded a grading grant in the amount of \$150,000 to a company in the Cyber Park pursuant to a performance grant agreement between the Authority and the company. The company agreed to create 25 additional jobs and will have to repay the Authority \$6,000 for each job not created by September 30, 2015.

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, 2014 is estimated to be \$11,450.

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 \$6,025,459 at June 30, 2013 and accumulated depreciation of \$1,010,358, is leased to the Institute for Advanced Learning & Research (IALR) for \$10 per year per square foot occupied. The lease was renewed at the same rent terms on June 1, 2013 for a one-year period and will automatically renew annually thereafter for successive one year periods. 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 2013, \$52,546 of rental income was received through this lease.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2013

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, 2013, the Authority had approximately \$3 million in outstanding engineering and consulting contracts, of which approximately \$1.9 million had not been expended.

On August 1, 2013, the Authority issued \$5,595,000 in revenue refunding bonds. These bonds were issued to satisfy the outstanding balance of the Series 2005 revenue bonds.

In September 2013, the Authority entered into contracts to purchase several properties surrounding the Cane Creek Centre. The Authority closed on one of the properties on October 31, 2013, purchasing 17 acres for approximately \$172,000.

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.

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

To the Board of Directors of
Danville-Pittsylvania Regional Industrial Facility Authority
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 Danville-Pittsylvania Regional Industrial Facility Authority (the "Authority"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 8, 2013.

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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

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 material weaknesses or, significant deficiencies. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.** However, material weaknesses may exist that have not been identified.

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*.**

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 entity'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

Roanoke, Virginia
November 8, 2013

DANVILLE-PITTSYLVANIA REGIONAL INDUSTRIAL FACILITY AUTHORITY

**SUMMARY OF COMPLIANCE MATTERS
Year Ended June 30, 2013**

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 laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws

Debt Provisions

Procurement Laws