

**DANVILLE-PITTSYLVANIA REGIONAL
INDUSTRIAL FACILITY AUTHORITY**

FINANCIAL REPORT

June 30, 2011

Danville-Pittsylvania Regional Industrial Facility Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2011 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 2010 financial statements on which, in our report dated December 27, 2010, 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, 2011, 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 December 9, 2011 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 the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
December 9, 2011

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Net Assets
June 30, 2011

	2011	(For Comparative Purposes Only) 2010
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,016,982	\$ 517,871
Due from other governments	282,441	254,814
Other receivables	3,500	385,208
Prepays	10,114	10,470
<i>Total current assets</i>	1,313,037	1,168,363
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	1,682,058	1,687,352
Due from City of Danville	37,824	-
Due from Pittsylvania County	-	220,847
Capital assets not being depreciated	24,962,930	25,958,734
Capital assets being depreciated, net	27,244,055	28,161,909
Construction in progress	1,930,750	1,023,794
Unamortized bond issuance costs	272,899	116,551
<i>Total noncurrent assets</i>	56,130,516	57,169,187
Total assets	57,443,553	58,337,550
Liabilities		
<i>Current liabilities</i>		
Accrued interest payable	967	2,122
Accounts payable - general	23,708	271,395
Accounts payable - construction	407,676	-
Retainage payable	12,232	-
Due to City of Danville	10,479,073	10,457,372
Security deposit	1,000	-
Unearned revenue	6,700	-
Bonds payable - current	285,000	275,000
<i>Total current liabilities</i>	11,216,356	11,005,889
<i>Noncurrent liabilities</i>		
Due to City of Danville	-	220,847
Due to Pittsylvania County	37,824	-
Bonds payable	5,895,000	6,180,000
<i>Total noncurrent liabilities</i>	5,932,824	6,400,847
Total liabilities	17,149,180	17,406,736
Net assets		
Invested in capital assets - net of related debt	39,160,720	39,919,417
Unrestricted	1,133,653	1,011,397
Total net assets	\$ 40,294,373	\$ 40,930,814

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, 2011

	2011	(For Comparative Purposes Only) 2010
Operating revenues		
Virginia Tobacco Commission grants	\$ 77,120	\$ 1,760,776
Other grants	780,321	85,655
Other income	174,703	260,074
Reimbursement of incentive grant	327,664	181,340
Total operating revenues	<u>1,359,808</u>	<u>2,287,845</u>
Operating expenses		
Depreciation and amortization	925,624	925,624
Economic development - Cyber Park	592,018	244,903
Economic development - Cane Creek Centre	640,862	-
Economic development - Berry Hill Mega Park	500,000	-
Other operating expenses	223,432	197,576
Total operating expenses	<u>2,881,936</u>	<u>1,368,103</u>
Operating income (loss)	<u>(1,522,128)</u>	<u>919,742</u>
Non-operating revenues (expenses)		
Interest income	3,493	7,919
Interest expense	(19,264)	(25,304)
Loss on disposal	(2,000)	-
Total non-operating expenses, net	<u>(17,771)</u>	<u>(17,385)</u>
Net income (loss) before capital contributions	<u>(1,539,899)</u>	<u>902,357</u>
Capital contributions		
Contribution - City of Danville	451,729	430,603
Contribution - Pittsylvania County	451,729	430,603
Total capital contributions	<u>903,458</u>	<u>861,206</u>
Change in net assets	<u>(636,441)</u>	<u>1,763,563</u>
Net assets at July 1, as restated	<u>40,930,814</u>	<u>39,167,251</u>
Net assets at June 30	<u>\$ 40,294,373</u>	<u>\$ 40,930,814</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Cash Flows
Year Ended June 30, 2011

	2011	(For Comparative Purposes Only) 2010
Operating activities		
Receipts from operating grants and activities	\$ 974,319	\$ 1,501,682
Payments to suppliers for goods and services	(875,307)	(82,264)
Other payments	196,765	(137,070)
Net cash provided by operating activities	<u>295,777</u>	<u>1,282,348</u>
Capital and related financing activities		
Purchase of capital assets	(76,760)	(2,531,100)
Advances from the City of Danville	-	1,872,896
Payments on advances from the City of Danville	-	(1,006,466)
Capital contributions	566,117	861,206
Interest paid on bonds	(19,810)	(25,593)
Principal repayments on bonds	(275,000)	(260,000)
Net cash provided by (used in) capital and related financing activities	<u>194,547</u>	<u>(1,089,057)</u>
Investing activities		
Interest received	3,493	7,919
Net cash provided by investing activities	<u>3,493</u>	<u>7,919</u>
Net increase in cash and cash equivalents	493,817	201,210
Cash and cash equivalents - beginning of year (including restricted cash)	<u>2,205,223</u>	<u>2,004,013</u>
Cash and cash equivalents - end of year (including restricted cash)	<u>\$ 2,699,040</u>	<u>\$ 2,205,223</u>
Reconciliation of operating income (loss) before capital contributions to net cash provided by operating activities:		
Operating income (loss)	\$ (1,522,128)	\$ 919,742
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	917,854	917,854
Amortization of bond issue costs	7,770	7,770
Non-cash economic incentive expenses	1,104,904	-
Non-cash economic incentive reimbursements	(327,664)	-
Non-cash operating in-kind expenses	591	-
Changes in assets and liabilities:		
Change in prepaids	356	(2,904)
Change in due from other governments	(27,627)	(254,814)
Change in other receivables	381,708	(385,188)
Change in accounts payable - general	(247,687)	165,543
Change in security deposit	1,000	-
Change in unearned revenue	6,700	(85,655)
Net cash provided by operating activities	<u>\$ 295,777</u>	<u>\$ 1,282,348</u>
Supplemental cash flow information		
non-cash transactions		
Capitalized interest	\$ 21,092	\$ 30,223
Capital asset additions financed by retainage payable	12,232	-
Capital asset additions financed by accounts payable	243,559	-
Capital asset additions financed by locality contribution	516,750	-
Accrual of bond issuance costs	164,117	-
	<u>\$ 957,750</u>	<u>\$ 30,223</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

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 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 personnel and 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.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

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.

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. At times the Authority’s cash balances may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes that no significant credit risk exists with respect to these balances.

Due From Other Governments

Due from other governments consists of the following at June 30, 2011:

Economic Development Administration	\$ 205,321
Virginia Tobacco Commission	<u>77,120</u>
	<u>\$ 282,441</u>

Other Receivables

Other receivables 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, and then unrestricted resources, as they are needed.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

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 period for which it is intended.

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 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 December 9, 2011, the date the financial statements were available to be issued.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

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).

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of the following at June 30, 2011:

Bond funds to be used on Cane Creek Centre	\$ 1,046,334
Restricted funds for Cane Creek Centre debt service	<u>635,724</u>
	<u>\$ 1,682,058</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, 2011.

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.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

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, 2011, the Authority reflects amounts due to Pittsylvania County of \$37,824 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 2012, but rather that the balance will be adjusted annually based on contributions made by both localities.

5. Capital Assets

Capital asset activity was as follows:

	June 30, 2010 Balance, as restated	Increase	Decrease	June 30, 2011 Balance
<i>Capital assets, not being depreciated:</i>				
Cyber Park - Land	\$ 6,265,998	\$ 147,664	\$ 482,780	\$ 5,930,882
Cane Creek Centre - Land	6,591,634	-	622,126	5,969,508
Mega Park - Land	13,101,102	-	38,562	13,062,540
<i>Total capital assets not being depreciated</i>	<u>25,958,734</u>	<u>147,664</u>	<u>1,143,468</u>	<u>24,962,930</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	-	-	4,464,958
Infrastructure	2,006,965	-	-	2,006,965
<i>Total capital assets being depreciated</i>	<u>32,356,797</u>	<u>-</u>	<u>-</u>	<u>32,356,797</u>
<i>Less accumulated depreciation for:</i>				
Buildings	3,757,981	756,544	-	4,514,525
Building Improvements	28,104	7,026	-	35,130
Land Improvements	288,386	114,145	-	402,531
Infrastructure	120,417	40,139	-	160,556
<i>Total accumulated depreciation</i>	<u>4,194,888</u>	<u>917,854</u>	<u>-</u>	<u>5,112,742</u>
<i>Total capital assets being depreciated, net</i>	<u>28,161,909</u>	<u>(917,854)</u>	<u>-</u>	<u>27,244,055</u>
<i>Total capital assets, net</i>	<u>\$ 54,120,643</u>	<u>\$ (770,190)</u>	<u>\$ 1,143,468</u>	<u>\$ 52,206,985</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

6. Construction in Progress

Construction in progress consisted of the following at June 30:

	June 30, 2010				June 30, 2011	
	Balance	Increase	Decrease		Balance	
Cane Creek Centre	\$ -	\$ 268,882	\$ -	\$ -	\$ 268,882	
Mega Park*	1,023,794	638,074	-	-	1,661,868	
	<u>\$ 1,023,794</u>	<u>\$ 906,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,930,750</u>	

* Current year additions include \$21,092 of capitalized interest.

7. Long-Term Debt

In August 2005, the Authority issued \$7,300,000 in revenue bonds. The bonds bear interest at a variable rate, which averaged 0.29% in fiscal year 2011. Annual payments are made with funds received from the City of Danville and Pittsylvania County. In July 2011 the Authority extended the letter of credit agreement that supports the 2005 revenue bonds. The new letter of credit will expire in August 2012 with an option to extend it until August 2013. 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.

The variable rates on the above bond issuance is set by remarketing agents to reflect the current yields of similar bonds in the marketplace. Future interest payments disclosed on the following page are calculated using the average rates for the current year.

Long-term debt activity for the year ended June 30, 2011 was as follows:

	Beginning			Ending		
	Balance	Decrease		Balance	Due	within 1yr.
2005 revenue bonds	\$ 6,455,000	\$ 275,000	\$ -	\$ 6,180,000	\$ -	285,000

In fiscal years 2009 and 2010, the City of Danville advanced funding to the Authority to acquire land for the Mega Park. The total advanced to the Authority for this purpose, including accrued interest, is \$10,479,073, as of June 30, 2011. The outstanding portion of the advances from the City is shown as a current liability. As disclosed in Note 11, the Authority issued long-term bonds subsequent to year-end to repay the City's advances.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

Debt Maturity Schedule
\$7,300,000 Series 2005
Cane Creek Project Revenue Bonds

Year ending June 30,	Principal	Estimated Interest	Total
2012	\$ 285,000	\$ 185,400	\$ 470,400
2013	300,000	176,850	476,850
2014	315,000	167,850	482,850
2015	330,000	158,400	488,400
2016	350,000	148,500	498,500
2017 – 2021	2,025,000	574,500	2,599,500
2022 – 2026	2,575,000	239,250	2,814,250
	\$ 6,180,000	\$ 1,650,750	\$ 7,830,750

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 will repay the City, including interest, once permanent financing is obtained for the project.

In April 2005, the Authority entered into an agreement with an entity to provide funding and land to the Company if it met specific capital investment and jobs requirements within 60 months of the agreement. In August 2009, it became clear that the Company would be unable to fulfill the jobs requirements as specified. As a result, a new agreement was entered into with the Company providing it with an altered jobs requirement and time-frame for meeting those requirements. Part of this renegotiated agreement included the return of a portion of funding to the Authority. The funds to be returned total \$181,340 and consist of local funding originally provided by the City of Danville and Pittsylvania County. The Company made the first payment on this balance in November 2009 and the remaining amount was paid in November 2010. These funds were recognized as operating revenue in 2010.

In fiscal year 2011, the Authority transferred 59.118 acres in the Cane Creek Centre to United States Green Energy Corporation (USGE) for construction of its manufacturing facility. The cost of the land is \$622,126 and is linked to a performance agreement between USGE, the Authority, the City of Danville, and Pittsylvania County.

In fiscal year 2011, the Authority, the City of Danville, and Pittsylvania County entered into both a release and settlement agreement with Donnachaidh Associates, LLC. Donnachaidh was released from its obligations under a 2008 agreement and it was settled that Donnachaidh would return the entirety of the land transferred to it by the Authority (5.092 acres located in the Cyber Park) and certain incentives that the Authority, the City of Danville, and Pittsylvania County transferred to the company in fiscal year 2009. The cost of the land to the Authority was \$147,664 and was intended to be used for construction of a 66,000 square foot Class A office space. Incentives of \$285,000 were also transferred to Donnachaidh. The company returned the land and repaid the incentives in accordance with the settlement agreement in fiscal year 2011.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

In fiscal year 2011, the Authority transferred 16.648 acres in the Cyber Park to Electronic Instrumentation Technology, LLC (EIT) for construction of a new 60,000 square foot facility. The cost of the land is \$482,778 and is linked to a performance agreement between EIT, the Authority, the City of Danville, and Pittsylvania County.

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, 2012 will be \$18,550.

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 \$6,377,338 at June 30, 2011 and accumulated depreciation of \$658,473, 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 2011, \$164,995 of rental income was received through this lease with \$33,909 returned to IALR through an incentive agreement to refund rents for the first twenty-four months of the lease.

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, 2011, the Authority had approximately \$2.5 million in outstanding engineering and consulting contracts, of which \$1.5 million had not been expended.

On December 1, 2011, the Authority issued \$11,250,000 in revenue bonds for the Berryhill Project.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2011

12. Litigation

At June 30, 2011, the Authority was affected by litigation naming one of its member localities as a defendant. The litigation stems from that locality's actions and involvement with the Authority. As a result of this litigation, the Authority has been unable to issue long-term debt as financial institutions are not willing to loan until the litigation is resolved. Both member localities must be able to provide funding to cover any debt service requirements of the Authority. In September 2011, the Authority was notified that all appeals by the plaintiffs have been exhausted and the litigation is considered resolved, making the issuance of debt subsequent to year-end possible as disclosed in Note 11.

13. 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.

14. Restatement of Net Assets

The following is a summary of the restatement of the Authority's net assets effective June 30, 2010.

Net assets June 30, 2010, as previously stated	\$ 40,368,149
Restatement to:	
Correct overstatement of incentive expense and understatement of capital assets	<u>562,665</u>
Net assets June 30, 2010, as restated	<u><u>\$ 40,930,814</u></u>

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**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
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, 2011 and have issued our report thereon dated December 9, 2011. 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

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. **However, as described in the accompanying Schedule of Findings and Responses in Item 07-2, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting.** *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 December 9, 2011.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. 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

Lynchburg, Virginia
December 9, 2011

DANVILLE-PITTSYLVANIA REGIONAL INDUSTRIAL FACILITY AUTHORITY

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011**

07-2: Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the separation of duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. A lack of segregation of duties exists in functions related to signed checks to be mailed being returned to the individual responsible for check preparation and general ledger functions related to the preparation of bank reconciliations. Fully eliminating these control deficiencies may not be possible without additional personnel.

Recommendation:

Steps should be taken to eliminate the performance of conflicting duties where possible.

Management's Response:

Management will review this suggestion and consider possible remedies within existing personnel constraints.