

**DANVILLE-PITTSYLVANIA REGIONAL
INDUSTRIAL FACILITY AUTHORITY**

FINANCIAL REPORT

June 30, 2017

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Danville-Pittsylvania Regional Industrial Facility Authority (the "Authority"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Authority's 2016 financial statements, on which, in our report dated November 17, 2016, we expressed an unmodified opinion. The 2016 financial information is provided for comparative purposes only.

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 missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 16, 2017

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Net Position
June 30, 2017

	2017	(For Comparative Purposes Only) 2016
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,290,474	\$ 2,115,547
Other receivables	1,376,619	-
Prepays	230	2,370
<i>Total current assets</i>	2,667,323	2,117,917
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents	2,443,001	3,179,668
Due from City of Danville	208,947	222,965
Capital assets not being depreciated	24,781,371	25,071,362
Capital assets being depreciated, net	23,796,253	24,561,601
Construction in progress	7,330,582	4,367,908
<i>Total noncurrent assets</i>	58,560,154	57,403,504
Total assets	61,227,477	59,521,421
Liabilities		
<i>Current liabilities</i>		
Accounts payable - general	120,221	129,299
Accounts payable - construction	776,764	-
Accrued interest payable	46,552	58,473
Retainage payable	104,519	-
Unearned revenue	304,642	3,275
Bonds payable - current	1,228,450	2,073,450
<i>Total current liabilities</i>	2,581,148	2,264,497
<i>Noncurrent liabilities</i>		
Due to Pittsylvania County	208,947	222,965
Bonds payable	4,758,190	5,986,640
<i>Total noncurrent liabilities</i>	4,967,137	6,209,605
Total liabilities	7,548,285	8,474,102
Net position		
Net investment in capital assets	50,124,197	46,196,617
Restricted - debt reserves	2,240,371	2,923,832
Unrestricted	1,314,624	1,926,870
Total net position	\$ 53,679,192	\$ 51,047,319

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2017

	2017	(For Comparative Purposes Only) 2016
Operating revenues		
Virginia Tobacco Commission grants	\$ 2,378,009	\$ -
Other income	249,826	233,607
Reimbursement of incentive grant	114,599	76,834
Total operating revenues	<u>2,742,434</u>	<u>310,441</u>
Operating expenses		
Depreciation and amortization	809,045	808,129
Economic development - Cyber Park	295,491	-
Economic development - Cane Creek Centre	157	5,030
Economic development - Mega Park	11,741	20,860
Other operating expenses	437,026	403,058
Total operating expenses	<u>1,553,460</u>	<u>1,237,077</u>
Operating income (loss)	<u>1,188,974</u>	<u>(926,636)</u>
Non-operating revenues (expenses)		
Bond issuance costs	(45,521)	-
Interest income	15,354	5,540
Interest expense	(79,986)	(88,337)
Total non-operating expenses	<u>(110,153)</u>	<u>(82,797)</u>
Net income (loss) before capital contributions	<u>1,078,821</u>	<u>(1,009,433)</u>
Capital contributions		
Contribution - City of Danville	776,526	749,833
Contribution - Pittsylvania County	776,526	749,833
Total capital contributions	<u>1,553,052</u>	<u>1,499,666</u>
Change in net position	2,631,873	490,233
Net position at July 1	<u>51,047,319</u>	<u>50,557,086</u>
Net position at June 30	<u>\$ 53,679,192</u>	<u>\$ 51,047,319</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Cash Flows
Year Ended June 30, 2017

	<u>2017</u>	<u>(For Comparative Purposes Only) 2016</u>
Operating activities		
Receipts from operating grants and activities	\$ 1,114,189	\$ 72,259
Payments to suppliers for goods and services	(24,336)	68,612
Other payments	(159,163)	(151,558)
Net cash provided by (used in) operating activities	<u>930,690</u>	<u>(10,687)</u>
Capital and related financing activities		
Purchase of capital assets	(1,997,239)	(156,274)
Capital contributions	1,828,183	1,481,773
Interest paid on bonds	(218,207)	(257,157)
Bond issuance costs paid	(45,521)	-
Principal repayments on bonds	(2,075,000)	(1,130,000)
Net cash provided by (used in) capital and related financing activities	<u>(2,507,784)</u>	<u>(61,658)</u>
Investing activities		
Interest received	15,354	5,540
Net cash provided by (used in) investing activities	<u>15,354</u>	<u>5,540</u>
Net increase (decrease) in cash and cash equivalents	(1,561,740)	(66,805)
Cash and cash equivalents - beginning of year	<u>5,295,215</u>	<u>5,362,020</u>
Cash and cash equivalents - end of year	<u>\$ 3,733,475</u>	<u>\$ 5,295,215</u>
Reconciliation to Statement of Net Position		
Cash and cash equivalents	\$ 1,290,474	\$ 2,115,547
Restricted cash and cash equivalents	2,443,001	3,179,668
	<u>\$ 3,733,475</u>	<u>\$ 5,295,215</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Statement of Cash Flows
Year Ended June 30, 2017

	<u>2017</u>	<u>(For Comparative Purposes Only) 2016</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 1,188,974	\$ (926,636)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	809,045	808,129
Non-cash economic incentive expense	289,991	
Operating in-kind expenses	28,036	17,893
Changes in assets and liabilities:		
Change in prepaids	2,140	67
Change in other receivables	(1,376,618)	-
Change in accounts payable - general	(9,078)	94,435
Change in unearned revenue	(1,800)	(4,575)
Net cash provided by (used in) operating activities	<u>\$ 930,690</u>	<u>\$ (10,687)</u>
Supplemental cash flow information		
Capitalized interest	<u>\$ 127,850</u>	<u>\$ 160,406</u>
Capital asset additions financed by retainage payable	<u>\$ 104,519</u>	<u>\$ -</u>
Capital asset additions financed by accounts payable	<u>\$ 776,764</u>	<u>\$ -</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2017

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 (the 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.

The Authority distinguishes operating revenues and expenses from non-operating 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. Non-operating 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.

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.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (Continued)

Due From Other Governments

Due from other governments generally consists of grant reimbursements receivable from the Virginia Tobacco Commission or other grantor agencies. There was \$1,376,619 due from the Virginia Tobacco Commission at June 30, 2017.

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 and contributions received in advance.

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. Restricted net position consists of reserves the Authority is required to maintain under its bond agreements.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (Continued)

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.

Income Taxes

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

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, except for the funds restricted for the Berry Hill Industrial Park debt service. These funds are held in a money market security which is subject to credit risk, although management believes such risk is low.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of the following at June 30, 2017:

Bond funds to be used for improvements to Cane Creek Centre	\$ 234,122
Restricted funds for Cane Creek Centre debt service	202,631
Restricted funds for Berry Hill Industrial Park debt service	2,006,248
	<u>\$ 2,443,001</u>

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, 2017, the Authority held no investments.

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2017

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, 2017, the Authority reflects amounts due to Pittsylvania County of \$208,947 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 2018, but rather that the balance will be adjusted annually based on contributions made by both localities.

5. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	June 30, 2016 Balance	Increases	Decreases	June 30, 2017 Balance
<i>Capital assets not being depreciated:</i>				
Cyber Park - Land	\$ 5,904,783	\$ -	\$ 289,991	\$ 5,614,792
Cane Creek Centre - Land	6,104,039	-	-	6,104,039
Industrial Park - Land	13,062,540	-	-	13,062,540
<i>Total capital assets not being depreciated</i>	<u>25,071,362</u>	<u>-</u>	<u>289,991</u>	<u>24,781,371</u>
<i>Capital assets being depreciated:</i>				
Buildings	25,617,874	-	-	25,617,874
Building Improvements	267,000	43,697	-	310,697
Land Improvements	6,265,238	-	-	6,265,238
Infrastructure	2,006,965	-	-	2,006,965
<i>Total capital assets being depreciated</i>	<u>34,157,077</u>	<u>43,697</u>	<u>-</u>	<u>34,200,774</u>
<i>Less accumulated depreciation for:</i>				
Buildings	7,987,781	601,812	-	8,589,593
Building Improvements	70,260	7,942	-	78,202
Land Improvements	1,176,184	159,152	-	1,335,336
Infrastructure	361,251	40,139	-	401,390
<i>Total accumulated depreciation</i>	<u>9,595,476</u>	<u>809,045</u>	<u>-</u>	<u>10,404,521</u>
<i>Total capital assets being depreciated, net</i>	<u>24,561,601</u>	<u>(765,348)</u>	<u>-</u>	<u>23,796,253</u>
<i>Total capital assets, net</i>	<u>\$ 49,632,963</u>	<u>\$ (765,348)</u>	<u>\$ (289,991)</u>	<u>\$ 48,577,624</u>

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2017

6. Construction in Progress

Construction in progress consisted of the following at June 30:

	June 30, 2016 Balance	Increases	Decreases	June 30, 2017 Balance
Industrial Park*	\$ 4,367,908	\$ 2,962,674	\$ -	\$ 7,330,582

* Current year additions include capitalized interest of \$127,850. The construction in progress total for this project includes an accumulated total of \$1,216,238 capitalized interest at June 30, 2017.

7. Long-Term Debt

The following schedule represents all bonds payable:

Description	Original Issue	Annual Amount	Interest Rate	Maturity	Outstanding June 30, 2017
2016 Revenue Refunding bonds	\$ 3,700,000	\$ 385,000 – 3,700,000	2.27%	8/1/2016	\$ 3,335,000
2011 Revenue bonds	11,250,000	\$ 780,000 – 5,525,000	2.50 – 4.75%	9/1/2019	2,655,000
	\$ 14,950,000				\$ 5,990,000

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 are made with funds received from the City of Danville and Pittsylvania County.

On August 1, 2016, the Authority issued \$3,700,000 in revenue refunding bonds after applying \$900,000 of the Cane Creek debt service reserve funds to the outstanding balance. These bonds were issued to satisfy the outstanding balance of the Series 2013 revenue bonds.

Long-term debt activity for the year ended June 30, 2017 was as follows:

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Revenue bonds	\$ 8,065,000	\$ -	\$ 2,075,000	\$ 5,990,000	\$ 1,230,000
Original issue discount	(4,910)	-	(1,550)	(3,360)	(1,550)
	\$ 8,060,090	\$ -	\$ 2,073,450	\$ 5,986,640	\$ 1,228,450

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2017

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	Interest	Total
2018	\$ 1,230,000	\$ 173,582	\$ 1,416,218
2019	1,290,000	126,218	3,496,944
2020	3,470,000	26,944	6,316,744
	<u>\$ 5,990,000</u>	<u>\$ 326,744</u>	<u>\$ 11,229,906</u>

8. Economic Development

In fiscal year 2017, the Authority approved an agreement where a company located in the Cane Creek Centre repaid to the Authority \$114,599 of incentives received for failure to meet certain requirements of the performance agreement.

In fiscal year 2017, the Authority transferred 10 acres in the Cyber Park to the Industrial Development Authority of the City of Danville, VA (IDA) for construction of Kyocera SGS Tec Hub LLC. The Authority's cost of the land was \$289,991 and the land is to be used in accordance with a performance agreement between the IDA, Kyocera SGS Tech Hub, LLC, the City of Danville, Virginia and the Authority.

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, 2018 is estimated to be \$3,275.

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 \$1,027,947) 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 \$5,321,681 at June 30, 2017 and accumulated depreciation of \$1,714,129, 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 costs are the responsibility of the lessee. Maintenance costs are the responsibility of the Authority; however, the lessee is engaged to provide for the maintenance

Danville-Pittsylvania Regional Industrial Facility Authority
Notes to Financial Statements
June 30, 2017

obligations and is compensated for these services in an amount equal to the rent paid by the lessee. For fiscal year 2017, \$244,626 of rental income was received through this lease.

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, as long as all related grant requirements have been satisfied.

11. Commitments and Contingencies

At June 30, 2017, the Authority had approximately \$6.65 million in outstanding engineering and consulting contracts, of which approximately \$2,684,474 had not been expended.

On June 12, 2017, the Authority entered into a purchase and sale agreement with Enviva Development Holdings, LLC to sell a certain parcel of land located in the Berry Hill Industrial Park consisting of approximately 168.78 acres off Berry Hill Road for \$30,000 per acre and \$10 per acre for non-buildable acreage. Enviva Development Holdings, LLC may terminate this agreement before June 12, 2018 or, if an extension is requested and granted, for up to 2 years from the original agreement date.

12. Subsequent Events

On September 7, 2017, the Authority entered into a local performance agreement with a North Carolina limited liability company that would locate in the Authority's Cane Creek Centre Industrial Park. Under the agreement, the Authority would provide an Industrial Enhancement Grant in the amount of \$700,000 once the business completes installation of certain equipment of at least that amount in the Facility. The Authority would also apply for and disburse State grants, a State loan and private grant; and would reimburse the business up to \$36,000 in qualified residential housing expenses incurred in Pittsylvania County and/or Danville, Virginia. The terms of the agreement have not been finalized.

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 constructed 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.

* * * * *

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, 2017, 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 16, 2017.

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 opinions 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
November 16, 2017

DANVILLE-PITTSYLVANIA REGIONAL INDUSTRIAL FACILITY AUTHORITY

**SUMMARY OF COMPLIANCE MATTERS
Year Ended June 30, 2017**

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

Uniform Disposition of Unclaimed Property Act

Conflicts of Interest