

**CITY OF VIRGINIA BEACH**

**DEVELOPMENT AUTHORITY**

**Component Unit of the City of Virginia Beach, Virginia**

**Financial Statements**

**June 30, 2008 and 2007**

**(With Independent Auditors' Report Thereon)**

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

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**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia  
Commissioners

Donald V. Jellig	Chair
Page G. Lea	Vice Chair
Teresa H. Carrington	Secretary
Douglas D. Ellis	Assistant Secretary
Elizabeth A. Twohy	Treasurer
C. Maxwell Bartholomew, Jr.	Commissioner
Dan H. Brockwell	Commissioner
Paul V. Michels	Commissioner
Jerrold L. Miller	Commissioner
John W. Richardson	Commissioner
Prescott Sherrod	Commissioner



September 16, 2008

Virginia Beach Development  
Authority Commissioners

Commissioners, Virginia Beach Development Authority  
222 Central Park Avenue, Suite 1000  
Virginia Beach, VA 23462

Donald V. Jellig  
*Chair*

Page G. Lea  
*Vice Chair*

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Jerrold L. Miller  
*Commissioner*

Dan H. Brockwell  
*Commissioner*

John W. Richardson  
*Commissioner*

Prescott Sherrod  
*Commissioner*

Dear Commissioners:

The Annual Financial Report of the City of Virginia Beach Development Authority for the fiscal years ended June 30, 2008 and 2007 is hereby submitted. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the Authority's operations. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The Annual Financial Report is presented in three parts: management's discussion and analysis, the basic financial statements and the notes to the financial statements, and other supplemental information. The Authority's financial statements present two types of statements, each with a different perspective of the Authority's financial position. The focus is on both the Authority as a whole (entity-wide) as well as on the individual funds. The entity-wide financial statements provide both long-term and short-term information about the Authority's overall financial status. The fund financial statements focus on the individual parts of the Authority, reporting the Authority's operations in more detail than the entity-wide statements. Both perspectives (entity-wide and fund) allow the user to address relevant questions, broaden the basis for comparison (year to year or entity to entity) and enhance the Authority's accountability.

In fiscal year 2008, the Authority continued construction on the Town Center of Virginia Beach, locating new business, retaining and expanding existing industry, leveraging the City's Economic Development Investment Program Fund (EDIP), and working with City Council on the development of projects and initiatives.

During fiscal year 2008, the Authority assisted in the location of 29 new companies and six new development projects, and the expansion and retention of 37 existing businesses, creating new capital investment of \$240.5 million. These companies and businesses created and retained 2,750 employment opportunities in Virginia Beach. The Authority provided EDIP assistance in the amount of \$263,000 during the fiscal year.

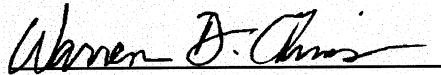
The Authority's primary business parks had considerable activity in fiscal year 2008. Within these major business/industrial parks, 12 new and 16 existing Virginia Beach companies expanded or retained their operations.

Development in the highly successful Town Center of Virginia Beach continued in Phase III, the majority of which was completed during this fiscal year and included a 37-story, 236-room, 4-Star Westin Hotel. The Westin is Virginia's tallest building, and contains 25,000 sq. ft. of conference facilities and 119 luxury condominiums, 36,500 sq. ft. of high-end retail space, and a structured parking garage with 947 parking spaces. Phase III also included the construction of the 84,000 sq. ft., 1,200-seat Sandler Center for the Performing Arts, Studio 56 Lofts, McCormick & Schmick's Seafood Restaurant, and Two Columbus Center, a six-story, 108,000 sq. ft. commercial building with Class A office space and retail spaces to be completed in the Fall of 2008.

The Authority approved the Town Center Phase IV non-binding term sheet in March of 2008, and this development is currently being evaluated by the Authority, City, and developer.

The Authority is focusing on the following strategic areas: (1) Target Industries; (2) Strategic Growth Areas (Land); (3) Finance/Incentives; (4) Marketing; and (5) City Council.

Respectively,



Warren D. Harris  
Director, Virginia Beach Economic Development



Mark Wawner  
Project Manager, Virginia Beach Economic Development



## Independent Auditors' Report

The Commissioners  
City of Virginia Beach Development Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Virginia Beach Development Authority (the "Authority"), a component unit of the City of Virginia Beach, Virginia, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years 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 September 5, 2008 on our consideration of the Authority's internal control over financial reporting and 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.

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and information listed as supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section of this report has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

*Cherry, Bekant & Holland, L.L.P.*

Virginia Beach, Virginia  
September 5, 2008

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Management's Discussion and Analysis

This section of the City of Virginia Beach Development Authority's (the Authority) annual financial report represents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the Authority's financial statements and accompanying notes.

### FINANCIAL HIGHLIGHTS

- The Authority's governmental net assets increased by \$1.68 million in fiscal year 2008 and \$0.33 million in fiscal year 2007. The increases in net assets in fiscal years 2008 and 2007 were mainly due to the increase in construction in progress and the absence of large asset transfers that occurred during prior fiscal years.
- The Authority's business-type net assets decreased by \$0.62 million in fiscal year 2008 and increased by \$4.57 million in fiscal year 2007. In fiscal year 2008, the decrease was due to the sale of the Block 12 retail space in Town Center. In fiscal year 2007, the increase in net assets was due to the purchase the Tournament Players Club Golf Course, which is now called Virginia Beach National Golf Course. The purchase of the golf course was funded through a capital contribution from the City.
- The Authority provided economic development services, as requested by the Virginia Beach City Council, for the Dome Site, Headquarters Hotel, the Pedestrian Bridge across Virginia Beach Boulevard, and the Town Center Project that are accounted for in the Authority's Governmental Fund. When projects or phases of projects are complete, the associated costs are capitalized and transferred out of the Governmental Fund and into the Authority's Proprietary Fund or to the City. During fiscal year 2007, \$0.03 million of Town Center infrastructure expenses pertaining to Phase I and II of the Town Center Project were removed from the Governmental Fund. In fiscal year 2008, Tournament Players Club forfeited their security deposit in the amount of \$0.15 million, and the funding was transferred to the Authority's Proprietary Fund.
- During fiscal year 2008, the City transferred approximately 10.35 acres of land in Princess Anne Commons to the Authority. The transfer occurred in order for the Authority to sell 7 acres of the land to Seven Cities for the development of a sports rehabilitation facility. Seven Cities also holds an option on the remaining 3.35 acres for three years following the closing of the initial 7-acre parcel. Proceeds from the sale will be remitted to the City.
- In fiscal year 2008, the Authority purchased the Block 7 Parking Garage, the Pedestrian Bridge between Block 12 and Block 7, and the Block 7 Conference Center. The Authority used proceeds from the 2007 Public Facility Revenue Bonds, proceeds from the sale of the Block 12 retail space, and parking reliance certificate income from the Studio 56 Lofts to purchase these assets.
- On June 6, 2008, Town Center Associates 12, LLC purchased the Block 12 retail space in Town Center for \$1.82 million. The sales price of the property was equal to the Authority's purchase price on January 25, 2005 plus the cost to carry.



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

- In fiscal year 2007, the Authority acted as the conduit issuer for \$96.84 million in Series 2007A Public Facility Revenue Bonds and \$4.03 million in Series 2007B Public Facility Revenue Bonds, at the request of the City of Virginia Beach. The portion attributable to the Authority, \$26.47 million, was used to finance part of the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge connecting Block 12 and Block 7 in Town Center.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplemental information.

The Authority's financial statements present two types of statements, each with a different snapshot of the Authority's finances. This focus is on both the Authority as a whole (entity-wide) as well as on the individual funds. The entity-wide financial statements provide both long-term and short-term information about the Authority's overall financial status. The fund financial statements focus on the individual parts of the Authority, reporting the Authority's operations in more detail than the entity-wide statements. Both perspectives (entity-wide and fund) allow the user to address relevant questions, broaden the basis for comparison (year to year or entity to entity) and enhance the Authority's accountability.

## ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is to report the entity's net assets and how they have changed. Net assets – the difference between assets and liabilities – is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in an entity's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The Statement of Activities is focused on both the gross and net cost of various functions (governmental and business-type), which are supported by program revenues. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. This statement summarizes and simplifies the user's analysis of the cost of governmental activities and/or subsidy to business-type activities.

In the Statement of Net Assets and the Statement of Activities, the Authority is divided into the following:

Governmental activities – The Authority's special projects are reported here. These activities consist of various economic development projects as requested by the Council of the City of Virginia Beach.

Business-type activities – The Authority's basic operations are reported here as the Authority charges a fee to customers to help cover the cost of certain services it provides.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Management's Discussion and Analysis

### FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Authority's significant funds – not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

The Authority has two types of funds:

Governmental Fund – The Special Projects Fund is used to account for the financial resources for the acquisition or construction of ongoing construction projects conducted on behalf of the City of Virginia Beach (the City).

Proprietary Fund – The Authority Operations Fund accounts for the activities of the Authority which charges fees for Industrial Revenue Bonds, acquires, develops and resells land, and administers the Economic Development Investment Program (EDIP).

### FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

#### Net Assets:

The following table reflects the condensed Net Assets of the Authority:

**Table 1**  
**Net Assets**  
**as of June 30, 2008, 2007, and 2006**  
**(in millions)**

	Governmental Activities			Business-type Activities			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Current and other assets	\$ 0.60	0.81	0.89	30.83	54.13	25.46	31.43	54.94	26.35
Capital assets	2.12	0.39	0.06	108.91	85.86	83.79	111.03	86.25	83.85
Total assets	2.72	1.20	0.95	139.74	139.99	109.25	142.46	141.19	110.20
Current and other liabilities	0.60	0.76	0.84	9.78	9.06	7.51	10.38	9.82	8.35
Long-term liabilities	-	-	-	101.95	102.30	77.68	101.95	102.30	77.68
Total liabilities	0.60	0.76	0.84	111.73	111.36	85.19	112.33	112.12	86.03
Net assets:									
Invested in capital assets, net of related debt	2.12	0.39	0.06	8.23	9.52	5.71	10.35	9.91	5.77
Restricted - other purposes	-	-	-	3.97	3.63	3.69	3.97	3.63	3.69
Unrestricted	-	0.05	0.05	15.81	15.48	14.66	15.81	15.53	14.71
Total net assets	\$ 2.12	0.44	0.11	28.01	28.63	24.06	30.13	29.07	24.17

At June 30, 2008 and 2007, the total assets of the Authority were \$142.46 and \$141.19 million, respectively; total liabilities were \$112.33 and \$112.12 million, respectively, while combined net assets were \$30.13 and \$29.07 million, respectively.

## **CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

### Management's Discussion and Analysis

In fiscal year 2008, the Authority's business-type activities assets in the form of receivables decreased by \$26.71 million. The decrease was due to the Authority's use of 2007 Public Facility Revenue Bond proceeds to purchase the Block 7 Parking Garage, the Pedestrian Bridge between Block 12 and Block 7, and the Block 7 Conference Center.

In fiscal year 2007, the Authority's business-type activities assets in the form of receivables increased by \$26.90 million primarily due to the sale of Public Facility Revenue Bonds. The Authority's portion of the 2007 Public Facility Revenue Bonds was \$26.47 million, and the Authority's portion of the 2005 Public Facility Revenue Bonds increased by \$4.31 million to \$8.40 million. In addition, capital assets and land increased due to the purchase of the Tournament Players Club Golf Course in the amount of \$4.54 million. The sale of Public Facility Revenue Bonds increased current and noncurrent liabilities as well.

In fiscal year 2008, business-type net assets decreased due to the sale of the Block 12 retail space and increased in fiscal year 2007 primarily due to a contribution from the City of Virginia Beach to purchase the Tournament Players Club Golf Course.

The Authority incurred capital expenses in the amount of \$1.73 million in fiscal year 2008 and \$0.36 million in fiscal year 2007 as a result of costs associated with ongoing projects. In fiscal year 2008, the proceeds from TPC's forfeited security deposit in the amount of \$0.15 million were transferred to the Authority's Proprietary Fund, and during fiscal year 2007, capital assets in the amount of \$0.03 million were transferred to the City. These transfers resulted in an ending construction in progress balance of \$2.12 million and \$0.39 million, respectively, in fiscal year 2008 and 2007.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

**Changes in Net Assets:**

The following chart shows the revenue and expenses for the current and prior fiscal years:

**Table 2**  
**Changes in Net Assets**  
**Years Ended June 30, 2008, 2007, and 2006**  
(in millions)

	Governmental Activities			Business-type Activities			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
<b>Revenue</b>									
<b>Program Revenue:</b>									
Charges for services	\$ -	-	-	2.74	3.02	3.75	2.74	3.02	3.75
Operating grants and contributions	-	-	-	7.82	5.66	4.42	7.82	5.66	4.42
Capital grants and contributions	1.73	0.36	0.86	1.16	4.59	0.05	2.89	4.95	0.91
<b>General Revenue:</b>									
Other	0.10	-	-	0.31	0.37	0.23	0.41	0.37	0.23
<b>Special Items:</b>									
Transfer of assets	-	-	-	0.15	-	0.10	0.15	-	0.10
Donation of Town Center sculpture	-	-	-	0.23	-	-	0.23	-	-
Gain on sale of asset	-	-	-	0.39	-	-	0.39	-	-
Contribution from Primary Government	-	-	-	0.44	-	-	0.44	-	-
<b>Total revenues</b>	<b>1.83</b>	<b>0.36</b>	<b>0.86</b>	<b>13.24</b>	<b>13.64</b>	<b>8.55</b>	<b>15.07</b>	<b>14.00</b>	<b>9.41</b>
<b>Expenses</b>									
<b>Authority Operations</b>	-	-	-	11.54	9.07	7.98	11.54	9.07	7.98
<b>Special Items:</b>									
Transfer to City	-	0.03	0.72	2.32	-	-	2.32	0.03	0.72
Transfer of assets to Proprietary Fund	0.15	-	0.10	-	-	-	0.15	-	0.10
<b>Total expenses</b>	<b>0.15</b>	<b>0.03</b>	<b>0.82</b>	<b>13.86</b>	<b>9.07</b>	<b>7.98</b>	<b>14.01</b>	<b>9.10</b>	<b>8.80</b>
<b>Change in net assets</b>	<b>1.68</b>	<b>0.33</b>	<b>0.04</b>	<b>(0.62)</b>	<b>4.57</b>	<b>0.57</b>	<b>1.06</b>	<b>4.90</b>	<b>0.61</b>
Net Assets - Beginning of Year	0.44	0.11	0.07	28.63	24.06	23.49	29.07	24.17	23.56
<b>Net Assets - End of Year</b>	<b>\$ 2.12</b>	<b>0.44</b>	<b>0.11</b>	<b>28.01</b>	<b>28.63</b>	<b>24.06</b>	<b>30.13</b>	<b>29.07</b>	<b>24.17</b>

**REVENUES**

Revenues attributable to governmental activities were in the form of contributions, for economic development projects, from the City of Virginia Beach, option deposit revenue, and investment earnings. For the fiscal years ended June 30, 2008 and 2007, revenues from business-type activities totaled \$13.24 and \$13.64 million, respectively. This included revenue derived from land and asset sales, industrial revenue bond fees, lease income, investment earnings, transfers, and support agreement funding from the City of Virginia Beach.

**EXPENSES**

For the fiscal year ended June 30, 2008, a forfeited security deposit in the amount of \$0.15 million was transferred from the Authority's Governmental Fund to the Authority's Proprietary Fund. For the fiscal year ended June 30, 2007, expenses totaling \$0.03 million, respectively, were transferred to the City of Virginia Beach. These capitalized development expenses were related to Town Center infrastructure.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

The expenses of the business-type activities included cost of land sold, depreciation/amortization, selling and administrative expenses, and interest on outstanding debt obligations. For the fiscal years ended June 30, 2008 and 2007, these expenses totaled \$11.54 and \$9.07 million, respectively.

**FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS**

The Authority's governmental fund balance was eliminated in fiscal year 2008 and was \$0.05 million at June 30, 2007, respectively. The June 30, 2008 decrease in fund balance of \$0.05 million is the result of the transfer of a forfeited security deposit to the Authority's Proprietary Fund. The fiscal year 2007 increase in fund balance of \$4,758, respectively, is primarily the result of interest income associated with a security deposit held on the Tournament Players Club Golf Course. The activities reflect support from the City of Virginia Beach as well as expenditures on Town Center infrastructure, the Headquarters Hotel, the Pedestrian Bridge across Virginia Beach Boulevard, and the Dome Site Project totaling \$1.73 million and \$0.36 million in fiscal year 2008 and 2007.

The proprietary fund includes total net assets of \$28.01 million and \$28.63 million at June 30, 2008 and 2007, respectively. The June 30, 2008 decrease is primarily attributable to the sale of the Block 12 retail space in Town Center. The disposal of this property more than offsets the transfers from the City and the donation of the Town Center Plaza sculpture. The June 30, 2007 increase in net assets is primarily attributable to the contribution from the City of Virginia Beach to purchase the Tournament Players Club Golf Course's land and assets. In fiscal year 2008 and 2007, operating revenues from land sales, industrial revenue bond fees, lease income, reliance certificates, and miscellaneous revenue totaled \$3.24 and \$3.02 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$5.32 and \$5.41 million, respectively.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

As of June 30, 2008 and 2007, the Authority had invested \$111.03 million and \$86.25 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3. In fiscal year 2008, this represents a net increase of \$24.78 million, while fiscal year 2007 reflects a net increase of \$2.40 million.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

**Table 3**  
**Capital Assets**  
**as of June 30, 2008, 2007, and 2006**  
**(in millions)**

	<u>Governmental Activities</u>			<u>Business-type Activities</u>			<u>Total</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Non-depreciable assets: \$	-	-	-	18.32	16.91	14.84	18.32	16.91	14.84
Land		-	-	0.42	0.82	0.70	0.42	0.82	0.70
Other assets and capitalized costs	2.12	0.39	0.06	-	-	-	2.12	0.39	0.06
Construction in progress									
Other capital assets:									
Buildings/equipment	-	-	-	99.74	75.31	73.37	99.74	75.31	73.37
Accumulated depreciation on other capital assets	-	-	-	(9.57)	(7.18)	(5.12)	(9.57)	(7.18)	(5.12)
<b>Total net capital assets \$</b>	<u>2.12</u>	<u>0.39</u>	<u>0.06</u>	<u>108.91</u>	<u>85.86</u>	<u>83.79</u>	<u>111.03</u>	<u>86.25</u>	<u>83.85</u>

Major capital asset additions in fiscal year 2008 included:

- Town Center Project – Phase I, II, and III infrastructure construction including streets, curbs and gutters, sidewalks, underground utilities, and other capitalized costs – \$1,445,110
- Town Center Block 7 Parking Garage – The purchase of the public portion of the parking garage on December 21, 2007 - \$16,665,960
- Westin Conference Center in Town Center – The purchase of the Block 7 Conference Center on December 21, 2007 - \$8,099,596
- Land in Princess Anne Commons – 10.35 acres of land transferred from the City - \$434,534

Major capital asset additions in fiscal year 2007 included:

- Town Center Project – Phase I, II, and III infrastructure construction including streets, curbs and gutters, sidewalks, underground utilities, and other capitalized costs – \$257,841.
- Tournament Players Club Golf Course (currently Virginia Beach National Golf Course) – The purchase of the golf course land and assets in December 2006 - \$4,540,265.

Major capital asset disposals and transfers during fiscal year 2008 included:

- Town Center Project – Block 12 retail space sold to Town Center Associates 12, LLC - \$1,824,832

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

**LONG-TERM DEBT**

At June 30, 2008 and 2007, the Authority had an outstanding loan balance due to the City of Virginia Beach in the amount of \$5.33 and \$5.59 million related to the 31<sup>st</sup> Street land and corporate parks. The covenants in effect while the loan is outstanding state that twenty percent of the net proceeds from land sales within Corporate Landing and Oceana West Corporate Parks will be distributed to the City to reduce the outstanding debt balance. In fiscal year 2008 and 2007, there were no land sales in Corporate Landing or Oceana West. In fiscal year 2008, \$0.25 million of rental income from the 31<sup>st</sup> Street retail space reduced the amount of the loan.

In fiscal year 2007, the Authority acted as the conduit issuer for \$96.84 million in Series 2007A Public Facility Revenue Bonds and \$4.03 million in Series 2007B Taxable Public Facility Revenue Bonds, at the request of the City of Virginia Beach. The Series 2007A bonds and Series 2007B bonds will mature incrementally between 2007 and 2027. These bonds have financed or will finance various public facilities, including: the replacement of the Pavilion Theater and Convention Center, the construction of the Sandler Center for the Performing Arts, the construction of the Town Center's Block 7 Parking Garage, the construction of the Block 7 Conference Center, the construction of the Town Center Pedestrian Bridge connecting Block 12 to Block 7, Open Space Site acquisition, and various City equipment and software. The bonds are a limited obligation of the Authority, payable solely from payments made by the City of Virginia Beach, pursuant to a Support Agreement between the City and the Authority. The portion attributable to the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge were presented in the Authority's business-type activity statements in fiscal year 2007 since that part of the bond issue was for Authority owned assets that were not purchased until fiscal year 2008. The remainder of the bond issue is for City owned assets, and thus, not reflected in the Authority's financial statements. The Series 2007A Bonds' interest rates were 5.0% and the Series 2007B Bonds' interest rates range from 5.85% to 6.5%. For additional analysis related to long-term debt activities of the Authority, see note 7.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide users (citizens, taxpayers, customers, clients, investors and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. Questions concerning this report or requests for additional information should be directed to Director of Economic Development, Virginia Beach Development Authority, 222 Central Park Avenue, Suite 1000, Virginia Beach, VA 23462, telephone (757) 385-6464, or visit the Authority's website at [www.yesvirginiabeach.com](http://www.yesvirginiabeach.com).

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Statements of Net Assets - Entity-Wide

June 30, 2008 and 2007

	2008			2007		
	Governmental Activities	Business-type Activities	2008 Total	Governmental Activities	Business-type Activities	2007 Total
<b>Assets</b>						
Cash and cash equivalents (note 2)	\$ -	5,170,764	5,170,764	-	4,355,853	4,355,853
Receivables, net (note 4)	-	25,654	25,654	33,414	22,371	55,785
Deferred charges	-	518,464	518,464	-	562,447	562,447
Land inventory	-	12,972,770	12,972,770	-	12,538,236	12,538,236
Restricted cash and cash equivalents (notes 2 and 3)	603,256	8,979,226	9,582,482	775,190	6,776,305	7,551,495
Receivables, restricted (note 4)	-	3,163,441	3,163,441	-	29,873,235	29,873,235
Capital assets (note 5)						
Other non-depreciable assets and capitalized costs	2,122,287	419,216	2,541,503	393,847	43,014	436,861
Land	-	18,321,460	18,321,460	-	17,680,370	17,680,370
Other capital assets, net of accumulated depreciation	-	90,173,028	90,173,028	-	68,140,444	68,140,444
Total capital assets	2,122,287	108,913,704	111,035,991	393,847	85,863,828	86,257,675
Total assets	2,725,543	139,744,023	142,469,566	1,202,451	139,992,275	141,194,726
<b>Liabilities</b>						
Accounts payable and accrued liabilities (note 6)	-	1,753,567	1,753,567	100,000	1,027,447	1,127,447
Liabilities payable from restricted assets (note 6)	603,256	8,027,664	8,630,920	655,440	5,945,680	6,601,120
Long-term liabilities (note 7)						
Due within one year	-	3,140,000	3,140,000	-	2,090,000	2,090,000
Due in more than one year	-	98,812,785	98,812,785	-	102,296,241	102,296,241
Total liabilities	603,256	111,734,016	112,337,272	755,440	111,359,368	112,114,808
<b>Net Assets</b>						
Invested in capital assets, net of related debt	2,122,287	8,234,452	10,356,739	393,847	9,517,895	9,911,742
Restricted - other purposes (notes 3 and 12)	-	3,966,262	3,966,262	-	3,634,122	3,634,122
Unrestricted	-	15,809,293	15,809,293	53,164	15,480,890	15,534,054
Total net assets	\$ 2,122,287	28,010,007	30,132,294	447,011	28,632,907	29,079,918

See accompanying notes to financial statements.



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Statements of Activities - Entity-Wide

Year ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
Development Activities	\$ -	-	-	1,728,440	1,728,440	-	1,728,440
Business-type activities							
Authority Operations	11,542,083	2,734,315	7,823,981	1,163,252	-	179,465	179,465
Total	\$ 11,542,083	2,734,315	7,823,981	2,891,692	1,728,440	179,465	1,907,905
General Revenues:							
Unrestricted investment earnings					\$ 3,618	310,965	314,583
Income from TPC forfeited security deposit					100,000	-	100,000
Special Items:							
Donation of Town Center Plaza Sculpture					-	230,511	230,511
Gain on Sale of Block 12 Retail Space					-	390,427	390,427
Transfer of Princess Anne Commons land					-	434,534	434,534
Transfer of parking reliance certificate revenue to City					-	(500,752)	(500,752)
Transfer of sale proceeds from Block 12 Retail Space to City					-	(1,824,832)	(1,824,832)
Transfer of funds to Proprietary Fund					(156,782)	156,782	-
Total general revenues and special items					(53,164)	(802,365)	(855,529)
Change in net assets					1,675,276	(622,900)	1,052,376
Net assets - beginning of year					447,011	28,632,907	29,079,918
Net assets - end of year					\$ 2,122,287	28,010,007	30,132,294

See accompanying notes to financial statements

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Statements of Activities - Entity-Wide

Year ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
Development Activities	\$ -	-	358,578	358,578	-	358,578
Business-type activities						
Authority Operations	9,069,190	3,019,354	5,661,275	-	4,201,704	4,201,704
Total	\$ 9,069,190	3,019,354	5,661,275	358,578	4,201,704	4,560,282
General Revenues:						
Unrestricted investment earnings				\$ 4,758	374,391	379,149
Miscellaneous				-	553	553
Special Items:						
Transfer of infrastructure to Primary Government				(24,803)	-	(24,803)
Total general revenues and special items				(20,045)	374,944	354,899
Change in net assets				338,533	4,576,648	4,915,181
Net assets - beginning of year				108,478	24,056,259	24,164,737
Net assets - end of year				\$ 447,011	28,632,907	29,079,918

See accompanying notes to financial statements

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Balance Sheets - Governmental Fund

Special Projects

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Restricted cash and cash equivalents (notes 2 and 3)	\$ 603,256	775,190
Receivables (note 4)	<u>-</u>	<u>33,414</u>
Total assets	<u>603,256</u>	<u>808,604</u>
<b>Liabilities and Fund Balance</b>		
Liabilities (note 6)		
Accrued liabilities	-	100,000
Liabilities payable from restricted assets	<u>603,256</u>	<u>655,440</u>
Total liabilities	<u>603,256</u>	<u>755,440</u>
Fund balance		
Unreserved	<u>-</u>	<u>53,164</u>
Total liabilities and fund balance	<u>\$ 603,256</u>	<u>808,604</u>
<b>Reconciliation to Statement of Net Assets:</b>		
Ending fund balance	<u>\$ -</u>	<u>53,164</u>
Adjustments for the Statement of Net Assets:		
Capital assets used in government activities are not current financial resources and therefore not reported in the governmental fund	<u>2,122,287</u>	<u>393,847</u>
Net Assets of Governmental Activities	<u>\$ 2,122,287</u>	<u>447,011</u>

See accompanying notes to financial statements.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Statements of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund

Special Projects

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
City Contributions:		
Town Center Infrastructure	\$ 1,445,110	257,841
Dome Site	10,200	100,737
Headquarters Hotel	527	-
Pedestrian Bridge	272,603	-
Interest	3,618	4,758
Total revenues	<u>1,732,058</u>	<u>363,336</u>
<b>Expenditures</b>		
Construction:		
Town Center Infrastructure	1,445,110	257,841
Dome Site	10,200	100,737
Headquarters Hotel	527	-
Pedestrian Bridge	272,603	-
Total Expenditures	<u>1,728,440</u>	<u>358,578</u>
Excess of revenues over expenditures	3,618	4,758
<b>Nonoperating Revenue (Expense):</b>		
Income from TPC forfeited security deposit	100,000	-
<b>Other Financing Sources (Uses)</b>		
Transfer of forfeited TPC security deposit to proprietary fund	<u>(156,782)</u>	-
Net Change in Fund Balance	(53,164)	4,758
Fund balance at beginning of year	<u>53,164</u>	<u>48,406</u>
Fund balance at end of year	<u>\$ -</u>	<u>53,164</u>
<b>Reconciliation to Statement of Activities</b>		
Net Change in Fund Balance	<u>\$ (53,164)</u>	<u>4,758</u>
Adjustment for the Statements of Activities:		
Transfer of infrastructure to Primary Government	-	(24,803)
Governmental funds report capital outlays as expenditures while governmental activities capitalize such costs	<u>1,728,440</u>	<u>358,578</u>
Changes in net assets of governmental activities	<u>\$ 1,675,276</u>	<u>338,533</u>

See accompanying notes to financial statements.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Statements of Net Assets - Proprietary Fund

Authority Operations

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,170,764	4,355,853
Receivables, net (note 4)	25,654	22,371
Total current assets	<u>5,196,418</u>	<u>4,378,224</u>
Noncurrent assets:		
Restricted cash and cash equivalents (notes 2 and 3)	8,979,226	6,776,305
Receivables, restricted (note 4)	3,163,441	29,873,235
Deferred charges (note 1)	518,464	562,447
Land inventory	12,972,770	12,538,236
Capital Assets (note 5)		
Other non-depreciable assets and capitalized costs	419,216	43,014
Land	18,321,460	17,680,370
Buildings and equipment	99,738,661	75,319,679
Less accumulated depreciation	<u>(9,565,633)</u>	<u>(7,179,235)</u>
Total noncurrent assets	<u>134,547,605</u>	<u>135,614,051</u>
Total assets	<u>139,744,023</u>	<u>139,992,275</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (note 6)	192,193	73,586
Accrued liabilities (note 6)	1,561,374	953,861
Bonds, notes, and loans payable (note 7)	3,140,000	2,090,000
Total current liabilities	<u>4,893,567</u>	<u>3,117,447</u>
Noncurrent liabilities:		
Liabilities payable from restricted assets	8,027,664	5,945,680
Bonds, notes and loans payable (note 7)	98,812,785	102,296,241
Total liabilities	<u>111,734,016</u>	<u>111,359,368</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	8,234,452	9,517,895
Restricted - other purposes (note 3)	3,966,262	3,634,122
Unrestricted	15,809,293	15,480,890
Total net assets	\$ <u>28,010,007</u>	<u>28,632,907</u>

See accompanying notes to financial statements.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Statements of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund

Authority Operations

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Operating Revenues:</b>		
Land sales - Town Center	\$ -	523,000
Industrial revenue bond fees (note 9)	517,785	535,457
Lease income (notes 8 and 11)	2,087,395	1,693,492
Virginia Beach National Golf Course revenue (note 11)	129,135	267,403
Studio 56 parking reliance certificates	500,752	-
Miscellaneous income	-	553
Total operating revenues	<u>3,235,067</u>	<u>3,019,905</u>
<b>Operating Expenses:</b>		
Cost of land sold - Town Center	-	523,000
Tournament Players Club (note 11)	85,082	467,935
Selling, general, and other expenses (schedule A)	4,239,028	3,648,416
Garage operations	991,186	769,753
Total operating expenses	<u>5,315,296</u>	<u>5,409,104</u>
Operating income (loss)	<u>(2,080,229)</u>	<u>(2,389,199)</u>
<b>Nonoperating Revenue (Expense):</b>		
City of Virginia Beach (schedule E)	6,405,665	5,711,275
Pass through grant - Governor's Opportunity Fund award	1,443,677	-
Disbursement of award proceeds	(1,443,677)	-
Charity Golf Tournament revenues	24,639	-
Charity Golf Tournament expenses	(24,639)	-
Gain on Sale of Block 12 Retail Space	390,427	-
Donation of Town Center Plaza sculpture	230,511	-
Interest income	310,965	374,391
Interest expense (note 10)	(4,758,471)	(3,660,084)
Total nonoperating revenue (expense)	<u>2,579,097</u>	<u>2,425,582</u>
Income (expense) before transfers and capital contributions	<u>498,868</u>	<u>36,383</u>
<b>Other Financing Sources (Uses)</b>		
Capital Contributions	612,500	-
Tournament Players Club Golf Course	-	4,540,265
Transfer from Special Projects Fund	156,782	-
Transfer of parking reliance certificate revenue to City	(500,752)	-
Transfer of Princess Anne Commons land from City	434,534	-
Transfer of sale proceeds from Block 12 Retail Space to City	(1,824,832)	-
Change in net assets	<u>(622,900)</u>	<u>4,576,648</u>
Total net assets at beginning of year	<u>28,632,907</u>	<u>24,056,259</u>
Total net assets at end of year	<u>\$ <u>28,010,007</u></u>	<u><u>28,632,907</u></u>

See accompanying notes to financial statements.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Statements of Cash Flows - Proprietary Fund

Authority Operations

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,716,675	3,015,555
Studio 56 Parking Reliance Certificates	500,752	-
EDIP cash receipts	2,149,821	1,899,994
Other operating cash receipts	15,000	15,000
Cash payments to suppliers of goods and services	(2,804,700)	(3,139,273)
Net EDIP activities	<u>(132,611)</u>	<u>(1,062,991)</u>
Net cash provided by operating activities	<u>2,444,937</u>	<u>728,285</u>
Cash flows from capital and related financing activities:		
Principal Repayment on Long-Term Debt	(2,344,458)	(1,780,000)
Interest Paid on Long-Term Debt	(4,180,768)	(3,720,316)
Capital contributions from City	6,476,281	10,251,540
Acquisition of Capital Assets	(44,053)	(4,540,265)
Capitalization of asset costs	(171,390)	(43,011)
Proceeds from Sale of Capital Assets	1,824,832	523,000
Governors Opportunity Fund Award proceeds	1,600,000	-
Governors Opportunity Fund Award	(1,443,677)	-
Other Capital Costs	712,607	-
Transfer of parking reliance certificate revenue to City	(500,752)	-
Transfer of sale proceeds from Block 12 Retail Space to City	(1,824,832)	-
Transfer from Special Projects Fund	156,782	-
Net cash used in capital and related financing activities	<u>260,572</u>	<u>690,948</u>
Cash flows from investing activities:		
Interest	<u>312,323</u>	<u>400,039</u>
Net increase in cash and cash equivalents	3,017,832	1,819,272
Cash and cash equivalents at beginning of year	11,132,158	9,312,886
Cash and cash equivalents at end of year	\$ <u><u>14,149,990</u></u>	\$ <u><u>11,132,158</u></u>
Classified as:		
Current assets	\$ 5,170,764	4,355,853
Restricted assets	8,979,226	6,776,305
	\$ <u><u>14,149,990</u></u>	\$ <u><u>11,132,158</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (2,080,229)	(2,389,199)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	2,554,154	2,100,853
Changes in assets and liabilities		
Receivables, net	2,132,181	1,895,645
Accounts and other payables	(176,169)	(894,014)
Accrued expenses	15,000	15,000
Land Inventory	-	-
Net cash provided by operating activities	\$ <u><u>2,444,937</u></u>	\$ <u><u>728,285</u></u>
Noncash transactions:		
Public facility revenue bond proceeds receivable from City	\$ -	26,722,795
Reduction in public facility revenue bond proceeds receivable from City	-	(4,061,802)
Transfer of Princess Anne Commons land from City	434,534	-
Donation of Town Center Plaza sculpture	230,511	-
Amortization on bond discount/premium	(101,090)	(80,763)
Acquisition of Town Center capital assets and land with City bond proceeds	26,489,856	-

See accompanying notes to financial statements.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

## (1) Summary of Significant Accounting Policies

### Narrative Profile

The City of Virginia Beach (the City) Development Authority (the Authority) was established by an act of the Virginia General Assembly in 1964 to facilitate expansion of the City's tax base through increased business investment and to create employment opportunities within the City. A commission composed of eleven commissioners appointed by the Virginia Beach City Council governs the Authority.

The Authority is considered a component unit of the City for reporting purposes and, as such, will be a discretely presented component unit in the Comprehensive Annual Financial Report of the City of Virginia Beach. Future funding and ongoing cash flows of the Authority are dependent on the City.

In evaluating how to define the Authority, for financial reporting purposes, management has determined that there are no entities over which the Authority exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Authority. Since the Authority does not exercise significant influence or accountability over other entities, it has no component units.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America, as specified by the Governmental Accounting Standards Board (GASB). The more significant of the Authority's accounting policies are described below.

The Authority assists in the business/industry location and retention process by acquiring, developing and reselling land, issuing Industrial Revenue Bonds, and administering the Economic Development Investment Program (EDIP). Beginning in 1995, the Authority's mission was expanded to include facilitating economic development projects for the City in order to contribute to the City's economic growth and financial health. This facilitation has been in the structuring of public-private partnerships between the City and private entities.

### (a) *Basis of Financial Reporting*

GASB Statement No. 34 established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.



# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Notes to the Financial Statements

June 30, 2008 and 2007

Entity-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets – The Statement of Net Assets is designed to display the financial position of the Authority (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

### **(b) *Entity-Wide and Fund Financial Statements***

The basic financial statements include both entity-wide (based upon the Authority as a whole) and fund financial statements. Both the entity-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the entity-wide Statement of Net Assets, both the governmental and business-type activities columns are reflected on a full accrual, and economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. As a general rule, the effect of interfund activity has been eliminated from the entity-wide financial statements. The restricted cash and cash equivalents is used for specific purposes and capital projects. When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The program revenues must be directly associated with the function or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The Authority does not allocate indirect expenses.

### **(c) *Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the entity-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Notes to the Financial Statements

June 30, 2008 and 2007

The entity-wide Statement of Net Assets, Statement of Activities, and Proprietary Fund statements are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The Statement of Net Assets, Statement of Activities, and financial statements of the Proprietary Fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority Operations fund include the sale of land within Authority corporate parks, administrative fees for the issuance of Industrial Revenue Bonds, and lease income. Operating expenses include the cost of land sold, selling and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted assets are available for use, it is the Authority's policy to apply restricted assets first, then unrestricted assets as needed.

The fund financial statements of the Special Projects Fund are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers the revenues to be available if they are collected within 45 days of year-end. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The Authority reports the following major governmental fund:

The **Special Projects Fund** is used to account for the financial resources for the acquisition or construction of ongoing economic development projects conducted on behalf of the City.

The Authority reports the following major proprietary fund:

The **Authority Operations Fund** accounts for the activities of the Authority which charges fees for Industrial Revenue Bonds, acquires, develops, and resells land, and administers the EDIP.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (Statement No. 20), the Authority Operations fund follows all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989. Under paragraph 7 of GASB Statement No. 20, the Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

**(d) Capital Assets**

All capital assets are stated at cost. Capital assets are defined as assets with initial, individual costs exceeding a \$5,000 threshold. Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	5-10 years
Equipment	5-10 years

A full month's depreciation is taken in the month an asset is placed in service unless otherwise stated. When property and equipment are disposed, depreciation is removed from the respective accounts, and the resulting gain or loss is recorded in the Authority's Proprietary Fund.

Interest costs incurred on the note payable to Wachovia Bank for the acquisition of assets are capitalized. The loan and interest charges associated with the asset are secured by a security agreement provided by a developer, which requires the developer to purchase the asset no later than September 2010.

**(e) Land Inventory**

Land is stated at acquisition cost plus improvements and capitalized interest, if applicable, but not in excess of net realizable value. Capitalized costs of projects are assigned to individual components of the projects based on specific identification. If specific identification is not practicable, capitalized costs are allocated to each parcel benefited, based on relative fair value before construction. As land is sold, all costs associated with that land are charged to cost of land sold.

**(f) Miscellaneous**

**Cash and Cash Equivalents**

The Authority has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. For purposes of the Statement of Cash Flows, all highly liquid debt instruments and certificates of deposit, regardless of maturity date, are grouped into cash and cash equivalents.

**Restricted Cash**

Restricted cash includes: 1) funds held for procurement of capital assets; 2) option deposits on land; 3) funds for the EDIP; 4) funds for capital and structural improvements and repairs and maintenance to the Social Services facility; 5) funds from corporate park land sales; 6) funds from various capital projects; and 7) funds for capital and structural improvements and repairs and maintenance to the Virginia Beach National Golf Course facility.

**Accounts Receivable**

Where appropriate, trade receivables are shown net of an allowance for doubtful accounts.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Notes to the Financial Statements

June 30, 2008 and 2007

### **Deferred Charges**

The Authority Operations Fund deferred charges represent unamortized bond issuance costs incurred during the sale of Revenue Bonds. These costs are amortized using the straight-line method over the life of the related bonds. At June 30, 2008 and 2007, the unamortized bond issuance costs were \$518,464 and \$562,447.

### **Bond Premiums and Discounts**

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds are reported net of the applicable bond premium or discount.

### **(2) Cash and Cash Equivalents**

The June 30, 2008 bank balance was fully covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Authority. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro-rata basis to the members (banks and savings and loans) of the pool. Therefore, these deposits are considered collateralized and as a result of this are considered insured.

At June 30, 2008, the Authority had a balance of \$4.33 million invested in certificates of deposit, which yield 2.97%.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

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Notes to the Financial Statements

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The reconciliations of total cash and cash equivalents to the entity-wide financial statements at June 30, 2008 and 2007 are as follows:

	<b>Governmental Activities/Special Projects Fund</b>	<b>Business-type Activities/Authority Operations Fund</b>	<b>Total 2008</b>
Cash and Cash Equivalents-			
Wachovia	\$ -	5,170,764	5,170,764
Restricted Cash and Cash Equivalents-			
Option Deposits	-	150,000	150,000
Town Center Option Land	-	422	422
Social Services	-	1,129,946	1,129,946
EDIP	-	4,875,964	4,875,964
EDIP Town Center	475,859	-	475,859
Governors Opportunity Fund	-	156,323	156,323
Land Sales/Infrastructure	-	2,622,777	2,622,777
Virginia Beach National Capital Reserve	-	28,354	28,354
TPC/VB National Certificates	-	15,440	15,440
Pedestrian Bridge	127,397	-	127,397
Total Restricted Cash and Cash Equivalents	603,256	8,979,226	9,582,482
Total	\$ 603,256	14,149,990	14,753,246

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June 30, 2008 and 2007

	<b>Governmental Activities/Special Projects Fund</b>	<b>Business-type Activities/Authority Operations Fund</b>	<b>Total 2007</b>
Cash and Cash Equivalents-			
Wachovia	\$ -	4,355,853	4,355,853
Restricted Cash and Cash Equivalents-			
Option Deposits	-	135,000	135,000
Town Center Option Land	-	422	422
Social Services	-	996,188	996,188
Town Center Account	-	84	84
EDIP	-	2,858,754	2,858,754
EDIP Town Center	622,025	-	622,025
Land Sales/Infrastructure	-	2,637,511	2,637,511
Virginia Beach National Certificates	-	26,271	26,271
TPC/VB National Appropriation	-	122,075	122,075
Golf Course Option Deposit	153,165	-	153,165
Total Restricted Cash and Cash Equivalents	<u>775,190</u>	<u>6,776,305</u>	<u>7,551,495</u>
Total	\$ <u><u>775,190</u></u>	<u><u>11,132,158</u></u>	<u><u>11,907,348</u></u>

**(3) Restricted Cash and Cash Equivalents**

The Town Center reserve account balances at June 30, 2008 and 2007 were \$0 and \$84, respectively. These funds are proceeds from the June 2002 bond sales that were used to purchase the Town Center Garage (Block 4) upon completion (See note 7).

The EDIP accounts were established in February 1994 through funds that the City appropriated from the Capital Improvement Program EDIP Project for economic development activities. This program represents annual funding from the City to the Authority to be used for on-site and off-site infrastructure needs as well as training expenses for businesses meeting certain criteria. Businesses having received EDIP awards or projects having received EDIP funding are reimbursed for qualifying expenses out of these accounts. EDIP cash and cash equivalents at June 30, 2008 and 2007 were \$5,351,823 and \$3,480,779, respectively.

The Governors Opportunity Fund (GOF) account balances at June 30, 2008 and 2007 were \$156,323 and \$0. This funding represents incentive funding received from the State of Virginia that was awarded to a specific company located in Virginia Beach. The Authority is responsible for the administration of the funding between the State and the company receiving the award as well as verifying specified milestones are reached prior to receiving the award proceeds.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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## Notes to the Financial Statements

June 30, 2008 and 2007

On December 7, 2006, City Council approved an ordinance to appropriate \$350,000 for operating costs associated with TPC Golf Course for the period of January 1, 2007 through March 31, 2007. The remaining funding was used for capital maintenance and repairs to the facility. Beginning in April of 2008, the VBDA began receiving 5% of gross receipts from Virginia Beach National Golf Course (formerly known as TPC Golf Course) to fund capital maintenance and repairs to the facility. These payments are received on a monthly basis per the management agreement. At June 30, 2008 and 2007, the balance of the Virginia Beach National capital reserve account was \$28,354 and \$122,075.

On December 29, 2006, the Authority purchased the TPC Golf Course's land and assets. At that time, gift certificates in the amount of \$26,271 were outstanding. This amount was deposited into a restricted cash account, and the current operator of Virginia Beach National Golf Course will be refunded for outstanding gift certificates as they are redeemed. The Authority will transfer proceeds from gift certificates that are not redeemed by August 30, 2008 into Virginia Beach National's capital reserve account. The account balance at June 30, 2008 was \$15,440.

A City Council Ordinance established the TPC Golf Course Project in May 1997. An appropriation of \$4,225,000, for improvements and infrastructure has been received since the project's inception. In fiscal year 2001, the City appropriated \$725,000 for road improvements. In January 1998, an additional \$100,000 deposit was also received from PGA Tour Properties as a security deposit for the deal. A total of \$4,225,000 has been expended to date. The cash account balances, representing interest and the security deposit, at June 30, 2008 and 2007 were \$0 and \$153,165, respectively. On December 29, 2006, the Authority purchased the TPC Golf Course's land and assets. According to the agreement, the security deposit was forfeited to the Authority since TPC defaulted on the agreement, and the funding was transferred into the Authority's Proprietary Fund.

The Social Services Facility reserve accounts at June 30, 2008 and 2007 were \$1,129,946 and \$996,188. These funds are reserved for capital and structural improvements, maintenance, and repairs to the facility in accordance with the lease agreement (See note 8).

Option deposits held in escrow are not available for operations. The deposits are normally applied to the sale price of optioned land if the sale is consummated, or forfeited in the event the option holder elects not to exercise the option. In the event the Authority is unable to satisfy its obligations stated in the option agreements, the option deposits would be fully refundable to the option holder. Option deposits were \$150,000 and \$135,000 in the Authority Operations Fund at June 30, 2008 and 2007, respectively.

Under a February 2003 loan modification agreement between the Authority and the City of Virginia Beach, 20% of the net proceeds from land sales within Corporate Landing Business Park and Oceana West Corporate Park are to be paid to the City to reduce the outstanding note balance, while the remaining 80% is to be used by the Authority to fund its infrastructure requirements and strategic land acquisitions. This modification was retroactive to March 22, 2002 and includes the net proceeds from land sales, which occurred between March 2002 and June 2008. At June 30, 2008 and 2007, 80% of the net proceeds, \$2,622,777 and \$2,637,511, respectively, attributable to the sale of property were reserved.

Restricted cash at June 30, 2008 and 2007 included \$422 of unexpended loan proceeds from the Town Center property financing. These proceeds will be used to reduce the Town Center note during the option period.

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During fiscal year 2008, City Council approved \$200,000 of CIP funding for the design of the pedestrian bridge across Virginia Beach Boulevard in addition to the \$200,000 in an existing CIP account. The Authority was responsible for awarding and administering the contract with the architect throughout the design process. The balance of the funding at June 30, 2008 was \$127,397.

**(4) Receivables**

Receivables at June 30, 2008 and 2007 consist of the following:

		<b>Governmental Activities/Special Projects Fund</b>	<b>Business-type Activities/Authority Operations Fund</b>	<b>Total 2008</b>
Town Center Garage Operations	\$	-	12,653	12,653
Authority Operations		-	13,001	13,001
Virginia Beach National long-term maintenance		-	13,001	13,001
Deferred Land Sales		-	211,859	211,859
EDIP appropriations from City		-	2,938,581	2,938,581
Gross accounts receivable		-	3,189,095	3,189,095
Less: Allowance for uncollectibles		-	-	-
Accounts receivable, net	\$	-	3,189,095	3,189,095

		<b>Governmental Activities/Special Projects Fund</b>	<b>Business-type Activities/Authority Operations Fund</b>	<b>Total 2007</b>
Town Center Garage Operations	\$	-	21,013	21,013
Interest		-	1,358	1,358
Due from City of Virginia Beach - current		33,414	-	33,414
Due from City of Virginia Beach - noncurrent		-	26,722,795	26,722,795
Deferred Land Sales		-	211,859	211,859
EDIP appropriations from City		-	2,938,581	2,938,581
Gross accounts receivable		33,414	29,895,606	29,929,020
Less: Allowance for uncollectibles		-	-	-
Accounts receivable, net	\$	33,414	29,895,606	29,929,020



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June 30, 2008 and 2007

On June 30, 2007, the \$26,722,795 receivable due from the City of Virginia Beach included bond proceeds from the sale of Public Facility Revenue Bonds in June 2007. On December 21, 2007, the Authority purchased the Block 7 Parking Garage for \$16.67 million and the Block 7 Conference Center for \$8.10 million with proceeds from the Public Facility Revenue Bonds. Bond proceeds were also used to purchase the Pedestrian Bridge connecting Block 12 to Block 7 in the amount of \$1.75 million. The use of these bond proceeds eliminated the Authority's receivable during fiscal year 2008.

**(5) Capital Assets**

The following schedules summarize the capital assets of the Authority as of June 30, 2008 and 2007:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2008</u>
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ 393,847	1,728,440	-	2,122,287
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 43,014	376,202	-	419,216
Land	16,907,922	662,739	(80,292)	17,490,369
Option land/capitalized interest	772,448	58,643	-	831,091
Total non-depreciable assets	<u>17,723,384</u>	<u>1,097,584</u>	<u>(80,292)</u>	<u>18,740,676</u>
Depreciable Assets:				
Building/equipment	<u>75,319,679</u>	<u>25,896,868</u>	<u>(1,477,886)</u>	<u>99,738,661</u>
Total depreciable assets	<u>75,319,679</u>	<u>25,896,868</u>	<u>(1,477,886)</u>	<u>99,738,661</u>
Less Accumulated Depreciation for:				
Buildings	<u>(7,179,235)</u>	<u>(2,510,171)</u>	123,773	<u>(9,565,633)</u>
Total accumulated depreciation	<u>(7,179,235)</u>	<u>(2,510,171)</u>	123,773	<u>(9,565,633)</u>
Capital Assets, Net	\$ <u>85,863,828</u>	<u>24,484,281</u>	<u>(1,434,405)</u>	<u>108,913,704</u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

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June 30, 2008 and 2007

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2007</u>
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ 60,072	358,578	(24,803)	393,847
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ -	43,014	-	43,014
Land	14,838,620	2,592,302	(523,000)	16,907,922
Option land/capitalized interest	702,867	69,581	-	772,448
Total non-depreciable assets	<u>15,541,487</u>	<u>2,661,883</u>	<u>(523,000)</u>	<u>17,680,370</u>
Depreciable Assets:				
Building/equipment	73,371,716	1,990,977	-	75,362,693
Total depreciable assets	<u>73,371,716</u>	<u>1,990,977</u>	<u>-</u>	<u>75,362,693</u>
Less Accumulated Depreciation for:				
Buildings	<u>(5,122,365)</u>	<u>(2,056,870)</u>	<u>-</u>	<u>(7,179,235)</u>
Total accumulated depreciation	<u>(5,122,365)</u>	<u>(2,056,870)</u>	<u>-</u>	<u>(7,179,235)</u>
Capital Assets, Net	\$ <u>83,790,838</u>	<u>2,595,990</u>	<u>(523,000)</u>	<u>85,863,828</u>

The fiscal year 2007 capital assets table above was restated to reflect additional detail. Other non-depreciable assets are now shown as a separate line item as reflected in the fiscal year 2008 capital assets table.

At June 30, 2008 and 2007, depreciation expense related to capital assets was \$2,510,171 and \$2,056,870, respectively, and charged to the Authority's Operations Fund.

In fiscal year 2007, assets in the amount of \$24,803 located in Town Center were completed and transferred to the City of Virginia Beach. In fiscal year 2008, Town Center Associates exercised the option to purchase the Block 12 retail space in Town Center for \$1,824,832.

In fiscal year 2007, the Authority purchased TPC Golf Course's land and assets for \$4,540,265. The land was valued in the amount of \$2,592,302, and the assets were valued in the amount of \$1,947,963 on the closing date, December 29, 2006. Currently, a new operator is managing the course under the Virginia Beach National Golf Course name, but ownership of the assets remains with the Authority.

In fiscal year 2008, a sculpture was donated to the Authority and placed in the Town Center Plaza fountain. The cost of this sculpture was \$230,511 at the time of the donation, and since works of art maintain value, the sculpture will not be depreciated.

During fiscal year 2008, the Authority purchased the following Phase III assets in Town Center; the pedestrian bridge connecting Block 12 to Block 7 for \$1,750,000; the Block 7 Conference Center for \$8,099,596; and the Block 7 Parking Garage for \$16,665,960. The assets were purchased with public facility revenue bond proceeds and proceeds from the sale of the Block 12 retail space.

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Notes to the Financial Statements

June 30, 2008 and 2007

**(6) Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at June 30, 2008 and 2007 consist of the following:

	<b>Governmental Activities/Special Projects Fund</b>	<b>Business-type Activities/Authority Operations Fund</b>	<b>Total 2008</b>
Accounts payable	\$ -	108,576	108,576
Accounts payable-Golf Course	-	56,796	56,796
Accounts payable-Pedestrian Bridge	127,397	-	127,397
Accounts payable-CIP	-	70,616	70,616
Accounts payable-GOF	-	156,323	156,323
Accounts payable-City	-	13,001	13,001
Accounts payable-EDIP	475,859	7,814,545	8,290,404
Total accounts payable	<u>603,256</u>	<u>8,219,857</u>	<u>8,823,113</u>
Accrued interest	-	1,411,374	1,411,374
Options deposits	-	150,000	150,000
Total accrued liabilities	<u>-</u>	<u>1,561,374</u>	<u>1,561,374</u>
Accounts payable and accrued liabilities	<u>\$ 603,256</u>	<u>9,781,231</u>	<u>10,384,487</u>

	<b>Governmental Activities/Special Projects Fund</b>	<b>Business-type Activities/Authority Operations Fund</b>	<b>Total 2007</b>
Accounts payable	\$ 33,415	73,586	107,001
Accounts payable-Golf Course	-	148,345	148,345
Accounts payable-EDIP	622,025	5,797,335	6,419,360
Total accounts payable	<u>655,440</u>	<u>6,019,266</u>	<u>6,674,706</u>
Accrued interest	-	818,861	818,861
Options deposits	-	135,000	135,000
Security deposit	100,000	-	100,000
Total accrued liabilities	<u>100,000</u>	<u>953,861</u>	<u>1,053,861</u>
Accounts payable and accrued liabilities	<u>\$ 755,440</u>	<u>6,973,127</u>	<u>7,728,567</u>

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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## Notes to the Financial Statements

June 30, 2008 and 2007

On December 7, 2006, the City Council appropriated \$350,000 for the operating expenses associated with the TPC Golf Course facility. After all expenses were incurred, the remaining funding was retained for future capital maintenance and repairs to the facility. In addition, the Authority began receiving 5% of gross revenues on a monthly basis from Virginia Beach National Golf Course (formerly known as TPC) in April of 2008, and this funding is restricted for capital repairs and maintenance to the facility. The Authority also received \$26,271 from outstanding gift certificates on April 1, 2007. Virginia Beach National Golf Course will be reimbursed from these proceeds as gift certificates are redeemed through purchases at the facility. At June 30, 2008, the outstanding balance in the accounts payable-Golf Course account was \$56,796.

On June 20, 2008, \$70,616 of CIP funding was not used for the Town Center project. This funding will be used for future expenses related to Town Center.

The Authority also received funding from the City's CIP to pay for the design of the Pedestrian Bridge across Virginia Beach Boulevard. At June 30, 2008, \$127,397 of funding remained for the design fees.

### (7) Long-Term Debt

#### (a) Revenue Bonds

The Authority issues revenues bonds from time to time for the purpose of financing capital improvements and new projects. In February 1998, the Authority issued \$9,800,000 of Series 1998 Lease Revenue Bonds. The purpose of the bonds was to purchase a new building (Social Services Facility) from the City of Virginia Beach. The Series 1998 Lease Revenue Bonds' interest rates ranged from 4.3% to 5.0%. The principal is paid annually and interest is paid semi-annually with rental payments received from the City (see note 8) with final payment due December 2017.

In June 2002, the Authority issued two series of Public Facility Revenue Bonds totaling \$23,855,000. Series 2002A Public Facility Revenue Bonds were issued in the amount of \$20,815,000, while Series 2002B Taxable Public Facility Revenue Bonds were issued in the amount of \$3,040,000. The purpose of the Series 2002 Bonds was to finance the acquisition of a public parking facility and the land for a public plaza in the Town Center development in the City. The Bonds' interest rates ranged from 4.0% to 5.375% for Series 2002A and 4.57% to 5.75% for Series 2002B. The principal is paid annually and interest is paid semi-annually with payments received from the City pursuant to a support agreement dated June 1, 2002. The final payments on Series 2002A and 2002B are due August 2022 and August 2012.

In September 2003, the Authority acted as the conduit issuer for \$165,000,000 in Public Facility Revenue Bonds, at the request of the City of Virginia Beach. The purpose of this funding was to finance various public facilities, including the replacement of the Convention Center, construction of a parking facility for the Virginia Aquarium and Marine Science Center, Open Space site acquisition, construction of an Emergency Communications Operation Center, construction of the 31<sup>st</sup> Street Parking Garage, construction of the Town Center's Blocks 10 and 12 Parking Garages, and various equipment and software used for the operation of the City. The portion attributable to the Town Center Block 10 and 12 Parking Garages, \$11,800,000, is presented in the business-type activity statements. The Bonds' interest rates ranged from 3.0% to 5.25%, and the final payment is due December 2023.

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In May of 2005, the Authority acted as the conduit issuer for \$94,900,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,080,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds. In fiscal year 2005, \$22,130,000 of 2005 bond proceeds were used to purchase a portion of the 31<sup>st</sup> Street Parking Garage and the 9<sup>th</sup> Street Parking Garage. In fiscal year 2006, the Authority used a portion of the 2005 bond proceeds in the amount of \$13,616,672 to purchase the Block 10 Parking Garage located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Convention Center, construction of a parking facility for the Virginia Aquarium and Marine Science Center, Open Space site acquisition, construction of an Emergency Communications Operation Center, and various equipment and software used for the operation of the City. The Authority and the City entered into support agreements, dated September 1, 2003 and May 1, 2005, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates ranged from 4.0% to 5.0% for Series 2005A and 4.75% to 5.0% for Series 2005B. The final payments on Series 2005A and 2005B are due May 2025.

In June of 2007, the Authority acted as the conduit issuer for \$96,835,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,555,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds. In fiscal year 2008, the bond proceeds were used to purchase the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge connecting Block 7 and Block 12 located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Pavilion Theater and the Convention Center, the construction of the Sandler Center for the Performing Arts, Open Space Site acquisition, a Revenue Assessment and Collection System, a City/School Human Resource Payroll System, and an Automatic Vehicle Locator System. The Authority and the City entered into a support agreement, dated June 1, 2007, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage, Pedestrian Bridge, and Conference Center portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates were 5.00% for Series 2007A and the rates ranged from 5.85% to 6.50% for Series 2007B. The final payments on Series 2007A and 2007B are due July 2027.

### **(b) Notes Payable – Town Center**

On, March 6, 2000, the Authority and Town Center Associates, L.L.C. entered into an agreement for the development of the Town Center. Financing for the purchase of the land for future phases beyond Phase I of this project was obtained from First Union National Bank/Wachovia in the amount of \$5,500,000. Total advances on this loan may not exceed \$11,135,000, to include accrued interest through December 2006. The original loan agreement was signed on June 8, 2000 and called for semiannual interest payments starting November 30, 2000, with all principal and interest due

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December 1, 2006. Under the terms of this agreement, the Authority is not required to make any principal or interest payments on this loan until the final due date; and the intention is to not make principal or interest payments, except to the extent funds are available from the sale of this land. To date, \$1,146,175 has been added to the original principal of the loan in the form of interest. As of June 30, 2008, the outstanding balance is \$1,298,051. The interest rate is the LIBOR rate plus 0.42%, and the loan is secured by a surety agreement provided by Town Center Associates, L.L.C.

In June of 2006, the Authority approved the First Modification to the Town Center Phase III Development Agreement. Because this agreement specifies that the developer does not have to purchase the remainder of the Town Center land at date certain, the due date of the Town Center note payable was extended until December 2010.

**(c) Notes Payable – City of Virginia Beach**

On February 25, 2003, the Virginia Beach City Council approved a restructuring proposal for the outstanding debt between the City and the Authority. Under this restructuring, accrued interest in the amount of \$1,235,331 was canceled and the remaining debt was separated into two non-interest bearing notes. Note 1, in the original principal amount of \$4,830,936, is secured by a first lien on the 31<sup>st</sup> Street property. Note 2, in the original principal amount of \$1,425,201, is secured by a first lien on Corporate Landing and Oceana West Corporate Parks.

The following covenants will be in effect while the loan is outstanding: 1) The Authority will incur no additional debt without City approval; 2) All net proceeds from the sale or ground lease of the 31<sup>st</sup> Street property will be paid to the City when received; 3) 20% of the net proceeds generated from all land sales in Corporate Landing and Oceana West will be used to reduce the outstanding debt; and 4) The remaining net proceeds (80%) from land sales in Corporate Landing and Oceana West will be used by the Authority to fund its infrastructure requirements and strategic land acquisitions.

The modifications to the outstanding debt were made retroactive to March 22, 2002, the date of the satisfaction of the Bank of America loan. Twenty percent of the net proceeds from all land sales, within Corporate Landing and Oceana West, have been distributed to the City to reduce the outstanding debt balance. As of June 30, 2008, the outstanding debt balance was \$5,331,548.

**(d) Due to City of Virginia Beach**

During fiscal year 2007, the Authority's portion of the proceeds from the 2007 Public Facility Revenue Bonds was reduced and the Authority's portion of the proceeds from the 2005 Public Facility Revenue Bonds was increased. By making this adjustment, the Authority was able to purchase the entire Block 10 Parking Garage using proceeds from the 2005 Public Facility Revenue Bonds. This adjustment eliminated the Authority's liability to the City, which is reflected in the fiscal year 2007 financial statements.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

Long-term debt activities for the year ended June 30, 2008 and 2007 were as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Due Within</u>
					<u>One Year</u>
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Lease revenue bonds-Social Services	\$ 6,440,000	-	(455,000)	5,985,000	480,000
Public facility revenue bonds	89,085,000	-	(1,635,000)	87,450,000	2,660,000
Notes payable-Town Center Option Land	1,236,508	61,543	-	1,298,051	-
Notes payable-City of Virginia Beach	5,586,006	-	(254,458)	5,331,548	-
	<u>102,347,514</u>	<u>61,543</u>	<u>(2,344,458)</u>	<u>100,064,599</u>	<u>3,140,000</u>
Add: Bond premium	2,192,670	-	(121,753)	2,070,917	-
Less: Bond discount	<u>(153,943)</u>	<u>(49,453)</u>	<u>20,665</u>	<u>(182,731)</u>	<u>-</u>
Business- Type Activities/Authority					
Long-Term Debt	\$ <u>104,386,241</u>	<u>12,090</u>	<u>(2,445,546)</u>	<u>101,952,785</u>	<u>3,140,000</u>

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>	<u>Due Within</u>
					<u>One Year</u>
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Lease revenue bonds-Social Services	\$ 6,875,000	-	(435,000)	6,440,000	455,000
Public facility revenue bonds	60,815,000	29,615,000	(1,345,000)	89,085,000	1,635,000
Notes payable-Town Center Option Land	1,167,489	69,019	-	1,236,508	-
Notes payable-City of Virginia Beach	5,586,006	-	-	5,586,006	-
Due to City of Virginia Beach	4,061,802	-	(4,061,802)	-	-
	<u>78,505,297</u>	<u>29,684,019</u>	<u>(5,841,802)</u>	<u>102,347,514</u>	<u>2,090,000</u>
Add: Bond premium	1,116,670	1,169,596	(93,596)	2,192,670	-
Less: Bond discount	<u>(166,778)</u>	<u>-</u>	<u>12,835</u>	<u>(153,943)</u>	<u>-</u>
Business- Type Activities/Authority					
Long-Term Debt	\$ <u>79,455,189</u>	<u>30,853,615</u>	<u>(5,922,563)</u>	<u>104,386,241</u>	<u>2,090,000</u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

The requirements to amortize all long-term bonds and notes payable as of June 30, 2008, including interest payments of \$47,392,365 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 3,140,000	4,655,891
2010	3,762,535	4,495,375
2011	5,466,113	4,319,847
2012	4,085,528	4,130,745
2013	4,449,528	3,926,224
2014-2018	28,755,640	15,962,023
2019-2023	34,962,640	8,340,981
2024-2028	15,442,615	1,561,279
	<u>\$ 100,064,599</u>	<u>47,392,365</u>

**(8) Operating Leases**

In February 1998, the Authority purchased a new building (Social Services Facility) from the City, which was placed in service on May 1, 1998. The Authority entered into a 20-year operating lease with the City. The City pays basic rent equal to the amounts required to pay the principal and interest of the Lease Revenue Bonds Series 1998 (see note 7) and additional rent equal to one-eighth of one percent of the outstanding principal balance of the bonds. In addition, \$50,000 is paid semi-annually and placed in a reserve to be used as needed for capital and structural improvements, maintenance and repair of the facility (see note 3).

The following schedule shows the composition of the Authority's investment in property under operating leases:

	<u>2008</u>	<u>2007</u>
Social Services Facility (including land)	\$ 9,497,137	9,497,137
Less accumulated depreciation	(1,788,863)	(1,613,935)
Net investment on property held for lease	<u>\$ 7,708,274</u>	<u>7,883,202</u>

Minimum future rental income on operating leases as of June 30, 2008 are as follows: 2009, \$861,297; 2010, \$859,086; 2011, \$860,220; 2012, \$859,854; 2013, \$857,724; 2014-2018, \$4,245,960.

**(9) Conduit Debt - Industrial Revenue Bonds**

Periodically, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is never obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

As of June 30, 2008 and 2007, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$352,384,404 and \$341,237,624, respectively.

**(10) Interest Cost**

The Authority capitalizes interest cost related to construction in progress. The following is a summary of interest cost incurred during 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest cost capitalized	\$ 58,643	69,580
Interest cost expensed to income	<u>4,758,471</u>	<u>3,660,084</u>
Total interest cost incurred	<u>\$ 4,817,114</u>	<u>3,729,664</u>

**(11) Lease Income**

Lease income as reflected in the Statements of Revenues, Expenses, and Changes in Net Assets was \$2,087,395 and \$1,693,492, respectively for the years ended June 30, 2008 and 2007. The following is a detailed list of the revenue earned:

	<u>2008</u>	<u>2007</u>
Social Services Facility	\$ 854,537	699,453
Sportsplex ground rent	-	30,000
Amphitheater rent	178,105	155,099
Virginia Beach National Operations Rent/Profit-Sharing	87,783	86,977
Beach Quarters Inn	114,000	114,000
Town Center Garage	203,206	187,460
31st Street Garage	254,458	-
9th Street Garage	395,306	420,503
	<u>\$ 2,087,395</u>	<u>1,693,492</u>

**(a) Social Services Facility**

In 1998, the Authority entered into a 20-year operating lease with the City. The City pays basic rent equal to the amounts required to pay the principal and interest of the Lease Revenue Bonds Series 1998 (see note 8) and additional rent equal to one-eighth of one percent of the outstanding principal balance of the bonds. In addition, \$50,000 is paid semi-annually and placed in a reserve to be used as needed for capital and structural improvements, maintenance, and repair of the facility (see note 3).

**(b) Sportsplex Ground Rent**

In 1997, the Authority executed a ground lease with the City for the Sportsplex and a stadium operating and use agreement with a private entity. A termination agreement was executed in fiscal year 2001. Under the terms of this agreement, \$300,000 was due to the Authority if a new operator was not found by July 15, 2001. In October 2001, the Authority entered into a five-year joint use

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

agreement with a new operator, for \$60,000 per year to be secured by a \$300,000 letter of credit. When the operator was unable to obtain a letter of credit, the agreement was assigned to another operator with a secured letter of credit. The new operator agreed to pay the Authority \$60,000 per year, however during fiscal year 2005, the rent was not paid in full. In June 2005, a new operator paid the Authority \$17,950 as a partial rental payment; the remainder of the back rent owed to the Authority (\$72,050) was paid in July of 2005. City Council approved the assignment of the remaining term of the lease to a new operator in September of 2005. During fiscal year 2006, the Authority received two \$30,000 rental payments in accordance with the operating and use agreement. During fiscal year 2007, the Authority received the October rental payment in the amount of \$30,000, but a new operating agreement was not signed for the remainder of the fiscal year. Currently, ongoing negotiations are underway to find a new operator for the facility.

**(c) *Amphitheater***

The Amphitheater Lease Agreement provides that Cellar Door Venues, Inc. (Cellar Door) will pay the Authority rent having three components: ground rent, basic rent, and supplemental rent. Ground rent is the sum of \$120,000 offset and reduced by the total amount of Amphitheater leasehold (real estate) taxes paid to the City during the calendar year. Cellar Door also pays basic rent to the Authority in an amount equal to 10% of adjusted ticket revenues (offset by admissions taxes paid to City), 5% of adjusted sponsorship revenues, and 5% of adjusted parking revenues paid during the year. Minimum basic rent is \$610,000 annually (before reduction of admissions taxes, parking and sponsorship revenues) until the City recovers its investment, after which time the Authority may retain an administrative fee. In addition, Cellar Door is also responsible for the payment of supplemental rent in the amount of \$200,000 every fifth year beginning in December of 2005. Supplemental rent will be paid to the Authority until 2025, or until the City recovers its investment, whichever occurs first. Section 3.2 of the Amphitheater Coordination Agreement provides that the Authority shall remit to the City an amount equal to all rent actually received from Cellar Door under the Lease Agreement. The term of the lease is 30 years.

**(d) *TPC Golf Course/Virginia Beach National Golf Course***

In 1997, the Authority and TPC of Virginia Beach, L.L.C. (TPC) executed a sublease agreement, which ends in October 2037. The basic rent is offset and reduced by the total amount of taxes paid by TPC or TPC's concessionaires to the City during the calendar year.

On October 30, 2006, the sublease agreement between the Authority and TPC of Virginia Beach, L.L.C. was terminated, and the Authority purchased the course land and assets on December 29, 2006. TPC continued to operate the course through March 31, 2007, and basic rent for calendar year 2006 was due and received.

A new operating agreement between the Authority and Virginia Beach Golf Club, L.L.C. was signed on March 30, 2007, and the name of the course was changed to Virginia Beach National Golf Course effective April 1, 2007. The initial term of the agreement will end December 31, 2011, and may be extended at the mutual option of the Authority and Virginia Beach Golf Club, L.L.C. for three additional two-year terms. The rent due to the Authority includes 5% of gross revenues paid monthly as well as a profit sharing payment equal to 25% of net income generated by the Golf Course Facility in excess of \$100,000 during each calendar year.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

Because of the start-up costs incurred by Virginia Beach Golf Club, the Authority agreed to an abatement of the monthly rental payments (but not profit sharing) during the period April 1, 2007 through March 31, 2008.

**(e) Beach Quarters Inn**

In June 2002, as part of the amended and restated 31<sup>st</sup> Street Project Development Agreement and other documents, the Authority agreed to purchase the property and building improvements, at 300 Atlantic Avenue, known as Beach Quarters Inn. The purchase of this property occurred in October 2002. In addition, the Authority executed a lease agreement with Beach Quarters Inn, L.C. The initial lease term is for one-year beginning October 1, 2002 and includes up to nine (9) additional one-year terms. The rent is \$114,000 per annum, paid in equal installments in June, July and August.

**(f) Town Center**

As part of the Town Center Phase I Development Agreement, the Authority has the right to lease the Developer up to 178 of the parking spaces in the Town Center Parking Garage (Block 4). The Master Agreement pertaining to this lease arrangement as well as the Authority's right to lease up to 10,196 square feet of vault space located in the Town Center Parking Garage (Block 4) was executed in December 2002.

As part of the Phase II Development Agreement, the Authority has the right to lease the Developer 85 of the parking spaces in the Town Center Parking Garage (Block 10).

As part of the Phase III Development Agreement, the Authority has the right to lease the Developer 72 of the parking spaces in the Town Center Parking Garage (Block 7). All revenue collected for the reserved parking spaces and vault space is to be forwarded to the Authority to defray the operating costs of the parking garages.

**(g) 31<sup>st</sup> Street Garage**

In fiscal year 2005, the 31<sup>st</sup> Street Garage was completed and the VBDA retained majority ownership of the asset. The garage has 976 spaces, however, only 532 of those spaces are for public parking. The remaining spaces are under a long-term lease agreement with the Hilton Hotel.

**(h) 9<sup>th</sup> Street Garage**

On March 31, 2005, the Authority used proceeds from Public Facility Revenue Bonds to purchase the 9<sup>th</sup> Street Parking Garage for \$9,750,000. The garage consists of 664 spaces, however, only 610 spaces are available for public parking. The remaining 54 spaces are under a long-term lease agreement that was signed prior to the Authority's purchase of the Parking Garage.

**(12) Advances from City of Virginia Beach**

Advances from the City of Virginia Beach represent funds that have been provided, by the City, to the Authority for the construction of capital projects. When construction is complete, the capital asset reverts back to the City or is transferred to the Authority's Proprietary Fund. During fiscal year 2008 and 2007, the City had advanced funding for the following capital projects:

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to the Financial Statements

June 30, 2008 and 2007

Dome Site Project – The project entails developing land located at the southern end of the Virginia Beach boardwalk after it is transferred from the City to the Authority. During fiscal year 2008 and 2007, \$10,200 and \$100,738 was used to fund initial costs related to the development of the site.

Headquarters Hotel Project – The project includes entering into a public/private investment partnership with a development company to construct a headquarters hotel on the southern side of the Virginia Beach Convention Center. During fiscal year 2008, \$527 was used to fund the initial costs related to the project.

Pedestrian Bridge – The project involves the management of the design of the Pedestrian Bridge across Virginia Beach Boulevard in accordance with the contract between the Authority and PB Americas, Inc. During fiscal year 2008, \$272,603 was used to fund the initial costs related to the design of the Pedestrian Bridge.

Town Center Infrastructure – The project is the result of a public/private investment partnership agreement between the City, the Authority, and Town Center Associates, L.L.C. Advances from the City as of June 30, 2008 and 2007 were \$1,738,220 and \$293,109, respectively. During fiscal year 2007, infrastructure assets in the amount of \$24,804 were completed and transferred to the City.

The costs for the Town Center project include infrastructure for streets, curbs and gutters, sidewalks and underground utilities. The total funding used for Phase I of the project was \$6,357,000, of which \$5,000,000 is funded through the Authority's EDIP program and \$1,357,000 was funded through the City's CIP Program. Funding used for Phase II includes \$4,000,000, funded from the Authority's EDIP program and \$3,700,000 from the City's CIP Program. Funding for Phase III includes \$1,000,000 funded from the Authority's EDIP program and \$650,000 from the City's CIP Program.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Schedules of Selling, General, and Other Expenses – Authority Operations

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
General expenses:		
Leases	\$ 775,194	1,329,579
Depreciation	2,510,171	2,056,870
Amphitheater box seating	22,500	21,000
Independent audit fees	14,000	11,330
Amortization	43,983	43,983
Gifts and donations	10,000	10,000
Leasehold improvements	60,003	49,198
	<u>3,435,851</u>	<u>3,521,960</u>
Total general expenses		
Other expenses:		
Town Center infrastructure	712,607	—
Architecture and engineering	32,066	78,779
Park maintenance – Corporate Landing	24,571	23,399
Utilities – Corporate Landing fountain	6,100	6,104
Miscellaneous	27,833	18,174
	<u>803,177</u>	<u>126,456</u>
Total other expenses		
Total selling, general, and other expenses	<u>\$ 4,239,028</u>	<u>3,648,416</u>

## CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Schedules of Land Inventory

June 30, 2008 and 2007

<b>Description:</b>	<b>2008</b>	<b>2007</b>
Oceana West Corporate Park – beginning inventory July 1	\$ 1,555,548	1,555,548
Current – cost of sales	<u>-</u>	<u>-</u>
Oceana West Corporate Park – ending inventory June 30	<u>1,555,548</u>	<u>1,555,548</u>
Corporate Landing Office Park – beginning inventory July 1	10,782,383	10,782,383
Current – cost of sales	<u>-</u>	<u>-</u>
Corporate Landing Office Park – ending inventory June 30	<u>10,782,383</u>	<u>10,782,383</u>
Hunt Club 2 – beginning inventory July 1	200,305	200,305
Current – cost of sales	<u>-</u>	<u>-</u>
Hunt Club 2 – ending inventory June 30	<u>200,305</u>	<u>200,305</u>
Princess Anne – beginning inventory July 1	-	-
Land transferred from City	434,534	-
Current – cost of sales	<u>-</u>	<u>-</u>
Princess Anne – ending inventory June 30	<u>434,534</u>	<u>-</u>
Total ending inventory	\$ <u><u>12,972,770</u></u>	<u><u>12,538,236</u></u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

## Schedules of Construction in Progress

June 30, 2008

	<u>Town Center Infrastructure</u>	<u>Dome Site</u>	<u>Headquarters Hotel</u>	<u>Pedestrian Bridge</u>	<u>Total</u>
Expended during the year ended June 30:					
2000	\$ -	-	-	-	-
2001	3,095,062	-	-	-	3,095,062
2002	956,014	-	-	-	956,014
2003	2,581,205	-	-	-	2,581,205
2004	(1,704,696)	-	-	-	(1,704,696)
2005	(4,901,962)	-	-	-	(4,901,962)
2006	34,449	-	-	-	34,449
2007	233,037	100,738	-	-	333,775
2008	<u>1,445,110</u>	<u>10,200</u>	<u>527</u>	<u>272,603</u>	<u>1,728,440</u>
	<u>\$ 1,738,219</u>	<u>110,938</u>	<u>527</u>	<u>272,603</u>	<u>2,122,287</u>

In fiscal year 2007, \$24,803 of costs associated with Town Center Phase I and II were capitalized and transferred to the City.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Schedules of EDIP Accounts Payable

June 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
Balance Forward	\$ 6,419,360	5,507,241
Funding sources:		
EDIP City Appropriation - fiscal year	2,149,821	2,095,224
Reimbursement for construction management/design expenses	572,755	104,312
Reclassification of infrastructure reimbursements	6,853	-
Interest earned - fiscal year	240,678	154,031
Total Funding Available	<u>9,389,467</u>	<u>7,860,808</u>
Expenses:		
EDIP awards paid	(355,203)	(1,078,653)
Engineering studies, legal fees and miscellaneous expenses	(18,086)	(138,369)
Town Center expenditures	<u>(725,774)</u>	<u>(224,426)</u>
Total Expenditures	<u>(1,099,063)</u>	<u>(1,441,448)</u>
Total Accounts Payable - Economic Development Program Fund	<u>\$ 8,290,404</u>	<u>6,419,360</u>



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
 Component Unit of the City of Virginia Beach, Virginia  
 Schedules of Nonoperating Revenue from City of Virginia Beach  
 Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Central Business District-South payment of debt service for Town Center Note and Public Facility Revenue Bonds	\$ 3,770,578	2,995,478
9th Street Garage payment of debt service for Public Facility Revenue Bonds	724,900	729,863
31st Street Garage payment of debt service for Public Facility Revenue Bonds	1,025,375	1,025,563
Virginia Beach Amphitheater Capital Improvement Program	50,000	50,000
Tournament Players Club January-March Operating Loss	-	200,532
Town Center Garage - Special Service District	<u>834,812</u>	<u>709,839</u>
Total Nonoperating revenue from City of Virginia Beach	<u>\$ 6,405,665</u>	<u>5,711,275</u>



**Independent Auditors' 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**

The Commissioners  
City of Virginia Beach Development Authority

We have audited the basic financial statements of the City of Virginia Beach Development Authority (the "Authority") as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated September 5, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Commissioners, City Council, Authority, and City management and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Virginia Beach, Virginia  
September 5, 2008