

**FINANCIAL STATEMENTS
OF THE
CITY OF VIRGINIA BEACH
DEVELOPMENT AUTHORITY**

**A COMPONENT UNIT OF
THE CITY OF VIRGINIA BEACH, VIRGINIA**

**FOR FISCAL YEARS ENDED
JUNE 30, 2009 AND JUNE 30, 2008**

**PREPARED BY
DEPARTMENT OF ECONOMIC DEVELOPMENT
WARREN D. HARRIS
DIRECTOR**

Acknowledgements....

The preparation of this report has been accomplished by the efficient and dedicated services of the staff of the Department of Economic Development. The contributions of all are invaluable and sincerely appreciated and clearly reflect the high standards which have been set by the City of Virginia Beach Development Authority.

Management - Gregory Anger

Technical Assistance - Don Barnett
Darrell DiVito
Rich Dunford
Paul Harris
Miryam Woodson

It is also appropriate to thank the members of the City of Virginia Beach Development Authority for making possible the excellent financial position of the Authority through their interest and support in planning and conducting the financial affairs of the Authority.

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

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INTRODUCTORY SECTION

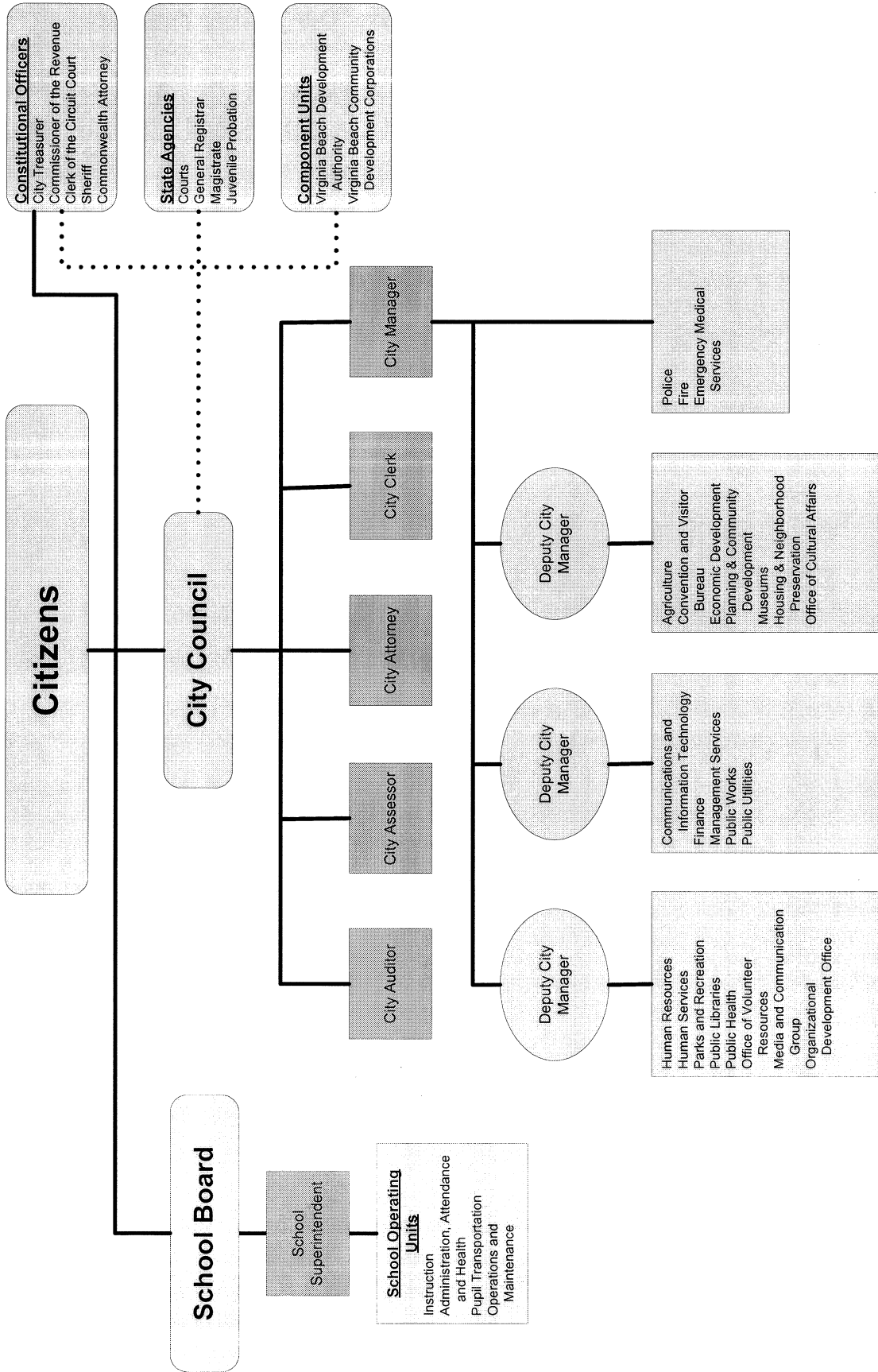
CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia

Commissioners

C. Maxwell Bartholomew, Jr. Commissioner
Dan H. Brockwell Commissioner
Douglas D. Ellis Commissioner
Luke M. Hillier Commissioner
Donald V. Jellig Commissioner
Paul V. Michels Commissioner
Jerrold L. Miller Commissioner
John W. Richardson Commissioner
Prescott Sherrod Commissioner
Elizabeth A. Twohy Commissioner
Shewling Moy Wong Commissioner

The City of Virginia Beach Development Authority would also like to recognize Page G. Lea and Teresa H. Carrington for their service as Commissioners.

Operating Structure





September 15, 2009

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

Dear Commissioners:

The Annual Financial Report of the City of Virginia Beach Development Authority (the Authority) for the fiscal years ended June 30, 2009 and 2008 is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the Authority. 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.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditors.

The Reporting Entity

The City of Virginia Beach Development Authority was established by the authority of the Virginia General Assembly in 1964 in order to increase business investment and to expand the tax base in the state of Virginia. That same year, the City Council of Virginia Beach appointed seven Virginia Beach businessmen to serve as Commissioners of the first Authority, effective July 27, 1964. On July 1, 2003, the Virginia State Code was revised to allow eleven commissioners to serve on Development Authorities within the state. Following that change, the City Council of Virginia Beach appointed four additional commissioners.

The Authority is a component unit of the City of Virginia Beach; however, it is a legally separate organization. The City Council of Virginia Beach was determined to be financially accountable for the Authority on the basis of the selection of the governing authority, designation of management, ability to influence operations, and accountability in fiscal matters.

The Authority exists to facilitate the expansion of the tax base and employment opportunities in the City through increased business development and redevelopment. The Authority uses Industrial Revenue Bonds, the Economic Development Incentive Program, workforce development, project development personnel, and business development personnel to enable and assist businesses to locate and expand in the City of Virginia Beach.

Economic Conditions and Outlook

Like the national and regional economies, the economy of Virginia Beach has slowed down. However, the impacts on the local economy are mitigated by strong defense spending, the military presence, and tourism and shipping industries. In addition, real estate revenues are expected to increase at a much slower rate over the next five years compared to the rapid growth in the recent past.

Economic Development and Employment

During fiscal year 2009, the Authority assisted in the location and expansion of 78 companies, creating new capital investment of \$183.8 million. These companies and businesses created 1,474 new employment opportunities and retained 2,589 existing employment opportunities in Virginia Beach. The Authority provided EDIP assistance in the amount of \$1,875,000 during the fiscal year.

In fiscal year 2009, 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.

The Authority's primary business parks had considerable activity in fiscal year 2009. Within these major business/industrial parks, 36 new and existing Virginia Beach companies expanded or retained their operations.

Development of the highly successful Town Center of Virginia Beach continued in the third phase, 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 square feet of conference facilities and 119 luxury condominiums, 36,500 square feet of high-end retail space, and a structured parking garage with 947 parking spaces. Phase III also included the construction of the 84,000 square foot, 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 square foot commercial building with Class A office space and retail space that was completed in January of 2009.

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.

Hotel/Restaurant Sales

During fiscal year 2009, restaurant sales increased to \$875.84 million from \$871.97 million in fiscal year 2008, an increase of 0.44%. In fiscal year 2009, hotel sales slightly decreased to \$261.05 million from \$268.05 million in fiscal year 2008 (Source: Commissioner of Revenue's Office).

Acknowledgements

During the year, the staff of the City of Virginia Beach Department of Economic Development and the Finance Department rendered professional and knowledgeable services to the City of Virginia Beach Development Authority. We are most appreciative of these efforts and take this opportunity to recognize these public servants.

The Development Authority's oversight of their financial affairs has resulted in this strong financial report, and these individuals are commended for the policies and practices which they put in place to create this outcome.

Respectively,

A handwritten signature in black ink, appearing to read "Warren D. Harris", written over a horizontal line.

Warren D. Harris
Director, Virginia Beach Department of 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, 2009 and 2008, 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, 2009 and 2008, 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 4, 2009 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 8 through 15 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 4, 2009

MANAGEMENT'S DISCUSSION

AND

ANALYSIS

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, 2009 and 2008. Please read it in conjunction with the Authority's transmittal letter at the front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's governmental net assets decreased by \$1.62 million in fiscal year 2009 and increased by \$1.68 million in fiscal year 2008. The decrease in fiscal year 2009 was due to a transfer of completed assets to the City and the increase in net assets in fiscal year 2008 was due to the increase in construction in progress and the absence of large asset transfers during the year.
- The Authority's business-type net assets increased by \$8.24 million in fiscal year 2009 and decreased by \$0.62 million in fiscal year 2008. In fiscal year 2009, the increase was due to the scheduled debt payments throughout the year and the acquisition of the Town Center Beacon land and building that was purchased with CBD-South Tax Increment Financing District funding. In fiscal year 2008, the decrease was due to the sale of the Block 12 retail space in Town Center.
- 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 2009, \$2.04 million of Town Center infrastructure expenses related to Phase III 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.
- On March 6, 2009, the Authority sold .81 acres of land in Corporate Landing Corporate Park for \$0.16 million. The transaction is accounted for in the Authority's Proprietary Fund.
- On May 7, 2009, the Authority purchased 15,000 square feet of retail space in Block 7 of Town Center for \$3.22 million. Immediately following that transaction, the Authority exchanged the 15,000 square foot space in Block 7, \$1.6 million from the Central Business District South TIF, and \$0.17 million of EDIP funding for the Beacon building and land (Block 2) located in Town Center. Block 2 is now owned by the Authority, and the developer of Town Center has the option to purchase the property during the 36 month period following the date of the closing detailed above. As specified in the Development Agreement, the developer is obligated to pay the Authority's cost plus the cost to carry Block 2 when it is purchased.
- 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.

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 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.

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 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).

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

Management's Discussion and Analysis

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, 2009, 2008 and 2007									
(in millions)									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Current and other assets	\$ 1.12	0.60	0.81	35.53	30.83	54.13	36.65	31.43	54.94
Capital assets	0.50	2.12	0.39	107.45	108.91	85.86	107.95	111.03	86.25
Total assets	<u>1.62</u>	<u>2.72</u>	<u>1.20</u>	<u>142.98</u>	<u>139.74</u>	<u>139.99</u>	<u>144.60</u>	<u>142.46</u>	<u>141.19</u>
Current and other liabilities	1.12	0.60	0.76	8.61	9.78	9.06	9.73	10.38	9.82
Long-term liabilities	-	-	-	98.12	101.95	102.30	98.12	101.95	102.30
Total liabilities	<u>1.12</u>	<u>0.60</u>	<u>0.76</u>	<u>106.73</u>	<u>111.73</u>	<u>111.36</u>	<u>107.85</u>	<u>112.33</u>	<u>112.12</u>
Net assets:									
Invested in capital assets, net of related debt	0.50	2.12	0.39	10.53	8.23	9.52	11.03	10.35	9.91
Restricted - other purposes	-	-	-	2.45	1.34	3.63	2.45	1.34	3.63
Unrestricted	-	-	0.05	23.27	18.44	15.48	23.27	18.44	15.53
Total net assets	<u>\$ 0.50</u>	<u>2.12</u>	<u>0.44</u>	<u>36.25</u>	<u>28.01</u>	<u>28.63</u>	<u>36.75</u>	<u>30.13</u>	<u>29.07</u>

At June 30, 2009 and 2008, the total assets of the Authority were \$144.60 and \$142.46 million, respectively; total liabilities were \$107.85 and \$112.33 million, respectively; while combined net assets were \$36.75 and \$30.13 million, respectively.

In fiscal year 2009, land and building inventory increased by \$5.0 million. This increase was due to the purchase of the Town Center Beacon land and building.

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 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.

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

Management's Discussion and Analysis

The Authority incurred capital expenses in the amount of \$0.42 million in fiscal year 2009 and \$1.73 million in fiscal year 2008, respectively, as a result of costs associated with ongoing projects. In fiscal year 2009, \$2.04 million of completed assets were transferred to the City, and in fiscal year 2008, \$0.15 million was transferred to the Authority's Proprietary Fund. These transfers resulted in an ending construction in progress balance of \$0.50 million and \$2.12 million, respectively, in fiscal year 2009 and 2008.

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, 2009, 2008 and 2007									
(in millions)									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Revenues									
Program Revenue:									
Charges for services	\$ -	-	-	3.13	2.74	3.02	3.13	2.74	3.02
Operating grants and contributions	-	-	-	9.51	7.82	5.66	9.51	7.82	5.66
Capital grants and contributions	0.42	1.73	0.36	5.63	1.16	4.59	6.05	2.89	4.95
General Revenue:									
Other	-	0.10	-	0.18	0.31	0.37	0.18	0.41	0.37
Total revenues	0.42	1.83	0.36	18.45	12.03	13.64	18.87	13.86	14.00
Expenses									
Authority Operations	-	-	-	10.23	11.54	9.07	10.23	11.54	9.07
Special Items:									
Contribution from Primary Government	-	-	-	-	0.44	-	-	0.44	-
Donation of Town Center Asset	-	-	-	0.02	0.23	-	0.02	0.23	-
Gain on Sale of Asset	-	-	-	-	0.39	-	-	0.39	-
Transfer of assets	-	-	-	-	0.15	-	-	0.15	-
Transfer to City	(2.04)	-	0.03	-	(2.32)	-	(2.04)	(2.32)	0.03
Transfer of assets to Proprietary Fund	-	(0.15)	-	-	-	-	-	(0.15)	-
Total special items	(2.04)	(0.15)	0.03	0.02	(1.11)	-	(2.02)	(1.26)	0.03
Change in net assets	(1.62)	1.68	0.33	8.24	(0.62)	4.57	6.62	1.06	4.90
Net Assets - Beginning of Year	2.12	0.44	0.11	28.01	28.63	24.06	30.13	29.07	24.17
Net Assets - End of Year	\$ 0.50	2.12	0.44	36.25	28.01	28.63	36.75	30.13	29.07

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

Management's Discussion and Analysis

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, 2009 and 2008, revenues from business-type activities (excluding special items) totaled \$18.45 and \$12.03 million, respectively. This included revenue derived from land and asset sales, industrial revenue bond fees, lease income, investment earnings, and support agreement funding from the City of Virginia Beach.

EXPENSES

In the fiscal year ended June 30, 2009, expenses totaling \$2.04 million represented assets transferred to the City of Virginia Beach. These capitalized development expenses were related to Town Center infrastructure. In 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.

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, 2009 and 2008, these expenses totaled \$10.23 and \$11.54 million, respectively.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority's governmental fund balance was eliminated in fiscal year 2008. 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 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 \$0.42 million and \$1.73 million, respectively, in fiscal year 2009 and 2008.

The proprietary fund includes total net assets of \$36.25 million and \$28.01 million at June 30, 2009 and 2008, respectively. The June 30, 2009 increase is primarily due to the contribution from the CBD-South Tax Increment Financing District to purchase the Town Center Beacon land and building as well as scheduled debt payments made during the fiscal year. 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 offset the transfers from the City and the donation of the Town Center Plaza sculpture. In fiscal year 2009 and 2008, operating revenues from land sales, industrial revenue bond fees, lease income, reliance certificates, and miscellaneous revenue totaled \$2.96 and \$3.24 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$5.51 and \$5.32 million, respectively.

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

Management's Discussion and Analysis

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2009 and 2008, the Authority had invested \$107.95 million and \$111.03 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3. In fiscal year 2009, this represents a net decrease of \$3.08 million. This decrease is largely due to the increase in accumulated depreciation for fiscal year 2009.

Table 3									
Capital Assets									
As of June 30, 2009, 2008 and 2007									
(in millions)									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Non-depreciable assets:									
Land	\$ -	-	-	18.35	18.32	16.91	18.35	18.32	16.91
Other assets and capitalized costs	-	-	-	1.13	0.42	0.82	1.13	0.42	0.82
Construction in progress	0.50	2.12	0.39	-	-	-	0.50	2.12	0.39
Other capital assets:									
Buildings/equipment	-	-	-	100.29	99.74	75.31	100.29	99.74	75.31
Accumulated depreciation on other capital assets	-	-	-	(12.32)	(9.57)	(7.18)	(12.32)	(9.57)	(7.18)
Total net capital assets	\$ 0.50	2.12	0.39	107.45	108.91	85.86	107.95	111.03	86.25

Major capital asset additions in fiscal year 2009 included:

- Town Center Block 7 Parking Garage – The final payment to purchase the public portion of the parking garage - \$375,210

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

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

Management's Discussion and Analysis

Major capital asset disposals and transfers during fiscal year 2009 included:

- Town Center – Transferred Phase III infrastructure construction including streets, curbs and gutters, sidewalks, underground utilities, and other capitalized costs - \$2,038,138

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

LONG-TERM DEBT

At June 30, 2009 and 2008, the Authority had an outstanding loan balance due to the City of Virginia Beach in the amount of \$4.74 and \$5.33 million, respectively, related to the 31st 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 2009, there was one land sale in Corporate Landing which reduced the note by \$32,560. In fiscal year 2009, \$0.55 million of rental income from the 31st Street retail space reduced the amount of the loan.

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.

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

Statements of Net Assets
June 30, 2009 and 2008

	2009			2008		
	Governmental Activities	Business-Type Activities	2009 Total	Governmental Activities	Business-Type Activities	2008 Total
Assets						
Cash and cash equivalents (note 2)	\$ —	7,368,169	7,368,169	—	7,596,631	7,596,631
Restricted cash and cash equivalents (notes 2 and 3)	1,120,863	7,912,448	9,033,311	603,256	6,553,359	7,156,615
Receivables, net (note 4)	—	236,981	236,981	—	224,860	224,860
Receivables, restricted (note 4)	—	1,569,865	1,569,865	—	2,964,235	2,964,235
Deferred charges	—	474,480	474,480	—	518,464	518,464
Land/Building inventory	—	17,971,424	17,971,424	—	12,972,770	12,972,770
Capital assets (note 5)						
Other non-depreciable assets and capitalized costs	500,359	1,128,470	1,628,829	2,122,287	419,216	2,541,503
Land	—	18,347,468	18,347,468	—	18,321,460	18,321,460
Other capital assets, net of accumulated depreciation	—	87,974,939	87,974,939	—	90,173,028	90,173,028
Total capital assets	500,359	107,450,877	107,951,236	2,122,287	108,913,704	111,035,991
Total assets	1,621,222	142,984,244	144,605,466	2,725,543	139,744,023	142,469,566
Liabilities						
Accounts payable and accrued liabilities (note 6)	—	1,583,982	1,583,982	—	1,603,567	1,603,567
Liabilities payable from restricted assets (note 6)	1,120,863	7,031,012	8,151,875	603,256	8,177,664	8,780,920
Long-term liabilities (note 7)						
Due within one year	—	3,385,000	3,385,000	—	3,140,000	3,140,000
Due in more than one year	—	94,734,320	94,734,320	—	98,812,785	98,812,785
Total liabilities	1,120,863	106,734,314	107,855,177	603,256	111,734,016	112,337,272
Net Assets						
Invested in capital assets, net of related debt	500,359	10,528,547	11,028,906	2,122,287	8,234,452	10,356,739
Restricted, other purposes (note 3)	—	2,451,301	2,451,301	—	1,339,930	1,339,930
Unrestricted	—	23,270,082	23,270,082	—	18,435,625	18,435,625
Total net assets	500,359	36,249,930	36,750,289	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

Statement of Activities
Year Ended June 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities	\$ —	—	416,210	416,210	—	416,210
Development activities						
Business-type activities						
Authority operations	10,226,437	9,505,079	5,627,453	—	8,037,024	8,037,024
Total	\$ 10,226,437	9,505,079	6,043,663	416,210	8,037,024	8,453,234
General Revenues:						
Unrestricted investment earnings				\$ —	177,640	177,640
Special Items:						
Donation of Town Center Christmas Tree				—	25,259	25,259
Payment of infrastructure to Primary Government				(2,038,138)	—	(2,038,138)
Total general revenues and special items				(2,038,138)	202,899	(1,835,239)
Change in net assets				(1,621,928)	8,239,923	6,617,995
Net assets - beginning of year				2,122,287	28,010,007	30,132,294
Net assets - end of year				\$ 500,359	36,249,930	36,750,289

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Statement of Activities
Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
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 Christmas Tree						230,511	230,511
Gain on Sale of Block 12 Retail Space						390,427	390,427
Payment of Princess Anne Commons land						434,534	434,534
Payment of parking reliance certificate revenue to City						(500,752)	(500,752)
Payment of sale proceeds from Block 12 Retail Space to City						(1,824,832)	(1,824,832)
Payment 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

Balance Sheets - Governmental Fund
Special Projects
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Restricted cash and cash equivalents (notes 2 and 3)	\$ 1,120,863	603,256
Total assets	<u>1,120,863</u>	<u>603,256</u>
 Liabilities and Fund Balance		
Liabilities (note 6)		
Liabilities payable from restricted assets	1,120,863	603,256
Total liabilities	<u>1,120,863</u>	<u>603,256</u>
Fund balance		
Unreserved	<u>—</u>	<u>—</u>
Total fund balances	<u>—</u>	<u>—</u>
Total liabilities and fund balance	\$ <u>1,120,863</u>	<u>603,256</u>
 Reconciliation to Statement of Net Assets:		
Ending fund balance	\$ <u>—</u>	<u>—</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	500,359	2,122,287
Net Assets of Governmental Activities	\$ <u>500,359</u>	<u>2,122,287</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, 2009 and 2008

	2009	2008
Revenues		
City Contributions:		
Town Center Infrastructure	\$ 409,675	1,445,110
Dome Site	—	10,200
Headquarters Hotel	—	527
Pedestrian Bridge	6,535	272,603
Income from TPC forfeited security deposit	—	100,000
Interest	—	3,618
Total revenues	416,210	1,832,058
Expenditures		
Construction:		
Town Center Infrastructure	409,675	1,445,110
Dome Site	—	10,200
Headquarters Hotel	—	527
Pedestrian Bridge	6,535	272,603
Total expenditures	416,210	1,728,440
Excess of revenues over expenditures	—	103,618
Other Financing Sources and Uses		
Payment of forfeited TPC security deposit to proprietary fund	—	(156,782)
Net change in fund balance	—	(53,164)
Fund balance at beginning of year	—	53,164
Fund balance at end of year	\$ —	—
Reconciliation to Statement of Activities		
Net change in fund balance	\$ —	(53,164)
Adjustment for the Statement of Activities		
Transfer of infrastructure to Primary Government	(2,038,138)	—
Governmental funds report capital outlays as expenditures while governmental activities capitalize such costs	416,210	1,728,440
Changes in net assets of governmental activities	\$ (1,621,928)	1,675,276

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, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,368,169	7,596,631
Receivables, net (note 4)	25,122	13,001
Receivables, restricted (note 4)	47,804	25,654
Total current assets	7,441,095	7,635,286
Noncurrent assets:		
Restricted cash and cash equivalents (notes 2 and 3)	7,912,448	6,553,359
Receivables, restricted (note 4)	1,522,061	2,938,581
Receivables, net (note 4)	211,859	211,859
Deferred charges (note 1)	474,480	518,464
Land/building inventory	17,971,424	12,972,770
Capital assets (note 5)		
Other non-depreciable assets and capitalized costs	1,128,470	419,216
Land	18,347,468	18,321,460
Buildings and equipment	100,294,066	99,738,661
Less accumulated depreciation	(12,319,127)	(9,565,633)
Total noncurrent assets	135,543,149	132,108,737
Total assets	142,984,244	139,744,023
Liabilities		
Current liabilities:		
Accounts payable (note 6)	213,517	192,193
Accrued liabilities (note 6)	1,370,465	1,411,374
Liabilities payable from restricted assets (note 6)	165,000	150,000
Bonds, notes, and loans payable (note 7)	3,385,000	3,140,000
Total current liabilities	5,133,982	4,893,567
Long-term liabilities:		
Liabilities payable from restricted assets (note 6)	6,866,012	8,027,664
Bonds, notes and loans payable (note 7)	94,734,320	98,812,785
Total liabilities	106,734,314	111,734,016
Net Assets		
Invested in capital assets, net of related debt	10,528,547	8,234,452
Restricted - other purposes (note 3)	2,451,301	1,339,930
Unrestricted	23,270,082	18,435,625
Total net assets	\$ 36,249,930	28,010,007

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, 2009 and 2008

	2009	2008
Operating Revenues:		
Land sales	\$ 162,800	—
Industrial revenue bond fees (note 9)	493,087	517,785
Lease income (notes 8 and 11)	2,418,546	2,087,395
Virginia Beach National Golf Course revenue (note 11)	56,371	129,135
Studio 56 parking reliance certificates	—	500,752
Miscellaneous income	125	—
Total operating revenues	3,130,929	3,235,067
Operating Expenses:		
Cost of land sold	29,292	—
Virginia Beach National Golf Course (note 11)	4,526	85,082
Selling, general, and other expenses (schedule A)	1,260,513	1,728,857
Depreciation	2,753,494	2,510,171
Garage operations	1,634,459	991,186
Total operating expenses	5,682,284	5,315,296
Operating income (loss)	(2,551,355)	(2,080,229)
Nonoperating Revenues (Expenses):		
City of Virginia Beach (schedule E)	9,519,274	6,405,665
Pass through grant - Governor's Opportunity Fund award	—	1,443,677
Disbursement of award proceeds	—	(1,443,677)
Charity Golf Tournament revenues	35,805	24,639
Charity Golf Tournament expenses	(33,142)	(24,639)
Gain on Sale of Block 12 Retail Space	—	390,427
Donation of Town Center Asset	25,259	230,511
Interest income	177,640	310,965
Interest expense (note 10)	(4,511,011)	(4,758,471)
Total nonoperating revenues (expenses)	5,213,825	2,579,097
Income (expense) before transfers and capital contributions	2,662,470	498,868
Other Financing Sources (Uses):		
Capital Contributions - TIF	4,809,507	612,500
Capital Contributions - EDIP	767,946	—
Payment from Special Projects Fund	—	156,782
Payment of parking reliance certificate revenue to City	—	(500,752)
Payment of Princess Anne Commons land from City	—	434,534
Payment of sale proceeds from Block 12 Retail Space to City	—	(1,824,832)
Change in net assets	8,239,923	(622,900)
Total net assets at beginning of year	28,010,007	28,632,907
Total net assets at end of year	\$ 36,249,930	28,010,007

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, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Receipts from customers and users	\$ 2,933,232	2,716,675
Studio 56 Parking Reliance Certificates	—	500,752
EDIP cash receipts	2,272,981	2,149,821
Other operating cash receipts	15,000	15,000
Cash payments to suppliers of goods and services	(2,723,285)	(2,804,700)
Net EDIP activities	(2,052,980)	(132,611)
Net cash provided by operating activities	444,948	2,444,937
Cash flows from capital and related financing activities:		
Principal Repayment on Long-Term Debt	(3,727,018)	(2,344,458)
Interest Paid on Long-Term Debt	(4,684,374)	(4,180,768)
Capital contributions from City	9,129,564	6,476,281
Acquisition of Capital Assets	(51,845)	(44,053)
Capitalization of asset costs	(709,255)	(171,390)
Capital Contributions	549,506	—
Proceeds from Sale of Capital Assets	—	1,824,832
Charity Golf Outing Proceeds, net	1,461	—
Governors Opportunity Fund Award proceeds	—	1,600,000
Governors Opportunity Fund Award	—	(1,443,677)
Other Capital Costs	—	712,607
Payment of parking reliance certificate revenue to City	—	(500,752)
Payment of sale proceeds from Block 12 Retail Space to City	—	(1,824,832)
Payment from Special Projects Fund	—	156,782
Net cash provided by capital and related financing activities	508,039	260,572
Cash flows from investing activities:		
Interest	177,640	312,323
Net increase in cash and cash equivalents	1,130,627	3,017,832
Cash and cash equivalents at beginning of year	14,149,990	11,132,158
Cash and cash equivalents at end of year	\$ 15,280,617	14,149,990
Classified as:		
Current assets	\$ 7,368,169	7,596,631
Restricted assets	7,912,448	6,553,359
	\$ 15,280,617	14,149,990
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (2,551,355)	(2,080,229)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	2,797,477	2,554,154
Changes in assets and liabilities		
Receivables, net	2,243,533	2,132,181
Accounts and other payables	(2,010,908)	(176,169)
Accrued expenses	15,000	15,000
Capitalized assets	(78,091)	—
Land Inventory	29,292	—
Net cash provided by operating activities	\$ 444,948	2,444,937
Noncash transactions:		
Payment of Princess Anne Commons land from City	\$ —	434,534
Donation of Town Center assets	25,259	230,511
Amortization on bond discount/premium	(106,446)	(101,090)
Acquisition of Town Center capital assets and land with City bond proceeds	—	26,489,856
EDIP Appropriations	882,539	—

See accompanying notes to financial statements.

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

Notes to Financial Statements
June 30, 2009 and 2008

(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.

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.

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

Notes to Financial Statements
June 30, 2009 and 2008

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.

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.

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

Notes to Financial Statements
June 30, 2009 and 2008

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 when susceptible to accrual (i.e. when 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. The only revenue source that meets the "susceptible to accrual" criteria is City contributions. 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 Financial Statements
June 30, 2009 and 2008

(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, the cost of those assets and depreciation are 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/Wells Fargo 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 assets by a date certain.

(E) Land/Building 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.

In fiscal year 2009, the Authority purchased the land and building located on Block 2 of Town Center. The building increased the Authority's building inventory by \$150,000 and the land increased the Authority's land inventory by \$4,877,946. The Authority executed an option agreement with a developer stating that the developer will purchase the land and building located on Block 2 by May 7, 2012. The option agreement also states that the purchase price of the land will be the Authority's cost plus cost to carry.

In fiscal year 2008, the City transferred approximately 10.35 acres of land located in Princess Anne Commons to the Authority. This transfer increased the land inventory on the Authority's books in the amount of \$434,534, which was the City's cost basis of the land.

(F) Miscellaneous

Cash, Cash Equivalents, and Investments

The Authority has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Investments are stated at amortized cost or at their fair value. Interest earnings on investments are allocated to the appropriate restricted cash account based on the average monthly cash balance. 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.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements
June 30, 2009 and 2008

Restricted Cash

Restricted cash includes: 1) option deposits on land; 2) excess funds from Town Center option land note and bond proceeds; 3) funds for capital and structural improvements and repairs and maintenance to the Social Services facility; 4) funds for the EDIP; 5) funding from the Governors Opportunity Fund not yet earned by recipient; 6) funds for capital and structural improvements and repairs and maintenance to the Virginia Beach National Golf Course facility; 7) funds for capital and structural improvements, repairs, and maintenance to the assets located in Town Center; and 8) funds held for the design of the pedestrian bridge.

Accounts Receivable

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

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, 2009 and 2008, the unamortized bond issuance costs were \$474,480 and \$518,464.

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.

Reclassification of Restricted Net Assets

Certain restricted net assets in fiscal year 2008 on the Entity-Wide Statement of Net Assets and the Statement of Net Assets for the Proprietary Fund have been reclassified in order to better comply with GASBS 46. The restricted net assets are reported as such because the constraints placed on them are externally imposed and legally enforceable, and do not have an offsetting liability.

(2) Cash and Cash Equivalents

The Authority's June 30, 2009 bank balance was fully covered by the Federal Depository Insurance Corporation (FDIC) 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 the 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.

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At June 30, 2009, the Authority had a balance of \$12.02 million invested in certificates of deposit and certificates of deposit account registry services programs.

The reconciliations of total cash and cash equivalents to the entity-wide financial statements at June 30, 2009 and 2008 are as follows:

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2009
Cash and Cash Equivalents -			
Wachovia	\$ -	7,368,169	7,368,169
Restricted Cash and Cash Equivalents -			
Option Deposits	-	165,000	165,000
Town Center Option Land	-	422	422
Town Center Account	-	45	45
Social Services	-	1,239,889	1,239,889
EDIP	-	5,095,965	5,095,965
EDIP Town Center	1,000,000	-	1,000,000
Governors Opportunity Fund	-	156,323	156,323
Virginia Beach National Capital Reserve	-	67,741	67,741
Town Center Special Service District	-	68,953	68,953
Town Center Capital Reserve	-	1,118,110	1,118,110
Pedestrian Bridge	120,863	-	120,863
Total Restricted Cash and Cash Equivalents	<u>1,120,863</u>	<u>7,912,448</u>	<u>9,033,311</u>
Total	\$ <u><u>1,120,863</u></u>	<u><u>15,280,617</u></u>	<u><u>16,401,480</u></u>

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	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2008
Cash and Cash Equivalents - Wachovia	\$ -	7,596,631	7,596,631
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
Virginia Beach National Capital Reserve	-	28,355	28,355
TPC/VB National Certificates	-	15,440	15,440
Town Center Special Service District	-	196,909	196,909
Pedestrian Bridge	127,397	-	127,397
Total Restricted Cash and Cash Equivalents	<u>603,256</u>	<u>6,553,359</u>	<u>7,156,615</u>
Total	<u>\$ 603,256</u>	<u>14,149,990</u>	<u>14,753,246</u>

(3) Restricted Cash and Cash Equivalents

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 \$165,000 and \$150,000 in the Authority Operations Fund at June 30, 2009 and 2008, respectively.

Restricted cash at June 30, 2009 and 2008 included \$422 of unexpended loan proceeds from the Town Center property financing. These proceeds will be used to reduce the Town Center note when the Authority agrees to sell the next parcel of land in Town Center.

The 2002 Town Center public facility revenue bond account balances at June 30, 2009 and 2008 were \$45 and \$0, 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 Social Services Facility reserve accounts at June 30, 2009 and 2008 were \$1,239,889 and \$1,129,946, respectively. These funds are reserved for capital and structural improvements, maintenance, and repairs to the facility in accordance with the lease agreement (See note 8).

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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, 2009 and 2008 were \$6,095,965 and \$5,351,823, respectively.

The Governors Opportunity Fund (GOF) account balances at June 30, 2009 and 2008 were \$156,323, respectively. 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.

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, 2009 and 2008, the balance of the Virginia Beach National capital reserve account was \$67,741 and \$28,355, respectively.

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. In July of 2008, the Authority transferred proceeds from the gift certificates that were not redeemed into Virginia Beach National's capital reserve account. The account balance at June 30, 2009 and 2008 was \$0 and \$15,440, respectively.

In fiscal year 2003, City Council approved a resolution creating a Special Service District (SSD) encompassing the redeveloped blocks in Town Center. Property owners within the SSD paid an additional tax as well as the City's real estate tax to fund enhanced services within Town Center. The account balance (excluding the reserve) at June 30, 2009 and 2008 was \$68,953 and \$196,909, respectively.

In fiscal year 2003, City Council approved a resolution creating a Special Service District (SSD) encompassing the redeveloped blocks in Town Center. Property owners within the SSD paid an additional tax as well as the City's real estate tax to fund enhanced services within Town Center. Since the free parking garages are considered an enhanced service in Town Center, a consultant was engaged to determine the amount of funding that should be placed into a reserve for capital maintenance and repairs for the parking garages. Per the consultant's findings, the SSD places twenty cents per square foot for each parking garage into a reserve specifically for capital purposes. The account balance at June 30, 2009 and 2008 was \$1,118,110 and \$0, respectively.

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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, 2009 and 2008 was \$120,863 and \$127,397, respectively.

(4) Receivables

Receivables at June 30, 2009 and 2008 consist of the following:

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2009
Authority Operations	\$ -	25,122	25,122
Strategic Growth Area Studies	-	3,624	3,624
Town Center Garage Operations	-	20,258	20,258
Virginia Beach National long-term maintenance	-	23,922	23,922
Deferred Land Sales	-	211,859	211,859
EDIP appropriations from City	-	1,522,061	1,522,061
Gross accounts receivable	-	1,806,846	1,806,846
Less: Allowance for Uncollectibles	-	-	-
Accounts receivable, net	\$ -	1,806,846	1,806,846

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2008
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

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(5) Capital Assets

The following schedules summarize the capital assets of the Authority as of June 30, 2009 and 2008:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2009</u>
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ 2,122,287	416,210	(2,038,138)	500,359
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 419,216	767,410	(58,156)	1,128,470
Land	17,490,369	-	-	17,490,369
Town Center land and capitalized interest	831,091	26,008	-	857,099
Total non-depreciable assets	<u>18,740,676</u>	<u>793,418</u>	<u>(58,156)</u>	<u>19,475,938</u>
Depreciable assets:				
Buildings	99,272,332	428,440		99,700,772
Equipment and fixtures	466,329	126,965	-	593,294
Total depreciable assets	<u>99,738,661</u>	<u>555,405</u>	<u>-</u>	<u>100,294,066</u>
Less Accumulated Depreciation for:				
Buildings	(9,485,190)	(2,709,816)		(12,195,006)
Equipment and fixtures	(80,443)	(43,678)	-	(124,121)
Total accumulated depreciation	<u>(9,565,633)</u>	<u>(2,753,494)</u>	<u>-</u>	<u>(12,319,127)</u>
Capital Assets, Net	<u>\$ 108,913,704</u>	<u>(1,404,671)</u>	<u>(58,156)</u>	<u>107,450,877</u>

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	Balance	Increase	Decrease	Balance
	June 30, 2007	Increase	Decrease	June 30, 2008
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
Town Center land and capitalized interest	772,448	58,643	-	831,091
Total non-depreciable assets	17,723,384	1,097,584	(80,292)	18,740,676
Depreciable assets:				
Buildings	74,897,402	25,852,816	(1,477,886)	99,272,332
Equipment and fixtures	422,277	44,052	-	466,329
Total depreciable assets	75,319,679	25,896,868	(1,477,886)	99,738,661
Less Accumulated Depreciation for:				
Buildings	(7,146,278)	(2,462,685)	123,773	(9,485,190)
Equipment and fixtures	(32,957)	(47,486)	-	(80,443)
Total accumulated depreciation	(7,179,235)	(2,510,171)	123,773	(9,565,633)
Capital Assets, Net	\$ 85,863,828	24,484,281	(1,434,405)	108,913,704

At June 30, 2009 and 2008, depreciation expense related to capital assets was \$2,753,494 and \$2,510,171, respectively, and has been charged to the Authority's Operations Fund.

In fiscal year 2009, assets in the amount of \$2,038,138 located in Town Center were completed and transferred to the City of Virginia Beach.

In fiscal year 2009, a Christmas Tree was donated to the Authority for use in Town Center. The cost of the Christmas Tree was \$25,259 and is being depreciated in the Authority's Operations fund.

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. During fiscal year 2009, an additional \$25,000 was paid for the Block 7 Conference Center and an additional \$375,210 was paid for the Block 7 Parking Garage. The assets were purchased with public facility revenue bond proceeds and proceeds from the sale of the Block 12 retail space.

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 Block 12 retail space was sold to Town Center Associates in the amount of \$1,824,832. The gain on the sale of this asset in the amount of \$390,427 is recorded in the financial statements.

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(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2009 and 2008 consist of the following:

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2009
Accounts payable	\$ -	95,304	95,304
Accounts payable-Golf Course	-	91,663	91,663
Accounts payable-Pedestrian Bridge	120,863	-	120,863
Accounts Payable-CIP	-	81,112	81,112
Accounts payable-GOF	-	156,323	156,323
Accounts Payable-City	-	37,101	37,101
Accounts payable-EDIP	1,000,000	6,618,026	7,618,026
Total accounts payable	<u>1,120,863</u>	<u>7,079,529</u>	<u>8,200,392</u>
Accrued interest	-	1,370,465	1,370,465
Options deposits	-	165,000	165,000
Total accrued liabilities	<u>-</u>	<u>1,535,465</u>	<u>1,535,465</u>
Accounts payable and accrued liabilities	<u>\$ 1,120,863</u>	<u>8,614,994</u>	<u>9,735,857</u>

	Governmental Activities/ Special Projects Fund	Business-Type Activities/ Authority Operations Fund	Total 2008
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>

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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. At June 30, 2009 and 2008, the outstanding balance in the accounts payable-Golf Course account was \$91,663 and \$56,796.

In fiscal year 2008, \$70,616 of CIP funding was unused for Phase III of Town Center and in fiscal year 2009, \$10,496 of CIP funding was unused for the Burton Station project. This funding will be used for future expenses related to the associated projects.

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, 2009 and 2008, \$120,863 and \$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 31st 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 31st Street Parking Garage and the 9th 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.

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(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 December 1, 2006. Under the terms of this agreement, the Authority was not required to make any principal or interest payments on this loan until November of 2008; 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, 2009 and 2008, the outstanding balance was \$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 January of 2009, the Authority approved the Phase IV Development Agreement. Because this agreement specifies that the developer does not have to purchase the remainder of the Town Center land until April of 2012, the due date of the Town Center note payable was extended until December 2010 with the intent to extend it again to 2012.

(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 31st 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 31st 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, 2009 and 2008, the outstanding debt balance was \$4,744,530 and \$5,331,548, respectively.

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Long-term debt activities for the year ended June 30, 2009 and 2008 were as follows:

	Balance			Balance	Amounts
	June 30, 2008	Additions	Reductions	June 30, 2009	Due Within
					One Year
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Lease revenue bonds-Social Services	\$ 5,985,000	-	(480,000)	5,505,000	500,000
Public facility revenue bonds	87,450,000	-	(2,660,000)	84,790,000	2,885,000
Notes payable-Town Center Option Land	1,298,051	-	-	1,298,051	-
Notes payable-City of Virginia Beach	5,331,548	-	(587,018)	4,744,530	-
	100,064,599	-	(3,727,018)	96,337,581	3,385,000
Add: Bond premium	2,070,917	-	(121,755)	1,949,162	-
Less: Bond discount	(182,731)	-	15,308	(167,423)	-
Business- Type Activities/Authority					
Long-Term Debt	\$ 101,952,785	-	(3,833,465)	98,119,320	3,385,000

	Balance			Balance	Amounts
	June 30, 2007	Additions	Reductions	June 30, 2008	Due Within
					One Year
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	-
	102,347,514	61,543	(2,344,458)	100,064,599	3,140,000
Add: Bond premium	2,192,670	-	(121,753)	2,070,917	-
Less: Bond discount	(153,943)	(49,453)	20,665	(182,731)	-
Business- Type Activities/Authority					
Long-Term Debt	\$ 104,386,241	12,090	(2,445,546)	101,952,785	3,140,000

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The requirements to amortize all long-term bonds and notes payable as of June 30, 2009, including interest payments of \$42,736,474 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 3,385,000	4,495,375
2011	4,190,000	4,319,847
2012	6,373,051	4,130,745
2013	5,142,470	3,926,224
2014	5,505,000	3,706,923
2015-2019	29,322,060	14,580,166
2020-2024	32,685,000	6,670,206
2025-2028	9,735,000	906,988
	<u>\$ 96,337,581</u>	<u>42,736,474</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>2009</u>	<u>2008</u>
Social Services Facility (including land)	\$ 9,497,137	9,497,137
Less accumulated depreciation	(1,963,791)	(1,788,863)
Net investment in property held for lease	<u>\$ 7,533,346</u>	<u>7,708,274</u>

Minimum future rental income on operating leases as of June 30, 2009 are as follows: 2010, \$859,086; 2011, \$860,220; 2012, \$859,854; 2013, \$857,724; 2014, \$858,791; 2015-2018, \$3,387,169.

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Notes to Financial Statements
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(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.

As of June 30, 2009 and 2008, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$318,269,007 and \$352,384,404, respectively.

(10) Interest Cost

The Authority capitalizes interest cost related to construction in progress. The following is a summary of interest cost incurred during 2009 and 2008:

	2009	2008
Interest cost capitalized	\$ 26,008	58,643
Interest cost expensed to income	4,511,011	4,758,471
Total interest cost incurred	\$ 4,537,019	4,817,114

(11) Lease Income

Lease income as reflected in the statements of revenues, expenses, and changes in net assets was \$2,250,298 and \$2,087,395, respectively for the years ended June 30, 2009 and 2008. The following is a detailed list of the revenue earned:

	2009	2008
Social Services Facility	\$ 861,095	854,537
Amphitheater rent	180,666	178,105
Virginia Beach National Operations Rent/Profit-Sharing	90,843	87,783
Beach Quarters Inn	114,000	114,000
Town Center Garage	205,108	203,206
31st Street Garage	554,458	254,458
9th Street Garage	412,376	395,306
	\$ 2,418,546	2,087,395

(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).

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(B) *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.

(C) *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 10% of gross revenues paid monthly (5% for rent and 5% for future capital maintenance and repairs to the facility) 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.

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. Beginning April 1, 2008, the Authority began receiving monthly rental payments in the amount of 10% gross revenue in accordance with the lease agreement.

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(D) Beach Quarters Inn

In June 2002, as part of the amended and restated 31st 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.

(E) 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.

(F) 31st Street Garage

In fiscal year 2005, the 31st 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 Burlage Associates.

(G) 9th Street Garage

On March 31, 2005, the Authority used proceeds from Public Facility Revenue Bonds to purchase the 9th 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 2009 and 2008, the City had advanced funding for the following capital projects:

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 2009 and 2008, \$0 and \$10,200 was used to fund initial costs related to the development of the site.

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Headquarters Hotel Project – The project includes entering into a public/private investment partnership with a development company to construct a headquarters hotel to the south of the Virginia Beach Convention Center. During fiscal year 2009 and 2008, \$0 and \$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 2009 and 2008, \$6,535 and \$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. During fiscal year 2009 and 2008, \$409,675 and \$1,445,110 was used to fund infrastructure costs related to Town Center, and infrastructure assets in the amount of \$2,038,138 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 and \$3,700,000 from the City's CIP Program. Funding for Phase III includes \$1,000,000 funded from the Authority's EDIP and \$650,000 from the City's CIP Program. The Beacon Exchange, which took place in fiscal year 2009, included funding of \$4,260,000 from the Central Business South TIF as well as \$767,946 from the Authority's EDIP. Phase IV of this project includes \$3,500,000, which will be funded through the Authority's EDIP program as well.

(13) Subsequent Events

Circuit City Building

In fiscal year 2010, the Virginia Beach Development Authority purchased the vacant Circuit City building located to the south of Dick's Sporting Goods in Town Center. The purchase price of the property was provided by the City in the amount of approximately \$5,000,000, and the land will be used for the future expansion of Town Center. Currently, the existing building is available for lease until the parcel is redeveloped.

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
General expenses:		
Leases	\$ 797,889	775,194
Amphitheater box seating	22,500	22,500
Independent audit fees	15,000	14,000
Amortization	43,983	43,983
Gifts and donations	10,000	10,000
Leasehold improvements	82,688	60,003
Total general expenses	<u>972,060</u>	<u>925,680</u>
Other expenses:		
Town Center infrastructure	149,297	712,607
Architecture and engineering	81,372	32,066
Park maintenance – Corporate Landing	20,498	24,571
Utilities – Corporate Landing fountain	5,774	6,100
Miscellaneous	31,512	27,833
Total other expenses	<u>288,453</u>	<u>803,177</u>
Total selling, general, and other expenses	\$ <u>1,260,513</u>	<u>1,728,857</u>

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

Schedules of Land and Building Inventory
June 30, 2009 and 2008

Description:	<u>2009</u>	<u>2008</u>
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>(29,292)</u>	<u>—</u>
Corporate Landing Office Park – ending inventory June 30	<u>10,753,091</u>	<u>10,782,383</u>
Town Center Beacon Building – beginning inventory July 1	—	—
Current – building acquisition	150,000	
Current – cost of sales	<u>—</u>	<u>—</u>
Town Center Beacon Building – ending inventory June 30	<u>150,000</u>	<u>—</u>
Town Center Beacon Land – beginning inventory July 1	—	—
Current – land acquisition	4,877,946	
Current – cost of sales	<u>—</u>	<u>—</u>
Town Center Beacon Land – ending inventory June 30	<u>4,877,946</u>	<u>—</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	434,534	—
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>434,534</u>
Total ending inventory	<u>\$ 17,971,424</u>	<u>12,972,770</u>

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

Schedules of Construction in Progress
June 30, 2009

	<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	1,445,110	10,200	527	272,603	1,728,440
2009	(1,628,463)	—	—	6,535	(1,621,928)
	<u>\$ 109,756</u>	<u>110,938</u>	<u>527</u>	<u>279,138</u>	<u>500,359</u>

In fiscal year 2009, \$2,038,138 of costs associated with Town Center Phase III were capitalized and transferred to the City.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
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Schedules of EDIP Accounts Payable
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Balance Forward	\$ 8,290,404	6,419,360
Funding sources:		
EDIP City Appropriation - fiscal year	882,539	2,149,821
Reimbursement for legal fees and engineering fees	216,876	572,755
Reclassification of infrastructure reimbursements	—	6,853
Interest earned - fiscal year	175,823	240,678
Total Funding Available	<u>9,565,642</u>	<u>9,389,467</u>
Expenses:		
EDIP awards paid	(591,000)	(355,203)
Engineering studies, legal fees and miscellaneous expenses	(112,830)	(18,086)
Purchase of Beacon Building	(767,946)	—
Town Center expenditures	(475,840)	(725,774)
Total Expenditures	<u>(1,947,616)</u>	<u>(1,099,063)</u>
Total Accounts Payable - Economic Development Program	\$ <u>7,618,026</u>	<u>8,290,404</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Central Business District - South payment of debt service for Town Center Note and Public Facility Revenue Bonds	\$ 5,291,276	3,770,578
9th Street Garage payment of debt service for Public Facility Revenue Bonds	725,175	724,900
31st Street Garage payment of debt service for Public Facility Revenue Bonds	1,024,713	1,025,375
Virginia Beach Amphitheater Capital Improvement Program	50,000	50,000
Town Center Garage - Special Service District	2,428,110	834,812
Total Nonoperating Revenue From City of Virginia Beach	<u>\$ 9,519,274</u>	<u>6,405,665</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, 2009 and 2008, and have issued our report thereon dated September 4, 2009. 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, Bekant & Holland, L.L.P.

Virginia Beach, Virginia
September 4, 2009