

**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, 2010 AND JUNE 30, 2009**

**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 - Sean Murphy

Technical Assistance - Don Barnett  
Nancy Leavitt  
Paul Harris

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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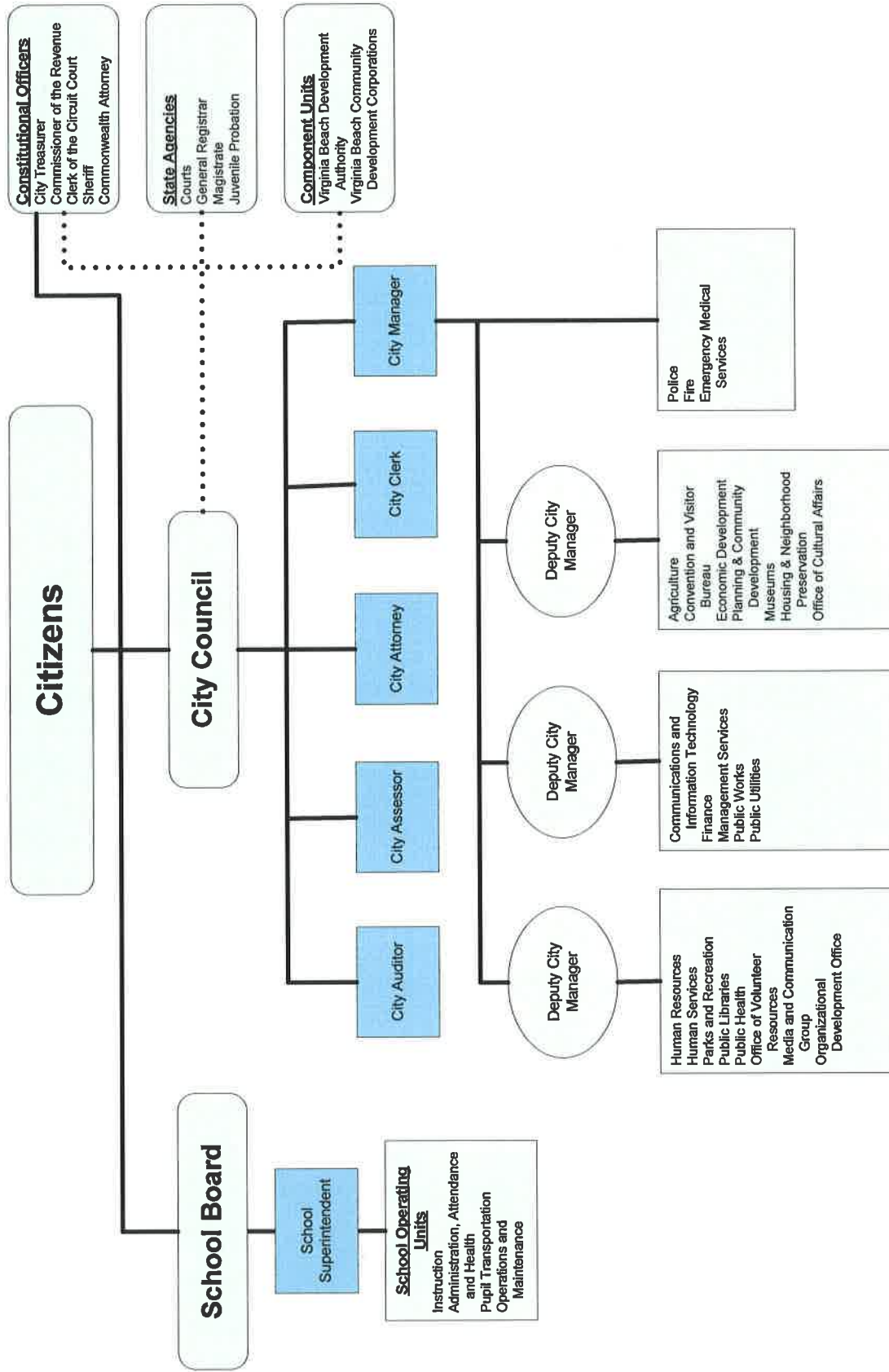
## **INTRODUCTORY SECTION**

**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

# Operating Structure





September 29, 2010

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, 2010 and 2009 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 2010, the Authority assisted in the location and expansion of 64 companies, creating new capital investment of \$48.8 million. These companies and businesses created 1,450 new employment opportunities in Virginia Beach. The Authority provided Economic Development Investment Program (EDIP) assistance in the amount of \$568,000 during the fiscal year.

In fiscal year 2010, 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 third phase of development of the highly successful Town Center of Virginia Beach was completed during fiscal year 2009 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 2010, restaurant sales increased to \$878.05 million from \$875.84 million in fiscal year 2009, an increase of 0.25%. In fiscal year 2010, hotel sales slightly decreased to \$259.15 million from \$261.05 million in fiscal year 2009 (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". The signature is fluid and cursive, with a prominent initial "W".

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, 2010 and 2009, 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, 2010 and 2009, 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 October 11, 2010 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, Bekert & Holland, L. L. P.*

Virginia Beach, Virginia  
October 11, 2010

**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, 2010 and 2009. 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 remained relatively unchanged in fiscal year 2010 and decreased by \$1.62 million in fiscal year 2009. The decrease in fiscal year 2009 was due to a transfer of completed assets to the City during the year.
- The Authority's business-type net assets increased by \$8.00 million in fiscal year 2010 and increased by \$8.24 million in fiscal year 2009. In fiscal year 2010, the increase was related to the acquisition of the 110 South Independence Boulevard and Burton Station properties. 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 Central Business District-South Tax Increment Financing (TIF) District funding.
- 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 August 2009, the Authority purchased the former Circuit City building and land located at 110 South Independence Boulevard for \$5.02 million. The building was subsequently leased to East Coast Appliance in December 2009.
- In December 2009, the Authority purchased 2.06 acres of land located at 5858 Burton Station Road for \$0.5 million. Part of this purchase is intended to be used for road improvements while the remainder will be available to be sold.
- 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.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Management's Discussion and Analysis

### 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 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 – are one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in an entity's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

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

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

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

**FUND FINANCIAL STATEMENTS**

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

The Authority has two types of funds:

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

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

**FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

**Net Assets:**

The following table reflects the condensed net assets of the Authority:

<b>Table 1</b>									
<b>Net Assets</b>									
<b>As of June 30, 2010, 2009 and 2008</b>									
<b>(in millions)</b>									
	<b>Governmental</b>			<b>Business-Type</b>			<b>Total</b>		
	<b>Activities</b>			<b>Activities</b>					
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Current and other assets	\$ 2.12	1.12	0.60	36.79	35.53	30.83	38.91	36.65	31.43
Capital assets	0.50	0.50	2.12	110.16	107.45	108.91	110.66	107.95	111.03
Total assets	<u>2.62</u>	<u>1.62</u>	<u>2.72</u>	<u>146.95</u>	<u>142.98</u>	<u>139.74</u>	<u>149.57</u>	<u>144.60</u>	<u>142.46</u>
Current and other liabilities	2.12	1.12	0.60	8.59	8.61	9.78	10.71	9.73	10.38
Long-term liabilities	-	-	-	94.11	98.12	101.95	94.11	98.12	101.95
Total liabilities	<u>2.12</u>	<u>1.12</u>	<u>0.60</u>	<u>102.70</u>	<u>106.73</u>	<u>111.73</u>	<u>104.82</u>	<u>107.85</u>	<u>112.33</u>
Net assets:									
Invested in capital assets, net of related debt	0.50	0.50	2.12	17.21	10.53	8.23	17.71	11.03	10.35
Restricted - other purposes	-	-	-	2.91	2.45	1.34	2.91	2.45	1.34
Unrestricted	-	-	-	24.13	23.27	18.44	24.13	23.27	18.44
Total net assets	<u>\$ 0.50</u>	<u>0.50</u>	<u>2.12</u>	<u>44.25</u>	<u>36.25</u>	<u>28.01</u>	<u>44.75</u>	<u>36.75</u>	<u>30.13</u>

At June 30, 2010 and 2009, the total assets of the Authority were \$149.57 and \$144.60 million, respectively; total liabilities were \$104.82 and \$107.85 million, respectively; while combined net assets were \$44.75 and \$36.75 million, respectively.

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

Management's Discussion and Analysis

In fiscal year 2010, the Authority's business-type long-term liabilities decreased by \$4.01 million. This decrease was primarily due to the liquidation of outstanding debt and the public facility revenue bonds refunding approved by the Authority in March 2010.

In fiscal year 2010 and 2009, the Authority's land and building inventory increased by \$5.5 and \$5.0 million, respectively. This increase was due to the purchase of the former Circuit City property near Town Center and land at Burton Station during fiscal year 2010 and the Town Center Beacon land and building during fiscal year 2009.

The Authority incurred capital expenses in the amount of \$0.42 million in fiscal year 2009 as a result of costs associated with ongoing projects. In fiscal year 2009, \$2.04 million of completed assets were transferred to the City. These transfers resulted in an ending construction in progress balance of \$0.50 million in both fiscal years 2010 and 2009.

**Changes in Net Assets:**

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

<b>Table 2</b>									
<b>Changes in Net Assets</b>									
<b>Years Ended June 30, 2010, 2009 and 2008</b>									
<b>(in millions)</b>									
	Governmental			Business-Type			Total		
	Activities			Activities					
	2010	2009	2008	2010	2009	2008	2010	2009	2008
<b>Revenues</b>									
<b>Program Revenue:</b>									
Charges for services	\$ -	-	-	3.07	3.13	2.74	3.07	3.13	2.74
Operating grants and contributions	-	-	-	14.23	9.51	7.82	14.23	9.51	7.82
Capital grants and contributions	-	0.42	1.73	0.03	5.63	1.16	0.03	6.05	2.89
<b>General Revenue:</b>									
Other	-	-	0.10	0.14	0.18	0.31	0.14	0.18	0.41
<b>Total revenues</b>	<b>-</b>	<b>0.42</b>	<b>1.83</b>	<b>17.47</b>	<b>18.45</b>	<b>12.03</b>	<b>17.47</b>	<b>18.87</b>	<b>13.86</b>
<b>Expenses</b>									
<b>Authority Operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9.47</b>	<b>10.23</b>	<b>11.54</b>	<b>9.47</b>	<b>10.23</b>	<b>11.54</b>
<b>Special Items:</b>									
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)	-	-	-	(2.32)	-	(2.04)	(2.32)
Transfer of assets to Proprietary Fund	-	-	(0.15)	-	-	-	-	-	(0.15)
<b>Total special items</b>	<b>-</b>	<b>(2.04)</b>	<b>(0.15)</b>	<b>-</b>	<b>0.02</b>	<b>(1.11)</b>	<b>-</b>	<b>(2.02)</b>	<b>(1.26)</b>
<b>Change in net assets</b>	<b>-</b>	<b>(1.62)</b>	<b>1.68</b>	<b>8.00</b>	<b>8.24</b>	<b>(0.62)</b>	<b>8.00</b>	<b>6.62</b>	<b>1.06</b>
Net Assets - beginning of year	0.50	2.12	0.44	36.25	28.01	28.63	36.75	30.13	29.07
<b>Net Assets - end of year</b>	<b>\$ 0.50</b>	<b>0.50</b>	<b>2.12</b>	<b>44.25</b>	<b>36.25</b>	<b>28.01</b>	<b>44.75</b>	<b>36.75</b>	<b>30.13</b>



## **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, 2010 and 2009, revenues from business-type activities (excluding special items) totaled \$17.47 and \$18.45 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.

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, 2010 and 2009, these expenses totaled \$9.47 and \$10.23 million, respectively.

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

The Authority's governmental fund activities reflect support from the City of Virginia Beach as well as expenditures on Town Center infrastructure and the Pedestrian Bridge across Virginia Beach Boulevard. During fiscal year 2009, governmental fund expenditures totaled \$0.42 million. The ending fund balance of the governmental fund for both fiscal year 2010 and 2009 was \$0.5 million.

The proprietary fund includes total net assets of \$44.25 million and \$36.25 million at June 30, 2010 and 2009, respectively. The June 30, 2010 increase is primarily attributable to the acquisition of the former Circuit City building and land at 110 South Independence Boulevard and the reduction of long-term debt that resulted from the liquidation of debt and the public facility revenue bond refunding. The June 30, 2009 increase is primarily due to the contribution from the Central Business District-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. In fiscal year 2010 and 2009, operating revenues from land sales, industrial revenue bond fees, lease income, reliance certificates, and miscellaneous revenue totaled \$3.07 and \$3.13 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$5.74 and \$5.68 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, 2010 and 2009, the Authority had invested \$110.67 million and \$107.95 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3. In fiscal year 2010, this represents a net increase of \$2.72 million. This increase is largely due to the acquisition of the former Circuit City building and land.

<b>Table 3</b>									
<b>Capital Assets</b>									
<b>As of June 30, 2010, 2009 and 2008</b>									
<b>(in millions)</b>									
	<b>Governmental</b>			<b>Business-Type</b>			<b>Total</b>		
	<b>Activities</b>			<b>Activities</b>					
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Non-depreciable assets:</b>									
Land	\$ -	-	-	21.94	18.35	18.32	21.94	18.35	18.32
Other assets and capitalized costs	-	-	-	1.13	1.13	0.42	1.13	1.13	0.42
Construction in progress	0.50	0.50	2.12	-	-	-	0.50	0.50	2.12
<b>Other capital assets:</b>									
Buildings/equipment	-	-	-	102.25	100.29	99.74	102.25	100.29	99.74
Accumulated depreciation on other capital assets	-	-	-	(15.15)	(12.32)	(9.57)	(15.15)	(12.32)	(9.57)
<b>Total net capital assets</b>	<b>\$ 0.50</b>	<b>0.50</b>	<b>2.12</b>	<b>110.17</b>	<b>107.45</b>	<b>108.91</b>	<b>110.67</b>	<b>107.95</b>	<b>111.03</b>

Major capital asset additions in fiscal year 2010 included:

- 110 South Independence Boulevard building and land – The purchase of the former Circuit City property in October 2009 - \$5,033,213
- 5858 Burton Station Road land – 2.06 acres of land purchased in December 2009 - \$500,000

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

There were no major capital asset disposals and transfers during fiscal year 2010.

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

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

Component Unit of the City of Virginia Beach, Virginia

### Management's Discussion and Analysis

#### **LONG-TERM DEBT**

At June 30, 2010 and 2009, the Authority had an outstanding loan balance due to the City of Virginia Beach in the amount of \$4.23 and \$4.74 million, respectively, related to the 31<sup>st</sup> Street land and corporate parks. The covenants in effect while the loan is outstanding state that twenty percent of the net proceeds from land sales within Corporate Landing and Oceana West Corporate Parks will be distributed to the City to reduce the outstanding debt balance. In fiscal year 2010, there were no land sales. In fiscal year 2010, \$0.51 million of rental income from the 31<sup>st</sup> Street retail space reduced the amount of the loan.

In fiscal year 2010, the Authority acted as the conduit issuer for \$98.04 million in Series 2010B Public Facility Refunding Revenue Bonds and \$40.45 million in Series 2010C Public Facility Refunding Revenue Bonds, at the request of the City of Virginia Beach. Included in the bonds sold were \$37.02 million in Public Facility Refunding Revenue Bonds to refund debt held by the Authority. The remainder of the bond issue was for City owned assets, and thus, not reflected in the Authority's financial statements. For additional analysis related to long-term debt activities of the Authority, see note 7.

#### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

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

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

Statements of Net Assets  
June 30, 2010 and 2009

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total 2010</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total 2010</b>
<b>Assets</b>						
Cash and cash equivalents (note 2)	\$ —	7,864,868	7,864,868	—	7,368,169	7,368,169
Restricted cash and cash equivalents (notes 2 and 3)	2,120,766	7,597,004	9,717,770	1,120,863	7,912,448	9,033,311
Receivables, net (note 4)	—	250,789	250,789	—	236,981	236,981
Receivables, restricted (note 4)	—	2,672,120	2,672,120	—	1,569,865	1,569,865
Deferred charges	—	430,497	430,497	—	474,480	474,480
Land/building inventory	—	17,971,424	17,971,424	—	17,971,424	17,971,424
Capital assets (note 5)						
Other non-depreciable assets and capitalized costs	500,457	1,130,390	1,630,847	500,359	1,128,470	1,628,829
Land	—	21,936,212	21,936,212	—	18,347,468	18,347,468
Other capital assets, net of accumulated depreciation	—	87,098,784	87,098,784	—	87,974,939	87,974,939
Total capital assets	500,457	110,165,386	110,665,843	500,359	107,450,877	107,951,236
Total assets	2,621,223	146,952,088	149,573,311	1,621,222	142,984,244	144,605,466
<b>Liabilities</b>						
Accounts payable and accrued liabilities (note 6)	—	1,221,699	1,221,699	—	1,583,982	1,583,982
Liabilities payable from restricted assets (note 6)	2,120,766	7,366,706	9,487,472	1,120,863	7,031,012	8,151,875
Long-term liabilities (note 7)						
Due within one year	—	4,210,000	4,210,000	—	3,385,000	3,385,000
Due in more than one year	—	89,901,370	89,901,370	—	94,734,320	94,734,320
Total liabilities	2,120,766	102,699,775	104,820,541	1,120,863	106,734,314	107,855,177
<b>Net Assets</b>						
Invested in capital assets, net of related debt	500,457	17,207,024	17,707,481	500,359	10,528,547	11,028,906
Restricted, other purposes (note 3)	—	2,912,721	2,912,721	—	2,451,301	2,451,301
Unrestricted	—	24,132,568	24,132,568	—	23,270,082	23,270,082
Total net assets	500,457	44,252,313	44,752,770	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, 2010

Functions/Programs	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 2010
Governmental activities:							
Development activities	\$ —	—	—	98	98	—	98
Business-type activities:							
Authority operations	9,467,197	3,069,327	14,209,300	50,000	—	7,861,430	7,861,430
Total	\$ 9,467,197	3,069,327	14,209,300	50,098	98	7,861,430	7,861,528
General revenues:							
Unrestricted investment earnings						140,953	140,953
Total general revenues and special items					—	140,953	140,953
Change in net assets					98	8,002,383	8,002,481
Net assets - beginning of year					500,359	36,249,930	36,750,289
Net assets - end of year					\$ 500,457	44,252,313	44,752,770

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

Functions/Programs	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 2009
Governmental activities:							
Development activities	\$ —	—	—	416,210	416,210	—	416,210
Business-type activities:							
Authority operations	10,226,437	3,130,929	9,505,079	5,627,453	—	8,037,024	8,037,024
Total	\$ 10,226,437	3,130,929	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

Balance Sheets - Governmental Fund  
Special Projects  
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Restricted cash and cash equivalents (notes 2 and 3)	\$ 2,120,766	1,120,863
Total assets	<u>2,120,766</u>	<u>1,120,863</u>
 <b>Liabilities and Fund Balance</b>		
Liabilities (note 6)		
Liabilities payable from restricted assets	2,120,766	1,120,863
Total liabilities	<u>2,120,766</u>	<u>1,120,863</u>
Fund balance		
Unreserved	—	—
Total fund balances	<u>—</u>	<u>—</u>
Total liabilities and fund balance	<u>\$ 2,120,766</u>	<u>1,120,863</u>
 <b>Reconciliation to Statement of Net Assets</b>		
Ending fund balance	\$ —	—
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	500,457	500,359
Net assets of governmental activities	<u>\$ 500,457</u>	<u>500,359</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, 2010 and 2009

	<b>2010</b>	<b>2009</b>
<b>Revenues</b>		
City contributions:		
Town Center infrastructure	\$ 98	409,675
Pedestrian bridge	—	6,535
Total revenues	98	416,210
<b>Expenditures</b>		
Construction:		
Town Center infrastructure	98	409,675
Pedestrian bridge	—	6,535
Total expenditures	98	416,210
Excess of revenues over expenditures	—	—
Net change in fund balance	—	—
Fund balance - beginning of year	—	—
Fund balance - end of year	\$ —	\$ —
<b>Reconciliation to Statement of Activities</b>		
Net change in fund balance	\$ —	—
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	98	416,210
Change in net assets of governmental activities	\$ 98	(1,621,928)

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, 2010 and 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,864,868	7,368,169
Receivables, net (note 4)	38,930	25,122
Receivables, restricted (note 4)	37,825	47,804
Total current assets	7,941,623	7,441,095
Noncurrent assets:		
Restricted cash and cash equivalents (notes 2 and 3)	7,597,004	7,912,448
Receivables, restricted (note 4)	2,634,295	1,522,061
Receivables, net (note 4)	211,859	211,859
Deferred charges (note 1)	430,497	474,480
Land/building inventory	17,971,424	17,971,424
Capital assets (note 5)		
Other non-depreciable assets and capitalized costs	1,130,390	1,128,470
Land	21,936,212	18,347,468
Buildings and equipment	102,247,451	100,294,066
Less accumulated depreciation	(15,148,667)	(12,319,127)
Total noncurrent assets	139,010,465	135,543,149
Total assets	146,952,088	142,984,244
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (note 6)	406,268	213,517
Accrued liabilities (note 6)	815,431	1,370,465
Liabilities payable from restricted assets (note 6)	202,106	165,000
Bonds, notes, and loans payable (note 7)	4,210,000	3,385,000
Total current liabilities	5,633,805	5,133,982
Long-term liabilities:		
Liabilities payable from restricted assets (note 6)	7,164,600	6,866,012
Bonds, notes and loans payable (note 7)	89,901,370	94,734,320
Total liabilities	102,699,775	106,734,314
<b>Net Assets</b>		
Invested in capital assets, net of related debt	17,207,024	10,528,547
Restricted, other purposes (note 3)	2,912,721	2,451,301
Unrestricted	24,132,568	23,270,082
Total net assets	\$ 44,252,313	36,249,930

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, 2010 and 2009

	2010	2009
<b>Operating Revenues:</b>		
Land sales	\$ —	162,800
Industrial revenue bond fees (note 9)	454,493	493,087
Lease income (notes 8 and 11)	2,578,733	2,418,546
Virginia Beach National Golf Course revenue (note 11)	29,374	56,371
Miscellaneous income	6,727	125
Total operating revenues	3,069,327	3,130,929
<b>Operating Expenses:</b>		
Cost of land sold	—	29,292
Virginia Beach National Golf Course (note 11)	29,374	4,526
Selling, general, and other expenses (schedule A)	1,331,086	1,260,513
Depreciation	2,829,540	2,753,494
Garage operations	1,552,799	1,634,459
Total operating expenses	5,742,799	5,682,284
Operating income (loss)	(2,673,472)	(2,551,355)
<b>Nonoperating Revenues (Expenses):</b>		
City of Virginia Beach (schedule E)	14,229,535	9,519,274
Charity golf tournament revenues	29,765	35,805
Charity golf tournament expenses	(37,531)	(33,142)
Donation of Town Center asset	—	25,259
Interest income	140,953	177,640
Interest expense (note 10)	(3,686,867)	(4,511,011)
Total nonoperating revenues (expenses)	10,675,855	5,213,825
Income before transfers and capital contributions	8,002,383	2,662,470
Capital contributions - TIF	—	4,809,507
Capital contributions - EDIP	—	767,946
Change in net assets	8,002,383	8,239,923
Total net assets - beginning of year	36,249,930	28,010,007
Total net assets - end of year	\$ 44,252,313	36,249,930

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers and users	\$ 3,078,720	2,933,232
Studio 56 Parking Reliance Certificates	—	—
EDIP cash receipts	1,018,988	2,272,981
Other operating cash receipts	—	15,000
Cash payments to suppliers of goods and services	(2,580,773)	(2,723,285)
Net EDIP activities	<u>(1,887,656)</u>	<u>(2,052,980)</u>
Net cash provided by (used in) operating activities	<u>(370,721)</u>	<u>444,948</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal repayment on long-term debt	(3,901,504)	(3,727,018)
Interest paid on long-term debt	(4,357,264)	(4,684,374)
Capital contributions from City	14,229,535	9,129,564
Acquisition of capital assets	—	(51,845)
Capitalization of asset costs	(1,920)	(709,255)
Capital contributions	—	549,506
Charity golf outing proceeds, net	(24,611)	1,461
Payment for land/building	<u>(5,533,213)</u>	<u>—</u>
Net cash provided by capital and related financing activities	<u>411,023</u>	<u>508,039</u>
<b>Cash flows from investing activities:</b>		
Interest	<u>140,953</u>	<u>177,640</u>
Net increase in cash and cash equivalents	181,255	1,130,627
Cash and cash equivalents - beginning of year	<u>15,280,617</u>	<u>14,149,990</u>
Cash and cash equivalents - end of year	\$ <u><u>15,461,872</u></u>	\$ <u><u>15,280,617</u></u>
Classified as:		
Current assets	\$ 7,864,868	7,368,169
Restricted assets	<u>7,597,004</u>	<u>7,912,448</u>
	\$ <u><u>15,461,872</u></u>	\$ <u><u>15,280,617</u></u>
<b>Reconciliation of operating income to net cash from operating activities:</b>		
Operating loss	\$ (2,673,472)	(2,551,355)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization expense	2,873,523	2,797,477
Changes in assets and liabilities:		
Receivables, net	1,028,381	2,243,533
Accounts and other payables	(1,599,153)	(2,010,908)
Accrued expenses	—	15,000
Capitalized assets	—	(78,091)
Land inventory	—	29,292
Net cash provided by (used in) operating activities	\$ <u><u>(370,721)</u></u>	<u><u>444,948</u></u>
Noncash transactions:		
Donation of Town Center assets	\$ —	25,259
Amortization on bond discount/premium	(106,446)	(106,446)
EDIP appropriations	2,120,578	882,539
Refunding bonds	37,015,000	—

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, 2010 and 2009

### (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, 2010 and 2009

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, 2010 and 2009

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, 2010 and 2009

**(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.

There were no purchases of land or buildings for resale during fiscal year 2010.

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.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2010 and 2009

**(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.

**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; 8) funds held for the design of the pedestrian bridge and 9) cash on deposit for the ITA study.

**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, 2010 and 2009, the unamortized bond issuance costs were \$430,497 and \$474,480.

**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.



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

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**(2) Cash and Cash Equivalents**

The Authority's June 30, 2010 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.

At June 30, 2010, the Authority had a balance of \$12.49 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, 2010 and 2009 are as follows:

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2010</b>
Cash and cash equivalents:			
Wachovia	\$ -	7,864,868	7,864,868
Restricted cash and cash equivalents:			
Option deposits	-	165,000	165,000
Town Center Option Land	-	422	422
Social Services	-	1,333,407	1,333,407
ITA Study	-	59,236	59,236
EDIP	-	4,227,297	4,227,297
EDIP Town Center	1,999,903	-	1,999,903
Governors Opportunity Fund	-	156,323	156,323
Virginia Beach National Capital Reserve	-	135,663	135,663
Town Center Special Service District	-	401,546	401,546
Town Center Capital Reserve	-	1,118,110	1,118,110
Pedestrian bridge	120,863	-	120,863
Total restricted cash and cash equivalents	2,120,766	7,597,004	9,717,770
Total	\$ 2,120,766	15,461,872	17,582,638

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	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2009</b>
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>

**(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 \$165,000 in the Authority Operations Fund at June 30, 2010 and 2009, respectively.

Restricted cash at June 30, 2010 and 2009 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 were \$0 and \$45 at June 30, 2010 and 2009, 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, 2010 and 2009 were \$1,333,407 and \$1,239,889, 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).

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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## Notes to Financial Statements

June 30, 2010 and 2009

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, 2010 and 2009 were \$6,227,120 and \$6,095,965 respectively.

The Governors Opportunity Fund (GOF) account balances at June 30, 2010 and 2009 was \$156,323 for both years. 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.

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, 2010 and 2009, the balance of the Virginia Beach National capital reserve account was \$135,663 and \$67,741, 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, 2010 and 2009 was \$401,546 and \$68,953, 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, 2010 and 2009 was \$1,118,110 for both years.

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, 2010 and 2009 was \$120,863 for both years.

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June 30, 2010 and 2009

**(4) Receivables**

Receivables at June 30, 2010 and 2009 consist of the following:

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2010</b>
Authority operations	\$ -	38,930	38,930
Town Center Garage operations	-	16,939	16,939
Virginia Beach National long-term maintenance	-	20,886	20,886
Deferred land sales	-	211,859	211,859
EDIP appropriations from City	-	2,634,295	2,634,295
Gross accounts receivable	-	2,922,909	2,922,909
Less: allowance for uncollectibles	-	-	-
Accounts receivable, net	\$ -	2,922,909	2,922,909

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2009</b>
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

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**(5) Capital Assets**

The following schedules summarize the capital assets of the Authority as of June 30, 2010 and 2009:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Governmental Activities</b>				
Non-depreciable assets:				
Construction in progress	\$ 500,359	98	-	500,457
<b>Business-Type Activities/Authority</b>				
Operations fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 1,128,470	1,920	-	1,130,390
Land	17,490,369	3,579,829	-	21,070,198
Town Center land and capitalized interest	857,099	8,915	-	866,014
Total non-depreciable assets	<u>19,475,938</u>	<u>3,590,664</u>	<u>-</u>	<u>23,066,602</u>
Depreciable assets:				
Buildings	99,700,772	1,953,385	-	101,654,157
Equipment and fixtures	593,294	-	-	593,294
Total depreciable assets	<u>100,294,066</u>	<u>1,953,385</u>	<u>-</u>	<u>102,247,451</u>
Less accumulated depreciation for:				
Buildings	(12,195,006)	(2,780,994)	-	(14,976,000)
Equipment and fixtures	(124,121)	(48,546)	-	(172,667)
Total accumulated depreciation	<u>(12,319,127)</u>	<u>(2,829,540)</u>	<u>-</u>	<u>(15,148,667)</u>
Capital assets, net	\$ <u>107,450,877</u>	<u>2,714,509</u>	<u>-</u>	<u>110,165,386</u>

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	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2009</u>
<b>Governmental Activities</b>				
Non-depreciable assets:				
Construction in progress	\$ 2,122,287	416,210	(2,038,138)	500,359
<b>Business-Type Activities/Authority</b>				
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>

At June 30, 2010 and 2009, depreciation expense related to capital assets was \$2,829,540 and \$2,753,494, respectively, and has been charged to the Authority's Operations Fund.

In fiscal year 2010, the Authority purchased the land and building located on 110 South Independence Blvd. The building increased the Authority's building assets by \$1,953,385 and the land increased the Authority's land assets by \$3,079,829. The Authority has executed a lease agreement for the long term rental of this property.

In addition to the fiscal year 2010 purchase above, the Authority purchased land located at 5858 Burton Station Road. The land increased the Authority's land assets by \$500,000 and is being held for future development.

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.

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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 Authority's investments in these facilities after the additional amounts are \$8,124,596 for the Block 7 Conference Center and \$17,041,170 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.

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

Accounts payable and accrued liabilities at June 30, 2010 and 2009 consist of the following:

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2010</b>
Accounts payable	\$ -	117,527	117,527
Accounts payable-EDIP 31st Street	-	900,000	900,000
Accounts payable-golf course	-	146,685	146,685
Accounts payable-pedestrian bridge	120,863	-	120,863
Accounts payable-CIP	-	81,112	81,112
Accounts payable-GOF	-	156,323	156,323
Accounts payable-ITA study	-	37,106	37,106
Accounts payable-City	-	207,629	207,629
Accounts payable-EDIP	1,999,903	5,961,592	7,961,495
Total accounts payable	<u>2,120,766</u>	<u>7,607,974</u>	<u>9,728,740</u>
Accrued interest	-	815,431	815,431
Options deposits	-	165,000	165,000
Total accrued liabilities	<u>-</u>	<u>980,431</u>	<u>980,431</u>
 Accounts payable and accrued liabilities	 <u>\$ 2,120,766</u>	 <u>8,588,405</u>	 <u>10,709,171</u>

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June 30, 2010 and 2009

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2009</b>
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>

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, 2010 and 2009, the outstanding balance in the accounts payable-Golf Course account was \$146,685 and \$91,663.

At June 30, 2010 and 2009 \$81,112 (\$70,616 of CIP funding was unused for Phase III of Town Center and \$10,496 of CIP funding was unused for the Burton Station project) was on deposit from the City. 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, 2010 and 2009, \$120,863 of funding remained for the design fees for both years.



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**(7) Long-Term Debt**

**(A) Revenue Bonds**

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

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

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

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In May of 2005, the Authority acted as the conduit issuer for \$94,900,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,080,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds. In fiscal year 2005, \$22,130,000 of 2005 bond proceeds were used to purchase a portion of the 31<sup>st</sup> Street Parking Garage and the 9<sup>th</sup> Street Parking Garage. In fiscal year 2006, the Authority used a portion of the 2005 bond proceeds in the amount of \$13,616,672 to purchase the Block 10 Parking Garage located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Convention Center, construction of a parking facility for the Virginia Aquarium and Marine Science Center, Open Space site acquisition, construction of an Emergency Communications Operation Center, and various equipment and software used for the operation of the City. The Authority and the City entered into support agreements, dated September 1, 2003 and May 1, 2005, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the Central Business District-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 Central Business District-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, 2010 and 2009, 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 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 31<sup>st</sup> Street property. Note 2, in the original principal amount of \$1,425,201, is secured by a first lien on Corporate Landing and Oceana West Corporate Parks.

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

The modifications to the outstanding debt were made retroactive to March 22, 2002, the date of the satisfaction of the Bank of America loan. Twenty percent of the net proceeds from all land sales, within Corporate Landing and Oceana West, have been distributed to the City to reduce the outstanding debt balance. As of June 30, 2010 and 2009, the outstanding debt balance was \$4,228,026 and \$4,744,530, respectively.

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June 30, 2010 and 2009

**(D) Long-term debt activities for the year ended June 30, 2010 and 2009 were as follows:**

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>June 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2010</b>	<b>Due Within</b>
					<b>One Year</b>
<b>Business-Type Activities/Authority</b>					
Operations Fund					
Bonds and notes payable:					
Lease revenue bonds-Social Services	\$ 5,505,000	-	(500,000)	5,005,000	525,000
Public facility revenue bonds	84,790,000	37,015,000	(38,360,000)	83,445,000	3,685,000
Notes payable-Town Center Option Land	1,298,051	-	-	1,298,051	-
Notes payable-City of Virginia Beach	4,744,530	-	(516,504)	4,228,026	-
	<u>96,337,581</u>	<u>37,015,000</u>	<u>(39,376,504)</u>	<u>93,976,077</u>	<u>4,210,000</u>
Add: bond premium	1,949,162	-	(121,754)	1,827,408	-
Less: bond discount	(167,423)	-	15,308	(152,115)	-
Less: deferred loss due to refunding	-	-	(1,540,000)	(1,540,000)	-

<b>Business-Type Activities/Authority</b>					
Long-term debt	\$ <u>98,119,320</u>	<u>37,015,000</u>	<u>(41,022,950)</u>	<u>94,111,370</u>	<u>4,210,000</u>

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>June 30, 2008</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2009</b>	<b>Due Within</b>
					<b>One Year</b>
<b>Business-Type Activities/Authority</b>					
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	-
	<u>100,064,599</u>	<u>-</u>	<u>(3,727,018)</u>	<u>96,337,581</u>	<u>3,385,000</u>
Add: bond premium	2,070,917	-	(121,755)	1,949,162	-
Less: bond discount	(182,731)	-	15,308	(167,423)	-

<b>Business-Type Activities/Authority</b>					
Long-term debt	\$ <u>101,952,785</u>	<u>-</u>	<u>(3,833,465)</u>	<u>98,119,320</u>	<u>3,385,000</u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2010 and 2009

The requirements to amortize all long-term bonds and notes payable as of June 30, 2010, including interest payments of \$36,884,319 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 4,210,000	3,707,358
2012	4,540,000	4,070,464
2013	6,698,051	3,864,843
2014	5,687,469	3,644,391
2015	5,875,000	3,414,850
2016-2020	30,990,557	12,829,199
2021-2025	30,255,000	4,893,569
2026-2030	5,720,000	459,645
	\$ <u>93,976,077</u>	<u>36,884,319</u>

**(E) Advance Refunding Revenue Bonds**

On May 25, 2010, the City issued \$98.035 million of Public Facility Refunding Revenue Bonds, Series 2010B and \$40.45 million of Public Facility Refunding Revenue Bonds, Series 2010C. The refunding bonds net proceeds provided resources to purchase U.S. Government, State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$137.5 million of Public Facility Revenue bonds. Included in the bonds sold were \$37.015 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the Virginia Beach Development Authority (VBDA). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the VBDA's statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt currently held by VBDA by \$1,540,000. This amount is being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$ 6.36 million and resulted in an economic gain of \$4.1 million.

**(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).

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2010 and 2009

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

	<u>2010</u>	<u>2009</u>
Social Services facility (including land) \$	9,497,137	9,497,137
Less accumulated depreciation	<u>(2,138,719)</u>	<u>(1,963,791)</u>
Net investment in property held for lease \$	<u><u>7,358,418</u></u>	<u><u>7,533,346</u></u>

Minimum future rental income on operating leases as of June 30, 2010 is as follows:

2011	\$ 860,220
2012	859,854
2013	857,724
2014	858,791
2015	858,215
2016 - 2018	2,528,954

**(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, 2010 and 2009, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$308,190,690 and \$318,269,007, respectively.

**(10) Interest Cost**

The Authority capitalizes interest cost related to construction in progress. The following is a summary of interest cost incurred during 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest cost capitalized \$	8,916	26,008
Interest cost expensed to income	<u>3,686,867</u>	<u>4,511,011</u>
Total interest cost incurred \$	<u><u>3,695,783</u></u>	<u><u>4,537,019</u></u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2010 and 2009

**(11) Lease Income**

Lease income as reflected in the statements of revenues, expenses, and changes in net assets was \$2,578,733 and \$2,418,546, respectively for the years ended June 30, 2010 and 2009. The following is a detailed list of the revenue earned:

	<u>2010</u>	<u>2009</u>
Social Services facility	\$ 859,086	861,095
Amphitheater rent	188,319	180,666
Virginia Beach National Operations		
rent/profit-sharing	102,259	90,843
Beach Quarters Inn	114,000	114,000
Town Center Garage	205,893	205,108
31st Street Garage	516,504	554,458
9th Street Garage	451,812	412,376
East Coast Appliance	140,860	-
	<u>\$ 2,578,733</u>	<u>2,418,546</u>

**(A) Social Services Facility**

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

**(B) 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.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2010 and 2009

**(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.

**(D) Beach Quarters Inn**

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

**(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.



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2010 and 2009

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

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

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

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

**(H) East Coast Appliance**

In August 2009, the Authority purchased the former Circuit City building located at 110 South Independence Blvd for \$5,033,213. In December 2009, the Authority leased the building to East Coast Appliance. The initial lease term is for three years and includes up to seven (7) additional one-year terms. The rent is \$241,475, \$250,763, and \$263,765 in the first, second, and third years of the initial lease term, respectively, and is paid in monthly installments.

**(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 2010 and 2009, the City had advanced funding for the following capital projects:

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 2010 and 2009, \$0 and \$6,535 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 2010 and 2009, \$98 and \$409,675 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.

**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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>General expenses:</b>		
Leases	\$ 983,488	797,889
Amphitheater box seating	22,500	22,500
Independent audit fees	16,000	15,000
Amortization	43,983	43,983
Gifts and donations	10,000	10,000
Leasehold improvements	173,863	82,688
Total general expenses	<u>1,249,834</u>	<u>972,060</u>
<b>Other expenses:</b>		
Town Center infrastructure	—	149,297
Architecture and engineering	21,371	81,372
Park maintenance – Corporate Landing	18,045	20,498
Utilities – Corporate Landing fountain	4,487	5,774
Miscellaneous	37,349	31,512
Total other expenses	<u>81,252</u>	<u>288,453</u>
Total selling, general, and other expenses	<u>\$ 1,331,086</u>	<u>1,260,513</u>

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

Schedules of Land and Building Inventory  
June 30, 2010 and 2009

<b>Description:</b>	<u>2010</u>	<u>2009</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	10,753,091	10,782,383
Current – cost of sales	<u>—</u>	<u>(29,292)</u>
Corporate Landing Office Park – ending inventory June 30	<u>10,753,091</u>	<u>10,753,091</u>
Town Center Beacon Building – beginning inventory July 1	150,000	150,000
Current – cost of sales	<u>—</u>	<u>—</u>
Town Center Beacon Building – ending inventory June 30	<u>150,000</u>	<u>150,000</u>
Town Center Beacon Land – beginning inventory July 1	4,877,946	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>4,877,946</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	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>17,971,424</u>

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

Schedules of Construction in Progress  
June 30, 2010

	<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:					
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)
2010	98	—	—	—	98
	<u>\$ 109,854</u>	<u>110,938</u>	<u>527</u>	<u>279,138</u>	<u>500,457</u>

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

Schedules of EDIP Accounts Payable  
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Balance Forward	\$ 7,618,026	8,290,404
<b>Funding sources:</b>		
EDIP City Appropriation - fiscal year	2,120,578	882,539
Reimbursement for legal fees and engineering fees	259,796	216,876
Interest earned - fiscal year	180,465	175,823
Total funding available	<u>10,178,865</u>	<u>9,565,642</u>
<b>Expenses:</b>		
EDIP awards paid	(1,046,440)	(591,000)
Engineering studies, legal fees and miscellaneous expenses	(270,930)	(112,830)
Purchase of Beacon Building	—	(767,946)
Town Center expenditures	—	(475,840)
Total expenditures	<u>(1,317,371)</u>	<u>(1,947,616)</u>
Total accounts payable - Economic Development Program	\$ <u>8,861,495</u>	<u>7,618,026</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Central Business District-South payment of debt service for Town Center note and Public Facility Revenue Bonds	\$ 5,228,634	5,291,276
9th Street Garage payment of debt service for Public Facility Revenue Bonds	723,963	725,175
31st Street Garage payment of debt service for Public Facility Revenue Bonds	1,027,525	1,024,713
Virginia Beach Amphitheater Capital Improvement Program	50,000	50,000
Building and land purchases	5,524,413	—
Town Center Garage - Special Service District	1,675,000	2,428,110
Total Nonoperating Revenue From City of Virginia Beach	\$ <u>14,229,535</u>	<u>9,519,274</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, 2010 and 2009, and have issued our report thereon dated October 11, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## 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, Bekert & Holland, L.L.P.*

Virginia Beach, Virginia  
October 11, 2010



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