

**ANNUAL FINANCIAL REPORT
OF THE
CITY OF VIRGINIA BEACH
DEVELOPMENT AUTHORITY**

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

**FOR FISCAL YEAR ENDED
JUNE 30, 2022**

**PREPARED BY
DEPARTMENT OF ECONOMIC DEVELOPMENT**

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 - Katrina N. Flowers

Technical Assistance - Blake Huffman
Wendy Hu
Kevin Kielbasa
Andrew T. Oliver
Stacy Hershberger

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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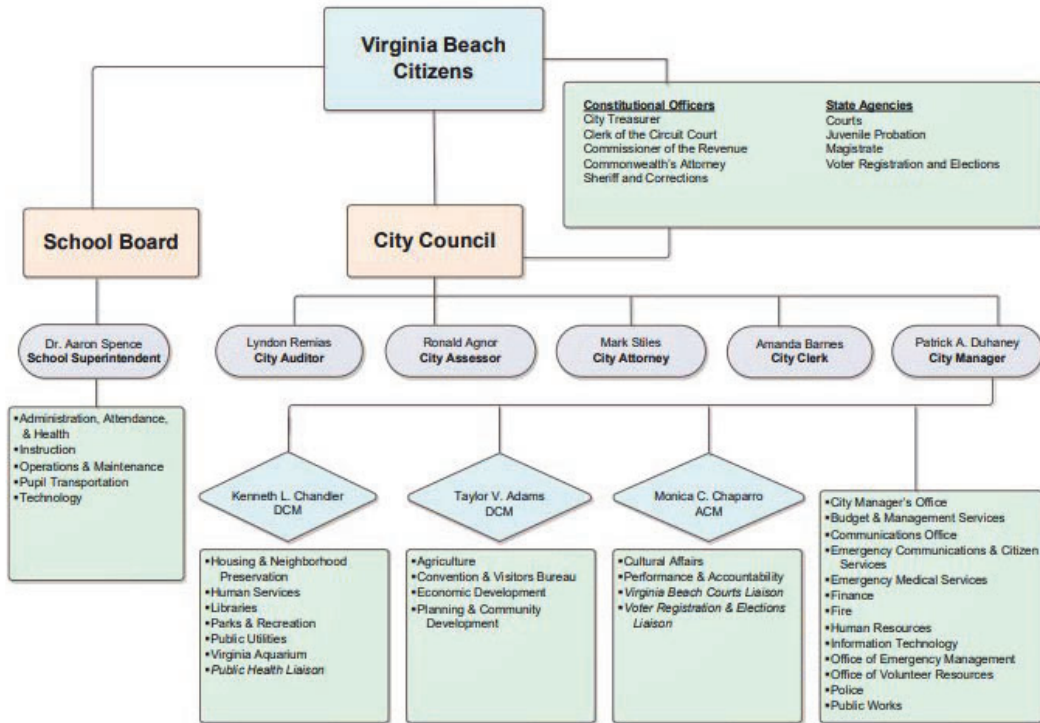
INTRODUCTORY SECTION

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

Commissioners

Lisa Murphy Chair
Joseph Strange Vice Chair
William Brunke Treasurer
David Bernd Secretary
William Brown Commissioner
Nneka Chiazor Commissioner
W. Taylor Franklin Commissioner
Penny Morgan Commissioner
Michael Standing Commissioner
Guenter Weissenseel Commissioner
Ronnie L. Parker Commissioner

Organizational Chart





March 8, 2023

Virginia Beach Development Authority Members
4525 Main Street, Suite 700
Virginia Beach, VA 23462

RE: FY 2022 Annual Financial Report of the City of Virginia Beach Development Authority

Dear Commissioners:

The Annual Financial Report of the City of Virginia Beach Development Authority (the “Authority”) for the fiscal year that ended June 30, 2022, is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of the 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 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 Investment Program (EDIP), workforce development, project development, and business development personnel to enable and assist business location and expansion in the City of Virginia Beach.

Fiscal Year 2022 Economic Development Highlights

This past year, despite the ongoing challenges presented by the global pandemic, the Authority continued implementing the City's strategic economic vision and remained proactive in its efforts to help Virginia Beach grow and prosper. In FY 2022, five (5) EDIP grants were awarded totaling \$479,200 which leveraged \$15.1 million in capital investment, a ratio of \$31 private investments to \$1 public investment:

- **IMS: Gear** is a 159-year-old company headquartered in Donaueschingen in the Black Forest region of Germany and one of the largest manufacturers of gear assemblies for the North American automotive market. The company will invest \$11.6 million in the purchase of its existing facility and in the introduction of a new product line, which needs to be acquired. The Authority awarded an EDIP grant of \$350,000 for the company's investment.
- **Solid Structures** will be relocating and expanding its growing business in Virginia Beach. The new facility will be at 1252 Jensen Drive — a move that allows the company to grow its facility on 2.7 acres of land. The total capital investment in the new location totals \$1,425,000 and consists of real estate, furniture and fixtures, and machinery and tools. The Authority awarded an EDIP grant of \$35,000 based on capital investment.
- **United Property Associates** is a property management services company for apartment communities, homeowner and condominium associations, and single-family home rentals. The Authority awarded an EDIP grant of \$20,000 based on a capital investment of \$500,000.
- **Eastern Data** announced plans to move to relocate from a 6,250-square-foot site to a facility with 15,000 square feet. The new site will house 53 full-time employees (43 existing and 10 new employees) in varied specialties and an average annual salary of \$45,000. Their total capital investment is \$287,500 which consists of real estate, furniture and fixtures, and machinery and tools. The Authority awarded an EDIP grant of \$20,000 based on job creation.
- **Tarnished Truth** is a distillery of specialty hand-crafted bourbon, vodka, whiskey, and gin that announced plans to expand its manufacturing and canning line at a new 14,000 square foot facility. The Authority awarded an EDIP grant of \$54,200 based on a capital investment of \$1,355,000.

In addition, the Authority provided financial support to small, locally-owned businesses through the Façade Improvement Grant program. Nineteen (19) grants were awarded, totaling \$133,141 which resulted in \$1.1 million in private investment.

Commissioners, Virginia Beach Development Authority
RE: FY 2022 Annual Financial Report of the City of Virginia Beach Development Authority
March 8, 2023
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Acknowledgments

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 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 cursive script, appearing to read "K. Warren", is written over a horizontal line.

Kathy M. Warren
Deputy Director of Economic Development
City of Virginia Beach

FINANCIAL SECTION

Report of Independent Auditor

To the Commissioners
City of Virginia Beach Development Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements 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 year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2022, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia (the "Specifications"). Our responsibilities under those standards and Specifications are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authority and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Specifications will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Specifications, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basis financial statements. The accompanying Supplementary Information – Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information – Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
March 8, 2023

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 year ended June 30, 2022. 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 net position increased by \$6.13 million in the fiscal year 2022. During the fiscal year 2022, the land inventory was impaired by approximately \$2.61 million (Town Center Beacon Land, London Bridge Commerce Park, and Historic Kempsville).
- The Authority provided economic development services, as requested by the City Council, for the Dome Site Project and Town Center Project which is accounted for by the Authority. When projects or phases of projects are complete, the associated costs are capitalized and may be retained in the Authority's Proprietary Fund or transferred to the City.
- The Authority implemented Governmental Accounting Standards Board "GASB" Statement No. 87, *Leases*, during fiscal year 2022, to improve the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources. The implementation applied to two leases: (1) the 31st Street Garage parking and retail lease and (2) the Social Services building lease held with the City.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS

The focus of the Statement of Net Position is to report the entity's net position and how it has changed. Net position – the difference between assets and deferred outflows of resources versus liabilities and deferred inflows of resources– is one way to measure the Authority's financial health or financial position. Over time, increases or decreases in an entity's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

The Statement of Revenues, Expenses, and Changes in Net Position is focused on showing how net position changed during the most recent fiscal year. All the current year's revenues and expenses are accounted for in this statement regardless of when cash is received or paid. So, revenues and expenses are reported in this statement for some items that will affect cash flows in future periods.

The Statement of Cash Flows provides information about the Authority's cash receipts and cash payments during the fiscal year. It summarizes the net changes in cash resulting from operating, investing, and noncapital financing activities.

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and 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

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position:

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

Table 1		
Net Position		
As of June 30, 2022 and 2021		
(in millions)		
	2022	2021
Current and other assets	\$ 91.50	66.95
Capital assets	129.60	129.99
Total assets	<u>221.10</u>	<u>196.94</u>
Deferred outflows of resources	<u>0.31</u>	<u>0.62</u>
Current and other liabilities	22.03	18.74
Long-term liabilities	27.89	37.45
Total liabilities	<u>49.92</u>	<u>56.19</u>
Deferred inflows of resources	<u>24.61</u>	<u>0.63</u>
Net position:		
Net investment in capital assets	93.08	84.76
Restricted - other purposes	7.11	6.75
Unrestricted	46.69	49.24
Total net position	<u>\$ 146.88</u>	<u>140.75</u>

At June 30, 2022, the total assets of the Authority were \$221.10; total liabilities were \$49.92; while the combined net position was \$146.88 million.

In the fiscal year 2022, the Authority's long-term liabilities decreased by \$9.56 million, primarily due to annual debt service payments.

Regarding the Authority's activities, the Authority's 2022 land inventory decreased by \$2.61 million due to adjustments of land inventory to its current assessment value. Construction in progress at the Atlantic Park Location increased by \$3.32 million while accumulated depreciation increased by \$3.71 million resulting in a net decrease in Capital Assets of \$0.39 million.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

Changes in Net Position:

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

Table 2		
Revenues, Expenses, and Changes in Net Position		
Years Ended June 30, 2022 and 2021		
(in millions)		
	2022	2021
Operating Activities:		
Revenues	\$ 3.20	4.07
Expenses	(11.83)	(13.60)
Total operating loss, net	(8.63)	(9.53)
Nonoperating Activities:		
Revenues	\$ 16.08	20.38
Expenses	(1.32)	(1.69)
Total nonoperating income, net	14.76	18.69
Change in net position	6.13	9.16
Net Position - Beginning of Year	140.75	131.59
Net Position - End of Year	\$ 146.88	140.75

For the fiscal year ended June 30, 2022, the net position increased by \$6.13 million.

REVENUES

For the fiscal year ended June 30, 2022, revenues from activities totaled \$19.28 million and included revenues 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

The expense activities included the cost of land sold, depreciation/amortization, selling and administrative expenses, and interest on outstanding debt obligations. For the fiscal year ended June 30, 2022, these expenses totaled \$13.15 million.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority's fund includes total net position of \$146.88 million at June 30, 2022. Operating revenues including industrial revenue bond revenue and lease revenue totaled \$3.20 million, while operating expenses including depreciation, land impairment, and administrative expenses totaled \$11.83 million.

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

For the fiscal year ended June 30, 2022, the Authority had invested \$129.59 million (see note 5) in various capital assets and infrastructure as reflected in Table 3.

Table 3		
Capital Assets		
As of June 30, 2022 and 2021		
(in millions)		
	Total	
	2022	2021
Non-depreciable assets:		
Land	\$ 28.53	28.53
Other assets and capitalized costs	1.13	1.13
Construction in progress	3.99	0.68
Other capital assets:		
Buildings/equipment	147.31	147.31
Accumulated depreciation on other capital assets	<u>(51.37)</u>	<u>(47.65)</u>
Total net capital assets	\$ <u>129.59</u>	<u>130.00</u>

At June, 30, 2022, Construction in progress increased by \$3.31 million primary due to the Atlantic Park Project. The deprecation expense for FY 2022 amounted to \$3.71 million.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

LONG-TERM DEBT

Table 4		
Long-Term Debt		
As of June 30, 2022 and 2021		
(in millions)		
	Total	
	2022	2021
Bonds and notes payable		
Public facility revenue bonds	34.55	42.99
Other long-term liabilities:		
Bond premium	1.79	2.23
Total Long-Term Debt	\$ 36.34	45.22

For detailed information on the Authority's long-term liabilities, please refer to Note 7 in notes to the financial statements.

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 the Director of Economic Development, Virginia Beach Development Authority, 4525 Main Street, Suite 700, Virginia Beach, VA 23462, telephone (757) 385-6464, or visit the Authority's website at www.yesvirginiabeach.com.

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

Statement of Net Position
June 30, 2022

Assets

Current assets:

Cash and cash equivalents (note 2)	\$	9,006,786
Receivables, net (note 4)		41,679
Receivables, restricted (note 4)		2,011,554
Lease receivable (note 6)		677,973
Total current assets		11,737,992

Noncurrent assets:

Restricted cash and cash equivalents (notes 2 and 3)		8,427,516
Receivables, restricted (note 4)		8,886,718
Lease receivable (note 6)		23,768,290
Land/building inventory		38,681,399
Capital assets (note 5)		
Other non-depreciable assets and capitalized costs		1,130,390
Construction in progress		3,994,801
Land		28,527,476
Buildings and equipment, net of accumulated depreciation		95,942,959
Total capital assets		129,595,626
Total assets		221,097,541

Deferred Outflows of Resources

Debt refundings resulting in loss transactions		314,086
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Liabilities

Current liabilities:

Accounts payable (note 7)		624,865
Accrued liabilities (note 7)		425,102
Liabilities payable from restricted assets (note 7)		40,000
Due to the City - VBCDC Loan (Note 7)		665,719
Unearned revenues (note 7)		11,819,925
Bonds and notes payable (note 8)		8,454,937
Total current liabilities		22,030,547

Bonds and notes payable (note 8)		27,886,753
Total liabilities		49,917,301

Deferred Inflows of Resources

Deferred inflows from leases		24,127,913
Debt refundings resulting in gain transactions		485,079
Total Deferred Inflows of Resources		24,612,992

Net Position

Net investment in capital assets		93,082,944
Restricted - other purposes		7,109,248
Unrestricted		46,689,142
Total net position	\$	146,881,334

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2022

Operating Revenues:

Industrial revenue bond fees	\$ 325,697
Lease income	2,873,888
Total operating revenues	<u>3,199,585</u>

Operating Expenses:

General and other expenses	1,454,635
Payments to the Primary Government	1,980,010
Depreciation	3,711,901
Impairment of land inventory	2,614,464
Garage operations	2,069,055
Total operating expenses	<u>11,830,065</u>

Operating loss

(8,630,480)

Nonoperating Revenues (Expenses):

City of Virginia Beach	15,723,866
Charity Golf Tournament revenues	29,765
Charity Golf Tournament expenses	(19,859)
Interest income	331,413
Interest expense (note 10)	(1,303,552)
Total nonoperating revenues, net	<u>14,761,633</u>
Change in net position	<u>6,131,153</u>
Total net position at beginning of year	<u>140,750,181</u>
Total net position at end of year	<u>\$ 146,881,334</u>

See accompanying notes to financial statements.

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

Statement of Cash Flows
Year Ended June 30, 2022

Cash flows from operating activities:	
Receipts from customers and users	\$ 2,635,743
Cash payments to suppliers of goods and services	(4,886,524)
Net EDIP activities	<u>1,546,916</u>
Net cash used by operating activities	<u>(703,865)</u>
Cash flows from capital and related financing activities:	
Principal repayment on long-term debt	(8,438,375)
Interest paid on long-term debt	(1,716,046)
Capital contributions from City	15,723,866
Acquisition of capital assets	(3,319,230)
Charity golf outing proceeds, net	9,906
Payments to City for undistributed VBCDC loan proceeds	<u>(34,281)</u>
Net cash provided by capital and related financing activities	<u>2,225,840</u>
Cash flows from investing activities:	
Interest	<u>331,413</u>
Net cash provided by investing activities	<u>331,413</u>
Net increase in cash and cash equivalents	1,853,388
Cash and cash equivalents at beginning of year	<u>15,580,914</u>
Cash and cash equivalents at end of year	<u>\$ 17,434,302</u>
Classified as:	
Current assets	\$ 9,006,786
Restricted assets	<u>8,427,516</u>
	<u>\$ 17,434,302</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (8,630,480)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization expense	3,711,901
Effects of changes in operating assets and liabilities	
Receivables, net	(865,475)
Lease receivable	827,348
Land inventory	2,614,465
Accounts and other payables	291,509
Unearned revenues	2,492,565
Deferred inflows from leases	<u>(1,145,698)</u>
Net cash used in operating activities	<u>\$ (703,865)</u>
Noncash transactions:	
Amortization on bond premium	<u>\$ (439,948)</u>
EDIP Appropriations	<u>\$ 2,051,760</u>

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, 2022

(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 the 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 City Council governs the Authority.

The Authority is considered a blended component unit of the City for reporting purposes and, as such, will be a blended component unit in the City's Annual Comprehensive Financial Report. 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 or accountability which 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 (GAAP), 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 has 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 – GAAP requires financial statements to 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), similar to how the private sector provides its annual reports.

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

Statement of Net Position – The Statement of Net Position is designed to display the financial position of the Authority's business-type activities. The Authority reports all capital assets, including infrastructure, and deferred outflows/inflows of resources in the Government-Wide Statement of Net Position along with depreciation expense – the cost of "using up" capital assets – in the Statement of Revenues, Expenses, and Changes in Fund Net Position. The net position of the Authority will be broken down into three categories: 1) net investment in capital assets; 2) restricted; 3) unrestricted.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

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June 30, 2022

Statement of Revenues, Expenses, and Changes in Net Position – The Statement of Revenues, Expenses, and Changes in Net Position reports expenses and revenues for the Authority.

Statement of Cash Flows – The Statement of Cash Flows reports on the sources and uses of the Authority’s cash transactions. The operating cash flows provide additional information on the operating activities as shown in the Statement of Activities, while the financing and investing cash flows supplement the non-operating activities.

(B) *Basic Financial Statements*

In the Statement of Net Position, all assets and liabilities of the Authority 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. The restricted cash and cash equivalents are 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.

(C) *Measurement Focus and Basis of Accounting*

The Statement of Net Position, Statement of Cash Flows, and Statement of Revenues, Expenses, and Changes in Net Position are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these activities are included in the Statement of Net Position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

The financial statements 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. The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenues of the Authority 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.

(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 of, the cost of those assets and depreciation are removed from the respective accounts, and the resulting gain or loss is recorded.

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CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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Notes to Financial Statements

June 30, 2022

(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. Transfers of land from the City to the Authority are recorded at the same carrying value so that no gain or loss is recognized. 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 the relative fair value before construction. As land is sold, all costs associated with that land are charged to the cost of land sold.

In fiscal year 2022, there were impairments to adjust the assessment cost of the inventory for the land/building as follows (Town Center Beacon Land, London Bridge Commerce Park, and Historic Kempsville). The impairment assessment cost was \$2,614,464.

(F) *Leases*

In fiscal year 2022, GASB Statement No. 87 (“GASB 87”), *Leases*, was implemented to improve the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources. GASB 87 is based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. In FY2022, the Authority is only a lessor for noncancellable leases of business space. The Authority recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources is recognized as revenue over the life of the lease term. Key estimates and judgments include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

The Authority uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Authority monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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(G) *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 the maturity date, are grouped into cash and cash equivalents.

Restricted Cash

Restricted cash includes: 1) option deposits on land; 2) state incentive grants; 3) funds for capital and structural improvements and repairs and maintenance to the Social Services facility; 4) funds for the EDIP; 5) funds for the Bio-Initiative; 6) funds for capital and structural improvements and repairs and maintenance to the Virginia Beach National Golf Course facility; 7) funds held to provide an interest-free loan for the development of a Little League park; 8) unclaimed CARES Act economic relief funds; 9) funds appropriated to provide an interest-free loan to the Virginia Beach Community Development Corporation (the VBCDC) in excess of their need; 10) Bio Park land sale proceeds; and 11) funds held for the Vibe District Matching Grant program.

Accounts Receivable

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

Bond Premiums

Bond premiums 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. Per City policy, premiums are only allocated to the Authority when the related bonds are issued to acquire an asset that will be owned by the Authority.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of the amount by which the principal and premium of a refunding bond exceeded the net carrying amount of the refunded debt. The deferred outflow is amortized over the remaining life of the refunded debt or the life of the newly issued debt, whichever is shorter.

Deferred inflows of resources, represents an acquisition of net assets that applies to a future period and will not be recognized as revenue until then. The Authority has several items that meet the criteria - deferred amounts related to refunded bonds and leases.

Deferred inflows of resources related to refunded bonds consist of the amount by which the net carrying amount of refunded debt exceeded the principal and premium of a refunding bond. The deferred inflow is amortized over the remaining life of the refunded debt or the life of the newly issued debt, whichever is shorter.

Deferred inflows of resources for leases are measured at the value of lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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June 30, 2022

(H) *On-behalf payments - Compensation*

The Authority's operations are managed by City employees. The City also provides accounting, cash collections, debt service, and legal services for the Authority. The employee's time and City services rendered to the Authority are performed in conjunction with the employee's regular duties and routine services.

(2) Cash and Cash Equivalents

The Authority's June 30, 2022, 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 and savings and loans holding public deposits in excess of the amounts insured by FDIC must pledge collateral to secure those public deposits in amounts set by regulations or action of the Treasury Board. Banks and savings and loans holding public deposits have two methods to secure Virginia public deposits: the dedicated method or the pooled method.

Under the dedicated method, public depositories can secure public deposits without accepting the contingent liability for the losses of public deposits of other qualified public depositories. Because the Commonwealth can only look to the collateral pledged by the depository choosing the dedicated method to cover any losses of deposits if the depository fails, the collateral required to be pledged and the reporting requirements under the dedicated method are more stringent than under the pooled method. Depositories choosing the dedicated method must pledge collateral between 105% to 130% of the public deposit balances net of FDIC based on the financial condition of the depository. Dedicated depositories are required to report their public deposit balances and the market value of pledged collateral on a weekly basis.

Under the pooled method, public depositories accept a contingent liability for the possible loss of public deposits from the failure of other public depositories that choose the pooled method. In the event of the failure of a pooled depository, the Treasury Board would first look to the collateral pledged by the failed depository to recover the loss of public deposits. If the realized value of the pledged collateral of the failed depository is not sufficient to cover the loss of public deposits at the failed depository, the Treasury Board will assess the remaining loss against the other depositories in the pool based on average public deposit balances held by pooled depositories during the previous 12 months.

For pooled banks and savings and loans, the collateral requirements approved by the Treasury Board in February 2009 are now effective. For the first \$50 million in public deposits, the bank is required to pledge 50% collateral. For public deposits between \$50 million and \$250 million, the bank is required to pledge 75% collateral. For public deposits over \$250 million, the bank is required to pledge 100% collateral. Based on their financial condition, the Treasury Board may require some pooled banks to pledge 100% collateral.

The Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local officials of compliance by banks and savings and loans.

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The Authority's reconciliations of total cash and cash equivalents to the financial statements on June 30, 2022 is as follows:

	Total
	June 30, 2022
Cash and Cash Equivalents -	
Union Bank	\$ 9,006,786
Restricted Cash and Cash Equivalents -	
Option deposits on land	40,000
State funded incentive grants	250,000
Little League loan funding	250,000
Bio Initiative	848,978
Social Services capital reserve	2,198,189
EDIP	1,514,297
EDIP Part E Small Business Assistance	576,880
FIG	86,152
CARES Act	27,121
Virginia Beach National Capital Reserve	165,575
Advanced Funds	614,016
Innovation Park land sale	1,856,308
Total Restricted Cash	8,427,516
and Cash Equivalents	
Total	\$ 17,434,302

(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 \$40,000 in the Authority Operations fund on June 30, 2022.

Bio Initiatives funding of \$2,324,447 was provided to the Authority in the fiscal year 2020 to support focus areas identified by the Bio-Medical Task Force. The program's goal is to drive new companies and start-ups to our region, especially to the Princess Anne Commons Biomedical cluster. Bio Initiative cash on June 30, 2022 was \$848,978.

The Social Services Facility reserve accounts on June 30, 2022 were \$2,198,188. These funds are reserved for capital and structural improvements, maintenance, and repairs to the facility in accordance with the lease agreement (see note 10).

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The EDIP accounts were established in February 1994 through funds that the City appropriated from the Capital Improvement Program EDIP Project for economic development activities. This program represents annual funding from the City to the Authority to be used for on-site and off-site infrastructure needs as well as training expenses for businesses meeting certain criteria. Businesses having received EDIP awards or projects having received EDIP funding are reimbursed for qualifying expenses out of these accounts. EDIP cash and cash equivalents in the Operations Fund on June 30, 2022 were \$1,514,296. During the fiscal year 2020, City Council approved \$2,500,000 of EDIP funding to help small businesses impacted by the COVID-19 pandemic (EDIP Part E). In the Operations Fund on June 30, 2022, the balance of the EDIP Part E funding was \$576,879.

Other restricted cash accounts include: (1) State Funded Incentive Grants which are Commonwealth Opportunity Funds held by the Authority and awarded to a recipient or remitted back to the State at the State's request; (2) Little League Loan Funding which is an undispersed loan, appropriated by City, and held by the Authority; (3) CARES Act funds held for economic relief efforts, (4) Innovation Park Land Sale proceeds from FY2021 to be re-invested within the Innovation Park, Façade Improvement Grants (FIG), and Advanced Funds.

Beginning in April of 2008, the Authority began receiving a percentage 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 monthly basis per the management agreement. On June 30, 2022, the balance of the Virginia Beach National capital reserve account was \$165,575.

(4) Receivables

Receivables on June 30, 2022 consists of the following:

Authority Operations	\$	41,679
Due from City of Virginia Beach		1,760,003
Virginia Beach National long-term maintenance		221,565
Security Deposit - Bio Accelerator		29,986
Lease Receivables		<u>677,973</u>
Current Receivables		2,731,206
EDIP appropriations from City		5,984,609
Vanguard Landing loan		2,236,390
VBCDC Loan Receivable		665,719
Lease Receivables - Noncurrent portion		<u>23,768,290</u>
Noncurrent Receivables		32,655,008
Gross accounts receivable		35,386,214
Less: Allowance for Uncollectibles		-
Accounts receivable, net	\$	<u><u>35,386,214</u></u>

In the fiscal year 2014, the Authority authorized an interest-free loan of \$2,850,406 to Vanguard Landing Inc. for a project that provides residential and employment opportunities for persons with intellectual difficulties. The Authority is serving as a conduit for the pass-through of the 15-year secured loan. The agreement calls for annual repayments beginning February 2022, with all principals being due February 2029.

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In the fiscal year 2021, the Authority received \$700,000 in City-appropriated funds, of which it loaned \$665,719 to the Virginia Beach Community Development Corporation (VBCDC). The 2-year-loan term requires VBCDC to repay the loan with the net proceeds from the sale of three VBCDC owned-properties. The Authority shall remit the repayment to the City upon Board approval.

The allowance for uncollectible accounts is determined principally based on past collection experience as well as consideration of current economic conditions and changes in collection trends. Based on these factors, no allowance was deemed necessary.

(5) Capital Assets

The following schedules summarize the capital assets of the Authority as of June 30, 2022:

	Balance			Balance
	June 30, 2021	Increase	Decrease	June 30, 2022
Operations Fund:				
Non-depreciable Assets:				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Construction in progress	675,571	3,319,230	-	3,994,801
Land	28,527,476	-	-	28,527,476
Total non-depreciable assets	<u>30,333,437</u>	<u>3,319,230</u>	<u>-</u>	<u>33,652,667</u>
Depreciable Assets:				
Buildings	145,408,109	-	-	145,408,109
Equipment and fixtures	1,900,510	-	-	1,900,510
Total depreciable assets	<u>147,308,619</u>	<u>-</u>	<u>-</u>	<u>147,308,619</u>
Less Accumulated Depreciation:				
Buildings	(47,118,729)	(3,687,230)	-	(50,805,959)
Equipment and fixtures	(535,030)	(24,671)	-	(559,701)
Total accumulated depreciation	<u>(47,653,759)</u>	<u>(3,711,901)</u>	<u>-</u>	<u>(51,365,660)</u>
Capital Assets, Net	\$ <u>129,988,297</u>	<u>(392,671)</u>	<u>-</u>	<u>129,595,626</u>

On June 30, 2022, depreciation expense related to capital assets was \$3,711,901.

(6) Leases

GASB 87 Leases

The Authority has implemented GASB 87 in fiscal year 2022. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The Authority leases buildings and office spaces. The Authority recognizes receivables and deferred inflow of resources. At the commencement of the lease, the Authority measured the lease receivables at the present value of lease payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received.

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June 30, 2022

As of June 30, 2022, the Authority had minimum principal and interest lease receivable payments for the 31st Street Garage and Social Services Facility as follows:

	Principal Payments	Interest Payments	Total Payments
2023	\$ 677,973	104,736	782,709
2024	248,636	102,876	351,512
2025	249,720	101,792	351,512
2026	240,184	100,746	340,930
2027	241,231	99,699	340,930
2028-2032	1,744,194	480,456	2,224,650
2033-2037	2,574,364	430,286	3,004,650
2038-2042	2,630,960	373,690	3,004,650
2043-2047	2,688,799	315,851	3,004,650
2048-2052	2,747,910	256,740	3,004,650
2053-2057	2,808,321	196,329	3,004,650
2058-2062	2,870,060	134,590	3,004,650
2063-2068	2,933,156	71,494	3,004,650
2069-2070	1,790,755	12,035	1,802,790
Total	\$ 24,446,263	2,781,320	27,227,583

Non GASB 87 Leases

The Authority has additional leases that do not meet the criteria for recording in accordance with GASB 87 as the future rental income is not fixed or determinable and there is not minimum annual payments required in these leases.

The following schedule shows the composition of the Authority's investment in property under these leases as of June 30, 2022:

	Virginia Beach National Golf Course	Town Center Garages	9th Street Garage	110 S Independence Blvd
Investment including land	\$ 4,636,163	78,118,746	9,750,000	5,033,213
Less accumulated depreciation	(2,043,861)	(26,891,635)	(4,225,000)	(1,245,280)
Net investment in property held for lease	\$ 2,592,302	51,227,111	5,525,000	3,787,933

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(7) Accounts Payable, Accrued Liabilities, and Unearned Revenues

Accounts payable and accrued liabilities on June 30, 2022 consist of the following:

Accounts payable	\$	2,350
Accounts payable-City		372,515
Accounts payable-Commonwealth Opportunity Funds		250,000
Total Accounts Payable	\$	<u>624,865</u>
Accrued interest		425,102
Total Accrued Liabilities	\$	<u>425,102</u>
Option deposits		40,000
Total Liabilities payable from restricted assets	\$	<u>40,000</u>
VBCDC Loan due to City		665,719
Current Loans due to City	\$	<u>665,719</u>
Accounts payable-EDIP	\$	9,554,295
CARES Act		27,121
Advances from City		1,181,621
Golf Course		207,909
Bio Initiative		848,979
Total Unearned Revenues	\$	<u>11,819,925</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 a percentage of gross revenues monthly from Virginia Beach National Golf Course (formerly known as TPC) in April of 2008, and this funding is restricted for the purpose of capital repairs and maintenance to the facility. On June 30, 2022, the outstanding balance in the accounts payable-Golf Course account was \$207,909.

Bio Initiatives funding of \$2,324,447 was provided to the Authority in the fiscal year 2020 to support focus areas identified by the Bio-Medical Task Force. The program's goal is to drive new companies and start-ups to our region, especially to the Princess Anne Commons Biomedical cluster. Bio Initiative cash on June 30, 2022 was \$848,978.

In the fiscal year 2021, the Authority received \$700,000 in City-appropriated funds, of which it loaned \$665,719 to the Virginia Beach Community Development Corporation (VBCDC). The 2-year-loan term requires that VBCDC repay the loan with the net proceeds from the sale of three VBCDC owned-properties. The Authority shall remit the repayment to the City upon Board approval.

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(8) Long-Term Debt

(A) Revenue Bonds

The Authority issues revenue bonds from time to time for the purpose of financing capital improvements and new projects. In June of 2014, the Authority acted as the conduit issuer for \$44,975,000 in Series 2014A Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$18,781,631 in Series 2014A Public Facility Revenue Bonds. In the fiscal year 2015, the bond proceeds were used to purchase the Block 11 Parking Garage located in Town Center.

The City's share of the bond proceeds was used to finance various public facilities, including the replacement of the Bow Creek Community Recreation Center, the construction of the consolidated Old Donation Center/Kemps Landing Magnet school, a Revenue Assessment and Collection System, renovation to school HVAC systems, and roadway improvements at Burton Station Road, Centerville Turnpike, Laskin Road, Pacific Avenue, and Greenwich Road. The Authority and the City entered into a support agreement, dated June 1, 2014, whereby the City supports all Authority financial obligations (principal and interest payments) regarding the bonds.

The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the financial statements with interest rates ranging from 2.00% to 5.00% for Series 2014A. The final payment on Series 2014A is due May 2034.

In March 2018, the Authority acted as the conduit issuer for \$33,395,000 in Series 2018A Public Facility Revenue Bonds at the request of the City. The Authority's financial statements only reflect \$2,955,000 in Series 2018A Public Facility Revenue Bonds. In the fiscal year 2019, the bond proceeds were used to purchase the Block 9 public plaza and elevate the Zeiders American Dream Theater located in Town Center. The City's share of the bond proceeds was used to finance various public facilities, including the modernization/replacement of John B. Dey Elementary, Thoroughgood Elementary, and Princess Anne Middle Schools, the construction of the Adam Thoroughgood House Visitor Center, a Revenue Assessment and Collection System, and roadway improvements at 19th Street, 29th Street, Burton Station Road, Laskin Road, Pacific Avenue, and Greenwich Road.

The Authority and the City entered into a support agreement whereby the City supports all Authority financial obligations (principal and interest payments) regarding the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the financial statements with interest rates ranging from 3.00% to 5.00% for Series 2018A. The final payment on Series 2018A is due April 2038.

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CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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June 30, 2022

(B) Long-term debt activities for the year ended June 30, 2022 were as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>	<u>Due Within</u>
					<u>One Year</u>
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Public facility revenue bonds	\$ 42,994,118	-	(8,438,375)	34,555,743	8,454,937
	42,994,118	-	(8,438,375)	34,555,743	8,454,937
Add: Bond premium	2,225,893	-	(439,948)	1,785,945	-
Business-type activities/Authority					
Long-Term Debt	\$ 45,220,011	-	(8,878,323)	36,341,688	8,454,937

The requirements to amortize all long-term bonds and notes payable as of June 30, 2022, including interest payments of \$5,418,238 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 8,454,937	\$ 1,256,799
2024	5,484,214	1,015,598
2025	4,902,919	789,965
2026	2,826,058	576,021
2027	2,900,035	445,325
2028-2032	7,209,900	1,128,364
2033-2037	2,632,680	201,452
2038-2040	145,000	4,714
	\$ 34,555,743	\$ 5,418,238

(C) Advance Refunding Revenue Bonds

In June 2014, the City issued \$20.32 million in Public Facility Refunding Revenue Bonds, Series 2014B. The refunding achieved debt service savings by refinancing all or portions of certain Public Facility Revenue Bonds, Series 2005A previously issued by the Authority on behalf of the City. Included in the bonds sold were \$5.206 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the VBDA. As a result, the refunded bonds are defeased and the liability has been removed from the VBDA's statement of net position. The net carrying amount of the old debt exceeded the principal and premium of the refunding bonds by \$289,016. 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 11 years by \$.48 million and resulted in an economic gain of \$.41 million. The final payment on Series 2014B is due May 2025.

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In June 2015, the City issued \$34.89 million in Public Facility Refunding Revenue Bonds, Series 2015B. The refunding achieved debt service savings by refinancing all or portions of certain Public Facility Revenue Bonds, Series 2007A previously issued by the Authority on behalf of the City. Included in the bonds sold were \$9.436 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the VBDA. As a result, the refunded bonds are defeased and the liability has been removed from the VBDA's statement of net position. The net carrying amount of the old debt exceeded the principal and premium of the refunding bonds by \$640,447. 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 payment over the next 12 years by \$.95 million and resulted in an economic gain of \$.83 million. The final payment on Series 2015B is due July 2027.

In November 2016, the City issued \$7.88 million in Public Facility Refunding Revenue Bonds, Series 2016B. The refunding achieved debt service savings by refinancing all or portions of certain Public Facility Revenue Bonds, Series 2005B and 2007B previously issued by the Authority on behalf of the City. The full balance of the bonds sold was to refund the debt currently held by the VBDA. As a result, the refunded bonds are defeased and the liability has been removed from the VBDA's statement of net position. The net carrying amount of the old debt fell under the principal and discount/premium of the refunding bonds by \$166,839. 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 payment over the next 12 years by \$1.2 million and resulted in an economic gain of \$1.14 million. The final payment on Series 2016B is due May 2028.

In June 2020, the City issued \$11.18 million in Public Facility Refunding Revenue Bonds, Series 2020B. The refunding achieved debt service savings by refinancing all or portions of certain Public Facility Revenue Bonds, Series 2010B and 2010C previously issued by the Authority on behalf of the City. The full balance of the bonds sold was to refund the debt currently held by the VBDA. As a result, the refunded bonds are defeased and the liability has been removed from the VBDA's statement of net position. The net carrying amount of the old debt exceeded the principal and discount/premium of the refunding bonds by \$718,522. 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 payment over the next 4 years by \$1.6 million and resulted in an economic gain of \$.7 million. The final payment on Series 2020B is due August 2023.

Defeased Debt – In prior years, the City defeased certain general obligations, public improvement, and public utility bonds by placing funds in irrevocable escrow accounts to provide for future debt service payments on the defeased debt. Accordingly, the escrow account assets and liabilities for the defeased debt are not included in the City's financial statements. At June 30, 2022, the outstanding balance of the defeased debt, including is \$-0-, and is considered in-substance defeased.

Continued

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2022

(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 to the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2022, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$138,409,475.

(10) Interest Cost

The following is a summary of interest cost incurred during 2022:

Interest expense incurred	\$ <u>1,303,552</u>
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(11) Advances from City of Virginia Beach

Advances from the City 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 to the City or is held in the Authority's Proprietary Fund. Advances from the City also include the Little League loan amounts of \$250,000 that are administered by the Authority on a project basis to the Green Run/Princess Anne Little League. During the fiscal year 2022, the City had advanced funding for the following capital projects:

Dome Site Project – The project entails developing land located at the southern end of the Virginia Beach boardwalk. During the fiscal year 2022, \$256,047 was used to fund initial costs related to the development of the site. Total Dome Site Project costs incurred are \$931,618.

At June 30, 2022, Advances from the City totaled \$1.18M.

(12) Subsequent Events

There were no significant subsequent events for the Authority through the report issuance date.

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

Schedule of General and Other Expenses
Years Ended June 30, 2022

General expenses:	
Payments to City	\$ 2,116,224
Amphitheater box seating	26,595
Independent audit fees	46,835
Leasehold improvements	23,630
Total general expenses	<u>2,213,284</u>
Other expenses:	
Architecture and engineering	503,014
Conduit Management fees	211,060
Bio Accelerator lease	138,622
Park maintenance – Corporate Landing	28,068
Utilities – Corporate Landing fountain	19,530
Oceana Future Base Design	2,910
Commissioner Stipend	4,950
Consultant fees	261,174
Miscellaneous	52,033
Total other expenses	<u>1,221,361</u>
Total general and other expenses	<u>\$ 3,434,645</u>

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Schedule of Land and Building Inventory for Resale

June 30, 2022

Description:

Oceana West Corporate Park – beginning inventory July 1	\$ 1,555,548
Current – cost of sales	<u>—</u>
Oceana West Corporate Park – ending inventory June 30	<u>1,555,548</u>
Corporate Landing Office Park – beginning inventory July 1	9,434,876
Current – infrastructure design	—
Current – cost of sales	<u>—</u>
Corporate Landing Office Park – ending inventory June 30	<u>9,434,876</u>
Hunt Club 2 – beginning inventory July 1	200,305
Current – cost of sales	<u>—</u>
Hunt Club 2 – ending inventory June 30	<u>200,305</u>
Town Center Beacon Land – beginning inventory July 1	4,877,946
Impairment	(1,475,046)
Current – cost of sales	<u>—</u>
Town Center Beacon Land – ending inventory June 30	<u>3,402,900</u>
London Bridge Commerce Park - beginning inventory July 1	1,624,500
Impairment	(386,300)
Current – cost of sales	<u>—</u>
London Bridge Commerce Park - ending inventory June 30	<u>1,238,200</u>
Historic Kempsville - beginning inventory July 1	1,296,118
Impairment	(753,118)
Current - land acquisition and preparation	<u>—</u>
Historic Kempsville - ending inventory June 30	<u>543,000</u>
Bio Park - beginning inventory July 1	22,306,570
Current - cost of sales	—
Current - infrastructure design	<u>—</u>
Bio Park - ending inventory June 30	<u>22,306,570</u>
Total ending inventory	<u>\$ 38,681,399</u>

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

Schedule of Construction in Progress
June 30, 2022

	<u>Town Center Infrastructure</u>	<u>Dome Site</u>	<u>Corporate Landing Conduit</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	—	272,603	1,727,913
2009	(1,628,463)	—	—	6,535	(1,621,928)
2010	98	—	—	—	98
2011	3,872	—	—	—	3,872
2012	2,300	—	—	—	2,300
2013	49,080	6,459	—	—	55,539
2014	736,650	—	—	—	736,650
2015	(901,756)	(117,397)	—	—	(1,019,153)
2016	—	—	—	—	—
2017	55,008	—	—	—	55,008
2018	814,241	75,425	—	—	889,666
2019	(869,249)	38,374	1,071,160	(279,138)	(38,853)
2020	—	266,679	(1,071,160)	—	(804,481)
2021	—	295,093	—	—	295,093
2022	—	3,319,230	—	—	3,319,230
	<u>\$ —</u>	<u>3,994,801</u>	<u>—</u>	<u>—</u>	<u>3,994,801</u>

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

Schedule of EDIP Unearned Revenues
June 30, 2022

Balance Forward	\$ 6,875,065
Funding sources:	
Economic Development Investment Program City Appropriation - fiscal year	2,051,760
District Improvement Plan City Appropriation - fiscal year	100,000
Accident Potential Zone-1 Reimbursements	152,685
Dome Site reimbursements	2,405,572
Interest earned - fiscal year	4,497
Total Funding Available	<u>11,589,579</u>
Expenses:	
Economic Development Investment Program awards paid	(551,159)
District Improvement Plan awards paid	(103,847)
Accident Potential Zone-1 awards and expenses paid	(56,960)
Engineering studies, legal fees and miscellaneous expenses	(110,200)
Dome Site studies and expenses paid	(1,213,117)
Total Expenditures	<u>(2,035,283)</u>
Total Unearned Revenue - Economic Development Program	\$ <u><u>9,554,296</u></u>

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

Schedule of Nonoperating Revenues from City of Virginia Beach
 Year Ended June 30, 2022

Central Business District - South payment of debt service for Public Facility Revenue Bonds	\$ 8,402,633
9th Street Garage payment of debt service for Public Facility Revenue Bonds	524,510
31st Street Garage payment of debt service for Public Facility Revenue Bonds	1,227,281
Virginia Beach Amphitheater Capital Improvement Program	10,700
Town Center Garage - Special Service District	2,069,052
110 S Independence Blvd. maintenance reimbursement	36,712
Bio-Initiative funding	389,795
Dome Site	3,063,183
Total Nonoperating Revenues From the City of Virginia Beach	\$ <u>15,723,866</u>

COMPLIANCE SECTION

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Commissioners
City of Virginia Beach Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the City of Virginia Beach Development Authority (the “Authority”), a component unit of the City of Virginia Beach, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated March 8, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Virginia Beach, Virginia
March 8, 2023