

CITY OF VIRGINIA BEACH

DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

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

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CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Commissioners

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



Virginia Beach
Development Authority
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Virginia Beach, VA 23462
(757) 385-6464
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Website: www.vbgov.com

September 18, 2007

Commissioners of the City of 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 for the fiscal years ended June 30, 2007 and 2006 is hereby submitted. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the Authority's operations. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

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

In fiscal year 2007, 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 authorizing industrial revenue bond activity.

During fiscal year 2007, the Authority assisted in the location of 32 new companies and the expansion and retention of 43 existing businesses that created new capital investment in excess of \$163 million. These companies and businesses created and retained 2,929 employment opportunities in Virginia Beach. Also, the Authority authorized the issuance of \$55,640,000 in industrial revenue bonds and provided EDIP assistance in the amount of \$340,000 during fiscal year 2007.

The Authority's primary business parks had a considerable amount of activity in fiscal year 2007. Within these major business/industrial parks, 11 new businesses located and 16 existing Virginia Beach companies expanded or retained their operations.

Development in the highly successful Town Center of Virginia Beach continued in Phase III which includes a new, 37-story, 236-room, 4-Star Westin Hotel with 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 includes the construction of the 84,000 square foot, 1,200-seat, Sandler Center for the Performing Arts. Completion of a substantial portion of Phase III is scheduled for Fall 2007. Phase III also includes the Studio 56

Lofts, McCormick & Schmick's Seafood Restaurant, and the proposed Two Columbus Center —
— a 5-story, 90,000 square foot commercial building with Class A Office and retail spaces on
which construction will begin in Fall 2007.

The Authority continues to focus on the following strategic areas: (1) Strategic Growth Areas
(Land), (2) Finance/Incentives, (3) Marketing, (4) City Council, and (5) the Permitting Process.

The Authority's oversight of its financial affairs has resulted in this strong financial report and the
Authority is commended for the policies and practices which have achieved this outcome.

Respectively,



Warren D. Harris
Warren D. Harris
Director of the Virginia Beach Department of Economic Development



Mark Wawner
Mark Wawner
Virginia Beach Department of Economic Development Project Manager



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, 2007 and 2006, 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, 2007 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2007 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 9 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.

Virginia Beach, Virginia
September 4, 2007

Cheryl Sekant : *Holland, LLP*

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, 2007 and 2006. Please read it in conjunction with the Authority's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Authority's governmental net assets increased by \$0.33 million in fiscal year 2007 and \$0.04 million in fiscal year 2006. The increases in net assets in fiscal years 2007 and 2006 were mainly due to the capitalization of expenses and the absence of large asset transfers that occurred during prior fiscal years.
- The Authority's business-type net assets increased by \$4.57 million in fiscal year 2007 and \$0.57 million in fiscal year 2006. In fiscal year 2007, the increase in net assets was due to the purchase of the Tournament Players Club Golf Course, which is now called Virginia Beach National Golf Course. The purchase of the golf course was funded through a capital contribution from the City. In fiscal year 2006, the increase was due to revenues exceeding expenses as well as a small asset transfer.
- The Authority provided economic development services, as requested by the Virginia Beach City Council, for the Rudee Loop and the Town Center Projects that are accounted for in the Authority's Governmental Fund. When projects or phases of projects are complete, the associated costs are capitalized and transferred out of the Governmental Fund and into the Authority's Proprietary Fund or to the City. During fiscal year 2007 and 2006, \$0.03 million and \$0.82 million of Town Center infrastructure expenses pertaining to Phase I and II of the Town Center Project were removed from the Governmental Fund.
- During fiscal year 2007, the Authority also sold .356 acres of land in Town Center for \$0.52 million. The cost of the Town Center land sold was equal to the purchase price of \$0.52 million. These transactions were accounted for in the Authority's Proprietary Fund.
- In fiscal year 2007, the Authority acted as the conduit issuer for \$96.84 million in Series 2007A Public Facility Revenue Bonds and \$4.03 million in Series 2007B Public Facility Revenue Bonds, at the request of the City of Virginia Beach. The portion attributable to the Authority, \$26.47 million will be used to finance the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge connecting Block 12 and Block 7 in Town Center during fiscal year 2008.
- In fiscal year 2007, the Authority purchased the Block 10 Parking Garage using proceeds from the 2005 Public Facility Revenue Bonds.

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.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

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

ENTITY-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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).

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

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

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net Assets:

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

Table 1
Net Assets
as of June 30, 2007, 2006, and 2005
(in millions)

	<u>Governmental Activities</u>			<u>Business-type Activities</u>			<u>Total</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 0.81	0.89	0.54	54.13	25.46	35.21	54.94	26.35	35.75
Capital assets	0.39	0.06	0.03	85.86	83.79	73.39	86.25	83.85	73.42
Total Assets	<u>1.20</u>	<u>0.95</u>	<u>0.57</u>	<u>139.99</u>	<u>109.25</u>	<u>108.60</u>	<u>141.19</u>	<u>110.20</u>	<u>109.17</u>
Current and other liabilities	0.76	0.84	0.50	9.06	7.51	9.44	9.82	8.35	9.94
Long-term liabilities	-	-	-	102.30	77.68	75.67	102.30	77.68	75.67
Total liabilities	<u>0.76</u>	<u>0.84</u>	<u>0.50</u>	<u>111.36</u>	<u>85.19</u>	<u>85.11</u>	<u>112.12</u>	<u>86.03</u>	<u>85.61</u>
Net assets:									
Invested in capital assets, net of related debt	0.39	0.06	0.03	8.96	5.11	5.14	9.35	5.17	5.17
Restricted - other purposes	-	-	-	3.63	3.69	2.55	3.63	3.69	2.55
Unrestricted	0.05	0.05	0.04	16.04	15.26	15.80	16.09	15.31	15.84
Total net assets	<u>\$ 0.44</u>	<u>0.11</u>	<u>0.07</u>	<u>28.63</u>	<u>24.06</u>	<u>23.49</u>	<u>29.07</u>	<u>24.17</u>	<u>23.56</u>

At June 30, 2007 and 2006, the total assets of the Authority were \$141.19 and \$110.20 million, respectively; total liabilities were \$112.12 and \$86.03 million, respectively, while combined net assets were \$29.09 and \$24.17 million, respectively.

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

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

Management's Discussion and Analysis

Business-type net assets increased primarily due to a contribution from the City of Virginia Beach to purchase the Tournament Players Club Golf Course.

The Authority incurred capital expenses in the amount of \$0.36 million in fiscal year 2007 and \$0.86 million in fiscal year 2006 as a result of costs associated with ongoing projects. During fiscal year 2007 and 2006, capital assets in the amount of \$0.03 million and \$0.72 million were transferred to the City and in fiscal year 2006, capital assets in the amount of \$0.10 million were transferred to the Authority's Proprietary Fund. These transfers resulted in an ending construction in progress balance of \$0.39 million and \$0.06 million, respectively, in fiscal year 2007 and 2006.

Changes in Net Assets:

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

Table 2
Changes in Net Assets
Years Ended June 30, 2007, 2006, and 2005
(in millions)

	<u>Governmental Activities</u>			<u>Business - type Activities</u>			<u>Total</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenue									
Program Revenue:									
Charges for services	\$ -	-	-	3.02	3.75	2.93	3.02	3.75	2.93
Operating grants and contributions	-	-	-	5.66	4.42	3.51	5.66	4.42	3.51
Capital grants and contributions	0.36	0.86	24.81	4.59	0.05	0.05	4.95	0.91	24.86
General Revenue:									
Other	-	-	-	0.37	0.23	0.08	0.37	0.23	0.08
Special Items:									
Transfer of assets	-	-	-	-	0.10	1.77	-	0.10	1.77
Contribution from Primary Government	-	-	-	-	-	2.57	-	-	2.57
Total revenues	<u>0.36</u>	<u>0.86</u>	<u>24.81</u>	<u>13.64</u>	<u>8.55</u>	<u>10.91</u>	<u>14.00</u>	<u>9.41</u>	<u>35.72</u>
Expenses									
Authority Operations	-	-	-	9.07	7.98	5.87	9.07	7.98	5.87
Special Items:									
Transfer of infrastructure to City	0.03	0.72	35.98	-	-	-	0.03	0.72	35.98
Transfer of assets to Proprietary Fund	-	0.10	1.77	-	-	-	-	0.10	1.77
Total expenses	<u>0.03</u>	<u>0.82</u>	<u>37.75</u>	<u>9.07</u>	<u>7.98</u>	<u>5.87</u>	<u>9.10</u>	<u>8.80</u>	<u>43.62</u>
Change in net assets	0.33	0.04	(12.94)	4.57	0.57	5.04	4.90	0.61	(7.90)
Net Assets - Beginning of Year	0.11	0.07	13.01	24.06	23.49	18.45	24.17	23.56	31.46
Net Assets - End of Year	<u>\$ 0.44</u>	<u>0.11</u>	<u>0.07</u>	<u>28.63</u>	<u>24.06</u>	<u>23.49</u>	<u>29.07</u>	<u>24.17</u>	<u>23.56</u>

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 and investment earnings. For the fiscal years ended June 30, 2007 and 2006, revenues from business-type activities totaled \$13.64 and \$8.55 million, respectively. This included revenue derived from land sales, industrial revenue bond fees, lease income, investment earnings, and support agreement funding from the City of Virginia Beach.

EXPENSES

For the fiscal years ended June 30, 2007 and 2006, expenses totaling \$0.03 million and \$0.82 million, respectively, were transferred to the City of Virginia Beach and to the Authority's Proprietary Fund. 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, 2007 and 2006, these expenses totaled \$9.07 and \$7.98 million, respectively.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority's governmental fund reflects a fund balance of \$0.04 million at June 30, 2007 and 2006, respectively. The June 30, 2007 and 2006 increases in fund balance of \$4,758 and \$4,610, respectively, are primarily the result of interest income associated with a security deposit held on the Tournament Players Club Golf Course. The activities reflect support from the City of Virginia Beach as well as expenditures on Town Center infrastructure and the Rudee Loop Project totaling \$0.36 million in fiscal year 2007.

The proprietary fund includes total net assets of \$28.63 million and \$24.06 million at June 30, 2007 and 2006, respectively. The June 30, 2007 increase in net assets is primarily attributable to the contribution from the City of Virginia Beach to purchase the Tournament Players Club Golf Course's land and assets. The June 30, 2006 increase in net assets was attributable to revenues from charges for services, grants, and contributions exceeding operating expenses and the transfer of Town Center Plaza capitalized costs from the Authority's Special Projects Fund. In fiscal year 2007 and 2006, operating revenues from land sales, industrial revenue bond fees, lease income, and miscellaneous revenue totaled \$3.02 and \$3.75 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$5.41 and \$4.65 million, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2007 and 2006, the Authority had invested \$86.25 million and \$83.85 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3. In 2007,

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

Management's Discussion and Analysis

this represents a net increase of \$2.4 million, while 2006 reflects a net increase of \$10.43 million from the beginning of the fiscal year.

Table 3
Capital Assets
 as of June 30, 2007, 2006, and 2005
 (in millions)

	Governmental Activities			Business - type Activities			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Non-depreciable assets:									
Land	\$ -	-	-	16.91	14.84	14.24	16.91	14.84	14.24
Option land and capitalized interest	-	-	-	0.77	0.70	2.18	0.77	0.70	2.18
Construction in progress	0.39	0.06	0.03	-	-	-	0.39	0.06	0.03
Other capital assets:									
Buildings/equipment	-	-	-	75.36	73.37	60.23	75.36	73.37	60.23
Accumulated depreciation on other capital assets	-	-	-	(7.18)	(5.12)	(3.26)	(7.18)	(5.12)	(3.26)
Total net capital assets	\$ 0.39	0.06	0.03	85.86	83.79	73.39	86.25	83.85	73.42

Major capital asset additions in fiscal year 2007 included:

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

Major capital asset additions in fiscal year 2006 included:

- Town Center Project – Phase I, II, and III infrastructure construction including streets, curbs and gutters, sidewalks, underground utilities, and other capitalized costs; and construction of a public plaza - \$859,705.
- Town Center Block 10 – The purchase of the Block 10 Parking Garage located in Town Center on December 29, 2005 - \$13,616,672.

LONG-TERM DEBT

At June 30, 2007 and 2006, the Authority had an outstanding loan balance due to the City of Virginia Beach in the amount of \$5.59 million related to the 31st Street land and corporate parks. The covenants in effect while the loan is outstanding state that twenty percent of the net proceeds from land sales within Corporate Landing and Oceana West Corporate Parks will be distributed to the City to reduce the outstanding debt balance. In fiscal year 2007, there were no land sales in Corporate Landing or Oceana West, and in fiscal year 2006, there were two land sales that reduced the loan balance to the City by \$0.25 million.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

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

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

Statements of Net Assets - Entity-Wide

June 30, 2007 and 2006

	2007			2006		
	Governmental Activities	Business-type Activities	2007 Total	Governmental Activities	Business-type Activities	2006 Total
Assets						
Cash and cash equivalents (note 2)	—	4,355,853	4,355,853	—	3,487,228	3,487,228
Receivables, net (note 4)	33,414	22,371	55,785	—	43,673	43,673
Deferred charges	—	562,447	562,447	—	606,431	606,431
Land inventory	—	12,538,236	12,538,236	—	12,538,236	12,538,236
Restricted cash and cash equivalents (notes 2 and 3)	775,190	6,776,305	7,551,495	890,545	5,825,658	6,716,203
Receivables, restricted (note 4)	—	29,873,235	29,873,235	—	2,955,210	2,955,210
Capital assets (note 5)						
Land, improvements, and construction in progress	393,847	17,680,370	18,074,217	60,072	15,541,487	15,601,559
Other capital assets, net of accumulated depreciation	—	68,183,458	68,183,458	—	68,249,351	68,249,351
Total capital assets	393,847	85,863,828	86,257,675	60,072	83,790,838	83,850,910
Total assets	1,202,451	139,992,275	141,194,726	950,617	109,247,274	110,197,891
Liabilities						
Accounts payable and accrued liabilities (note 6)	100,000	1,027,447	1,127,447	100,000	970,724	1,070,724
Liabilities payable from restricted assets	655,440	5,945,680	6,601,120	742,139	4,765,102	5,507,241
Long-term liabilities (note 7)	—	2,090,000	2,090,000	—	1,780,000	1,780,000
Due within one year	—	102,296,241	102,296,241	—	77,675,189	77,675,189
Due in more than one year	—	—	—	—	—	—
Total liabilities	755,440	111,359,368	112,114,808	842,139	85,191,015	86,033,154
Net Assets						
Invested in capital assets, net of related debt	393,847	8,955,448	9,349,295	60,072	5,108,190	5,168,262
Restricted - other purposes (notes 3 and 12)	—	3,634,122	3,634,122	—	3,683,839	3,683,839
Unrestricted	53,164	16,043,337	16,096,501	48,406	15,264,230	15,312,636
Total net assets	447,011	28,632,907	29,079,918	108,478	24,056,259	24,164,737

See accompanying notes to financial statements.

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

Statements of Activities - Entity-Wide

Year ended June 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
Development Activities	\$ —	—	—	358,578	358,578	—	358,578
Business-type activities							
Authority Operations	9,069,190	3,019,354	5,661,275	4,590,265	—	4,201,704	4,201,704
Total	\$ 9,069,190	3,019,354	5,661,275	4,948,843	358,578	4,201,704	4,560,282
General Revenues:					\$ 4,758	374,391	379,149
Unrestricted investment earnings					—	553	553
Miscellaneous					(24,803)	—	(24,803)
Special Items:					(20,045)	374,944	354,899
Transfer of infrastructure to Primary Government					338,533	4,576,648	4,915,181
Total general revenues and special items					108,478	24,056,259	24,164,737
Change in net assets					447,011	28,632,907	29,079,918
Net assets - beginning of year							
Net assets - end of year							

See accompanying notes to financial statements

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

Statements of Activities - Entity-Wide

Year ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
Development Activities	\$ —	—	—	859,705	859,705	—	859,705
Business-type activities							
Authority Operations	7,984,693	3,746,010	4,424,349	50,000	—	235,666	235,666
Total	\$ 7,984,693	3,746,010	4,424,349	909,705	859,705	235,666	1,095,371
General Revenues:							
Unrestricted investment earnings					\$ 4,610	227,406	232,016
Miscellaneous					—	5,811	5,811
Special Items:							
Transfer of infrastructure to Primary Government					(728,575)	—	(728,575)
Transfer of fixed assets to Proprietary Fund					(96,681)	96,681	—
Total general revenues and special items					(820,646)	329,898	(490,748)
Change in net assets					39,059	565,564	604,623
Net assets - beginning of year					69,419	23,490,695	23,560,114
Net assets - end of year					\$ 108,478	24,056,259	24,164,737

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Restricted cash and cash equivalents (notes 2 and 3)	\$ 775,190	890,545
Receivables (note 4)	33,414	—
Total assets	\$ <u>808,604</u>	<u>890,545</u>
 Liabilities and Fund Balance		
Liabilities (note 6)		
Accrued liabilities	\$ 100,000	100,000
Liabilities payable from restricted assets	655,440	742,139
Total liabilities	<u>755,440</u>	<u>842,139</u>
Fund balance		
Unreserved	<u>53,164</u>	48,406
Total liabilities and fund balance	\$ <u>808,604</u>	<u>890,545</u>
 Reconciliation to Statement of Net Assets:		
Ending fund balance	\$ <u>53,164</u>	<u>48,406</u>
Adjustments for the Statement of Net Assets:		
Capital assets used in government activities are not current financial resources and therefore not reported in the governmental fund	<u>393,847</u>	<u>60,072</u>
Net Assets of Governmental Activities	\$ <u>447,011</u>	<u>108,478</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
City Contributions:		
Town Center Infrastructure	\$ 257,841	859,705
Rudee Loop Project	100,737	—
Interest	<u>4,758</u>	<u>4,610</u>
Total revenues	<u>363,336</u>	<u>864,315</u>
Expenditures		
Construction:		
Rudee Loop Project	100,737	—
Town Center Infrastructure	<u>257,841</u>	<u>859,705</u>
Total Expenditures	<u>358,578</u>	<u>859,705</u>
Excess of revenues over expenditures	4,758	4,610
Fund balance at beginning of year	<u>48,406</u>	<u>43,796</u>
Fund balance at end of year	<u>\$ 53,164</u>	<u>48,406</u>
Reconciliation to Statement of Activities		
Excess of revenues over expenditures	\$ <u>4,758</u>	<u>4,610</u>
Adjustment for the Statement of Activities:		
Transfer of infrastructure to Primary Government	(24,803)	(728,575)
Transfer of capital assets to Proprietary Fund	—	(96,681)
Governmental funds report capital outlays as expenditures while governmental activities capitalize such costs	<u>358,578</u>	<u>859,705</u>
Changes in net assets of governmental activities	<u>\$ 338,533</u>	<u>39,059</u>

See accompanying notes to financial statements.

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

Statements of Net Assets - Proprietary Fund

Authority Operations

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 4,355,853	3,487,228
Receivables, net (note 4)	22,371	43,673
Total current assets	<u>4,378,224</u>	<u>3,530,901</u>
Noncurrent assets:		
Restricted cash and cash equivalents (notes 2 and 3)	6,776,305	5,825,658
Receivables, restricted (note 4)	29,873,235	2,955,210
Deferred charges (note 1)	562,447	606,431
Land inventory	12,538,236	12,538,236
Capital Assets (note 5)		
Land	17,680,370	15,541,487
Buildings and equipment	75,362,693	73,371,716
Less accumulated depreciation	<u>(7,179,235)</u>	<u>(5,122,365)</u>
Total noncurrent assets	<u>135,614,051</u>	<u>105,716,373</u>
Total assets	<u>139,992,275</u>	<u>109,247,274</u>
Liabilities		
Current liabilities:		
Accounts payable (note 6)	73,586	52,953
Accrued liabilities (note 6)	953,861	917,771
Bonds, notes, and loans payable (note 7)	2,090,000	1,780,000
Total current liabilities	<u>3,117,447</u>	<u>2,750,724</u>
Noncurrent liabilities:		
Due to City of Virginia Beach	—	4,061,802
Liabilities payable from restricted assets	5,945,680	4,765,102
Bonds, notes and loans payable (note 7)	102,296,241	73,613,387
Total liabilities	<u>111,359,368</u>	<u>85,191,015</u>
Net Assets		
Invested in capital assets, net of related debt	8,955,448	5,108,190
Restricted - other purposes (note 3)	3,634,122	3,683,839
Unrestricted	16,043,337	15,264,230
Total net assets	\$ <u>28,632,907</u>	<u>24,056,259</u>

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
Component Unit of the City of Virginia Beach, Virginia
Statements of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
Authority Operations
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Land sales - other corporate parks	\$ —	1,249,480
Land sales - Town Center	523,000	—
Industrial revenue bond fees (note 9)	535,457	487,541
Lease income (notes 8 and 11)	1,693,492	2,008,989
Tournament Players Club revenue (note 11)	267,403	—
Miscellaneous income	553	5,811
Total operating revenues	<u>3,019,905</u>	<u>3,751,821</u>
Operating Expenses:		
Cost of land sold - other corporate parks	—	645,110
Cost of land sold - Town Center	523,000	—
Tournament Players Club (note 11)	467,935	—
Selling, general, and other expenses (schedule A)	3,648,416	3,305,582
Garage operations	769,753	696,481
Total operating expenses	<u>5,409,104</u>	<u>4,647,173</u>
Operating income (loss)	<u>(2,389,199)</u>	<u>(895,352)</u>
Nonoperating Revenue (Expense):		
City of Virginia Beach (schedule E)	5,711,275	4,474,349
Interest income	374,391	227,406
Interest expense (note 10)	(3,660,084)	(3,337,520)
Total nonoperating revenue (expense)	<u>2,425,582</u>	<u>1,364,235</u>
Income (expense) before capital contributions	36,383	468,883
Tournament Players Club Golf Course	4,540,265	—
Town Center Plaza	—	96,681
Change in net assets	<u>4,576,648</u>	<u>565,564</u>
Total net assets at beginning of year	<u>24,056,259</u>	<u>23,490,695</u>
Total net assets at end of year	<u>\$ 28,632,907</u>	<u>24,056,259</u>

See accompanying notes to financial statements.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Statements of Cash Flows - Proprietary Fund

Authority Operations

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 3,015,555	4,242,774
EDIP cash receipts	1,899,994	3,429,793
Other operating cash receipts	15,000	5,000
Cash payments to suppliers of goods and services	(3,139,273)	(2,185,252)
Net EDIP activities	<u>(1,062,991)</u>	<u>(2,734,435)</u>
Net cash provided by operating activities	<u>728,285</u>	<u>2,757,880</u>
Cash flows from capital and related financing activities:		
Principal Repayment on Long-Term Debt	(1,780,000)	(3,807,479)
Interest Paid on Long-Term Debt	(3,720,316)	(3,394,947)
Capital contributions from City	10,251,540	4,513,484
Acquisition of Capital Assets	(4,540,265)	(30,776)
Capitalization of asset costs	(43,011)	-
Proceeds from Sale of Capital Assets	523,000	1,919,547
31st Street Project	-	7,335
Net cash used in capital and related financing activities	<u>690,948</u>	<u>(792,836)</u>
Cash flows from investing activities:		
Interest	<u>400,039</u>	<u>200,768</u>
Net increase in cash and cash equivalents	1,819,272	2,165,812
Cash and cash equivalents at beginning of year	<u>9,312,886</u>	<u>7,147,074</u>
Cash and cash equivalents at end of year	<u>\$ 11,132,158</u>	<u>\$ 9,312,886</u>
Classified as:		
Current assets	\$ 4,355,853	3,487,228
Restricted assets	<u>6,776,305</u>	<u>5,825,658</u>
	<u>\$ 11,132,158</u>	<u>\$ 9,312,886</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (2,389,199)	(895,352)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	2,100,853	1,905,138
Changes in assets and liabilities		
Receivables, net	1,895,645	3,920,747
Accounts and other payables	(894,014)	(2,822,763)
Accrued expenses	15,000	5,000
Land Inventory	-	645,110
Net cash provided by operating activities	<u>\$ 728,285</u>	<u>2,757,880</u>
Noncash transactions:		
Public facility revenue bond proceeds receivable from City	\$ 26,722,795	-
Reduction in public facility revenue bond proceeds receivable from City	(4,061,802)	(9,611,003)
Receivables resulting from deferred land sales	-	(311,166)
Increase in payable to City	-	4,005,667
Amortization on bond discount/premium	(80,763)	(50,441)
Acquisition of Town Center capital assets and land with City bond proceeds	-	(13,350,715)
Increase in Town Center capitalized interest	-	45,206

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, 2007 and 2006

(1) Summary of Significant Accounting Policies

Narrative Profile

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

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

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

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

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

(a) *Basis of Financial Reporting*

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

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2007 and 2006

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

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

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

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

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

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

(c) *Measurement Focus and Basis of Accounting*

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2007 and 2006

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

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

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

The Authority reports the following major governmental fund:

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

The Authority reports the following major proprietary fund:

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

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2007 and 2006

(d) Capital Assets

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

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

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

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

(e) Land Inventory

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

(f) Miscellaneous

Cash and Cash Equivalents

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

Restricted Cash

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2007 and 2006

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, 2007 and 2006, the unamortized bond issuance costs were \$562,447 and \$606,431.

Bond Premiums and Discounts

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

(2) Cash and Cash Equivalents

The June 30, 2007 bank balance was fully covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Authority. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro-rata basis to the members (banks and savings and loans) of the pool. Therefore, these deposits are considered collateralized and as a result of this are considered insured.

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

Notes to Financial Statements

June 30, 2007 and 2006

The reconciliations of total cash and cash equivalents to the entity-wide financial statements at June 30, 2007 and 2006 are as follows:

	Governmental Activities/Special Projects Fund	Business-type Activities/Authority Operations Fund	Total 2007
Cash and Cash Equivalents- Wachovia	\$ -	4,355,853	4,355,853
Restricted Cash and Cash Equivalents-			
Option Deposits	-	135,000	135,000
Town Center Option Land	-	422	422
Social Services	-	996,188	996,188
Town Center Account	-	84	84
EDIP	-	2,858,754	2,858,754
EDIP Town Center	622,025	-	622,025
Land Sales/Infrastructure	-	2,637,511	2,637,511
Virginia Beach National Certificates	-	26,271	26,271
TPC/VB National Appropriation	-	122,075	122,075
Golf Course Option Deposit	153,165	-	153,165
Total Restricted Cash and Cash Equivalents	<u>775,190</u>	<u>6,776,305</u>	<u>7,551,495</u>
Total	\$ <u><u>775,190</u></u>	<u><u>11,132,158</u></u>	<u><u>11,907,348</u></u>
	Governmental Activities/Special Projects Fund	Business-type Activities/Authority Operations Fund	Total 2006
Cash and Cash Equivalents- Bank of America	\$ -	3,487,228	3,487,228
Restricted Cash and Cash Equivalents-			
Option Deposits	-	120,000	120,000
Town Center Option Land	-	422	422
Social Services	-	1,002,892	1,002,892
Town Center Account	-	68	68
EDIP	-	2,021,751	2,021,751
EDIP Town Center	742,139	-	742,139
Land Sales/Infrastructure	-	2,680,525	2,680,525
Golf Course Option Deposit	148,406	-	148,406
Total Restricted Cash and Cash Equivalents	<u>890,545</u>	<u>5,825,658</u>	<u>6,716,203</u>
Total	\$ <u><u>890,545</u></u>	<u><u>9,312,886</u></u>	<u><u>10,203,431</u></u>

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2007 and 2006

(3) Restricted Cash and Cash Equivalents

The Town Center reserve account balances at June 30, 2007 and 2006 were \$84 and \$68, respectively. These funds are proceeds from the June 2002 bond sales that were used to purchase the Town Center Garage (Block 4) upon completion (See note 7).

The EDIP accounts were established in February 1994 through funds that the City appropriated from the Capital Improvement Program EDIP Project for economic development activities. This program represents annual funding from the City to the Authority to be used for on-site and off-site infrastructure needs as well as training expenses for businesses meeting certain criteria. Businesses having received EDIP awards or projects having received EDIP funding are paid or reimbursed for qualifying expenses out of these accounts. EDIP cash and cash equivalents at June 30, 2007 and 2006 were \$3,480,779 and \$2,763,890, respectively.

On December 29, 2006, the Authority purchased the TPC Golf Course's land and assets. At that time, gift certificates in the amount of \$26,271 were outstanding. This amount was deposited into a restricted cash account, and the current operator of Virginia Beach National Golf Course (formerly known as TPC Golf Course) will be refunded for outstanding gift certificates as they are redeemed. The Authority will retain proceeds from gift certificates that are not redeemed by a date that has not yet been determined.

On December 7, 2006, City Council approved an ordinance to appropriate \$350,000 for operating costs associated with TPC Golf Course for the period of January 1, 2007 through March 31, 2007. This funding is currently being used to fund repairs to the facility, and upon completion of these repairs, the remaining funding will be transferred back to the City. At June 30, 2007, the remaining balance of the TPC appropriation was \$122,075.

A City Council Ordinance established the TPC Golf Course Project in May 1997. An appropriation of \$4,225,000, for improvements and infrastructure has been received since the project's inception. In fiscal year 2001, the City appropriated \$725,000 for road improvements. In January 1998, an additional \$100,000 option deposit was also received from PGA Tour Properties for an option to develop a second course on an additional 200 acres adjacent to the current project site. A total of \$4,225,000 has been expended to date. The cash account balances, representing interest and the option deposit, at June 30, 2007 and 2006 were \$153,165 and \$148,406, respectively. On December 29, 2006, the Authority purchased the TPC Golf Course's land and assets. According to the agreement, the option deposit was forfeited to the Authority since it was not exercised. Currently, the Authority and TPC continue work together through the ownership transition process.

The Social Services Facility reserve accounts at June 30, 2007 and 2006 were \$996,188 and \$1,002,892. These funds are reserved for capital and structural improvements, maintenance, and repairs to the facility in accordance with the lease agreement (See note 8).

Option deposits held in escrow are not available for operations. The deposits are normally applied to the sale price of optioned land if the sale is consummated, or forfeited in the event the option holder elects not to exercise the option. In the event the Authority is unable to satisfy its obligations stated in the option agreements, the option deposits would be fully refundable to the option holder. Option deposits were \$135,000 and \$120,000 in the Authority Operations Fund at June 30, 2007 and 2006, respectively.

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Under a February 2003 loan modification agreement between the Authority and the City of Virginia Beach, 20% of the net proceeds from land sales within Corporate Landing Business Park and Oceana West Corporate Park are to be paid to the City to reduce the outstanding note balance, while the remaining 80% is to be used by the Authority to fund its infrastructure requirements and strategic land acquisitions. This modification was retroactive to March 22, 2002 and includes the net proceeds from land sales, which occurred between March 2002 and June 2007. At June 30, 2007 and 2006, 80% of the net proceeds, \$2,637,511 and \$2,680,525, respectively, attributable to the sale of property were reserved.

Restricted cash at June 30, 2007 and 2006 included \$422 of unexpended loan proceeds from the Town Center property financing. During fiscal year 2006, \$17,000 was used to reduce the principal of the loan used to purchase the Town Center land.

(4) Receivables

Receivables at June 30, 2007 and 2006 consist of the following:

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

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	Governmental Activities/ Special Projects Fund	Business-type Activities/ Authority Operations Fund	Total 2006
Town Center Garage Operations	\$ -	16,667	16,667
Interest	-	27,006	27,006
Deferred Land Sales	-	211,859	211,859
EDIP appropriations from City	-	2,743,351	2,743,351
Gross accounts receivable	-	2,998,883	2,998,883
Less: Allowance for Uncollectibles	-	-	-
Accounts receivable, net	\$ -	2,998,883	2,998,883

On June 30, 2007, the \$26,722,795 receivable due from the City of Virginia Beach included bond proceeds from the sale of Public Facility Revenue Bonds in June 2007. These remaining bond proceeds will be used to purchase the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge connecting Block 12 to Block 7 in the Town Center during fiscal year 2008.

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(5) Capital Assets

The following schedules summarize the capital assets of the Authority as of June 30, 2007 and 2006:

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

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	Balance June 30, 2005	Increase	Decrease	Balance June 30, 2006
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ 25,623	923,405	(888,956)	60,072
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Land	\$ 14,242,572	596,048	-	14,838,620
Option land/capitalized interest	2,184,230	448,068	(1,929,431)	702,867
Total non-depreciable assets	<u>16,426,802</u>	<u>1,044,116</u>	<u>(1,929,431)</u>	<u>15,541,487</u>
Depreciable Assets:				
Buildings/equipment	60,223,637	13,148,079	-	73,371,716
Total depreciable assets	<u>60,223,637</u>	<u>13,148,079</u>	<u>-</u>	<u>73,371,716</u>
Less Accumulated Depreciation for:				
Buildings	(3,261,210)	(1,861,155)	-	(5,122,365)
Total accumulated depreciation	<u>(3,261,210)</u>	<u>(1,861,155)</u>	<u>-</u>	<u>(5,122,365)</u>
Capital Assets, Net	\$ <u>73,389,229</u>	<u>12,331,040</u>	<u>(1,929,431)</u>	<u>83,790,838</u>

At June 30, 2007 and 2006, depreciation expense related to capital assets was \$2,056,870 and \$1,861,155, respectively, and charged to the Authority's Operations Fund.

In fiscal year 2007 and 2006, assets in the amount of \$24,803 and \$728,575 located in Town Center were completed and transferred to the City of Virginia Beach. In fiscal year 2006, assets in the amount of \$96,681 located in Town Center were transferred from the Authority's Special Projects Fund to the Authority's Proprietary Fund. In addition to these transfers, reimbursements in fiscal year 2006 in the amount of \$63,700 also reduced the construction in progress balance during the fiscal year.

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

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(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2007 and 2006 consist of the following:

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

	Governmental Activities/ Special Projects Fund	Business-type Activities/ Authority Operations Fund	2006
Accounts payable	\$ -	52,953	52,953
Accounts payable-EDIP	742,139	4,765,102	5,507,241
Total accounts payable	<u>742,139</u>	<u>4,818,055</u>	<u>5,560,194</u>
Accrued interest	-	797,771	797,771
Options deposits	-	120,000	120,000
Security deposit	100,000	-	100,000
Total accrued liabilities	<u>100,000</u>	<u>917,771</u>	<u>1,017,771</u>
Accounts payable and accrued liabilities	<u>\$ 842,139</u>	<u>5,735,826</u>	<u>6,577,965</u>

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On December 7, 2006, the City Council appropriated \$350,000 for the operating expenses associated with the TPC Golf Course facility. After all expenses have been incurred, the remaining funding will be transferred to the City. The Authority also received \$26,271 from outstanding gift certificates at April 1, 2007. Virginia Beach National Golf Course (formerly known as TPC) will be reimbursed from these proceeds as gift certificates are redeemed through purchases at the facility. At June 30, 2007, the outstanding balance in the accounts payable-Golf Course account was \$148,345.

(7) Long-Term Debt

(a) Revenue Bonds

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

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

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

In May of 2005, the Authority acted as the conduit issuer for \$94,900,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,080,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds. In fiscal year 2005, \$22,130,000 of 2005 bond proceeds were used to purchase a portion of the 31st Street Parking Garage and the 9th Street Parking Garage. In fiscal year 2006, the Authority used a portion of the 2005 bond proceeds in the amount of \$13,616,672 to purchase the Block 10 Parking Garage located in Town Center. The City's share of

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the bond proceeds were used to finance various public facilities, including the replacement of the Convention Center, construction of a parking facility for the Virginia Aquarium and Marine Science Center, Open Space site acquisition, construction of an Emergency Communications Operation Center, and various equipment and software used for the operation of the City. The Authority and the City entered into support agreements, dated September 1, 2003 and May 1, 2005, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates ranged from 4.0% to 5.0% for Series 2005A and 4.75% to 5.0% for Series 2005B. The final payments on Series 2005A and 2005B are due May 2025.

In June of 2007, the Authority acted as the conduit issuer for \$96,835,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,555,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds. In fiscal year 2008, the bond proceeds will be 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 are being used to finance various public facilities, including the replacement of the Pavilion Theater and the Convention Center, the construction of the Sandler Center for the Performing Arts, Open Space Site acquisition, a Revenue Assessment and Collection System, a City/School Human Resource Payroll System, and an Automatic Vehicle Locator System. The Authority and the City entered into a support agreement, dated June 1, 2007, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage, Pedestrian Bridge, and Conference Center portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates were 5.0% for Series 2007A and the rates ranged from 5.85% to 6.50% for Series 2007B. The final payments on Series 2007A and 2007B are due July 2027.

(b) Notes Payable – Town Center

On, March 6, 2000, the Authority and Town Center Associates, L.L.C. entered into an agreement for the development of the Town Center. Financing for the purchase of the land for future phases beyond Phase I of this project was obtained from First Union National Bank/Wachovia in the amount of \$5,500,000. Total advances on this loan may not exceed \$11,135,000, to include accrued interest through December 2006. The original loan agreement was signed on June 8, 2000 and called for semiannual interest payments starting November 30, 2000, with all principal and interest due December 1, 2006. Under the terms of this agreement, the Authority is not required to make any principal or interest payments on this loan until the final due date; and the intention is to not make principal or interest payments, except to the extent funds are available from the sale of this land. To date, \$1,084,632 has been added to the original principal of the loan in the form of interest. As of June 30, 2007, the outstanding balance is \$1,236,508. 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.

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

(c) Notes Payable – City of Virginia Beach

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

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

The modifications to the outstanding debt were made retroactive to March 22, 2002, the date of the satisfaction of the Bank of America loan. Twenty percent of the net proceeds from all land sales, within Corporate Landing and Oceana West, have been distributed to the City to reduce the outstanding debt balance. As of June 30, 2007, the outstanding debt balance was \$5,586,006.

(d) Due to City of Virginia Beach

On December 29, 2005, the Block 10 Parking Garage in Town Center was purchased for \$13,616,672. The remaining funds available from Public Facility Revenue Bonds issued in 2003 and 2005 in the amount of \$9,611,003 as well as a contribution from the City in the amount of \$4,005,669 were used to purchase the Parking Garage. This contribution from the City, as well as \$56,133 of contract management fees paid by the City, were long-term payables due to the City of Virginia Beach at the end of fiscal year 2006.

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

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Long-term debt activities for the year ended June 30, 2007 and 2006 were as follows:

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

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Lease revenue bonds-Social Services	\$ 7,295,000	-	(420,000)	6,875,000	435,000
Public facility revenue bonds	61,705,000	-	(890,000)	60,815,000	1,345,000
Notes payable-Town Center Option Land	3,283,559	131,513	(2,247,583)	1,167,489	-
Notes payable-City of Virginia Beach	5,835,902	-	(249,896)	5,586,006	-
Due to City of Virginia Beach	-	4,061,802	-	4,061,802	-
	<u>78,119,461</u>	<u>4,193,315</u>	<u>(3,807,479)</u>	<u>78,505,297</u>	<u>1,780,000</u>
Add: Bond premium	1,179,945	-	(63,275)	1,116,670	-
Less: Bond discount	(179,613)	-	12,835	(166,778)	-
Business- Type Activities/Authority					
Long-Term Debt	\$ <u>79,119,793</u>	<u>4,193,315</u>	<u>(3,857,919)</u>	<u>79,455,189</u>	<u>1,780,000</u>

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The requirements to amortize all long-term bonds and notes payable as of June 30, 2007, including interest payments of \$51,573,133 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,090,000	4,180,769
2009	3,517,535	4,655,891
2010	3,913,063	4,495,375
2011	5,027,036	4,319,847
2012	4,179,528	4,130,745
2013-2017	26,810,640	17,256,843
2018-2022	33,397,640	10,005,452
2023-2027	21,407,072	2,475,671
2028-2032	2,005,000	52,540
	<u>\$ 102,347,514</u>	<u>51,573,133</u>

(8) Operating Leases

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

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

Social Services Facility (including land)	\$ 9,497,137	9,497,137
Less accumulated depreciation	<u>(1,613,935)</u>	<u>(1,439,007)</u>
Net investment on property held for lease	<u>\$ 7,883,202</u>	<u>8,058,130</u>

Minimum future rental income on operating leases as of June 30, 2007 are as follows: 2008, \$857,012; 2009, \$861,297; 2010, \$859,086; 2011, \$860,220; 2012, \$859,854; 2013-2017, \$4,295,202; 2018, \$808,500.

(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

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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, 2007 and 2006, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$341,237,624 and \$341,603,606, respectively.

(10) Interest Cost

The Authority capitalizes interest cost related to construction in progress. The following is a summary of interest cost incurred during 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Interest cost capitalized	\$ 69,580	137,174
Interest cost expensed to income	<u>3,660,084</u>	<u>3,337,520</u>
Total interest cost incurred	<u>\$ 3,729,664</u>	<u>3,474,694</u>

(11) Lease Income

Lease income as reflected in the statements of revenues, expenses, and changes in net assets was \$1,693,492 and \$2,008,989, respectively for the years ended June 30, 2007 and 2006. The following is a detailed list of the revenue earned:

	<u>2007</u>	<u>2006</u>
Social Services Facility	\$ 699,453	860,669
Sportsplex ground rent	30,000	60,000
Amphitheater rent	155,099	335,367
TPC Golf Course ground rent	86,977	76,885
Beach Quarters Inn	114,000	114,000
Town Center Garage	187,460	155,234
9th Street Garage	420,503	406,834
	<u>\$ 1,693,492</u>	<u>2,008,989</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).

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June 30, 2007 and 2006

(b) Sportsplex Ground Rent

In 1997, the Authority executed a ground lease with the City for the Sportsplex and a stadium operating and use agreement with a private entity. A termination agreement was executed in fiscal year 2001. Under the terms of this agreement, \$300,000 was due to the Authority if a new operator was not found by July 15, 2001. In October 2001, the Authority entered into a five-year joint use agreement with a new operator, for \$60,000 per year to be secured by a \$300,000 letter of credit. When the operator was unable to obtain a letter of credit, the agreement was assigned to another operator with a secured letter of credit. The new operator agreed to pay the Authority \$60,000 per year, however during fiscal year 2005, the rent was not paid in full. In June 2005, a new operator paid the Authority \$17,950 as a partial rental payment; the remainder of the back rent owed to the Authority (\$72,050) was paid in July of 2005. City Council approved the assignment of the remaining term of the lease to a new operator in September of 2005. During fiscal year 2006, the Authority received two \$30,000 rental payments in accordance with the operating and use agreement. During fiscal year 2007, the Authority received the October rental payment in the amount of \$30,000, but a new operating agreement was not signed for the remainder of the fiscal year. Currently, ongoing negotiations are underway to find a new operator for the facility.

(c) Amphitheater

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

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

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

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2007 and 2006

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 for three additional two-year terms. The rent due to the Authority includes 5% of gross revenues paid monthly as well as a profit sharing payment equal to 25% of net income generated by the Golf Course Facility in excess of \$100,000 during each calendar year.

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 December 31, 2007.

(e) Beach Quarters Inn

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

(f) Town Center

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

As part of the Phase II Development Agreement, the Authority has the right to lease the Developer 85 of the parking spaces in the Town Center Parking Garage (Block 10). All revenue collected for the reserved parking spaces and vault space is to be forwarded to the Authority to defray the operating costs of the parking garages.

(g) 9th Street Garage

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2007 and 2006

(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. During fiscal year 2007 and 2006, the City had advanced funding for the following capital projects:

Rudee Loop Project – The project entails developing land located at the southern end of the Virginia Beach boardwalk after it is transferred from the City to the Authority. During fiscal year 2007, \$100,737 was used to fund initial costs related to the development of the site.

Town Center Infrastructure – The project is the result of a public/private investment partnership agreement between the City, the Authority, and Town Center Associates, L.L.C. Advances from the City as of June 30, 2007 and 2006 were \$293,109 and \$60,072, respectively. During fiscal year 2007 and 2006, infrastructure assets in the amount of \$24,804 and \$728,575 were completed and transferred to the City. Also, Town Center Plaza assets were completed during fiscal year 2006 in the amount of \$96,681, respectively. These assets were then transferred to the Authority's Proprietary Fund.

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 is \$6,357,000, of which \$5,000,000 is funded through the Authority's EDIP program and \$1,357,000 was funded through the City's CIP Program. Funding used for Phase II includes \$4,000,000, funded from the Authority's EDIP program and \$3,700,000 from the City's CIP Program. Funding for Phase III as of June 30, 2007 includes \$1,000,000 funded from the Authority's EDIP program.

Schedule A

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
General expenses:		
Leases	\$ 1,329,579	1,023,086
Depreciation	2,056,870	1,861,155
Amphitheater box seating	21,000	21,000
Independent audit fees	11,330	11,000
Amortization	43,983	43,983
Gifts and donations	10,000	10,000
Leasehold improvements	49,198	104,559
Total general expenses	<u>3,521,960</u>	<u>3,074,783</u>
Other expenses:		
Town Center infrastructure	—	98,834
Architecture and engineering	78,779	79,030
Park maintenance – Corporate Landing	23,399	29,409
Utilities – Corporate Landing fountain	6,104	4,165
Miscellaneous	18,174	19,361
Total other expenses	<u>126,456</u>	<u>230,799</u>
Total selling, general, and other expenses	<u>\$ 3,648,416</u>	<u>3,305,582</u>

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

Schedules of Land Inventory

June 30, 2007 and 2006

Description:	<u>2007</u>	<u>2006</u>
Oceana West Corporate Park – beginning inventory July 1	\$ 1,555,548	1,913,239
Current – cost of sales	<u>—</u>	<u>(357,691)</u>
Oceana West Corporate Park – ending inventory June 30	<u>1,555,548</u>	<u>1,555,548</u>
Corporate Landing Office Park – beginning inventory July 1	10,782,383	11,069,802
Current – cost of sales	<u>—</u>	<u>(287,419)</u>
Corporate Landing Office Park – ending inventory June 30	<u>10,782,383</u>	<u>10,782,383</u>
Hunt Club 2 – beginning inventory July 1	200,305	200,305
Current – cost of sales	<u>—</u>	<u>—</u>
Hunt Club 2 – ending inventory June 30	<u>200,305</u>	<u>200,305</u>
 Total ending inventory	 <u>\$ 12,538,236</u>	 <u>12,538,236</u>

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

Schedules of Construction in Progress

June 30, 2007

	<u>Town Center Infrastructure</u>	<u>Rudee Loop</u>	<u>Total</u>
Expended during the year ended June 30:			
2000	\$ —	—	—
2001	3,095,062	—	3,095,062
2002	956,014	—	956,014
2003	2,581,205	—	2,581,205
2004	(1,704,696)	—	(1,704,696)
2005	(4,901,962)	—	(4,901,962)
2006	34,449	—	34,449
2007	<u>233,037</u>	<u>100,738</u>	<u>333,775</u>
	\$ <u><u>293,109</u></u>	<u><u>100,738</u></u>	<u><u>393,847</u></u>

In fiscal year 2007 and 2006, \$24,803 and \$728,575 of costs associated with Town Center Phase I and II were capitalized and transferred to the City. Also, in fiscal year 2006, \$96,681 of costs were capitalized and are part of the fiscal year 2006 increase in capital assets on the Authority's financial statements.

Schedule D

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY
 Component Unit of the City of Virginia Beach, Virginia
 Schedules of EDIP Accounts Payable
 June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Balance Forward	\$ 5,507,241	5,310,058
Funding sources:		
EDIP City Appropriation - fiscal year	2,095,224	1,440,632
Town Center City Appropriation - fiscal year	—	1,150,000
Reimbursement for account payable accruals	—	23,332
Reimbursement for construction management/design expenses	104,312	104,710
Reclassification of infrastructure reimbursements	—	68,014
Interest earned - fiscal year	154,031	51,126
Total Funding Available	<u>7,860,808</u>	<u>8,147,872</u>
Expenses:		
EDIP awards paid	(1,078,653)	(1,640,175)
Engineering studies	(138,369)	—
Town Center expenditures	(224,426)	(953,792)
Total Expenditures	<u>(1,441,448)</u>	<u>(2,593,967)</u>
Net transfer of Town Center EDIP funding	<u>—</u>	<u>(46,664)</u>
Total Accounts Payable - Economic Development Program Fund	<u>\$ 6,419,360</u>	<u>5,507,241</u>

Schedule E

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, 2007 and 2006

	2007	2006
Central Business District-South payment of debt service for Town Center Note and Public Facility Revenue Bonds	\$ 2,995,478	2,213,370
9th Street Garage payment of debt service for Public Facility Revenue Bonds	729,863	721,138
31st Street Garage payment of debt service for Public Facility Revenue Bonds	1,025,563	1,017,775
Virginia Beach Amphitheater Capital Improvement Program	50,000	50,000
Tournament Players Club January-March Operating Loss	200,532	—
Town Center Garage - Special Service District	709,839	472,066
Total Nonoperating revenue from City of Virginia Beach	\$ 5,711,275	4,474,349



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance 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, 2007 and 2006, and have issued our report thereon dated September 4, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Virginia Beach, Virginia
September 4, 2007

Cheryl Roberts, Holland, LLP