

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

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

**FOR FISCAL YEARS ENDED  
JUNE 30, 2019 AND JUNE 30, 2018**

**PREPARED BY  
DEPARTMENT OF ECONOMIC DEVELOPMENT**

### **Acknowledgements....**

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

Management - Sean Murphy

Technical Assistance - Alice Kelly  
Miryam Woodson  
Andrew Oliver  
Stacy Hershberger

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

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

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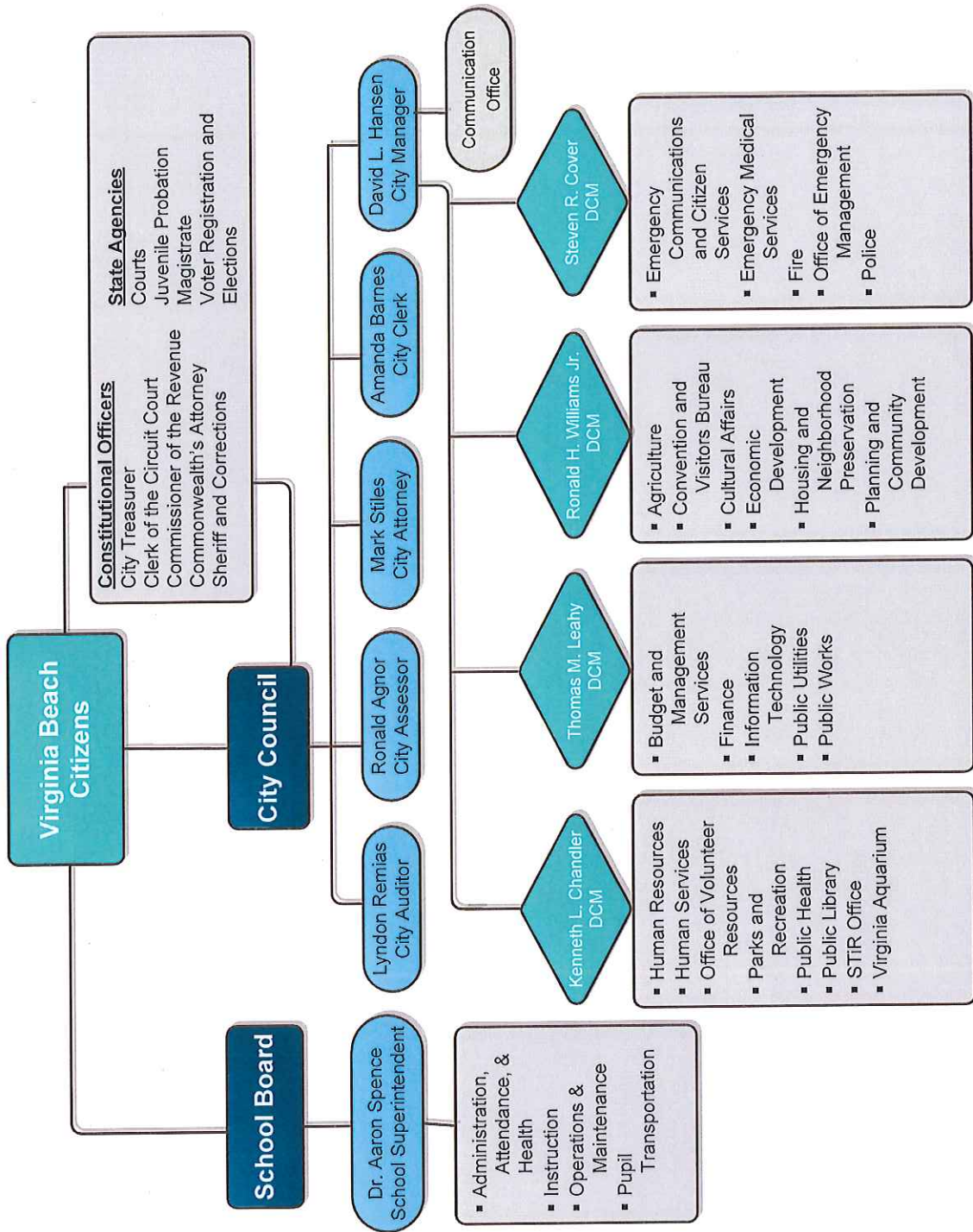
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## **INTRODUCTORY SECTION**

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

**Commissioners**

Dorothy L. Wood..... Chair  
Charlie Salle..... Vice Chair  
Bryan Cuffee..... Treasurer  
Lisa M. Murphy ..... Secretary  
David L. Bernd ..... Commissioner  
William Brunke ..... Commissioner  
W. Taylor Franklin ..... Commissioner  
Penny Morgan..... Commissioner  
Peter Mueller ..... Commissioner  
Michael J. Standing ..... Commissioner  
Joseph E. Strange..... Commissioner



**Virginia Beach Citizens**

**State Agencies**  
 Courts  
 Juvenile Probation  
 Magistrate  
 Voter Registration and Elections

**Constitutional Officers**  
 City Treasurer  
 Clerk of the Circuit Court  
 Commissioner of the Revenue  
 Commonwealth's Attorney  
 Sheriff and Corrections

**City Council**

**School Board**

Dr. Aaron Spence  
 School Superintendent

- Administration, Attendance, & Health
- Instruction
- Operations & Maintenance
- Pupil Transportation

Lyndon Remias  
 City Auditor

Ronald Agnor  
 City Assessor

Mark Stiles  
 City Attorney

Amanda Barnes  
 City Clerk

David L. Hansen  
 City Manager

Communication Office

Kenneth L. Chandler  
 DCM

- Human Resources
- Human Services
- Office of Volunteer Resources
- Parks and Recreation
- Public Health
- Public Library
- STIR Office
- Virginia Aquarium

Thomas M. Leahy  
 DCM

- Budget and Management Services
- Finance
- Information Technology
- Public Utilities
- Public Works

Ronald H. Williams Jr.  
 DCM

- Agriculture
- Convention and Visitors Bureau
- Cultural Affairs
- Economic Development
- Housing and Neighborhood Preservation
- Planning and Community Development

Steven R. Cover  
 DCM

- Emergency Communications and Citizen Services
- Emergency Medical Services
- Fire
- Office of Emergency Management
- Police



September 26, 2019

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

Dear Commissioners:

The Annual Financial Report of the City of Virginia Beach Development Authority (the Authority) for the fiscal years ended June 30, 2019 and 2018 is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the Authority's operations. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

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

### **The Reporting Entity**

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

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

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

## **Economic Conditions and Outlook**

Significant growth occurred in each of the City's adopted target business sectors, including several announcements by small businesses, an important part of our economy. Additionally, 16 incentive grants were awarded totaling \$1.39 million which leveraged \$44.11 million in capital investment, a ratio of 32 to 1. Examples of these business developments and expansions include:

- **SPARQ Global** was founded in 2017 and specializes in building and integrating hardware systems, providing managed services through its Cyber Command Center and delivering training, certification and compliance services. The company committed to investment of \$20 million in upfitting of a facility and creation of 250 new jobs to Virginia Beach with average annual salaries of \$74,000.
- **World Distribution Services (WDS)** is the leading provider of creative, best-in-class logistics solutions. WDS is expanding from 180,000 sf location in another city to 320,000 sf at 1537 Air Rail Ave. The company will invest a total of \$6,225,000 to improve 1537 Air Rail, machinery and tools and furnishings, and creation of 35 new jobs.
- **BMZ Group** opened its U.S. headquarters in Virginia Beach in 2011. BMZ is a global leader in production of lithium-ion battery systems. The company expanded to a new location in Virginia Beach at 1429 Miller Store Road to accommodate growth in manufacturing operations. BMZ will retain 21 full-time jobs in Virginia Beach and create 30 new jobs with annual salaries of \$42,179.

## **Acknowledgements**

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

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

Respectively,



Taylor Adams  
Director of Economic Development, City of Virginia Beach





## INDEPENDENT AUDITORS' REPORT

The Commissioners  
City of Virginia Beach Development Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, 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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 8-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory Section and supplementary information identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary data is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Arlington, Virginia  
September 26, 2019

**MANAGEMENT'S DISCUSSION**

**AND**

**ANALYSIS**

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

Management's Discussion and Analysis

This section of the City of Virginia Beach Development Authority's (the "Authority") annual financial report represents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2019 and 2018. Please read it in conjunction with the Authority's transmittal letter at the front of this report and the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The Authority's business-type net position increased by \$33.07 million in fiscal year 2019 and \$26.10 million in fiscal year 2018. In fiscal year 2019, the increase can be attributed to the transfer of the Housing Resource Center from the City of Virginia Beach (the "City") to the Authority. In fiscal year 2018, the increase can be attributed to the transfer of the Biomedical Park from the City to the Authority.
- The Authority provided economic development services, as requested by the Virginia Beach City Council, for the Dome Site Project and Town Center Project that is accounted for by the Authority. When projects or phases of projects are complete, the associated costs are capitalized and may be retained in the Authority's Proprietary Fund or transferred to the City.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

**ENTITY-WIDE FINANCIAL STATEMENTS**

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

The Statement of 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 Position and the Statement of Activities, the Authority is divided into the following:

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

Management's Discussion and Analysis

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).

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**

**Net Position:**

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

<b>Table 1</b>									
<b>Net Position</b>									
<b>As of June 30, 2019, 2018 and 2017</b>									
<b>(in millions)</b>									
	<b>Governmental</b>			<b>Business-Type</b>			<b>Total</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current and other assets	\$ -	\$ -	\$ 1.12	\$ 68.53	\$ 68.73	\$ 44.12	\$ 68.53	\$ 68.73	\$ 45.24
Capital assets	\$ -	\$ -	\$ 0.33	\$ 131.24	\$ 104.85	\$ 106.76	\$ 131.24	\$ 104.85	\$ 107.09
Total assets	\$ -	\$ -	\$ 1.45	\$ 199.77	\$ 173.58	\$ 150.88	\$ 199.77	\$ 173.58	\$ 152.33
Deferred Outflows	\$ -	\$ -	\$ -	\$ 0.59	\$ 0.73	\$ 0.86	\$ 0.59	\$ 0.73	\$ 0.86
Current and other liabilities	\$ -	\$ -	\$ 1.12	\$ 19.80	\$ 19.10	\$ 18.17	\$ 19.80	\$ 19.10	\$ 19.29
Long-term liabilities	\$ -	\$ -	\$ -	\$ 52.60	\$ 60.17	\$ 64.48	\$ 52.60	\$ 60.17	\$ 64.48
Total liabilities	\$ -	\$ -	\$ 1.12	\$ 72.40	\$ 79.27	\$ 82.65	\$ 72.40	\$ 79.27	\$ 83.77
Deferred Inflows	\$ -	\$ -	\$ -	\$ 0.91	\$ 1.05	\$ 1.20	\$ 0.91	\$ 1.05	\$ 1.20
Net position:									
Net Investment in Capital Assets	\$ -	\$ -	\$ 0.33	\$ 70.87	\$ 37.07	\$ 34.52	\$ 70.87	\$ 37.07	\$ 34.85
Restricted - other purposes	\$ -	\$ -	\$ -	\$ 3.80	\$ 6.35	\$ 2.86	\$ 3.80	\$ 6.35	\$ 2.86
Unrestricted	\$ -	\$ -	\$ -	\$ 52.38	\$ 50.57	\$ 30.51	\$ 52.38	\$ 50.57	\$ 30.51
Total net position	\$ -	\$ 0.00	\$ 0.33	\$ 127.05	\$ 93.99	\$ 67.89	\$ 127.05	\$ 93.99	\$ 68.22

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

Management's Discussion and Analysis

At June 30, 2019 and 2018, the total assets of the Authority were \$199.77 and \$173.58 million, respectively; total liabilities were \$72.40 and \$79.27 million, respectively; while combined net position was \$127.05 million and \$93.99 million, respectively.

In fiscal year 2019 and 2018, the Authority's business-type long-term liabilities decreased by \$7.57 million and \$4.31 million, respectively. The fiscal year 2019 and 2018 decreases were primarily due to annual debt service payments.

Regarding the Authority's business-type activities, the Authority's land and building inventory decreased by \$.21 million in 2019 and increased by \$21.72 million in 2018. The fiscal year 2019 decrease was primarily due to the sale of 10.7 acres of land in Corporate Landing Industrial Park. The fiscal year 2018 increase was mainly attributable to the transfer of the Biomedical Park from the City to the Authority.

**Changes in Net Position:**

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

	Governmental Activities			Business-Type Activities			Total		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>Revenues</b>									
<b>Program Revenue:</b>									
Charges for services	\$ -	-	-	4.64	4.17	3.63	4.64	4.17	3.63
Operating grants and contributions	-	-	-	14.44	16.78	11.85	14.44	16.78	11.85
Capital grants and contributions	-	-	0.05	0.21	0.25	0.10	0.21	0.25	0.15
<b>General Revenue:</b>									
Other	-	-	-	0.04	0.03	0.03	0.04	0.03	0.03
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>0.05</u>	<u>19.33</u>	<u>21.23</u>	<u>15.61</u>	<u>19.33</u>	<u>21.23</u>	<u>15.66</u>
<b>Expenses</b>									
<b>Authority Operations</b>	-	-	-	12.41	17.58	12.60	12.41	17.58	12.60
<b>Special Items:</b>									
Contribution from Primary Government	-	-	-	26.14	26.51	-	26.14	26.51	-
Transfer to Primary Government	-	-	-	-	(4.39)	-	-	(4.39)	-
Transfer of infrastructure between funds	-	(0.33)	-	-	0.33	-	-	-	-
<b>Total special items</b>	<u>-</u>	<u>(0.33)</u>	<u>-</u>	<u>26.14</u>	<u>22.45</u>	<u>-</u>	<u>26.14</u>	<u>22.12</u>	<u>-</u>
<b>Change in net position</b>	-	(0.33)	0.05	33.06	26.10	3.01	33.06	25.77	3.06
Net Position - Beginning of Year	-	0.33	0.28	93.99	67.89	64.88	93.99	68.22	65.16
<b>Net Position - End of Year</b>	<u>\$ -</u>	<u>-</u>	<u>0.33</u>	<u>127.05</u>	<u>93.99</u>	<u>67.89</u>	<u>127.05</u>	<u>93.99</u>	<u>68.22</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, option deposit revenue, and investment earnings. For the fiscal years ended June 30, 2019 and 2018, revenues from business-type activities (excluding special items) totaled \$19.33 million and \$21.23 million, respectively. This included revenue derived from land and asset sales, industrial revenue bond fees, lease income, investment earnings, and support agreement funding from the City of Virginia Beach

#### **EXPENSES**

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, 2019 and 2018, these expenses totaled \$12.41 million and \$17.58 million, respectively.

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

The Authority's governmental fund activities had reflected support from the City of Virginia Beach as well as expenditures on Town Center infrastructure and the Pedestrian Bridge across Virginia Beach Boulevard. In fiscal year 2018 these activities were recorded as business-type activities and are no longer reflected in the governmental fund.

The proprietary fund includes total net position of \$127.05 million and \$93.99 million at June 30, 2019 and 2018, respectively. In fiscal year 2019 and 2018, operating revenues from land sales, industrial revenue bond fees, lease income, and miscellaneous revenue totaled \$4.64 million and \$4.17 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$9.65 million and \$13.66 million, respectively.

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

##### **CAPITAL ASSETS**

As of June 30, 2019 and 2018, the Authority had invested \$131.24 million and \$104.85 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3.

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

Management's Discussion and Analysis

	Governmental			Business-Type			Total		
	Activities			Activities					
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Non-depreciable assets:									
Land	\$ -	-	-	22.94	19.33	19.33	22.94	19.33	19.33
Other assets and capitalized costs	-	-	-	1.13	1.13	1.13	1.13	1.13	1.13
Construction in progress	-	-	0.33	1.18	1.22	-	1.18	1.22	0.33
Other capital assets:									
Buildings/equipment	-	-	-	145.97	119.93	119.93	145.97	119.93	119.93
Accumulated depreciation on other capital assets	-	-	-	(39.98)	(36.76)	(33.63)	(39.98)	(36.76)	(33.63)
<b>Total net capital assets</b>	<b>\$ -</b>	<b>-</b>	<b>0.33</b>	<b>131.24</b>	<b>104.85</b>	<b>106.76</b>	<b>131.24</b>	<b>104.85</b>	<b>107.09</b>

Major capital asset additions in fiscal year 2019 included:

- Housing Resource Center building and land – The transfer of 3.9 acres of property located at 104 N. Witchduck Road - \$26,143,356
- Town Center Block 9 Plaza and Pedestrian Bridge – The final payments to purchase the public portion of the plaza and connecting bridge between Block 9 and 10 - \$3,504,654

Major capital asset reductions in fiscal year 2019 included:

- Town Center – Transferred Phase VI infrastructure construction including streets, curbs and gutters, sidewalks, underground utilities and other capitalized costs - \$753,068

Major capital asset additions in fiscal year 2018 included:

- Town Center Project – Phase VI infrastructure construction including streets, curbs and gutters, sidewalks, underground utilities, and other capitalized costs - \$814,241

There were no major capital asset reductions in fiscal year 2018.



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

Management's Discussion and Analysis

**LONG-TERM DEBT**

Table 4 Long-Term Debt As of June 30, 2019, 2018, and 2017 (in millions)									
	Governmental Activities			Business-Type Activities			Total		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Bonds and notes payable									
Public facility revenue bonds	-	-	-	58.31	65.60	70.06	58.31	65.60	70.06
Other long-term liabilities:									
Bond premium	-	-	-	1.80	1.92	1.89	1.80	1.92	1.89
Bond discount	-	-	-	(0.06)	(0.06)	(0.05)	(0.06)	(0.06)	(0.05)
<b>Total Long-Term Debt</b>	\$ <u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>60.05</u>	<u>67.46</u>	<u>71.90</u>	<u>60.05</u>	<u>67.46</u>	<u>71.90</u>

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

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide users (citizens, taxpayers, customers, clients, investors and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. Questions concerning this report or requests for additional information should be directed to Director of Economic Development, Virginia Beach Development Authority, 4525 Main Street, Suite 700, Virginia Beach, VA 23462, telephone (757) 385-6464, or visit the Authority's website at [www.yesvirginiabeach.com](http://www.yesvirginiabeach.com).

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

Statements of Net Position  
June 30, 2019 and 2018

	Governmental Activities	Business-Type Activities	Total 2019	Governmental Activities	Business-Type Activities	Total 2018
<b>Assets</b>						
Cash and cash equivalents (note 2)	\$ —	9,943,834	9,943,834	—	8,900,690	8,900,690
Restricted cash and cash equivalents (notes 2 and 3)	—	3,610,610	3,610,610	—	2,579,182	2,579,182
Receivables, net (note 4)	—	39,068	39,068	—	75,491	75,491
Receivables, restricted (note 4)	—	11,068,304	11,068,304	—	13,093,779	13,093,779
Land/Building inventory	—	43,873,058	43,873,058	—	44,078,965	44,078,965
Capital assets (note 5)						
Other non-depreciable assets and capitalized costs	—	1,130,390	1,130,390	—	1,130,390	1,130,390
Construction in progress	—	1,184,959	1,184,959	—	1,223,812	1,223,812
Land	—	22,934,918	22,934,918	—	19,326,870	19,326,870
Building and equipment, net of accumulated depreciation	—	105,988,269	105,988,269	—	83,170,116	83,170,116
net of accumulated depreciation	—	131,238,536	131,238,536	—	104,851,188	104,851,188
Total capital assets	—	199,773,410	199,773,410	—	173,579,295	173,579,295
Total assets	—	—	—	—	—	—
<b>Deferred Outflows of Resources</b>						
Debt refundings resulting in loss transactions	—	594,017	594,017	—	728,068	728,068
<b>Liabilities</b>						
Accounts payable and accrued liabilities (note 6)	—	10,570,465	10,570,465	—	9,371,612	9,371,612
Liabilities payable from restricted assets (note 6)	—	50,000	50,000	—	41,500	41,500
Unearned Revenue	—	1,725,593	1,725,593	—	2,388,598	2,388,598
Long-term liabilities (note 7)						
Due within one year	—	7,449,119	7,449,119	—	7,288,840	7,288,840
Due in more than one year	—	52,604,105	52,604,105	—	60,173,763	60,173,763
Total liabilities	—	72,399,282	72,399,282	—	79,264,313	79,264,313
<b>Deferred Inflows of Resources</b>						
Debt refundings resulting in gain transactions	—	909,041	909,041	—	1,050,356	1,050,356
<b>Net Position</b>						
Net Investment in Capital Assets	—	70,870,292	70,870,292	—	37,066,298	37,066,298
Restricted, other purposes (note 3)	—	3,805,853	3,805,853	—	6,354,357	6,354,357
Unrestricted	—	52,382,959	52,382,959	—	50,572,039	50,572,039
Total net position	—	127,059,104	127,059,104	—	93,992,694	93,992,694

See accompanying notes to financial statements.

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

Statement of Activities  
Year Ended June 30, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total 2019
Governmental activities	\$ —	—	—	—	—	—
Development activities	—	—	—	—	—	—
Business-type activities	12,409,562	14,443,307	210,697	—	6,886,341	6,886,341
Authority operations	12,409,562	14,443,307	210,697	—	6,886,341	6,886,341
Total	\$ 12,409,562	14,443,307	210,697	—	6,886,341	6,886,341
General Revenues:				\$ —	36,713	36,713
Unrestricted investment earnings				—	—	—
Special Items:				—	26,143,356	26,143,356
Contribution from City- Housing Resource Center				—	26,180,069	26,180,069
Total general revenues and special items				—	33,066,410	33,066,410
Change in net position				—	93,992,694	93,992,694
Net position - beginning of year				—	127,059,104	127,059,104
Net position - end of year				\$ —	127,059,104	127,059,104

See accompanying notes to financial statements.

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

Statement of Activities  
Year Ended June 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total 2018
Functions/Programs						
Governmental activities						
Development activities	\$ —	—	—	—	—	—
Business-type activities						
Authority operations	17,576,083	16,777,228	253,683	—	3,625,348	3,625,348
Total	<u>\$ 17,576,083</u>	<u>16,777,228</u>	<u>253,683</u>	<u>—</u>	<u>3,625,348</u>	<u>3,625,348</u>
General Revenues:						
Unrestricted investment earnings				\$ —	34,233	34,233
Special Items:						
Contribution from City- Biomedical Park and Owl's Creek golf course				—	26,505,981	26,505,981
Transfer out of Convention Center hotel site to City				—	(4,393,243)	(4,393,243)
Transfer of infrastructure				(334,146)	334,146	—
Total general revenues and special items				<u>(334,146)</u>	<u>22,481,117</u>	<u>22,146,971</u>
Change in net position				<u>(334,146)</u>	<u>26,106,465</u>	<u>25,772,319</u>
Net position - beginning of year				<u>334,146</u>	<u>67,886,229</u>	<u>68,220,375</u>
Net position - end of year				<u>\$ —</u>	<u>93,992,694</u>	<u>93,992,694</u>

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, 2019 and 2018

	2019	2018
<b>Assets</b>		
Restricted cash and cash equivalents (notes 2 and 3)	\$ —	—
Total assets	—	—
<b>Liabilities and Fund Balance</b>		
Liabilities (note 6)		
Accounts payable and accrued liabilities	—	—
Unearned Revenue	—	—
Total liabilities	—	—
Fund balance		
Unreserved	—	—
Total fund balances	—	—
Total liabilities and fund balance	\$ —	—
<b>Reconciliation to Statement of Net Position:</b>		
Ending fund balance	\$ —	—
Adjustments for the Statement of Net Position:		
Capital assets used in government activities are not current financial resources and therefore not reported in the governmental fund	—	—
Net Position of Governmental Activities	\$ —	—

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, 2019 and 2018

	2019	2018
<b>Revenues</b>		
City Contributions:		
Town Center Infrastructure	\$ —	—
Total revenues	—	—
<b>Expenditures</b>		
Construction:		
Town Center Infrastructure	—	—
Total expenditures	—	—
Excess of revenues over expenditures	—	—
Net change in fund balance	—	—
Fund balance at beginning of year	—	—
Fund balance at end of year	\$ —	—
<b>Reconciliation to Statement of Activities</b>		
Net change in fund balance	\$ —	—
Adjustment for the Statement of Activities		
Transfer of infrastructure to Proprietary Fund	—	(334,146)
Changes in net position of governmental activities	\$ —	(334,146)

See accompanying notes to financial statements.

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

Statements of Net Position  
Authority Operations  
June 30, 2019 and 2018

	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 9,943,834	8,900,690
Receivables, net (note 4)	39,068	75,491
Receivables, restricted (note 4)	3,035,672	6,037,907
Total current assets	13,018,574	15,014,088
Noncurrent assets:		
Restricted cash and cash equivalents (notes 2 and 3)	3,610,610	2,579,182
Receivables, restricted (note 4)	8,032,632	7,055,872
Land/building inventory	43,873,058	44,078,965
Capital assets (note 5)		
Other non-depreciable assets and capitalized costs	1,130,390	1,130,390
Construction in Progress	1,184,959	1,223,812
Land	22,934,918	19,326,870
Buildings and equipment, net of accumulated depreciation	105,988,269	83,170,116
Total capital assets	131,238,536	104,851,188
Total assets	\$ 199,773,410	173,579,295
<b>Deferred Outflows of Resources</b>		
Debt refundings resulting in loss transactions	\$ 594,017	728,068
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (note 6)	9,764,334	8,436,277
Accrued liabilities (note 6)	806,131	935,335
Liabilities payable from restricted assets (note 6)	50,000	41,500
Unearned liabilities (note 6)	1,725,593	2,388,598
Bonds, notes, and loans payable (note 7)	7,449,119	7,288,840
Total current liabilities	19,795,177	19,090,550
Bonds, notes and loans payable (note 7)	52,604,105	60,173,763
Total liabilities	\$ 72,399,282	79,264,313
<b>Deferred Inflows of Resources</b>		
Debt refundings resulting in gain transactions	\$ 909,041	1,050,356
<b>Net Position</b>		
Net Investment in Capital Assets	70,870,292	37,066,298
Restricted - other purposes (note 3)	3,805,853	6,354,357
Unrestricted	52,382,959	50,572,039
Total net position	\$ 127,059,104	93,992,694

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 Position  
Authority Operations  
Years Ended June 30, 2019 and 2018

	2019	2018
<b>Operating Revenues:</b>		
Land sales	\$ 2,143,000	1,240,800
Industrial revenue bond fees	113,021	139,356
Lease income (note 10)	2,164,585	2,669,134
Virginia Beach National Golf Course revenue	221,293	118,980
Miscellaneous income	-	2,250
Total operating revenues	4,641,899	4,170,520
<b>Operating Expenses:</b>		
Cost of land sold	514,880	2,222,853
Virginia Beach National Golf Course (note 10)	221,293	118,980
General and other expenses	3,885,591	6,050,037
Depreciation	3,221,809	3,129,219
Garage operations	1,809,279	2,142,065
Total operating expenses	9,652,852	13,663,154
Operating loss	(5,010,953)	(9,492,634)
<b>Nonoperating Revenues (Expenses):</b>		
City of Virginia Beach	14,628,254	17,000,371
Construction expenses	(287,192)	(1,223,812)
Charity Golf Tournament revenues	25,750	30,540
Charity Golf Tournament expenses	(33,296)	(47,086)
Interest income	36,713	34,233
Interest expense (note 9)	(2,436,222)	(2,642,031)
Total nonoperating revenues (expenses)	11,934,007	13,152,215
Income before transfers and capital contributions	6,923,054	3,659,581
<b>Other Financing Sources (Uses):</b>		
Capital Contributions - Transfer of land from City	26,143,356	26,505,981
Capital Distributions - Transfer of land to City	-	(4,393,243)
Capital Distributions - Transfer of infrastructure	-	334,146
Change in net position	33,066,410	26,106,465
Total net position at beginning of year	93,992,694	67,886,229
Total net position at end of year	\$ 127,059,104	93,992,694

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  
Authority Operations  
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,693,197	\$ 4,111,331
EDIP cash receipts	1,500,000	3,000,000
Other operating cash receipts (disbursements)	45,151	30,000
Cash payments to suppliers of goods and services	(6,499,138)	(9,523,095)
Net EDIP activities	(2,685,528)	(3,431,582)
Net cash provided by (used in) operating activities	(2,946,318)	(5,813,346)
Cash flows from capital and related financing activities:		
Principal Repayment on Long-Term Debt	(7,288,840)	(7,413,840)
Proceeds from bond issuance	-	2,955,000
Interest Paid on Long-Term Debt	(2,789,084)	(3,007,282)
Capital contributions from City	15,477,997	13,179,251
Commonwealth's Development Opportunity Fund proceeds	950,000	-
Capitalized construction expenses	(1,358,352)	(889,666)
Charity Golf Outing Proceeds, net	(7,544)	(16,547)
Transfer from Special Fund	-	1,120,862
Net cash provided by (used in) capital and related financing activities	4,984,177	5,927,778
Cash flows from investing activities:		
Interest	36,713	34,233
Net cash provided by (used in) investing activities	36,713	34,233
Net increase (decrease) in cash and cash equivalents	2,074,572	148,665
Cash and cash equivalents at beginning of year	11,479,872	11,331,207
Cash and cash equivalents at end of year	13,554,444	11,479,872
Classified as:		
Current assets	9,943,834	8,900,690
Restricted assets	3,610,610	2,579,182
	13,554,444	11,479,872
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	(5,010,953)	(9,492,634)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	3,317,661	3,225,071
Effects of Changes in operating assets and liabilities		
Receivables, net	1,596,449	2,970,811
Accounts and other payables	(2,643,568)	(24,233,128)
Land Inventory	(205,907)	21,716,534
Net cash provided by (used in) operating activities	\$ (2,946,318)	\$ (5,813,346)
Noncash transactions:		
Amortization on bond discount/premium	\$ (120,539)	\$ (161,477)
EDIP Appropriations	\$ 2,476,760	\$ 2,540,140

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, 2019 and 2018

## (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 blended 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 has established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2019 and 2018

Statement of Net Position – The Statement of Net Position is designed to display the financial position of the Authority (government and business-type activities). Governments report all capital assets, including infrastructure, and deferred outflows/inflows of resources in the government-wide statement of net position and report depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 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 Authority’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 position, 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The program revenues must be directly associated with the function or a business-type activity. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. The Authority does not allocate indirect expenses.

**(C) *Measurement Focus and Basis of Accounting***

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

The entity-wide Statement of Net Position, 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 deferred outflows and all liabilities and deferred inflows associated with the operation of these activities are included on the statement of net position. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2019 and 2018

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

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

The Authority reports the following major governmental fund:

The **Special Projects Fund** is used to account for the financial resources for the acquisition or construction of ongoing economic development projects conducted on behalf of the City. The fund was closed as of June 30, 2018.

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.

**(D) Capital Assets**

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

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2019 and 2018

**(E) *Land/Building Inventory***

Land is stated at acquisition cost plus improvements and capitalized interest, if applicable, but not in excess of net realizable value. Transfers of land from the City to the Authority are recorded at the same carrying value so that no gain or loss is recognized. Capitalized costs of projects are assigned to individual components of the projects based on specific identification. If specific identification is not practicable, capitalized costs are allocated to each parcel benefited, based on relative fair value before construction. As land is sold, all costs associated with that land are charged to cost of land sold.

In fiscal year 2019, the Authority sold approximately 10.7 acres of land located at Corporate Landing Business Park to Virginia Beach IX, LP. This sale decreased the property inventory on the Authority's books by \$514,880.

In fiscal year 2018, the City transferred approximately 155 acres of land located in the Princess Anne Commons area and 69.3 acres of land located at the Owl's Creek golf course to the Authority. These transfers increased the land inventory on the Authority's books by \$24,473,581 and \$2,032,400; respectively.

In fiscal year 2018, the Authority sold approximately 69.3 acres of land located at Owl's Creek golf course to Owl Creek Energy. This sale decreased the property inventory on the Authority's books by \$2,222,853.

In fiscal year 2018, the Authority transferred approximately 5.7 acres of land and a building located in the northeastern corner of the Virginia Beach Convention Center parking lot to the City. The building and land transfers decreased the Authority's land/building inventory by \$406,603 and \$3,986,640; respectively.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2019 and 2018

**(F) *Miscellaneous***

**Cash, Cash Equivalents, and Investments**

The Authority has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Investments are stated at amortized cost or at their fair value. Interest earnings on investments are allocated to the appropriate restricted cash account based on the average monthly cash balance. For purposes of the statement of cash flows, all highly liquid debt instruments and certificates of deposit, regardless of maturity date, are grouped into cash and cash equivalents.

**Restricted Cash**

Restricted cash includes: 1) option deposits on land; 2) state incentive grants; 3) funds for capital and structural improvements and repairs and maintenance to the Social Services facility; 4) funds for the EDIP; 5) funds for the Bio-Initiative; 6) funds for capital and structural improvements and repairs and maintenance to the Virginia Beach National Golf Course facility; 7) funds for capital and structural improvements for the assets located in Town Center; 8) funds held for an internet connectivity grant; and 9) funds held for the Vibe District Matching Grant program.

**Accounts Receivable**

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

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

**Deferred Outflows and Inflows of Resources**

Deferred outflows of resources consist of the amount by which the principal and premium of a refunding bond that exceeded the net carrying amount of the refunded debt. The deferred outflow is being amortized over the remaining life of the refunded debt.

Deferred inflows of resources consist of the amount by which the net carrying amount of refunded debt exceeded the principal and premium of a refunding bond. The deferred inflow is being amortized over the remaining life of the refunded debt.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2019 and 2018

**(G) *On-behalf payments - Compensation***

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

**(2) Cash and Cash Equivalents**

The Authority's June 30, 2019 bank balance was fully covered by the Federal Depository Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks and savings and loans holding public deposits in excess of the amounts insured by FDIC must pledge collateral to secure those public deposits in amounts set by regulations or action of the Treasury Board. Banks and savings and loans holding public deposits have two methods to secure Virginia public deposits: the dedicated method or the pooled method.

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

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

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

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

The Authority had a balance of \$1.89 million and \$1.87 million invested in certificates of deposit and certificates of deposit account registry services programs at June 30, 2019 and 2018, respectively.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2019 and 2018

The reconciliations of total cash and cash equivalents to the entity-wide financial statements at June 30, 2019 and 2018 are as follows:

	<u><b>Total</b></u> <u><b>June 30, 2019</b></u>	<u><b>Total</b></u> <u><b>June 30, 2018</b></u>
Cash and Cash Equivalents -		
Union Bank	\$ 9,943,834	8,900,690
Restricted Cash and Cash Equivalents -		
Option deposits on land	50,000	40,000
State funded incentive grants	950,000	-
Internet connectivity grant	140,000	-
ITA Study	-	88
Bio Initiative	1,368,355	885,871
Social Services capital reserve	819,850	265,786
EDIP	164,633	324,550
EDIP Town Center capital reserve	5,700	764,549
Virginia Beach National Capital Reserve	75,634	125,976
Security Deposits	-	1,500
Vibe District Matching Grant	36,438	50,000
Pedestrian Bridge	-	120,862
Total Restricted Cash	<u>3,610,610</u>	<u>2,579,182</u>
and Cash Equivalents		
Total	\$ <u>13,554,444</u>	<u>11,479,872</u>

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

Option deposits held in escrow are not available for operations. The deposits are normally applied to the sale price of optioned land if the sale is consummated, or forfeited in the event the option holder elects not to exercise the option. In the event the Authority is unable to satisfy its obligations stated in the option agreements, the option deposits would be fully refundable to the option holder. Option deposits were \$50,000 and \$40,000 in the Authority Operations fund at June 30, 2019 and 2018, respectively.

Bio Initiatives funding of \$750,000 and \$0 was provided to the Authority in fiscal years 2019 and 2018, respectively, to support focus areas identified by the Bio-Medical Task Force. The programs goal is to drive new companies and start-ups to our region, especially to the Princess Anne Commons Biomedical cluster. Bio Initiative cash at June 30, 2019 and 2018 was \$1,368,355 and \$885,871, respectively.

The Social Services Facility reserve accounts at June 30, 2019 and 2018 were \$819,850 and \$265,786, respectively. These funds are reserved for capital and structural improvements, maintenance, and repairs to the facility in accordance with the lease agreement (See note 10).



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The EDIP accounts were established in February 1994 through funds that the City appropriated from the Capital Improvement Program EDIP Project for economic development activities. This program represents annual funding from the City to the Authority to be used for on-site and off-site infrastructure needs as well as training expenses for businesses meeting certain criteria. Businesses having received EDIP awards or projects having received EDIP funding are reimbursed for qualifying expenses out of these accounts. EDIP cash and cash equivalents in the Operations Fund at June 30, 2019 and 2018 were \$164,633 and \$324,550 respectively. During fiscal year 2016, City Council approved \$1,000,000 of EDIP funding to be used to partially fund the public obligations as set forth in the Town Center Phase VI Support Agreement. In the Operations Fund at June 30, 2019, the balance of the Town Center Phase VI funding was \$5,700.

Beginning in April of 2008, the VBDA began receiving a percentage of gross receipts from Virginia Beach National Golf Course (formerly known as TPC Golf Course) to fund capital maintenance and repairs to the facility. These payments are received on a monthly basis per the management agreement. At June 30, 2019 and 2018, the balance of the Virginia Beach National capital reserve account was \$75,634 and \$125,976, respectively.

During fiscal year 2008, City Council approved \$200,000 of CIP funding for the design of the pedestrian bridge across Virginia Beach Boulevard in addition to the \$200,000 in an existing CIP account. The Authority was responsible for awarding and administering the contract with the architect throughout the design process. In fiscal year 2019, the project was discontinued and the remaining funding of \$120,862 was returned to the City.

**(4) Receivables**

Receivables at June 30, 2019 and 2018 consist of the following:

	<b>Total</b>	<b>Total</b>
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Authority Operations	\$ 39,068	75,491
Due from City of Virginia Beach	157,342	3,144,702
Vanguard Landing loan	2,850,406	2,850,406
Virginia Beach National long-term maintenance	27,924	32,654
Heron Ridge basic rent	-	10,145
EDIP appropriations from City	8,032,632	7,055,872
Gross accounts receivable	11,107,372	13,169,270
Less: Allowance for Uncollectibles	-	-
Accounts receivable, net	<u>\$ 11,107,372</u>	<u>13,169,270</u>

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

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**(5) Capital Assets**

The following schedules summarize the capital assets of the Authority as of June 30, 2019 and 2018:

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2018</b>	<b>Increase</b>	<b>Decrease</b>	<b>June 30, 2019</b>
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ -	-	-	-
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Construction in progress	1,223,812	1,358,352	(1,397,205)	1,184,959
Land	19,326,870	3,608,048	-	22,934,918
Total non-depreciable assets	<u>21,681,072</u>	<u>4,966,400</u>	<u>(1,397,205)</u>	<u>25,250,267</u>
Depreciable Assets:				
Buildings	119,368,147	26,039,962	-	145,408,109
Equipment and fixtures	565,065	-	-	565,065
Total depreciable assets	<u>119,933,212</u>	<u>26,039,962</u>	<u>-</u>	<u>145,973,174</u>
Less Accumulated Depreciation for:				
Buildings	(36,361,639)	(3,204,526)	-	(39,566,165)
Equipment and fixtures	(401,457)	(17,283)	-	(418,740)
Total accumulated depreciation	<u>(36,763,096)</u>	<u>(3,221,809)</u>	<u>-</u>	<u>(39,984,905)</u>
Capital Assets, Net	\$ <u>104,851,188</u>	<u>27,784,553</u>	<u>(1,397,205)</u>	<u>131,238,536</u>

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	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2017</b>	<b>Increase</b>	<b>Decrease</b>	<b>June 30, 2018</b>
Governmental Activities				
Non-depreciable assets:				
Construction in progress	\$ 334,146	-	(334,146)	-
Business-Type Activities/Authority				
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Construction in progress	-	1,223,812	-	1,223,812
Land	19,326,870	-	-	19,326,870
Total non-depreciable assets	<u>20,457,260</u>	<u>1,223,812</u>	<u>-</u>	<u>21,681,072</u>
Depreciable Assets:				
Buildings	119,368,147	-	-	119,368,147
Equipment and fixtures	565,065	-	-	565,065
Total depreciable assets	<u>119,933,212</u>	<u>-</u>	<u>-</u>	<u>119,933,212</u>
Less Accumulated Depreciation for:				
Buildings	(33,255,106)	(3,106,533)	-	(36,361,639)
Equipment and fixtures	(378,771)	(22,686)	-	(401,457)
Total accumulated depreciation	<u>(33,633,877)</u>	<u>(3,129,219)</u>	<u>-</u>	<u>(36,763,096)</u>
Capital Assets, Net	\$ <u>106,756,595</u>	<u>(1,905,407)</u>	<u>-</u>	<u>104,851,188</u>

At June 30, 2019 and 2018, depreciation expense related to capital assets was \$3,221,809 and \$3,129,219, respectively, and has been charged to the Authority's Operations Fund.

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

Accounts payable and accrued liabilities at June 30, 2019 and 2018 consist of the following:

	<b>Total</b>	<b>Total</b>
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Accounts payable	\$ 537,090	\$ 214,886
Accounts payable-CIP	-	10,496
Accounts payable-City	37,841	65,923
Accounts payable-COF	950,000	-
Accounts payable-Vibe	36,438	-
Accounts payable-EDIP	8,202,965	8,144,972
<b>Total Accounts Payable</b>	<b><u>\$ 9,764,334</u></b>	<b><u>\$ 8,436,277</u></b>
Accrued interest	806,131	935,335
<b>Total Accrued Liabilities</b>	<b><u>\$ 806,131</u></b>	<b><u>\$ 935,335</u></b>
Option deposits	50,000	40,000
Security deposits	-	1,500
<b>Total Liabilities payable from     restricted assets</b>	<b><u>\$ 50,000</u></b>	<b><u>\$ 41,500</u></b>
Advances from City	253,799	1,223,812
Golf Course	103,226	157,965
Pedestrian Bridge	-	120,862
ITA Study	-	88
Bio Initiative	1,368,355	885,871
Other Unearned Liabilities	213	-
<b>Total Unearned Liabilities</b>	<b><u>\$ 1,725,593</u></b>	<b><u>\$ 2,388,598</u></b>

On December 7, 2006, the City Council appropriated \$350,000 for the operating expenses associated with the TPC Golf Course facility. After all expenses were incurred, the remaining funding was retained for future capital maintenance and repairs to the facility. In addition, the Authority began receiving a percentage of gross revenues on a monthly basis from Virginia Beach National Golf Course (formerly known as TPC) in April of 2008, and this funding is restricted for capital repairs and maintenance to the facility. At June 30, 2019 and 2018, the outstanding balance in the accounts payable-Golf Course account was \$103,226 and \$157,965.

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At June 30, 2019 and 2018, unused CIP funding for the Burton Station project was \$0 and \$10,496, respectively. In fiscal year 2019, this project was discontinued and the remaining funding was transferred back to the City.

The Authority also received funding from the City's CIP to pay for the design of the Pedestrian Bridge across Virginia Beach Boulevard. This project was discontinued, and in fiscal year 2019 the remaining funding of \$120,862 was transferred back to the City.

Bio Initiatives funding of \$750,000 and \$0 was provided to the Authority in fiscal years 2019 and 2018 to support focus areas identified by the Bio-Medical Task Force. The programs goal is to drive new companies and start-ups to our region, especially to the Princess Anne Commons Biomedical cluster. Bio Initiative cash at June 30, 2019 and 2018 was \$1,368,355 and \$885,871, respectively.

**(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 June of 2007, the Authority acted as the conduit issuer for \$96,835,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,555,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds. In fiscal year 2008, the bond proceeds were used to purchase the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge connecting Block 7 and Block 12 located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Pavilion Theater and the Convention Center, the construction of the Sandler Center for the Performing Arts, Open Space Site acquisition, a Revenue Assessment and Collection System, a City/School Human Resource Payroll System, and an Automatic Vehicle Locator System. The Authority and the City entered into a support agreement, dated June 1, 2007, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage, Pedestrian Bridge, and Conference Center portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates were 5.00% for Series 2007A and the rates ranged from 5.85% to 6.50% for Series 2007B. In June 2015, \$9,705,000 in Series 2007A bonds was refinanced as Series 2015B bonds. In November 2016, \$2,805,000 in Series 2007B bonds was refinanced as Series 2016B bonds. The final payment on Series 2007B bonds was July 2016. The final payment on Series 2007A was made July 2018.

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In June of 2014, the Authority acted as the conduit issuer for \$44,975,000 in Series 2014A Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority’s financial statements only reflect \$18,781,631 in Series 2014A Public Facility Revenue Bonds. In fiscal year 2015, the bond proceeds were used to purchase the Block 11 Parking Garage located in Town Center. The City’s share of the bond proceeds were used to finance various public facilities, including the replacement of the Bow Creek Community Recreation Center, the construction of the consolidated Old Donation Center/Kemps Landing Magnet school, a Revenue Assessment and Collection System, renovation to school HVAC systems, and roadway improvements at Burton Station Road, Centerville Turnpike, Laskin Road, Pacific Avenue, and Greenwich Road. The Authority and the City entered into a support agreement, dated June 1, 2014, whereby the City supports all Authority financial obligations (principal and interest payments) 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 2.00% to 5.00% for Series 2014A. The final payment on Series 2014A is due May 2034.

In March of 2018, the Authority acted as the conduit issuer for \$33,395,000 in Series 2018A Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority’s financial statements only reflect \$2,955,000 in Series 2018A Public Facility Revenue Bonds. In fiscal year 2019, the bond proceeds were used to purchase the Block 9 public plaza and elevate the Zeiders American Dream Theater located in Town Center. The City’s share of the bond proceeds were used to finance various public facilities, including the modernization/replacement of John B. Dey Elementary, Thoroughgood Elementary, and Princess Anne Middle Schools, the construction of the Adam Thoroughgood House Visitor Center, a Revenue Assessment and Collection System, and roadway improvements at 19<sup>th</sup> Street, 29<sup>th</sup> Street, Burton Station Road, Laskin Road, Pacific Avenue, and Greenwich Road. The Authority and the City entered into a support agreement whereby the City supports all Authority financial obligations (principal and interest payments) 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 3.00% to 5.00% for Series 2018A. The final payment on Series 2018A is due April 2038.

**(B) Long-term debt activities for the year ended June 30, 2019 and 2018 were as follows:**

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>June 30, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2019</b>	<b>Due Within</b>
					<b>One Year</b>
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Public facility revenue bonds	\$ 65,600,949	-	(7,288,840)	58,312,109	7,449,119
	65,600,949	-	(7,288,840)	58,312,109	7,449,119
Add: Bond premium	1,923,586	-	(126,617)	1,796,969	-
Less: Bond discount	(61,932)	-	6,078	(55,854)	-
Business- Type Activities/Authority					
Long-Term Debt	\$ 67,462,603	-	(7,409,379)	60,053,224	7,449,119

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	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business-type activities/Authority					
Operations Fund					
Bonds and notes payable:					
Public facility revenue bonds	\$ 70,059,789	2,955,000	(7,413,840)	65,600,949	7,288,840
	70,059,789	2,955,000	(7,413,840)	65,600,949	7,288,840
Add: Bond premium	1,885,696	207,061	(169,171)	1,923,586	-
Less: Bond discount	(47,219)	(22,407)	7,694	(61,932)	-
Business- Type Activities/Authority					
Long-Term Debt	\$ 71,898,266	3,139,654	(7,575,317)	67,462,603	7,288,840

The requirements to amortize all long-term bonds and notes payable as of June 30, 2019, including interest payments of \$11,703,624 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2020	7,449,119	2,468,114
2021	7,854,285	2,082,695
2022	8,446,500	1,692,175
2023	8,461,398	1,299,203
2024	5,484,215	1,015,598
2025-2029	14,542,392	2,417,407
2030-2034	5,494,200	680,402
2035-2038	580,000	48,030
	\$ 58,312,109	\$ 11,703,624

**(C) Advance Refunding Revenue Bonds**

On May 25, 2010, the City issued \$98.035 million of Public Facility Refunding Revenue Bonds, Series 2010B and \$40.45 million of Public Facility Refunding Revenue Bonds, Series 2010C. The refunding bonds combined with \$19.03 million in premiums to provide resources to purchase U.S. Government, State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$137.5 million of Public Facility Revenue bonds. Included in the bonds sold were \$37.015 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the Virginia Beach Development Authority (VBDA). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the VBDA's statement of net position. The principal and premium of the refunding bonds exceeded the net carrying amount of the old debt currently held by VBDA by \$1,540,000. This amount is being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This current and advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$6.36 million and resulted in an economic gain of \$4.1 million. The final payments on Series 2010B and 2010C are due August 2022 and August 2023.

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

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

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

Defeased Debt – In current and prior years, the City defeased certain general obligation, public improvement, and public utility bonds by placing funds in irrevocable escrow accounts to provide for future debt service payments on the defeased debt. Accordingly, the escrow account assets and liabilities for the defeased debt are not included in the City's financial statements. At June 30, 2019, the outstanding balance of the defeased debt, including current year defeased debit, attributable to the Authority is \$0, and is considered in-substance defeased.



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

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

As of June 30, 2019 and 2018, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$152,124,112 and \$78,194,941, respectively.

**(9) Interest Cost**

The Authority may capitalize interest cost related to construction in progress when applicable. No interest cost was capitalized for the years ended June 30, 2019 and 2018. The following is a summary of interest cost incurred during 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest expense incurred	\$ 2,436,222	2,642,031

**(10) Lease Income**

Lease income as reflected in the statements of revenues, expenses, and changes in net position was \$2,164,585 and \$2,669,134, respectively for the years ended June 30, 2019 and 2018. The following is a detailed list of the revenue earned:

	<u>2019</u>	<u>2018</u>
Social Services Facility	\$ 574,928	740,200
Amphitheater rent	261,121	243,844
Virginia Beach National Operations Rent/Profit-Sharing	110,505	90,774
Heron Ridge Basic Rent / Profit Sharing	11,442	10,145
Town Center Garage	329,445	296,439
31st Street Garage	151,148	343,819
9th Street Garage	725,996	883,977
110 S Independence Blvd Building	—	23,186
Tidewater Community College Wet Lab Space	—	22,500
Town Center Block 11 office sublease	—	14,250
	<u>\$ 2,164,585</u>	<u>2,669,134</u>

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**(A) Social Services Facility**

In 1998, the Authority entered into a 20-year operating lease with the City that expired February 1, 2018. In 2019, the lease was amended to exercise the first of three four-year renewal terms. The City pays annual rent of \$574,928 which is 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 this lease:

	<u>2019</u>	<u>2018</u>
Social Services Facility (including land)	\$ 9,497,137	9,497,137
Less accumulated depreciation	<u>(3,713,071)</u>	<u>(3,538,143)</u>
Net investment in property held for lease	<u>\$ 5,784,066</u>	<u>5,958,994</u>

Minimum future rental income on this lease as of June 30, 2019 is as follows: 2020, \$574,928; 2021, \$574,928; 2022, \$574,928; 2023, \$574,928; 2024, \$574,928.

**(B) Amphitheater**

The Amphitheater Lease Agreement provides that Cellar Door Venues, Inc. (Cellar Door) will pay the Authority rent having three components: ground rent, basic rent, and supplemental rent. Ground rent is the sum of \$120,000 offset and reduced by the total amount of Amphitheater leasehold (real estate) taxes paid to the City during the calendar year. Cellar Door also pays basic rent to the Authority in an amount equal to 10% of adjusted ticket revenues (offset by admissions taxes paid to City), 5% of adjusted sponsorship revenues, and 5% of adjusted parking revenues paid during the year. Minimum basic rent was \$610,000 annually (before reduction of admissions taxes, parking and sponsorship revenues) until the City recovered its investment in 2008, after which time the Authority was able to retain an administrative fee. In addition, Cellar Door was also responsible for the payment of supplemental rent in the amount of \$200,000 every fifth year beginning in December of 2005. Supplemental rent was to be paid to the Authority until 2025, or until the City recovered its investment, which occurred in 2010. 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, less an administrative fee. The lease expires December 31, 2031.

The Authority does not record any investment in the property.

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

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

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

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June 30, 2019 and 2018

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

A new operating agreement between the Authority and Virginia Beach Golf Club, L.L.C. was signed on March 30, 2007, and the name of the course was changed to Virginia Beach National Golf Course effective April 1, 2007. The initial term of the agreement ended December 31, 2011, and was extended at the mutual option of the Authority and Virginia Beach Golf Club, L.L.C. for three additional two-year terms. In fiscal year 2018, the lease was amended and extended to December 31, 2021. The rent due to the Authority includes 10% of gross revenues and 12% of golf course fee revenues paid monthly (which are split between operations rent and future capital maintenance and repairs to the facility) as well as a profit sharing payment equal to 25% of net income generated by the Golf Course Facility in excess of \$100,000 during each calendar year.

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

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2019</u>	<u>2018</u>
Virginia Beach National Golf Course (including land)	\$ 4,636,163	4,636,163
Less accumulated depreciation	(1,762,294)	(1,633,582)
Net investment in property held for lease	<u>\$ 2,873,869</u>	<u>3,002,581</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

**(D) Heron Ridge Golf Course**

In December 1997, the Authority and Heron Ridge Golf Club, L.C. (HRGC) executed a sublease agreement, which ends in December 2037. The basic rent is \$90,000 and is offset and reduced by the total amount of taxes paid by HRGC or HRGC's concessionaires to the City during the calendar year.

The Authority does not record any investment in the property.

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2019 and 2018

**(E) Town Center**

As part of the Town Center Phase I Development Agreement, the Authority has the right to lease the Developer up to 178 of the parking spaces in the Town Center Parking Garage (Block 4). The Master Agreement pertaining to this lease arrangement as well as the Authority's right to lease up to 10,196 square feet of vault space located in the Town Center Parking Garage (Block 4) was executed in December 2002 with a 30 year term. At June 30, 2019, parking and vault spaces were being leased at monthly rates of approximately \$125 per space and \$1 - \$2 per rental square foot, respectively.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2019</u>	<u>2018</u>
Town Center Block 4 Garage (including land)	\$ 22,875,431	22,875,431
Less accumulated depreciation	(8,976,974)	(8,435,649)
Net investment in property held for lease	<u>\$ 13,898,457</u>	<u>14,439,782</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

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). The agreement was executed in June 2003 with a 30 year term. At June 30, 2019, residential parking spaces were being leased at monthly rates of approximately \$65 per space.

The Authority also has the right to lease the Developer 1,365 square feet of storage space in the Town Center Parking Garage (Block 12). In June 2007, the Authority approved a lease agreement for the initial term of 20 years. The yearly rent is \$5 per square foot, escalating 3% each year. In the event that the Developer is unable to sublease the storage space, all rent payments are suspended while the storage space is vacant.

The following schedule shows the composition of the Authority's investment in property under the Block 10 lease:

	<u>2019</u>	<u>2018</u>
Town Center Block 10 Garage (including land)	\$ 13,616,672	13,616,672
Less accumulated depreciation	(4,421,592)	(4,096,076)
Net investment in property held for lease	<u>\$ 9,195,080</u>	<u>9,520,596</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

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The following schedule shows the composition of the Authority's investment in property under the Block 12 lease:

	<b>2019</b>	<b>2018</b>
Town Center Block 12 Garage (including land)	\$ 4,465,983	4,465,983
Less accumulated depreciation	(1,282,622)	(1,193,654)
Net investment in property held for lease	\$ <u>3,183,361</u>	<u>3,272,329</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

As part of the Phase III Development Agreement, the Authority has the right to lease the Developer 72 of the parking spaces in the Town Center Parking Garage (Block 7). This agreement was executed in September 2005 with a 30 year term. At June 30, 2019, residential and commercial parking spaces were being leased at monthly rates of approximately \$65 and \$125 per space, respectively.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<b>2019</b>	<b>2018</b>
Town Center Block 7 Garage (including land)	\$ 17,041,170	17,041,170
Less accumulated depreciation	(4,755,862)	(4,345,284)
Net investment in property held for lease	\$ <u>12,285,308</u>	<u>12,695,886</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

As part of the Phase V Development Agreement, the Authority has the right to lease the Developer 91 of the parking spaces in the Town Center Parking Garage (Block 11). This agreement was executed in October 2012 with a 30 year term. At June 30, 2019, residential and commercial parking spaces were being leased at monthly rates of approximately \$65 and \$125 per space, respectively.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<b>2019</b>	<b>2018</b>
Town Center Block 11 Garage (including land)	\$ 20,119,490	20,119,490
Less accumulated depreciation	(2,104,100)	(1,627,700)
Net investment in property held for lease	\$ <u>18,015,390</u>	<u>18,491,790</u>

Minimum future rental income on this lease cannot be determined in advance, but will be calculated based on the terms specified above.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

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June 30, 2019 and 2018

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

In July 2003, the 31<sup>st</sup> Street Garage Deed of Lease Agreement was executed. This provides that in 2005, Thirty-First Street, L.C. will begin paying the Authority parking rent having three components: basic rent, special basic rent, and additional rent. Basic rent is payable in equal monthly installments. Special basic rent is payable annually in advance on the first day of each lease year. Additional rent is based upon a percentage of hotel room revenues, not to exceed a maximum amount, and is payable at the end of each lease year. In addition, Thirty-First Street, L.C. is also responsible for the payment of retail rent in the amount of \$15 per square foot of retail space. Retail rent is payable in equal monthly installments. Article XIII.B.7 of the Development Agreement provides for an annual rent credit of \$260,000 for the first 25 years of the lease. The term of the lease is 65 years which expires June 30, 2070.

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2019</u>	<u>2018</u>
31st Street Garage (including land)	\$ 17,507,500	17,507,500
Less accumulated depreciation	(4,816,092)	(4,474,121)
Net investment in property held for lease	<u>\$ 12,691,408</u>	<u>13,033,379</u>

Minimum future rental income before operations/maintenance credits on this lease as of June 30, 2019 is as follows: 2020, \$401,458; 2021, \$401,458; 2022, \$401,458; 2023, \$401,458; 2024, \$401,458.

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

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

The following schedule shows the composition of the Authority's investment in property under this lease:

	<u>2019</u>	<u>2018</u>
9th Street Garage (including land)	\$ 9,750,000	9,750,000
Less accumulated depreciation	(3,493,750)	(3,250,000)
Net investment in property held for lease	<u>\$ 6,256,250</u>	<u>6,500,000</u>

Minimum future rental income from this lease cannot be determined in advance, but will be calculated based on the terms above.

**(H) 110 S Independence Blvd Building**

In August 2009, the Authority purchased the former Circuit City building located at 110 South Independence Blvd for \$5,033,213. In September 2011, the Authority leased the building to Kline Imports Chesapeake. The initial lease term was for 5 years and expired September 15, 2016. The lease was temporarily extended and then expired on July 31, 2017. The building is now vacant.

The following schedule shows the composition of the Authority’s investment in property under this lease:

	<u>2019</u>	<u>2018</u>
110 S Independence Blvd (including land)	\$ 5,033,213	5,033,213
Less accumulated depreciation	(952,273)	(854,604)
Net investment in property held for lease	<u>\$ 4,080,940</u>	<u>4,178,609</u>

There is no minimum future rental income for this property as of June 30, 2019.

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

Advances from the City of Virginia Beach represent funds that have been provided, by the City, to the Authority for the construction of capital projects. When construction is complete, the capital asset reverts back to the City or is held in the Authority’s Proprietary Fund. During fiscal year 2019 and 2018, the City had advanced funding for the following capital projects:

Dome Site Project – The project entails developing land located at the southern end of the Virginia Beach boardwalk. During fiscal year 2019 and 2018, \$38,374 and \$75,425 was used to fund initial costs related to the development of the site.

Pedestrian Bridge – The project involved the management of the design of the Pedestrian Bridge across Virginia Beach Boulevard in accordance with the contract between the Authority and PB Americas, Inc. During fiscal year 2019 and 2018, no amounts were used to fund the costs related to the design of the Pedestrian Bridge. In fiscal year 2019, the project was discontinued. All remaining funding was transferred back to the City and the capitalized costs were written off.

Town Center Infrastructure – The project is the result of a public/private investment partnership agreement between the City, the Authority, and Town Center Associates, L.L.C. During fiscal year 2019 and 2018, \$248,819 and \$814,241 was used to fund infrastructure costs related to Town Center, respectively. In fiscal year 2019, Phase VI of the project was completed. The Block 9 public streetscapes were transferred to the City and the Block 9 – 10 pedestrian bridge is held by the Authority.

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

Schedules of General and Other Expenses – Authority Operations  
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
General expenses:		
Leases	\$ 1,584,946	2,625,945
Amphitheater box seating	34,789	35,862
Independent audit fees	17,270	17,270
Amortization	95,852	95,852
Gifts and donations	15,000	15,000
Cavalier Hotel incentives	951,367	1,137,383
Leasehold improvements	111,815	277,887
Total general expenses	<u>2,811,039</u>	<u>4,205,199</u>
Other expenses:		
Architecture and engineering	564,158	559,481
Park maintenance – Corporate Landing	32,317	36,105
Utilities – Corporate Landing fountain	3,546	4,259
Commissioner Stipend	3,550	5,150
Disposal of Asset	—	270,741
Consultant fees	358,202	334,991
Purchase credit - Owl's Creek	—	476,000
Rudee Loop	12,363	—
Miscellaneous	100,416	158,111
Total other expenses	<u>1,074,552</u>	<u>1,844,838</u>
Total general and other expenses	\$ <u><u>3,885,591</u></u>	<u><u>6,050,037</u></u>



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

Schedules of Land and Building Inventory for Resale  
June 30, 2019 and 2018

<b>Description:</b>	<b>2,019</b>	<b>2,018</b>
Oceana West Corporate Park – beginning inventory July 1	\$ 1,555,548	1,555,548
Current – cost of sales	-	-
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	9,736,447	9,710,889
Current – infrastructure design	205,775	25,558
Current – cost of sales	(514,880)	-
Corporate Landing Office Park – ending inventory June 30	<u>9,427,342</u>	<u>9,736,447</u>
Hunt Club 2 – beginning inventory July 1	200,305	200,305
Current – cost of sales	-	-
Hunt Club 2 – ending inventory June 30	<u>200,305</u>	<u>200,305</u>
Town Center Beacon Land – beginning inventory July 1	4,877,946	4,877,946
Current – cost of sales	-	-
Town Center Beacon Land – ending inventory June 30	<u>4,877,946</u>	<u>4,877,946</u>
Headquarters Hotel Site Land - beginning inventory July 1	-	3,986,640
Current - land transfer to City	-	(3,986,640)
Headquarters Hotel Site Land - ending inventory June 30	<u>-</u>	<u>-</u>
Headquarters Hotel Site Building - beginning inventory July 1	-	406,603
Current - land transfer to City	-	(406,603)
Headquarters Hotel Site Building - ending inventory June 30	<u>-</u>	<u>-</u>
London Bridge Commerce Park - beginning inventory July 1	1,624,500	1,624,500
Current – cost of sales	-	-
London Bridge Commerce Park - ending inventory June 30	<u>1,624,500</u>	<u>1,624,500</u>
Historic Kempsville - beginning inventory July 1	1,295,063	-
Current - land acquisition and preparation	1,055	1,295,063
Historic Kempsville - ending inventory June 30	<u>1,296,118</u>	<u>1,295,063</u>
Owl's Creek - beginning inventory July 1	-	-
Current – land transfer from City, preparation costs	-	2,032,400
Current - land acquisition and preparation	-	190,453
Current - cost of sales	-	(2,222,853)
London Bridge Commerce Park - ending inventory June 30	<u>-</u>	<u>-</u>
Bio Park - beginning inventory July 1	24,789,156	-
Current - land transfer from City	-	24,473,581
Current - infrastructure design	102,143	315,575
Bio Park - ending inventory June 30	<u>24,891,299</u>	<u>24,789,156</u>
Total ending inventory	<u>\$ 43,873,058</u>	<u>44,078,965</u>

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

Schedules of Construction in Progress  
June 30, 2019

	<u>Town Center Infrastructure</u>	<u>Dome Site</u>	<u>Corporate Landing Conduit</u>	<u>Pedestrian Bridge</u>	<u>Total</u>
Expended during the year ended June 30:					
2001	\$ 3,095,062	-	-	-	3,095,062
2002	956,014	-	-	-	956,014
2003	2,581,205	-	-	-	2,581,205
2004	(1,704,696)	-	-	-	(1,704,696)
2005	(4,901,962)	-	-	-	(4,901,962)
2006	34,449	-	-	-	34,449
2007	233,037	100,738	-	-	333,775
2008	1,445,110	10,200	-	272,603	1,727,913
2009	(1,628,463)	-	-	6,535	(1,621,928)
2010	98	-	-	-	98
2011	3,872	-	-	-	3,872
2012	2,300	-	-	-	2,300
2013	49,080	6,459	-	-	55,539
2014	736,650	-	-	-	736,650
2015	(901,756)	(117,397)	-	-	(1,019,153)
2016	-	-	-	-	-
2017	55,008	-	-	-	55,008
2018	814,241	75,425	-	-	889,666
2019	(869,249)	38,374	1,071,160	(279,138)	(38,853)
	<u>\$ -</u>	<u>113,799</u>	<u>1,071,160</u>	<u>-</u>	<u>1,184,959</u>

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

Schedule of EDIP Accounts Payable  
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Balance Forward	\$ 8,144,972	8,826,402
Funding sources:		
EDIP City Appropriation - fiscal year	2,476,760	2,540,140
Reimbursement for construction management/design expenses	123,768	212,868
Reimbursement for APZ-1 awards and fees paid	142,993	210,012
Interest earned - fiscal year	6,121	4,504
Total Funding Available	<u>10,894,614</u>	<u>11,793,926</u>
Expenses:		
EDIP awards paid	(1,250,035)	(947,481)
APZ-1 awards and expenses paid	(172,455)	(75,128)
Engineering studies, legal fees and miscellaneous expenses	(470,881)	(665,791)
Town Center expenditures	(758,849)	(311,087)
Dome Site studies and expenses paid	(38,374)	(81,925)
Historic Kempsville expenditures	(1,055)	(1,567,542)
Total Expenditures	<u>(2,691,649)</u>	<u>(3,648,954)</u>
Total Accounts Payable - Economic Development Program	\$ <u>8,202,965</u>	<u>8,144,972</u>

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

Schedule of Nonoperating Revenue from City of Virginia Beach  
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Central Business District - South payment of debt service for	\$ 8,154,171	7,800,543
9th Street Garage payment of debt service for Public Facility		
Revenue Bonds	578,622	578,972
3 1st Street Garage payment of debt service for Public Facility		
Revenue Bonds	1,345,131	1,351,406
Virginia Beach Amphitheater Capital Improvement Program	210,697	253,683
EDIP Part C & D projects	486,531	672,291
Vibe District Matching Grant program	(50,000)	50,000
Town Center Garage - Special Service District	1,809,279	2,142,065
110 S Independence Blvd maintenance reimbursement	32,264	28,234
Bio-Initiative funding	456,944	528,586
Cavalier Hotel annual incentive payment	951,367	1,137,383
Historic Kempsville initiative support	1,055	1,567,542
City Contributions - Town Center infrastructure	613,819	814,241
City Contributions - Dome Site development	38,374	75,425
<b>Total Nonoperating Revenue From City of Virginia Beach</b>	<u>\$ 14,628,254</u>	<u>17,000,371</u>



## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Commissioners, Virginia Beach Development Authority  
Virginia Beach, Virginia

We have audited, in accordance with the 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, the financial statements of the governmental activities, business-type activities and each major fund of the Virginia Beach Development Authority (the Authority), a component unit of the City of Virginia Beach, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 26, 2019.

### **Internal Control Over Financial Reporting**

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

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

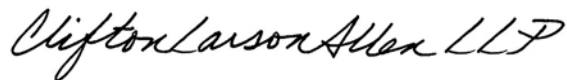
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Arlington, Virginia  
September 26, 2019