

**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, 2021 AND JUNE 30, 2020**

**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 - Blake Huffman

Technical Assistance - Wendy Hu
Kevin Kielbasa
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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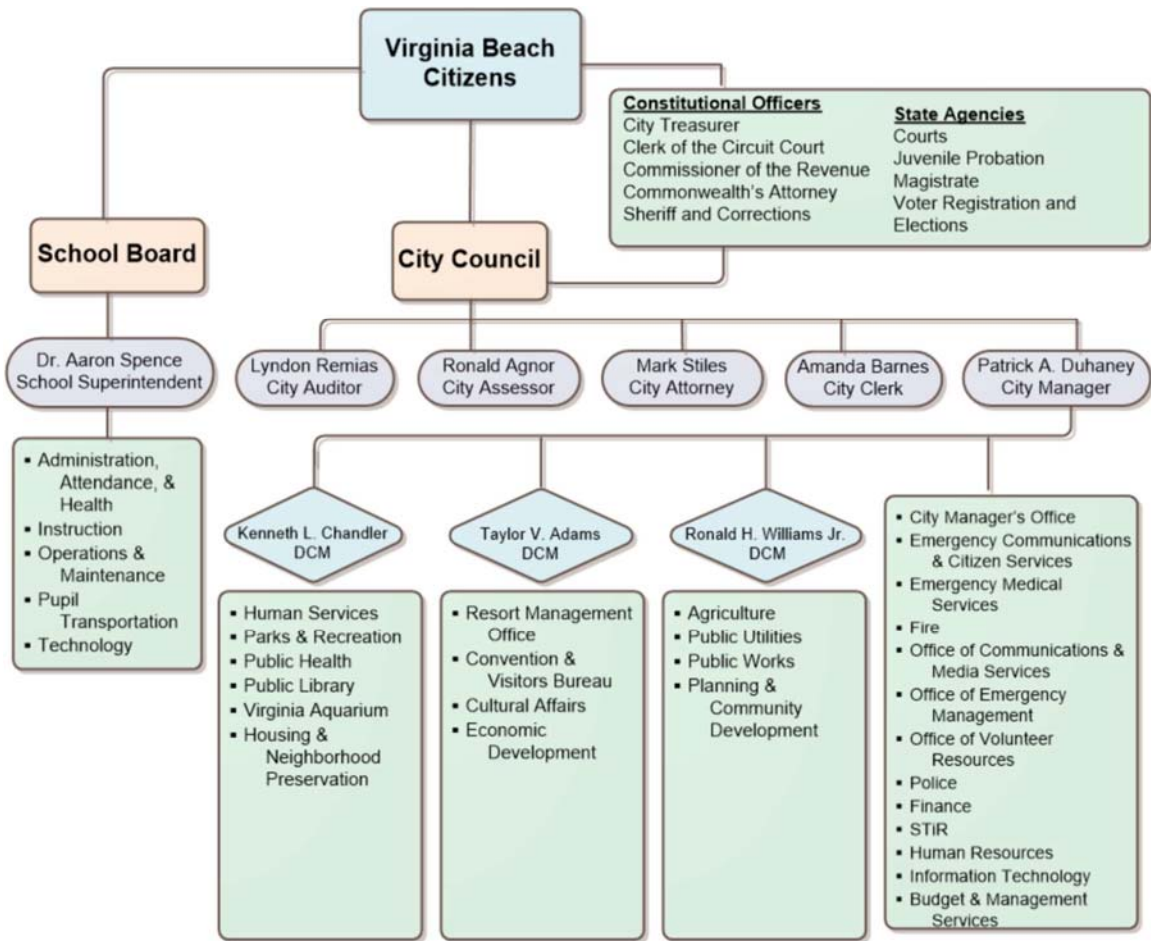
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INTRODUCTORY SECTION

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

Commissioners

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





November 16, 2021

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

RE: FY 2021 Annual Financial Report of the City of Virginia Beach Development Authority

Dear Commissioners:

The Annual Financial Report of the City of Virginia Beach Development Authority (the Authority) for the fiscal year ended June 30, 2021 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.

Fiscal Year 2021 Economic Development Highlights

Significant growth occurred in each of the City's adopted target business sectors, including several announcements by innovative new businesses as well as small businesses, an important part of our economy. Additionally, seven (7) incentive grants were awarded totaling \$1.6 million which leveraged \$84 million in capital investment, a ratio of 52 private investment to \$1 public investment. Also, attached is the data to back up this calculation. The following EDIP awards were made during fiscal year 2021 as EDIP matching grants (EDIPs given for COFs), awards approved for investment, awards approved for jobs, as follows.

- **Acoustical Sheetmetal Company (ASC)** - ASC provides sound attenuated and weather protective packaging for on-site power generation equipment. The company is investing \$15,800,000 and creating 200 new jobs in Virginia Beach. The investment effectively creates its second campus in Virginia Beach featuring a 100,000 square foot manufacturing facility, more than doubling its manufacturing capacity and provides significant storage space, allowing for flexibility to meet customers' fluctuating construction schedules. As a result, the ASC qualified for and was awarded an EDIP grant as well as a grant from the Commonwealth of Virginia's Development Opportunity Fund, administered by the Virginia Economic Development Partnership.
- **Taste Warehouse Expansion** – TASTE, an expanded its corporate offices, commissary kitchen, warehouse, and e-commerce function to the City of Virginia Beach. The result is an 1,250,000 investment, qualifying it for and being awarded a \$35,000 EDIP grant.
- **Premier PPE** – The company manufactures personal protective equipment (PPE) and has grown to a need tripling its size. The VBDA awarded an EDIP grant of \$108,000 due to the company's \$5,250,000 capital investment and creating 180 new jobs.
- **Better Horse, Inc.** – The company is a camping product manufacturer and is making a capital investment of \$1,690,000 and creating 8 new jobs. The VBDA approved an EDIP grant for \$20,000 for the investment being made in expanding the business headquartered in Virginia Beach.
- **Regulus Global** – The company provides international procurement services focusing national security, medical and humanitarian requirements. Regulus Global is investing \$270,000 and creating 31 new jobs, qualifying it for the \$46,500 EDIP grant from the VBDA.
- **Integrity Bank for Business** – Integrity Bank for Business is a new bank headquartered in Virginia Beach. It is investing \$500,000 and creating 12 new jobs, qualifying it for the \$20,000 EDIP grant from the VBDA.
- **Sunny Farms, LLC** – The Sunny Farms Company will own and operate a state-of-the-art hydroponic greenhouse. It is making a \$59,600,000 capital investment and creating 155 new jobs to establish a hydroponic farming operation. Sunny Farms was awarded a \$600,000 EDIP grant as well as a grant from the Commonwealth of Virginia's Development Opportunity Fund, administered by the Virginia Economic Development Partnership.

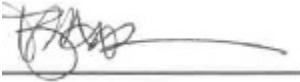
Commissioners, Virginia Beach Development Authority
RE: FY 2021 Annual Financial Report of the City of Virginia Beach Development Authority
November 16, 2021
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Acknowledgements

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

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

Respectively,

A handwritten signature in black ink, appearing to read 'Taylor V. Adams', is written over a horizontal line.

Taylor V. Adams
Deputy City Manager and Director of Economic Development
City of Virginia Beach

FINANCIAL SECTION

Report of Independent Auditor

To the Commissioners
City of Virginia Beach Development Authority

We have audited the accompanying financial statements of the City of Virginia Beach Development Authority (the “Authority”), a component unit of the City of Virginia Beach, Virginia, as of and for the year ended June 30, 2021, 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 auditor’s 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Authority, as of and for the year June 30, 2020, were audited by other auditors whose report dated September 29, 2020, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory Section and Supplementary Information - Schedules, as listed 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 - Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information - Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Virginia Beach, Virginia
November 16, 2021

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, 2021 and 2020. Please read it in conjunction with the Authority's transmittal letter at the front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's net position increased by \$9.16 million in fiscal year 2021 and \$4.54 million in fiscal year 2020. In fiscal year 2021, the increase is attributable to the \$5.59 million purchase of Dome Site land with City Capital Project funds. 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. In fiscal year 2020, the increase in net position was attributed to the reduction in outstanding debt.
- In fiscal year 2021, the Authority administered multiple economic relief efforts including \$1.92 million in relief payments through the EDIP 'Part E' program and \$4.07 million in relief payments from the City of Virginia Beach's CARES Act allocation.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

BASIC FINANCIAL STATEMENTS

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

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

The Statement of Cash Flows identifies how cash and other financial assets that can readily be converted to cash flow in and out of the Authority.

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and management's discussion and analysis.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management’s Discussion and Analysis

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position:

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

Table 1			
Net Position			
As of June 30, 2021, 2020, and 2019			
(in millions)			
	Total		
	2021	2020	2019
Current and other assets	\$ 66.95	71.22	68.53
Capital assets	129.99	127.68	131.24
Total assets	<u>196.94</u>	<u>198.90</u>	<u>199.77</u>
Deferred Outflows of resources	<u>0.62</u>	<u>0.93</u>	<u>0.59</u>
Current and other liabilities	18.74	21.84	19.80
Long-term liabilities	37.45	45.63	52.60
Total liabilities	<u>56.19</u>	<u>67.47</u>	<u>72.40</u>
Deferred Inflows of resources	<u>0.63</u>	<u>0.77</u>	<u>0.91</u>
Net position:			
Net investment in capital assets	84.76	74.84	70.87
Restricted - other purposes	6.75	4.38	3.80
Unrestricted	49.24	52.37	52.38
Total net position	<u>\$ 140.75</u>	<u>131.59</u>	<u>127.05</u>

At June 30, 2021 and 2020, the total assets of the Authority were \$196.94 and \$198.90 million, respectively; total liabilities were \$56.19 and \$67.47 million, respectively; while combined net position was \$140.75 million and \$131.59 million, respectively.

In fiscal year 2021 and 2020, the Authority’s long-term liabilities decreased by \$8.18 million and \$6.97 million, respectively. The fiscal year 2021 and 2020 decreases were primarily due to annual debt service payments.

Regarding the Authority’s activities, the Authority’s 2021 land and building inventory decreased by \$2.66 million due to the sale of 14.0 acres of land at the Innovation Park. Capital assets increased due to the \$5.59 million purchase of Dome Site land through the City’s Capital Project. Construction in progress at the Dome Site Location increased by \$.30 million while accumulated depreciation increased by \$3.82 million resulting in a net increase in Capital Assets of \$2.31 million.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

Changes in Net Position:

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

Table 2			
Revenues, Expenses, and Changes in Net Position			
Years Ended June 30, 2021, 2020, and 2019			
(in millions)			
	<u>2021</u>	<u>Total</u>	<u>2019</u>
		<u>2020</u>	
Operating Activities:			
Revenues	\$ 4.07	2.35	4.64
Expenses	(13.60)	(9.88)	(9.65)
Total Operating loss	<u>(9.53)</u>	<u>(7.53)</u>	<u>(5.01)</u>
Nonoperating Activities:			
Revenues	\$ 20.38	14.06	14.70
Expenses	(1.69)	(1.99)	(2.77)
Total Nonoperating income	<u>18.69</u>	<u>12.07</u>	<u>11.93</u>
Other Special Items:			
Contribution from Primary Government	-	-	26.14
Total Other Special Items:	<u>-</u>	<u>-</u>	<u>26.14</u>
Change in net position	9.16	4.54	33.06
Net Position - Beginning of Year	131.59	127.05	93.99
Net Position - End of Year	<u>\$ 140.75</u>	<u>131.59</u>	<u>127.05</u>

For the fiscal years ended June 30, 2021 and 2020, net position increased by \$9.16 million and \$4.54 million, respectively.

REVENUES

For the fiscal years ended June 30, 2021 and 2020, revenues from activities totaled \$24.45 million and \$16.41 million, respectively. This included revenues derived from land and asset sales, industrial revenue bond fees, lease income, investment earnings, and support agreement funding from the City of Virginia Beach.

EXPENSES

The expense activities included cost of land sold, depreciation/amortization, selling and administrative expenses, and interest on outstanding debt obligations. For the fiscal years ended June 30, 2021 and 2020, these expenses totaled \$15.29 million and \$11.87 million, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management’s Discussion and Analysis

FINANCIAL ANALYSIS OF THE AUTHORITY’S FUNDS

The Authority’s fund includes total net position of \$140.75 million and \$131.59 million at June 30, 2021 and 2020, respectively. In fiscal year 2021 and 2020, operating revenues from land sales, industrial revenue bond fees, lease income, and miscellaneous revenue totaled \$4.07 million and \$2.35 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$13.60 million and \$9.88 million, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

For the fiscal years ended June 30, 2021 and 2020, the Authority had invested \$129.99 million and \$127.68 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3.

Table 3			
Capital Assets			
As of June 30, 2021, 2020, and 2019			
(in millions)			
	Total		
	2021	2020	2019
Non-depreciable assets:			
Land	\$ 28.53	22.94	22.94
Other assets and capitalized costs	1.13	1.13	1.13
Construction in progress	0.68	0.38	1.18
Other capital assets:			
Buildings/equipment	147.31	147.07	145.97
Accumulated depreciation on other capital assets	(47.65)	(43.84)	(39.98)
Total net capital assets	\$ 129.99	127.68	131.24

Major capital asset additions in fiscal year 2021 included \$5.6 million in purchases of Dome Site land through the City’s Capital Project Fund funding.

There were no major capital asset additions or reductions in fiscal year 2020.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

LONG-TERM DEBT

	Total		
	2021	2020	2019
Bonds and notes payable			
VBCDC note payable to CoVB	0.7	-	-
Public facility revenue bonds	42.99	50.37	58.31
Other long-term liabilities:			
Bond premium	2.23	2.64	1.80
Bond discount	-	-	(0.06)
Total Long-Term Debt	\$ 45.92	53.00	60.05

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.

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

Statements of Net Position
Authority Operations
June 30, 2021 and 2020

	2021	2020*
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 9,294,572	9,533,603
Receivables, net (note 4)	54,201	34,927
Receivables, restricted (note 4)	3,369,947	3,032,287
Total current assets	12,718,720	12,600,817
Noncurrent assets:		
Restricted cash and cash equivalents (notes 2 and 3)	6,286,342	8,744,243
Receivables, restricted (note 4)	6,650,328	5,917,522
Land/building inventory	41,295,864	43,960,824
Capital assets (note 5)		
Other non-depreciable assets and capitalized costs	1,130,390	1,130,390
Construction in progress	675,571	380,478
Land	28,527,476	22,934,918
Buildings and equipment, net of accumulated depreciation	99,654,860	103,231,852
Total capital assets	129,988,297	127,677,638
Total assets	\$ 196,939,551	198,901,045
Deferred Outflows of Resources		
Debt refundings resulting in loss transactions	\$ 622,478	930,869
Liabilities		
Current liabilities:		
Accounts payable (note 6)	363,356	1,185,557
Accrued liabilities (note 6)	564,723	537,684
Liabilities payable from restricted assets (note 6)	10,000	10,000
Unearned liabilities (note 6)	9,327,360	12,738,820
Bonds, notes, and loans payable (note 7)	8,472,655	7,373,672
Total current liabilities	18,738,094	21,845,733
Bonds, notes and loans payable (note 7)	37,447,356	45,630,574
Total liabilities	\$ 56,185,450	67,476,307
Deferred Inflows of Resources		
Debt refundings resulting in gain transactions	\$ 626,398	767,718
Net Position		
Net investment in capital assets	84,064,366	74,836,543
Restricted - other purposes (note 3)	6,747,813	4,384,390
Unrestricted	49,938,002	52,366,956
Total net position	\$ 140,750,181	131,587,889

* Adjusted

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, 2021 and 2020

	2021	2020
Operating Revenues:		
Land sales	\$ 1,856,308	-
Industrial revenue bond fees	221,745	229,015
Lease income (note 10)	1,979,151	2,035,136
Virginia Beach National Golf Course revenue	8,555	62,644
Miscellaneous income	125	18,054
Total operating revenues	4,065,884	2,344,849
Operating Expenses:		
Cost of land sold	2,716,596	-
Virginia Beach National Golf Course (note 10)	8,555	62,644
General and other expenses	5,282,927	4,034,182
Depreciation	3,815,677	3,853,177
Garage operations	1,777,732	1,928,803
Total operating expenses	13,601,487	9,878,806
Operating loss	(9,535,603)	(7,533,957)
Nonoperating Revenues (Expenses):		
City of Virginia Beach	20,335,725	13,993,536
Charity Golf Tournament revenues	29,925	17,550
Charity Golf Tournament expenses	(38,816)	(15,525)
Interest income	18,412	37,112
Interest expense (note 9)	(1,647,352)	(1,969,931)
Total nonoperating revenues, net	18,697,894	12,062,742
Change in net position	9,162,291	4,528,785
Total net position at beginning of year	131,587,889	127,059,104
Total net position at end of year	\$ 140,750,180	131,587,889

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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from customers and users	\$ 6,306,823	2,342,751
Cash payments to suppliers of goods and services	(10,580,971)	(6,513,049)
Net EDIP activities	(2,563,417)	2,274,931
Other operating cash receipts (disbursements)	-	(211,138)
Net cash used in operating activities	(6,837,565)	(2,106,505)
Cash flows from non-capital financing activities:		
Receipts from customers and users	700,000	-
Cash payments to suppliers of goods and services	(665,719)	-
Net cash provided by non-capital financing activities	34,281	-
Cash flows from capital and related financing activities:		
Principal repayment on long-term debt	(7,373,672)	(7,449,119)
Interest paid on long-term debt	(2,738,884)	(2,468,114)
Capital contributions from City	14,743,167	16,733,606
Acquisition of capital assets	(533,779)	(25,600)
Charity golf outing proceeds (disbursements), net	(8,891)	2,022
Net cash provided by capital and related financing activities	4,087,941	6,792,795
Cash flows from investing activities:		
Interest	18,412	37,112
Net cash provided by investing activities	18,412	37,112
Net increase (decrease) in cash and cash equivalents	(2,696,932)	4,723,402
Cash and cash equivalents at beginning of year	18,277,846	13,554,444
Cash and cash equivalents at end of year	\$ 15,580,914	18,277,846
Classified as:		
Current assets	\$ 9,294,572	9,533,603
Restricted assets	6,286,342	8,744,243
	\$ 15,580,914	18,277,846

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 (Continued)
Authority Operations
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (9,535,601)	(7,533,957)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	3,815,677	3,949,029
Effects of changes in operating assets and liabilities:		
Receivables, net	424,021	5,286,764
Accounts and other payables	(4,206,622)	(3,896,107)
Land inventory	2,664,960	87,766
Net cash used in operating activities	<u>\$ (6,837,565)</u>	<u>(2,106,505)</u>
Noncash transactions:		
Amortization on bond discount/premium	\$ (410,561)	(70,763)
EDIP appropriations	\$ 2,067,087	3,384,890

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 (Continued)

June 30, 2021 and 2020

(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 blended component unit of the City for reporting purposes and, as such, will be a blended component unit in the City's Annual Comprehensive Financial Report. Future funding and ongoing cash flows of the Authority are dependent on the City.

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

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

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

(A) Basis of Financial Reporting

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

Management's Discussion and Analysis – GAAP require 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), similarly to how the private sector provides their annual reports.

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

Statement of Net Position – The Statement of Net Position is designed to display the financial position of the Authority's business-type activities. The Authority reports all capital assets, including infrastructure, and deferred outflows/inflows of resources in the Government-Wide Statement of Net Position along with depreciation expense – the cost of "using up" capital assets – in the Statement of

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

Revenues, Expenses, and Changes in Fund Net Position. The net position of the Authority will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Revenues, Expenses and Changes in Fund Balance – The Statement of Revenues, Expenses and Changes in Fund balance reports expenses and revenues of the Authority.

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

(B) *Basic Financial Statements*

In the Statement of Net Position, all assets and liabilities of the Authority are reflected on a full accrual, and economic resources basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The restricted cash and cash equivalents are used for specific purposes and capital projects. When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

(C) *Measurement Focus and Basis of Accounting*

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

The financial statements are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operating revenues of the Authority include the sale of land within Authority corporate parks, administrative fees for the issuance of Industrial Revenue Bonds, and lease income. Operating expenses include the cost of land sold, selling and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(D) *Capital Assets*

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

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

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.

(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 2021, the Authority sold approximately 14.0 acres of land located at the Virginia Beach Bio Innovation Park to YCH, LLC. This sale decreased the property inventory on the Authority's books by \$2,716,596.

(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 held to provide an interest-free loan for the development of a Little League park; 8) unclaimed CARES Act economic relief funds; 9) funds appropriated to provide an interest-free loan to the Virginia Beach Community Development Corporation in excess of their need; 10) Bio Park land sale proceeds; and 11) funds held for the Vibe District Matching Grant program.

Accounts Receivable

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

Bond Premiums

Bond premiums are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds are reported net of the applicable bond premium. Per City policy, premiums are only allocated to the Authority when the related bonds are issued to acquire an asset that will be owned by the Authority.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

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 or the life of the newly issued debt, whichever is shorter.

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 or the life of the newly issued debt, whichever is shorter.

Deferred inflows of resources and deferred outflows of resources for FY 2020 were adjusted to reflect the issuance of the 2020B PFRB bonds for the 31st Street Garage.

(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, 2021 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.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

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's reconciliations of total cash and cash equivalents to the financial statements at June 30, 2021 and 2020 are as follows:

	Total	Total
	June 30, 2021	June 30, 2020
Cash and Cash Equivalents:		
Atlantic Union Bank	\$ 9,294,572	18,589,144
Restricted Cash and Cash Equivalents:		
Option deposits	10,000	20,000
State funded incentive grants	250,000	500,000
Bio Initiative	1,237,774	2,475,548
Social Services	1,779,167	3,558,334
EDIP	45,409	90,818
EDIP Part E	578,879	1,157,758
CARES Act	19,771	39,542
Virginia Beach National Capital Reserve	219,240	438,480
Innovation Park Land Sale	1,856,308	3,712,616
Little League loan funding	250,000	500,000
Vibe District Matching Grant	5,513	11,026
VBCDC Loan	34,281	68,562
Total Restricted Cash and Cash Equivalents	6,286,342	12,572,684
Total	\$ 15,580,914	31,161,828

(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 \$10,000 in the Authority Operations fund at June 30, 2021 and 2020.

Bio Initiatives funding of \$2,324,447 was provided to the Authority in fiscal year 2020 to support focus areas identified by the Bio-Medical Task Force. The program's goal is to drive new companies and start-ups to our region, especially to the Princess Anne Commons Biomedical cluster. Bio Initiative cash at June 30, 2021 and 2020 was \$1,237,774 and \$3,457,058, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

The Social Services Facility reserve accounts at June 30, 2021 and 2020 were \$1,779,167 and \$1,362,089, 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).

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, 2021 and 2020 were \$45,409 and \$110,886 respectively. During fiscal year 2020, City Council approved \$2,500,000 of EDIP funding to help small businesses impacted by the COVID-19 pandemic (EDIP Part E). In the Operations Fund at June 30, 2021 and 2020, the balance of the EDIP Part E funding was \$578,879 and \$2,500,000, respectively.

Other restricted cash accounts include: (1) State Funded Incentive Grants which are Commonwealth Opportunity Funds held by the Authority and awarded to a recipient or remitted back to the State at the State's request; (2) Little League Loan Funding which is an undispersed loan, appropriated by City, and held by the Authority; (3) CARES Act funds held for economic relief efforts; (4) Innovation Park Land Sale proceeds from FY2021 to be re-invested within the Innovation Park; (5) VIBE District Matching Grant funds to be granted in FY2022 or re-appropriated, and (6) VBCDC Loan funds in excess of what was needed for the Virginia Beach Community Development Corporation to settle outstanding debt, the remainder will be remitted to the City in FY 2022.

Beginning in April of 2008, the Authority began receiving a percentage of gross receipts from Virginia Beach National Golf Course (formerly known as TPC Golf Course) to fund capital maintenance and repairs to the facility. These payments are received on a monthly basis per the management agreement. At June 30, 2021 and 2020, the balance of the Virginia Beach National capital reserve account was \$219,241 and \$98,697, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(4) Receivables

Receivables at June 30, 2021 and 2020 consist of the following:

	Total	Total
	June 30, 2021	June 30, 2020
Authority Operations	\$ 54,720	34,927
Due from City of Virginia Beach	434,835	147,718
Vanguard Landing loan	2,850,406	2,850,406
Virginia Beach National long-term maintenance	54,201	24,177
Security Deposit - Bio Accelerator	29,986	9,986
Current Receivables	<u>3,424,148</u>	<u>3,067,214</u>
EDIP appropriations from City	5,984,609	5,917,522
VBCDC Loan Receivable	665,719	-
Noncurrent Receivables	<u>6,650,328</u>	<u>5,917,522</u>
Gross accounts receivable	10,074,476	8,984,736
Less: Allowance for Uncollectibles	-	-
Accounts receivable, net	\$ <u>10,074,476</u>	<u>8,984,736</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.

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

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(5) Capital Assets

The following schedules summarize the capital assets of the Authority as of June 30, 2021 and 2020:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2021</u>
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Construction in progress	380,478	295,093	-	675,571
Land	22,934,918	5,592,558	-	28,527,476
Total non-depreciable assets	<u>24,445,786</u>	<u>5,887,651</u>	<u>-</u>	<u>30,333,437</u>
Depreciable assets:				
Buildings	145,408,109	-	-	145,408,109
Equipment and fixtures	1,661,825	238,685	-	1,900,510
Total depreciable assets	<u>147,069,934</u>	<u>238,685</u>	<u>-</u>	<u>147,308,619</u>
Less Accumulated Depreciation for:				
Buildings	(43,361,197)	(3,757,532)	-	(47,118,729)
Equipment and fixtures	(476,885)	(58,145)	-	(535,030)
Total accumulated depreciation	<u>(43,838,082)</u>	<u>(3,815,677)</u>	<u>-</u>	<u>(47,653,759)</u>
Capital Assets, Net	\$ <u>127,677,638</u>	<u>2,310,659</u>	<u>-</u>	<u>129,988,297</u>

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2020</u>
Operations Fund:				
Non-depreciable assets:				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Construction in progress	1,184,959	292,279	-	1,477,238
Land	22,934,918	-	-	22,934,918
Total non-depreciable assets	<u>25,250,267</u>	<u>292,279</u>	<u>-</u>	<u>25,542,546</u>
Depreciable assets:				
Buildings	145,408,109	-	-	145,408,109
Equipment and fixtures	565,065	-	-	565,065
Total depreciable assets	<u>145,973,174</u>	<u>-</u>	<u>-</u>	<u>145,973,174</u>
Less Accumulated Depreciation for:				
Buildings	(39,566,165)	(3,795,032)	-	(43,361,197)
Equipment and fixtures	(418,740)	(58,145)	-	(476,885)
Total accumulated depreciation	<u>(39,984,905)</u>	<u>(3,853,177)</u>	<u>-</u>	<u>(43,838,082)</u>
Capital Assets, Net	\$ <u>131,238,536</u>	<u>(3,560,898)</u>	<u>-</u>	<u>127,677,638</u>

At June 30, 2021 and 2020, depreciation expense related to capital assets was \$3,815,677 and \$3,853,177, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

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

Accounts payable and accrued liabilities at June 30, 2021 and 2020 consist of the following:

	Total	Total
	June 30, 2021	June 30, 2020
Accounts payable	\$ 6,308	104,608
Accounts payable-City	101,535	125,436
Accounts payable-Commonwealth Opportunity Funds	250,000	950,000
Accounts payable-Vibe	5,513	5,513
Total Accounts Payable	\$ <u>363,356</u>	<u>1,185,557</u>
Accrued interest	\$ 564,723	1,129,446
Total Accrued Liabilities	\$ <u>564,723</u>	<u>1,129,446</u>
Option deposits	\$ 10,000	20,000
Total Liabilities payable from restricted assets	\$ <u>10,000</u>	<u>20,000</u>
Accounts payable-EDIP	\$ 6,870,779	8,528,409
CARES Act	19,771	-
Advances from City	925,571	630,478
Golf course	273,465	122,874
Bio Initiatives	1,237,774	3,457,058
Total Unearned Revenues	\$ <u>9,327,360</u>	<u>12,738,819</u>

On December 7, 2006, the City Council appropriated \$350,000 for the operating expenses associated with the TPC Golf Course facility. After all expenses were incurred, the remaining funding was retained for future capital maintenance and repairs to the facility. In addition, the Authority began receiving a percentage of gross revenues 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, 2021 and 2020, the outstanding balance in the accounts payable-golf course account was \$273,465 and \$122,874.

Bio Initiatives funding of \$2,324,447 was provided to the Authority in fiscal year 2020 to support focus areas identified by the Bio-Medical Task Force. The program's goal is to drive new companies and start-ups to our region, especially to the Princess Anne Commons Biomedical cluster. Bio Initiatives cash at June 30, 2021 and 2020 was \$1,237,774 and \$3,457,058, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(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 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 was used to finance various public facilities, including the replacement of the Bow Creek Community Recreation Center, the construction of the consolidated Old Donation Center/Kemps Landing Magnet school, a Revenue Assessment and Collection System, renovation to school HVAC systems, and roadway improvements at Burton Station Road, Centerville Turnpike, Laskin Road, Pacific Avenue, and Greenwich Road. The Authority and the City entered into a support agreement, dated June 1, 2014, whereby the City supports all Authority financial obligations (principal and interest payments) regarding the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the financial statements with interest rates ranged from 2.00% to 5.00% for Series 2014A. The final payment on Series 2014A is due May 2034.

In March 2018, the Authority acted as the conduit issuer for \$33,395,000 in Series 2018A Public Facility Revenue Bonds at the request of the City 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 was used to finance various public facilities, including the modernization/replacement of John B. Dey Elementary, Thoroughgood Elementary, and Princess Anne Middle Schools, the construction of the Adam Thoroughgood House Visitor Center, a Revenue Assessment and Collection System, and roadway improvements at 19th Street, 29th Street, Burton Station Road, Laskin Road, Pacific Avenue, and Greenwich Road. The Authority and the City entered into a support agreement whereby the City supports all Authority financial obligations (principal and interest payments) regarding the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the financial statements with interest rates ranged from 3.00% to 5.00% for Series 2018A. The final payment on Series 2018A is due April 2038.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

	<u>Balance</u> <u>June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business-type activities/Authority					
Operations Fund:					
Bonds and notes payable:					
VBCDC note due to City of Virginia Beach	\$ -	700,000	-	\$ 700,000	\$ 34,281
Public facility revenue bonds	50,367,790	-	(7,373,672)	42,994,118	8,438,374
	50,367,790	700,000	(7,373,672)	43,694,118	8,472,655
Add: Bond premium	2,636,456	-	(410,563)	2,225,893	-
Business-type activities/Authority					
Long-Term Debt	\$ 53,004,246	700,000	(7,784,235)	\$ 45,920,011	\$ 8,472,655

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</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	\$ 58,312,109	12,205,413	(20,149,732)	\$ 50,367,790	\$ 7,373,672
Notes payable-Town Center Option Land	-	-	-	-	-
	58,312,109	12,205,413	(20,149,732)	50,367,790	7,373,672
Add: Bond premium	1,796,969	966,104	(126,617)	2,636,456	-
Less: Bond discount	(55,854)	-	55,854	-	-
Business-type activities/Authority					
Long-Term Debt	\$ 60,053,224	13,171,517	(20,220,495)	\$ 53,004,246	\$ 7,373,672

(B) Long-term debt activities for the year ended June 30, 2021 and 2020 were as follows:

The requirements to amortize all long-term bonds and notes payable as of June 30, 2021, including interest payments of \$7,134,287 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 8,438,374	\$ 1,716,049
2023	8,454,937	1,256,799
2024	5,484,215	1,015,598
2025	4,902,919	789,965
2026-2030	10,738,313	1,839,266
2031-2035	4,540,360	487,791
2036-2040	435,000	28,819
	\$ 42,994,118	\$ 7,134,287

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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(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 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 2020.

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 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 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 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

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

total debt service payment over the next 12 years by \$1.2 million and resulted in an economic gain of \$1.14 million. The final payment on Series 2016B is due May 2028.

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

Defeased Debt – In prior years, the City defeased certain general 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, 2021, the Authority has no defeased debt outstanding.

(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, 2021 and 2020, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$141,700,184 and \$146,067,751, respectively.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

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Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(9) Interest Cost

The following is a summary of interest cost incurred during 2021 and 2020:

		2021	2020
Interest expense incurred	\$	<u>1,647,352</u>	<u>1,969,931</u>

(10) Lease Income

Lease income as reflected in the Statements of Revenues, Expenses, and Changes in Net Position was \$1,979,151 and \$2,035,136 for the years ended June 30, 2021 and 2020, respectively. The following is a detailed list of the revenue earned:

		2021	2020
Social Services Facility	\$	<u>479,107</u>	<u>574,928</u>
Amphitheater rent		-	271,386
Virginia Beach National Operations Rent / Profit-Sharing		139,694	119,077
Heron Ridge Basic Rent / Profit-Sharing		2,992	6,501
Town Center Garage		242,141	237,316
31st Street Garage		416,767	201,364
9th Street Garage		698,450	584,564
Corporate Landing Conduit		-	40,000
	\$	<u>1,979,151</u>	<u>2,035,136</u>

(A) Social Services Facility

In 1998, the Authority entered 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:

		2021	2020
Social Services Facility (including land)	\$	<u>9,497,137</u>	<u>9,497,137</u>
Less accumulated depreciation		<u>(4,062,927)</u>	<u>(3,887,999)</u>
Net investment in property held for lease	\$	<u>5,434,210</u>	<u>5,609,138</u>

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

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Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(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 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.

Due to the ongoing COVID-19 pandemic, the Amphitheater was unable to offer any summer or fall concerts in 2020. In August 2020, the Authority approved the full abatement of ground rent at the Virginia Beach Amphitheater for the 2020 lease year (See Note 10). The financial effect of this abatement is \$82,778 in potential rent revenues to the City and the Authority.

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

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

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

A new operating agreement between the Authority and Virginia Beach Golf Club, L.L.C. was signed on March 30, 2007, and the name of the course was changed to Virginia Beach National Golf Course effective April 1, 2007. The initial term of the agreement 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.

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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>2021</u>	<u>2020</u>
Virginia Beach National Golf Course (including land)	\$	4,636,163	4,636,163
Less accumulated depreciation		<u>(2,019,189)</u>	<u>(1,890,742)</u>
Net investment in property held for lease	\$	<u>2,616,974</u>	<u>2,745,421</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.

(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, 2021, 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>2021</u>	<u>2020</u>
Town Center Block 4 Garage (including land)	\$	22,875,431	22,875,431
Less accumulated depreciation		<u>(10,059,624)</u>	<u>(9,518,299)</u>
Net investment in property held for lease	\$	<u>12,815,807</u>	<u>13,357,132</u>

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

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June 30, 2021 and 2020

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 in June 2003 with a 30-year term. At June 30, 2021, 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. If 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>2021</u>	<u>2020</u>
Town Center Block 10 Garage (including land)	\$ 13,616,672	13,616,672
Less accumulated depreciation	<u>(5,072,624)</u>	<u>(4,747,108)</u>
Net investment in property held for lease	<u>\$ 8,544,048</u>	<u>8,869,564</u>

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

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

	<u>2021</u>	<u>2020</u>
Town Center Block 12 Garage (including land)	\$ 4,465,983	4,465,983
Less accumulated depreciation	<u>(1,460,558)</u>	<u>(1,371,590)</u>
Net investment in property held for lease	<u>\$ 3,005,425</u>	<u>3,094,393</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, 2021, 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:

	<u>2021</u>	<u>2020</u>
Town Center Block 7 Garage (including land)	\$ 17,041,170	17,041,170
Less accumulated depreciation	<u>(5,577,018)</u>	<u>(5,166,440)</u>
Net investment in property held for lease	<u>\$ 11,464,152</u>	<u>11,874,730</u>

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Notes to Financial Statements (Continued)

June 30, 2021 and 2020

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, 2021, 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:

		<u>2021</u>	<u>2020</u>
Town Center Block 11 Garage (including land)	\$	20,119,490	20,119,490
Less accumulated depreciation		<u>(3,056,900)</u>	<u>(2,580,500)</u>
Net investment in property held for lease	\$	<u>17,062,590</u>	<u>17,538,990</u>

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

(F) 31st Street Garage

In July 2003, the 31st Street Garage Deed of Lease Agreement was executed. This provides that in 2005, Thirty-First Street, L.C. began paying the Authority parking rent with 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 and expires June 30, 2070.

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

		<u>2021</u>	<u>2020</u>
31st Street Garage (including land)	\$	17,507,500	17,507,500
Less accumulated depreciation		<u>(5,500,034)</u>	<u>(5,158,063)</u>
Net investment in property held for lease	\$	<u>12,007,466</u>	<u>12,349,437</u>

Minimum future rental income before operations/maintenance credits on this lease as of June 30, 2021 is as follows: 2022 - \$401,458; 2023 - \$401,458; 2024 - \$401,458; 2025 - \$401,458; 2026 - \$401,458.

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Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(G) 9th Street Garage

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

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

		<u>2021</u>	<u>2020</u>
9th Street Garage (including land)	\$	9,750,000	9,750,000
Less accumulated depreciation		<u>(3,981,250)</u>	<u>(3,737,500)</u>
Net investment in property held for lease	\$	<u>5,768,750</u>	<u>6,012,500</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. While the building is vacant, the Authority is maintaining the utilities and periodic inspections are carried out by City staff to ensure the site can be ready for a future rental prospect.

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

		<u>2021</u>	<u>2020</u>
110 S Independence Blvd (including land)	\$	5,033,213	5,033,213
Less accumulated depreciation		<u>(1,147,611)</u>	<u>(1,049,942)</u>
Net investment in property held for lease	\$	<u>3,885,602</u>	<u>3,983,271</u>

There is no minimum future rental income for this property as of June 30, 2021.

(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 to the City or is held in the Authority's Proprietary Fund. Advances from the City also include the Little League loan amounts for \$250,000 that are administered by the Authority on a project basis to the Green Run/Princess Anne Little League. During fiscal year 2021 and 2020, 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 2021 and 2020, \$295,093 and \$266,679 was used to fund initial costs related to the development of the site. Total Dome Site Project costs incurred are \$675,571.

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements (Continued)

June 30, 2021 and 2020

(12) Subsequent Events

In September 2021, the Development Authority approved a resolution for the sale of approximately 11 acres in the Corporate Landing Business Park to the Transportation District Commission of Hampton Roads (t/a Hampton Roads Transit). The purchase price is \$200,000 per usable acre and the sale is subject to a due diligence period of 90 days from the execution of a purchase agreement.

In September 2021, the Authority approved a resolution for the sale of approximately 3.1 acres in the Corporate Landing Business Park to Beach Fellowship Church, Inc. The purchase price is \$200,000 per usable acre offset by a \$140,000 total credit which serves as the purchase of an easement on the property by the Authority to provide stormwater improvements to the remaining Corporate Landing land inventory. The sale is subject to a due diligence period of one year following full execution of the purchase agreement.

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
General expenses:		
Leases	\$ 1,500,044	1,395,208
Amphitheater box seating	—	39,109
Independent audit fees	17,968	17,615
Amortization	—	95,852
Cavalier Hotel incentives	1,509,882	1,250,000
Leasehold improvements	62,537	340,719
Total general expenses	<u>3,090,431</u>	<u>3,138,503</u>
Other expenses:		
Architecture and engineering	76,210	415,489
Conduit management fees	159,510	117,000
Conduit lease commissions and fees	—	3,500
Bio Accelerator lease	124,013	109,841
Park maintenance – Corporate Landing	44,220	26,663
Utilities – Corporate Landing fountain	4,979	3,659
Commissioner stipend	4,750	2,900
Advertising	3,551	—
Consultant fees	1,743,689	119,294
Bond issuance cost	—	55,853
Rudee Loop	—	4,722
Miscellaneous	31,574	36,758
Total other expenses	<u>2,192,496</u>	<u>895,679</u>
Total general and other expenses	<u>\$ 5,282,927</u>	<u>4,034,182</u>

*See accompanying Report of the Independent Auditor

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, 2021 and 2020

Description:	<u>2021</u>	<u>2020</u>
Oceana West Corporate Park – beginning inventory July 1	\$ 1,555,548	1,555,548
Current – cost of sales	<u>—</u>	<u>—</u>
Oceana West Corporate Park – ending inventory June 30	<u>1,555,548</u>	<u>1,555,548</u>
Corporate Landing Office Park – beginning inventory July 1	9,434,877	9,427,342
Current – infrastructure design	—	7,535
Current – cost of sales	<u>—</u>	<u>—</u>
Corporate Landing Office Park – ending inventory June 30	<u>9,434,877</u>	<u>9,434,877</u>
Hunt Club 2 – beginning inventory July 1	200,305	200,305
Current – cost of sales	<u>—</u>	<u>—</u>
Hunt Club 2 – ending inventory June 30	<u>200,305</u>	<u>200,305</u>
Town Center Beacon Land – beginning inventory July 1	4,877,946	4,877,946
Current – cost of sales	<u>—</u>	<u>—</u>
Town Center Beacon Land – ending inventory June 30	<u>4,877,946</u>	<u>4,877,946</u>
London Bridge Commerce Park - beginning inventory July 1	1,624,500	1,624,500
Current – cost of sales	<u>—</u>	<u>—</u>
London Bridge Commerce Park - ending inventory June 30	<u>1,624,500</u>	<u>1,624,500</u>
Historic Kempsville - beginning inventory July 1	1,296,118	1,296,118
Current - land acquisition and preparation	<u>—</u>	<u>—</u>
Historic Kempsville - ending inventory June 30	<u>1,296,118</u>	<u>1,296,118</u>
Bio Park - beginning inventory July 1	24,971,530	24,891,299
Current - cost of sales	(2,716,596)	—
Current - infrastructure design	<u>51,636</u>	<u>80,231</u>
Bio Park - ending inventory June 30	<u>22,306,570</u>	<u>24,971,530</u>
Total ending inventory	<u>\$ 41,295,864</u>	<u>43,960,824</u>

*See accompanying Report of the Independent Auditor

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

Schedules of Construction in Progress
June 30, 2021

	<u>Town Center Infrastructure</u>	<u>Dome Site</u>	<u>Corporate Landing Conduit</u>	<u>Pedestrian Bridge</u>	<u>Total</u>
Expended during year ended June 30:					
2001	\$ 3,095,062	—	—	—	3,095,062
2002	956,014	—	—	—	956,014
2003	2,581,205	—	—	—	2,581,205
2004	(1,704,696)	—	—	—	(1,704,696)
2005	(4,901,962)	—	—	—	(4,901,962)
2006	34,449	—	—	—	34,449
2007	233,037	100,738	—	—	333,775
2008	1,445,110	10,200	—	272,603	1,727,913
2009	(1,628,463)	—	—	6,535	(1,621,928)
2010	98	—	—	—	98
2011	3,872	—	—	—	3,872
2012	2,300	—	—	—	2,300
2013	49,080	6,459	—	—	55,539
2014	736,650	—	—	—	736,650
2015	(901,756)	(117,397)	—	—	(1,019,153)
2016	—	—	—	—	—
2017	55,008	—	—	—	55,008
2018	814,241	75,425	—	—	889,666
2019	(869,249)	38,374	1,071,160	(279,138)	(38,853)
2020	—	266,679	(1,071,160)	—	(804,481)
2021	—	295,093	—	—	295,093
	<u>\$ —</u>	<u>675,571</u>	<u>—</u>	<u>—</u>	<u>675,571</u>

*See accompanying Report of the Independent Auditor

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

Schedules of EDIP Accounts Payable
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Balance Forward	\$ 8,528,409	8,202,965
Funding sources:		
EDIP City Appropriation - fiscal year	2,067,087	3,384,890
DIP City Appropriation - fiscal year	100,000	—
Reimbursement for construction management/design expenses	746,476	78,028
Reimbursement for APZ-1 awards and fees paid	—	87,595
Interest earned - fiscal year	7,214	11,581
Total Funding Available	<u>11,449,186</u>	<u>11,765,059</u>
Expenses:		
EDIP awards paid	(3,426,975)	(2,662,596)
DIP awards paid	(10,000)	—
APZ-1 awards and expenses paid	(95,725)	(3,732)
Engineering studies, legal fees and miscellaneous expenses	(13,889)	(301,309)
Dome Site studies and expenses paid	(1,031,818)	(269,013)
Total Expenses	<u>(4,578,406)</u>	<u>(3,236,650)</u>
Total Accounts Payable - Economic Development Program	\$ <u>6,870,779</u>	<u>8,528,409</u>

*See accompanying Report of the Independent Auditor

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Central Business District - South payment of debt service for Public Facility Revenue Bonds	\$ 7,639,522	8,222,123
9th Street Garage payment of debt service for Public Facility Revenue Bonds	506,917	704,302
31st Street Garage payment of debt service for Public Facility Revenue Bonds	1,091,036	990,808
Virginia Beach Amphitheater Capital Improvement Program	79,074	187,585
EDIP Part C & D projects	87,716	307,719
Town Center Garage - Special Service District	1,777,732	1,928,803
110 S Independence Blvd maintenance reimbursement	30,967	26,785
Bio-Initiative funding	2,110,156	375,411
Cavalier Hotel annual incentive payment	1,509,882	1,250,000
Dome Site	5,502,723	—
Total Nonoperating Revenue From City of Virginia Beach	\$ <u>20,335,725</u>	<u>13,993,536</u>

*See accompanying Report of the Independent Auditor

COMPLIANCE SECTION

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

To the Commissioners
City of Virginia Beach Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the City of Virginia Beach Development Authority (the "Authority"), a component unit of the City of Virginia Beach, Virginia, as of and for the years ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 16, 2021. The financial statements of the Authority as of and for the year ended June 30, 2020, were audited by other auditors whose reported was dated September 29, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Finding and Response as item 2021-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompany schedule of finding and response. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Cheryl Bekaert LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
November 16, 2021

CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Schedule of Finding and Response

Year Ended June 30, 2021

Finding Related to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

Finding: 2021-001

Type of Finding: Significant Deficiency over Financial Reporting

Criteria: In accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), receivables should be recorded for loans made during the period and payables should be recorded for amounts due to the City of Virginia Beach, Virginia (“City”).

Condition: During our testing, we identified a loan that was made to the Virginia Beach Community Development Corporation (“VBCDC”) with funds that were appropriated by the City Council. The funds were paid through the Authority to administer the loan to the VBCDC with the balance to be paid back to the City once the loan is paid off by VBCDC.

Cause: The Authority had turnover in the accountant position during fiscal year 2021, which resulted in the Authority not properly recording a loan receivable for the amount due from the VBCDC and a corresponding payable for the amount due to the City.

Effect: Accounts receivable from the VBCDC and amounts due to the City were understated by \$665,719 and \$700,000, respectively.

Recommendation: We recommend the Authority review all transactions occurring during the year to ensure they are accounted for appropriately and properly reflected in the financial statements

Management’s Response: The Authority was without an accountant to manage their accounting records from February 2021 through the end of fiscal year 2021, which was a contributing factor to the transaction to be properly reported in the financial statements. The Authority has recently hired a full-time accountant on staff and management will ensure all transactions and balances are appropriately accounted for in the future.