

**FINANCIAL STATEMENTS  
OF THE  
CITY OF VIRGINIA BEACH  
DEVELOPMENT AUTHORITY**

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

**FOR FISCAL YEARS ENDED  
JUNE 30, 2012 AND JUNE 30, 2011**

**PREPARED BY  
DEPARTMENT OF ECONOMIC DEVELOPMENT  
WARREN D. HARRIS  
DIRECTOR**

## **Acknowledgements....**

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

Management - Sean Murphy

Technical Assistance - Don Barnett  
Nancy Leavitt  
Paul Harris

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

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

**Table of Contents**

	<b>Page</b>
<b>Introductory Section</b>	
List of Commissioners .....	1
Organizational Chart .....	2
Letter of Transmittal .....	3-4
<b>Financial Section</b>	
Independent Auditors' Report.....	5-6
Management's Discussion and Analysis.....	8-13
Basic Financial Statements	
Entity-wide Financial Statements	
Statements of Net Assets .....	14
Statements of Activities.....	15-16
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheets.....	17
Statements of Revenues, Expenditures and Changes in Fund Balance .....	18
Proprietary Fund Financial Statements	
Statements of Net Assets .....	19
Statements of Revenues, Expenses and Changes in Fund Net Assets.....	20
Statements of Cash Flows .....	21
Notes to Financial Statements.....	22-44
Supplementary Information	
Schedules of Selling, General, and Other Expenses – Authority Operations.....	45
Schedules of Land and Building Inventory .....	46
Schedules of Construction in Progress .....	47
Schedules of EDIP Accounts Payable.....	48
Schedules of Nonoperating Revenue from City of Virginia Beach .....	49
<b>Compliance Section</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	50-51

## **INTRODUCTORY SECTION**

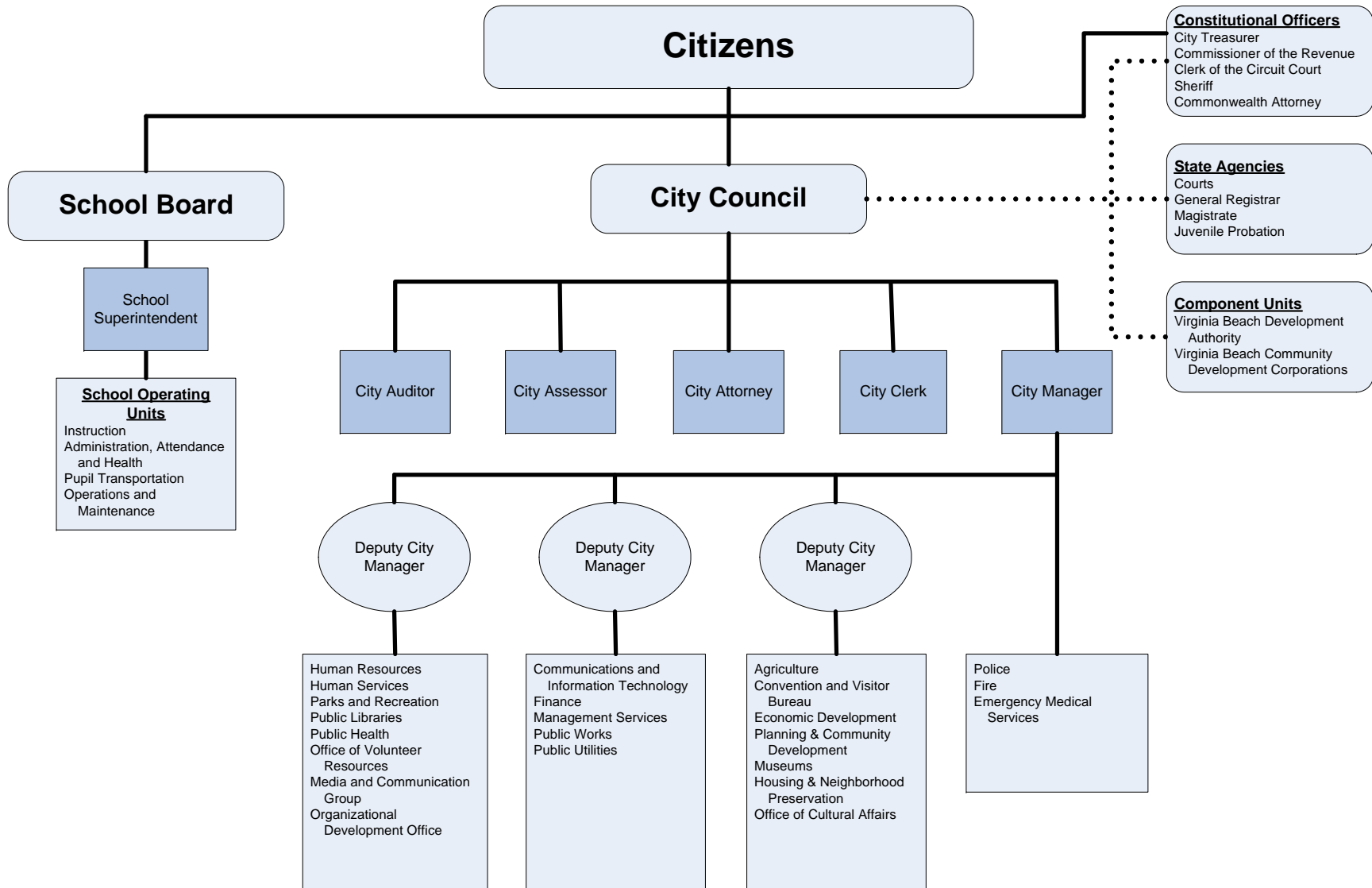
**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**  
Component Unit of the City of Virginia Beach, Virginia

**Commissioners**

- C. Maxwell Bartholomew, Jr..... Commissioner
- Linwood O. Branch ..... Commissioner
- Dan H. Brockwell..... Commissioner
- Bryan D. Cuffee ..... Commissioner
- Peter Mueller ..... Commissioner
- Rob L. Nicholson ..... Commissioner
- John W. Richardson ..... Commissioner
- Charles M. Salle ..... Commissioner
- Elizabeth A. Twohy..... Commissioner
- Shewling Moy Wong..... Commissioner
- Dorothy L. Wood ..... Commissioner

*The City of Virginia Beach Development Authority would also like to recognize Luke M. Hillier, Donald V. Jellig and Jerrold L. Miller for their services as Commissioners.*

# Operating Structure





October 1, 2012

Commissioners, Virginia Beach Development Authority  
222 Central Park Avenue, Suite 1000  
Virginia Beach, VA 23462

Dear Commissioners:

The Annual Financial Report of the City of Virginia Beach Development Authority (the Authority) for the fiscal years ended June 30, 2012 and 2011 is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the Authority's operations. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

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

### **The Reporting Entity**

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

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

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

## **Economic Conditions and Outlook**

One of the best measures of a truly strong economic development program is the success of existing businesses: more than 68% of Development Authority announcements last year came from companies that were already here in Virginia Beach. The Economic Development staff's international marketing efforts paid off with BMZ GmbH locating their North American headquarters in Virginia Beach. Development Authority-owned and managed projects, including Town Center, Farm Bureau Live at Virginia Beach Amphitheater, Virginia Beach National Golf Course, and our numerous business parks, each reached new levels of success in FY2011-2012.

## **Economic Development and Employment**

During fiscal year 2012, the Authority assisted in the location and expansion of 47 companies, creating new capital investment of \$122 million. These companies and businesses created 1,019 new employment opportunities in Virginia Beach. The Authority provided EDIP assistance in the amount of \$970,000 during the fiscal year.

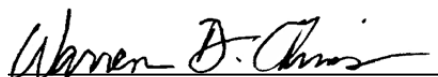
In fiscal year 2012, the Authority continued construction on the Town Center of Virginia Beach, locating new business, retaining and expanding existing industry, leveraging the City's Economic Development Investment Program Fund (EDIP), and working with City Council on the development of projects and initiatives.

## **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,



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





## Independent Auditors' Report

The Commissioners  
City of Virginia Beach Development Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Virginia Beach Development Authority (the "Authority"), a component unit of the City of Virginia Beach, Virginia, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 14 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 an assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedules of selling, general and other expenses - Authority operations, schedules of land inventory, schedules of construction in process - special projects fund, schedules of EDIP accounts payable and schedules of non-operating revenue from the City of Virginia Beach are presented for purposes of additional analysis, and are not a required part of the financial statements. The 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. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Cheryl A. Schmitt

Virginia Beach, Virginia  
October 1, 2012

**MANAGEMENT'S DISCUSSION**

**AND**

**ANALYSIS**

# **CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

## **Management's Discussion and Analysis**

This section of the City of Virginia Beach Development Authority's (the "Authority") annual financial report represents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Authority's transmittal letter at the front of this report and the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The Authority's business-type net assets increased by \$5.21 million in fiscal year 2012 and \$0.28 million in fiscal year 2011. In fiscal year 2012, the increase was mainly due to the transfer of the Headquarters Hotel Site parcel from the City. In fiscal year 2011, the increase was due to revenues exceeding expenses.
- The Authority's governmental net assets increased by \$0.21 million in fiscal year 2012 and were relatively unchanged in fiscal year 2011. The increase in fiscal year 2012 was due to the increase in construction in progress for the Headquarters Hotel.
- The Authority provided economic development services, as requested by the Virginia Beach City Council, for the Headquarters Hotel and the Town Center Project that are accounted for in the Authority's Governmental Fund. When projects or phases of projects are complete, the associated costs are capitalized and transferred out of the Governmental Fund and into the Authority's Proprietary Fund or to the City.
- During April 2012, the Authority transferred approximately 10.35 acres of land in Princess Anne Commons to the City. The transfer occurred due to the City entering into a potential transaction with the YMCA of South Hampton Roads for the development of a YMCA family center with a fifty (50) meter enclosed pool.
- During April 2012, the City transferred approximately 5.74 acres of land located in the northeastern corner of the Virginia Beach Convention Center parking lot. The transfer occurred in order for the Authority to negotiate with potential developers for a headquarters hotel adjacent to the Virginia Beach Convention Center.
- During April 2012, the Authority sold 5.63 acres of land in Corporate Landing Corporate Park for \$.46 million. This transaction is accounted for in the Authority's Proprietary Fund.
- During June 2012, 31<sup>st</sup> Street LC exercised its option to purchase the land located at 3001 Atlantic Avenue for \$3.6 million. This transaction is accounted for in the Authority's Proprietary Fund.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Management's Discussion and Analysis

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

### ENTITY-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

### FUND FINANCIAL STATEMENTS

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

The Authority has two types of funds:

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

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

**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 AS A WHOLE**

**Net Assets**

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

<b>Table 1</b>									
<b>Net Assets</b>									
<b>As of June 30, 2012, 2011 and 2010</b>									
<b>(in millions)</b>									
	<b>Governmental</b>			<b>Business-Type</b>			<b>Total</b>		
	<b>Activities</b>			<b>Activities</b>					
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>									
Current and other assets	\$ 3.61	3.12	2.12	44.23	36.46	36.79	47.84	39.58	38.91
Capital assets	0.71	0.50	0.50	101.95	107.45	110.16	102.66	107.95	110.66
<b>Total assets</b>	<b>4.32</b>	<b>3.62</b>	<b>2.62</b>	<b>146.18</b>	<b>143.91</b>	<b>146.95</b>	<b>150.50</b>	<b>147.53</b>	<b>149.57</b>
<b>Liabilities</b>									
Current and other liabilities	3.61	3.12	2.12	14.73	10.02	8.59	18.34	13.14	10.71
Long-term liabilities	-	-	-	81.71	89.35	94.11	81.71	89.35	94.11
<b>Total liabilities</b>	<b>3.61</b>	<b>3.12</b>	<b>2.12</b>	<b>96.44</b>	<b>99.37</b>	<b>102.70</b>	<b>100.05</b>	<b>102.49</b>	<b>104.82</b>
<b>Net assets</b>									
Invested in capital assets, net of related debt	0.71	0.50	0.50	20.59	19.21	17.21	21.30	19.71	17.71
Restricted, other purposes	-	-	-	1.20	1.31	2.91	1.20	1.31	2.91
Unrestricted	-	-	-	27.95	24.01	24.13	27.95	24.01	24.13
<b>Total net assets</b>	<b>\$ 0.71</b>	<b>0.50</b>	<b>0.50</b>	<b>49.74</b>	<b>44.53</b>	<b>44.25</b>	<b>50.45</b>	<b>45.03</b>	<b>44.75</b>

At June 30, 2012 and 2011, the total assets of the Authority were \$150.50 and \$147.53 million, respectively; total liabilities were \$100.05 and \$102.49 million, respectively; while combined net assets were \$50.45 and \$45.03 million, respectively.

In fiscal year 2012 and 2011, the Authority's business-type long-term liabilities decreased by \$7.64 and \$4.76 million, respectively. These decreases were primarily due to annual debt service payments on these long-term liabilities.

Regarding the Authority's business-type activities, the Authority's land and building inventory increased by \$3.5 million in fiscal year 2012. This increase was primarily due to the 5.74 acres transfer of the Headquarters Hotel Site parcel from the City. Additionally, 10.35 acres of Princess Anne Commons land was transferred to the City. There was no activity in fiscal year 2011.

Regarding the Authority's governmental activities, capital expenses were incurred in the amount of \$0.21 million in fiscal year 2012 as a result of costs associated with ongoing projects. No assets were completed or transferred to the City. These expenses resulted in an ending construction in progress balance of \$.71 million.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Management's Discussion and Analysis

**Changes in Net Assets**

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

<b>Table 2</b>									
<b>Changes in Net Assets</b>									
<b>Years Ended June 30, 2012, 2011, and 2010</b>									
<b>(in millions)</b>									
	<b>Governmental</b>			<b>Business-Type</b>			<b>Total</b>		
	<b>Activities</b>			<b>Activities</b>					
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>									
<b>Program revenue</b>									
Charges for services	\$ -	-	-	7.52	3.13	3.07	7.52	3.13	3.07
Operating grants and contributions	-	-	-	8.91	8.46	14.23	8.91	8.46	14.23
Capital grants and contributions	0.21	-	-	0.15	0.05	0.03	0.36	0.05	0.03
<b>General revenue</b>									
Other	-	-	-	0.03	0.08	0.14	0.03	0.08	0.14
<b>Total revenues</b>	<b>0.21</b>	<b>-</b>	<b>-</b>	<b>16.61</b>	<b>11.72</b>	<b>17.47</b>	<b>16.82</b>	<b>11.72</b>	<b>17.47</b>
<b>Expenses</b>									
<b>Authority operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14.50</b>	<b>11.44</b>	<b>9.47</b>	<b>14.50</b>	<b>11.44</b>	<b>9.47</b>
<b>Special items</b>									
Contribution from primary government	-	-	-	4.39	-	-	4.39	-	-
Donation of Town Center asset	-	-	-	(0.43)	-	-	(0.43)	-	-
Gain on sale of asset	-	-	-	-	-	-	-	-	-
Transfer of assets	-	-	-	-	-	-	-	-	-
Transfer to City	-	-	-	(0.86)	-	-	(0.86)	-	-
Transfer of assets to Proprietary Fund	-	-	-	-	-	-	-	-	-
<b>Total special items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.10</b>	<b>-</b>	<b>-</b>	<b>3.10</b>	<b>-</b>	<b>-</b>
Change in net assets	0.21	-	-	5.21	0.28	8.00	5.42	0.28	8.00
Net assets, beginning of year	0.50	0.50	0.50	44.53	44.25	36.25	45.03	44.75	36.75
<b>Net assets, end of year</b>	<b>\$ 0.71</b>	<b>0.50</b>	<b>0.50</b>	<b>49.74</b>	<b>44.53</b>	<b>44.25</b>	<b>50.45</b>	<b>45.03</b>	<b>44.75</b>

**REVENUES**

Revenues attributable to governmental activities were in the form of contributions, for economic development projects, from the City of Virginia Beach, option deposit revenue, and investment earnings. For the fiscal years ended June 30, 2012 and 2011, revenues from business-type activities (excluding special items) totaled \$16.61 and \$11.72 million, respectively. This included revenue derived from land and asset sales, industrial revenue bond fees, lease income, investment earnings, and support agreement funding from the City of Virginia Beach.

**EXPENSES**

The expenses of the business-type activities included cost of land sold, depreciation/amortization, selling and administrative expenses, and interest on outstanding debt obligations. For the fiscal years ended June 30, 2012 and 2011, these expenses totaled \$14.50 and \$11.44 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 governmental fund activities reflect support from the City of Virginia Beach as well as expenditures on Town Center infrastructure and the Pedestrian Bridge across Virginia Beach Boulevard. The ending fund balance of the governmental fund for fiscal year 2012 and 2011 was \$0.71 and \$0.5 million, respectively.

The proprietary fund includes total net assets of \$49.74 and \$44.53 million at June 30, 2012 and 2011, respectively. The June 30, 2012 increase is primarily attributable to the acquisition of the Headquarters Hotel Site parcel. In fiscal year 2012 and 2011, operating revenues from land sales, industrial revenue bond fees, lease income, reliance certificates, and miscellaneous revenue totaled \$7.52 and \$3.13 million, respectively, while operating expenses for cost of land and selling and administrative expenses totaled \$10.56 and \$6.05 million, respectively.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

As of June 30, 2012 and 2011, the Authority had invested \$101.95 and \$107.46 million (see note 5), respectively, in various capital assets and infrastructure as reflected in Table 3.

<b>Table 3</b>									
<b>Capital Assets</b>									
<b>As of June 30, 2012, 2011, and 2010</b>									
<b>(in millions)</b>									
	<b>Governmental</b>			<b>Business-Type</b>			<b>Total</b>		
	<b>Activities</b>			<b>Activities</b>					
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Non-depreciable assets</b>									
Land	\$ -	-	-	19.12	21.95	21.94	19.12	21.95	21.94
Other assets and capitalized costs	-	-	-	1.13	1.13	1.13	1.13	1.13	1.13
Construction in progress	0.71	0.50	0.50	-	-	-	0.71	0.50	0.50
<b>Other capital assets</b>									
Buildings/equipment	-	-	-	102.25	102.25	102.24	102.25	102.25	102.24
Accumulated depreciation on other capital assets	-	-	-	(20.55)	(17.87)	(15.15)	(20.55)	(17.87)	(15.15)
<b>Total net capital assets</b>	<b>\$ 0.71</b>	<b>0.50</b>	<b>0.50</b>	<b>101.95</b>	<b>107.46</b>	<b>110.16</b>	<b>102.66</b>	<b>107.96</b>	<b>110.66</b>

There were no major capital asset additions in fiscal year 2012.

Major capital asset disposals and transfers during fiscal year 2012 included:

- 31<sup>st</sup> Street – Land sold when 31<sup>st</sup> Street LC exercised its Option Land Contract - \$2,850,000

There were no major capital asset additions or disposals and transfers during fiscal year 2011



# **CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

## Management's Discussion and Analysis

### **LONG-TERM DEBT**

At June 30, 2012 and 2011, the Authority had an outstanding loan balance due to the City of Virginia Beach in the amount of \$0 and \$3.66 million, respectively, related to the 31<sup>st</sup> Street land and corporate parks. The covenants in effect while the loan was outstanding stated that 20% of the net proceeds from land sales within Corporate Landing and Oceana West Corporate Parks would be distributed to the City to reduce the outstanding debt balance. In fiscal year 2012, there was one land sale in Corporate Landing which reduced the note by \$92,332. In fiscal year 2012 and 2011, \$0.79 and \$0.56 million of rental income from the 31<sup>st</sup> Street retail space reduced the amount of the loan, respectively. The exercise and sale of the 31<sup>st</sup> Street option land resulted in the complete extinguishment of the note.

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Statements of Net Assets

June 30, 2012 and 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2012</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2011</u>
<b>Assets</b>						
Cash and cash equivalents (note 2)	\$ —	11,729,703	11,729,703	—	8,140,715	8,140,715
Restricted cash and cash equivalents (notes 2 and 3)	3,614,593	2,982,361	6,596,954	3,120,766	4,620,995	7,741,761
Receivables, net (note 4)	—	255,455	255,455	3,872	255,086	258,958
Receivables, restricted (note 4)	—	7,410,093	7,410,093	—	5,084,334	5,084,334
Deferred charges	—	342,530	342,530	—	386,513	386,513
Land/Building inventory	—	21,510,309	21,510,309	—	17,971,424	17,971,424
Capital assets (note 5)						
Other non-depreciable assets and capitalized costs	713,434	1,130,390	1,843,824	504,329	1,130,390	1,634,719
Land	—	19,122,692	19,122,692	—	21,947,939	21,947,939
Other capital assets, net of accumulated depreciation	—	81,693,273	81,693,273	—	84,372,385	84,372,385
Total capital assets	<u>713,434</u>	<u>101,946,355</u>	<u>102,659,789</u>	<u>504,329</u>	<u>107,450,714</u>	<u>107,955,043</u>
<b>Total assets</b>	<u><u>\$ 4,328,027</u></u>	<u><u>146,176,806</u></u>	<u><u>150,504,833</u></u>	<u><u>3,628,967</u></u>	<u><u>143,909,780</u></u>	<u><u>147,538,747</u></u>
<b>Liabilities</b>						
Accounts payable and accrued liabilities (note 6)	\$ —	5,536,396	5,536,396	—	1,631,556	1,631,556
Liabilities payable from restricted assets (note 6)	3,614,593	9,191,254	12,805,847	3,124,638	8,392,674	11,517,312
Long-term liabilities (note 7)						
Due within one year	—	5,568,051	5,568,051	—	5,288,051	5,288,051
Due in more than one year	—	76,137,815	76,137,815	—	84,059,737	84,059,737
<b>Total liabilities</b>	<u><u>3,614,593</u></u>	<u><u>96,433,516</u></u>	<u><u>100,048,109</u></u>	<u><u>3,124,638</u></u>	<u><u>99,372,018</u></u>	<u><u>102,496,656</u></u>
<b>Net assets</b>						
Invested in capital assets, net of related debt	\$ 713,434	20,593,021	21,306,455	504,329	19,211,949	19,716,278
Restricted, other purposes (note 3)	—	1,200,826	1,200,826	—	1,314,843	1,314,843
Unrestricted	—	27,949,443	27,949,443	—	24,010,970	24,010,970
<b>Total net assets</b>	<u><u>\$ 713,434</u></u>	<u><u>49,743,290</u></u>	<u><u>50,456,724</u></u>	<u><u>504,329</u></u>	<u><u>44,537,762</u></u>	<u><u>45,042,091</u></u>

See accompanying notes to financial statements.

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

Statement of Activities  
Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total 2012</u>
Governmental activities							
Development activities	\$ —	—	—	209,105	209,105	—	209,105
Business-type activities							
Authority operations	14,504,520	7,523,024	8,912,784	150,000	—	2,081,288	2,081,288
<b>Total</b>	<u>\$ 14,504,520</u>	<u>7,523,024</u>	<u>8,912,784</u>	<u>359,105</u>	<u>209,105</u>	<u>2,081,288</u>	<u>2,290,393</u>
<b>General revenues</b>							
Unrestricted investment earnings					\$ —	31,796	31,796
<b>Special items</b>							
Payment of net proceeds from exercise of 31st Street Land Option to City					—	(866,265)	(866,265)
Transfer in of Headquarters Hotel site					—	4,393,243	4,393,243
Transfer out of Princess Anne Commons land					—	(434,534)	(434,534)
<b>Total general revenues and special items</b>					<u>—</u>	<u>3,124,240</u>	<u>3,124,240</u>
Change in net assets					209,105	5,205,528	5,414,633
Net assets, beginning of year					504,329	44,537,762	45,042,091
<b>Net assets, end of year</b>					<u>\$ 713,434</u>	<u>49,743,290</u>	<u>50,456,724</u>

See accompanying notes to financial statements.

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

Statement of Activities  
Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities							
Development activities	\$ —	—	—	3,872	3,872	—	3,872
Business-type activities							
Authority operations	11,438,784	3,131,258	8,460,937	50,000	—	203,411	203,411
<b>Total</b>	<u>\$ 11,438,784</u>	<u>3,131,258</u>	<u>8,460,937</u>	<u>53,872</u>	<u>3,872</u>	<u>203,411</u>	<u>207,283</u>
<b>General revenues</b>							
Unrestricted investment earnings					\$ —	82,038	82,038
<b>Total general revenues and special items</b>					<u>—</u>	<u>82,038</u>	<u>82,038</u>
Change in net assets					3,872	285,449	289,321
Net assets, beginning of year					500,457	44,252,313	44,752,770
<b>Net assets, end of year</b>					<u>\$ 504,329</u>	<u>44,537,762</u>	<u>45,042,091</u>

See accompanying notes to financial statements.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Balance Sheets - Governmental Fund  
Special Projects  
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Restricted cash and cash equivalents (notes 2 and 3)	\$ 3,614,593	3,120,766
Receivables (note 4)	—	3,872
<b>Total assets</b>	<u>\$ 3,614,593</u>	<u>3,124,638</u>
<b>Liabilities and fund balance</b>		
Liabilities (note 6)		
Liabilities payable from restricted assets	\$ 3,614,593	3,124,638
<b>Total liabilities</b>	<u>3,614,593</u>	<u>3,124,638</u>
<b>Fund balance</b>		
Unreserved	—	—
Total fund balances	<u>—</u>	<u>—</u>
<b>Total liabilities and fund balance</b>	<u>\$ 3,614,593</u>	<u>3,124,638</u>
<b>Reconciliation to Statement of Net Assets</b>		
Ending fund balance	\$ —	—
Adjustments for the Statement of Net Assets		
Capital assets used in government activities are not current financial resources and, therefore, not reported in the governmental fund	713,434	504,329
<b>Net assets of governmental activities</b>	<u>\$ 713,434</u>	<u>504,329</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund  
Special Projects  
Years Ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
City Contributions		
Town Center Infrastructure	\$ 2,300	3,872
Headquarters Hotel	206,805	—
<b>Total revenues</b>	<b>209,105</b>	<b>3,872</b>
 <b>Expenditures</b>		
Construction		
Town Center infrastructure	2,300	3,872
Headquarters Hotel	206,805	—
<b>Total expenditures</b>	<b>209,105</b>	<b>3,872</b>
 Excess of revenues over expenditures	—	—
 Net change in fund balance	—	—
Fund balance, beginning of year	—	—
<b>Fund balance, end of year</b>	<b>\$ —</b>	<b>—</b>
 <b>Reconciliation to Statement of Activities</b>		
Net change in fund balance	\$ —	—
Adjustment for the Statement of Activities		
Governmental funds report capital outlays as expenditures		
while governmental activities capitalize such costs	209,105	3,872
Changes in net assets of governmental activities	<b>\$ 209,105</b>	<b>3,872</b>

See accompanying notes to financial statements.

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

Statements of Net Assets - Proprietary Fund  
Authority Operations  
June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 2)	\$ 11,729,703	8,140,715
Receivables, net (note 4)	43,596	43,227
Receivables, restricted (note 4)	55,785	59,010
<b>Total current assets</b>	<b>11,829,084</b>	<b>8,242,952</b>
Noncurrent assets		
Restricted cash and cash equivalents (notes 2 and 3)	2,982,361	4,620,995
Receivables, restricted (note 4)	7,354,308	5,025,324
Receivables, net (note 4)	211,859	211,859
Deferred charges (note 1)	342,530	386,513
Land/building inventory	21,510,309	17,971,424
Capital assets (note 5)		
Other non-depreciable assets and capitalized costs	1,130,390	1,130,390
Land	19,122,692	21,947,939
Buildings and equipment	102,247,451	102,247,451
Less accumulated depreciation	(20,554,178)	(17,875,066)
<b>Total noncurrent assets</b>	<b>134,347,722</b>	<b>135,666,828</b>
<b>Total assets</b>	<b>\$ 146,176,806</b>	<b>143,909,780</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable (note 6)	\$ 4,156,593	184,503
Accrued liabilities (note 6)	1,379,803	1,447,053
Liabilities payable from restricted assets (note 6)	88	167,188
Bonds, notes, and loans payable (note 7)	5,568,051	5,288,051
<b>Total current liabilities</b>	<b>11,104,535</b>	<b>7,086,795</b>
Long-term liabilities		
Liabilities payable from restricted assets (note 6)	9,191,166	8,225,486
Bonds, notes and loans payable (note 7)	76,137,815	84,059,737
<b>Total liabilities</b>	<b>\$ 96,433,516</b>	<b>99,372,018</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	20,593,021	19,211,949
Restricted, other purposes (note 3)	1,200,826	1,314,843
Unrestricted	27,949,443	24,010,970
<b>Total net assets</b>	<b>\$ 49,743,290</b>	<b>44,537,762</b>

See accompanying notes to financial statements.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Statements of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
 Authority Operations  
 Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating revenues</b>		
Land sales	\$ 4,113,092	—
Industrial revenue bond fees (note 9)	336,271	394,512
Lease income (notes 8 and 11)	2,918,915	2,685,723
Virginia Beach National Golf Course revenue (note 11)	154,521	20,905
Miscellaneous income	225	30,118
<b>Total operating revenues</b>	<u>7,523,024</u>	<u>3,131,258</u>
<b>Operating expenses</b>		
Cost of land sold	3,119,824	—
Virginia Beach National Golf Course (note 11)	154,521	20,905
Selling, general, and other expenses (schedule A)	3,011,228	1,581,359
Depreciation	2,679,111	2,726,399
Garage operations	1,598,272	1,721,194
<b>Total operating expenses</b>	<u>10,562,956</u>	<u>6,049,857</u>
<b>Operating loss</b>	<u>(3,039,932)</u>	<u>(2,918,599)</u>
<b>Nonoperating revenues (expenses)</b>		
City of Virginia Beach (schedule E)	9,029,289	8,472,249
Charity golf tournament revenues	33,495	38,688
Charity golf tournament expenses	(42,858)	(41,565)
Remittance of Town Center capital maintenance funds	—	(1,118,110)
Interest income	31,796	82,038
Interest expense (note 10)	(3,898,706)	(4,229,252)
<b>Total nonoperating revenues (expenses)</b>	<u>5,153,016</u>	<u>3,204,048</u>
Income before transfers and capital contributions	2,113,084	285,449
<b>Other financing sources (uses)</b>		
Transfer of Princess Anne Commons land to City	(434,534)	—
Payment of net proceeds from 31st Street land option to City	(866,265)	—
Transfer of Headquarters Hotel site from City	4,393,243	—
Change in net assets	5,205,528	285,449
Total net assets, beginning of year	44,537,762	44,252,313
<b>Total net assets, end of year</b>	<u>\$ 49,743,290</u>	<u>44,537,762</u>

See accompanying notes to financial statements.



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

Statements of Cash Flows - Proprietary Fund  
Authority Operations  
Years Ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities		
Receipts from customers and users	\$ 7,522,689	3,110,843
EDIP cash receipts	53,118	10,645
Other operating cash receipts (disbursements)	(165,000)	—
Cash payments to suppliers of goods and services	(4,063,491)	(3,362,764)
Net EDIP activities	(1,327,188)	(1,407,048)
Net cash provided by (used in) operating activities	2,020,128	(1,648,324)
Cash flows from capital and related financing activities		
Principal repayment on long-term debt	(4,868,018)	(4,774,843)
Interest paid on long-term debt	(4,097,155)	(3,715,803)
Capital contributions from City	9,029,289	8,472,249
Remittance to City of Town Center capital maintenance funds	—	(1,118,110)
Governor's Opportunity Fund award	(156,323)	—
Charity golf outing proceeds, net	(9,363)	2,631
Net cash used in capital and related financing activities	(101,570)	(1,133,876)
Cash flows from investing activities		
Interest	31,796	82,038
Net increase (decrease) in cash and cash equivalents	1,950,354	(2,700,162)
Cash and cash equivalents, beginning of year	12,761,710	15,461,872
Cash and cash equivalents, end of year	\$ 14,712,064	12,761,710
Classified as		
Current assets	\$ 11,729,703	8,140,715
Restricted assets	2,982,361	4,620,995
	\$ 14,712,064	12,761,710
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (3,039,932)	(2,918,599)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation and amortization expense	2,840,802	2,888,090
Changes in assets and liabilities		
Receivables, net	(112,217)	(13,641)
Accounts and other payables	(1,207,410)	(1,604,174)
Land inventory	3,538,885	—
Net cash provided by (used in) operating activities	\$ 2,020,128	(1,648,324)
Noncash transactions		
Amortization on bond discount/premium	\$ (106,446)	(106,446)
EDIP appropriations	\$ 2,355,754	2,348,556
Transfer of Princess Anne Commons land to City	\$ (434,534)	—
Transfer of Headquarters Hotel site land from City	\$ 4,393,243	—

See accompanying notes to financial statements.

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

## (1) Summary of Significant Accounting Policies

### **Narrative Profile**

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

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

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

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

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

### **(A) Basis of Financial Reporting**

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

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

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

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Notes to Financial Statements

June 30, 2012 and 2011

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

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

### **(B) *Entity–Wide and Fund Financial Statements***

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

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

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

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

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

# CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY

Component Unit of the City of Virginia Beach, Virginia

## Notes to Financial Statements

June 30, 2012 and 2011

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

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

The Authority reports the following major governmental fund:

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

The Authority reports the following major proprietary fund:

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(D) Capital Assets**

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

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

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

Interest costs incurred on the note payable to Wachovia/Wells Fargo Bank for the acquisition of assets are capitalized. The loan and interest charges associated with the asset are secured by a security agreement provided by a developer, which requires the developer to purchase the assets by a date certain.

**(E) Land/Building Inventory**

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

In fiscal year 2012, the Authority transferred approximately 10.35 acres of land located in Princess Anne Commons to the Authority. This transfer decreased the land inventory on the Authority's books in the amount of \$434,534.

In fiscal year 2012, the City transferred approximately 5.74 acres of land and a building located in the northeastern corner of the Virginia Beach Convention Center parking lot. The building increased the Authority's building inventory by \$406,603 and the land increased the Authority's land inventory by \$3,986,640.

There were no purchases of land or buildings for resale during fiscal year 2011.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(F) *Miscellaneous***

**Cash, Cash Equivalents, and Investments**

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

**Restricted Cash**

Restricted cash includes: 1) option deposits on land; 2) excess funds from Town Center option land note and bond proceeds; 3) funds for capital and structural improvements and repairs and maintenance to the Social Services facility; 4) funds for the EDIP; 5) funding from the Governors Opportunity Fund not yet earned by recipient; 6) funds for capital and structural improvements and repairs and maintenance to the Virginia Beach National Golf Course facility; 7) funds for capital and structural improvements, repairs, and maintenance to the assets located in Town Center; 8) funds held for the design of the pedestrian bridge and 9) cash on deposit for the ITA study.

**Accounts Receivable**

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

**Deferred Charges**

The Authority Operations Fund deferred charges represent unamortized bond issuance costs incurred during the sale of Revenue Bonds. These costs are amortized using the straight-line method over the life of the related bonds. At June 30, 2012 and 2011, the unamortized bond issuance costs were \$342,530 and \$386,513.

**Bond Premiums and Discounts**

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(2) Cash and Cash Equivalents**

The Authority's June 30, 2012 bank balance was fully covered by the Federal Depository Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Authority. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro-rata basis to the members (banks and savings and loans) of the pool. Therefore, these deposits are considered collateralized and as a result of this are considered insured.

At June 30, 2012, the Authority had a balance of \$6.09 million invested in certificates of deposit and certificates of deposit account registry services programs.

The reconciliations of total cash and cash equivalents to the entity-wide financial statements at June 30, 2012 and 2011 are as follows:

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2012</b>
Cash and cash equivalents			
Wells Fargo	\$ -	11,729,703	11,729,703
Restricted cash and cash equivalents			
Town Center option land	-	422	422
ITA study	-	88	88
Social Services	-	920,491	920,491
EDIP	-	1,556,824	1,556,824
EDIP Town Center	3,493,731	-	3,493,731
Virginia Beach National Capital Reserve	-	249,570	249,570
Town Center Special Service District	-	254,966	254,966
Pedestrian bridge	120,862	-	120,862
Total restricted cash and cash equivalents	<u>3,614,593</u>	<u>2,982,361</u>	<u>6,596,954</u>
<b>Total</b>	\$ <u>3,614,593</u>	<u>14,712,064</u>	<u>18,326,657</u>

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

Notes to Financial Statements

June 30, 2012 and 2011

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2011</b>
Cash and cash equivalents			
Wachovia	\$ -	8,140,715	8,140,715
Restricted cash and cash equivalents			
Options deposits			
Town Center option land	-	165,000	165,000
ITA study	-	422	422
Social Services	-	2,188	2,188
EDIP	-	1,176,539	1,176,539
EDIP Town Center	-	2,830,894	2,830,894
Governors Opportunity Fund	2,999,903	-	2,999,903
Virginia Beach National Capital Reserve	-	156,323	156,323
Town Center Special Service District	-	182,256	182,256
Pedestrian bridge	120,863	107,373	228,236
Total restricted cash and cash equivalents	3,120,766	4,620,995	7,741,761
<b>Total</b>	\$ 3,120,766	12,761,710	15,882,476

**(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 \$0 and \$165,000 in the Authority Operations Fund at June 30, 2012 and 2011, respectively.

Restricted cash at June 30, 2012 and 2011 included \$422 of unexpended loan proceeds from the Town Center property financing. These proceeds will be used to reduce the Town Center note when the Authority agrees to sell the next parcel of land in Town Center.

The Social Services Facility reserve accounts at June 30, 2012 and 2011 were \$920,491 and \$1,176,539, respectively. These funds are reserved for capital and structural improvements, maintenance, and repairs to the facility in accordance with the lease agreement (See note 8).



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

The EDIP accounts were established in February 1994 through funds that the City appropriated from the Capital Improvement Program EDIP Project for economic development activities. This program represents annual funding from the City to the Authority to be used for on-site and off-site infrastructure needs as well as training expenses for businesses meeting certain criteria. Businesses having received EDIP awards or projects having received EDIP funding are reimbursed for qualifying expenses out of these accounts. EDIP cash and cash equivalents at June 30, 2012 and 2011 were \$5,050,555 and \$5,830,797 respectively.

The Governors Opportunity Fund (GOF) account balances at June 30, 2012 and 2011 were \$0 and \$156,323, respectively. This funding represents incentive funding received from the State of Virginia that was awarded to a specific company located in Virginia Beach. The Authority is responsible for the administration of the funding between the State and the company receiving the award as well as verifying specified milestones are reached prior to receiving the award proceeds.

Beginning in April of 2008, the VBDA began receiving 5% of gross receipts from Virginia Beach National Golf Course (formerly known as TPC Golf Course) to fund capital maintenance and repairs to the facility. These payments are received on a monthly basis per the management agreement. At June 30, 2012 and 2011, the balance of the Virginia Beach National capital reserve account was \$249,570 and \$182,256, respectively.

In fiscal year 2003, City Council approved a resolution creating a Special Service District (SSD) encompassing the redeveloped blocks in Town Center. Property owners within the SSD paid an additional tax as well as the City's real estate tax to fund enhanced services within Town Center. The account balance at June 30, 2012 and 2011 was \$254,966 and \$107,373, respectively. Since the free parking garages are considered an enhanced service in Town Center, a consultant was engaged to determine the amount of funding that should be placed into a reserve for capital maintenance and repairs for the parking garages. Per the consultant's findings, the SSD places twenty cents per square foot for each parking garage into a reserve specifically for capital purposes. These capital reserves are held by the City within a CIP fund to be used for future expenses.

During fiscal year 2008, City Council approved \$200,000 of CIP funding for the design of the pedestrian bridge across Virginia Beach Boulevard in addition to the \$200,000 in an existing CIP account. The Authority was responsible for awarding and administering the contract with the architect throughout the design process. The balance of the funding at June 30, 2012 and 2011 was \$120,863 for both years.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(4) Receivables**

Receivables at June 30, 2012 and 2011 consist of the following:

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2012</b>
Authority operations	\$ -	43,596	43,596
Due from City of Virginia Beach	-	7,382	7,382
Town Center garage operations	-	17,477	17,477
Virginia Beach National long-term maintenance	-	30,926	30,926
Deferred land sales	-	211,859	211,859
EDIP appropriations from City	-	7,354,308	7,354,308
Gross accounts receivable	-	7,665,548	7,665,548
Less allowance for uncollectibles	-	-	-
<b>Accounts receivable, net</b>	\$ -	7,665,548	7,665,548

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2011</b>
Authority operations	\$ -	43,227	43,227
Due from City of Virginia Beach	3,872	10,574	14,446
Town Center garage operations	-	17,747	17,747
Virginia Beach National long-term maintenance	-	30,689	30,689
Deferred land sales	-	211,859	211,859
EDIP appropriations from City	-	5,025,324	5,025,324
Gross accounts receivable	3,872	5,339,420	5,343,292
Less allowance for uncollectibles	-	-	-
<b>Accounts receivable, net</b>	\$ 3,872	5,339,420	5,343,292

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(5) Capital Assets**

The following schedules summarize the capital assets of the Authority as of June 30, 2012 and 2011:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2012</u>
Governmental Activities				
Non-depreciable assets				
Construction in progress	\$ 504,329	209,105	-	713,434
Business-Type Activities/ Authority Operations Fund				
Non-depreciable assets				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Land	21,070,198	-	(2,850,000)	18,220,198
Town Center land and capitalized interest	877,741	28,859	(4,106)	902,494
Total non-depreciable assets	<u>23,078,329</u>	<u>28,859</u>	<u>(2,854,106)</u>	<u>20,253,082</u>
Depreciable assets				
Buildings	101,654,157	-	-	101,654,157
Equipment and fixtures	593,294	-	-	593,294
Total depreciable assets	<u>102,247,451</u>	<u>-</u>	<u>-</u>	<u>102,247,451</u>
Less accumulated depreciation for				
Buildings	(17,655,598)	(2,637,662)	-	(20,293,260)
Equipment and fixtures	(219,468)	(41,450)	-	(260,918)
Total accumulated depreciation	<u>(17,875,066)</u>	<u>(2,679,112)</u>	<u>-</u>	<u>(20,554,178)</u>
<b>Capital assets, net</b>	<u>\$ 107,450,714</u>	<u>(2,650,253)</u>	<u>(2,854,106)</u>	<u>101,946,355</u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental Activities				
Non-depreciable assets				
Construction in progress	\$ 500,457	3,872	-	504,329
Business-Type Activities/ Authority Operations Fund				
Non-depreciable assets				
Other non-depreciable assets	\$ 1,130,390	-	-	1,130,390
Land	21,070,198	-	-	21,070,198
Town Center land and capitalized interest	866,014	11,727	-	877,741
Total non-depreciable assets	<u>23,066,602</u>	<u>11,727</u>	-	<u>23,078,329</u>
Depreciable assets				
Buildings	101,654,157	-	-	101,654,157
Equipment and fixtures	593,294	-	-	593,294
Total depreciable assets	<u>102,247,451</u>	-	-	<u>102,247,451</u>
Less accumulated depreciation for				
Buildings	(14,976,000)	(2,679,598)	-	(17,655,598)
Equipment and fixtures	<u>(172,667)</u>	<u>(46,801)</u>	-	<u>(219,468)</u>
Total accumulated depreciation	<u>(15,148,667)</u>	<u>(2,726,399)</u>	-	<u>(17,875,066)</u>
<b>Capital assets, net</b>	<u>\$ 110,165,386</u>	<u>(2,714,672)</u>	-	<u>107,450,714</u>

At June 30, 2012 and 2011, depreciation expense related to capital assets was \$2,679,112 and \$2,726,399, respectively, and has been charged to the Authority's Operations Fund.

In fiscal year 2012, 31<sup>st</sup> Street LC exercised its option to purchase the hotel and park land located at 3001 Atlantic Avenue. The sale decreased the Authority's land assets by \$2,850,000.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

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

Accounts payable and accrued liabilities at June 30, 2012 and 2011 consist of the following:

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2012</b>
Accounts payable	\$ -	463,278	463,278
Accounts payable, 31st Street EDIP	-	1,800,000	1,800,000
Accounts payable, golf course	-	280,034	280,034
Accounts payable, pedestrian bridge	120,862	-	120,862
Accounts payable, CIP	-	10,496	10,496
Accounts payable, GOF	-	-	-
Accounts Payable, City	-	3,682,819	3,682,819
Accounts Payable, ITA study	-	88	88
Accounts payable, EDIP	<u>3,493,731</u>	<u>7,111,132</u>	<u>10,604,863</u>
Total accounts payable	<u>3,614,593</u>	<u>13,347,847</u>	<u>16,962,440</u>
Accrued interest	-	1,379,803	1,379,803
Options deposits	<u>-</u>	<u>-</u>	<u>-</u>
Total accrued liabilities	<u>-</u>	<u>1,379,803</u>	<u>1,379,803</u>
<b>Accounts payable and accrued liabilities</b>	<u>\$ 3,614,593</u>	<u>14,727,650</u>	<u>18,342,243</u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

	<b>Governmental Activities/ Special Projects Fund</b>	<b>Business-Type Activities/ Authority Operations Fund</b>	<b>Total 2011</b>
Accounts payable	\$ 3,873	110,866	114,739
Accounts payable, 31st Street EDIP	-	1,800,000	1,800,000
Accounts payable, golf course	-	212,945	212,945
Accounts payable, pedestrian bridge	120,862	-	120,862
Accounts payable, CIP	-	27,948	27,948
Accounts payable, GOF	-	156,323	156,323
Accounts Payable, City	-	45,689	45,689
Accounts Payable, ITA study	-	2,188	2,188
Accounts payable, EDIP	2,999,903	6,056,218	9,056,121
<b>Total accounts payable</b>	<b>3,124,638</b>	<b>8,412,177</b>	<b>11,536,815</b>
Accrued interest	-	1,447,053	1,447,053
Options deposits	-	165,000	165,000
<b>Total accrued liabilities</b>	<b>-</b>	<b>1,612,053</b>	<b>1,612,053</b>
<b>Accounts payable and     accrued liabilities</b>	<b>\$ 3,124,638</b>	<b>10,024,230</b>	<b>13,148,868</b>

On December 7, 2006, the City Council appropriated \$350,000 for the operating expenses associated with the TPC Golf Course facility. After all expenses were incurred, the remaining funding was retained for future capital maintenance and repairs to the facility. In addition, the Authority began receiving 5% of gross revenues on a monthly basis from Virginia Beach National Golf Course (formerly known as TPC) in April of 2008, and this funding is restricted for capital repairs and maintenance to the facility. At June 30, 2012 and 2011, the outstanding balance in the accounts payable-Golf Course account was \$280,034 and \$212,945, respectively.

At June 30, 2012 and 2011, unused CIP funding for Phase III of Town Center was \$0 and \$17,452, respectively. Unused CIP funding for the Burton Station project was \$10,496 for both years. Funding for both CIP projects was on deposit from the City. This funding will be used for future expenses related to the associated projects.

The Authority also received funding from the City's CIP to pay for the design of the Pedestrian Bridge across Virginia Beach Boulevard. At June 30, 2012 and 2011, \$120,862 of funding remained for the design fees for both years.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(7) Long-Term Debt**

**(A) Revenue Bonds**

The Authority issues revenues bonds from time to time for the purpose of financing capital improvements and new projects. In February 1998, the Authority issued \$9,800,000 of Series 1998 Lease Revenue Bonds. The purpose of the bonds was to purchase a new building (Social Services Facility) from the City of Virginia Beach. The Series 1998 Lease Revenue Bonds' interest rates ranged from 4.3% to 5.0%. The principal is paid annually and interest is paid semi-annually with rental payments received from the City (See note 8) with final payment due December 2017. These bonds were refinanced in June 2012, with the maturity date remaining unchanged.

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

In May of 2005, the Authority acted as the conduit issuer for \$94,900,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,080,000 in Series 2005A Public Facility Revenue Bonds and \$9,000,000 in Series 2005B Taxable Public Facility Revenue Bonds. In fiscal year 2005, \$22,130,000 of 2005 bond proceeds were used to purchase a portion of the 31<sup>st</sup> Street Parking Garage and the 9<sup>th</sup> Street Parking Garage. In fiscal year 2006, the Authority used a portion of the 2005 bond proceeds in the amount of \$13,616,672 to purchase the Block 10 Parking Garage located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Convention Center, construction of a parking facility for the Virginia Aquarium and Marine Science Center, Open Space site acquisition, construction of an Emergency Communications Operation Center, and various equipment and software used for the operation of the City. The Authority and the City entered into support agreements, dated September 1, 2003 and May 1, 2005, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates ranged from 4.0% to 5.0% for Series 2005A and 4.75% to 5.0% for Series 2005B. The final payments on Series 2005A and 2005B are due May 2025.

In June of 2007, the Authority acted as the conduit issuer for \$96,835,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds at the request of the City of Virginia Beach. The Authority's financial statements only reflect \$21,555,000 in Series 2007A Public Facility Revenue Bonds and \$4,030,000 in Series 2007B Taxable Public Facility Revenue Bonds. In fiscal year 2008, the bond proceeds were used to purchase the Block 7 Parking Garage, the Block 7 Conference Center, and the Pedestrian Bridge connecting Block 7 and Block 12 located in Town Center. The City's share of the bond proceeds were used to finance various public facilities, including the replacement of the Pavilion Theater and the Convention Center, the construction of the Sandler Center for the Performing Arts, Open Space Site acquisition, a Revenue Assessment and Collection System, a City/School Human Resource Payroll System, and an Automatic Vehicle Locator System. The Authority and the City entered into a support agreement, dated June 1, 2007, whereby the City supports all Authority financial obligations (principal and interest payments) with regard to the bonds. The source of the City's support for the Town Center Public Parking Garage, Pedestrian Bridge, and Conference Center portion of these issues is the CBD-South Tax Increment Financing District. The Authority's bond proceeds are presented in the business-type activity statements. The Bonds' interest rates were 5.00% for Series 2007A and the rates ranged from 5.85% to 6.50% for Series 2007B. The final payments on Series 2007A and 2007B are due July 2027.



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(B) Notes Payable – Town Center**

On, March 6, 2000, the Authority and Town Center Associates, L.L.C. entered into an agreement for the development of the Town Center. Financing for the purchase of the land for future phases beyond Phase I of this project was obtained from First Union National Bank/Wachovia in the amount of \$5,500,000. Total advances on this loan may not exceed \$11,135,000, to include accrued interest through December 2006. The original loan agreement was signed on June 8, 2000 and called for semiannual interest payments starting November 30, 2000, with all principal and interest due December 1, 2006. Under the terms of this agreement, the Authority was not required to make any principal or interest payments on this loan until November of 2008; and the intention is to not make principal or interest payments, except to the extent funds are available from the sale of this land. To date, \$1,146,175 has been added to the original principal of the loan in the form of interest. As of June 30, 2012 and 2011, the outstanding balance was \$1,298,051. The loan is secured by a surety agreement provided by Town Center Associates, L.L.C.

In January of 2009, the Authority approved the Phase IV Development Agreement. Because this agreement specifies that the developer does not have to purchase the remainder of the Town Center land until April of 2012, the due date of the Town Center note payable was extended until December 2010.

In December 2010, Wachovia/Wells Fargo approved a 5-month short-term extension of the loan while the terms could be renegotiated. In April of 2011, the Authority approved a 1 year extension of the Town Center note payable to April of 2012. The interest rate is the LIBOR rate plus 1.70%.

In April 2012, the Authority approved extending the Town Center Option Land Agreement to April 2015 and the Town Center note payable to April 2013.

**(C) Notes Payable – City of Virginia Beach**

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

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

In June 2012, 31<sup>st</sup> Street LC exercised its option to purchase the hotel and park land located at 3001 Atlantic Avenue for \$3,662,738 and these proceeds were utilized to fully extinguish the outstanding debt between the City and the Authority. As of June 30, 2012 and 2011, the outstanding debt balance was \$0 and \$3,663,183, respectively.

**(D) Long-term debt activities for the year ended June 30, 2012 and 2011 were as follows:**

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>June 30, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2012</b>	<b>Due Within</b>
					<b>One Year</b>
Business-Type Activities/Authority					
Operations Fund					
Bonds and notes payable					
Lease revenue bonds, Social Services	\$ 4,480,000	-	(4,480,000)	-	-
Public facility revenue bonds	79,760,000	5,415,486	(5,325,000)	79,850,486	4,270,000
Notes payable, Town Center option land	1,298,051	-	-	1,298,051	1,298,051
Notes payable, City of Virginia Beach	3,663,183	-	(3,663,183)	-	-
	<u>89,201,234</u>	<u>5,415,486</u>	<u>(13,468,183)</u>	<u>81,148,537</u>	<u>5,568,051</u>
Add bond premium	1,705,654	-	(121,754)	1,583,900	-
Add deferred gain due to refunding	-	399,514	-	399,514	-
Less bond discount	(136,807)	-	15,308	(121,499)	-
Less deferred loss due to refunding	(1,422,293)	-	117,707	(1,304,586)	-
<b>Business-Type Activities/Authority</b>					
<b>long-term debt</b>	\$ <u>89,347,788</u>	<u>5,815,000</u>	<u>(13,456,922)</u>	<u>81,705,866</u>	<u>5,568,051</u>
					<b>Amounts</b>
	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>June 30, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2011</b>	<b>One Year</b>
Business-Type Activities/Authority					
Operations Fund					
Bonds and notes payable					
Lease revenue bonds, Social Services	\$ 5,005,000	-	(525,000)	4,480,000	550,000
Public facility revenue bonds	83,445,000	-	(3,685,000)	79,760,000	3,440,000
Notes payable, Town Center option land	1,298,051	-	-	1,298,051	1,298,051
Notes payable, City of Virginia Beach	4,228,026	-	(564,843)	3,663,183	-
	<u>93,976,077</u>	<u>-</u>	<u>(4,774,843)</u>	<u>89,201,234</u>	<u>5,288,051</u>
Add bond premium	1,827,408	-	(121,754)	1,705,654	-
Less bond discount	(152,115)	-	15,308	(136,807)	-
Less deferred loss due to refunding	(1,540,000)	-	117,707	(1,422,293)	-
<b>Business-Type Activities/Authority</b>					
<b>long-term debt</b>	\$ <u>94,111,370</u>	<u>-</u>	<u>(4,763,582)</u>	<u>89,347,788</u>	<u>5,288,051</u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

The requirements to amortize all long-term bonds and notes payable as of June 30, 2012, including interest payments of \$28,724,210 are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,568,051	3,770,177
2014	4,745,000	3,570,428
2015	5,040,000	3,352,422
2016	5,315,000	3,126,692
2017	5,965,000	2,840,732
2018-2022	32,855,000	9,607,845
2023-2027	19,655,486	2,403,374
2028-2032	2,005,000	52,540
	<u>\$ 81,148,537</u>	<u>28,724,210</u>

**(E) Advance Refunding Revenue Bonds**

On May 25, 2010, the City issued \$98.035 million of Public Facility Refunding Revenue Bonds, Series 2010B and \$40.45 million of Public Facility Refunding Revenue Bonds, Series 2010C. The refunding bonds combined with \$19.03 million in premiums to provide resources to purchase U.S. Government, State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$137.5 million of Public Facility Revenue bonds. Included in the bonds sold were \$37.015 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the Virginia Beach Development Authority (VBDA). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the VBDA's Statement of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt currently held by VBDA by \$1,540,000. This amount is being netted against the new debt and 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.

In June 2012, the City issued \$25.64 million of Public Facility Refunding Revenue Bonds, Series 2012B. The refunding achieved debt service savings by refinancing all or portions of certain Public Facility Revenue Bonds, Series 2003A and Lease Revenue Bonds (Social Services Facility), Series 1998 previously issued by the Authority on behalf of the City. Included in the bonds sold were \$5.415 million in Public Facility Refunding Revenue Bonds to refund debt currently held by the VBDA. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the VBDA's Statement of Net Assets. The net carrying amount of the old debt exceeded the reacquisition price by \$399,514. This amount is being netted against the new debt and 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 12 years by \$5.28 million and resulted in an economic gain of \$4.32 million.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(8) Operating Leases**

In February 1998, the Authority purchased a new building (Social Services Facility) from the City, which was placed in service on May 1, 1998. The Authority entered into a 20-year operating lease with the City. The City pays basic rent equal to the amounts required to pay the principal and interest of the Lease Revenue Bonds Series 1998 (See note 7) and additional rent equal to one-eighth of 1% of the outstanding principal balance of the bonds. In addition, \$50,000 is paid semi-annually and placed in a reserve to be used as needed for capital and structural improvements, maintenance and repair of the facility (See note 3). During fiscal year 2011, it was determined that the capital maintenance reserve was sufficient to cover expenses for the next 3-4 years and the semi-annual rent payment was suspended until the reserve is deemed to need replenishing.

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

	<u>2012</u>	<u>2011</u>
Social Services facility (including land)	\$ 9,497,137	9,497,137
Less accumulated depreciation	(2,488,575)	(2,313,647)
Net investment in property held for lease	<u>\$ 7,008,562</u>	<u>7,183,490</u>

Minimum future rental income on operating leases as of June 30, 2012 is as follows:

2013	\$ 757,724
2014	758,791
2015	759,215
2016	760,366
2017	760,088
2018	758,500

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

Periodically, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the 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, 2012 and 2011, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$232,032,137 and \$233,678,773, respectively.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(10) Interest Cost**

The Authority capitalizes interest cost related to construction in progress. The following is a summary of interest cost incurred during 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest cost capitalized	\$ 24,754	11,727
Interest cost expensed to income	3,898,706	4,229,252
<b>Total interest cost incurred</b>	<u>\$ 3,923,460</u>	<u>4,240,979</u>

**(11) Lease Income**

Lease income as reflected in the statements of revenues, expenses, and changes in net assets was \$2,918,915 and \$2,685,723, respectively for the years ended June 30, 2012 and 2011. The following is a detailed list of the revenue earned:

	<u>2012</u>	<u>2011</u>
Social Services facility	\$ 759,854	760,220
Amphitheater rent	168,615	176,893
Virginia Beach National operations rent/profit-sharing	111,196	80,438
Beach Quarters Inn	114,000	114,000
Town Center garage	222,285	213,948
31st Street garage	785,684	564,843
9th Street garage	587,281	591,179
110 South Independence Boulevard building	170,000	184,202
	<u>\$ 2,918,915</u>	<u>2,685,723</u>

**(A) Social Services Facility**

In 1998, the Authority entered into a 20-year operating lease with the City. The City pays basic rent equal to the amounts required to pay the principal and interest of the Lease Revenue Bonds Series 1998 (See note 8) and additional rent equal to one-eighth of 1% of the outstanding principal balance of the bonds. In addition, \$50,000 had been paid semi-annually and placed in a reserve to be used as needed for capital and structural improvements, maintenance, and repair of the facility (See note 3). In fiscal year 2011, this semi-annual payment was suspended as the reserve fund balance was deemed sufficient to cover projected expenses over the next 3-4 years.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(B) *Amphitheater***

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

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

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

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

A new operating agreement between the Authority and Virginia Beach Golf Club, L.L.C. was signed on March 30, 2007, and the name of the course was changed to Virginia Beach National Golf Course effective April 1, 2007. The initial term of the agreement will end December 31, 2011, and may be extended at the mutual option of the Authority and Virginia Beach Golf Club, L.L.C. for three additional two-year terms. The rent due to the Authority includes 10% of gross revenues paid monthly (5% for rent and 5% for future capital maintenance and repairs to the facility) as well as a profit sharing payment equal to 25% of net income generated by the Golf Course Facility in excess of \$100,000 during each calendar year.

Because of the start-up costs incurred by Virginia Beach Golf Club, the Authority agreed to an abatement of the monthly rental payments (but not profit sharing) during the period April 1, 2007 through March 31, 2008. Beginning April 1, 2008, the Authority began receiving monthly rental payments in the amount of 10% gross revenue in accordance with the lease agreement.

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(D) *Beach Quarters Inn***

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

**(E) *Town Center***

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

As part of the Phase II Development Agreement, the Authority has the right to lease the Developer 85 of the parking spaces in the Town Center Parking Garage (Block 10).

As part of the Phase III Development Agreement, the Authority has the right to lease the Developer 72 of the parking spaces in the Town Center Parking Garage (Block 7). All revenue collected for the reserved parking spaces and vault space is to be forwarded to the Authority to defray the operating costs of the parking garages.

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

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

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

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

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Notes to Financial Statements

June 30, 2012 and 2011

**(H) 110 South Independence Boulevard Building**

In August 2009, the Authority purchased the former Circuit City building located at 110 South Independence Boulevard for \$5,033,213. In December 2009, the Authority leased the building to East Coast Appliance. The initial lease term was for three years and included up to seven additional one-year terms. The rent was \$241,475, \$250,763, and \$263,765 in the first, second, and third years of the initial lease term, respectively, and was paid in monthly installments. In December 2010, East Coast Appliance exercised their right to give 90-day notice and terminate the lease.

In September 2011, the Authority leased the building to Kline Imports Chesapeake. The initial lease term is for 5 years and includes up to five additional one-year terms. The rent is \$240,000, \$247,200, \$254,616, \$262,254, and \$270,122 in the first through fifth years of the initial lease term, respectively, and is paid in monthly installments.

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

Advances from the City of Virginia Beach represent funds that have been provided, by the City, to the Authority for the construction of capital projects. When construction is complete, the capital asset reverts back to the City or is transferred to the Authority's Proprietary Fund. During fiscal years 2012 and 2011, the City had advanced funding for the following capital projects:

**Pedestrian Bridge** – The project involves the management of the design of the Pedestrian Bridge across Virginia Beach Boulevard in accordance with the contract between the Authority and PB Americas, Inc. During fiscal years 2012 and 2011, no amounts were used to fund the costs related to the design of the Pedestrian Bridge.

**Town Center Infrastructure** – The project is the result of a public/private investment partnership agreement between the City, the Authority, and Town Center Associates, L.L.C. During fiscal years 2012 and 2011, \$6,172 and \$0, respectively, was used to fund infrastructure costs related to Town Center, and no infrastructure assets were completed and transferred to the City.

The costs for the Town Center project include infrastructure for streets, curbs and gutters, sidewalks and underground utilities. The total funding used for Phase I of the project was \$6,357,000, of which \$5,000,000 is funded through the Authority's EDIP program and \$1,357,000 was funded through the City's CIP Program. Funding used for Phase II includes \$4,000,000, funded from the Authority's EDIP and \$3,700,000 from the City's CIP Program. Funding for Phase III includes \$1,000,000 funded from the Authority's EDIP and \$650,000 from the City's CIP Program. The Beacon Exchange, which took place in fiscal year 2009, included funding of \$4,260,000 from the Central Business South TIF as well as \$767,946 from the Authority's EDIP. Phase IV of this project includes \$3,500,000, which will be funded through the Authority's EDIP program as well.

**(13) Subsequent Events**

In fiscal year 2013, the Virginia Beach Development Authority approved a resolution to lease and sublease 1,958 square feet of space for the establishment of a transportation research center by Old Dominion University (ODU). The Authority will pay the rent from the Authority's funds and ODU will complete research for the benefit of the City of Virginia Beach of an equivalent value to the rent paid by the Authority.



**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Schedules of Selling, General, and Other Expenses – Authority Operations  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>General expenses</b>		
Leases	\$ 1,151,092	1,146,706
Amphitheater box seating	21,375	21,375
Independent audit fees	18,000	16,000
Amortization	161,691	161,691
Gifts and donations	10,000	10,000
Leasehold improvements	334,622	87,421
<b>Total general expenses</b>	<u>1,696,780</u>	<u>1,443,193</u>
<b>Other expenses</b>		
Town Center infrastructure	—	—
Architecture and engineering	139,946	2,115
Park maintenance, Corporate Landing	24,829	14,649
Utilities, Corporate Landing fountain	1,797	4,361
General repairs, 110 South Independence Boulevard	54,266	57,751
Consultant fees	887,210	—
Disposal of asset	150,000	—
Miscellaneous	56,400	59,290
<b>Total other expenses</b>	<u>1,314,448</u>	<u>138,166</u>
<b>Total selling, general, and other expenses</b>	<u>\$ 3,011,228</u>	<u>1,581,359</u>

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

Schedules of Land and Building Inventory  
June 30, 2012 and 2011

<b>Description</b>	<b>2012</b>	<b>2011</b>
Oceana West Corporate Park, beginning inventory July 1	\$ 1,555,548	1,555,548
Current, cost of sales	—	—
Oceana West Corporate Park, ending inventory June 30	<u>1,555,548</u>	<u>1,555,548</u>
Corporate Landing Office Park, beginning inventory July 1	10,753,091	10,753,091
Current – cost of sales	(269,824)	—
Corporate Landing Office Park, ending inventory June 30	<u>10,483,267</u>	<u>10,753,091</u>
Town Center Beacon building, beginning inventory July 1	150,000	150,000
Building demolished	(150,000)	—
Town Center Beacon building, ending inventory June 30	<u>—</u>	<u>150,000</u>
Town Center Beacon land, beginning inventory July 1	4,877,946	4,877,946
Current, cost of sales	—	—
Town Center Beacon land, ending inventory June 30	<u>4,877,946</u>	<u>4,877,946</u>
Hunt Club 2, beginning inventory July 1	200,305	200,305
Current, cost of sales	—	—
Hunt Club 2, ending inventory June 30	<u>200,305</u>	<u>200,305</u>
Princess Anne, beginning inventory July 1	434,534	434,534
Land transferred to City	(434,534)	—
Princess Anne, ending inventory June 30	<u>—</u>	<u>434,534</u>
Headquarters Hotel site land, beginning inventory July 1	—	—
Land transferred from City	3,986,640	—
Headquarters Hotel site land, ending inventory June 30	<u>3,986,640</u>	<u>—</u>
Headquarters Hotel site building, beginning inventory July 1	—	—
Land transferred from City	406,603	—
Headquarters Hotel site building, ending inventory June 30	<u>406,603</u>	<u>—</u>
<b>Total ending inventory</b>	<u><u>\$ 21,510,309</u></u>	<u><u>17,971,424</u></u>

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

Schedules of Construction in Progress  
June 30, 2012

	<u>Town Center Infrastructure</u>	<u>Dome Site</u>	<u>Headquarters Hotel</u>	<u>Pedestrian Bridge</u>	<u>Total</u>
Expended during the year ended June 30,					
2001	\$ 3,095,062	—	—	—	3,095,062
2002	956,014	—	—	—	956,014
2003	2,581,205	—	—	—	2,581,205
2004	(1,704,696)	—	—	—	(1,704,696)
2005	(4,901,962)	—	—	—	(4,901,962)
2006	34,449	—	—	—	34,449
2007	233,037	100,738	—	—	333,775
2008	1,445,110	10,200	527	272,603	1,728,440
2009	(1,628,463)	—	—	6,535	(1,621,928)
2010	98	—	—	—	98
2011	3,872	—	—	—	3,872
2012	2,300	—	206,805	—	209,105
	<u>\$ 116,026</u>	<u>110,938</u>	<u>207,332</u>	<u>279,138</u>	<u>713,434</u>

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

Schedules of EDIP Accounts Payable  
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Balance forward</b>	\$ 10,856,121	8,861,495
<b>Funding sources</b>		
EDIP City appropriation, fiscal year	2,355,754	2,348,556
Reimbursement for APZ-1 awards and fees paid	655,302	114,000
Reimbursement for legal fees and engineering fees	4,264	150,367
Interest earned, fiscal year	39,997	117,837
<b>Total funding available</b>	<u>13,911,438</u>	<u>11,592,255</u>
<b>Expenses</b>		
EDIP awards paid	(553,872)	(488,019)
APZ-1 awards and expenses paid	(640,954)	(128,000)
Engineering studies, legal fees and miscellaneous expenses	(305,577)	(120,115)
Town Center expenditures	(6,172)	—
<b>Total expenditures</b>	<u>(1,506,575)</u>	<u>(736,134)</u>
<b>Total accounts payable, Economic Development Program</b>	\$ <u>12,404,863</u>	<u>10,856,121</u>

**CITY OF VIRGINIA BEACH DEVELOPMENT AUTHORITY**

Component Unit of the City of Virginia Beach, Virginia

Schedules of Nonoperating Revenue from City of Virginia Beach  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Central Business District - South payment of debt service for Town Center note and Public Facility revenue bonds	\$ 5,809,318	5,363,862
9th Street Garage payment of debt service for Public Facility revenue bonds	597,644	690,272
31st Street Garage payment of debt service for Public Facility revenue bonds	898,200	1,108,261
Virginia Beach Amphitheater Capital Improvement Program	150,000	50,000
110 South Independence Boulevard reimbursement of maintenance costs	54,266	57,751
APZ-1 reimbursement of engineering fees	5,285	—
Town Center Garage - Special Service District	<u>1,514,576</u>	<u>1,202,103</u>
<b>Total nonoperating revenue from City of Virginia Beach</b>	<b><u><u>\$ 9,029,289</u></u></b>	<b><u><u>8,472,249</u></u></b>



**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Commissioners  
City of Virginia Beach Development Authority

We have audited the basic financial statements of the City of Virginia Beach Development Authority (the "Authority") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 1, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

A handwritten signature in black ink that reads "Cheryl A. Stewart". The signature is written in a cursive style with a large initial 'C' and 'S'.

Virginia Beach, Virginia  
October 1, 2012