

Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS
As of June 30, 2014

Board of Directors

Donald W. Seale, Chair
Chris A. Lumsden, Vice Chair

Stephen R. Adkins	David Hudgins
Robert G. Beck	Ned W. Masee
Michael E. Bennett	David Oliver
Edie M. Bowles	Dan M. Pleasant
Russell B. Clark	John G. Rocovich, Jr.
C. Daniel Clemente	Samuel A. Schreiber
Mark D. Heath	James E. Ukrop

The Honorable Ralph S. Northam, Ex-Officio
The Honorable Richard D. Brown, Ex-Officio
The Honorable Maurice Jones, Ex-Officio
The Honorable Todd P. Haymore, Ex-Officio
The Honorable Karen Jackson, Ex-Officio
Dr. Glenn DuBois, Ex-Officio

President and Chief Executive Officer

Martin J. Briley

FINANCIAL SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF JUNE 30, 2014

The Virginia Economic Development Partnership (Partnership) management offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2014. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Partnership in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the Partnership's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Partnership is improving or deteriorating.

The Statement of Activities presents information showing how the Partnership's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, expenses that are accrued for the net pension obligation in the current period are expected to be paid with future funding appropriations from the Commonwealth of Virginia.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Partnership, like other political subdivisions of the Commonwealth of Virginia, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial activities of the Partnership are reported in *governmental funds*.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Partnership's near-term financing requirements.

Reconciliations between Government-Wide and Fund Financial Statements

There are two reconciliations between the government-wide and the fund financial statements. The first is found on the Balance Sheet and explains the difference between the *fund balance* on the Balance Sheet and *net position* on the Statement of Net Position. The second is found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, which reconciles the difference between the *net change in fund balances* on the fund-based statement and the *change in net position* on the government-wide based statement. Both statements describe in sufficient detail the amounts and the reasons for those differences.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. At the close of the fiscal year ended June 30, 2014, the Partnership had a net position of (\$3,623,081) compared to a net position of (\$2,498,051) as of June 30, 2013. Following is an analysis of the changes in the net position of the Partnership.

	Net Position		
	2014	2013	Increase (Decrease)
Current and other assets	\$ 3,124,822	\$ 3,624,998	\$ (500,176)
Capital assets, net of depreciation	<u>785,919</u>	<u>777,835</u>	<u>8,084</u>
Total assets	<u>3,910,741</u>	<u>4,402,833</u>	<u>(492,092)</u>
Non-current liabilities	7,016,486	6,431,660	584,826
Other liabilities	<u>517,336</u>	<u>469,224</u>	<u>48,112</u>
Total liabilities	<u>7,533,822</u>	<u>6,900,884</u>	<u>632,938</u>
Net position:			
Net investment in capital assets	785,919	777,835	8,084
Unrestricted	<u>(4,409,000)</u>	<u>(3,275,886)</u>	<u>(1,133,114)</u>
Total net position	<u>\$ (3,623,081)</u>	<u>\$ (2,498,051)</u>	<u>\$ (1,125,030)</u>

Total assets decreased this fiscal year by \$492,092 when compared to last year. The principal causes of this decrease were a decrease in the Current asset, cash of \$1,719,903 offset by an increase in the Current asset, operating grants receivable of \$899,079 which was due from the federal government, and an increase in the Current asset, due from primary government of \$300,000.

Total liabilities increased by \$632,938. The principal causes of this increase were increases in the Non-current liabilities of the Partnership's net pension obligation and net other post-employment obligation totaling \$524,865, and an increase in compensated absences liability of \$59,961. Other liabilities increased by \$48,112 primarily due to an increase in deferred revenue of \$62,345 offset by a reduction in other current liabilities of \$14,233.

Net investment in capital assets consists primarily of leasehold improvements, computers and peripheral technology equipment used by the organization to deliver program services to its clients. The Partnership considers technology a vital asset in its efforts to market Virginia and will continue to invest in technology to ensure that its equipment and software are updated to take advantage of greater data handling capabilities and increased processing speeds.

The remaining *Net position* balance of (\$4,409,000) is classified as *unrestricted*. The Partnership has recorded \$6,092,547 of net pension and other post retirement obligations which are expected to be paid with future appropriations from the Commonwealth of Virginia (COV). The Partnership's Current and other assets exceed its Other liabilities by \$2,607,486.

Changes in Net Position			
	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 420,075	\$ 601,626	\$ (181,551)
Operating grants	1,942,888	611,496	1,331,392
General revenues:			
General Fund appropriations	18,385,023	18,193,822	191,201
Other	<u>114,634</u>	<u>92,370</u>	<u>22,264</u>
Total revenues	<u>20,862,620</u>	<u>19,499,314</u>	<u>1,363,306</u>
Expenses:			
Business Expansion	2,134,788	2,367,158	(232,370)
Business Attraction	3,169,551	3,283,440	(113,889)
International Trade	6,305,797	4,637,418	1,668,379
Research	2,234,496	2,294,216	(59,720)
Communications and Promotions	3,236,661	2,947,714	288,947
Information Technology	1,533,536	1,543,900	(10,364)
Administration	3,327,834	2,788,145	539,689
Pass-Through Payments	<u>44,987</u>	<u>655,014</u>	<u>(610,027)</u>
Total expenses	<u>21,987,650</u>	<u>20,517,005</u>	<u>1,470,645</u>
Increase (Decrease) in net position	(1,125,030)	(1,017,691)	(107,339)
Beginning net position	<u>(2,498,051)</u>	<u>(1,480,360)</u>	<u>(1,017,691)</u>
Ending net position	<u>\$ (3,623,081)</u>	<u>\$ (2,498,051)</u>	<u>\$ (1,125,030)</u>

Net position for the Partnership decreased by \$1,125,030 during the current fiscal year. The total revenues increase of \$1,363,306 is due to additional federal operating grants revenue for a Defense Initiative program along with an increase in general fund appropriations provided by the COV, offset by a reduction in shared mission expense reimbursements related to FY2013 Governor's Missions to Asia and California.

Total expenses for the Partnership increased by \$1,470,645. The overall increase in expenses is due primarily to increased federal operating grant spending in International Trade for a Defense Initiative program, increased Communications and Promotions advertising campaign expenses, and Administration office space refurbishment costs and human resources consulting services, offset by a \$500,000 reduction in a pass-through payment to the Virginia Resources Authority.

General and Special Revenue Fund Budgetary Highlights

The *Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis* is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity. The Partnership's budget, as originally prepared, included revenue provided by the COV of approximately \$18.8 million. This amount was adjusted by a \$195,000 reduction in a pass-through payment and \$190,011 in reductions related to the Governor's FY2014 Introduced Budget. Operating grants revenues were below budget due to the timing of reimbursement payments for two federal grant programs received after June 30, 2014. Participation and sponsorship fees exceeded the final budget due to increased trade shows, events and International Trade missions. Actual expenditures were below the final budget by approximately \$1.3 million for the fiscal year. This underspending was primarily in the Business Expansion and Business Attraction divisions.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes describe the nature of the Partnership's reporting entity and the relationship to the Commonwealth of Virginia as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. Further, the notes provide explanations of specific accounts with significant balances.

Requests for Information

This financial report is designed to provide a general overview of the Partnership's finances for all those with an interest in the Partnership's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President and Chief Executive Officer, Virginia Economic Development Partnership, P.O. Box 798, Richmond, Virginia, 23218-0798.

Basic Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF NET POSITION
As of June 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 1,301,006
Travel advances	4,147
Operating grants receivable	1,053,910
Due from Primary Government	300,000
Prepaid expenses	447,872
Lease deposits (Note 5)	17,887
Capital assets, net of accumulated depreciation (Note 6)	
Leasehold improvements, furniture, and equipment	<u>785,919</u>
Total assets	<u>3,910,741</u>
Liabilities	
Accounts payable	197,606
Accrued payroll	157,466
Unearned revenue	82,445
Due to Virginia National Defense Industrial Authority	79,819
Noncurrent liabilities due within one year	
Compensated absences (Note 8)	502,291
Noncurrent liabilities due in more than one year	
Compensated absences (Note 8)	421,648
Net pension obligation (Note 9)	4,443,180
Net other post-employment obligation (Note 10)	<u>1,649,367</u>
Total liabilities	<u>7,533,822</u>
Net position	
Net investment in capital assets	785,919
Unrestricted	<u>(4,409,000)</u>
Total net position	<u><u>\$ (3,623,081)</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Business Expansion	\$ 2,134,788	\$ 10,000	\$	\$ (2,124,788)
Business Attraction	3,169,551	32,265		(3,137,286)
International Trade	6,305,797	233,073	1,942,888	(4,129,836)
Research	2,234,496	-		(2,234,496)
Communications and Promotions	3,236,661	140,737		(3,095,924)
Information Technology	1,533,536	-		(1,533,536)
Administration	3,327,834	4,000		(3,323,834)
Pass-through Payments	44,987	-		(44,987)
Total governmental activities	21,987,650	420,075	1,942,888	(19,624,687)
General Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 4)				18,385,023
Interest revenue				4,686
Other revenue				113,229
Loss on disposal of capital assets				(3,281)
Total general revenues				18,499,657
Decrease in net position				(1,125,030)
Net position, July 1, 2013				(2,498,051)
Net position, June 30, 2014				\$ (3,623,081)

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2014

	General Fund	Special Revenue Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 2)	\$ 1,301,006	\$	\$ 1,301,006
Travel advances	4,147		4,147
Due from the special revenue funds	1,053,910		
Operating grants receivable		1,053,910	1,053,910
Due from Primary Government	300,000		300,000
Prepaid expenses	447,872		447,872
Lease deposits (Note 5)	17,887		17,887
Total assets	\$ 3,124,822	\$ 1,053,910	\$ 3,124,822
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 197,606		\$ 197,606
Accrued payroll	157,466		157,466
Due to the general fund		1,053,910	
Unearned revenue	82,445		82,445
Due to Virginia National Defense Industrial Authority	79,819		79,819
Total liabilities	517,336	1,053,910	517,336
Fund Balances:			
Nonspendable	465,759	-	465,759
Committed	-	-	-
Unassigned fund balance	2,141,727	-	2,141,727
Total fund balances	2,607,486	-	2,607,486
Total liabilities and fund balances	\$ 3,124,822	\$ 1,053,910	\$ 3,124,822

Amounts reported for governmental activities in the statement of net position are different because:

Fund balances, Governmental Funds	\$ 2,607,486
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	785,919
Noncurrent liabilities (compensated absences, net pension obligation and net other post employment obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	(7,016,486)
Total net position of governmental activities	\$ (3,623,081)

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014

	General Fund	Special Revenue Funds	Total Governmental Funds
Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 18,385,023	\$	\$ 18,385,023
Participation fees	223,405	35,500	258,905
Sponsorship fees	129,049		129,049
Operating grants		1,942,888	1,942,888
Interest revenue	4,686		4,686
Other revenue	145,350		145,350
Total revenues	18,887,513	1,978,388	20,865,901
Expenditures			
Business Expansion	2,040,868		2,040,868
Business Attraction	3,109,951		3,109,951
International Trade	4,194,614	1,978,388	6,173,002
Research	2,117,578		2,117,578
Communications and Promotions	3,203,167		3,203,167
Information Technology	1,399,025		1,399,025
Administration	3,325,611		3,325,611
Pass-through Payments	44,987		44,987
Total expenditures	19,435,801	1,978,388	21,414,189
Revenues over expenditures	(548,288)	-	(548,288)
Fund balance, July 1, 2013	3,155,774	-	3,155,774
Fund balance, June 30, 2014	\$ 2,607,486	\$ -	\$ 2,607,486

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net increase (decrease) in fund balance of the governmental funds	\$	(548,288)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	8,084
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Some expenses reported in the statement of activities (compensated absences, net pension obligation and net other post employment obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(584,826)</u>
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Decrease in net position of governmental activities	<u>\$</u>	<u>(1,125,030)</u>
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The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
GENERAL AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		General Fund Actual	Special Revenue Funds Actual	Variances with Final Budget- Positive (Negative)
	Original	Final			
Revenues					
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 18,766,124	\$ 18,385,023	\$ 18,085,023	\$ -	\$ (300,000)
Participation fees	120,000	185,500	223,405	35,500	73,405
Sponsorship fees	25,000	25,000	129,049		104,049
Operating grants	214,917	1,942,888		1,043,809	(899,079)
Interest revenue	5,000	5,000	4,686		(314)
Other revenue	102,000	117,500	145,350		27,850
Total revenues	19,233,041	20,660,911	18,587,513	1,079,309	(994,089)
Expenditures					
Business Expansion	2,525,724	2,525,724	2,050,749		474,975
Business Attraction	3,574,887	3,574,887	3,161,206		413,681
International Trade	4,382,058	6,175,529	4,166,929	1,981,341	27,259
Research	2,313,812	2,313,812	2,121,246		192,566
Communications and Promotions	2,860,287	3,310,287	3,292,538		17,749
Information Technology	1,469,081	1,484,581	1,382,142		102,439
Administration	2,807,490	3,360,400	3,325,347		35,053
Pass-through Payments	240,000	45,000	44,987		13
Total expenditures	20,173,339	22,790,220	19,545,144	1,981,341	1,263,735
Revenues over (under) expenditures	(940,298)	(2,129,309)	(957,631)	(902,032)	269,646
Fund balance, July 1, 2013	940,298	2,129,309	3,020,607	-	891,298
Fund balance, June 30, 2014 (Note 3)	\$ -	\$ -	\$ 2,062,976	\$ (902,032)	\$ 1,160,944

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Economic Development Partnership (the Partnership) was established on July 1, 1996, by Chapter 638 of the 1995 Acts of Assembly and operates as an authority in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia. The Partnership's major activities are to encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.

The Partnership is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Partnership is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, the Partnership's financial statements are included in the financial statements of the Commonwealth as a discretely presented component unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Position and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include charges for services and operating grants. Charges for services are comprised primarily of participation fees and shared mission reimbursements. Operating grants are grants awarded to the Partnership from the federal government.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Partnership considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due. The Partnership reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all financial transactions not accounted for in the special revenue funds. The special revenue funds are used to account for federal grant revenues and related expenditures for operating grants awarded to the Partnership by the federal government. Both the General Fund and Special Revenue Fund are considered major governmental funds.

Fund balances for the Partnership's governmental funds financial statements are classified in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Fund balances are classified as restricted, committed or assigned if the related resources reported in governmental funds have either externally or internally imposed restrictions on their usage. Nonspendable fund balances represent assets such as prepaid expenses and lease deposits that are unavailable to be spent on future operations. The unassigned fund balances represents the remainder of the fund balances funds.

C. Operating Grants Receivable

Operating grants receivable include amounts due from the federal government for two grants that are funded based on reimbursement of expenses paid by the Partnership.

D. Prepaid Expenses

The Partnership's prepaid expenses include amounts paid for promotional activities, other services and portions of insurance premiums for which the economic benefits had not been received as of June 30, 2014.

E. Capital Assets

Capital assets are defined by the Partnership as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of five to ten years.

F. Due to Virginia National Defense Industrial Authority

The Virginia National Defense Industrial Authority (VNDIA) was an independent authority of the Commonwealth of Virginia. VNDIA's budget was appropriated to the Partnership and was held in the cash and cash equivalents accounts of the Partnership until disbursed for VNDIA's expenditures. Funding received in excess of expenditures paid created an obligation to VNDIA.

G. Unearned Revenue

Unearned revenue includes amounts received for sponsorship and participation fees at June 30, 2014, for various events to be held in the next fiscal period, as well as a \$50,000 balance related to the Virginia Jobs Investment Program for expenditures to be incurred in the next fiscal period.

H. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2014. Compensated absences were calculated in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

I. Budgets and Budgetary Accounting

The Partnership's budget was primarily established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2014, which is the second year of the biennium ended June 30, 2014. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia and expended for purposes as stated in those provisions. The budget is prepared on the cash basis. The budget is prepared collectively to include both the General Fund and Special Revenue Fund.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and carry no significant risk. Cash on deposit includes deposits in Japanese Yen and Chinese RMB which are used to pay the Partnership's international vendors and are valued in U.S. dollars at cost. As of June 30, 2014, the Partnership's holdings in these currencies were valued at \$13,819. The LGIP funds are held in pooled accounts, are considered cash equivalents and, accordingly, also carry no significant risk as defined by Statement 40 of the Governmental Accounting Standards Board. VEDP deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis – General and Special Revenue Funds presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	<u>Total all Funds</u>
Fund balance, cash basis, June 30, 2014	\$ 1,160,944
Add: Prepaid expenses and other accrued receivables	1,801,782
Deduct: Accrued expenses and unearned revenues	<u>(355,240)</u>
Fund balance, GAAP basis, June 30, 2014	<u>\$ 2,607,486</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation, Chapter 806	\$ 17,824,746
Add: Funding for Rolls Royce Project Management	300,000
Central Appropriations adjustments	645,288
Deduct: Shenandoah Valley Pass Through	(195,000)
FY2014 Governor's Introduced Budget reductions	<u>(190,011)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 18,385,023</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Tokyo, Japan and Shanghai, China. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Tokyo lease deposit is held in a non-interest bearing account in the amount of 880,000 Japanese Yen and was valued at \$8,400 at June 30, 2014. The Shanghai lease deposit is held in a non-interest bearing account in the amount of 56,000 Chinese RMB and was valued at \$8,987 at June 30, 2014. In addition, the Partnership is due a deposit refund of \$500 from a lease in Roanoke, Virginia that was terminated in 2014.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Leasehold improvements, furniture and equipment	\$ 1,973,347	\$ 303,061	\$ (85,498)	\$ 2,190,910
Less: accumulated depreciation	<u>1,195,512</u>	<u>291,696</u>	<u>(82,217)</u>	<u>1,404,991</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 777,835</u>	<u>\$ 11,365</u>	<u>\$ (3,281)</u>	<u>\$ 785,919</u>

7. COMMITMENTS

The Partnership is committed under various operating leases and office use agreements for office facilities and equipment through December 2015. Expense under these agreements for the fiscal year ended June 30, 2014, amounted to \$1,561,966. A summary of minimum future obligations under these agreements as of June 30, 2014, follows:

Year Ending <u>June 30</u>	<u>Obligations</u>
2015	\$ 1,512,089
2016	<u>692,649</u>
Total future minimum rental payments	<u>\$ 2,204,738</u>

8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2014, was as follows:

<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
<u>\$ 863,978</u>	<u>\$ 617,884</u>	<u>\$ 557,923</u>	\$ 923,939
	Due Within One Year		<u>(502,291)</u>
	Due in More Than One Year		<u>\$ 421,648</u>

9. PENSION PLAN

The Partnership is a participating employer in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS is an agent and a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions. Salaried employees of the Partnership are members in one of three retirement plans administered by the VRS. As of June 30, 2014, the Partnership's net pension obligation was \$4,443,180.

Plan Descriptions

Plan 1 – Employees with pre-July 1, 2010 service credit.

Benefits vest after five years of service. Employees may retire with an unreduced benefit at age 65 with at least 5 years of service credit or at age 50 with at least 30 years of service credit. Retirement benefits are payable monthly for life in an amount based on 1.7 percent of an employee's average final compensation (AFC) multiplied by the employee's total years of service. AFC is defined as the average of the employee's 36 highest consecutive months of creditable compensation. Reduced retirement benefits are available to

employees at age 55 with at least 5 years of service credit or at age 50 with at least 10 years of service credit. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

Plan 2 – Employees hired or rehired on or after July 1, 2010 with no service credit.

Benefits vest after five years of service. Employees may retire with an unreduced benefit at normal social security retirement age with at least 5 years of service credit or when the employee's age plus service years equal 90. Retirement benefits are payable monthly for life in an amount based on 1.7 percent of an employee's AFC multiplied by the employee's years of service prior to January 1, 2013 and 1.65 percent of an employee's AFC multiplied by the employee's years of service after January 1, 2013. AFC is defined as the average of the employee's 60 highest consecutive months of creditable compensation. Reduced retirement benefits are available to employees at age 60 with at least 5 years of service credit. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

Hybrid Plan – Employees hired or rehired on or after January 1, 2014 with no service credit.

Benefits vest after five years of service. Employees may retire with an unreduced benefit at normal social security retirement age with at least 5 years of service credit or when the employee's age plus service years equal 90. Retirement benefits are payable monthly for life in an amount based on 1.0 percent of an employee's average final compensation (AFC) multiplied by the employee's total years of service. AFC is defined as the average of the employee's 60 highest consecutive months of creditable compensation. Reduced retirement benefits are available to employees at age 60 with at least 5 years of service credit. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. The Hybrid Plan also has a defined contribution component with the retirement benefit determined by the amount of contributions and net investment earnings on contributions. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500, or online at <http://www.varetire.org/Publications/Index.asp?ftype=annualreport>.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. In addition, the Partnership is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Partnership's contribution rate for the current year was 8.76% of creditable compensation of \$7,349,371 resulting in a contribution of \$643,805.

10. OTHER EMPLOYMENT AND OTHER POST-EMPLOYMENT BENEFITS

The Partnership is a participating employer in other employment and post-employment benefit plans. The Group Life Insurance plan, Virginia Sickness and Disability Program (VSDP) and the Retiree Health

Insurance Credit fund are administered by the VRS. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for these plans. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500. The Partnership is also a participating employer in the Health Benefits Program for Retirees, Survivors and Long Term Disability (LTD) Participants administered by the Commonwealth's Department of Human Resource Management (DHRM). The Commonwealth issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for this plan and a copy of that report may be obtained by writing Financial Reporting, 101 N. 14th Street, Richmond, VA 23219. As of June 30, 2014, the Partnership's combined net other post-employment benefit obligation for these plans was \$1,649,367.

GROUP LIFE INSURANCE

The Group Life Insurance plan provides life insurance benefits to full time employees of the Partnership. As a part of the plan, life insurance benefits are provided to retired employees in accordance with Title 51.1 of the Code of Virginia (1950), as amended. To be eligible for the retired employee portion of the plan, the employee must have retired or terminated employment after age 50 and have had at least 10 years of service (including 5 years of continuous service) or at age 55 and have had 5 years of continuous service or retired because of disability. At retirement or termination, natural death coverage starts to reduce by 25 percent each year until coverage reaches 25 percent of its value at retirement or termination.

Post-employment life insurance benefits are advance funded on an actuarially determined basis using the aggregate cost actuarial method with the same actuarial assumptions used for determining pension plan contribution rates. All contributions to the plan are made by the Partnership. The Partnership's actuarially determined rate for the current year was 1.19% of creditable compensation of \$7,349,371 resulting in a contribution of \$87,458. This contribution covers premiums for active employees and actual death claims for retirees. As of June 30, 2014, the Partnership had no net post-employment benefit obligation for this plan.

HEALTH INSURANCE CREDIT PROGRAM

The Retiree Health Insurance Credit fund was established on January 1, 1990, and provides benefits to employees with at least 15 years of service credit under the VRS retirement plan. The program provides a maximum credit reimbursement of \$4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

The amount required to fund all credits is financed on a current disbursement basis by the employers participating in the plan and is based on contribution rates determined by the VRS actuary. The Partnership's actuarially determined rate for the current year was 1.00% of creditable compensation of \$7,349,371 resulting in a contribution of \$73,494. As of June 30, 2014, the Partnership's net post-employment benefit obligation for this plan was \$198,619.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The VSDP was established on January 1, 1999, and covers salaried employees who work at least 20 hours per week. The VSDP provides income protection to employees for absences due to sickness or disability from the first day on the job. After a 7 calendar-day waiting period following the first incident of disability, eligible employees receive short-term benefits ranging from 60 to 100 percent of compensation up to a

maximum of 125 working days, based upon months of qualified service. If the disability continues after the short-term disability period, the employee becomes eligible to receive long-term disability benefits equal to 60 percent of compensation until they return to work, reach age 65, or death, whichever is sooner.

The Partnership is required to make contributions to the VRS for the cost of providing long-term disability under the VSDP. The Partnership's actuarially determined rate for the current year was 0.47% of creditable compensation of \$7,015,051 resulting in a contribution of \$32,971. As of June 30, 2014, the Partnership's net post-employment benefit obligation for this plan was \$344,230.

HEALTH BENEFITS PROGRAM FOR RETIREES, SURVIVORS AND LTD PARTICIPANTS

The Health Benefits Program for Retirees, Survivors and LTD Participants was established to allow eligible employees who retire before age 65 to continue healthcare coverage under the same healthcare plans offered to active employees. This continuation is also available to LTD participants and the spouses of retired employees and LTD participants.

The Partnership's actuarially determined liability under this program arises from the implicit rate subsidies that occur when retirees, LTD participants, and surviving spouses are insured in a group with current employees. The liability is determined by computing expected future benefit pay out cost, less expected future participant contributions. All participants are required to pay the total subsidized contributions for benefits coverage. As of June 30, 2014, the Partnership's net post-employment benefit obligation for this plan was \$1,106,518.

11. DEFERRED COMPENSATION PLAN

Employees of the Partnership may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Partnership matching up to \$20 per pay period. The dollar amount of the match can change depending on the funding available in the Partnership's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were \$33,470 for the fiscal year 2014.

12. RISK MANAGEMENT

The Virginia Economic Development Partnership is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Partnership is insured for these risks through commercial insurance policies. Further, the Partnership is insured for workers compensation and for loss from employee actions by an insurance policy issued by the Chubb Group and the Great Northern Insurance Company. Policy coverage for loss from employee actions is \$50,000 per year with a \$1,000 deductible for each loss.

The Partnership participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by DHRM. The Partnership pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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October 10, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the General Fund, a major fund, and the Special Revenue Fund, a major fund, of the Virginia Economic Development Partnership, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Partnership's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the General Fund, a major fund, and the Special Revenue Fund, a major fund, of the Virginia Economic Development Partnership as of June 30, 2014, and the respective changes in its financial position thereof and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through six 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2014, on our consideration of the Virginia Economic Development Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Partnership's internal control over financial reporting and compliance.


AUDITOR OF PUBLIC ACCOUNTS

MSM/clj