



Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended
June 30, 2011

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INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS

As of June 30, 2011

Board of Directors

Julien G. Patterson, Chair

Stephen R. Adkins	John F. Malbon
G. William Beale	David Oliver
Edie M. Bowles	Dan M. Pleasant
Russell B. Clark	A. Carole Pratt
Mark D. Heath	Ruth A. Sandoval
David Hudgins	Samuel A. Schreiber
Hugh D. Keogh	Donald W. Seale
Chris A. Lumsden	James E. Ukrop
Stuart S. Malawer	Neil D. Wilkin, Jr.

The Honorable William T. Bolling, Ex-Officio

Glenn DuBois, Ex-Officio

The Honorable Jim S. Cheng, Ex-Officio

The Honorable Richard D. Brown, Ex-Officio

President and Chief Executive Officer

Jeffrey M. Anderson

FINANCIAL SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AS OF JUNE 30, 2011

The management of the Virginia Economic Development Partnership (Partnership) 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, 2011. 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 Assets presents information on all of the Partnership's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 assets* on the Statement of Net Assets. The second is found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance 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 assets* 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 assets may serve over time as a useful indicator of an organization's financial position. At the close of the fiscal year ended June 30, 2011, the Partnership had a net asset deficit of \$775,815 compared to a net asset deficit of \$288,044 as of June 30, 2010. Following is an analysis of the changes in the net assets of the Partnership.

	Net Assets		
	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Current and other assets	\$ 3,673,372	\$ 2,947,350	\$ 726,022
Capital assets, net of depreciation	<u>635,897</u>	<u>756,826</u>	<u>(120,929)</u>
Total assets	<u>4,309,269</u>	<u>3,704,176</u>	<u>605,093</u>
Non-current liabilities	4,496,919	3,574,241	(922,678)
Other liabilities	<u>588,165</u>	<u>417,979</u>	<u>(170,186)</u>
Total liabilities	<u>5,085,084</u>	<u>3,992,220</u>	<u>(1,092,864)</u>
Net assets:			
Invested in capital assets, net of related debt	635,897	756,826	(120,929)
Unrestricted	<u>(1,411,712)</u>	<u>(1,044,870)</u>	<u>(366,842)</u>
Total net assets (deficit)	<u>\$ (775,815)</u>	<u>\$ (288,044)</u>	<u>\$ (487,771)</u>

Total assets increased this fiscal year by \$726,022 when compared to last year. The increase in current and other assets was due to increases in cash balances of \$654,444, the amount due from the Tobacco Indemnification and Community Revitalization Commission of \$111,509, and lease deposit balances of \$996. These increases were offset by decreases in prepaid expenses of \$21,278, other receivables of \$14,521, and travel advances of \$5,128.

Total liabilities increased by \$1,092,864. Non-current liabilities increased by \$922,678 due to increases in the Partnership's net pension obligation and other post employment obligations totaling \$847,285, and an increase in the compensated absences liability of \$75,393. The increase in other liabilities of \$170,186 was caused by increases in accounts payable of \$24,326, accrued payroll of \$2,598, deferred payments to the Virginia Retirement System of \$119,740, and the amount due to Virginia National Defense Industrial Authority of \$26,127. These increases were offset by a reduction of \$2,605 in deferred revenue.

Net assets invested in *capital assets, net of related debt* consist 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 assets* deficit balance of \$1,411,712 is classified as *unrestricted*. The Partnership has recorded \$3,657,090 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 cash and other current assets exceed its obligations due within the next fiscal year by approximately \$3,085,000.

Changes in Net Assets			
	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Revenues:			
Program revenues:			
Charges for services	\$ 467,051	\$ 364,652	\$ 102,399
General revenues:			
General Fund appropriations	18,464,529	14,460,146	4,004,383
Other	<u>102,706</u>	<u>(44,099)</u>	<u>146,805</u>
Total revenues	<u>19,034,286</u>	<u>14,780,699</u>	<u>4,253,587</u>
Expenses:			
Business Development	3,144,682	2,963,943	(180,739)
International Investment	1,907,003	1,849,352	(57,651)
International Trade	3,172,206	2,821,329	(350,877)
Research	1,866,534	1,756,547	(109,987)
Communications and Promotions	3,097,953	1,258,962	(1,838,991)
Information Technology	2,177,788	2,046,546	(131,242)
Administration	2,776,796	2,411,939	(364,857)
Pass-through Payments	<u>1,379,095</u>	<u>258,520</u>	<u>(1,120,575)</u>
Total expenses	<u>19,522,057</u>	<u>15,367,138</u>	<u>(4,154,919)</u>
Increase (Decrease) in net assets	(487,771)	(586,439)	98,668
Beginning net assets	<u>(288,044)</u>	<u>298,395</u>	<u>27,650</u>
Ending net assets(deficit)	<u>\$ (775,815)</u>	<u>\$ (288,044)</u>	<u>\$ (487,771)</u>

Net assets for the Partnership decreased by \$487,771 during the current fiscal year compared to a decrease of \$586,439 in net assets in the prior fiscal year. The revenues increase of \$4,253,587 is due to a \$4,004,383 increase in general fund appropriations provided by the COV. An increase in VEDP's marketing activities resulted in the increase in the related charges for services of \$102,399. Other revenues increase of \$146,805 was caused by a decrease in the losses on the disposal of fixed assets of \$83,094, an increase in other revenues of \$66,314 offset by a \$2,603 decrease in interest income on cash deposits.

The \$4,154,919 expense increase is due primarily to the increase in funding from the COV. Additional funding of \$2.75 million was provided to enhance VEDP's advertising and marketing efforts. Approximately \$2.4 million of these funds was budgeted in the marketing divisions; Business Development, International Investment, International Trade and Communications and Promotions. The balance was allocated between Research and Information Technology to enhance the support these divisions provide to the marketing efforts. Pass-through Payments for the Virginia Commercial Spaceflight Authority were increased by \$1,120,575.

General 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 Commonwealth of just over \$19.5 million. This amount was reduced by \$1.5 million for reductions in pass-through funding for the Virginia Biotechnology Wet-Laboratory Program. COV funding was increased by \$300,000 for Rolls Royce project management and \$125,000 for a one-time, 3% bonus for employees. Actual revenues for participation and sponsorship fees exceeded the adjusted final budgeted amounts by just over \$120,000 due to an increased marketing calendar of missions and events, which generates the related revenue. Actual expenditures were less than the final budget by approximately \$1.13 million. This surplus was primarily due to the delay in implementing some new domestic marketing and prospect activities and the opening of 2 foreign offices.

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 Executive Director, Virginia Economic Development Partnership, P.O. Box 798, Richmond, Virginia, 23218-0798.

Basic Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF NET ASSETS
As of June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 3,235,014
Petty cash and travel advances	4,068
Due from the Tobacco Indemnification and Community Revitalization Commission	111,509
Prepaid expenses	292,930
Other receivables	10,976
Lease deposits (Note 5)	18,875
Capital assets, net of accumulated depreciation (Note 6) Leasehold improvements, furniture, and equipment	<u>635,897</u>
Total assets	<u>4,309,269</u>
Liabilities	
Accounts payable	111,143
Accrued payroll	145,954
Due to Virginia Retirement System	119,740
Unearned revenue	4,185
Due to Virginia National Defense Industrial Authority	207,143
Noncurrent liabilities due within one year Compensated absences (Note 8)	433,286
Noncurrent liabilities due in more than one year Compensated absences (Note 8)	406,543
Net pension obligation (Note 9)	2,804,445
Net other post-employment obligation (Note 10)	<u>852,645</u>
Total liabilities	<u>5,085,084</u>
Net assets	
Investment in capital assets, net of related debt	635,897
Unrestricted	<u>(1,411,712)</u>
Total net assets (deficit)	<u><u>\$ (775,815)</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, 2011

	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities			
Business Development	\$ 3,144,682	33,000	\$ (3,111,682)
International Investment	1,907,003	31,700	(1,875,303)
International Trade	3,172,206	219,625	(2,952,581)
Research	1,866,534	-	(1,866,534)
Communications and Promotions	3,097,953	174,626	(2,923,327)
Information Technology	2,177,788	-	(2,177,788)
Administration	2,706,702	8,100	(2,698,602)
Pass-through Payments	1,379,095	-	(1,379,095)
Total governmental activities	19,451,963	467,051	(18,984,912)
General Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 4)			18,464,529
Interest revenue			10,370
Other revenue			26,250
Loss on disposal of fixed assets			(4,008)
Total general revenues			18,497,141
Decrease in net assets			(487,771)
Net assets, July 1, 2010			(288,044)
Net assets (deficit), June 30, 2011			\$ (775,815)

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUND
As of June 30, 2011

	<u>General Fund</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 3,235,014
Petty cash and travel advances	4,068
Due from the Tobacco Indemnification and Community Revitalization Commission	111,509
Prepaid expenses	292,930
Other receivables	10,976
Lease deposits (Note 5)	<u>18,875</u>
Total assets	<u><u>\$ 3,673,372</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 111,143
Accrued payroll	145,954
Due to Virginia Retirement System	119,740
Unearned revenue	4,185
Due to Virginia National Defense Industrial Authority	<u>207,143</u>
Total liabilities	<u>588,165</u>
Fund Balances:	
Nonspendable	311,805
Unassigned fund balance	<u>2,773,402</u>
Total fund balances	<u>3,085,207</u>
Total liabilities and fund balances	<u><u>\$ 3,673,372</u></u>

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

Fund balances, Governmental Fund	\$ 3,085,207
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	635,897
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.	<u>(4,496,919)</u>
Total net assets of governmental activities	<u><u>\$ (775,815)</u></u>

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2011

	General Fund
Revenues	
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 18,464,529
Participation fees	291,481
Sponsorship fees	122,355
Interest revenue	10,370
Other revenue	79,465
Total revenues	<u>18,968,200</u>
Expenditures	
Business Development	2,905,135
International Investment	1,836,586
International Trade	3,013,948
Research	1,736,118
Communications and Promotions	3,042,032
Information Technology	1,994,828
Administration	2,490,953
Pass-through Payments	1,379,095
Total expenditures	<u>18,398,695</u>
Revenues over expenditures	<u>569,505</u>
Fund balance, July 1, 2010	<u>2,515,702</u>
Fund balance, June 30, 2011	<u>\$ 3,085,207</u>

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 FUND
 TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2011

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

Net increase in fund balance of the general fund	\$	569,505
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 and loss on disposal of assets in the current period.		(120,929)
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>(936,347)</u>
Decrease in net assets of governmental activities	<u>\$</u>	<u>(487,771)</u>

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 FUND
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts			Variances with Final Budget- Positive (Negative)
	Original	Final	Actual	
Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 19,541,330	\$ 18,464,529	\$ 18,464,529	\$ -
Participation fees	189,200	240,900	291,481	50,581
Sponsorship fees	25,000	50,000	119,750	69,750
Interest revenue	10,000	10,000	10,370	370
Other revenue	25,000	75,497	94,962	19,465
Total revenues	19,790,530	18,840,926	18,981,092	140,166
Expenditures				
Business Development	3,114,859	3,280,937	2,893,409	387,528
International Investment	2,065,939	2,078,270	1,907,191	171,079
International Trade	2,938,172	2,898,647	2,971,639	(72,992)
Research	1,869,828	1,902,130	1,708,997	193,133
Communications and Promotions	2,848,280	3,161,576	2,970,177	191,399
Information Technology	1,937,838	2,008,730	1,968,298	40,432
Administration	2,611,184	2,734,439	2,446,592	287,847
Pass-through Payments	2,879,095	1,379,095	1,379,095	-
Total expenditures	20,265,195	19,443,824	18,245,398	1,198,426
Revenues over (under) expenditures	(474,665)	(602,898)	735,694	1,338,592
Fund balance, July 1, 2010	474,665	602,898	2,426,629	1,823,731
Fund balance, June 30, 2011 (Note 3)	\$ -	\$ -	\$ 3,162,323	\$ 3,162,323

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, 2011

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 Assets 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 consisting of participation fees and shared mission reimbursements.

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 Partnership financial resources.

Fund balances for the Partnership's governmental fund 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 balance

represents assets such as prepaid expenses and lease deposits that are unavailable to be spent on future operations. The unassigned fund balance represents the remainder of the general fund, fund balance.

C. 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, 2011.

D. 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 assets' lives are not capitalized.

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

E. Due to Virginia National Defense Industrial Authority

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

F. Unearned Revenue

Unearned revenue includes amounts received for sponsorship and participation fees at June 30, 2011, for an event to be held in the next fiscal period.

G. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2011. 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.

H. 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, 2010, which is the second year of the biennium ended June 30, 2011. 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.

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. 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 Fund 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>General Fund</u>
Fund balance, cash basis, June 30, 2011	\$ 3,162,323
Add: Prepaid expenses and other receivables	303,906
Deduct: Accrued expenses and unearned revenues	<u>(381,022)</u>
Fund balance, GAAP basis, June 30, 2011	<u>\$ 3,085,207</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 874	\$ 19,944,647
Add: Funding for Rolls Royce Project Management	300,000
Funding for employee bonuses	125,180
Deduct: Reduction in funding for pass through payments	(1,500,000)
Appropriation for VNDIA	(403,317)
Central Appropriations adjustments	<u>(1,981)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 18,464,529</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Lynchburg, Virginia, and Tokyo, Japan. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Lynchburg lease deposit is held in U.S. dollars in a non-interest bearing account and is valued at \$400. The Tokyo lease deposit is held in Japanese yen in a non-interest bearing account in the amount of 1,880,000 Japanese yen. The Tokyo lease deposit is valued at \$18,475 at June 30, 2011.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Leasehold improvements, furniture and equipment	\$ 1,545,613	\$ 41,988	\$ (38,337)	\$ 1,549,264
Less: accumulated depreciation	<u>788,787</u>	<u>158,909</u>	<u>(34,329)</u>	<u>913,367</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 756,826</u>	<u>\$ (116,921)</u>	<u>\$ (4,008)</u>	<u>\$ 635,897</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, 2011, amounted to \$1,605,356. A summary of minimum future obligations under these agreements as of June 30, 2011, follows:

<u>Year Ending June, 30</u>	<u>Obligations</u>
2012	\$ 1,577,797
2013	1,343,558
2014	1,372,537
2015	1,383,180
2016	<u>692,718</u>
Total future minimum rental payments	<u>\$ 6,369,790</u>

8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2011, was as follows:

<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
\$ 764,436	\$ 547,069	\$ 471,676	\$ 839,829
	Due Within One Year		<u>(433,286)</u>
	Due in More Than One Year		<u>\$ 406,543</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 two retirement plans administered by the VRS. As of June 30, 2011, the Partnership's net pension obligation was \$2,804,445.

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 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. 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.

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. The employer may assume this 5 percent member contribution for Plan 1 members. The Partnership paid the Plan 1 member contributions, which amounted to \$327,088 (5 percent of total creditable compensation of \$6,541,760). 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 contribution rate for the fiscal year ended June 30, 2011, was 6.58 percent, which resulted in a contribution of \$444,254 (6.58 percent of Plan 1 plus Plan 2 creditable compensation of \$6,751,577) of for the fiscal year.

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, 2011, the Partnership's combined net other post-employment benefit obligation for these plans was \$852,645.

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 1.02% of creditable compensation of \$6,913,712 resulting in a contribution of \$70,520. This contribution covers premiums for active employees and actual death claims for retirees. As of June 30, 2011, 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 0.99% of creditable compensation of \$6,751,577 resulting in a contribution of \$66,841 as of June 30, 2011, the Partnership's net post-employment benefit obligation for this plan was \$99,338.

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 0.66% of creditable compensation of \$6,779,490 resulting in a contribution of \$44,745. As of June 30, 2011, the Partnership's net post-employment benefit obligation for this plan was \$194,679.

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, 2011, the Partnership's net post-employment benefit obligation for this plan was \$558,628.

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 \$10 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 \$17,140 for the fiscal year 2011.

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 from loss from employee actions by an insurance policy issued by the Chubb Group and the Great Northern Insurance Company. Policy coverage from 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.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 21, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the General 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, 2011, which collectively comprise the Partnership's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Partnership's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund, a major fund of the Virginia Economic Development Partnership as of June 30, 2011, the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2011, 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 and should be considered in assessing the results of our audit.


AUDITOR OF PUBLIC ACCOUNTS

AWP/alh