VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT

June 30, 2024 and 2023

WALL
EINHORN &
CHERNITZER
CPAs & ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Beach Community Development Corporation and Subsidiaries
Virginia Beach, Virginia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Virginia Beach Community Development Corporation and Subsidiaries** (collectively referred to as "the Companies"), a component unit of the City of Virginia Beach, Virginia, which comprise the consolidated statements of net position as of June 30, 2024 and 2023, and the related consolidated statements of revenues, expenses and changes in net position, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated net position of the Companies as of June 30, 2024 and 2023, and the changes in their net position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Companies and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Companies' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Companies' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Companies' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 4 to 8 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

Supplementary Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises the supplemental consolidating schedules on pages 45 to 47 but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2024 on our consideration of the Companies' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Companies' 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 Companies' internal control over financial reporting and compliance.

Wall, Einhorn + Chernitzer, P.C.

Norfolk, Virginia
November 18, 2024

Management's Discussion and Analysis

This section of Virginia Beach Community Development Corporation (VBCDC) and Subsidiaries' (Companies) annual consolidated financial report presents our discussion and analysis of the Companies' consolidated financial performance for the year ended June 30, 2024 (FY 2024). Please read it in conjunction with the consolidated financial statements that follow this section. The following table summarizes the consolidated financial position and activities of the Companies for FY 2024 and provides a comparison to FY 2023 and FY 2022.

Consolidated Statements of Net Position

	2024	2023	2022
Assets:			
Cash	**$ 1,846,062**	$ 2,228,216	$ 2,239,622
Accounts receivable	**276,338**	226,113	292,053
Other receivables, related parties	**292,024**	177,649	-
Grants receivable	**119,119**	208,671	286,301
Prepaid expenses	**35,111**	30,901	800
Short-term investments	**537,156**	519,158	505,932
Notes receivable	**4,113,843**	4,153,259	4,302,294
Accrued interest receivable	**248,096**	221,153	194,899
Security deposits	**326,286**	308,256	277,766
Replacements reserve	**1,208,960**	1,638,906	590,115
Deposits	**-**	-	56,810
Property, net	**24,951,197**	26,003,236	26,599,249
Total assets	**$ 33,954,192**	$ 35,715,518	$ 35,345,841
Liabilities and net position:			
Accounts payable	**$ 369,877**	$ 198,838	$ 187,966
Security deposits	**243,393**	234,341	209,311
Accrued expenses	**120,869**	167,467	108,172
Lines of credit	**547,908**	119,203	2,777,827
Deferred revenue	**145,643**	93,954	155,757
Notes payable	**18,545,582**	19,657,861	16,713,110
Net position	**13,980,920**	15,243,854	15,193,698
Total liabilities and net position	**$ 33,954,192**	$ 35,715,518	$ 35,345,841

Consolidated Statements of Revenues, Expenses and Changes in Net Position

	2024	2023	2022
Operating revenues:			
Grants and contracts	$ **2,191,642**	$ 2,583,560	$ 2,595,545
Rental and other tenant income	**5,050,682**	5,123,955	4,926,384
Management fees	**65,352**	60,519	57,372
Contributions and other income	**19,175**	26,158	37,916
Total operating revenues	**7,326,851**	7,794,192	7,617,217
Operating expenses:			
Program services	**7,725,569**	7,355,111	7,124,752
Administrative support services	**791,374**	527,277	400,943
Total operating expenses	**8,516,943**	7,882,388	7,525,695
Operating income (loss)	**(1,190,092)**	(88,196)	91,522
Nonoperating revenues:			
Investment income	**80,934**	45,116	25,537
Forgiveness of debt	**115,000**	-	-
Loss on disposal of property and equipment	**(268,776)**	93,236	(28,773)
Total nonoperating revenues	**(72,842)**	138,352	(3,236)
Change in net position	$ **(1,262,934)**	$ 50,156	$ 88,286

Program and Project Status:

Grants & Funding

Support Service for Veteran Families (SSVF) - U.S. Department of Veterans Affairs

In FY 2024 and FY 2023, VBCDC was awarded $2,111,561 and $1,346,121, respectively, to provide support services to veterans in the Hampton Roads area. VBCDC provides case management, referrals for benefits, and temporary financial assistance to qualifying veterans and their families. Between July 1, 2023 and June 30, 2024, VBCDC expended $777,878 for rental assistance, utility assistance, transportation assistance, security deposits, emergency housing, and general housing assistance. In FY 2023, VBCDC was awarded $463,080 in Landlord Tenant Incentive Funds to be used to incentivize landlords to serve eligible households and to assist veterans with household start-up items. Landlord Tenant Incentive Funds have a 4-year grant term ending September 30, 2026. As of the end of June 2024, VBCDC assisted 185 households: 153 households without children and 32 households with children. At the end of the fiscal year, 110 households exited the program with 62% of these households exiting to permanent housing.

Veterans First Permanent Housing Leasing Program Grant - U.S. Department of HUD Supportive Housing Program (SHP) Grant

In March 2012, HUD provided a two-year grant to VBCDC to provide housing assistance payments to homeless disabled veterans. Through this grant, VBCDC provides rental subsidies to single, homeless, disabled veterans. VBCDC provides case management and rental assistance payments and coordinates with the Hampton VA Medical Center for additional services. The initial grant term was for two years with renewals through the annual Continuum of Care each year. In FY 2024 and FY 2023, VBCDC received $77,217 and $77,253, respectively, in grant funds. In FY 2024, 10 persons were provided assistance totaling $77,217. In FY 2023, 10 persons were provided assistance totaling $77,253 through the Veterans First program.

Renewed Hope

During FY 2024 and FY 2023, VBCDC received a grant award from HUD for the Renewed Hope Program. Renewed Hope is a Permanent Supportive Housing Program that assists homeless and disabled singles and couples in achieving self-sufficiency by providing permanent affordable rental housing with supportive services. This program is funded under the HUD Continuum of Care. VBCDC provides long-term rental assistance through the HUD program and applicants rent from landlords in Virginia Beach. The grant award was $134,162 for the period of December 1, 2023 through November 30, 2024 and $134,162 for the period December 1, 2022 through November 30, 2023. During FY 2024, VBCDC received $127,730 and expended $123,540 for this program. During FY 2023, VBCDC received $107,974 and expended $110,843. In FY 2024, 13 persons were provided assistance.

Housing for the Disabled

During FY 2024 and FY 2023, the City of Virginia Beach Department of Human Services (DHS) provided $229,899 and $223,203, respectively, to VBCDC for the Atlantis Manor, Beach Park, and Beach Park West housing programs serving persons who are low income and have mental health disabilities. DHS provides staff support and case management. The funds are used to pay maintenance, utilities, insurance, debt service and other expenses of the units.

City Rehab Funding

In FY 2022, VBCDC was awarded American Rescue Plan Act funds in the amount of $480,000 to rehabilitate scattered site properties located in Scarborough Square neighborhood and $348,000 to rehabilitate Westneck Village. In FY 2024, VBCDC expended $31,185 on Scarborough Square renovations and $132,761 on Westneck Village renovations.

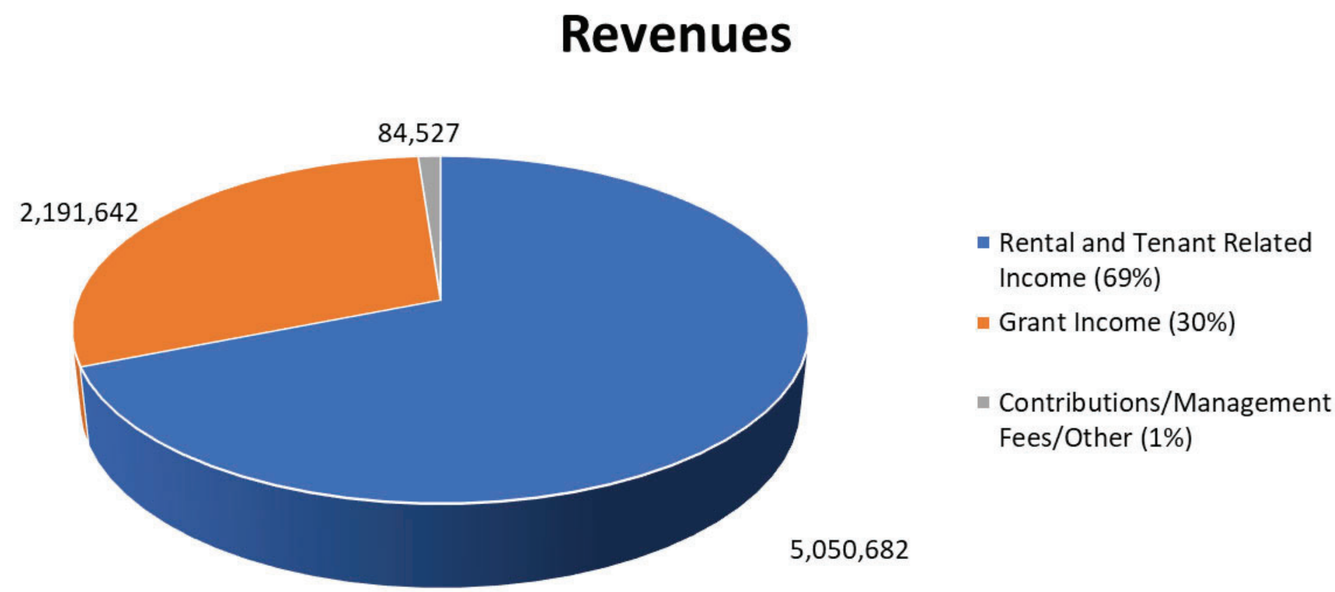
VBThrive

During FY 2024, the United Way of South Hampton Roads awarded $240,964 to VBCDC to serve as a lead partner agency for the VBThrive program. This program provides case management and mobility mentoring to qualified Virginia Beach residents impacted by COVID-19. During FY 2024, VBCDC expended $63,643 and received referrals for 259 households.

Operations Analysis

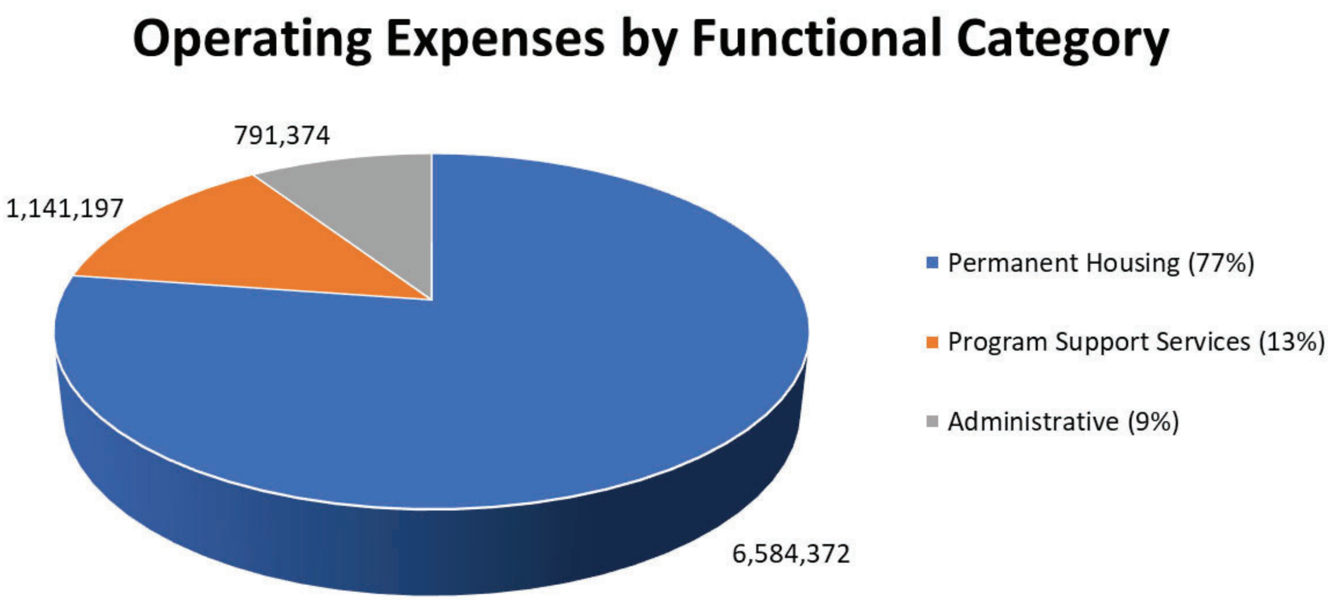
The Operations Analysis is an accrual-based analysis consisting of all non-capital activities of the Companies. The direct costs of purchase and rehabilitation of properties and any associated funding are not included in the Operations Analysis.

During FY 2024, VBCDC provided housing for low to moderate income individuals and families, housing for elderly, disabled, and other special needs populations, and permanent supportive housing for homeless individuals and families and veteran households, and supportive services such as case management and direct financial assistance. The following is a breakdown of funding by source for FY 2024:



For FY 2024, overall operating revenues totaled $7,326,851 which is a 6% decrease from the prior year. The decrease in revenue is due primarily to the assistance from the City of Virginia Beach that was received in the prior fiscal year as well as a decreased amount of revenue earned on the SSVF grants. Rental and Tenant Related Income decreased by 1% due to increased vacancies.

For FY 2024, operating expenses totaled $8,516,943, an increase of 9% over FY 2023. FY 2024 operating expenses are broken out as follows:



VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET POSITION

June 30, 2024 and 2023

		2024		2023
ASSETS				
Cash and cash equivalents	**$**	**1,846,062**	$	2,228,216
Accounts receivable, net of an allowance of $95,144 in 2024 and $96,269 in 2023		**276,338**		226,113
Other receivables, related parties		**292,024**		177,649
Grants receivable		**119,119**		208,671
Prepaid expenses		**35,111**		30,901
Short-term investments		**537,156**		519,158
Notes receivable		**4,113,843**		4,153,259
Accrued interest receivable		**248,096**		221,153
Security deposits		**326,286**		308,256
Replacements reserve and escrows		**1,208,960**		1,638,906
Property, net		**24,951,197**		26,003,236
Total assets	**$**	**33,954,192**	$	35,715,518
LIABILITIES AND NET POSITION				
Liabilities:				
Accounts payable	**$**	**369,877**	$	198,838
Security deposits		**243,393**		234,341
Accrued expenses		**120,869**		167,467
Deferred revenue		**145,643**		93,954
Lines of credit		**547,908**		119,203
Long-term debt, net of unamortized debt issuance costs		**18,545,582**		19,657,861
Total liabilities		**19,973,272**		20,471,664
Net position:				
Invested in capital assets, net of related debt		**6,405,615**		6,345,375
Restricted		**-**		32,347
Unrestricted:				
Undesignated		**6,601,225**		7,806,662
Board designated		**974,080**		1,059,470
Total net position		**13,980,920**		15,243,854
Total liabilities and net position	**$**	**33,954,192**	$	35,715,518

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2024 and 2023

	2024	2023
Operating revenues:		
Grants and contracts	**$ 2,191,642**	$ 2,583,560
Other revenues:		
Contributions	**4,098**	14,899
Rental/program fee income	**5,050,682**	5,123,955
Other income	**15,077**	11,259
Management fees	**65,352**	60,519
Total support	**7,326,851**	7,794,192
Operating expenses:		
Program services	**7,725,569**	7,355,111
Supportive services	**791,374**	527,277
Total operating expenses	**8,516,943**	7,882,388
Operating loss	**(1,190,092)**	(88,196)
Nonoperating revenues (expenses):		
Interest income, net	**72,533**	45,236
Dividend income	**6,197**	4,059
Unrealized gain (loss) on investments	**2,204**	(4,179)
Forgiveness of debt	**115,000**	-
(Loss) gain on disposal of property and equipment	**(268,776)**	93,236
Total nonoperating revenues (expenses)	**(72,842)**	138,352
Change in net position	**(1,262,934)**	50,156
Net position at beginning of year	**15,243,854**	15,193,698
Net position at the end of year	**$ 13,980,920**	$ 15,243,854

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2024 and 2023

	2024			2023		
	Program Services	Supportive Services	Total	Program Services	Supportive Services	Total
Salaries	$ 1,803,589	$ 208,078	$ 2,011,667	$ 1,569,951	$ 214,084	$ 1,784,035
Depreciation/amortization	1,195,948	24,407	1,220,355	1,233,185	25,167	1,258,352
Property maintenance/rehabilitation	1,203,514	-	1,203,514	1,020,541	-	1,020,541
Support services	1,141,197	-	1,141,197	1,353,357	-	1,353,357
Interest	829,138	13,397	842,535	747,395	88,746	836,141
General liability insurance	-	345,369	345,369	-	21,899	21,899
Employee benefits and taxes	299,756	40,876	340,632	328,449	44,789	373,238
Bad debt expense	248,622	-	248,622	72,764	-	72,764
Association fees	237,473	-	237,473	275,977	-	275,977
Accounting	143,203	47,735	190,938	59,356	19,786	79,142
Fire and property insurance (rental units)	154,788	-	154,788	275,829	-	275,829
Utilities	125,129	-	125,129	96,001	-	96,001
Information technology	78,732	26,244	104,976	88,999	29,667	118,666
Office supplies	37,288	15,230	52,518	21,463	8,766	30,229
Legal	17,296	35,116	52,412	15,157	30,773	45,930
Telecommunications	48,163	-	48,163	35,138	4,791	39,929
Other contract services	46,223	-	46,223	20,352	3,877	24,229
Routine travel	45,961	-	45,961	39,144	-	39,144
Management fees	38,906	-	38,906	40,415	-	40,415
Training, conferences, and staff education	6,545	8,270	14,815	5,373	2,089	7,462
Printing and copying	11,101	3,700	14,801	9,723	3,241	12,964
Office occupancy	-	13,130	13,130	-	7,909	7,909
Postal service	10,798	-	10,798	954	318	1,272
Other expenses	-	5,380	5,380	22,600	16,721	39,321
Membership dues	-	4,442	4,442	-	4,648	4,648
Advertising	1,611	-	1,611	14,426	-	14,426
Food service	461	-	461	105	-	105
Taxes/unit	127	-	127	8,457	-	8,457
Books and subscriptions	-	-	-	-	6	6
	$ 7,725,569	$ 791,374	$ 8,516,943	$ 7,355,111	$ 527,277	$ 7,882,388

See Independent Auditor’s Report and Notes to Consolidated Financial Statements.

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOW FROM OPERATING ACTIVITIES:		
Rental receipts from customers and users	$ **4,754,188**	$ 5,056,363
Cash receipts from grants	**2,323,521**	2,661,190
Other operating cash expenses	**(31,817)**	(97,467)
Cash payments to suppliers of goods and services	**(6,043,755)**	(5,555,018)
Net cash provided by operating activities	**1,002,137**	2,065,068
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Change in notes receivable	**39,416**	149,035
Net change in reserves	**429,946**	23,494
Principal payments on long-term debt	**(842,161)**	(578,604)
Cash payments for interest expense	**(843,014)**	(794,947)
Net proceeds from notes payable	**-**	52,869
Purchases of capital assets	**(594,033)**	(935,427)
Proceeds from line of credit	**428,705**	119,203
Payment of debt issuance costs	**-**	(71,389)
Cash paid outside of closing	**-**	(37,558)
Net cash used in capital and related financing activities	**(1,381,141)**	(2,073,324)
CASH FLOW FROM INVESTING ACTIVITIES:		
Change in short-term investments	**(3,150)**	(3,150)
Net decrease in cash and cash equivalents	**(382,154)**	(11,406)
Beginning cash and cash equivalents	**2,228,216**	2,239,622
Ending cash and cash equivalents	$ **1,846,062**	$ 2,228,216

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2024 and 2023

	2024	2023
Reconciliation of change in net position to net cash provided by operating activities:		
Operating loss	**$ (1,190,092)**	$ (88,196)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation/amortization	**1,220,355**	1,258,352
Interest expense	**843,014**	794,947
Pro-rated real estate taxes and utilities	**2,446**	5,316
Bad debt expense	**248,622**	72,764
Non-cash interest expense	**-**	38,914
Non-cash insurance expense	**-**	30,100
Change in:		
Accounts receivable	**(298,847)**	(5,281)
Other receivables, related parties	**(114,375)**	(179,192)
Grants receivable	**89,552**	77,630
Prepaid expenses	**34,310**	-
Deposits	**-**	56,810
Accounts payable	**171,039**	10,872
Accrued expenses	**(46,598)**	59,295
Deferred revenue	**51,689**	(61,803)
Security deposits	**(8,978)**	(5,460)
Net cash provided by operating activities	**$ 1,002,137**	$ 2,065,068

See Independent Auditor's Report and Notes to Consolidated Financial Statements.

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

Proceeds from the sale of properties were used as follows:

	2024	2023
Sources:		
Sales price	**$ 176,800**	$ 410,000
Uses:		
Payoff existing long-term debt	**162,653**	388,064
Selling expenses	**11,700**	16,620
Expenses paid at closing	**2,447**	5,316
Proceeds from sale	**$ -**	$ -

During the year ended June 30, 2023, proceeds from the refinance of debt were used as follows:

Sources:	
Long-term debt	$ 6,020,100
Deposits paid prior to closing	37,558
Total sources	6,057,658
Uses:	
Payoff existing long-term debt	1,904,207
Payoff existing line of credit	2,777,827
Interest expense paid at closing	38,914
Debt issuance costs	151,355
Mortgage insurance premium paid at closing	60,201
Escrow held by lender	1,072,285
Total uses	6,004,789
Proceeds from closing	$ 52,869

Note 1. Nature of Activities

The accompanying consolidated financial statements include the accounts of Virginia Beach Community Development Corporation (VBCDC) and its wholly owned subsidiaries, Cornerstone Property Ventures, LLC, Vets' Housing, Inc. and Chesapeake Vets' Housing, Inc. (collectively, the Companies). VBCDC is a nonprofit organization organized in September 1985 for the purpose of expanding and improving opportunities for low- and moderate-income households in Virginia Beach, Virginia.

VBCDC is considered a component unit of the City of Virginia Beach (City). This determination is based on an analysis using the authoritative criteria for determining the activities, organizations and functions to be included in a government entity's financial statements. Specifically, VBCDC is considered a component unit because of the City's appointment of the Board, which gives the City the potential to impose its will on VBCDC. Funding received from the City is in the form of grants.

Cornerstone Property Ventures, LLC (Cornerstone), a wholly owned subsidiary of VBCDC, purchased Grand Cypress Apartments on December 21, 2016 for $5,100,000. The 55-unit apartment community is located at 1200 Grand Cypress Square in Virginia Beach, Virginia. These apartments were purchased fully occupied and are rented to moderate-income households. The purchase was made by Cornerstone Property Ventures, LLC assuming the mortgage and VBCDC obtaining an equity loan from TowneBank. Cornerstone Property Ventures, LLC has contracted with United Property Associates to perform management services for the complex.

Vets' Housing, Inc. is a Virginia for profit corporation owned 100% by VBCDC. Vets' Housing is one of three partners of Cedar Grove 2011, L.P. which has 0.009% ownership of Cedar Grove Apartments.

Chesapeake Vets' Housing, Inc. is a Virginia for profit corporation owned 100% by VBCDC (previously Second Act Communities). Chesapeake Vets' Housing is one of three partners of Cypress Landing, LLC which has 0.009% ownership of Cypress Landing Apartments.

Note 2. Summary of Significant Accounting Policies

Basis of accounting:

The consolidated financial statements have been prepared using the economic resources management focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Therefore, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of payments. The Companies have adopted Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting. The Companies have elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20.

Principles of consolidation:

The consolidated financial statements include the accounts of VBCDC, Cornerstone, Vets' Housing, Inc. and Chesapeake Vets' Housing Inc. (collectively referred to as the "Companies"). All significant interfund balances and transactions have been eliminated.

Financial statement presentation:

To ensure observance of the grant limitations and restrictions placed on the use of its resources, the Companies classify their accounts for accounting and reporting into funds established according to their nature and intended use. The assets, liabilities and net position are presented into two fund groups:

See Independent Auditor's Report. Notes continued on next page.

Note 2. Summary of Significant Accounting Policies (continued)

Financial statement presentation (continued):

Permanent Rental Housing Funds include income and expenses directly associated with the rental of affordable low-income housing under NOAH, HOME, Housing First, Biznet, Atlantis Manor, Cape Henry, Ocean Trace, Beach Park, Beach Park West, and Grand Cypress, Citywide Apartment projects, and Bayberry 7. In addition, Veterans First housing assistance, Support Services for Veteran Families (SSVF), New Haven and Renewed Hope grant activity, project development fee income and investment activity are recorded under Permanent Rental Housing Funds.

Administration/Operation Funds include rental revenues to be used for the administrative and operational expenses of VBCDC, and its various acquisition/rehab and rental programs.

Cash and cash equivalents:

The Companies consider all cash accounts and all highly liquid debt instruments, including certificates of deposit with an initial maturity of three months or less, to be cash equivalents.

Accounts receivable:

Accounts receivable from program services and tenants are recorded at their net realizable values. The allowance method is used to determine uncollectible accounts and is based on prior years' collection experience and management's analysis of the accounts. At June 30, 2024 and 2023, there was $95,144 and $96,269, respectively, in allowance for doubtful accounts. Recoveries of accounts receivable previously written off are recorded as income when received. Interest is not charged on past due receivables. The Companies do not require collateral for receivables, but most tenant receivables are secured by tenant deposits.

Grants receivable:

Grants receivable are stated at the amount management expects to collect from balances outstanding at year end. Based on management's assessment, it has concluded grants receivable at June 30, 2024 and 2023 are fully collectible.

Investments:

Short-term investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. Included in short-term investments are certificates of deposit, mutual funds, and stock securities.

Property and equipment:

Property and equipment are recorded at cost, if purchased, and at estimated or market value, if donated. Expenditures for repairs and maintenance are charged against operations and expenditures for improvements and betterments are capitalized when incurred. Depreciation is provided for on the straight-line method over the estimated useful lives of the related assets. The estimated lives of property and equipment are as follows:

	Years
Buildings and fixtures	5 - 40
Vehicles	7
Equipment	5 - 15
Land Improvements	15

See Independent Auditor's Report. Notes continued on next page.

Note 2. Summary of Significant Accounting Policies (continued)

Impairment of long-lived assets:

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Net position:

The consolidated statements of net position present the Companies' assets and liabilities, with the difference reported as net position. Net position is categorized into three components:

Invested in capital assets – net of related debt – represents the Companies' total investment in capital assets, net of accumulated depreciation, reduced by outstanding balances for notes that are attributed to the acquisition, construction or improvement of those assets. This account is unrestricted.

Restricted net position – results when constraints placed on net position use are either externally imposed by law through conditional provision or enabling legislation. During the year ended June 30, 2024, $32,347 was released from restriction.

Unrestricted net position – consist of net position which does not meet the definition of the two preceding categories. The Companies have some net position which has been earmarked by its governing board to be used for additional replacement reserves (board designated), however, the purpose can be changed at any given time by vote of the Board of Directors.

Government grants:

Revenue from cost reimbursement-based government grants are recognized when reimbursable costs are incurred under the terms of the grant agreements. Revenues from performance-based government grants are recognized when performance objectives pursuant to the grant agreement have been accomplished. Grant payments received in excess of the qualified costs or performance are accounted for as deferred revenues. At June 30, 2024, there was $42,327 in deferred grant revenue. At June 30, 2023, there were no amounts in deferred grant revenue.

Rental income:

The Companies provide low-income housing opportunities to qualifying individuals and families at their facilities. Rental amounts charged at these facilities are limited by grant and other contract restrictions. The rental property is generally leased to tenants under one-year non-cancelable operating leases. Rental income is recognized on a straight-line basis in accordance with the provisions of the lease terms and as additional services are provided.

Income taxes:

The Companies are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and tax statues in the Commonwealth of Virginia, except on net income derived from unrelated business activities. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. Currently the Companies have no obligation for any unrelated business income tax and therefore the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes.

See Independent Auditor's Report. Notes continued on next page.

Note 2. Summary of Significant Accounting Policies (continued)

Advertising:

Advertising costs are expensed as incurred.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Reclassifications:

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications have no effect on the change in net position previously reported.

Note 3. Fair Value Measurements

Fair value, as defined under accounting principles generally accepted in the United States of America, is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs used in the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The Companies endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Following is a description of the methodologies used by the Companies to determine fair value of their investments. There have been no changes in the methodologies used at June 30, 2024 from those used at June 30, 2023.

Certificates of deposit: Held in the investment portfolio and have initial maturities of greater than three months valued at the initial investment plus accrued interest (Level 1).

See Independent Auditor's Report. Notes continued on next page.

Note 3. Fair Value Measurements (continued)

Mutual funds: Publicly traded investments valued daily at the closing price reported on the active market on which the funds are traded (Level 1).

Stock securities: Publicly traded investments valued daily at the closing price reported on the active market on which the individual securities are traded (Level 1).

The prescribed methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Companies believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Companies' assets accounted for at fair value on a recurring basis as of June 30:

	2024			
	Level 1	**Level 2**	**Level 3**	**Total**
Certificates of deposit	**$ 378,684**	**$ -**	**$ -**	**$ 378,684**
Mutual funds	**133,349**	**-**	**-**	**133,349**
Stock securities	**25,123**	**-**	**-**	**25,123**
Total	**$ 537,156**	**$ -**	**$ -**	**$ 537,156**

	2023			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ 372,237	$ -	$ -	$ 372,237
Mutual funds	124,850	-	-	124,850
Stock securities	22,071	-	-	22,071
Total	$ 519,158	$ -	$ -	$ 519,158

Note 4. Investments

Investments consisted of the following at June 30:

	2024		
	Cost	**Fair Value**	**Cumulative Unrealized Gain (Loss)**
Certificates of deposit	**$ 378,684**	**$ 378,684**	**$ -**
Mutual funds	**145,963**	**133,349**	**(12,614)**
Stock securities	**23,422**	**25,123**	**1,701**
Total	**$ 548,069**	**$ 537,156**	**$ (10,913)**

	2023		
	Cost	Fair Value	Cumulative Unrealized Gain (Loss)
Certificates of deposit	$ 372,237	$ 372,237	$ -
Mutual funds	137,028	124,850	(12,178)
Stock securities	23,071	22,071	(1,000)
Total	$ 532,336	$ 519,158	$ (13,178)

Note 5. Notes Receivable

	2024	2023
Permanent Rental Housing Funds:		
Deed of trust notes receivable from Cypress Landing, L.L.C., payable from the net cash flow of Cypress Landing, L.L.C. by March 19, 2048, 0% interest.	**$ 1,314,062**	$ 1,314,062
Deed of trust notes receivable from Cedar Grove 2011, L.P., interest at 2.65%, payable from the net cash flow of Cedar Grove 2011, L.P. by June 29, 2044.	**795,559**	795,559
Deed of trust note receivable from Cypress Landing, L.L.C., payable from the net cash flow of Cypress Landing, L.L.C. by August 1, 2050, 0% interest.	**525,000**	525,000
Deed of trust note receivable from Cypress Landing, L.L.C., payable from the net cash flow of Cypress Landing, L.L.C. by March 19, 2048, 0% interest.	**500,000**	500,000
Deed of trust note receivable from Cedar Grove 2011, L.P., payable from the net cash flow of Cedar Grove 2011, L.P. by June 29, 2044, 0% interest.	**455,449**	455,449
Developer Fee Funds:		
Developer fee note receivable from Cypress Landing, L.L.C., payable from net cash flow of Cypress Landing, L.L.C. by December 9, 2032, 0% interest.	**468,828**	508,244
Acquisition/Rehabilitation and Homeownership Funds:		
Deed of trust notes receivable, lump sum payment due at sale or transfer of collateralizing property, 0% interest.	**54,945**	54,945
	$ 4,113,843	$ 4,153,259

At June 30, 2024 and 2023, notes receivable had related accrued interest receivable amounts of $248,096 and $221,153, respectively.

See Independent Auditor's Report. Notes continued on next page.

Note 6. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2024	2023
Buildings and fixtures	**$ 36,195,245**	$ 36,228,245
Land	**9,560,967**	9,592,967
Vehicles	**276,339**	276,339
Equipment	**564,219**	438,910
Land improvements	**128,125**	120,143
	46,724,895	46,656,604
Less accumulated depreciation	**(21,916,992)**	(20,868,960)
	24,807,903	25,787,644
Construction in progress	**143,294**	215,592
Property, net	**$ 24,951,197**	$ 26,003,236

Note 7. Lines of Credit

VBCDC has a line of credit with TowneBank. Effective August 19, 2022, the limit was reduced from $2,500,000 to $1,500,000. The line of credit bears interest at the AMERIBOR Term-30 rate plus 2.3% (7.68% at June 30, 2024), is payable on demand and is collateralized by real property. At June 30, 2024 and 2023, there was an outstanding balance of $547,908 and $119,203, respectively, on the line.

Effective February 18, 2022, VBCDC entered into another line of credit with TowneBank up to $3,286,121 bearing interest at the Wall Street Journal Prime Rate plus 0.5%. The line of credit matured on February 18, 2024, and was collateralized by all assets of Cornerstone Property Ventures, LLC. It was a straight line of credit such that once the total amount of principal was advanced, VBCDC was not entitled to further loan advances. During the year ended June 30, 2022, only $2,777,827 was drawn on the line, leaving a remaining balance of $508,294 eligible to be advanced. During the year ended June 30, 2023, the line was repaid with proceeds from a mortgage with Berkadia Commercial Mortgage, LLC.

See Independent Auditor's Report. Notes continued on next page.

Note 8. Long-Term Debt

		2024		2023
NOAH rental properties:				
Mortgage note payable with Virginia Housing (VH) in monthly installments of $5,302, which includes principal and interest at an effective rate of 4.605% over the term of the loan, which extends to June 1, 2044, collateralized by real property. With the monthly mortgage payment, a $188 deposit to the replacement reserve is required. Funds from the replacement reserve may be released for repairs and replacements with VH approval.	**$**	**830,534**	$	855,285
Mortgage note payable with VH in monthly installments of $3,945, which includes principal and interest at an effective rate of 4.05% over the term of the loan, which extends to October 1, 2044, collateralized by real property. With the monthly mortgage payment, a $146 deposit to the replacement reserve is required. Funds from the replacement reserve may be released for repairs and replacements with VH approval.		**655,184**		675,542
Mortgage note payable with VH in monthly installments of $4,532, which includes principal and interest at an effective rate of 4.364% over the term of the loan, which extends to December 1, 2045, collateralized by real property. With the monthly mortgage payment, a $167 deposit to the replacement reserve is required. Funds from the replacement reserve may be released for repairs and replacements with VH approval.		**757,798**		778,622
Mortgage note payable with VH in monthly installments of $4,470, which includes principal and interest at an effective rate of 4.10% over the term of the loan, which extends to December 1, 2041, collateralized by real property. With the monthly mortgage payment, a $200 deposit to the replacement reserve is required. Funds from the replacement reserve may be released for repairs and replacements with VH approval.		**669,042**		694,673
Mortgage note payable with VH in monthly installments of $3,754, which includes principal and interest at an effective rate of 2.50% over the term of the loan, which extends to December 1, 2043, collateralized by real property. With the monthly mortgage payment, a $200 deposit to the replacement reserve is required. Funds from the replacement reserve may be released for repairs and replacements with VH approval.		**694,626**		721,933

See Independent Auditor's Report. Notes continued on next page.

Note 8. Long-Term Debt (continued)

	2024	2023
HOME rental properties:		
Mortgage note payable with Community Capital Bank of Virginia in monthly installments of $9,882, which includes principal and interest at an effective rate of 4.85% over the term of the loan, which extends to May 1, 2033, collateralized by real property. Annually, a $8,400 deposit to the replacement reserve is required. Funds from the replacement reserve may be drawn for repairs and replacements.	**1,188,109**	1,251,346
Bayberry Homes and rental properties:		
Mortgage note payable with VH in monthly installments of $4,206, which includes principal and interest at an effective rate of 4.0% over the term of the loan, which extends to June 1, 2039, collateralized by real property. With the monthly mortgage payment, a $292 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**568,663**	595,802
Mortgage note payable with VH in monthly installments of $4,505, which includes principal and interest at an effective rate of 3.5% over the term of the loan, which extends to November 1, 2039, collateralized by real property. With the monthly mortgage payment, a $292 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**643,373**	674,323
Mortgage note payable with VH in monthly installments of $4,190, which includes principal and interest at an effective rate of 3.969% over the term of the loan, which extends to March 1, 2036, collateralized by real property. With the monthly mortgage payment, a $208 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**471,586**	502,484
Mortgage note payable with VH in monthly installments of $3,547, which includes principal and interest at an effective rate of 4.123% over the term of the loan, which extends to October 1, 2042, collateralized by real property. With the monthly mortgage payment, a $167 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**547,004**	566,581

Note 8. Long-Term Debt (continued)

	2024	2023
Mortgage note payable with VH in monthly installments of $6,013, which includes principal and interest at an effective rate of 4.656% over the term of the loan, which extends to March 1, 2043, collateralized by real property. With the monthly mortgage payment, a $209 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**901,310**	930,752
Mortgage note payable with VH in monthly installments of $2,117, which includes principal and interest at an effective rate of 4.05% over the term of the loan, which extends to July 1, 2043, collateralized by real property. With the monthly mortgage payment, a $125 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**337,358**	348,851
Ocean Trace rental properties:		
Mortgage note payable with VH in monthly installments of $7,915, which includes principal and interest at an effective rate of 5.302% over the term of the loan, which extends to March 1, 2043, collateralized by real property. With the monthly mortgage payment, a $300 deposit to the replacement reserve is required. Funds from the replacement reserve may be released for repairs and replacements with VH approval.	**1,127,025**	1,161,257
Note payable to Bank of America, bearing interest at 4.20%, maturing in October 2027, collateralized by real property.	**257,049**	267,136
Beach Park rental properties:		
Mortgage note payable with VH in monthly installments of $5,731, which includes principal and interest at an effective rate of 4.259% over the term of the loan, which extends to July 1, 2045, collateralized by real property. With the monthly mortgage payment, a $209 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**955,759**	983,184

See Independent Auditor's Report. Notes continued on next page.

Note 8. Long-Term Debt (continued)

	2024	2023
Biznet rental properties:		
Mortgage note payable with VH in monthly installments of $2,767, which includes principal and interest at an effective rate of 3.734% over the term of the loan, which extends to November 1, 2042, collateralized by real property. With the monthly mortgage payment, a $1,200 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**441,654**	458,030
Gladiola Group Home properties:		
Mortgage note payable with VH in monthly installments of $827, which includes principal and interest at an effective rate of 3.25% over the term of the loan, which extends to September 1, 2035, collateralized by real property. With the monthly mortgage payment, a $21 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**93,391**	100,159
Atlantis Manor rental properties:		
Note payable to Bank of America, bearing interest at 6.15%, maturing in December 2023, collateralized by real property. The note was paid in full upon maturity.	**-**	230,407
Home Office:		
Mortgage note payable with TowneBank in monthly installments of $8,146, which includes principal and interest at an effective rate of 3.97%, and is collateralized by real property. The loan is subject to a rate adjustment every five years beginning July 2015 to the Federal Home Loan Bank of Atlanta's Fixed Rate Credit Index of $1 million to $5 million for 60 months plus 350 basis points over the term of the loan, which extends to July 1, 2030.	**478,110**	546,063

See Independent Auditor's Report. Notes continued on next page.

Note 8. Long-Term Debt (continued)

	2024	2023
Grand Cypress Apartments:		
Mortgage note payable with Berkadia in monthly installments of $28,491, which includes principal and interest at an effective rate of 4.50% over the term of the loan which extends to December 2057, collateralized by deed of trust as well as rents related to the property, insured by HUD under 207/223(f). With the monthly mortgage payment, a $1,146 deposit to the replacements reserve is required. A prepayment penalty may be imposed as defined in the note agreement.	**5,910,165**	5,984,275
Citywide Homes:		
Mortgage note payable with VH in monthly installments of $3,604, which includes principal and interest at an effective rate of 3.44% over the term of the loan, which extends to January 2046, collateralized by real property. With the monthly mortgage payment, a $800 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**658,439**	678,685
Second Act Communities:		
Mortgage note payable with VH in monthly installments of $2,675, which includes principal and interest at an effective rate of 1.5% over the term of the loan, which extends to April 2046, collateralized by real property. With the monthly mortgage payment, a $200 deposit to the replacements reserve is required. Funds from the replacements reserve may be released for repairs and replacements with VH approval.	**597,266**	620,216
Virginia Beach Development Authority (VBDA):		
Note payable with VBDA. Payable from the net proceeds received from the sale of certain properties; unless sooner forgiven, due in full May 2024, non-interest bearing. Collateralized by real property. Terms of the note include restrictions on purchases and development of real property outside the City of Virginia Beach. $162,653 was paid off through the sale of 959 Reservoir Avenue and remaining balance was forgiven in August 2023.	**-**	277,654
	18,783,445	19,903,260
Less unamortized debt issuance costs	**237,863**	245,399
	$ 18,545,582	$ 19,657,861

See Independent Auditor's Report. Notes continued on next page.

Note 8. Long-Term Debt (continued)

Future estimated debt service payments on long-term debt at June 30, 2024 are as follows:

	Principal	Interest	Total
2025	$ 631,173	$ 779,147	**$ 1,410,320**
2026	657,544	752,776	**1,410,320**
2027	685,057	725,263	**1,410,320**
2028	931,660	690,389	**1,622,049**
2029	732,872	657,528	**1,390,400**
2030 - 2034	4,197,494	2,800,950	**6,998,444**
2035 - 2039	3,770,196	1,944,536	**5,714,732**
2040 - 2044	3,435,596	1,166,257	**4,601,853**
2045 - 2049	1,334,930	673,672	**2,008,602**
2050 - 2054	1,305,903	403,529	**1,709,432**
2055 - 2058	1,101,020	91,386	**1,192,406**
	$ 18,783,445	$ 10,685,433	**$ 29,468,878**

Current year debt service activity for the year ended June 30, 2024 is as follows:

Beginning Balance	**Additions**	**Repayments**	**Amortization of issuance costs**	**Ending Balance**	**Due within one year**
$ 19,657,861	**$ -**	**$ 1,119,815**	**$ 7,536**	**$ 18,545,582**	**$ 631,173**

Prior year debt service activity for the year ended June 30, 2023 is as follows:

Beginning Balance	Additions	Repayments	Amortization of issuance costs	Ending Balance	Due within one year
$ 16,713,110	$ 6,020,100	$ 3,081,429	$ 6,080	$ 19,657,861	$ 1,113,778

Note 9. Grants

During 2024 and 2023, VBCDC received annual grants totaling $90,320 and $86,579, respectively, from the Department of Housing and Urban Development (HUD) for program services incurred by the Supportive Housing Program.

During 2024 and 2023, VBCDC received $229,899 and $223,203, respectively, from the Virginia Beach Department of Human Services for housing for the mentally disabled.

During 2024 and 2023, VBCDC received $1,424,145 and $1,573,919, respectively, from the U.S. Department of Veterans Affairs for program services expenses incurred by the Support Services for Veteran Families (SSVF) program.

During 2024 and 2023, VBCDC received $73,999 and $91,686, respectively, from the Department of Veterans Services (DVS).

During 2024 and 2023, VBCDC received $123,540 and $110,843, respectively, from the Department of Housing and Urban Development (HUD) for rental assistance and supportive services incurred by the Renewed Hope Program.

During 2024 and 2023, VBCDC received $63,643 and $92,561, respectively, from the United Way of South Hampton Roads (UWSHR) to provide in depth coaching to guide individuals and families as they seek to advance their goals.

During 2024, VBCDC received $163,946 and $269,241, respectively, from the City of Virginia Beach through the American Rescue Plan Act for life cycle improvements at West Neck Village and Scarborough Square.

During 2023, VBCDC received $58,530 from the City of Virginia Beach as a subrecipient of federal awards. The funds were awarded for renovation expenses for units owned by VBCDC. No funds were received from the City during 2024 for this purpose.

During 2024 and 2023, the Companies received $22,150 and $76,998, respectively, from various other sources to support their operations.

Note 10. Concentration of Credit Risk

Financial instruments which potentially subject the Companies to concentration of credit risk consist principally of cash and cash equivalents, short-term investments, and funded reserves held by lenders. The Companies place cash and cash equivalents and short-term investments with high credit quality financial institutions that participate in Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) programs. At times, balances may exceed amounts insured by the FDIC and SIPC. The Companies have not experienced any losses in such accounts.

For the year ended June 30, 2024, VBCDC had one major grant revenue contract which represented approximately 19% of VBCDC's total support.

Note 11. Commitments and Contingencies

Cedar Grove 2011, L.P.

During 2011, VBCDC established a wholly owned subsidiary corporation, Vets' Housing, Inc., (a shell corporation) designed to act as the general partner (.001% ownership) in a limited partnership, Cedar Grove 2011, L.P. (Cedar Grove). Cedar Grove's purpose is to develop, rehabilitate, own, maintain and operate a 32-unit apartment complex and rent the units to homeless and/or disabled veterans in order to take advantage of federal Low-Income Housing Tax Credits (LIHTC). VBCDC does not maintain control over Cedar Grove, and thus Cedar Grove is not consolidated with VBCDC.

VBCDC, through the subsidiary, is responsible for rehabilitating, developing, managing and maintaining the residential property. In return VBCDC receives development fees, incentive management fees, and other miscellaneous fees. The limited partners own 99.999% of Cedar Grove and are allocated a proportional share of LIHTC as well as income and losses.

Cedar Grove has been allocated total tax credits of $4,052,680 over ten years, of which $4,052,270 is allocated to the limited partners. VBCDC is contingently liable for credit shortfalls below this amount. The Partnership Agreement also contains several provisions that could require repurchase of limited partner's shares plus interest of 14% per annum. Provisions include, but are not limited to, certain operational goals and receipt of at least 95% of annual projected tax credits. The limited partner's portion of the annual projected tax credits is $75,980 in 2013, $405,227 in 2014-2022 and $329,247 in 2023.

After 15 years, the Cedar Grove Partnership Agreement provides for sale of the property, with right of first refusal given to VBCDC. The provisions outline a fair market value sale. The property must be maintained in the partnership for 15 years to continue qualifying for low-income tax credits.

Cypress Landing, L.L.C.

During 2017, Second Act Communities (SAC), now VBCDC, established a wholly owned subsidiary corporation, Chesapeake Vet's Housing, Inc. (a corporation) designated to act as the managing general partner (.009% ownership) in Cypress Landing, L.L.C. Cypress Landing's purpose is to develop, rehabilitate, own, maintain and operate a 50-unit apartment complex and rent the units to homeless and/or disabled veterans in order to take advantage of federal Low-Income Housing Tax Credits (LIHTC). VBCDC does not maintain control over Cypress Landing, and thus Cypress Landing is not consolidated with the Organization.

SAC, now VBCDC, through the subsidiary, guaranteed construction completion in accordance with approved plans and specifications, will fund operating deficits for a period of 15 years, commencing after construction completion, and guarantees the allocation of 99.99% of the Low-Income Housing Tax Credits allocated to the Cypress Landing project. Construction completion occurred during 2020. The limited partner's portion of the annual projected tax credits is $316,660 in 2019, $481,002 in 2020-2028, and $164,342 in 2029.

Note 11. Commitments and Contingencies (continued)

Other Commitments and Contingencies

VBCDC has a $500,000 and a $200,000 contingent liability to the City of Virginia Beach relating to the Home Investment Partnerships Program (HOME), if VBCDC fails to keep the rental project affordable, pursuant to deed restrictions, for not less than 15 years and 10 years, respectively, beginning after project completion. Management believes VBCDC is currently in compliance with the grant agreements.

VBCDC serves as an affiliate guarantor for Cypress Landing, L.L.C., which provides a guaranty for the performance of the obligations of the managing member and developer for the benefit of the investor member, as defined and outlined in the Operating Agreement of Cypress Landing, L.L.C. The guaranty of performance obligations includes i) the payment and performance by the managing member of all obligations of the managing member due under the Operating Agreement; ii) the payment and performance by the developer of all obligations of the developer under the development agreement; and iii) prompt and complete payment of all costs and expenses incurred by the investor member in collection of the enforcement of guaranty against the guarantors. In addition, the guaranty includes i) an obligation to fund operating deficits until the later of the fifth anniversary of the termination of construction completion guaranty or two consecutive years of operations with positive distributable cash as determined by the investor member. After this period, the obligation to fund operating deficits is limited to six months of operating expenses; ii) an obligation to repay excess capital contributions to the investor member as a result of a downward capital adjustment, which shall not exceed the sum of the development fee of $950,000 plus any outstanding incentive management fee and any other fees paid or due to the guarantors, managing member or an affiliate with respect to the project; and iii) an obligation to repurchase the interest of the investor member.

VBCDC has a contingent liability for a deferred payment loan to VHDA for $500,000. The Commonwealth Priority Housing Fund (CPHF) loan is forgiven in the year 2037 provided VBCDC remains in compliance with the provisions of the Note and Deed of Trust. Management believes VBCDC is currently in compliance with the loan agreements and intends to remain in compliance and therefore recorded this amount as revenue in 2020.

VBCDC has a housing assistance payment contract with HUD for the Atlantis Manor rental property which requires VBCDC to lease the apartment complex rental units to lower-income individuals in return for rental subsidies provided by HUD. Effective December 31, 2022, the contract was renewed through December 2027. During 2024 and 2023, VBCDC received $90,838 and $110,912, respectively, under the contract.

As a condition of the HUD insured loan with Berkadia, VBCDC was required to fund an escrow account for non-critical repairs totaling $887,108. Repairs were required to be completed by November 22, 2023. The Companies requested an extension of the completion date as they awaited confirmation of completion of all repairs. As of June 30, 2024, all repairs have been completed.

Note 12. Retirement Plan

VBCDC maintains a 403(b)(7) plan for its employees. Under the 403(b)(7) plan, qualifying employees contribute pre-tax earnings to their individual retirement accounts. During 2007, VBCDC expanded its 403(b)(7) plan to include employer contributions to be determined annually by the Board of Directors. During 2024 and 2023, VBCDC contributed $20,569 and $30,722, respectively, to employees' 403(b) retirement accounts.

Note 13. Other Receivables, Related Parties

Amounts due from related parties are as follows at June 30:

	2024	2023
Cedar Grove	$ **66,179**	$ 69,646
Cypress Landing	**42,484**	64,295
Tranquility at the Lakes	**181,274**	41,621
Broad Meadows	**2,087**	2,087
	$ **292,024**	$ 177,649

Note 14. Subsequent Events

The Companies have evaluated events and transactions for potential recognition or disclosure through November 18, 2024, the date the consolidated financial statements were available to be issued.

Compliance Section

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Pass-Through To Subrecipients	Total Federal Expenditures	Loans
U.S. Department of Housing and Urban Development:					
Multifamily rental property purchase or refinance - Section 223(f) (Loans beginning balance)	14.155	-	$ -	$ -	$ 5,984,275
Continuum of Care Program:					
New Haven Permanent Supportive Housing	14.267	-	-	13,173	-
Veterans First Permanent Supportive Housing	14.267	-	-	77,217	-
Renewed Hope	14.267	-	-	123,540	-
Total Continuum of Care Program			-	213,930	-
Section 8 Project-Based Cluster:					
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation - Atlantis Manor	14.856	-	-	90,838	-
Total Section 8 Project-Based Cluster			-	90,838	-
Total from U.S. Department of Housing and Urban Development			-	304,768	5,984,275
U.S. Department of Veterans Affairs					
Support Services for Veteran Families (SSVF)	64.033	-	-	777,878	-
SSVF - Shallow Subsidy	64.033	-	-	602,643	-
SSVF - Long Term Supplemental Funding	64.033	-	-	43,624	-
Total Support Services for Veteran Families (SSVF)			-	1,424,145	-
Total expenditures of federal awards			$ -	$ 1,728,913	$ 5,984,275

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the **Virginia Beach Community Development Corporation and Subsidiaries** (VBCDC) under programs of the federal government for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of VBCDC, it is not intended to and does not present the financial position, changes in net position, or cash flows of VBCDC.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

VBCDC has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Coronavirus State and Local Fiscal Recovery Funds

The Companies received $163,946 of funds from the Coronavirus State and Local Fiscal Recovery Funds (Assistance Listing 21.027) to assist with the rehabilitation of various apartment units. The Organization was listed as the beneficiary of the funds as they were not used to provide additional services on behalf of the passthrough entity. As such, these amounts have not been included on the Schedule.

Note 5. U.S. Department of Housing and Urban Development, Mortgage Insurance Program

The Companies have a mortgage insured under Section 223(f) Mortgage Insurance for the Refinancing of Existing Multifamily Housing Projects. The loan balance outstanding at the beginning of the year is included in the federal expenditures presented in the schedule. The Companies did not receive additional loans during the year.

The balance of the loan outstanding at the year ended June 30, 2024 consists of:

AL Number	Program Name	Outstanding Balance at June 30, 2024
14.155	Multifamily rental property purchase or refinance - Section 223(f)	$5,910,165

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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*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Beach Community Development Corporation and Subsidiaries
Virginia Beach, Virginia

We have audited 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, the consolidated financial statements of **Virginia Beach Community Development Corporation and Subsidiaries** (collectively referred to as "the Companies"), which comprise the consolidated statement of net position as of June 30, 2024, and the related consolidated statements of revenues, expenses and changes in net position, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated November 18, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Companies' internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control. Accordingly, we do not express an opinion on the effectiveness of the Companies' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2024-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2024-001 to be significant deficiencies.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Companies' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002.

Companies' Response to Findings

The Companies' response to the findings identified in our audit is described in the accompanying schedule of findings, questioned costs, and recommendations. The Companies' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on it.

Purpose of This Report

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

Wall, Einhorn + Chernitzer, P.C.

Norfolk, Virginia
November 18, 2024

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Virginia Beach Community Development Corporation and Subsidiaries
Virginia Beach, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **Virginia Beach Community Development Corporation and Subsidiaries'** (collectively referred to as "the Companies") compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the Companies' major federal programs for the year ended June 30, 2024. The Companies' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Companies complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Companies and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Companies' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Companies' federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Companies' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Companies' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Companies' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Companies' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Companies' response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Companies' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Companies' basic financial statements include the operations of Cornerstone Property Ventures, LLC, which expended $5,984,275 in federal awards which is included in the Companies' Schedule of Expenditures of Federal Awards during the year ended June 30, 2024. For the year ended June 30, 2023, our audit, described above, did not include the federal expenditures of Cornerstone Property Ventures, LLC in the amount of $6,020,100 as the organization chose to report these expenditures in a separate report as allowed under series reporting in accordance with the Uniform Guidance.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-002 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-001 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on the Companies' response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Companies' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wall, Einhorn + Chernitzer, P.C.

Norfolk, Virginia
November 18, 2024

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:			Unmodified	
Internal control over financial reporting:				
Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified?	X	Yes		None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditor's report issued on compliance for major programs:			Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	No

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
14.155	Multifamily rental property purchase or refinance - Section 223(f)

Dollar threshold used to distinguish between type A and type B programs:		$	750,000	
Auditee qualified as low-risk auditee?		Yes	X	No

SECTION II. FINANCIAL STATEMENT FINDINGS

2024-001 Finding – Account Reconciliations
Significant Deficiency

Criteria:
It is important to reconcile subsidiary ledgers or supporting schedules to the general ledger to ensure the accuracy of financial information and minimize the risk of misstatement or misappropriation.

Condition:
During the year ended June 30, 2024, the Companies' finance department suffered significant turnover and was understaffed during the year. Due to these personnel constraints, the monthly reporting and closing cycle did not function properly to ensure account balances were reconciled timely or accurately. As such, various financial statement elements were not accurately stated. The financial records required significant adjustments at year end and during the audit.

Cause:
During the year ended June 30, 2024, the Companies' finance department suffered significant turnover and was understaffed during the year. These personnel constraints resulted in the Companies' month-end reconciliations not being completed.

Effect or Potential Effect:
Lack of account reconciliation may impact the prevention or detection of errors. This situation leads to a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system, which renders the accounting information ineffective in making well informed business decisions.

Repeat Finding:
Repeat finding of 2023-02.

Recommendation:
We strongly recommend that a policy be implemented, whereby all subsidiary ledgers and/or supporting schedules are reconciled to the general ledger on a monthly basis. We also recommend that appropriate management-level personnel review the reconciliations for accuracy and document evidence of their review for audit purposes.

Responsible Official's Response:
The auditee is in agreement with the finding and the related recommendations.

SECTION II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

2024-002 **Finding – Preparation of Schedule of Expenditures of Federal Awards**
Material Weakness

Criteria:
Uniform Guidance requires recipients of federal funds to prepare an accurate schedule of expenditures of federal awards (SEFA) for the period covered by the financial statements being audited.

Condition:
Federal awards reported on the SEFA included inaccurate amounts and details. The SEFA reported $1,728,913 of federal expenditures; however, upon completing of testing this amount was increased to $7,713,188. The change in the amount reported on the SEFA was attributed to the exclusion of amounts related to the Organization's AL #14.155 - Multifamily rental property purchase or refinance - Section 223(f) program and for inaccurate amounts for other programs.

Cause:
The Organization's SEFA preparation and review process did not operate effectively to ensure that all federal grants were properly reported.

Effect or Potential Effect:
The Organization did not accurately report its federal grant activity in accordance with the Uniform Guidance. Noncompliance with federal grant requirements and lack of proper control exposes the Organization to risk of loss of future funding from federal and state granting agencies.

Recommendation:
We recommend that management strengthen their policies and procedures to ensure that federal expenditures reported on the SEFA are complete and accurate. Furthermore, we recommend the Organization develop a grant summary worksheet that clearly documents the Organization's understanding of the funding source, compliance requirements, and other key information including any federal loan programs. This worksheet can then be used by management when preparing the SEFA to ensure all information is properly reported.

Responsible Official's Response:
The auditee is in agreement with the finding and the related recommendations.

SECTION III. FEDERAL AWARD FINDINGS

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2024

Audit Finding Reference: 2023-01 Finding – Financial Oversight

Status of Prior Finding: Planned corrective action completed this year.

Audit Finding Reference: 2023-02 Finding – Account Reconciliations

Status of Prior Finding: Partially corrected this fiscal year; will complete planned action during the next fiscal year.

Audit Finding Reference: 2024-001 Finding – Account Reconciliations

Planned Corrective Action: The Finance team has implemented a check list, to be completed by the Senior Financial Analysts, for month end closing to ensure reconciliations of all balance sheet accounts at month end have been completed. The following reconciliation processes have been implemented:

- Bank/Investment Accounts: each account is to be reconciled to an outside document (such as a bank statement), and to the corresponding general ledger account in the accounting system, Real Page.
- Accounts Receivable – agree to the subsidiary ledger.
- Grants Receivable – review to ensure the accuracy of the accrual as well as any amounts earned but not received by the end of the month.
- Prepaid Expenses – adjust to Prepaid Schedule.
- Deposits – investigate any increases or decreases.
- Notes Receivable – accrue for interest and investigate any increases or decreases.
- Replacement Reserves – review for any new/old accounts.
- Fixed Assets – review the maintenance expense accounts to record new assets.
- Accounts Payable – agree to the subsidiary and aging schedule.
- Accrued Expenses – verify posted amounts have been incurred but not paid currently.
- Deferred Revenue – verify if the amounts posted have been earned and journalize
- accordingly.
- Line of Credit – agree to the bank statement.
- Mortgage Loans – agree to the mortgage statements and adjust for the interest incurred per the amortization schedule.
- Revenue Accounts – Review to ensure rents and grant proceeds are recorded in the appropriate period.
- Expenses – a trailing fiscal year worksheet listing each month's income and expense accounts have been created to review variances throughout the months.
- The monthly journal entries incurred are reviewed and approved by the Finance Director.

Monthly reconciliation check- off lists and management level reconciliation approval is recorded in the monthly financial file folder. Weekly finance meetings are scheduled for additional training and understanding. Additionally, the Finance Team will continue to identify and implement financial controls to ensure the production of reliable financial statements.

Name of Contact Person: Jessica Guglielmo, Chief Executive Officer

Anticipated Completion Date: Fiscal Year 2025

Audit Finding Reference: 2024-002 Finding - Preparation of Schedule of Expenditures of Federal Awards

Planned Corrective Action: A Grant Summary Worksheet will be developed to document the following SEFA items: funding sources and amounts, expenditures incurred, and compliance requirements. The Finance Team and additional management VBCDC personnel will meet monthly to review the Grant Summary Worksheet for accuracy and completeness. In addition, policies and procedures will be updated as required to ensure understanding of the SEFA compliance component to ensure accurate and reliable reporting.

Name of Contact Person: Jessica Guglielmo, Chief Executive Officer

Anticipated Completion Date: Fiscal Year 2025

See Independent Auditor's Report.

Other Information (Unaudited)

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF NET POSITION BY DIVISION (UNAUDITED)

Year Ended June 30, 2024

	Housing & Program Services	Administration/ Operations	Total 2024 Funds
ASSETS			
Cash and cash equivalents	$ 1,846,062	$ -	**$ 1,846,062**
Accounts receivable	452,019	116,343	**568,362**
Grants receivable	119,119	-	**119,119**
Prepaid expenses	35,111	-	**35,111**
Short-term investments	537,156	-	**537,156**
Notes receivable	4,058,898	54,945	**4,113,843**
Accrued interest receivable	248,096	-	**248,096**
Security deposits	326,286	-	**326,286**
Replacements reserve and escrows	1,208,960	-	**1,208,960**
Property, net	24,951,197	-	**24,951,197**
Total assets	$ 33,782,904	$ 171,288	**$ 33,954,192**
LIABILITIES AND NET POSITION			
Liabilities:			
Accounts payable	$ 369,877	$ -	**$ 369,877**
Security deposits	243,393	-	**243,393**
Accrued expenses	120,869	-	**120,869**
Deferred revenue	145,643	-	**145,643**
Lines of credit	547,908	-	**547,908**
Notes payable, net unamortized debt issuance costs	18,067,472	478,110	**18,545,582**
Total liabilities	19,495,162	478,110	**19,973,272**
Net position:			
Invested in capital assets, net of related debt	6,883,725	(478,110)	**6,405,615**
Restricted	-	-	**-**
Unrestricted:			
Undesignated	6,429,937	171,288	**6,601,225**
Board designated	974,080	-	**974,080**
Total net position	14,287,742	(306,822)	**13,980,920**
Total liabilities and net position	$ 33,782,904	$ 171,288	**$ 33,954,192**

See Independent Auditor's Report.

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY DIVISION (UNAUDITED)

Year Ended June 30, 2024

	Housing & Program Services	Administration/ Operations	Total 2024 Funds
Operating revenues:			
Grants and contracts	$ 2,191,642	$ -	**$ 2,191,642**
Other revenues:			
Contributions	-	4,098	**4,098**
Rental/program fee income	5,050,682	-	**5,050,682**
Other income	15,077	-	**15,077**
Management fees	65,352	-	**65,352**
Total support	7,322,753	4,098	**7,326,851**
Operating expenses:			
Program services	7,725,569	-	**7,725,569**
Supportive services	-	791,374	**791,374**
Total operating expenses	7,725,569	791,374	**8,516,943**
Operating loss	(402,816)	(787,276)	**(1,190,092)**
Nonoperating revenues (expenses):			
Interest income, net	72,533	-	**72,533**
Dividend income	6,197	-	**6,197**
Unrealized losses on investments	2,204	-	**2,204**
Forgiveness of debt	115,000	-	**115,000**
Gain on disposal of property and equipment	(268,776)	-	**(268,776)**
Total nonoperating revenues (expenses)	(72,842)	-	**(72,842)**
Change in net position	(475,658)	(787,276)	**(1,262,934)**
Net position at beginning of year	15,457,110	(213,256)	**15,243,854**
Net position at the end of year	$ 14,981,452	$ (1,000,532)	**$ 13,980,920**

See Independent Auditor's Report.

VIRGINIA BEACH COMMUNITY DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES BY DIVISION (UNAUDITED)

Year Ended June 30, 2024

	Housing & Program Services	Administration/ Operations	Total 2024 Funds
Salaries	$ 1,803,589	$ 208,078	**$ 2,011,667**
Depreciation/amortization	1,195,948	24,407	**1,220,355**
Property maintenance/rehabilitation	1,203,514	-	**1,203,514**
Support services	1,141,197	-	**1,141,197**
Interest	829,138	13,397	**842,535**
General liability insurance	-	345,369	**345,369**
Employee benefits and taxes	299,756	40,876	**340,632**
Bad debt expense	248,622	-	**248,622**
Association fees	237,473	-	**237,473**
Accounting	143,203	47,735	**190,938**
Fire and property insurance (rental units)	154,788	-	**154,788**
Utilities	125,129	-	**125,129**
Information technology	78,732	26,244	**104,976**
Office supplies	37,288	15,230	**52,518**
Legal	17,296	35,116	**52,412**
Telecommunications	48,163	-	**48,163**
Other contract services	46,223	-	**46,223**
Routine travel	45,961	-	**45,961**
Management fees	38,906	-	**38,906**
Training, conferences, and staff education	6,545	8,270	**14,815**
Printing and copying	11,101	3,700	**14,801**
Office occupancy	-	13,130	**13,130**
Postal service	10,798	-	**10,798**
Other expenses	-	5,380	**5,380**
Membership dues	-	4,442	**4,442**
Advertising	1,611	-	**1,611**
Food service	461	-	**461**
Taxes/unit	127	-	**127**
	$ 7,725,569	$ 791,374	**$ 8,516,943**

See Independent Auditor's Report.