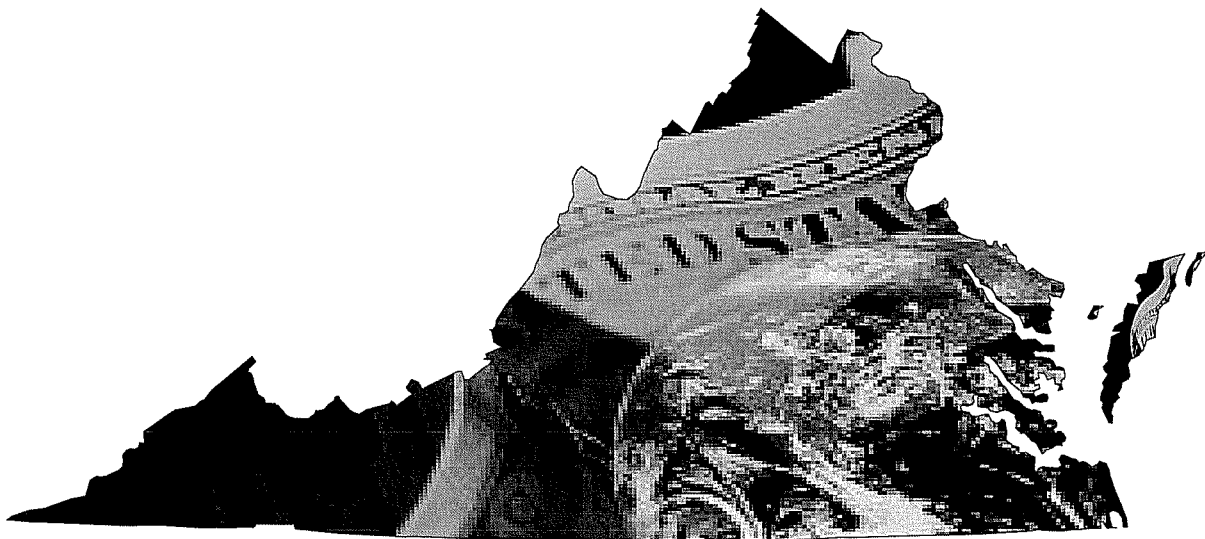


VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

**AUDITED BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**



VIRGINIA
Is For Business

Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS
As of June 30, 2005

Board of Directors

J. Thomas Fowlkes, Chair
Steve DelBianco, Vice-Chair

Mary Rae Carter	Richard F. Neel, Jr., Esquire
George B. Cartledge, III	Ike Prillaman
John A. Mahone	James E. Rich, Jr.
Charles H. Majors	John W. Roberts
John F. Malbon	James E. Ukrop
John F. Ware	

The Honorable Michael J. Schewel, Ex-Officio
The Honorable John M. Bennett, Ex-Officio

Executive Director

Mark R. Kilduff

FINANCIAL SECTION



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 14, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the General Fund, a major fund, of the Virginia Economic Development Partnership, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2005, which collectively comprise the Partnership's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund, a major fund, of the Virginia Economic Development Partnership as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2005 on our consideration of the Virginia Economic Development Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

KA:sks
sks:1

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF JUNE 30, 2005

The management of the Virginia Economic Development Partnership (Partnership) offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2005. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

Government-Wide Financial Statements

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

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

The Statement of Activities presents information showing how the Partnership's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, accrued interest earned but not yet collected (revenue) or earned but unused vacation leave (expense).

Fund Financial Statements

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

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

Reconciliations between Government-Wide and Fund Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an organization's financial position. In the case of the Partnership, assets exceeded liabilities by \$270,142 and \$188,515 at the close of the fiscal years ended June 30, 2005, and 2004, respectively.

Net Assets			
	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Current and other assets	\$ 2,187,281	\$ 2,133,706	\$ 53,575
Capital assets, net of depreciation	<u>563,757</u>	<u>477,346</u>	<u>86,411</u>
Total assets	<u>2,751,038</u>	<u>2,611,052</u>	<u>139,986</u>
Long-term liabilities	2,183,729	2,057,347	126,382
Other liabilities	<u>297,167</u>	<u>365,190</u>	<u>(68,023)</u>
Total liabilities	<u>2,480,896</u>	<u>2,422,537</u>	<u>58,359</u>
Net assets:			
Invested in capital assets, net of related debt	563,757	477,346	86,411
Unrestricted	<u>(293,615)</u>	<u>(288,831)</u>	<u>(4,784)</u>
Total net assets	<u>\$ 270,142</u>	<u>\$ 188,515</u>	<u>81,627</u>

Total assets increased this fiscal year by \$139,986 when compared to last year due primarily to the investment in two capital assets, network rewiring and carpet. *Total liabilities* increased by \$58,359 primarily due the Partnership's increased net pension obligation. This liability is expected to continue to increase in the coming years.

The largest component of the Partnership's *Net assets* is comprised of its *Capital assets, net of related debt*, which amounts to \$563,757. These assets are used by the organization to deliver program services to its clients and consist primarily of computers and peripheral technology equipment. The Partnership considers technology a vital asset in its efforts to market Virginia and has made and will continue to make technology investments to ensure that its equipment and software are updated to take advantage of greater data handling capabilities and processing speeds.

The deficit remainder of *Net assets*, (\$293,615), is classified as *unrestricted*.

Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Revenues:			
Program revenues:			
Charges for services	\$ 253,267	\$ 258,123	\$ (4,856)
General revenues:			
General Fund appropriations	16,334,376	15,395,290	939,086
Other	<u>367,774</u>	<u>49,058</u>	<u>318,716</u>
Total revenues	<u>16,955,417</u>	<u>15,702,471</u>	<u>1,252,946</u>
Expenses:			
Business Development	5,508,628	4,492,632	1,015,996
International Trade	2,891,970	2,821,400	70,570
Research	1,614,965	1,637,825	(22,860)
Communications and Promotions	2,288,130	2,106,106	182,024
Information Technology	1,667,392	1,749,971	(82,579)
Administration	2,802,705	3,107,003	(304,298)
Pass-through Payments	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total expenses	<u>16,873,790</u>	<u>16,014,937</u>	<u>858,853</u>
Increase in net assets	81,627	(312,466)	394,093
Beginning net assets	<u>188,515</u>	<u>500,981</u>	<u>(312,466)</u>
Ending net assets	<u><u>\$ 270,142</u></u>	<u><u>\$ 188,515</u></u>	<u><u>\$ 81,627</u></u>

Net assets for the Partnership increased by \$81,627 during the current fiscal year compared to a \$312,466 decrease in net assets in the prior fiscal year. The primary reason is that revenues increased to a greater extent than related expenses, net of charges for services, in this fiscal year as compared to last fiscal year. All revenues increased by approximately \$1.25 million due primarily to funding for the Virginia Commission on Military Bases funding, Virginia Opportunity Regions funding, and Motorsports marketing funding. Expenses increased by approximately \$860,000, also due primarily to spending in those same programs.

General Fund Budgetary Highlights

The *Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis* is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity.

The primary change in total revenue occurred, as noted above, from an increase in the *Revenue provided by the General Fund of the Commonwealth* for the three programs noted above. Also, as noted above, expenses increased for the fiscal year due to spending in those three new programs.

Funding for VEDP for the fiscal year ended June 30, 2005, included additional funding for specific new programs; Virginia Commission on Military Bases, Virginia Opportunity Regions, and Motorsports. The budgeted expenditures exceeded the actual expenditures by approximately \$1 million due to personnel vacancies and the timing of Business Development grant payments.

Notes to the Financial Statements

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

Requests for Information

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

Basic Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF NET ASSETS
As of June 30, 2005

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 1,795,237
Petty cash	177,372
Employee travel advances	14,319
Prepaid expenses	18,636
Other receivables	27,878
Lease deposits (Note 5)	153,839
Capital assets, net of accumulated depreciation:	
Leasehold improvements, furniture, and equipment (Note 6)	<u>563,757</u>
Total assets	<u>2,751,038</u>
Liabilities	
Accounts payable	142,273
Accrued payroll	154,894
Noncurrent liabilities due within one year	
Compensated absences (Note 8)	437,826
Noncurrent liabilities due in more than one year	
Compensated absences (Note 8)	329,326
Net pension obligation (Note 9)	<u>1,416,577</u>
Total liabilities	<u>2,480,896</u>
Net assets	
Investment in capital assets, net of related debt	563,757
Unrestricted	<u>(293,615)</u>
Total net assets	<u><u>\$ 270,142</u></u>

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2005

	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities			
Business Development	\$ 5,508,628		\$ (5,508,628)
International Trade	2,891,970	137,948	(2,754,022)
Research	1,614,965		(1,614,965)
Communications and Promotions	2,288,130	115,319	(2,172,811)
Information Technology	1,667,392		(1,667,392)
Administration	2,802,705		(2,802,705)
Pass-through Payments	100,000		(100,000)
Total governmental activities	16,873,790	253,267	(16,620,523)
General Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 4)			16,334,376
Interest revenue			73,188
Lease commission rebate			264,083
Other revenue			30,503
Total general revenues			16,702,150
Increase in net assets			81,627
Net assets, July 1, 2004			188,515
Net assets, June 30, 2005			\$ 270,142

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUND
As of June 30, 2005

	General Fund
Assets	
Cash and cash equivalents (Note 2)	\$ 1,795,237
Petty cash	177,372
Employee travel advances	14,319
Prepaid expenses	18,636
Other receivables	27,878
Lease deposits (Note 5)	<u>153,839</u>
Total assets	<u><u>\$ 2,187,281</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 142,273
Accrued payroll	<u>154,894</u>
Total liabilities	<u>297,167</u>
Fund Balances:	
Unreserved (Note 3)	1,890,114
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	563,757
Noncurrent liabilities (compensated absences and net pension obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	<u>(2,183,729)</u>
Net assets of governmental activities	<u><u>\$ 270,142</u></u>

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2005

	General Fund
Revenues	
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 16,334,376
Participation fees	222,328
Mission reimbursements	30,939
Interest revenue	73,188
Other revenue	30,339
Total revenues	16,691,170
Expenditures	
Business Development	5,423,573
International Trade	2,872,201
Research	1,574,319
Communications and Promotions	2,285,660
Information Technology	1,574,547
Administration	3,003,519
Pass-through Payments	100,000
Total expenditures	16,833,819
Deficiency of revenues under expenditures	(142,649)
Other financing sources (uses)	
Lease commission rebate	264,083
Loss on foreign currency	164
Total other financing sources (uses)	264,247
Net increase in fund balance	121,598
Fund balance, July 1, 2004	1,768,516
Fund balance, June 30, 2005	\$ 1,890,114

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
 TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2005

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

Net increase in fund balance of the general fund	\$	121,598
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		86,411
Some expenses reported in the statement of activities (compensated absences and net pension obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(126,382)
Change in net assets of governmental activities	\$	<u>81,627</u>

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
GENERAL FUND
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variances with Final Budget- Positive (Negative)
	Original	Final	Actual	
Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 15,933,880	\$ 16,334,376	\$ 16,334,376	\$ -
Participation fees	147,000	147,000	247,367	100,367
Mission reimbursements	35,000	35,000	68,033	33,033
Interest revenue	30,000	50,000	73,188	23,188
Other revenue	-	-	30,339	30,339
Total revenues	16,145,880	16,566,376	16,753,303	186,927
Expenditures				
Business Development	5,699,800	6,137,590	5,417,002	720,588
International Trade	2,966,928	2,966,928	2,909,012	57,916
Research	1,673,179	1,673,179	1,572,200	100,979
Communications and Promotions	2,016,366	2,441,366	2,323,223	118,143
Information Technology	1,744,372	1,744,372	1,586,217	158,155
Administration	2,979,095	2,999,095	3,021,860	(22,765)
Pass-through Payments	100,000	100,000	100,000	-
Total expenditures	17,179,740	18,062,530	16,929,514	1,133,016
Revenues over (under) expenditures	(1,033,860)	(1,496,154)	(176,211)	1,319,943
Other financing sources				
Lease commission rebate	-	-	264,083	264,083
Gain on foreign currency	-	-	164	164
Total other financing sources	-	-	264,247	264,247
Revenues and other sources over (under) expenditures and other uses	(1,033,860)	(1,496,154)	88,036	1,584,190
Fund balances, July 1, 2004	1,033,860	1,496,154	2,052,731	556,577
Fund balances, June 30, 2005 (Note 3)	\$ -	\$ -	\$ 2,140,767	\$ 2,140,767

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

Notes to Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Partnership considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due.

The Partnership reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all Partnership financial resources.

C. Capital Assets

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

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

D. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2005. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

E. Budgets and Budgetary Accounting

The Partnership's budget was primarily established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2005, which is the first year of the biennium ended June 30, 2006. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia and expended for purposes as stated in those provisions. The budget is prepared on the cash basis.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and carry no significant risk. The LGIP funds are held in pooled accounts, are considered cash equivalents and, accordingly, also carry no significant risk as defined by Statement 40 of the Governmental Accounting Standards Board. VEDP deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

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

	<u>General Fund</u>
Fund balance, cash basis, June 30, 2005	\$ 2,140,767
Add: Prepaid expenses	18,636
Other Receivables	27,878
Deduct: Accrued expenses	<u>(297,167)</u>
Fund balance, GAAP basis, June 30, 2005	<u>\$ 1,890,114</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

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

Original appropriation	\$ 15,933,880
Add: Central Appropriations Adjustments	150,496
Motorsports Marketing Funding	<u>250,000</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 16,334,376</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Frankfurt, Germany and Tokyo, Japan. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Frankfurt lease deposit is held in U.S. dollars in an interest bearing account and is valued at \$31,975. The interest earned on the deposit is

used to offset monthly bank charges. The Tokyo lease deposit is held in Japanese yen and does not accrue interest. The yen deposit increased in value during the fiscal year ended June 30, 2005, due to a favorable currency exchange rate, however, that increase is not a recognizable gain. The Tokyo lease deposit remained \$121,864. The total value of lease deposits for the Partnership for the fiscal year ended June 30, 2005, is \$153,839.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Leasehold improvements, furniture and equipment	\$ 1,890,447	\$ 295,383	\$ (102,561)	\$ 2,083,269
Less: accumulated depreciation	<u>1,413,101</u>	<u>208,972</u>	<u>(102,561)</u>	<u>1,519,512</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 477,346</u>	<u>\$ 86,411</u>	<u>\$ -</u>	<u>\$ 563,757</u>

7. COMMITMENTS

The Partnership is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements for the fiscal year ended June 30, 2005, amounted to \$1,448,209. A summary of minimum future obligations under these lease agreements as of June 30, 2005, follows:

<u>Year Ending June, 30</u>	<u>Operating Lease Obligations</u>
2006	\$ 1,281,601
2007	1,132,552
2008	1,252,818
2009	1,275,557
2010	1,288,445
2011 and later	<u>7,092,998</u>
Total future minimum rental payments	<u>\$ 13,323,971</u>

The Partnership has contracted for three years of maintenance on its Microsoft products. As of June 30, 2005, there is one year remaining on this commitment amounting to \$45,074.

8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2005, was as follows:

<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
\$ 737,960	\$ 518,578	\$ 489,386	\$ 767,152
	Due Within One Year		(437,826)
	Due in More Than One Year		\$ 329,326

9. PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS

The Partnership is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2005, the Partnership's net pension obligation was \$1,416,577.

Plan Description

All full-time and part-time salaried employees of the Partnership participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5 percent member contribution. The Partnership does pay the member contribution, which amounted to \$337,960 (5 percent of total creditable compensation of \$6,759,203). In addition, the Partnership is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis

specified by the statute and approved by the VRS Board of Trustees. The Partnership contribution rate for the fiscal year ended June 30, 2005, was 3.91%, which resulted in a contribution of \$264,285 for the fiscal year.

10. RISK MANAGEMENT

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

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

11. LITIGATION

The Partnership has been named as a defendant in a lawsuit. The final outcome of this lawsuit cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the Partnership may be exposed will not have a material effect upon the entity's financial position.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

October 14, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the Virginia Economic Development Partnership as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

The Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 14, 2005.

AUDITOR OF PUBLIC ACCOUNTS

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