Virginia Economic Development Partnership

Audited Basic Financial Statements

For the Fiscal Year Ended

June 30, 2012

© VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

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Audited Basic Financial Statements
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INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS
As of June 30, 2012

Board of Directors

Julien G. Patterson, Chair
John F. Malbon, Vice Chair

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

The Honorable William T. Bolling, Ex-Officio
The Honorable Richard D. Brown, Ex-Officio
The Honorable Jim S. Cheng, Ex-Officio
Glenn DuBois, Ex-Officio

President and Chief Executive Officer

Martin J. Briley

FINANCIAL SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

AS OF JUNE 30, 2012

The Virginia Economic Development Partnership (Partnership) management offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2012. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Reconciliations between Government-Wide and Fund Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an organization's financial position. At the close of the fiscal year ended June 30, 2012, the Partnership had a net asset deficit of $1,480,360 compared to a net asset deficit of $775,815 as of June 30, 2011. Following is an analysis of the changes in the net assets of the Partnership.

Net Assets

	2012	2011	Increase (Decrease)
Current and other assets	$ 3,982,262	$ 3,673,372	$ 308,890
Capital assets, net of depreciation	654,549	635,897	18,652
Total assets	4,636,811	4,309,269	327,542
Non-current liabilities	5,541,611	4,496,919	1,044,692
Other liabilities	575,560	588,165	(12,605)
Total liabilities	6,117,171	5,085,084	1,032,087
Net assets:			
Invested in capital assets, net of related debt	654,549	635,897	18,652
Unrestricted	(2,134,909)	(1,411,712)	(723,197)
Total net assets (deficit)	$ (1,480,360)	$ (775,815)	$ (704,545)

Total assets increased this fiscal year by $327,542 when compared to last year. The principal causes of this increase were increases in the Current asset, operating grants receivable of $282,881, which was due from the federal government, and a net increase in Capital assets, net of depreciation of $18,652.

Total liabilities increased by $1,032,087. The principal causes of this increase were increases in the Non-current liabilities of the Partnership's net pension obligation and other post-employment obligations totaling $1,036,481. Other liabilities decreased by $12,605. The principal causes of this decrease were a decrease in employee benefit payments due to the Virginia Retirement System of $119,740 which was offset by increases in accounts payable and accrued payroll totaling $112,491.

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

The remaining *Net assets* deficit balance of $2,134,909 is classified as *unrestricted*. The Partnership has recorded $4,693,571 of net pension and other post retirement obligations which are expected to be paid with future appropriations from the Commonwealth of Virginia (COV). The Partnership's Current and other assets exceed its Other liabilities by approximately $3,400,000.

Changes in Net Assets

	2012	2011	Increase (Decrease)
Revenues:			
Program revenues:			
Charges for services	$ 383,962	$ 467,051	$ (83,089)
Operating grants	292,413	-	292,413
General revenues:			
General Fund appropriations	18,687,018	18,464,529	222,489
Other	32,358	102,706	(70,348)
Total revenues	19,395,751	19,034,286	361,465
Expenses:			
Business Development	3,254,531	3,144,682	109,849
International Investment	2,500,633	1,907,003	593,630
International Trade	3,492,862	3,172,206	320,656
Research	1,935,918	1,866,534	69,384
Communications and Promotions	3,053,140	3,097,953	(44,813)
Information Technology	2,222,311	2,177,788	44,523
Administration	3,140,901	2,776,796	364,105
Pass-through Payments	500,000	1,379,095	(879,095)
Total expenses	20,100,296	19,522,057	578,239
Increase (Decrease) in net assets	(704,545)	(487,771)	216,774)
Beginning net assets	(775,815)	(288,044)	(487,771)
Ending net assets(deficit)	$ (1,480,360)	$ (775,815)	$ (704,545)

Net assets for the Partnership decreased by $704,545 during the current fiscal year compared to a decrease of $487,771 in net assets in the prior fiscal year. The revenues increase of $361,465 is due to a $222,489 increase in general fund appropriations provided by the COV and an increase in operating grants of $292,413. These increases were partially offset by a decrease in charges for services of $83,089 caused by revisions in the Partnership's marketing strategies and a $70,348 decrease in other revenues caused primarily by a decrease in the refund of operating expenses received from the landlord of the Richmond office.

The increase in expenses for the International Investment division was caused by expanded operations in India, China, and the United Kingdom in 2012. These expenses were funded by new general fund appropriations provided by the COV and the use of cash balances carried over from prior years' operations. The increase in International Trade expenses was directly related to the increase in revenues provided by new federal grants in 2012. Administration incurred additional costs for a CEO search, related transition costs, and operations and market studies. Employee benefits costs increased by approximately $200,000 from 2011 to 2012. These costs and other minor increases and decreases were spread out over all divisions. Approximately $190,000 of the increase in the employee benefits costs were accruals and are reflected in the Partnership's Non-current liabilities. The decrease in spending of $879,095 in Pass-through Payments was caused by a reduction in appropriations provided by the COV of $170,095 plus $700,000 that was budgeted for two community based grant programs and was not paid out by June 30, 2012. The Partnership has committed the unspent Pass-through Payments budget to the 2013 fiscal year.

General Fund Budgetary Highlights

The *Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis* is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity. The Partnership's budget, as originally prepared, included revenue provided by the Commonwealth of just over 18.3 million. This amount was increased by $300,000 for the Rolls-Royce project manager and $125,835 for a variety of benefit cost increases; and then reduced by removing funding for the Virginia-Israel Advisory Board of $43,279. The variance in Operating grants revenue of $437,234 was caused by a delay in receiving reimbursements totaling $282,881 from the federal government for cash payments made by the Partnership as of June 30, 2012, and approximately $155,000 of unspent grant funds that will be added to the 2013 budget. The $700,000 variance in Pass-through Payments is addressed in the preceding paragraph.

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, 2012

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	$ 3,245,069
Travel advances	5,728
Operating grants receivable	282,881
Due from Component Units of the Commonwealth of Virginia	71,146
Prepaid expenses	354,268
Lease deposits (Note 5)	23,170
Capital assets, net of accumulated depreciation (Note 6)	
Leasehold improvements, furniture, and equipment	654,549
Total assets	4,636,811
Liabilities	
Accounts payable	189,877
Accrued payroll	179,047
Other payables	664
Unearned revenue	535
Due to Virginia National Defense Industrial Authority	205,437
Noncurrent liabilities due within one year	
Compensated absences (Note 8)	525,353
Noncurrent liabilities due in more than one year	
Compensated absences (Note 8)	322,687
Net pension obligation (Note 9)	3,496,448
Net other post-employment obligation (Note 10)	1,197,123
Total liabilities	6,117,171
Net assets	
Investment in capital assets, net of related debt	654,549
Unrestricted	(2,134,909)
Total net assets (deficit)	$ (1,480,360)

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, 2012

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	
Governmental Activities				
Business Development	$ 3,254,531	$ 10,000	$	$ (3,244,531)
International Investment	2,500,633	16,769		(2,483,864)
International Trade	3,492,862	202,701	292,413	(2,997,748)
Research	1,935,918	-		(1,935,918)
Communications and Promotions	3,053,140	150,204		(2,902,936)
Information Technology	2,222,311	-		(2,222,311)
Administration	3,140,901	4,288		(3,136,613)
Pass-through Payments	500,000	-		(500,000)
Total governmental activities	20,100,296	383,962	292,413	(19,423,921)
General Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 4)				18,687,018
Interest revenue				7,358
Other revenue				25,000
Total general revenues				18,719,376
Decrease in net assets				(704,545)
Net assets, July 1, 2011				(775,815)
Net assets (deficit), June 30, 2012				$ (1,480,360)

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2012

	General Fund	Special Revenue Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 2)	$ 3,245,069	$	$ 3,245,069
Travel advances	5,728		5,728
Due from the special revenue funds	282,881		
Operating grants receivable		282,881	282,881
Due from Component Units of the Commonwealth of Virginia	71,146		71,146
Prepaid expenses	354,268		354,268
Lease deposits (Note 5)	23,170		23,170
Total assets	$ 3,982,262	$ 282,881	$ 3,982,262
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 189,877		$ 189,877
Accrued payroll	179,047		179,047
Due to the general fund		282,881	
Other payables	664		664
Unearned revenue	535		535
Due to Virginia National Defense Industrial Authority	205,437		205,437
Total liabilities	575,560	282,881	575,560
Fund Balances:			
Nonspendable	377,438	-	377,438
Committed	700,000	-	700,000
Unassigned fund balance	2,329,264	-	2,329,264
Total fund balances	3,406,702	-	3,406,702
Total liabilities and fund balances	$ 3,982,262	$ 282,881	$ 3,982,262

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

Fund balances, Governmental Funds	$ 3,406,702
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	654,549
Noncurrent liabilities (compensated absences, net pension obligation and net other post employment obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	(5,541,611)
Total net assets of governmental activities	$ (1,480,360)

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund	Special Revenue Funds	Total Governmental Funds
Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 4)	$ 18,687,018	$	$ 18,687,018
Participation fees	262,815		262,815
Sponsorship fees	91,995		91,995
Operating grants		292,413	292,413
Interest revenue	7,358		7,358
Other revenue	54,152		54,152
Total revenues	19,103,338	292,413	19,395,751
Expenditures			
Business Development	3,003,292		3,003,292
International Investment	2,407,968		2,407,968
International Trade	3,036,600	292,413	3,329,013
Research	1,776,935		1,776,935
Communications and Promotions	2,992,409		2,992,409
Information Technology	2,120,683		2,120,683
Administration	2,943,956		2,943,956
Pass-through Payments	500,000		500,000
Total expenditures	18,781,843	292,413	19,074,256
Revenues over expenditures	321,495	-	321,495
Fund balance, July 1, 2011	3,085,207	-	3,085,207
Fund balance, June 30, 2012	$ 3,406,702	$ -	$ 3,406,702

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

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

Net increase in fund balances of the govermental funds	$	321,495
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		18,652
Some expenses reported in the statement of activities (compensated absences, net pension obligation and net other post employment obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,044,692)
Decrease in net assets of governmental activities	$	(704,545)

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
GENERAL AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		General Fund Actual	Special Revenue Funds Actual	Variances with Final Budget- Positive (Negative)
	Original	Final			
Revenues					
Revenue provided by the General Fund of the Commonwealth (Note 4)	$ 18,304,462	$ 18,687,018	$ 18,687,018	$ -	$ -
Participation fees	190,500	253,990	262,815		8,825
Sponsorship fees	-	25,000	88,345		63,345
Operating grants	-	446,766		9,532	(437,234)
Interest revenue	12,000	6,000	7,358		1,358
Other revenue	43,000	51,010	57,151		6,141
Total revenues	18,549,962	19,469,784	19,102,687	9,532	(357,565)
Expenditures					
Business Development	3,160,665	3,214,490	3,029,827		184,663
International Investment	2,353,338	2,394,257	2,393,520		737
International Trade	3,018,769	3,610,454	3,080,297	292,413	237,744
Research	1,880,815	1,922,148	1,817,381		104,767
Communications and Promotions	2,903,792	3,078,326	2,937,203		141,123
Information Technology	1,868,912	2,142,013	2,122,871		19,142
Administration	2,566,508	3,147,787	2,969,018		178,769
Pass-through Payments	1,243,279	1,200,000	500,000		700,000
Total expenditures	18,996,078	20,709,475	18,850,117	292,413	1,566,945
Revenues over (under) expenditures	(446,116)	(1,239,691)	252,570	(282,881)	1,209,380
Fund balance, July 1, 2011	446,116	1,239,691	3,162,323	-	1,922,632
Fund balance, June 30, 2012 (Note 3)	$ -	$ -	$ 3,414,893	$ (282,881)	$ 3,132,012

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

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

C. Operating Grants Receivable

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

D. Due from Component Units of the Commonwealth of Virginia

Due from component units of the Commonwealth of Virginia represents balances due to the Partnership under two Memoranda of Understanding for services the Partnership provides to the component units.

E. Prepaid Expenses

The Partnership's prepaid expenses include amounts paid for promotional activities, other services and portions of insurance premiums for which the economic benefits had not been received as of June 30, 2012.

F. Capital Assets

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

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

G. Due to Virginia National Defense Industrial Authority

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

H. Unearned Revenue

Unearned revenue includes amounts received for sponsorship and participation fees at June 30, 2012, for an event to be held in the next fiscal period.

I. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2012. Compensated absences were calculated in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

J. 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, 2012, which is the second year of the biennium ended June 30, 2012. 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. Cash on deposit includes deposits in Japanese Yen, Euros, and British Pound Sterling which are used to pay the Partnership's international vendors and are valued in US dollars at cost. As of June 30, 2012, the Partnership's holdings in these currencies were valued at $5,539. The LGIP funds are held in pooled accounts, are considered cash equivalents and, accordingly, also carry no significant risk as defined by Statement 40 of the Governmental Accounting Standards Board. VEDP deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

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

	Total all Funds
Fund balance, cash basis, June 30, 2012	$ 3,132,012
Add: Prepaid expenses and other accrued receivables	644,149
Deduct: Accrued expenses and unearned revenues	(369,459)
Fund balance, GAAP basis, June 30, 2012	$ 3,406,702

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

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

Original appropriation, Chapter 890		$ 18,699,713
Add:	Funding for Rolls Royce Project Management	300,000
	Central Appropriations adjustments	125,835
Deduct:	Appropriation for VNDIA	(395,251)
	Remove funding for the Virginia Israel Advisory Board	(43,279)
Revenue provided by the General Fund of the Commonwealth		$ 18,687,018

5. LEASE DEPOSITS

The Partnership maintains offices in Roanoke, Virginia, Tokyo, Japan and Shanghai, China. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Roanoke lease deposit is held in U.S. dollars in a non-interest bearing account and is valued at $500. The Tokyo lease deposit is held in Japanese yen in a non-interest bearing account in the amount of 1,880,000 Japanese yen. The Tokyo lease deposit was valued at $18,475 at June 30, 2012. The Shanghai lease deposit is held in Chinese RMB in a non-interest bearing account in the amount of 24,000 Chinese RMB. The Shanghai lease deposit was valued at $3,794 at June 30, 2012. In addition, the Partnership is due a deposit refund of $400 from a lease in Lynchburg that was terminated in 2012.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Capital Assets Being Depreciated	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Leasehold improvements, furniture and equipment	$ 1,549,264	$ 177,024	$ (15,648)	$ 1,710,640
Less: accumulated depreciation	913,367	158,372	(15,648)	1,056,091
Leasehold improvements, furniture and equipment, net of accumulated depreciation	$ 635,897	$ 18,652	$ -	$ 654,549

7. COMMITMENTS

The Partnership is committed under various operating leases and office use agreements for office facilities and equipment through December 2015. Expense under these agreements for the fiscal year ended June 30, 2012, amounted to $1,617,856. A summary of minimum future obligations under these agreements as of June 30, 2012, follows:

Year Ending June 30	Obligations
2013	$ 1,561,067
2014	1,365,083
2015	1,375,502
2016	688,823
Total future minimum rental payments	$ 4,990,475

The Partnership has a commitment of $500,000 under a Memorandum of Agreement with the Virginia Resources Authority and the Virginia Department of Environmental Quality. The purpose of this agreement is to establish and manage the Virginia Brownfields Restoration and Economic Assistance Fund, a grant program established to assist communities with the revitalization of previously used industrial sites to ready them for future economic development opportunities.

The Partnership has also committed $200,000 under a Memorandum of Understanding with the Virginia Department of Housing and Community Development. The purpose of this agreement is to support the implementation of the Virginia Building Collaborative Communities Programs, a grant program designed to promote regional economic collaborations in economically distressed areas.

8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2012, was as follows:

Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
$ 839,829	$ 548,679	$ 540,468	$ 848,040
		Due Within One Year	(525,353)
		Due in More Than One Year	$ 322,687

9. PENSION PLAN

The Partnership is a participating employer in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS is an agent and a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions. Salaried employees of the Partnership are members in one of two retirement plans administered by the VRS. As of June 30, 2012, the Partnership's net pension obligation was $3,496,448.

Plan Descriptions

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

Benefits vest after five years of service. Employees may retire with an unreduced benefit at age 65 with at least 5 years of service credit or at age 50 with at least 30 years of service credit. Retirement benefits are payable monthly for life in an amount based on 1.7 percent of an employee's average final compensation (AFC) multiplied by the employee's total years of service. AFC is defined as the average of the employee's 36 highest consecutive months of creditable compensation. Reduced retirement benefits are available to employees at age 55 with at least 5 years of service credit or at age 50 with at least 10 years of service credit. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

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

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

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

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. In addition, the Partnership is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Partnership's contribution rate for the current year was 6.58 percent of creditable compensation of $7,338,059 resulting in a contribution of $482,844.

10. OTHER EMPLOYMENT AND OTHER POST-EMPLOYMENT BENEFITS

The Partnership is a participating employer in other employment and post-employment benefit plans. The Group Life Insurance plan, Virginia Sickness and Disability Program (VSDP) and the Retiree Health Insurance Credit fund are administered by the VRS. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for these plans. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500. The Partnership is also a participating employer in the Health Benefits Program for Retirees, Survivors and Long Term Disability (LTD) Participants administered by the Commonwealth's Department of Human Resource Management (DHRM). The Commonwealth issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for this plan and a copy of that report may be obtained by writing Financial Reporting, 101 N. 14th Street, Richmond, VA 23219. As of June 30, 2012, the Partnership's combined net other post-employment benefit obligation for these plans was $1,197,123.

GROUP LIFE INSURANCE

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

Post-employment life insurance benefits are advance funded on an actuarially determined basis using the aggregate cost actuarial method with the same actuarial assumptions used for determining pension plan contribution rates. All contributions to the plan are made by the Partnership. The Partnership's actuarially determined rate for the current year was 1.02% of creditable compensation of $7,426,087 resulting in a contribution of $75,746. This contribution covers premiums for active employees and actual death claims for retirees. As of June 30, 2012, the Partnership had no net post-employment benefit obligation for this plan.

HEALTH INSURANCE CREDIT PROGRAM

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

The amount required to fund all credits is financed on a current disbursement basis by the employers participating in the plan and is based on contribution rates determined by the VRS actuary. The Partnership's actuarially determined rate for the current year was 0.99% of creditable compensation of $7,338,059 resulting in a contribution of $72,647. As of June 30, 2012, the Partnership's net post-employment benefit obligation for this plan was $177,690.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The VSDP was established on January 1, 1999, and covers salaried employees who work at least 20 hours per week. The VSDP provides income protection to employees for absences due to sickness or disability from the first day on the job. After a 7 calendar-day waiting period following the first incident of disability, eligible employees receive short-term benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 working days, based upon months of qualified service. If the disability continues after the short-term disability period, the employee becomes eligible to receive long-term disability benefits equal to 60 percent of compensation until they return to work, reach age 65, or death, whichever is sooner.

The Partnership is required to make contributions to the VRS for the cost of providing long-term disability under the VSDP. The Partnership's actuarially determined rate for the current year was 0.66% of creditable compensation of $7,376,631 resulting in a contribution of $48,686. As of June 30, 2012, the Partnership's net post-employment benefit obligation for this plan was $268,147.

HEALTH BENEFITS PROGRAM FOR RETIREES, SURVIVORS AND LTD PARTICIPANTS

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

The Partnership's actuarially determined liability under this program arises from the implicit rate subsidies that occur when retirees, LTD participants, and surviving spouses are insured in a group with current employees. The liability is determined by computing expected future benefit pay out cost, less expected future participant contributions. All participants are required to pay the total subsidized contributions for benefits coverage. As of June 30, 2012, the Partnership's net post-employment benefit obligation for this plan was $751,286.

11. DEFERRED COMPENSATION PLAN

Employees of the Partnership may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Partnership matching up to $20 per pay period. The dollar amount of the match can change depending on the funding available in the Partnership's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were $32,440 for the fiscal year 2012.

12. RISK MANAGEMENT

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

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

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 12, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, the General Fund, a major fund, and the Special Revenue Fund, a non-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, 2012, 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, a major fund, and the Special Revenue Fund, a non-major fund, of the Virginia Economic Development Partnership as of June 30, 2012, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2012 on our consideration of the Virginia Economic Development Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

LJH/clj