

**BELL CREEK COMMUNITY
DEVELOPMENT AUTHORITY**

Financial Report
Years Ended June 30, 2007, 2006, 2005 and 2004

BELL CREEK COMMUNITY DEVELOPMENT AUTHORITY

BOARD OF DIRECTORS

Roger Burcham, Chairman

Robert Bluford, Vice Chairman

Richard S. Burke, Secretary/Treasurer

John Wash Sr, Assistant Secretary/Treasurer

BELL CREEK COMMUNITY DEVELOPMENT AUTHORITY

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Independent Auditors' Report

The Members of the Board of Directors
Bell Creek Community Development Authority
Hanover, Virginia

We have audited the accompanying basic financial statements of the Bell Creek Community Development Authority, as of and for the years ended June 30, 2007, 2006, 2005, and 2004 as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audit of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. These 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007, 2006, 2005 and 2004, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Bell Creek Community Development Authority has not presented a management discussion and analysis that accounting principles generally accepted in the United States have determined are necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
December 12, 2008

Bell Creek Community Development Authority
Statements of Net Assets
June 30, 2007, 2006, 2005, 2004

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS				
Current Assets				
Checking/Savings				
Unrestricted - administrative expense	\$ 31,143	\$ 23,464	\$ 16,909	\$ 25,518
Restricted Assets				
Capitalized Interest	-	-	-	85,324
Revenue Fund	44,562	21,530	79,700	-
Interest	189	7,496	19,987	42,357
Reserve Fund	1,391,124	1,391,124	1,421,828	1,391,124
Series A Prepayment	9,568	759	856,079	654,735
Project Fund	800,592	2,088,765	2,010,254	2,188,296
Total Restricted Assets	<u>2,246,035</u>	<u>3,509,674</u>	<u>4,387,848</u>	<u>4,361,836</u>
Accounts Receivable	3,717	8,487	7,273	2,298
Total Accounts Receivable	<u>3,717</u>	<u>8,487</u>	<u>7,273</u>	<u>2,298</u>
Total Current Assets	<u>2,280,895</u>	<u>3,541,625</u>	<u>4,412,030</u>	<u>4,389,652</u>
Capital Assets				
Bond Issuance Costs (Amortizable bond issuance costs)	176,685	192,785	208,885	224,986
Capital Assets				
Construction in Progress	12,159,928	10,792,009	10,792,009	10,614,707
Capitalized Interest	<u>3,116,364</u>	<u>2,963,706</u>	<u>2,224,141</u>	<u>1,339,875</u>
Total Capital Assets	<u>15,276,292</u>	<u>13,755,715</u>	<u>13,016,150</u>	<u>11,954,582</u>
Total Other Assets	<u>15,452,977</u>	<u>13,948,500</u>	<u>13,225,035</u>	<u>12,179,568</u>
TOTAL ASSETS	<u><u>\$ 17,733,872</u></u>	<u><u>\$ 17,490,125</u></u>	<u><u>\$ 17,637,065</u></u>	<u><u>\$ 16,569,220</u></u>

Bell Creek Community Development Authority
Statements of Net Assets
June 30, 2007, 2006, 2005, 2004

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
LIABILITIES & NET ASSETS				
Liabilities				
Current Liabilities				
Accounts Payable	\$ 4,733	\$ 7,646	\$ 6,571	\$ 13,595
Other Current Liabilities				
Accrued Interest	119,695	206,609	240,291	259,308
Accrued Project Costs	-	-	-	40,067
Total Other Current Liabilities	<u>119,695</u>	<u>206,609</u>	<u>240,291</u>	<u>299,375</u>
Total Current Liabilities	<u>124,428</u>	<u>214,255</u>	<u>246,862</u>	<u>312,970</u>
Long Term Liabilities				
Long Term Debt				
Debt Due in less than 1 year	550,000	-	-	-
Debt Due in more than 1 year	6,141,314	11,818,162	13,790,495	14,893,814
Total Long Term Debt	<u>6,691,314</u>	<u>11,818,162</u>	<u>13,790,495</u>	<u>14,893,814</u>
Total Long Term Liabilities	<u>6,691,314</u>	<u>11,818,162</u>	<u>13,790,495</u>	<u>14,893,814</u>
Total Liabilities	<u>6,815,742</u>	<u>12,032,417</u>	<u>14,037,357</u>	<u>15,206,784</u>
Net Assets				
Invested in Capital Assets, Net of				
Related Debt	9,562,256	4,219,104	1,444,795	(30,628)
Restricted	1,445,442	1,420,910	2,377,593	2,088,215
Unrestricted Net Assets (deficit)	(89,568)	(182,306)	(222,680)	(695,151)
Total Net Assets	<u>10,918,130</u>	<u>5,457,708</u>	<u>3,599,708</u>	<u>1,362,436</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 17,733,872</u>	<u>\$ 17,490,125</u>	<u>\$ 17,637,065</u>	<u>\$ 16,569,220</u>

The accompanying notes are an integral part of this statement

Bell Creek Community Development Authority
Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2007, 2006, 2005, 2004

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues				
Contribution by Benefiting Property Owners	\$ 5,539,901	\$ 1,936,414	\$ 2,312,376	\$ 1,451,790
Operating Expenses				
Accounting, Consulting & Legal Fees	34,980	39,900	40,351	37,666
Amortization	39,728	39,728	39,728	44,805
Total Operating Expenses	<u>74,708</u>	<u>79,628</u>	<u>80,079</u>	<u>82,471</u>
Operating Income	5,465,193	1,856,786	2,232,297	1,369,319
Non-Operating Revenues (Expenses)				
Interest & Dividend Revenue	-	1,214	4,975	-
Interest Expense and costs	<u>(4,771)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenue (Expenses)	<u>(4,771)</u>	<u>1,214</u>	<u>4,975</u>	<u>-</u>
Change in Net Assets	5,460,422	1,858,000	2,237,272	1,369,319
Net Assets, Beginning of Period	<u>5,457,708</u>	<u>3,599,708</u>	<u>1,362,436</u>	<u>(6,883)</u>
Net Assets, End of Period	<u><u>\$ 10,918,130</u></u>	<u><u>\$ 5,457,708</u></u>	<u><u>\$ 3,599,708</u></u>	<u><u>\$ 1,362,436</u></u>

The accompanying notes are an integral part of this statement

Bell Creek Community Development Authority
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2007, 2006, 2005, 2004

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities				
Contribution by Benefitting Property Owners	\$ 5,539,901	\$ 1,936,414	\$ 2,312,376	\$ 1,451,790
Cash Payments for Accounting, Consulting, & Legal Fees	(37,894)	(38,823)	(47,375)	(30,868)
Net Cash Provided by Operating Activities	<u>5,502,007</u>	<u>1,897,591</u>	<u>2,265,001</u>	<u>1,420,922</u>
Cash Flows from Capital and Related Financing Activities				
Interest Paid on Bonds	(239,572)	(773,248)	(903,283)	(1,016,782)
Principal Reduction on Bonds	(5,150,476)	(1,995,962)	(1,126,947)	(756,000)
Acquisition of Capital Assets	(1,367,919)	-	(217,368)	(1,058,517)
Net Cash Flows used in Capital and Related Financing Activities	<u>(6,757,967)</u>	<u>(2,769,210)</u>	<u>(2,247,598)</u>	<u>(2,831,299)</u>
Net Increase (Decrease) in Cash	(1,255,960)	(871,619)	17,403	(1,410,377)
Cash, Beginning of Period	<u>3,533,138</u>	<u>4,404,757</u>	<u>4,387,354</u>	<u>5,797,731</u>
Cash, End of Period	<u>\$ 2,277,178</u>	<u>\$ 3,533,138</u>	<u>\$ 4,404,757</u>	<u>\$ 4,387,354</u>
Reconciliation of Operating Loss to Net Cash Used in Operating activities				
Operating income	\$ 5,465,193	\$ 1,856,786	\$ 2,232,297	\$ 1,369,319
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Increase (Decrease) in Payables	(2,914)	1,077	(7,024)	6,798
Amortization	39,728	39,728	39,728	44,805
Net Cash Used in Operating Activities	<u>\$ 5,502,007</u>	<u>\$ 1,897,591</u>	<u>\$ 2,265,001</u>	<u>\$ 1,420,922</u>

The accompanying notes are an integral part of this statement

Bell Creek Community Development Authority

Notes to Financial Statements June 30, 2007, 2006, 2005 and 2004

Note 1 – Summary of significant accounting policies

Financial Reporting Entity

The Bell Creek Community Development Authority (the “Authority”) was created pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2, Code of Virginia of 1950 adopted by the Board of Supervisors of Hanover County, Virginia on July 24, 2002 for the purpose of financing the acquisition and implementation of certain public utility infrastructure and other public improvements including construction and extension of certain roads and traffic improvements, storm water management improvements and water and sewer system extensions and improvements. The Authority is authorized to issue revenue bonds to pay the costs associated with such improvements. In addition the Authority is authorized to finance such improvements by special assessments imposed on property within the Authority’s boundaries.

Basis of Accounting and Presentation

The Authority is accounted for under the economic resources measurement focus and the accrual basis of accounting as an enterprise fund. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred. The Authority has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* which establishes uniform accounting and financial reporting guidelines for proprietary funds. The Authority applies all GASB Statements, and all Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, except those that conflict with the GASB. The Authority has elected not to apply FASB Statements issued after November 20, 1989.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of less than three months when purchased to be cash equivalents.

Debt Issuance Costs

Debt issuance costs are amortized using the effective interest method.

Capitalized Interest

The Authority capitalizes interest costs that relate to the construction of the infrastructure improvements. Interest costs of improvements made with tax exempt borrowings are reduced by interest earned on invested debt proceeds over the same construction period.

Note 2 – Cash Equivalents and Investments

Cash equivalents are carried at fair value, based on quoted market prices at year end. Cash equivalents include money market accounts and repurchase agreements. The Authority invested a portion of the proceeds from the revenue bonds in a professionally managed money market fund, which is a series of the Evergreen Select Money Market Trust, a Delaware business trust, organized on September 18, 1997. The proceeds of the special assessment bonds are set aside for their repayment and are classified as restricted cash equivalents on the balance sheet because they are maintained in separate bank accounts and/or their use is limited by applicable bond covenants.

Bell Creek Community Development Authority

Notes to Financial Statements June 30, 2007, 2006, 2005 and 2004

Note 2 – Cash Equivalents and Investments (continued):

Cash equivalents consisted of the following:

	Fair Value				Ratings
	2007	2006	2005	2004	
Repurchase agreements	\$ 1,391,124	\$ 1,391,124	\$ 1,421,828	\$ 1,391,124	A-1
Money market funds	886,054	2,142,014	2,982,929	2,996,230	AAAm
	\$ 2,227,178	\$ 3,533,138	\$ 4,404,757	\$ 4,387,354	

Credit Risk: Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, and the African Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 Moody's Commercial Paper Records, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Risk: Custodial risk is the risk that in the event of a bank failure, the authority's deposits might not be returned to it. There is no custodial credit risk to these accounts, as the entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

Interest Rate Risk: All investments have a maturity of one day or less. The Authority does not have a policy to address interest rate risk.

Note 3 – Long-Term Debt

Long-term debt at June 30 of each year consists of:

Account	For the Fiscal Year 2004			Balance June 30, 2004
	Balance July 1, 2003	Increase	Decrease	
Series 2003 A Bonds	\$ 12,135,000	\$ -	\$ 756,000	\$ 11,379,000
Series 2003 B Bonds	3,845,000	-	-	3,845,000
	15,980,000	-	756,000	15,224,000
Less				
Unamortized Discount	356,834	-	26,647	330,186
	\$ 15,623,166	\$ -	\$ 729,353	\$ 14,893,814

Account	For the Fiscal Year 2005			Balance June 30, 2005
	Balance July 1, 2004	Increase	Decrease	
Series 2003 A Bonds	\$ 11,379,000	\$ -	\$ 1,126,947	\$ 10,252,053
Series 2003 B Bonds	3,845,000	-	-	3,845,000
	15,224,000	-	1,126,947	14,097,053
Less:				
Unamortized Discount	330,186	-	23,628	306,558
	\$ 14,893,814	\$ -	\$ 1,103,319	\$ 13,790,495

Bell Creek Community Development Authority

**Notes to Financial Statements
June 30, 2007, 2006, 2005 and 2004**

Note 3 Long Term Debt (Continued)

	For Fiscal Year 2006			
Account	Balance July 1, 2005	Increase	Decrease	Balance June 30, 2006
Series 2003 A Bonds	\$ 10,252,053	\$ -	\$ 1,995,962	\$ 8,256,091
Series 2003 B Bonds	3,845,000	-	-	3,845,000
	14,097,053	-	1,995,962	12,101,091
Less:				
Unamortized Discount	306,558	-	23,629	282,929
	<u>\$ 13,790,495</u>	<u>\$ -</u>	<u>\$ 1,972,333</u>	<u>\$ 11,818,162</u>
	For Fiscal Year 2007			
Account	Balance July 1, 2006	Increase	Decrease	Balance June 30, 2007
Series 2003 A Bonds	\$ 8,256,091	\$ -	\$ 5,150,476	\$ 3,105,615
Series 2003 B Bonds	3,845,000	-	-	3,845,000
	12,101,091	-	5,150,476	6,950,615
Less:				
Unamortized Discount	282,929	-	23,628	59,301
	<u>\$ 11,818,162</u>	<u>\$ -</u>	<u>\$ 5,126,848</u>	<u>\$ 6,691,314</u>

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Bell Creek Community Development Authority

Notes to Financial Statements June 30, 2007, 2006, 2005 and 2004

Note 3 – Long-Term Debt (continued)

(a) *Special Assessment Bonds – Series 2003A and 2003B*

On January 15, 2003, the Series 2003A and 2003B bonds were issued in the amount of \$12,135,000 and \$3,845,000, respectively, for the purpose of financing the cost of certain infrastructure improvements within the Authority's district, to fund a reserve fund, to fund capitalized interest through March 1, 2004, to fund certain administrative expenses through March 1, 2004 and to pay certain costs relating to the issuance of the bonds. These bonds will be repaid from amounts levied against the property owners benefited by this construction.

The Series 2003A and 2003B bonds are term bonds, maturing on March 1, 2022 and March 1, 2032, respectively. The bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption at various dates through March 1, 2020. Beginning March 1, 2003, interest is payable on March 1 and September 1 of each year.

The Series 2003A Bonds were not scheduled to have the first principal payment until fiscal year 2008; however, the Authority has retired principal in advance with funds from property owner's assessments, with \$3,105,615 remaining on the principal at June 30, 2007. Therefore, a schedule of annual debt service requirements is not presented for the 2003A bonds.

Annual debt service requirements to maturity for the Series 2003B special assessment bonds are as follows:

Series 2003B, 7.00% Bonds

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2004	-	269,150
2005	-	269,150
2006	-	269,150
2007	-	269,150
2008	60,000	269,150
2009	65,000	264,950
2010	70,000	260,400
2011	75,000	255,500
2012	80,000	250,250
2013-2017	490,000	1,159,200
2018-2022	685,000	961,800
2023-2027	965,000	685,650
2028-2032	1,355,000	297,850
Total	<u>\$ 3,845,000</u>	<u>\$ 5,481,350</u>

Note 4 – Related Party Transactions:

The majority landowner, who petitioned Hanover County to create the Authority, is the controlling principal in the Developer and its affiliated entities. The Authority paid \$125,170 to the Developer, The Hanover Group, L.L.C., between July 2003 and June 2004.

A member of the Authority's board of directors is the principal responsible for providing engineering and other services for the project. The Authority paid \$48,061 in 2004 and \$27,089 in 2005 to the engineering firm, Resource International.

Bell Creek Community Development Authority

Notes to Financial Statements June 30, 2007, 2006, 2005 and 2004

Note 5 – Capital Assets

The Authority's capital asset activity for the years ended June 30, 2004, 2005, 2006 and 2007, was as follows:

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Construction In progress	\$ 9,836,076	\$ 778,631	\$ -	\$ 10,614,707
Capitalized Interest Expense	338,149	1,075,504	-	1,413,653
Interest Revenue on Investments	-	(73,778)	-	(73,778)
	<u>\$ 10,174,225</u>	<u>\$ 1,780,357</u>	<u>\$ -</u>	<u>\$ 11,954,582</u>

	2005			
	Beginning Balance	Additions	Reductions	Ending Balance
Construction In progress	\$ 10,614,707	\$ 177,302	\$ -	\$ 10,792,009
Capitalized Interest Expense	1,413,653	996,142	-	2,409,795
Interest Revenue on Investments	(73,778)	(111,876)	-	(185,654)
	<u>\$ 11,954,582</u>	<u>\$ 1,061,568</u>	<u>\$ -</u>	<u>\$ 13,016,150</u>

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Construction In progress	\$ 10,792,009	\$ -	\$ -	\$ 10,792,009
Capitalized Interest Expense	2,409,795	899,056	-	3,308,851
Interest Revenue on Investments	(185,654)	(159,491)	-	(345,145)
	<u>\$ 13,016,150</u>	<u>\$ 739,565</u>	<u>\$ -</u>	<u>\$ 13,755,715</u>

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Construction In progress	\$ 10,792,009	\$ 1,367,919	\$ -	\$ 12,159,928
Capitalized Interest Expense	3,308,851	327,043	-	3,635,894
Interest Revenue on Investments	(345,145)	(174,385)	-	(519,530)
	<u>\$ 13,755,715</u>	<u>\$ 1,520,577</u>	<u>\$ -</u>	<u>\$ 15,276,292</u>

Bell Creek Community Development Authority

Notes to Financial Statements June 30, 2007, 2006, 2005 and 2004

Note 6 - Special Assessments

The Authority's Board of Directors, with a recommendation from the Administrator, determined the assessment lien for each parcel of land within the CDA prior to the issuance of the Series 2003 A and Series 2003 B bonds. The total of the assessment liens levied on all of the parcels is not to exceed \$18,833,000.

The Administrator calculates the annual installment on each parcel of land, which is confirmed by the Board of Directors. It is equal to the annual installment rate multiplied by the assessment lien for each parcel. The aggregate amount of the annual installments on all the parcels in any tax year shall equal the annual revenue requirement for such tax year. The assessment lien applicable to any parcel shall be reduced each year for the principal portion of the annual installment collected from each parcel.

Annual installments are collected in the same manner and at the same time as regular property taxes of Hanover County and are subject to the same penalties, procedures, sale and lien priorities in case of delinquencies as are provided for regular property taxes of the County.

The Authority is required to notify the County of the amount of the annual installment to be collected on each parcel each tax year in a timely manner to allow the collection of the annual installment by the County. After assessments are collected, monies are forwarded to the trustee for application to debt service.



**Independent Auditors' Report on Compliance and on Internal
Control over Financial Reporting in Accordance with
*Government Auditing Standards***

The Members of the Board of Directors
Bell Creek Community Development Authority
Hanover, Virginia

We have audited the accompanying financial statements of the Bell Creek Community Development Authority (the "Authority") as of and for the years ended June 30, 2007, 2006, 2005, and 2004 which collectively comprise the Authority's basic financial statements as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audit of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the following finding to be a significant deficiency in internal control over financial reporting.

Finding: Internal control over financial reporting

Criteria:

Management of the Authority has responsibility for the preparation of year end financial statements and note disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP). While it is routine for smaller governments and authorities to rely on the auditors for the preparation of their financial statements, new audit requirements now require auditors to identify a weakness in internal control if the auditor is relied upon to prepare, complete or review the financial statements and disclosures.

Condition:

The Authority does not prepare its own financial statements and disclosures and instead relies on the auditor to prepare the year end financial statements and note disclosures in accordance with GAAP.

Cause:

The Authority maintains its accounts and ledgers, and prepares a year end trial balance. This year management also prepared draft financial statements for the first time. However, management relied on the auditor to complete the note disclosures and ensure that the statements were prepared in accordance with GAAP.

Effect:

The Authority does not have a process in place to review and verify the financial statements and note disclosures prepared by the external auditor.

Recommendation:

We recommend that, if the auditor should continue to assist with the preparation of financial statements, a process be established to review and approve the financial statements and note disclosures prepared by the external auditor.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. We consider the deficiency to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

This report is intended for the information of the Board of Directors, management, and the Auditor of Public Accounts of the Commonwealth of Virginia, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
December 12, 2008