



BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Basic Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Directors
Broad Street Community Development Authority:

We have audited the accompanying statements of net assets of the Broad Street Community Development Authority (the Authority), a component unit of the City of Richmond, Virginia, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year ended June 30, 2004 and for the period from July 8, 2002 (inception) to June 30, 2003. These financial statements are the responsibility of the Authority's management. 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. 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 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 Broad Street Community Development Authority as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the year ended June 30, 2004 and for the period from July 8, 2002 (inception) to June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (MD&A) on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by 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 this information and express no opinion on it.

KPMG LLP

November 5, 2004

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Management's Discussion and Analysis

June 30, 2004 and 2003

This section of the Broad Street Community Development Authority's (the Authority) annual financial report presents management's discussion and analysis (MD&A) of the Authority's financial performance during the fiscal year ended June 30, 2004 and for the period July 8, 2002 (inception) to June 30, 2003. Please read it in conjunction with your review of the Authority's financial statements.

FINANCIAL HIGHLIGHTS FOR FISCAL YEARS 2004 AND 2003

- The Authority was established effective July 8, 2002 and issued \$66,740,000 in Series 2003 Revenue Bonds during the fiscal year. These bonds were issued to finance:
 - The construction of certain infrastructure within the Broad Street District, including certain streetscape and public utility improvements, demolition of the 6th Street Marketplace and the acquisition, construction, and renovation of parking facilities.
 - The payment of interest accruing on the 2003 bonds through June 1, 2005.
 - The funding of a debt reserve fund for the 2003 bonds.
 - The payment of any and all costs of issuing the 2003 bonds.
- The Authority used the 2003 bond proceeds to purchase parking facilities during fiscal year 2003 (\$23,830,231) and construction of certain streetscape, public utility improvements, and demolitions during fiscal year 2004 (\$13,769,237).
- The balance of the funds is being used to finance other activities listed above with the whole project scheduled to be completed by spring of 2005.
- Interest on the bonds was paid during fiscal year 2004 in accordance with the bond's official statement (\$5,192,828).

**USING THE FINANCIAL SECTION OF THIS COMPONENT UNIT
ANNUAL FINANCIAL REPORT**

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements consisting of a statement of net assets; statement of revenues, expenses, and changes in net assets; statement of cash flows, and related footnotes. The Authority uses the accrual basis of accounting and the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned, to include all parking rental receipts, which are restricted for payment of debt service, and expenses are recognized when incurred.

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Management's Discussion and Analysis

June 30, 2004 and 2003

COMPARATIVE FINANCIAL ANALYSIS

Summary of Net Assets

	<u>2004</u>	<u>2003</u>
Other assets	\$ 28,314,593	41,285,294
Capital assets	<u>36,707,563</u>	<u>23,830,231</u>
Total assets	<u>65,022,156</u>	<u>65,115,525</u>
Long-term debt, net of discount	64,932,054	64,858,866
Other liabilities	<u>788,298</u>	<u>456,543</u>
Total liabilities	<u>65,720,352</u>	<u>65,315,409</u>
Net assets:		
Invested in capital assets, net of related debt	(173,620)	220,077
Unrestricted	<u>(524,576)</u>	<u>(419,961)</u>
Total net assets	\$ <u><u>(698,196)</u></u>	\$ <u><u>(199,884)</u></u>

Comments

- The other assets balance is made up almost entirely of invested bond proceeds. Most of these proceeds are invested in guaranteed investment contracts in order to maximize results until the funds are expended. The capital assets balance is the net balance (after depreciation) of parking facilities purchased.

Summary of Revenues, Expenses, and Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating revenues	\$ <u>1,698,412</u>	<u>132,415</u>
Operating expenses:		
Parking operations management fee	415,199	13,117
Professional services	348,665	10,000
Insurance	113,047	10,189
Depreciation	891,905	66,379
Other	<u>30,817</u>	<u>8,916</u>
Total operating expenses	<u>1,799,633</u>	<u>108,601</u>
Operating income (loss)	(101,221)	23,814
Nonoperating revenues	588,727	196,722
Nonoperating expenses	<u>(985,818)</u>	<u>(420,420)</u>
Change in net assets	\$ <u><u>(498,312)</u></u>	\$ <u><u>(199,884)</u></u>

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Management's Discussion and Analysis

June 30, 2004 and 2003

Comments

- Operating revenues represent rental revenue related to parking facilities owned by the Authority.
- Operating expenses include depreciation of parking facilities using the straight-line method with an estimated life of 30 years. Insurance expense represents the cost of insuring the parking facilities.
- Nonoperating revenue represents interest revenue earned by the Authority on unspent debt proceeds.
- Nonoperating expense represents interest expense, net of amount capitalized, related to bonds.
- The loss reflected during the current fiscal year is in line with projections, as it was expected that parking facilities would not be in full operational capacity during the first two years of renovation and public improvements. Additionally, revenues to be derived from special assessments and payments in lieu of assessments that would also be a component of CDA revenues are also to commence upon the completion of public improvements.

CAPITAL ASSETS

As noted on page 2, the Authority's net capital assets balance at year end was made up entirely of parking facilities, including land purchased during the fiscal year. These parking facilities were purchased using the proceeds of the Series 2003 bonds.

LONG-TERM DEBT

The Authority issued Revenue Bonds, Series 2003, dated May 15, 2003, 7.10% to 7.50% interest rates, and due in semi-annual installments with maturities ranging from 2015 to 2033, during the fiscal years ended June 30, 2004 and 2003. This bond issuance represents 100% of the Authority's fiscal year end long-term debt balance.

ECONOMIC FACTORS

The Authority's financial performance is dependent on the ability of the parking facilities to attract a sustained volume of customers, which is dependent on the following factors:

- Events and activities being held and hosted at the Convention Center, the Coliseum, the Marriott Hotel, and the Carpenter Center;
- Parking demand generated by existing retail and office land uses; and
- Parking demand to be generated by the proposed building projects of the Authority and other projects proposed such as the Miller & Rhoads Hotel, Marriott Hotel expansion, and the Federal Court House.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Mr. Keenan Rice, MuniCap, Inc., 8340 Governor Ridgely Lane, Ellicott City, Maryland 21043.

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Statements of Net Assets

June 30, 2004 and 2003

	2004	2003
Assets:		
Current assets:		
Accounts receivable	\$ 263,722	36,582
Noncurrent assets:		
Restricted assets – cash and cash equivalents (note 2)	28,050,871	41,248,712
Capital assets (note 4):		
Land	4,791,100	4,684,600
Parking facilities	32,874,747	19,212,010
Less accumulated depreciation	(958,284)	(66,379)
Total capital assets, net	36,707,563	23,830,231
Total noncurrent assets	64,758,434	65,078,943
Total assets	65,022,156	65,115,525
Liabilities:		
Current liabilities:		
Accounts payable	373,977	42,222
Interest payable	414,321	414,321
Total current liabilities	788,298	456,543
Noncurrent liabilities:		
Due in more than one year (note 3):		
Long-term debt	66,740,000	66,740,000
Less discount on long-term debt	(1,807,946)	(1,881,134)
Total noncurrent liabilities	64,932,054	64,858,866
Total liabilities	65,720,352	65,315,409
Net assets:		
Invested in capital assets, net of related debt	(173,620)	220,077
Unrestricted	(524,576)	(419,961)
Total net assets	\$ (698,196)	(199,884)

See accompanying notes to basic financial statements.

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Statements of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004 and
Period from July 8, 2002 (inception) to June 30, 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Rental revenue	\$ 1,698,412	132,415
Operating expenses:		
Parking operations management fee	415,199	13,117
Professional services	348,665	10,000
Insurance	113,047	10,189
Depreciation	891,905	66,379
Other	30,817	8,916
Total operating expenses	<u>1,799,633</u>	<u>108,601</u>
Operating income (loss)	<u>(101,221)</u>	<u>23,814</u>
Nonoperating revenues (expenses):		
Interest revenue	588,727	196,722
Interest expense	<u>(985,818)</u>	<u>(420,420)</u>
Total nonoperating expenses	<u>(397,091)</u>	<u>(223,698)</u>
Change in net assets	(498,312)	(199,884)
Net assets at beginning of period	<u>(199,884)</u>	—
Net assets at end of period	\$ <u><u>(698,196)</u></u>	<u><u>(199,884)</u></u>

See accompanying notes to basic financial statements.

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Statements of Cash Flows

Year ended June 30, 2004 and
Period from July 8, 2002 (inception) to June 30, 2003

	2004	2003
Cash flows from operating activities:		
Receipts from rental properties	\$ 1,432,364	95,833
Payments to vendors	(1,428,970)	—
Other	891,905	—
Net cash provided by operating activities	895,299	95,833
Cash flows from capital and related financing activities:		
Acquisition of capital assets and capitalization of construction period interest	(13,769,237)	(23,896,610)
Proceeds from issuance of bonds	—	64,852,767
Non-capitalized interest paid on long-term debt	(912,630)	—
Net cash provided by (used in) capital and related financing activities	(14,681,867)	40,956,157
Cash flows from investing activities:		
Interest received	588,727	196,722
Net increase in cash and cash equivalents	(13,197,841)	41,248,712
Cash and cash equivalents at beginning of period	41,248,712	—
Cash and cash equivalents at end of period	\$ 28,050,871	41,248,712
Adjustments to reconcile operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (101,221)	23,814
Adjustment to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	891,905	66,379
Change in assets and liabilities:		
Increase in accounts receivable	(227,140)	(36,582)
Increase in accounts payable	331,755	42,222
Total adjustments	996,520	72,019
Net cash provided by operating activities	\$ 895,299	95,833
Supplemental disclosure of cash flow information – cash paid on interest that has been capitalized and included in capital assets at June 30, 2004	\$ 4,280,198	—

See accompanying notes to basic financial statements.

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
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Notes to Basic Financial Statements

June 30, 2004 and 2003

(1) Summary of Significant Accounting Policies

The Broad Street Community Development Authority (the Authority) was established effective July 8, 2002, pursuant to the provisions of Article 6 of Chapter 51 of Title 15.2 of the Code of Virginia of 1950 (the Act), as amended. The Authority is responsible for financing certain improvements in connection with the proposed development and redevelopment of the downtown area to benefit the citizens of the City of Richmond, Virginia (the City).

(a) Financial Reporting Entity

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Therefore, the Authority's financial statements are presented in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. This statement defines the distinction between the Authority as a primary government and its related entities. The Authority has no related entities that require inclusion in the Authority's financial statements, but the Authority does meet the requirements for inclusion in the City's financial statements as a discretely presented component unit mainly due to the fact that the Authority is governed by a board of five voting directors and three ex-officio, nonvoting directors, all of whom are appointed by the Richmond City Council.

(b) Financial Reporting Model

GAAP sets the reporting model requirements for the annual financial reports of state and local governments. For entities like the Authority that are engaged solely in business-type activities, the annual report includes:

- **Management's Discussion and Analysis** – GAAP requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.
- **Statement of Net Assets** – The statement of net assets is designed to display the financial position of the entity. The net assets of the Authority are broken down into two categories – (1) invested in capital assets, net of related debt and (2) unrestricted.
- **Statement of Revenues, Expenses, and Changes in Net Assets** – The statement of revenues, expenses, and changes in net assets is designed to display the financial activities of the entity for the period under audit.
- **Statement of Cash Flows** – Prepared using the direct method.

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Notes to Basic Financial Statements

June 30, 2004 and 2003

(c) Basis of Accounting

The Authority uses the accrual basis of accounting and the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned, to include all parking rental receipts which are restricted for payment of debt service, and expenses are recognized when incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority follows all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor, Accounting Practices Board Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989 to the extent they do not conflict with existing GASB pronouncements. Under paragraph 7 of GASB Statement No. 20, the Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

(d) Cash Equivalents

Cash and cash equivalents include cash on hand, checking and savings accounts, and money market accounts, which generally have maturities of less than three months at the time of acquisition. Certain cash and cash equivalents are reported as restricted as they are required to only be used for the repayment of debt service.

(e) Depreciation

Parking facilities are the only depreciable property owned by the Authority. This property is stated at cost and depreciation on the property is provided on a straight-line basis over a 30-year estimated life. Land associated with the parking facilities is recorded as a nondepreciable capital asset. Capitalized interest associated with these facilities approximated \$4,300,000 at June 30, 2004.

(f) Income Taxes

The Authority is a governmental entity and, therefore, is exempt from federal and state income taxes.

(2) Cash and Cash Equivalents

The Authority follows a deposit and investment policy in accordance with statutes of the Commonwealth of Virginia. Accordingly, the Authority is authorized to hold cash and temporary investments, including checking and savings accounts, certificates of deposit, repurchase agreements, and banker's acceptances.

Deposits, primarily checking accounts, are placed with banks and are protected by federal depository insurance or collateral held under the provisions of the Virginia Security for Public Deposits Act (the Deposits Act), Section 2.1-359 et.seq. Under the Deposits Act, banks holding public deposits in excess of amounts insured by the FDIC Bank Insurance Fund must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Deposits Act and for notifying the Authority of compliance by banks. At June 30, 2004 and 2003, the carrying amounts of the Authority's cash and cash equivalents balance agreed with the financial institution balance of \$28,050,871 and \$41,248,712, respectively. The entire financial institution balance at June 30,

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
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Notes to Basic Financial Statements

June 30, 2004 and 2003

2004 and 2003 was insured under the provisions of the Deposits Act or covered by federal depository insurance.

Cash equivalents include money market accounts, guaranteed investment contracts, and repurchase agreements. Repurchase agreements with carrying amounts (equal to fair values) of \$6,136,875 are 100% collateralized by U.S. Government securities at market values sufficient to cover the face value of the investments. Such underlying securities were held by financial institutions in their safekeeping departments or in their accounts at the Federal Reserve Bank of Richmond, in the Authority's name.

The Authority's cash equivalents are considered investments and are categorized below to give an indication of the level of custodial credit risk assumed at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its safekeeping agent in the Authority's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the Authority's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the counterparty or by its trust department or safekeeping agent, but not in the Authority's name.

2004	Category			Carrying amount	Fair value
	1	2	3		
Repurchase agreements	\$ 6,136,875	—	—	6,136,875	6,136,875
Total cash equivalents (excluding money market accounts)				6,136,875	\$ 6,136,875
Guaranteed investment contracts (GICS)				20,682,933	
Cash and money market accounts				1,231,063	
Total cash, money market accounts, and GICS				21,913,996	
Total cash and cash equivalents				\$ 28,050,871	

2003	Category			Carrying amount	Fair value
	1	2	3		
Repurchase agreements	\$ 6,136,875	—	—	6,136,875	6,136,875
Total cash equivalents (excluding money market accounts)				6,136,875	\$ 6,136,875
Guaranteed investment contracts (GICS)				34,822,135	
Cash and money market accounts				289,702	
Total cash, money market accounts, and GICS				35,111,837	
Total cash and cash equivalents				\$ 41,248,712	

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
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Notes to Basic Financial Statements

June 30, 2004 and 2003

(3) Long-Term Debt

Revenue Bonds, Series 2003, dated May 15, 2003, with interest rates ranging from 7.10% to 7.50%, due in semi-annual installments beginning in 2009 as part of a mandatory sinking fund redemption, with maturities ranging from 2015 to 2033, were issued by the Authority during its initial operating years ended June 30, 2004 and 2003. Changes in the total long-term liabilities during this period are summarized below:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due within</u> <u>one year</u>
Revenue bonds	\$ 66,740,000	—	—	66,740,000	—
Less discount	<u>(1,881,134)</u>	<u>—</u>	<u>73,188</u>	<u>(1,807,946)</u>	<u>—</u>
Revenue bonds, net	<u>\$ 64,858,866</u>	<u>—</u>	<u>73,188</u>	<u>64,932,054</u>	<u>—</u>
	<u>Balance</u> <u>July 8, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Due within</u> <u>one year</u>
Revenue bonds	\$ —	66,740,000	—	66,740,000	—
Less discount	<u>—</u>	<u>(1,887,233)</u>	<u>6,099</u>	<u>(1,881,134)</u>	<u>—</u>
Revenue bonds, net	<u>\$ —</u>	<u>64,852,767</u>	<u>6,099</u>	<u>64,858,866</u>	<u>—</u>

The debt service obligations to maturity related to these bonds at June 30, 2004 are as follows:

	<u>Principal</u> <u>amount</u>	<u>Interest</u> <u>amount</u>
Year ending June 30:		
2005	\$ —	4,971,856
2006	—	4,971,856
2007	—	4,971,856
2008	—	4,971,856
2009	400,000	4,971,856
2010-2014	5,220,000	24,135,380
2015-2019	9,040,000	21,640,356
2020-2024	12,945,000	17,728,125
2025-2029	18,585,000	12,089,250
2030-2034	<u>20,550,000</u>	<u>3,991,875</u>
Total	<u>\$ 66,740,000</u>	<u>104,444,266</u>

BROAD STREET COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the City of Richmond, Virginia)

Notes to Basic Financial Statements

June 30, 2004 and 2003

(4) Capital Assets

Changes in capital assets during the fiscal period ended June 30, 2004 and 2003 are summarized below:

		June 30, 2004			
		Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets:					
Nondepreciable – land	\$	4,684,600	106,500	—	4,791,100
Depreciable – parking facilities		19,212,010	13,662,737	—	32,874,747
Less accumulated depreciation for:					
Parking facilities		66,379	891,905	—	958,284
Total capital assets, net	\$	23,830,231	12,877,332	—	36,707,563
		June 30, 2003			
		Balance July 8, 2002	Additions	Deletions	Balance June 30, 2003
Capital assets:					
Nondepreciable – land	\$	—	4,684,600	—	4,684,600
Depreciable – parking facilities		—	19,212,010	—	19,212,010
Less accumulated depreciation for:					
Parking facilities		—	66,379	—	66,379
Total capital assets, net	\$	—	23,830,231	—	23,830,231

(5) Contingent Liabilities

Litigation

During the normal course of business, the Authority may be named as defendants in claims for personal injuries, property damage, or specific performances, which would be defended by counsel. It is the opinion of management and associated counsel that the resolution of any such litigation would not involve a substantial liability.