



ANNUAL REPORT

2003-2004

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VIRGINIA BASEBALL STADIUM AUTHORITY
ANNUAL REPORT OF ITS ACTIVITIES
AND FINANCIAL STANDING TO THE
GOVERNOR AND THE GENERAL ASSEMBLY
COMMONWEALTH OF VIRGINIA

For the Period July 1, 2003 to June 30, 2004

Legislation for the Virginia Baseball Stadium Authority (the "Authority") was initially adopted in 1992 as then §§15.1-227.66 through 15.1-227.78 of the Code of Virginia and became §§15.2-5800 through 15.2-5821 upon recodification. Additional sections were added in 1996. This report is submitted in compliance with §15.2-5812(4), which required that the Authority shall:

Submit a detailed annual report of its activities and financial standing to the Governor and to the General Assembly.

Mission Statement:

The Mission Statement of the Authority is as follows:

The Virginia Baseball Stadium Authority shall lead the effort to design, finance, construct, own, and operate a ballpark for a Major League Baseball franchise in Virginia.

Authority Membership:

The Authority consists of nine members, each appointed by the Governor for a four-year term. Terms are staggered so that three members' terms expire each year for three consecutive years. In the fourth consecutive year, no members' terms expire. The Governor also appoints the Chairman of the Authority.

In November 2003, Governor Mark R. Warner appointed Keith Frederick as Chairman. Mr. Frederick was originally appointed to the Authority by Governor Warner in April 2002 and was elected vice-chairman later that year. Mr. Frederick succeeded the Honorable Michael R. Frey as Chairman.

The geographical composition of the Authority on June 30, 2004 consisted of four residents of Fairfax County, two residents of Arlington County, two residents of the City of Richmond and one resident of the City of Alexandria.

Members of the Authority as of June 30, 2004 (and at present) are:

David A. Bell (Arlington County), term ending June 30, 2005
Nancy K. Eberhardt (City of Richmond), term ending June 30, 2006
Keith Frederick (Arlington County), term ending June 30, 2007
Michael R. Frey (Fairfax County), term ending June 30, 2007
Stephen A. Horton (City of Richmond), term ending June 30, 2005
Jerry McAndrews (Fairfax County), term ending June 30, 2006
Shawn McLaughlin (City of Alexandria), term ending June 30, 2007
Todd Stottlemeyer (Fairfax County), term ending June 30, 2005
Dr. Robert L. Wright (Fairfax County), term ending June 30, 2006

Consultants to the Authority:

The following consultants performed services for the Authority during the period July 1, 2003 to June 30, 2004:

Legal Counsel	McGuire Woods LLP
Legal Counsel	Piper Rudnick, LLP
Financial Consultant	MZ Sports Consulting
Authority's Representative (Architect Selection)	Duckett Group, Inc.
Architect	HKS, Inc.

Various additional consultants have performed and/or continue to perform services as subcontractors to the above-listed primary consultants.

Full-Time Staff:

The Authority has a full-time staff of three. Executive Director Gabe Paul, Jr. was hired in August 1997. Mr. Paul spent the preceding 27 years as a vice president of the Milwaukee Brewers, where he reported to the then-president Allan H. (Bud) Selig, who has since assumed the position of Commissioner of Baseball. Mr. Paul was directly involved in the planning, site selection, design, financing, and construction of Miller Park, the Brewers' new \$400 million retractable-roof ballpark that opened in 2001.

Sheryl Elliott, also hired in 1997, is the Executive Assistant and came to the Authority after spending eleven years as a Senior Production Coordinator with Markowitz & McNaughton, Inc., a management consulting firm specializing in mergers and acquisitions.

Brian Hannigan, Communications Director, was hired in June of 1999. He was formerly a managing director with Hill & Knowlton, a national public relations firm.

Public Communication:

Due to the ongoing effort by Major League Baseball to relocate the Montreal Expos, the Authority's activities were the subject of a high degree of media attention between July 1, 2003 and June 30, 2004.

Legislation:

No legislation affecting the Authority was enacted during the 2004 Session of the Virginia General Assembly. Two key provisions of the Authority's ballpark financing legislation will expire on January 1, 2005 unless the Authority has signed a ballpark lease with Major League Baseball prior to that date. Legislation was introduced in the 2004 Session to extend the sunset date of these provisions. Other legislation was introduced to move the provisions' sunset to an earlier date. On January 28, the House Finance Committee voted unanimously to continue all VBSA-related legislation to the 2005 Session.

Financial Standing:

The Authority has retained the accounting firm of KPMG, Peat Marwick LLP to provide the audit contemplated by 15.2-5812 (2). A copy of that audit along with a financial statement of the Authority setting out its current assets and liabilities is submitted as Exhibit A. Attached, as Exhibit B, are its budgets for calendar years 2003 and 2004.

The Authority reviews its financial statements on a regular basis.

Public Participation:

The Authority, through its members, employees, and consultants, has participated in many forums, association meetings, press interviews and similar public events to describe the activities of the Authority and to answer questions from the public. In addition, the Authority and its committees hold frequent public meetings, usually monthly, and it provides broadly distributed notices of such meetings. At its meetings the public is afforded the opportunity to address the Authority.

Site Selection:

On July 18, 2003, the Arlington County Board announced its intention to locate its planned conference center in the Pentagon City area on land previously identified by VBSA as a prime potential site for Virginia's Ballpark. The chairman of the County Board also released a letter requesting that the Authority not pursue ballpark sites in Arlington County.

On June 21, 2004, the Authority announced a proposal to locate Virginia's Ballpark at the previously identified Loudoun County site near Dulles International Airport. The Loudoun County proposal involves the ballpark becoming the cornerstone of a new mixed-use town center development within the area bounded by the Dulles Toll Road, Virginia State Route 28, Route 606 and Rock Hill Road.

The Dulles-area proposal was made possible by an agreement with a consortium of well-established development companies that formed a development group known as Diamond Lake Associates, LLC.

The proposal for Virginia's Ballpark at Diamond Lake enjoys strong support by the Loudoun County Board of Supervisors. Chairman Scott York and Vice Chairman Bruce Tulloch both participated in the June 21 announcement, along with several of their colleagues and members of the Virginia General Assembly.

Ballpark Financing:

The proposal to locate Virginia's Ballpark at the Dulles-area site was made possible by the agreement of Diamond Lake Associates to assume responsibility for installing roads and other infrastructure improvements that would cost the Authority over \$82 million as a stand-alone project.

The Authority now estimates its ballpark costs at \$360 million. Consistent with the General Assembly's ballpark financing model, the Major League Baseball team owners would be responsible for one-third of that cost of construction. The Authority released a revised ballpark financing plan that demonstrates how ballpark construction bonds would be fully covered by available sources of revenue previously authorized by the General Assembly.

Ownership Group:

In August 2003, the Authority revised its Agreement with Virginia Baseball Club, L.C. (VBC) to provide for VBC to make its required \$1 million payment to the Authority for the contract year June 1, 2003 to May 31, 2004 in three installments.

In May 2004, the Virginia Baseball Club notified the Authority of its intention to renew its Agreement for the period June 1, 2004 through May 31, 2005. The Authority and VBC subsequently agreed the payment would be made in three installments throughout that period.

The Virginia Baseball Club's annual payments are structured as a combination of \$375,000 in negotiation fees and \$625,000 in non-interest-bearing loans. Repayment of VBC loans is contingent on the issuance of bonds for financing of a new ballpark or, at the sole election and discretion of the Authority, repayment at an earlier date. If a Major League Baseball club does not locate in Virginia in a ballpark constructed by the Authority, the Authority has no obligation to repay those loans. The authority uses the loans and fees received from VBC to fund its operations.

Under the Agreement, VBC is identified as the Authority's preferred ownership group. The Agreement also specifies several conditions that VBC must meet for the Agreement to remain in effect, including a demonstration of the financial ability to acquire and operate the ball club.

Potential for Acquiring a Team:

Major League Baseball's Relocation Committee (originally formed late in 2002) continued to work through 2003 and 2004 to determine where to move the Montreal Expos. The Expos have been owned and operated by Major League Baseball itself since early 2002. Commissioner of Baseball Allan H. "Bud" Selig has on several occasions stated his intention to choose a permanent new home for the Expos before selling the franchise to new owners.

The Authority remained in close communication with MLB and Relocation Committee representatives throughout 2003 and the first nine months of 2004.

The Authority participated in negotiations with Major League Baseball representatives over terms of an agreement to locate the Expos franchise permanently at the Loudoun County site. The Authority made the case that the Dulles-area location in Loudoun County would provide baseball with the perfect site to take full advantage of the large and prosperous potential fan base in Northern Virginia, without undermining the neighboring Baltimore Orioles.

Early in 2004, the Authority was informed that the City of Norfolk was also under consideration as a new home for the Expos' franchise.

Executive Director Gabe Paul and Communications Director Brian Hannigan subsequently participated in a Norfolk meeting with representatives of Major League Baseball and verified that the Authority was authorized to participate in financing and building a stadium for a Major League Baseball team at any location in the Commonwealth of Virginia.

At its January meeting, the Authority created a Hampton Roads Subcommittee to promote cooperation with the Norfolk effort and invited the Mayor of Norfolk to recommend persons to be members of the subcommittee.

Note: On September 29, 2004, Major League Baseball announced its decision to relocate the Montreal Expos permanently to Washington, D.C.

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VIRGINIA BASEBALL STADIUM AUTHORITY

Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



KPMG LLP
1660 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Directors
Virginia Baseball Stadium Authority:

We have audited the accompanying balance sheets of Virginia Baseball Stadium Authority (the "Authority") as of December 31, 2003 and 2002, and the related statements of revenues, expenses, and changes in accumulated deficit, and cash flows for the years then ended. 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 and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 Virginia Baseball Stadium Authority as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

March 26, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

VIRGINIA BASEBALL STADIUM AUTHORITY

Balance Sheets

December 31, 2003 and 2002

Assets	2003	2002
Cash and cash equivalents	\$ 952,177	1,582,989
Prepaid expenses	—	9,024
Total assets	<u>\$ 952,177</u>	<u>1,592,013</u>
Liabilities and Accumulated Deficit		
Accounts payable and accrued expenses	\$ 20,386	93,786
Deferred revenue	—	114,037
Loans and advances	3,577,084	3,218,750
Total liabilities	<u>3,597,470</u>	<u>3,426,573</u>
Accumulated deficit	(2,645,293)	(1,834,560)
Commitments and contingencies		
Total liabilities and accumulated deficit	<u>\$ 952,177</u>	<u>1,592,013</u>

See accompanying notes to financial statements.

VIRGINIA BASEBALL STADIUM AUTHORITY

Statements of Revenues, Expenses, and Changes in Accumulated Deficit

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Negotiation fees	\$ 489,037	260,963
Total operating revenues	<u>489,037</u>	<u>260,963</u>
Operating expenses:		
General and administrative	1,250,801	782,040
Legislative	193,673	167,071
Total operating expenses	<u>1,444,474</u>	<u>949,111</u>
Net operating loss	(955,437)	(688,148)
Non-operating revenues:		
Interest income	11,371	26,328
Gain on partial retirement of loans	133,333	—
Total non-operating revenues	<u>144,704</u>	<u>26,328</u>
Net loss	(810,733)	(661,820)
Accumulated deficit, beginning of year	<u>(1,834,560)</u>	<u>(1,172,740)</u>
Accumulated deficit, end of year	<u>\$ (2,645,293)</u>	<u>(1,834,560)</u>

See accompanying notes to financial statements.

VIRGINIA BASEBALL STADIUM AUTHORITY

Statements of Cash Flows

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Net operating loss	\$ (822,104)	(688,148)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain realized in partial retirement of loans	(133,333)	—
Prepaid expenses	9,024	798
Accounts payable and accrued expenses	(73,400)	71,345
Deferred revenue	(114,037)	114,037
Net cash used in operating activities	<u>(1,133,850)</u>	<u>(501,968)</u>
Cash flows from investing activities:		
Interest income	11,371	26,328
Net cash from investing activities	<u>11,371</u>	<u>26,328</u>
Cash flows from non-capital financing activities:		
Proceeds from loans	491,667	625,000
Net cash from non-capital financing activities	<u>491,667</u>	<u>625,000</u>
Net increase (decrease) in cash and cash equivalents	(630,812)	149,360
Cash and cash equivalents, beginning of year	<u>1,582,989</u>	<u>1,433,629</u>
Cash and cash equivalents, end of year	\$ <u><u>952,177</u></u>	<u><u>1,582,989</u></u>

See accompanying notes to financial statements.

VIRGINIA BASEBALL STADIUM AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(1) Organization

The Virginia Baseball Stadium Authority, hereinafter referred to as (the "Authority"), was created on July 17, 1995 under the provisions of the Virginia Baseball Stadium Authority (Chapter 5.3, Section 15.1-227.70 et. seg., of the Code of Virginia, 1950, as amended) for the purpose of leading the effort to design, finance, construct, own, and operate a baseball stadium for a major league baseball franchise in Virginia.

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern; however, the Authority is unable to predict with a high degree of certainty at this time the probability of obtaining a major league baseball franchise. Should the Authority not be successful in being awarded a major league baseball franchise in the near future, the Authority may elect to cease activities. No date has been set by the Authority to make such a decision and the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles ("GAAP") for governmental enterprise activities. Accordingly, the Authority uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred. Contingent payables for certain consulting services received are recognized upon the occurrence of specific future events (see note 5).

GAAP allows governments to choose either not to implement, in proprietary fund types, pronouncements of the Financial Accounting Standards Board ("FASB") issued after November 30, 1989 unless those pronouncements are specifically adopted by Governmental Accounting Standards Board ("GASB") (provided that this is applied on a consistent basis) or to continue to follow FASB standards for these fund types. The Authority has elected not to implement FASB pronouncements issued after that date.

(b) Budgeting

The Authority maintains a cash-basis budget for managing its operations. In 2003 and 2002, respectively, the Authority received cash inflows from negotiation fees, loans, and interest income of approximately \$878,000 and \$1,026,000, and disbursed cash outflows of approximately \$1,509,000 and \$877,000 for operating expenses.

(c) Cash and Cash Equivalents

The Authority is permitted to hold its funds only in federally insured depository institutions and the Commonwealth of Virginia treasurer's investment pool.

Cash and cash equivalents consist of demand deposits, units of participation in the Commonwealth of Virginia treasurer's investment pool, and certificates of deposit with original maturities of three months or less from the date of purchase. At December 31, 2003 and 2002, the Authority had balances of approximately \$628,000 and \$1,528,000, respectively, in the Commonwealth of Virginia treasurer's investment pool, which is not covered by the FDIC insurance.

VIRGINIA BASEBALL STADIUM AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(d) *Use of Estimates*

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

(3) **Loans and Advances**

As of December 31, 2003 and 2002, the Authority has received loans and advances as follows:

	<u>2003</u>	<u>2002</u>
Virginia Baseball Club, L.C.	\$ 3,227,084	2,868,750
Commonwealth of Virginia	250,000	250,000
Fairfax County	50,000	50,000
Loudoun County	50,000	50,000
	<u>\$ 3,577,084</u>	<u>3,218,750</u>

The loans and advances are interest-free and repayment is contingent upon successful financing and construction of a baseball stadium. In August 2003, the Authority and the VBC amended their Cooperative Effort Agreement and as a result, the Virginia Baseball Club, L.C. ("VBC") agreed to retire \$133,333 of the Authority's outstanding loan balance.

Additionally, effective June 1, 2003, the Authority and the VBC agreed to consider all payments related to negotiation fees received to date from the VBC as refundable, contingent upon Virginia's successful award of a major league baseball franchise without the VBC participating in the eventual franchise's management group. At December 31, 2003, the total amount contingently due to the VBC was approximately \$2,106,000 and have not been recorded in these audited financial statements.

(4) **Deferred Revenue**

As of December 31, 2002, the Authority maintained a deferred revenue balance of \$114,037 related to cash received from the VBC. These funds will become earned upon the VBC's completion of certain performance criteria by February 9, 2003. Should the VBC not satisfy the performance criteria, the Authority would be required to remit the \$114,037 of funds advanced, plus an additional \$190,070 representing a portion of the debt due to the VBC. All performance criteria were satisfied by February 9, 2003; thus, the deferred revenue balance was recognized as revenue in 2003.

VIRGINIA BASEBALL STADIUM AUTHORITY

Notes to Financial Statements

December 31, 2003 and 2002

(5) Commitments and Contingencies

(a) Leases

The Authority is obligated under a noncancelable operating lease, which expires in 2003. The future minimum lease obligation under this noncancelable operating lease as of December 31, 2003 is approximately \$23,100. Expense under all operating leases was approximately \$38,900 and \$41,900 for the years 2003 and 2002, respectively.

(b) Contingent Liabilities

The Authority has entered into agreements with consultants whereby payment must be made from legally available funds but is contingent upon either the construction of a baseball stadium in Virginia or the projection of a steady stream of revenue. Management is unable to predict if these contingencies will be removed at a future date. As of December 31, 2003 and 2002, contingent payments amounted to approximately \$399,000 and \$371,000, respectively, and have not been recorded in these audited financial statements. However, these contingent amounts have been recorded in the Authority's internal financial statements.

(6) Retirement Plan

The Authority sponsors a defined contribution plan available to all employees. The Authority made contributions to the plan equal to 15% of employee's compensation in 2003 and 2002. The defined contribution expense under the plan was approximately \$51,000 and \$48,000 in 2003 and 2002, respectively.

(7) Future Stadium Lease

The Authority has granted the VBC exclusive right to negotiate a lease for a major league baseball stadium constructed by the Authority. Specific lease terms and arrangements will be determined upon construction of the stadium. In exchange for the leasing rights, VBC provided the Authority with \$375,000 and \$260,963 in negotiation fees during 2003 and 2002, respectively, and \$491,667 and \$625,000 in interest-free loans during 2003 and 2002, respectively. As described in note 3, repayment of the loans is contingent upon construction of the stadium.