

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

FINANCIAL REPORT

As of and for the Fiscal Year Ended June 30, 2023

Prepared by: City of Suffolk, Virginia Finance Department

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

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INTRODUCTORY SECTION

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

**Directory of Principal Officials
June 30, 2023**

BOARD MEMBERS

Mary Snyder, Chairman
Sleepy Hole Borough Representative

Wesley S. King, Vice-Chairman
Cypress Borough Representative

B.J. Willie, Secretary -Treasurer
At-Large Representative Representative

Nic Langford, Deputy Secretary-Treasurer
Economic Development Director

William Webb III
Suffolk Borough Representative

Chris Rice
Holy Neck Borough Representative

Anthony Harper
Whaleyville Borough Representative

Simon Stevenson
Nansemond Borough Representative

Vacant
Chuckatuck Borough Representative

CITY COUNCIL LIAISON

Roger Fawcett
Sleepy Hole Borough Representative

CHIEF LEGAL COUNCIL

Darius Davenport
Crenshaw, Ware & Martin



P.O. Box 1858
Suffolk, Virginia 23439
Telephone 757-514-4040
Facsimile 757-514-4054
www.YesSuffolk.com

Board Members

Economic Development Authority of the City of Suffolk

Dear Board Members,

The economic development initiatives for the City of Suffolk, Virginia's fiscal year July 1, 2022 through June 30, 2023 were supported by the Economic Development Authority's ("EDA") contributions. Some of the highlights and actions taken by the EDA included:

- Approved an Economic Development Investment Program ("EDIP") Grant to Birdsong for an expansion of their factory operations
- Approved a Small Business Improvement Program ("SBIP") for a new downtown business called Pieces 'N Printz
- Approved EDIP Grant for Acesur USA, an olive oil manufacturing company
- Approved EDIP Grant for Lowe's Home Centers LLC for the construction and operation of a large distribution center for Lowe's department stores
- Approved EDIP Grant for MS International, Westport Vano LLC, a large distribution center that specializes in tiles and countertops.
- Approved an Agriculture and Forestry Industries Development ("AFID") Fund from the Commonwealth of Virginia for a \$50,000 grant for Oldcastle Lawn and Garden for their new mulch product, which utilizes Virginia-grown trees
- Approved an AFID Fund from the Commonwealth of Virginia for a \$250,000 grant for Birdsong Corporation for their factory expansion, which purchases, packages, and distributes Virginia-grown peanuts from local Virginia farmers
- Approved a SBIP Grant of \$10,000 for a new brewery in North Suffolk called Sojourn Fermentory.
- Approved a SBIP Grant of \$10,000 for H&S Restaurant Inc to help buildout a new Indian restaurant in North Suffolk.

The work of the EDA continues to be instrumental in advancing economic development efforts throughout the City of Suffolk. Thank you for your commitment, support and contributions to the City of Suffolk.

Sincerely,

A handwritten signature in black ink, appearing to read 'Nic Langford', with a long horizontal stroke extending to the right.

Nic Langford
Deputy Secretary/Treasurer
Suffolk Economic Development Authority

A handwritten signature in black ink, appearing to read 'Tealen Hansen', in a cursive style.

Tealen Hansen
Director of Finance
City of Suffolk

FINANCIAL SECTION

**Financial Section contains the
Basic Financial Statements.**

Report of Independent Auditor

To the Board Members
Economic Development Authority
City of Suffolk, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Economic Development Authority of the City of Suffolk, Virginia (the “Authority”), a component unit of the City of Suffolk, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

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, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions* (the “Specifications”), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards and Specifications are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Authority’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors’ Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Specifications will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Specifications, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Other Information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Information on pages 24 and 25 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section and Other Information on pages 24 and 25 but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2023, on our consideration of the Authority'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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The script is cursive and fluid, with the letters "C", "B", and "L" being particularly prominent.

Virginia Beach, Virginia
October 17, 2023

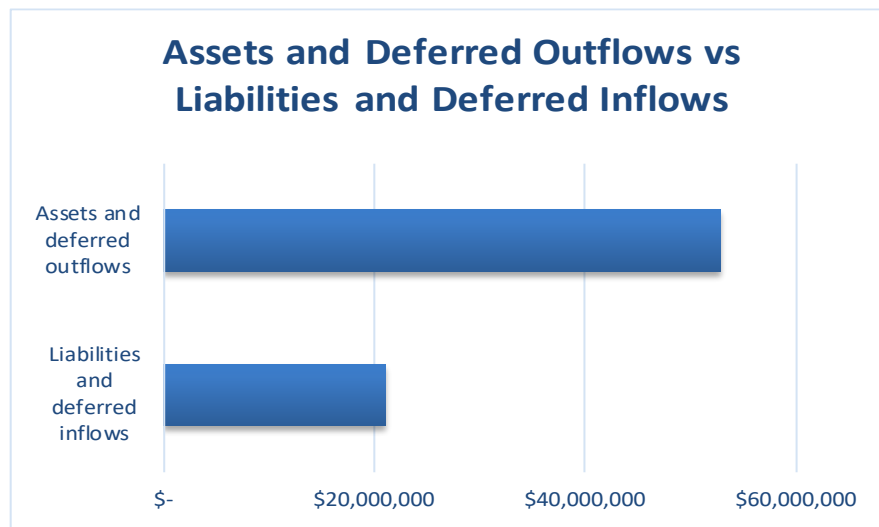
**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

Management's Discussion and Analysis

This section of the Economic Development Authority of the City of Suffolk, Virginia's (the "Authority") annual financial report presents a discussion and analysis of the Authority's financial performance as of and for the fiscal year ended June 30, 2023. Please read it in conjunction with the Authority's Letter of Transmittal in the Introductory Section and the financial statements following this section.

Financial Highlights

- At the close of the fiscal year, the assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources by \$31,694,049. Of this amount, \$13,744,065 represents unrestricted net position, which may be used to meet the Authority's ongoing obligations.



- Net position increased from fiscal year 2022 to fiscal year 2023 by \$1,256,510 or 4.13%. This is primarily due to an unrealized gain on land held for resale, which increased due to overall increase in assessed value of real property.
- The operating income for fiscal year 2023 was \$604,968.
- At June 30, 2023 the Authority does not have any construction in progress.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements.

The *Statement of Net Position* presents information on all Authority assets, deferred outflows of resources, liabilities, and deferred inflows of resources, if any, with the difference between those reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Overview of the Financial Statements (Continued)

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *Statement of Cash Flows* discloses net cash provided by or used for operating activities, capital and related financing activities and investing activities.

Notes to the financial statements are an integral part of the statements and provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes should be read in conjunction with the financial statements and the Management's Discussion and Analysis.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. At the close of the most recent fiscal year, the Authority's assets and deferred outflows exceeded liabilities and deferred inflows by \$31,694,049. The table below provides a summary of the Authority's net position as of June 30, 2023 and June 30, 2022.

Statement of Net Position		
(in millions)		
	2023	2022
Current assets	\$ 14.9	\$ 13.9
Non current assets	37.9	39.7
Total assets	52.8	53.6
Current liabilities	1.5	1.4
Long-term liabilities	2.0	3.2
Total liabilities	3.5	4.6
Deferred inflows	17.6	18.6
Total liabilities and deferred inflows	21.1	23.2
Net Position:		
Net investment in capital assets	16.0	15.7
Restricted	2.0	2.1
Unrestricted	13.7	12.5
Total net position	\$ 31.7	\$ 30.4

Financial Analysis (Continued)

A large portion of the Authority's net position (43.36%) represents unrestricted net position of \$13,744,065, which may be used to meet the Authority's ongoing obligations.

The Authority's capital assets represent land and facility development. The Authority is leasing the majority of these capital assets to the City of Suffolk, Virginia's ("City") Division of Social Services and the Virginia Department of Health for an office building and to a hotel management company to operate and maintain the Hilton Garden Inn and Suffolk Conference Center.

The table below provides a summary of the changes in net position for the years ended June 30, 2023 and June 30, 2022.

Statement of Revenues, Expenses and Changes in Net Position (in millions)

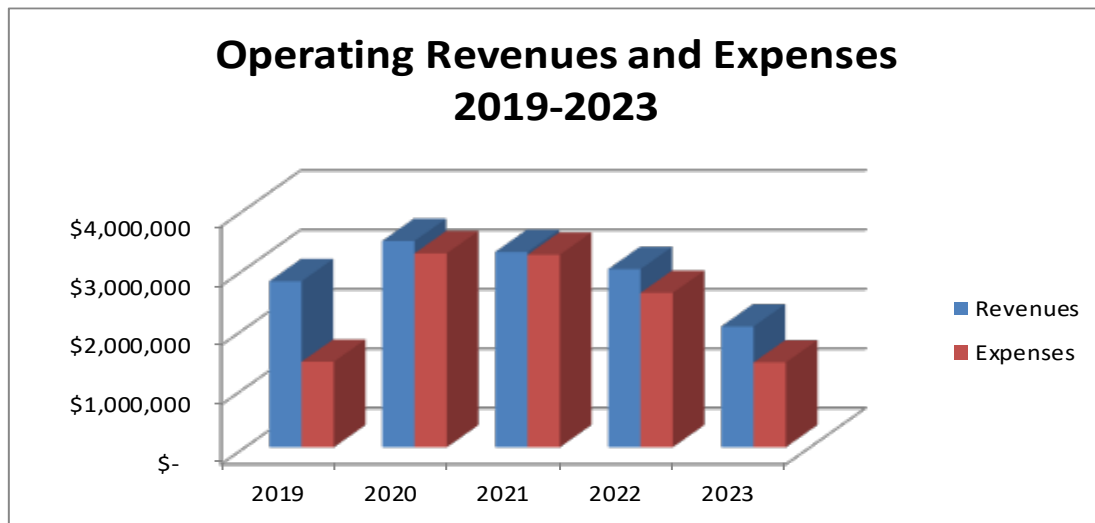
	2023	2022
Operating Revenues	\$ 2.0	\$ 2.9
Operating Expenses	1.4	2.5
Operating Income	0.6	0.4
Nonoperating Expenses	0.7	-
Change in Net Position	1.3	0.4
Net Position beginning of year	30.4	30.0
Net Position end of year	\$ 31.7	\$ 30.4

A component of operating expenses for the Authority are payments to various businesses under the Economic Development Investment Fund Program ("EDIP"), façade grants for business and small business development grants. These programs combined accounted for 5.25% of the total operating expenses. The EDIP provides incentives to businesses that qualify for the program with the intent of fostering the Authority's mission of economic development within the City.

The other main component of operating expenses for the Authority is the recognition of depreciation expense on the Authority's buildings, which totaled \$860,578 or 60.30% of total operating expenses in 2023.

Included within the calculation of the total net non-operating expenses is interest paid on the debt related to the Health and Human Services building during fiscal year 2023. Interest expense decreased from the prior year for a total of \$48,893.

Financial Analysis (Continued)

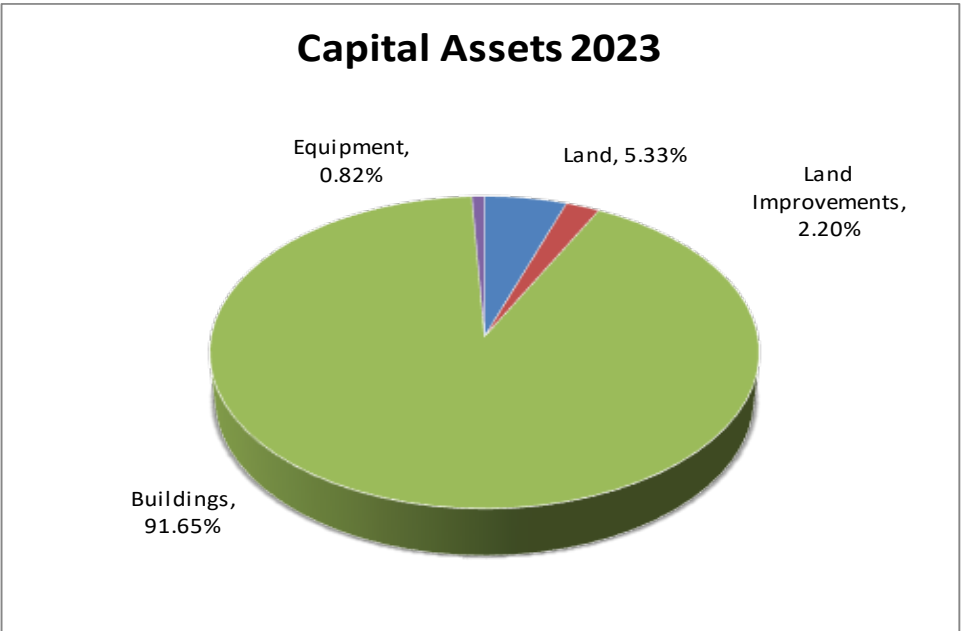


Capital Assets and Debt Administration

The Authority's investment in capital assets totals \$19,150,618 net of accumulated depreciation. This investment in capital assets includes the Hilton Garden Inn and Suffolk Conference Center and the Health and Human Services building.

Capital Assets (Net of Depreciation)		
	2023	2022
Land	\$ 1,021,162	\$ 1,021,162
Land Improvements	422,032	498,490
Buildings	17,551,016	18,283,000
Equipment	156,408	208,545
Total	<u>\$ 19,150,618</u>	<u>\$ 20,011,197</u>

Capital Assets and Debt Administration (Continued)



Additional information on the Authority’s capital assets can be found in Note 4.

At the end of the current year, the Authority had outstanding debt in the amount of \$3,188,359.

	Outstanding Debt	
	2023	2022
Lease Revenue Bonds	\$3,031,000	\$4,141,000
Equipment Lease	157,359	209,178
TOTAL	\$3,188,359	\$4,350,178

Additional information on the Authority’s debt can be found in Note 6.

Economic Factors

The Authority’s purpose is to promote and foster economic activity in the City. Factors that affect the Authority’s ability to do so include interest rates, unemployment, and continued contributions from the City. Over the last several years, the Authority has seen positive trends in these areas effecting economic conditions.

The Authority had a positive year promoting economic activity in the City. Through the use of the Local EDIP, the Authority assisted two companies in expanding and locating within the City, thereby creating investment in the City and employment. Additionally, the Authority assisted two businesses with façade improvements through the façade program and another four businesses with a downtown development grant.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning this report or requests for additional information should be directed to the Authority's Deputy Secretary/Treasurer, Post Office Box 1858, Suffolk, Virginia 23439.

Basic Financial Statements

EXHIBIT 1

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
A Component Unit of the City of Suffolk, Virginia
Statement of Net Position
June 30, 2023**

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 6,540,888
Leases receivable	1,069,892
Land and improvements held for sale (Note 3)	<u>7,257,686</u>
Total current assets	<u>14,868,466</u>

Noncurrent assets:

Cash and cash equivalents - restricted (Note 2 and 8)	1,998,586
Leases receivable	16,751,195
Capital assets (Note 4)	
Nondepreciable	1,021,162
Depreciable, net of accumulated depreciation	<u>18,129,456</u>
Total noncurrent assets	<u>37,900,399</u>
Total assets	<u>52,768,865</u>

Deferred outflows of resources:

Deferred charge on refunding	<u>41,736</u>
Total deferred outflows	<u>41,736</u>

LIABILITIES

Current liabilities:

Accounts payable	46,070
Deposits	17,500
Due to the Primary Government (Note 5)	239,255
Current portion of long-term liabilities (Note 6)	1,167,134
Accrued interest payable, restricted	<u>10,861</u>
Total current liabilities	<u>1,480,820</u>

Noncurrent liabilities:

Long-term liabilities (Note 6)	<u>2,021,225</u>
Total noncurrent liabilities	<u>2,021,225</u>
Total liabilities	<u>3,502,045</u>

Deferred inflows of resources

Deferred inflows for leases	<u>17,614,507</u>
Total deferred inflows	<u>17,614,507</u>
Total liabilities and deferred inflows	<u>21,116,552</u>

NET POSITION

Net investment in capital assets	15,962,259
Restricted	1,987,725
Unrestricted	<u>13,744,065</u>
Total net position	<u><u>\$ 31,694,049</u></u>

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 2

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023**

OPERATING REVENUES

Bond maintenance fees	\$ 113,720
Lease revenues	1,515,972
Lease interest income	261,133
Contributions from the City	39,174
Public facilities rebates	98,222
Miscellaneous	4,010
	<hr/>
Total operating revenues	2,032,231

OPERATING EXPENSES

Economic development incentives	26,880
Small Business CDL program	32,902
Façade program	15,163
Advertising and special events	7,647
Property maintenance	418,908
Professional fees	58,670
Depreciation and amortization (Note 4)	860,578
Miscellaneous	6,515
	<hr/>
Total operating expenses	1,427,263
	<hr/>
Operating income	604,968

NONOPERATING REVENUES (EXPENSES)

Interest income	52,325
Unrealized gain on land available for sale	648,110
Interest expense	(48,893)
	<hr/>
Total nonoperating revenues, net	651,542
	<hr/>
Change in net position	1,256,510
	<hr/>
Net position beginning at July 1	30,437,539
	<hr/>
Net position ending at June 30	<u><u>\$ 31,694,049</u></u>

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 3

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
A Component Unit of the City of Suffolk, Virginia
Statement of Cash Flows
For the Year Ended June 30, 2023**

OPERATING ACTIVITIES

Receipts from lessees	\$ 1,678,278
Bond maintenance fees	113,720
City contribution	39,174
Other operating receipts	132,884
Economic incentive payments	(60,065)
Payments to suppliers for goods and services	<u>(490,230)</u>
Net cash provided by operating activities	<u>1,413,761</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Interest expense	(36,715)
Principal paid on debt	<u>(1,161,819)</u>
Net cash used in capital and related financing activities	<u>(1,198,534)</u>

INVESTING ACTIVITIES

Interest income	52,325
Proceeds from sale of land held for sale	<u>15,000</u>
Net cash provided by investing activities	<u>67,325</u>
Net increase in cash and cash equivalents	282,552

CASH AND CASH EQUIVALENTS

Beginning July 1	<u>8,256,922</u>
Ending June 30	<u><u>\$ 8,539,474</u></u>

RECONCILIATION TO STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 6,540,888
Cash and cash equivalents, restricted	<u>1,998,586</u>
	<u><u>\$ 8,539,474</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 604,968
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	860,578
Changes in assets and liabilities and deferred inflows of resources:	
Decrease in accounts receivables	30,652
Decrease in lease receivables	918,300
Increase in accounts payable and accrued liabilities	16,390
Decrease in deferred inflows for leases	<u>(1,017,127)</u>
Net cash provided by operating activities	<u><u>\$ 1,413,761</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

**Notes to Financial Statements
June 30, 2023**

Note 1. Summary of Significant Accounting Policies

Reporting entity:

The Economic Development Authority of the City of Suffolk, Virginia (“Authority”) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City of Suffolk, Virginia (“City”) in 1969, pursuant to the provisions of the Economic Development and Revenue Bond Act of the Commonwealth of Virginia (Chapter 33, Section 15.1-1373 *et seq.*, of the *Code of Virginia* (1950) as amended). The Authority is authorized to acquire, own, lease, and dispose of properties to the end that such activities may promote industry and develop trade by inducing enterprises to locate and remain in within the City.

In addition, the Authority is authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Liability under the bonds may be retained by the Authority or it may be assumed by the enterprises for which facilities are constructed. The revenue bonds are not deemed to constitute a debt or pledge of faith and credit of the Commonwealth of Virginia or any municipality thereof. The bonds are payable solely from revenues generated from the lease of facilities constructed and may be secured by a deed of trust on those facilities. Collection of revenues pledged to liquidate the bonds are typically assigned to the bond trustee.

For financial reporting purposes, the Authority is a discretely presented component unit of the City mainly because its members are appointed by the City Council and the City provides significant funding to the Authority; thus, the City is financially accountable for the Authority.

Measurement focus and basis of accounting:

The accompanying financial statement report the financial position and results of operations of the Authority in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Because the Authority is a political subdivision of the Commonwealth of Virginia, the preparation of these financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (“GASB”). The Authority’s financial statements are prepared on an enterprise fund basis and present operating revenues and expenses in a manner similar to a private business, where the costs, including depreciation, of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

The Authority’s operations are accounted for on an economic resources measurement focus wherein all assets and liabilities, whether current or noncurrent, are included in its Statement of Net Position. Enterprise fund operating statement presents increases (revenues) and decreases (expenses) in fund equity (net position) utilizing the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

**Notes to Financial Statements
June 30, 2023**

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement focus and basis of accounting (continued):

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are sale of property held for resale, bond maintenance fees, receipts for pass-through grants to industries, economic development incentive payments received from the primary government and lease revenue. Operating expenses include contributions to industries, administrative expenses, return of hotel proceeds to the City, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and cash equivalents:

The Authority's cash and cash equivalents (including restricted cash) are considered to be cash on hand, demand deposits, and short-term investments with original maturities three months or less from the date of acquisition.

Land and improvements held for sale:

The cost of land (including acquisition costs) is allocated to subdivided areas for the purpose of accumulating costs to match with sales revenues. Improvement and amenity costs, if not attributable to a specific lot, are allocated based on acreage. Land or improvements donated to the Authority are recorded at acquisition value on the date of donation. Items held for sale are valued at the lower of cost or market.

Leases receivable:

The Authority's lease receivable is measured at the present value of lease payments expected to be received during the lease term. The lease terms do not contain any provisions for variable lease payments.

A deferred inflows of resources is recorded for the leases. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources is amortized on a straight-line basis over the term of the lease.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

**Notes to Financial Statements
June 30, 2023**

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets:

Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Land improvements	20 years
Equipment	10 years

Right to use assets:

The Authority has recorded a right to use leased assets in accordance with GAAP. The right to use asset is initially measured as an amount equal to the initial measurement of the related lease liability. The right to use asset is amortized on a straight-line basis over the life of the related lease.

Economic development incentives payable:

Performance grant payables are recorded when, in management's opinion, it is unlikely that the grantee will fail to meet the performance criteria. Refunds of performance grants are reflected as revenues when collection is determined to be likely.

Net position:

Net position is the difference between assets and deferred outflows of resources, if any, and liabilities and deferred inflows of resources, if any. Net investment in capital assets represents capital assets, less accumulated depreciation, and any outstanding debt related to the acquisition, construction or improvement of said assets. Restricted net position represents funds reserved for repair and replacement of, as well as funds accumulated for the repayment of bonds issued for construction of the health and human services building.

Estimates:

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

**Notes to Financial Statements
June 30, 2023**

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources:

Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an expense or expenditure until then. The Authority's deferred outflow of resources consists of the amount by which the principal and premium of a refunding bond exceed the net carrying amount of the refunded debt. The deferred outflow is being amortized over the remaining life of the refunded debt.

Deferred Inflows of Resources:

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as revenue until then. The Authority has reported a deferred inflows of resources related to leases receivable.

Change in Accounting Principle

The following GASB statements are effective for the year ending June 30, 2023:

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issue and eliminates diversity in practice. The implementation of this standard has no impact on the financial statements for the Authority, but is reflected in the note disclosures with additional information disclosed in note 7.

Change in Accounting Principle (continued)

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, the primary objective of which is to improve financial reporting by addressing issues related to the Public-private and Public-public partnership arrangements. Implementation of this standard did not have any impact on the financial statements of the Authority.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscriptions-based information technology arrangements for government end users. Implementation of this standard did not have any impact on the financial statements of the Authority.

GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial report and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. Implementation of this standard did not have any impact on the financial statements of the Authority.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
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**Notes to Financial Statements
June 30, 2023**

Note 2. Cash and Cash Equivalents

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

The following is a summary of restricted cash as of June 30, 2023:

Health and Human Services – repair and replacement reserve:	\$ 1,998,586
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These amounts, offset by the related amounts payable from restricted cash, are also included in restricted net position. This amount is restricted for debt service and eligible maintenance projects, as defined by the related debt and lease agreements.

Note 3. Land and Improvements Held for Sale

Land and improvements held for sale consists of the following:

	<u>Acreage</u>		<u>Carrying Value</u>
Wilroy Industrial Park	5.48	\$	38,370
Suburban Drive	29.4		240,006
Suffolk Industrial Park	74.77		1,089,178
TCC Site	21.65		2,539,400
Northgate Commerce Park	37.37		1,702,332
1900 North Main (former Obici site)	3.77		1,648,400
	<u>172.44</u>	\$	<u>7,257,686</u>

Certain proceeds from the sale of these assets are required to be paid to the City (see Note 5).

**ECONOMIC DEVELOPMENT AUTHORITY
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**Notes to Financial Statements
June 30, 2023**

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not depreciated:				
Land	\$ 1,021,162	\$ -	\$ -	\$ 1,021,162
Capital Assets, depreciated				
Land Improvements	1,734,061	-	-	1,734,061
Conference Center and Hotel	14,337,217	-	-	14,337,217
HHS Building	14,942,123	-	-	14,942,123
Equipment	265,390	-	-	265,390
Right to use asset - leased equipment	260,680	-	-	260,680
Total Capital Assets, Depreciated	31,539,471	-	-	31,539,471
Less Accumulated Depreciation/Amortization for:				
Land Improvements	1,235,571	76,458	-	1,312,029
Conference Center and Hotel	6,263,331	358,431	-	6,621,762
HHS Building	4,733,009	373,553	-	5,106,562
Equipment	265,390	-	-	265,390
Right to use asset - leased equipment	52,136	52,136	-	104,272
Total Accumulated Depreciation	12,549,437	860,578	-	13,410,015
Total Capital Assets, Depreciated, net	18,990,034	(860,578)	-	18,129,456
Total Capital Assets, net	\$ 20,011,196	\$ (860,578)	\$ -	\$ 19,150,618

**ECONOMIC DEVELOPMENT AUTHORITY
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**Notes to Financial Statements
June 30, 2023**

Note 5. Due To Primary Government and Related Party Transactions

Due to Primary Government consists of \$239,255 borrowed from the City through a long-term advance. These amounts will be repaid upon the sale of the Suburban Drive property.

The City provides personnel and office space to the Authority at no charge.

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term debt for the year:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
Lease Revenue Bond	\$ 4,141,000	\$ -	\$ 1,110,000	\$ 3,031,000	\$ 1,115,000
Equipment Lease (note 8)	209,178	-	51,819	157,359	52,134
	<u>\$ 4,350,178</u>	<u>\$ -</u>	<u>\$ 1,161,819</u>	<u>\$ 3,188,359</u>	<u>\$ 1,167,134</u>

The annual requirements to amortize long-term debt and related interest are as follows:

Fiscal Year	Lease Revenue Bond		Equipment Lease	
	Principal	Interest	Principal	Interest
2024	1,115,000	26,067	52,134	786
2025	1,126,000	16,478	52,452	468
2026	790,000	6,794	52,773	147
	<u>\$ 3,031,000</u>	<u>\$ 49,339</u>	<u>\$ 157,359</u>	<u>\$ 1,401</u>

A \$15,750,000 lease revenue bond was issued on May 1, 2008 for the construction of the Health and Human Services building. The 2008 lease revenue bond was refunded by the issuance on December 18, 2014 of an \$11,860,000 refunding lease revenue bond. The 2014 bond has a maturity date of February 1, 2026 with interest payable semi-annually of 2.65%. The 2014 bond was refunded by the issuance on November 5, 2020 of an \$6,289,000 refunding lease revenue bond. The 2020 bond has a maturity date of February 1, 2026 with interest payable semi-annual of 0.86%. The difference in the carrying value of the old bonds and the value of the new debt is shown as a deferred charge on refunding and will be amortized over the life of the old debt.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
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**Notes to Financial Statements
June 30, 2023**

Note 7. Conduit Debt Transactions

One activity of the Authority is to issue conduit bonds on behalf of organizations in the community. These bonds are issued to assist these organizations with construction of facilities. The Authority currently has four conduit debt issuances outstanding. The bonds do not represent an indebtedness of the Authority. Neither the City, the Commonwealth, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Furthermore, in the event of default by the lessee, the holders of the bonds have no recourse against the Authority, but must look to the property and lessee for indemnity. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The Authority charges a bond maintenance fee for administering this program.

As of June 30, 2023, the aggregate principal amount payable of these conduit revenue bonds outstanding was \$155,775,000.

Note 8. Leases

The discount rate for all leases (both lessor and lessee) is based on the average of the City's Municipal Market Data (MMD) rate. The discount rates assigned to each lease is the average of MMD rate from July 1, 2021 to February 1, 2022 based on the number of years of the lease.

Lessor:

On August 28, 2003, the Authority entered into a fifty-year lease agreement with a private company to lease the Suffolk Hilton Garden Inn hotel and the Suffolk Conference Center with annual rent payments of \$5,000 each. The lessee shall have the right and option to extend the term for four consecutive periods of ten years each followed by one period of nine years. The lease calls for additional rental payments based on the hotel's balance of net cash flows. The lease receivable is measured as the present value of the future lease payments expected to be received during the lease term.

On May 1, 2009, the Authority entered into a lease agreement with the Commonwealth of Virginia, Department of General Services for use of the Health and Human Service Building. The lease calls for monthly payments of \$34,379. The lease term is scheduled to expire after 18 years, on April 30, 2027. Additional rental terms include additional rent for the tenant's pro rata share of annual operating expenses. The agreement also includes a settle-up between the Authority and the lessee for any shortfalls in annual periodic operating expense reimbursements, when compared to actual costs. The lease receivable is measured as the present value of the future lease payments expected to be received during the lease term.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

**Notes to Financial Statements
June 30, 2023**

Note 8. Leases (Continued)

On June 1, 2009, the Authority amended the original lease agreement dated September 1, 2008 between the City and the Virginia Department of Social Services for the Health and Human Services building. The amended lease calls for annual lease payments of \$891,456 from the Virginia Department of Social Services and \$412,548 from the City. This is a 20-year lease with a termination date of May 31, 2029. Additional rental terms include \$50,000 a year for a repair and replacement reserve fund until the fund reaches \$500,000 and additional rent for the tenant's pro rata share of annual operating expenses. The repair and replacement reserve is included in restricted cash and cash equivalents and restricted net position. The agreement also includes a settle-up between the Authority and the lessees for any shortfalls in annual periodic operating expense reimbursements, when compared to actual costs. The lease receivable is measured as the present value of the future lease payments expected to be received during the lease term.

On August 30, 2022, the Authority entered into a twenty-year lease agreement with a Shenandoah Cable Television, LLC to lease a small portion of land owned by the Authority with annual rent payments of \$4,800. The agreement will automatically renew for 2 additional terms of 5 years each. These renewals have been included in the initial calculation of the lease. The lease receivable is measured as the present value of the future lease payments expected to be received during the lease term.

Lessor (Continued):

The future lease revenue and interest as of June 30, 2023, are as follows:

Fiscal Year:	Principal	Interest
2024	\$1,069,892	\$249,021
2025	1,083,042	236,018
2026	1,096,374	222,837
2027	1,041,068	209,541
2028	708,862	198,118
2029 – 2033	3,709,656	827,832
2034 – 2038	4,001,632	540,667
2039 – 2043	4,317,565	230,311
2044 – 2048	429,929	38,574
2049 – 2053	67,710	27,107
2054 – 2058	27,780	22,220
2059 – 2063	30,064	19,936
2064 – 2068	32,536	17,465
2069 – 2073	35,211	14,790
2074 – 2078	38,106	11,895
2079 – 2083	41,239	8,762
2084 – 2088	44,629	5,371
2089 - 2093	45,792	1,709
TOTAL	\$17,821,087	\$2,882,173

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

**Notes to Financial Statements
June 30, 2023**

Note 8. Leases (Concluded)

Lessee:

The Authority has entered into an agreement to lease certain equipment. This agreement qualifies as other than short-term leases under GAAP and, therefore have been recorded at the present value of the future minimum lease payments as of the date of inception.

The agreement was entered into as of July 1, 2021, to lease a generator and requires 60 monthly payments of \$4,410. There are no variable payment components of this lease. The Authority has recorded a right to use asset with a net book value of \$156,408 at June 30, 2023.

See the maturity analysis in footnote 6.

Note 9. Commitments and Contingencies

As of June 30, 2023, five Economic Development Investment Fund program agreements remain in place with outstanding commitments for future company investment and corresponding payment responsibilities from the Authority approximating \$2,070,000.

Note 10. Upcoming Accounting Standards

The GASB has issued the following statements, which are not yet effective.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This is effective for the fiscal year ending June 30, 2024.

GASB Statement No. 101, *Compensated Absences*, the primary objective of which is to better meet the needs of the financial statement users by updating the recognition and measurement guidance for compensated absences. This statement is effective for the fiscal year ending June 30, 2025.

Management has not yet evaluated the effects, if any, of adopting these standards and implementation guides, but does not expect them to have a material impact on the financial statements.

Note 11. Litigation

At any point in time various claims and lawsuits are pending against the Authority. In the opinion of legal counsel, resolution of these cases would not involve a material liability.

OTHER INFORMATION

COMPLIANCE SECTION

**Report of Independent Auditor on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of Directors
Economic Development Authority
City of Suffolk, Virginia

We have audited, in accordance with the 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 Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia (the “Specifications”), the financial statements of the Economic Development Authority of the City of Suffolk, Virginia (the “Authority”), a component unit of the City of Suffolk, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from 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 financial statements. 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* or the Specifications.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The script is cursive and fluid, with the letters "Cherry" and "Bekaert" being more prominent than "LLP".

Virginia Beach, Virginia
October 17, 2023