

**FINANCIAL REPORT
JUNE 30, 2018**

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA**



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

FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2018

Prepared by: City of Suffolk 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, 2018**

BOARD MEMBERS

Robert C. Barclay, IV, Chairman
At-Large Representative

Wesley S. King, Vice Chairman
Cypress Borough Representative

Stacy T. Lewis, Secretary-Treasurer
Holy Neck Borough Representative

Kevin Hughes, Deputy Secretary-Treasurer
Suffolk Economic Development Director

Michael Milteer
Whaleyville Borough Representative

Margie Wiley
Chuckatuck Representative

Maria Herbert
Nansemond Borough Representative

Raymond G. Wittersheim
Sleepy Hole Borough Representative

John C. Harrell Jr.
Suffolk Borough Representative

CITY COUNCIL LIAISON

Michael D. Duman
Chuckatuck Borough Representative

CHIEF LEGAL COUNCIL

Helivi L. Holland
Suffolk City Attorney



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 EDA played an important role in advancing economic development initiatives for the City of Suffolk throughout the fiscal year July 1, 2017 through June 30, 2018. Some of the EDA highlights included:

- Provided EDIP funds to Emser Tile for the completion of their \$16,250,000, 400,000 sqft East Coast distribution facility. The facility plans to employ 90.
- Approved an EDIP and Commonwealth Opportunity Fund Agreement for Atarfil in order to establish their first US Advanced Manufacturing operation, an investment of \$5,000,000 which will employ 15.
- Participated in a State wide economic development study directed at developing more economic development opportunities with the Port of Virginia.
- Provided a facade grant of \$10,000 at 152 S. Main St., Allonge Dance Academy and Pilates Studio.
- Provided EDIP funds for the expansion of the ACE Hardware Re-Distribution Center, adding 138,000 square feet with an investment of \$9,000,000.
- Successfully rezoned the Point at Harbour View site to Mixed Use Development taking a significant strategic direction towards future development opportunities.
- Awarded a \$45,000 grant for the Community Business Launch to assist three businesses to expand or start in Downtown Suffolk.
- Approved funding for a Façade grant at 1260 Carolina Road.
- Provided a facade grant of \$ 5,396 for the completed renovation at 178 E. Washington Street.
- Approved an EDIP for Blue Bell Ice Cream for \$100,000 to leverage a \$6,000,000 investment for a new distribution center that will create 25 new jobs.
- Provided a facade grant of \$10,396 for the completed renovation at 212 E. Washington Street.
- Continued to fund the Hampton Roads Small Business Development Center.

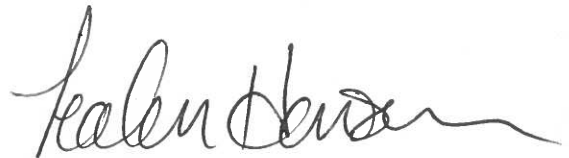
- Participated as a major sponsor in the Taste of Suffolk Event, which provided significant exposure opportunities to over 5,000 visitors, for 15 locally owned restaurants and numerous other small businesses in Downtown.
- Hosted the Annual Suffolk Business Appreciation Concert and Picnic Event celebrating Suffolk businesses and their contribution to the community.

As you can see, the EDA continues to be a significant tool to advance economic development efforts and job creation throughout the City of Suffolk. Thank you for your efforts and contributions to the City of Suffolk.

Sincerely,



Kevin Hughes
Deputy Secretary/Treasurer
Suffolk Economic Development Authority



Tealen Hansen
Director of Finance
City of Suffolk

FINANCIAL SECTION

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

Report of Independent Auditor

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

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Economic Development Authority of the City of Suffolk, Virginia, as of June 30, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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.

Other 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 Introductory Section and Other Information Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Information on pages 21 and 22 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. Such 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 21 and 22 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Other Information on page 23 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, 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 solely 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.



Richmond, Virginia
December 10, 2018

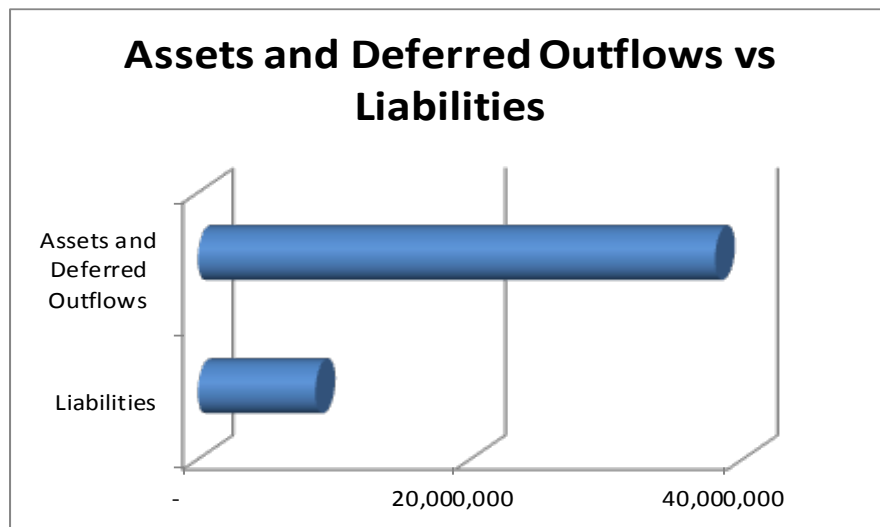
**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
(A Component Unit of the City of Suffolk, Virginia)**

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 during the fiscal year ended June 30, 2018. 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 by \$29,350,035. Of this amount, \$13,039,258 represents unrestricted net position, which may be used to meet the Authority's ongoing obligations.



- Net position increased from fiscal year 2017 to fiscal year 2018 by \$337,115 or 1.16%. In the prior year, there was a loss on the sale of land available for sale. The current fiscal year did not have any adjustments to the land available for sale and, therefore; the overall change in net position was positive.
- The Operating income for fiscal year 2018 was \$591,923.
- At June 30, 2018 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, if any, 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 by \$29,350,035. The table below provides a summary of the Authority's net position as of June 30, 2018 and June 30, 2017.

Statement of Net Position		
(in millions)		
	2018	2017
Current assets	\$ 13.2	\$ 12.9
Noncurrent assets	24.6	25.6
Total assets	37.8	38.5
Deferred outflows of resources	0.1	0.1
Total assets and deferred outflows of resources	37.9	38.6
Current liabilities	1.4	1.4
Long-term liabilities	7.2	8.2
Total liabilities	8.6	9.6
Net Position:		
Net investment in capital assets	14.9	14.7
Restricted	1.5	1.6
Unrestricted	13.0	12.7
Total net position	\$ 29.3	\$ 29.0

A large portion of the Authority's net position (44.43%) represents unrestricted net position of \$13,039,257, which may be used to meet the Authority's ongoing obligations. Current assets increased due to the sale of land previously available for sale located on Main Street. This decreased the value of the land available for sale.

Financial Analysis (Continued)

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, 2018 and June 30, 2017.

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

	2018	2017
Operating Revenues	\$ 2.3	\$ 4.5
Operating Expenses	1.7	3.8
Operating income	0.6	0.7
Nonoperating expenses	(0.3)	(1.5)
Change in Net Position	0.3	(0.8)
Net Position beginning of year	29.0	29.8
Net Position end of year	<u>\$ 29.3</u>	<u>\$ 29.0</u>

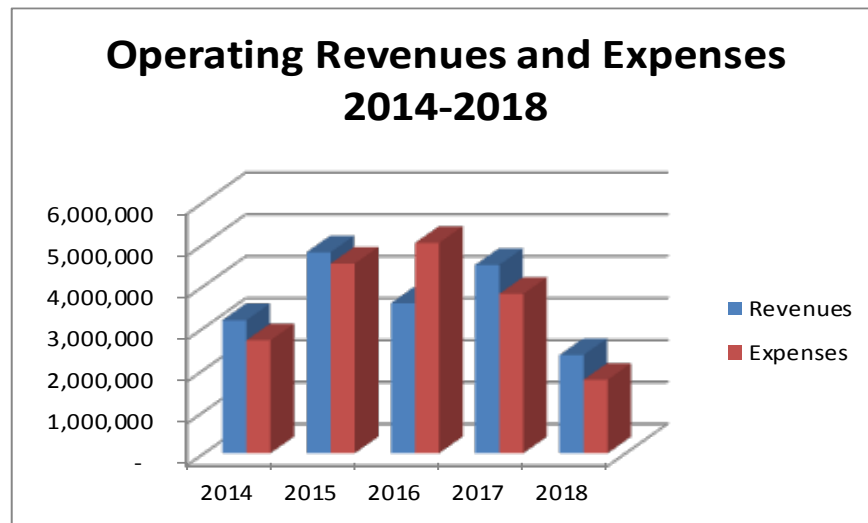
A main component of operating expenses for the Authority are payments to various businesses under the Economic Development Investment Fund Program, which accounted for 27.78% of the total operating expenses. This program provides incentives to businesses that qualify for the program with the intent of 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 \$834,981 or 47.65% of total operating expenses in 2018.

Included within the calculation of the total net non-operating expenses is the interest paid on the debt related to the Health and Human Services building during fiscal year 2018. Interest expense decreased slightly from the prior year for a total of \$263,748. This decrease in interest is expected since as the bonds mature the overall debt service decreases.

Both the operating revenues and expenses decreased during fiscal year 2018 as compared to fiscal year 2017. This decrease is related to the Economic Development Investment program as the incentives paid during the current fiscal year were smaller by comparison to some very large projects in the prior year.

Financial Analysis (Continued)

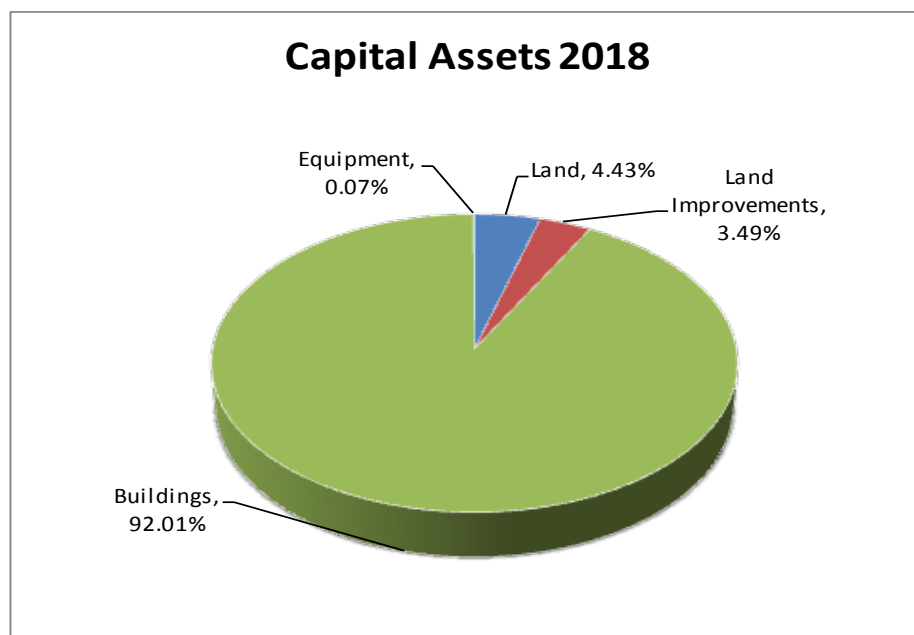


Capital Assets and Debt Administration

The Authority's investment in capital assets totals \$23,051,900 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)		
	2018	2017
Land	\$ 1,021,162	\$ 1,021,162
Land Improvements	804,322	880,781
Buildings	21,210,935	21,942,919
Equipment	15,481	42,018
Total	<u>\$ 23,051,900</u>	<u>\$ 23,886,881</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 \$8,195,481.

Outstanding Debt		
	2018	2017
Lease Revenue Bonds	\$8,180,000	\$9,125,000
Capital Leases	15,481	42,020
Total	\$8,195,481	\$9,167,020

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 Economic Development Investment Fund Program, the Authority assisted three companies in expanding and locating within the City, thereby creating investment in the City and employment.

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, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,232,190
Accounts receivable	102,505
Prepaid expenses	5,600
Land and improvements held for sale (Note 3)	9,918,786
Total current assets	<u>13,259,081</u>

Noncurrent assets:

Cash and cash equivalents - restricted (Note 2)	1,544,680
Capital assets (Note 4)	
Nondepreciable	1,021,162
Depreciable, net of accumulated depreciation	22,030,738
Total noncurrent assets	<u>24,596,580</u>
Total assets	<u>37,855,661</u>

Deferred Outflows of resources

Deferred Charge on refunding	115,994
Total deferred outflows	<u>115,994</u>

LIABILITIES

Current liabilities:

Accounts payable	29,238
Deposits	20,000
Due to the Primary Government (Note 5)	239,255
Current portion of unearned revenues	15,240
Current portion of long term liabilities (Note 6)	985,481
Accrued interest payable	90,321
Total current liabilities	<u>1,379,535</u>

Noncurrent liabilities:

Long-term liability (Note 6)	7,210,000
Unearned revenues	32,085
Total noncurrent liabilities	<u>7,242,085</u>
Total liabilities	<u>8,621,620</u>

NET POSITION

Net investment in capital assets	14,856,419
Restricted	1,454,359
Unrestricted	13,039,257
Total net position	<u>\$ 29,350,035</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, 2018**

OPERATING REVENUES

Bond maintenance fees	\$ 148,744
Lease revenues	1,610,187
Contributions from the City	486,808
Public facilities tax rebates	98,376
	<hr/>
Total operating revenues	2,344,115

OPERATING EXPENSES

Economic development incentives	486,808
Façade program	26,420
Advertising and special events	21,202
Property maintenance	341,811
Professional fees	33,487
Depreciation	834,981
Miscellaneous	7,483
	<hr/>
Total operating expenses	1,752,192
	<hr/>
Operating income	591,923

NONOPERATING REVENUES (EXPENSES)

Interest income	8,940
Interest expense	(263,748)
	<hr/>
Total nonoperating expenses, net	(254,808)
	<hr/>
Change in net position	337,115

Net position beginning at July 1	<hr/> 29,012,920
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Net position ending at June 30	<hr/> \$ 29,350,035 <hr/>
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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, 2018**

OPERATING ACTIVITIES

Receipts from lessees	\$ 1,610,187
Bond maintenance fees	322,754
City contribution	486,808
Other operating receipts	95,962
Proceeds from sale of land and improvement held for sale	1,375,000
Economic incentive payments	(486,808)
Payments to suppliers for goods and services	(486,621)
Net cash provided by operating activities	<u>2,917,282</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Interest expense	(241,812)
Principal paid on debt	(971,539)
Net cash used in capital and related financing activities	<u>(1,213,351)</u>

INVESTING ACTIVITIES

Interest income	<u>8,940</u>
Net cash provided by investing activities	<u>8,940</u>
Net decrease in cash and cash equivalents	1,712,871

CASH AND CASH EQUIVALENTS

Beginning July 1	<u>3,063,999</u>
Ending June 30	<u><u>\$ 4,776,870</u></u>

RECONCILIATION TO STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 3,232,190
Cash and cash equivalents, restricted	<u>1,544,680</u>
	<u><u>\$ 4,776,870</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 591,923
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	834,981
Changes in assets and liabilities:	
Increase in:	
Other receivables	186,837
Prepaid expenses	(5,600)
Land and improvements held for sale	1,380,000
Decrease in:	
Accounts payable and accrued liabilities	(50,619)
Unearned revenues	(15,240)
Deposits	(5,000)
Net cash provided by operating activities	<u><u>\$ 2,917,282</u></u>

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Land for sale contributed from the Primary Government	
Unrealized loss on land available for Sale	

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, 2018**

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, 2018**

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 fair value on the date of donation. Items held for sale are valued at the lower of cost or market.

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

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

**Notes to Financial Statements
June 30, 2018**

Note 1. Summary of Significant Accounting Policies (Continued)

Deposits:

Deposits consist of amounts received on contracts for the sale of land or improvements that will be used to offset future payments.

Unearned revenues:

Unearned revenues consist of prepaid bond maintenance fees that are recognized as revenue over the term of the related debt.

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, 2018**

Note 1. Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle (continued)

Effective July 1, 2017, the Authority adopted the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which improves financial reporting for local governments for postemployment benefits other than pensions (OPEB). This statement requires governments providing OPEB to recognize the long-term obligation for the net OPEB liability for the first time. In practice, there is not impact on the financial statements of the Authority, as the Authority does not have any employees.

Effective July 1, 2017, the Authority adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which provides recognition and measurement guidance for situations in which a government is a beneficiary of such an agreement. In practice, there is not an impact on the financial statements of the Authority, as the Authority is not a party to this type of agreement.

Effective July 1, 2017, the Authority adopted the provisions of GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements. In practice, Statement No. 85 had no material effect on the financial statements of the Authority.

Effective July 1, 2017, the Authority adopted the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues*, this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing for guidance for transactions in which cash or other monetary assets acquired with existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. The provisions of Statement No. 86 are not applicable for any transactions during fiscal year 2018.

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

**Notes to Financial Statements
June 30, 2018**

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, 2018:

Health and Human Services – repair and replacement reserve:	\$ 431,223
Debt Service	<u>1,113,457</u>
	\$ <u>1,544,680</u>

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:

Land held for sale:	<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	1,083,500
TCC Site	55.58	5,558,000
Northgate Commerce Park	37.37	1,868,500
1900 North Main (former Obici site)	3.77	1,130,410
	<u>206.37</u>	\$ <u>9,918,786</u>

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

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

**Notes to Financial Statements
June 30, 2018**

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
Total Capital Assets, Depreciated	31,278,791	-	-	31,278,791
Less Accumulated Depreciation for:				
Land Improvements	853,280	76,459	-	929,739
Conference Center and Hotel	4,471,180	358,430	-	4,829,610
HHS Building	2,865,242	373,553	-	3,238,795
Equipment	223,370	26,539	-	249,909
Total Accumulated Depreciation	8,413,072	834,981	-	9,248,053
Total Capital Assets, Depreciated, net	22,865,719	(834,981)	-	22,030,738
Total Capital Assets, net	\$ 23,886,881	\$ (834,981)	\$ -	\$ 23,051,900

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.

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

**Notes to Financial Statements
June 30, 2018**

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	\$ 9,125,000	\$ -	\$ 945,000	\$ 8,180,000	\$970,000
Lease Liability	42,020	-	26,539	15,481	15,481
	<u>\$ 9,167,020</u>	<u>\$ -</u>	<u>\$ 971,539</u>	<u>\$ 8,195,481</u>	<u>\$985,481</u>

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

Fiscal Year	Lease Revenue Bond		Lease
	Principal	Interest	
2019	\$ 970,000	\$ 216,770	\$ 15,481
2020	995,000	191,065	-
2021	1,025,000	164,698	-
2022	1,050,000	137,535	-
2023	1,080,000	109,710	-
2024-2026	3,060,000	154,628	-
	<u>\$ 8,180,000</u>	<u>\$ 974,406</u>	<u>\$ 15,481</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 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.

A \$265,390 capital lease was entered on January 28, 2009 with a maturity date of January 28, 2019. The net carrying value of the leased assets is \$15,481, which is net of accumulated depreciation of \$249,909 at June 30, 2018.

Note 7. Conduit Debt Transactions

One key activity of the Authority represents “pass-through” leases wherein lease agreements provide for periodic rental payments in amounts equal to the principal and interest due on the related bonds. The Authority assigns all rights to the rental payments to the trustees of the bondholders and the lessees assume responsibility for all operating costs (i.e., utilities, repairs, and property taxes) of the

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF SUFFOLK, VIRGINIA
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**Notes to Financial Statements
June 30, 2018**

Note 7. Conduit Debt Transactions (continued)

leased properties. Therefore, in such cases, the Authority neither receives the rental income nor disburses funds for debt service or operating expenses. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. 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, 2018, the aggregate principal amount payable of these conduit revenue bonds outstanding was \$146,895,444.

Note 8. Leases

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 net carrying value of the conference center and hotel for the Authority is \$9,507,607; this is a total cost of \$14,337,217 less accumulated depreciation of \$4,829,610.

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.

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 \$760,236 from the Virginia Department of Social Services and \$131,220 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 net carrying value of the health and human services building for the Authority is \$11,703,328; this is a total cost of \$14,942,123 less accumulated depreciation of \$3,238,795.

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

**Notes to Financial Statements
June 30, 2018**

Note 9. Commitments and Contingencies

As of June 30, 2018, four Economic Development Investment Fund program agreements remain in place with outstanding commitments for future company investment and corresponding payment responsibilities from the Authority approximating \$2,440,500.

As of June 30, 2018, the Authority is committed to spend \$25,978 in maintenance related costs in relation to a generator that is installed on the Health and Human Services building through January 30, 2019.

Note 10. New Accounting Standards

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

GASB Statement No. 83, *Certain Asset Retirement Obligations*, establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This statement is effective for the fiscal year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. This statement is effective for the fiscal year ending June 30, 2020.

GASB Statement No. 87, *Leases*, improves the accounting and financial reporting for leases by governments. This statement is effective for fiscal year ending June 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, improves the information that is disclosed in the notes related to debt, including direct borrowings and direct placements. This statement is effective for the fiscal year ending June 30, 2019.

GASB Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This statement is effective for the fiscal year ending June 30, 2021.

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, improves the consistency and comparability of reporting a government's majority equity interests in a legally separate organization and to improve the relevance of financial information for certain component units. This statement is effective for the fiscal year ending June 30, 2019.

Management has not yet fully evaluated the effects, if any, of adopting this standard, but does not expect them to be material.

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

**Notes to Financial Statements
June 30, 2018**

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.

Note 12. Subsequent Events

The Authority has evaluated subsequent events through the date of the audit report in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition as of such date which have been incorporated into these financial statements herein.

OTHER INFORMATION

Table 1

ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SUFFOLK, VIRGINIA

DETAILED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Last Ten Fiscal Years									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Revenues										
Hotel Revenues										
Hotel Lease Revenues	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Public Facility Tax Rebate	59,667	-	-	140,172	83,949	100,099	100,321	100,113	126,972	98,376
HHSB Revenues										
Health and Human Services Lease	429,416	1,295,511	1,609,200	1,649,938	1,558,192	1,565,390	1,581,343	1,608,481	1,609,310	1,586,087
Other Lease Revenues										
NCP Lease Revenues	-	-	-	3,600	4,800	1,100	-	1,100	1,100	1,100
55 Acre Site Lease	-	-	-	-	-	-	-	-	-	4,000
Obici Site Lease	-	-	-	-	800	800	-	-	-	9,000
Other Revenues										
Bond Maintenance Fees	250,634	149,901	201,346	99,477	149,043	145,019	146,394	143,909	144,767	148,744
Façade Program	40,000	3,400	-	-	45,740	-	-	-	-	-
Gain on Sale of Land and Easements	-	108,187	24,859	914,595	-	-	47,886	-	-	-
Contributions from Municipality (EDIP)	1,595,618	913,331	943,488	418,363	880,750	1,306,061	2,665,400	1,717,079	1,600,000	486,808
Contributions from the State (EDIP)	-	-	-	-	-	-	200,000	-	1,000,000	-
Miscellaneous	137,711	515	31,336	35,573	30,772	46,641	45,254	650	441	-
Total Operating Revenues	2,523,046	2,480,845	2,820,229	3,271,718	2,764,046	3,175,110	4,796,598	3,581,332	4,492,590	2,344,115
Operating Expenses										
Hotel Expenses										
Payment to Municipality	10,000	10,000	10,000	150,172	93,949	110,099	-	-	-	-
Depreciation Expense	414,399	414,399	414,400	414,400	414,399	414,399	414,400	414,399	414,399	414,399
HHSB Expenses										
Property Maintenance	75,090	319,632	339,757	419,167	237,368	259,328	248,441	293,778	269,342	295,881
Depreciation Expense	-	251,016	372,907	405,718	400,092	400,092	400,093	400,092	394,042	394,042
Other Expenses										
Economic Development Incentives	1,640,449	913,331	1,248,851	191,750	802,000	1,301,100	2,865,400	1,706,750	2,600,000	486,808
Technology Zone Grant	-	-	-	-	-	4,961	-	10,329	-	-
Façade Program	134,510	42,276	30,000	74,603	12,234	-	118,458	27,111	30,000	26,420
Loss on sale of land held for resale	-	-	-	-	-	-	-	1,962,169	-	-
Advertising and special events	26,583	11,990	30,597	50,564	26,937	83,565	30,915	33,095	13,281	13,115
Contribution to Local Organizations	359,774	-	-	5,000	-	-	-	7,000	7,000	7,000
Contribution to City	-	-	-	-	-	-	-	-	6,932	-
Professional Fees	44,135	26,691	21,042	33,260	13,950	20,928	150,663	10,121	650	33,487
Property Maintenance	13,750	13,750	-	-	26,156	75,836	272,907	125,978	32,053	40,819
Depreciation Expense	-	-	20,489	20,489	20,489	20,489	20,489	20,490	26,539	26,539
Miscellaneous	8,683	16,415	3,938	5,598	4,732	4,271	4,619	7,180	7,048	13,682
Total Operating Expenses	2,727,373	2,019,500	2,491,981	1,770,721	2,052,306	2,695,069	4,526,385	5,018,492	3,801,286	1,752,192
Operating income (loss)	(204,327)	461,345	328,248	1,500,997	711,740	480,041	270,213	(1,437,160)	691,304	591,923
Non-Operating Revenues (Expenses)										
Interest Income	226,046	14,435	8,246	4,469	3,550	5,322	11,189	7,876	1,671	8,940
Capital Contributions from Municipality	238,499	45,000	5,600,000	-	4,528,560	-	-	-	-	-
Amortization of Bond Issue Costs	-	-	-	-	-	-	-	-	(32,370)	(32,370)
Interest Expenses	(920,846)	(758,521)	(846,127)	(544,996)	(516,552)	(476,246)	(321,361)	(312,398)	(256,034)	(231,378)
Unrealized loss on Land held for Sale	-	-	-	-	-	(515,111)	-	(537,765)	(1,174,383)	-
Land Held for Sale Impairment	-	-	(3,117,190)	-	-	-	-	-	-	-
Total Non-Operating Revenues (Expenses), net	(456,301)	(699,086)	1,644,929	(540,527)	4,015,558	(986,035)	(310,172)	(842,287)	(1,461,116)	(254,808)
Change in Net Position	\$ (660,628)	\$ (237,741)	\$ 1,973,177	\$ 960,470	\$ 4,727,298	\$ (505,994)	\$ (39,959)	\$ (2,279,447)	\$ (769,812)	\$ 337,115

Source: EDA Financial statement for respective year

Table 2

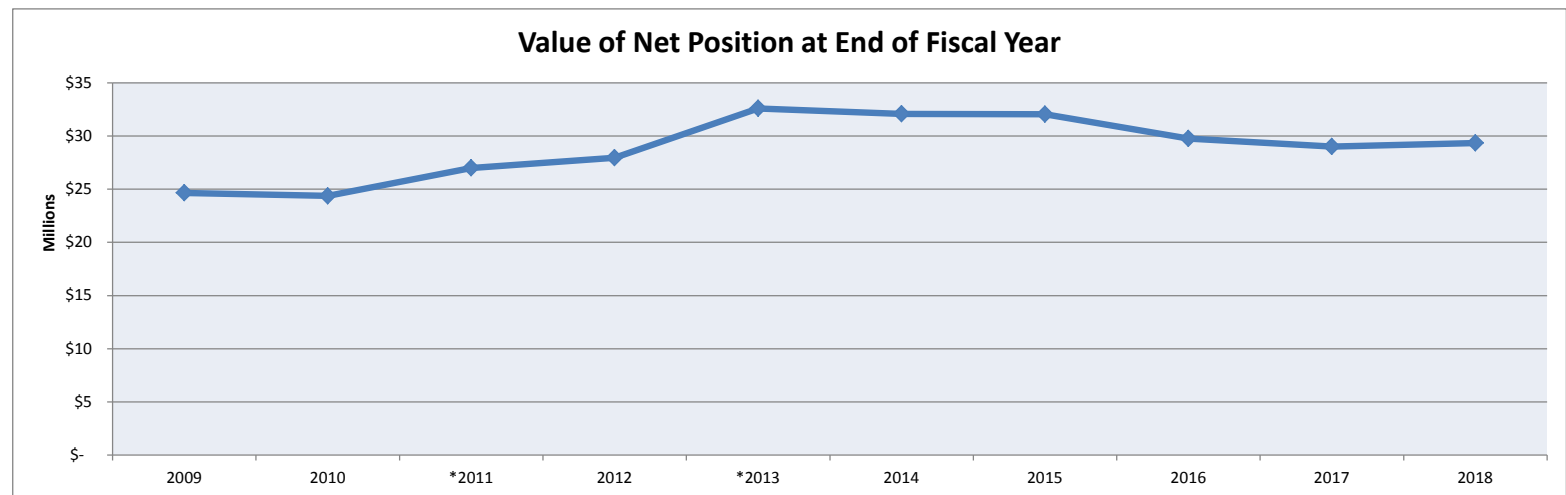
ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF SUFFOLK, VIRGINIA

NET POSITION BY COMPONENT
Last Ten Fiscal Years

	2009	2010	*2011	2012	*2013	2014	2015	2016	2017	2018
Net investment in capital assets	\$ 17,159,331	\$ 14,993,990	\$ 15,661,210	\$ 14,872,986	\$ 14,795,543	\$ 14,748,100	\$ 14,521,744	\$ 14,608,302	\$ 14,719,860	\$ 14,856,419
Restricted	1,150,567	2,036,126	416,182	1,093,380	1,149,011	1,102,675	1,363,251	1,364,363	1,628,459	1,454,359
Unrestricted	6,354,513	7,346,464	10,937,613	12,009,112	16,663,577	16,251,361	16,177,184	13,810,067	12,664,601	13,039,257
Total net position	\$ 24,664,411	\$ 24,376,580	\$ 27,015,005	\$ 27,975,478	\$ 32,608,131	\$ 32,102,136	\$ 32,062,179	\$ 29,782,732	\$ 29,012,920	\$ 29,350,035

* As restated

Source: EDA financial statements for respective year



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 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 10, 2018.

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") to determine the 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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and two instances of noncompliance that are required to be reported under the *Specifications for Audits of Authorities, Boards, and Commissions*.

Criteria:

The *Code of Virginia*, Section 2.2-3115 requires that local officials file an annual disclosure form by February 1st of each year.

Statement of Condition:

While performing our audit procedures to ensure compliance with Section 3-5 of the *Specifications for Audits of Authorities, Boards, and Commissions*, for a population of eleven (11) tested, we noted two (2) Statement of Economic Interest forms were filed after February 1, 2018.

Cause:

Procedures were not in place to ensure the report was properly signed, completed, and filed on time.

Effect or Potential Effect:

The Authority is not in compliance with the State's conflict of interest disclosure filing requirement.

Auditor's Recommendation:

We recommend a procedure be put in place to ensure the reports for all local officials are properly signed, completed, and filed by February 1st each year.

Management's Response:

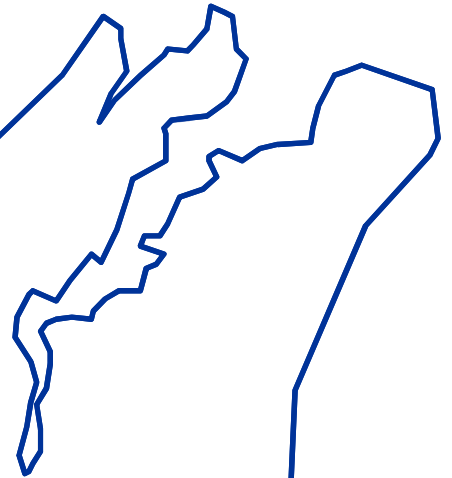
Management is aware that there was an issue with the filing of the statement of economic interest statements by the deadline and will continue to have the City Clerk's office contact the board members prior to the deadline.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richmond, Virginia
December 10, 2018



YesSuffolk