

FAIRFAX CITY ECONOMIC DEVELOPMENT AUTHORITY

A Component Unit of the City of Fairfax, Virginia

Financial Statements

As of and for the fiscal year ended June 30, 2024

(With Report of Independent Auditor Thereon)

**Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
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Report of Independent Auditor

To the Board of Commissioners
Fairfax City Economic Development Authority
Fairfax, Virginia

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of the Fairfax City Economic Development Authority (the "Authority"), a component unit of the City of Fairfax, Virginia, as of and for the year ended June 30, 2024, 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 respective financial position of the governmental activities and major fund of the Authority, as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinions

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* (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 opinions.

Emphasis of Matters

As described in Note 9 to the financial statements, the Authority restated beginning net position and fund balance to correct an error. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 statement, 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 be presented to supplement the basic financial statements. Management has elected to omit the Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2024, 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.

Cherry Bekaert LLP

Richmond, Virginia
December 9, 2024

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Statement of Net Position
June 30, 2024

ASSETS

Cash and cash equivalents	\$ 3,750,655
Accounts receivable	625
Lease receivable	1,359,465
Other assets	46,965
Capital assets, net of accumulated depreciation and amortization	<u>8,450,352</u>
Total assets	<u>13,608,062</u>

LIABILITIES

Accounts payable and accrued liabilities	11,492
Accrued interest	16,615
MEC liability	238,919
Unearned revenues	1,551
Long-term liabilities:	
Portion due or payable within one year:	
Lease liability	284,885
Portion due or payable after one year:	
Lease liability	<u>7,383,209</u>
Total liabilities	<u>7,936,671</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to leases	<u>1,287,198</u>
Total deferred inflows of resources	<u>1,287,198</u>

NET POSITION

Net investment in capital assets	782,258
Unrestricted	<u>3,601,935</u>
Net position	<u>\$ 4,384,193</u>

See accompanying notes to the financial statements.

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Statement of Activities
For the Fiscal Year Ended June 30, 2024

EXPENSES

Economic Development	\$ 2,314,814
Program expenses	<u>2,314,814</u>

REVENUES

Program revenues:	
City of Fairfax, Virginia grants	<u>2,010,280</u>
General revenues:	
Revenue from use of money and property	168,847
Miscellaneous	<u>751,796</u>
Total general revenues	<u>920,643</u>
Total revenues	<u>2,930,923</u>
Change in net position	616,109
Net position, beginning of year, as previously reported	2,640,711
Error correction	<u>1,127,373</u>
Net position, beginning of year, as restated (Note 9)	<u>3,768,084</u>
Net position, end of year	<u><u>\$ 4,384,193</u></u>

See accompanying notes to the financial statements.

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Balance Sheet – Governmental Fund
June 30, 2024

ASSETS

Cash and cash equivalents	\$ 3,750,655
Accounts receivable	625
Lease receivables	1,359,465
Other assets	46,965
Total assets	<u>5,157,710</u>

LIABILITIES

Accounts payable and accrued liabilities	11,492
MEC liability	238,919
Unearned revenues	1,551
Total liabilities	<u>251,962</u>

DEFERRED INFLOWS OF RESOURCES

Leases	<u>1,287,198</u>
Total deferred inflows of resources	<u>1,287,198</u>

FUND BALANCE

Unassigned fund balance	<u>3,618,550</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,157,710</u>

Reconciliation of the Balance Sheet to the Statement of Net Position

Fund balance - governmental funds	\$ 3,618,550
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:

Equipment	\$ 344,394	
Buildings	862,594	
Right-to-use lease assets	8,120,156	
Less accumulated depreciation and amortization	<u>(876,792)</u>	8,450,352

Lease liability and accrued interest are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(7,668,094)
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Accrued interest are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(16,615)</u>
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Net position of governmental activities	<u>\$ 4,384,193</u>
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See accompanying notes to the financial statements.

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Governmental Fund
June 30, 2024

REVENUES

Intergovernmental revenues	\$ 2,010,280
MEC revenues	723,691
Lease revenues	131,471
Lease interest revenues	37,376
Miscellaneous	<u>28,105</u>
Total revenues	<u>2,930,923</u>

EXPENDITURES

Salaries and fringe benefits	130,000
Authority programs	87,450
Economic development initiatives	88,590
Business investment program	39,098
Administrative expenses	170,334
Strategic initiatives	67,765
Executive Director budget	20,969
Priority development projects	440,730
Economic opportunity fund	81,800
Mason Enterprise Center operating expenses	313,051
Mason Enterprise Center other expenses	150,000
Debt principal payments	266,016
Debt interest payments	<u>203,165</u>
Total expenditures	<u>2,058,968</u>

Net change in fund balance	871,955
Fund balance at beginning of year, as previously reported	1,765,148
Error correction	<u>981,447</u>
Fund balance at beginning of year, as restated (Note 9)	<u>2,746,595</u>
Fund balance at end of year	<u>\$ 3,618,550</u>

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Statement of Activities**

Net change in fund balance - governmental fund	\$ 871,955
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental fund report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is expensed over their estimated useful lives and reported as depreciation/amortization expense.	
Depreciation and amortization expense	(522,438)
Lease payments do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	266,017
Interest accrued on leases do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	<u>575</u>
Change in net position of governmental activities	<u>\$ 616,109</u>
See accompanying notes to the financial statements.	

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Footnotes to Basic Financial Statements
June 30, 2024

1. Summary of Significant Accounting Policies

The financial statements of the Fairfax City Economic Development Authority ("Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as promulgated by the Governmental Accounting Standards Board ("GASB"), which is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's significant accounting policies are described herein.

A. Reporting Entity

The Authority is responsible for encouraging industrial and commercial development in the City and making recommendations to City Council. The Authority is governed by a Board of Directors consisting of seven directors, appointed by City Council, who oversee proposed budgets and programs. The Authority has authority to enter into contracts, agreements, and grants with third parties separately from the City. Although the Authority is legally separate, it is fiscally dependent on the City, which also acts as their fiscal agent by paying all their associated personnel and administrative expenses associated with the Authority. Accordingly, for reporting entity purposes, the Authority is considered to be a component unit of the City.

The Authority and the City Economic Development Department ("EDD"), both operate under the same common brand of Fairfax City Economic Development. Each year, City Council appropriates funds to both EDD and the Authority to facilitate programs that benefit general economic development of the City. The City Manager appoints the Director of EDD who concurrently serves as the President/CEO of the Authority and oversees staff, proposes budgets, and programs of the Authority.

B. Basis of Presentation

The basic financial statements include both government-wide (based on the Authority as a whole) and governmental fund financial statements. The Authority categorizes its primary activities solely as governmental activities. In the government-wide Statement of Net Position, the Authority's governmental type activities are reported using the economic resources measurement focus and the accrual basis of accounting.

The Authority's government-wide Statement of Activities reflects all expenses, including depreciation and amortization.

In the governmental fund financial statements, financial transactions and accounts of the Authority are presented for the Authority's major governmental fund (General Fund). The governmental fund is considered to be a fiscal and accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The General Fund is the operating fund of the Authority and is used to account for and report all revenues and expenditures, which are not accounted for in other funds. The General Fund's revenues are derived primarily from City funding.

C. Measurement Focus and Basis of Accounting

The basis of accounting determines when transactions are reported in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting wherein revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or within 45 days thereafter. Expenditures are recorded when the related liability is incurred and payment is due. Revenue from the use of money and property are recognized when received and intergovernmental revenue is recorded when all eligibility requirements are met.

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Footnotes to Basic Financial Statements
June 30, 2024

Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, reconciliations are presented to explain the adjustments necessary to reconcile these two sets of financial statements.

D. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds and as asset in the government-wide financial statements to the extent the Authority's capitalizations threshold is met. The Authority capitalizes assets which have an initial cost of \$10,000 or more per unit and a useable life of two or more years. Repairs and maintenance are charged to operations as they are incurred. The cost of assets retired, along with accumulated depreciation, are removed from the accounts.

All capital assets are included in the financial statements at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their acquisition value on the date donated.

Accumulated depreciation and amortization are reported as a reductions of depreciable capital assets. Depreciation of buildings and equipment buildings is computed using the straight-line method based on an estimated useful life of 10 to 50 years and 5 to 25 years, respectively. The value of right-to-use lease assets is amortized using the straight-line method over the shorter of term of the lease or the estimated useful life of the underlying asset.

E. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources representing an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources until that time.

F. Fund Balance Policies

Due to the nature of the funding relationship with the City, the Authority does not maintain a fund balance eligible for commitment or assignment. Therefore, policies to commit or assign fund balance have not been established.

G. Net Position

The Authority's net position is comprised of two categories: net investment in capital assets and unrestricted net position. The first category of net position consists of capital-related assets, net of accumulated depreciation and amortization, reduced by the outstanding liabilities used to acquire these assets. Net position that is not related to net investment in capital assets is reported as unrestricted net position. At June 30, 2024, the Authority had a net investment deficit in capital assets of \$782,258 and unrestricted net position deficit of \$3,601,935.

2. Cash and Cash Equivalents

The Authority's cash and cash equivalents are demand deposits with a banking institution. 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.

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Footnotes to Basic Financial Statements
June 30, 2024

3. Capital Assets

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2024:

	Balances July 1, 2023	Increases	Decreases	Balances June 30, 2024
Equipment	\$ 344,394	\$ -	\$ -	\$ 344,394
Building	862,594	-	-	862,594
Right-to-use lease buildings	8,120,156	-	-	8,120,156
 Total capital assets	 9,327,144	 -	 -	 9,327,144
Accumulated depreciation	(53,608)	(71,318)	-	(124,926)
Accumulated amortization	(300,746)	(451,120)	-	(751,866)
Total accumulated depreciation and amortization	(354,354)	(522,438)	-	(876,792)
Total capital assets, net	<u>\$ 8,972,790</u>	<u>\$ (522,438)</u>	<u>\$ -</u>	<u>\$ 8,450,352</u>

4. Long-term Liabilities

The following is a summary of the changes in long-term liabilities for the fiscal year ended June 30, 2024:

	Balances July 1, 2023	Increases	Decreases	Balances June 30, 2024	Due Within One Year
Lease liability	\$ 7,934,111	\$ -	\$ (266,017)	\$ 7,668,094	\$ 284,885
	<u>\$ 7,934,111</u>	<u>\$ -</u>	<u>\$ (266,017)</u>	<u>\$ 7,668,094</u>	<u>\$ 284,885</u>

Debt service requirements to maturity for the lease liability as of June 30, 2024 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2025	\$ 284,885	\$ 196,026	\$ 480,911
2026	304,548	188,386	492,934
2027	325,031	180,226	505,257
2028	346,366	171,523	517,889
2029	368,581	162,255	530,836
2030-2034	2,209,205	650,799	2,860,004
2035-2039	2,915,897	319,935	3,235,832
2040-2041	913,581	16,991	930,572
Total	<u>\$ 7,668,094</u>	<u>\$ 1,886,141</u>	<u>\$ 9,554,235</u>

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Footnotes to Basic Financial Statements
June 30, 2024

5. Commitments and Contingencies

Various claims and lawsuits may arise in the ordinary course of business. In the opinion of legal counsel, there are no cases, claims, or assessments of any nature against the Authority that are pending or threatened as of June 30, 2024.

6. Leases

The Authority leases an office space located at 10300 Eaton Place under a non-cancellable lease. On November 1, 2022, the Authority recorded an 18-year term as lessee with an initial lease liability valued in the amount of \$8,081,698. The Authority used its incremental borrowing rate of 2.60% as a discount rate for the lease. The Authority is required to make a monthly fixed payment of \$39,418 for principal and interest during the year that increases annually. The value of the right-to-use lease asset was also recorded at \$8,120,156, which differs from the lease liability due to previous prepaid rent on the property, with the estimated useful life of 18 years as of November 1, 2022. As of June 30, 2024, the total value of the lease liability was \$7,668,094, while the value of the right-to-use lease asset was \$8,120,156 with accumulated amortization of \$751,866.

All lease obligations are contingent upon the Board appropriating funds for each year's payments. At June 30, 2024, the annual lease obligations accounted for based on the lease schedule are presented in Note 4 to the financial statements.

Lessor:

The Authority leases out office space located at 3936 Lee Highway under a non-cancellable lease. On July 1, 2022, the Authority recorded a 36.7-year term as lessor with an initial lease receivable of \$1,149,051 and beginning deferred inflows of \$1,149,676. The Authority used its incremental borrowing rate of 2.60% as a discount rate for the lease. The Authority is meant to receive a monthly fixed payment of \$4,935 for principal and interest during the year that increases in 5-year increments. As of June 30, 2024, the total value of the lease receivable was \$1,359,465 and deferred inflows related to leases of \$1,287,198.

Payments to be received through maturity at June 30, 2024, are as follows:

Fiscal Year			
Ending June 30	Principal	Interest	Total
2025	\$ 102,333	\$ 35,394	\$ 137,727
2026	108,381	33,276	141,657
2027	-	32,623	32,623
2028	-	33,283	33,283
2029	-	33,906	33,906
2030-2034	-	160,974	160,974
2035-2039	142,443	141,569	284,012
2040-2044	195,994	118,211	314,205
2045-2049	233,240	90,324	323,564
2050-2054	275,952	57,240	333,192
2055-2059	301,122	18,329	319,451
Total	<u>\$ 1,359,465</u>	<u>\$ 755,129</u>	<u>\$ 2,114,594</u>

Fairfax City Economic Development Authority
A Component Unit of the City of Fairfax, Virginia
Footnotes to Basic Financial Statements
June 30, 2024

7. Transactions with Related Parties

Certain financial management and accounting services along with certain legal services are provided to the Authority by the City. Services were provided at no charge during the fiscal year ending June 30, 2024. In addition, certain personnel costs in 2024 were incurred by the City for the benefit of the Authority at no charge to the Authority.

8. Implementation of New Accounting Pronouncements

In fiscal year 2024, the Authority implemented the following GASB standards:

No. 99, *Omnibus 2022*

This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, are effective for fiscal year 2024.

No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement 62*

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. The statement prescribes the accounting and financial reporting disclosures for each of these types of changes as well as changes resulting from the correction of errors.

The implementation of these standards did not have a material impact on the Authority's financial statements.

9. Correction of an Error in Prior Fiscal Years

During the fiscal year ended June 30, 2024, management determined certain lessor and lessee relationships were not recorded in the prior year's financial statements in addition to depreciation for certain capital assets. Accordingly, net position and fund balance as of June 30, 2023 have been restated, as follows:

	Governmental Activities	General Fund
As of June 30, 2023, as previously reported	\$ 2,640,711	\$1,765,148
Error correction	<u>1,127,373</u>	<u>981,447</u>
As of June 30, 2023, as corrected	<u><u>\$ 3,768,084</u></u>	<u><u>\$2,746,595</u></u>