ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA

(A Component Unit of the City of Norfolk, Virginia)

Financial Statements

June 30, 2018

(With Independent Auditors' Report Thereon)

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

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Economic Development Authority
of the City of Norfolk, Virginia
Norfolk, Virginia

Report on the Financial Statements

We have audited the accompanying statement of net position of the Economic Development Authority of the City of Norfolk, Virginia (the Authority), a component unit of the City of Norfolk, Virginia as of and for the year ended June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 auditors' 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 respective financial position of the Economic Development Authority of the City of Norfolk, Virginia as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof 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 on pages 3-6 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 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 result 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 20, 2018

ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)

Management Discussion and Analysis (unaudited)

June 30, 2018

The following discussion and analysis of the Economic Development Authority of the City of Norfolk, Virginia's (the Authority or the EDA) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2018.

Financial Highlights for Fiscal Year 2018

The Authority's financial statements are reported on the accrual basis as required by U.S. generally accepted accounting principles (GAAP). On this basis, the Authority has total operating expenses of $3,707,197 and total operating revenues of $8,823,186.

Other Financial Highlights:

- At the close of the fiscal year, the Authority's total cash and cash equivalents was $11,399,461.
- On December 14, 2014, the Authority entered into a promissory note to borrow $2,500,000 to finance the purchase of the real estate from the J.C. Penny Corporation. The loan is collateralized by a certificate of deposit and a negative pledge agreement. This loan was extended two years, until September 30, 2019. The Authority signed two leases for the space in the former JC Penney building. Movement mortgage signed a lease for the entire first floor and Optima Health signed a lease for approximately 45,000 square feet on the second floor. The Authority entered into a cooperation agreement with the City of Norfolk (The City) which became effective in April 2016 to provide for a revenue bond for the remaining costs of improvements in the amount of $14,500,000. The bond will be payable from funds provided by the City pursuant to a Cooperation Agreement. The City provided $305,237 in fiscal year 2018 of which $100,000 was used for a principal payment and $205,237 for interest. The bond matures 5 years from the closing date, with required annual principal payments of $100,000 beginning February 1, 2017, and the remainder due at maturity. The interest rate for the note is one-month LIBOR plus 0.85% with a default rate of an additional 4%. At June 30, 2018, $14,420,000 had been drawn for the demolition, construction and build-out of the tenant's space within the building.
- On April 29, 2014, the Authority issued a promissory note (the Note) for a loan of $250,000 with 5.5% interest to the Virginia Symphony Orchestra Group (the Symphony), which was due in full, including interest, on October 29, 2015. On October 30, 2015, the Authority amended certain key terms of the Note due from the Symphony. The maturity date was extended from October 29, 2015 to September 1, 2020. A payment schedule was established requiring payment to be made as follows: (i) $25,000 on November 1, 2015 of which $15,000 was applied to principal and the remainder to cover professional fees and accrued interest; (ii) $35,000 on September 1, 2016; (iii) three equal annual installments of $50,000 from September 1, 2017 through September 1, 2019; and (iv) payment of the entire remaining indebtedness on the maturity date. In addition, payment of accrued interest after October 30, 2015 shall be waived at the maturity date so long as no event of default as provided in the Note agreement has occurred by the maturity date. At June 30, 2018, the balance of the note receivable was $150,000. The Symphony has been making payments in accordance with the payment schedule.
- On October 18, 2013, the Norfolk Redevelopment and Housing Authority (NRHA) donated property, approximately 114 acres, including the Lake Wright Golf Course to the Authority with an estimated fair value of $19,400,000, as determined by an independent appraiser. The Authority entered into an agreement on November 12, 2013, amended on July 1, 2014, to sell a portion of that property, approximately 51 acres, to Simon Acquisition II, LLC (Simon). 44.39 acres were sold in May 2016 for $4,217,050, recorded as a

receivable as of June 30, 2016, and 6.279 acres were sold in October 2016 for $596,505. Simon took responsibility for the completion of the Force Main Relocation and the construction of certain infrastructure, which would be funded by the City (up to $12,000,000) and the City's Wastewater Fund ($2,500,000). The total purchase price of $4,813,555 will be funded by Simon through payment of the construction of infrastructure improvements on behalf of the City. The purchase price of these acres was below market which resulted in a loss. The decision to incur a loss was in support of the development plans of the City and also based on the purchaser paying for infrastructure costs. The infrastructure costs, consisting of items such as roads and retention basis, became an asset of the Authority and ultimately were transferred to the City. As of June 30, 2017, completed infrastructure costs totaled $11,752,510, excluding the assets constructed and paid for by the City's Wastewater Utility Fund. These infrastructure improvements were transferred to the City in fiscal year 2017. The Authority entered into a real estate purchase agreement on August 28, 2014, to sell approximately 30 acres of the remaining Lake Wright Golf Course property to Northampton Development, LLC. On June 27, 2018, the Authority sold 32.93 acres for $9,816,460 to Northampton Development, LLC. As part of the agreement, $1,515,251 is due to the City and $8,200,000 is due to Simon. 4.41 acres of Lake Wright Golf Course property was retained by the Authority and is held for resale recorded at $602,952.

- Capital assets, net of depreciation, decreased by $699,502 primarily due to depreciation taken in fiscal year 2018.

Basic Financial Statements

The statement of net position presents information on all assets and liabilities of the Authority, with the difference between the two 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.

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 identifies how cash and other financial assets (that can readily be converted to cash) flow in and out of the Authority.

The statement of cash flows, when taken together with the statement of net position and statement of revenues, expenses, and changes in net position, provides the reader a complete "snapshot" of the financial condition and results of operations of the Authority as of June 30, 2018, and for the year then ended.

Notes to financial statements are an integral part of the statements and should be read in conjunction with the financial statements and Management's Discussion and Analysis.

ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)

Management Discussion and Analysis (unaudited)

June 30, 2018

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 exceeded liabilities by $8,434,121. The following table provides a summary of the Authority's net position as of June 30, 2018 and 2017:

Summary of Net Position

		2018	2017
Current assets		$ 11,483,464	$ 1,200,805
Investments		2,108,808	2,100,918
Capital assets		16,499,265	17,198,767
Restricted cash		3,876,750	1,036,956
Deferred rent receivable		1,304,606	184,342
Loans receivable		286,978	476,934
Land and land improvements held for resale		947,952	5,450,263
	Total assets	$ 36,507,823	$ 27,648,985
Current liabilities		$ 10,083,435	$ 8,430,352
Noncurrent liabilities		17,807,169	13,920,202
	Total liabilities	$ 27,890,604	$ 22,350,554
Net position:			
Net investment in capital assets		$ 79,265	$ 4,513,767
Restricted		3,015,392	690,944
Unrestricted		5,522,562	93,720
	Total net position	$ 8,617,219	$ 5,298,431

Overall, total net position increased by $3,318,788 in fiscal year 2018. The table below provides a summary of the changes in net position for the years ended June 30, 2018 and 2017.

Summary of Revenues, Expenses and Changes in Net Position

	2018	2017
Operating revenue	$ 8,823,186	$ 2,356,980
Operating expenses	3,707,197	2,074,682
Operating income/loss	5,115,989	282,298
Nonoperating revenue	185,238	11,353
Nonoperating expenses	(1,982,439)	(12,054,315)
Change in net position	3,318,788	(11,760,664)
Net position, beginning	5,298,431	17,059,095
Net position, ending	$ 8,617,219	$ 5,298,431

The increase in operating revenue from fiscal year 2017 to fiscal year 2018 was primarily attributable to the approximately 30 acres of land sold to Northampton Development, LLC. The decrease in nonoperating expenses is due to the large one-time expense in fiscal year 2017 for the contribution of infrastructure assets to the City.

Future Outlook

The Authority continues to be successful in its purpose of helping to promote economic activity in Norfolk and grow the tax base. The City continues to see new capital investment and business expansion, and the Authority will continue to support the City's economic development plans and programs.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, clients and taxpayers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be made directly to:

Sean Washington, Secretary-Treasurer
999 Waterside Drive, Suite 2430
Norfolk, VA 23510
Telephone (757) 664-4333

ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)

Statement of Net Position

June 30, 2018

Assets		
Current assets:		
Cash and cash equivalents (note 3)	$	11,399,461
Accounts receivable (note 5)		16,547
Loans receivable - current portion (note 10)		67,456
Total current assets		11,483,464
Noncurrent assets:		
Restricted cash (note 4)		3,876,750
Investments (note 3)		2,108,808
Loans receivable (note 10)		286,978
Deferred rent receivable (note 6)		1,304,606
Capital assets, net of accumulated depreciation (note 9)		16,499,265
Land and land improvements held for resale (note 7)		947,952
Total noncurrent assets		25,024,359
Total assets	$	36,507,823
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses (note 11)	$	268,184
Due to developer		8,200,000
Due to City of Norfolk, Lake Wright (note 7)		1,515,251
Notes payable - current portion (note 12)		100,000
Total current liabilities		10,083,435
Noncurrent liabilities:		
Note payable (note 12)		16,320,000
Due to City of Norfolk under MUCIPP program (note 10)		159,977
Due to City of Norfolk under Innovation Fund (note 8)		159,389
Deferred revenue		565,079
Revolving loan program (note 13)		602,724
Total noncurrent liabilities		17,807,169
Total liabilities	$	27,890,604
Net investment in capital assets	$	79,265
Restricted (note 15)		3,015,392
Unrestricted		5,522,562
Total net position	$	8,617,219

See accompanying notes to basic financial statements.

ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2018

Operating revenues:		
City of Norfolk, incentive grants	$	938,468
City of Norfolk, contribution		305,237
Administrative fees		555,710
Gain on sale of land		5,304,771
Rent revenue		1,719,000
Total operating revenues		8,823,186
Operating expenses:		
Business development expense		2,195,463
824 building expenses		375,772
Depreciation		794,983
Professional fees		93,834
Administrative fees paid to other authorities		102,084
Travel		41,182
Promotion		34,860
Other		69,019
Total operating expenses		3,707,197
Operating income		5,115,989
Nonoperating revenues (expenses):		
Other income		170,336
Interest income		14,902
Reimbursement of City funds, Lake Wright (note 7)		(1,515,251)
Interest expense		(467,188)
Total nonoperating expenses, net		(1,797,201)
Change in net position		3,318,788
Net position:		
Beginning		5,298,431
Ending	$	8,617,219

See accompanying notes to basic financial statements.

ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA
(A Component Unit of the City of Norfolk, Virginia)

Statement of Cash Flows

Year ended June 30, 2018

Cash flows from operating activities:	
Receipts from customers	$ 1,956,806
Receipts for incentive grants	1,235,815
Receipts from other	5,304,771
Payments to other authorities	(102,084)
Proceeds from sale of land	9,807,082
Payments of incentive grants	(7,922,026)
Payments to suppliers for goods and services	(614,667)
Net cash used in operating activities	9,665,697
Cash flows from capital and related financing activities:	
Proceeds from long-term debt	3,835,000
Payment of long-term debt	(100,000)
Interest paid	(467,188)
Net cash provided by financing activities	3,267,812
Cash flows from investing activities:	
Interest received	14,902
Other receipts	162,446
Receipt of payments on loan receivable	189,195
Net cash provided by investing activities	366,543
Net increase in cash and cash equivalents	13,300,052
Cash and cash equivalents:	
Beginning	1,976,159
Ending	$ 15,276,211
Reconciliation of operating income from operations to net cash used in operating activities:	
Operating income	$ 5,115,989
Adjustment to reconcile operating income to net cash used in operating activities:	
Depreciation	794,983
Gain on sale of land	5,304,771
Increase in:	
Deferred revenue	265,079
Gain on sale of land	5,304,771
Due to City of Norfolk	1,402,139
Decrease in:	
Accounts receivable	178,360
Deferred rent receivable	(1,120,264)
Accounts payable and accrued expenses	(12,082,442)
Land and land improvements held for resale	4,502,311
Net cash used in operating activities	$ 9,665,697

See accompanying notes to basic financial statements.

(1) Nature of Activities

The Economic Development Authority of the City of Norfolk, Virginia (the Authority) was created as a political subdivision of the Commonwealth of Virginia by ordinance of the City of Norfolk, Virginia (the City) in 1972, pursuant to the provisions of the Industrial Development and Revenue Act of the Commonwealth of Virginia (Title 15.2, Chapter 49, Section 15.2-4900, et. seq., of the Code of Virginia (1950), as amended). It is authorized to acquire, own, lease and dispose of properties, promote industry and develop trade by inducing enterprises to locate and remain in Virginia.

Effective July 1, 2014, the Authority was determined to be a component unit of the City of Norfolk in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*. Component units are legally separate entities for which a primary government is financially accountable. As a discretely presented component unit of the City, the information included in these financial statements is included in the comprehensive annual financial report of the City.

The Authority is authorized to issue revenue bonds for the purpose of acquiring and constructing facilities. Liability under the bonds is 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 political subdivision thereof. The bonds are payable solely from revenues generated from the sale or lease of the facilities constructed or acquired. Although the Authority provides a conduit to execute such transactions, it retains neither the benefits of asset ownership nor the liability for bond liquidation. Accordingly, the Authority does not recognize in its financial statements associated assets, liabilities, rental income or interest expense associated with the bond issuances. The Authority has issued 18 bonds that remain outstanding as of June 30, 2018, with a total balance of $667,840,695 maturing through fiscal year 2034. All of these bonds are believed to be tax-exempt and are issued for the benefit of nonprofit organizations, manufacturing companies or enterprise-zone businesses (as defined in Sections 1397(c) and 1394(b)(3) of the Internal Revenue Code of 1986, as amended).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting as required by U.S. generally accepted accounting principles (GAAP).

The Authority is accounted for as a proprietary fund type using the accrual basis of accounting, whereby income is recognized when earned and expenses are recorded when incurred.

(b) Cash and Cash Equivalents

Cash includes cash on hand and cash deposited with financial institutions. At June 30, 2018, there was $11,399,461 in cash and cash equivalents, including $568,565 held in the Local Government Investment Pool (LGIP), which is carried at amortized cost because it qualifies as an external investment pool under GASB 79, *Certain External Investment Pools and Pool Participants*. Additionally, there was restricted cash of $3,876,750 as of June 30, 2018 to be used for the renovation of the former J. C. Penney building and the Revolving Loan Program (note 4).

(Continued)

(c) Investments

The Authority considers all funds with an original maturity of greater than one year, to be long-term investments. At June 30, 2018, the Authority held a certificate of deposit with a maturity date of March 22, 2019 yielding 1% in the amount of $2,108,808 (note 3), which is carried at fair value.

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When considering fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantively the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Fair value of the certificate of deposit is determined based on a discounted cash flow analysis using prevailing rates over the stated term, which are level 2 inputs. Fair value approximates cost due to the short-term nature of the instrument.

(d) Land and Land Improvements Including Land Held for Resale

Land and land improvements including land held for investment and resale are recorded at the lower of cost or net realizable value. Cost is determined by acquisition price, if purchased, or at estimated acquisition value at the date of contribution, if contributed. Subsequent land improvements are added to land and land improvements.

(e) Capital Assets

Buildings, building improvements, furniture, fixtures and equipment are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which is five years for furniture, fixtures and equipment and 20 years for buildings and building improvements.

(f) Grant Revenue and Development Expense

Grant revenue consists of incentive grants received from the City and paid to companies as performance-based grants in business attraction, expansion and retention efforts. When the grants are earned by the recipient, development expense is recorded. The Authority serves as a pass-through for these grants. Grant revenue also includes grants for the development of property to be used by the Authority in its mission. Grants received by the Authority, but not earned by the grantee are treated as deferred revenue.

(Continued)

(g) Administrative Fees

Administrative fees are collected by the Authority while bonds are outstanding. Such fees are included in revenue when earned.

(h) Administrative Support

The City provides administrative support for the Authority. Expenditures associated with these services include salaries for employees and rent expense on the office. This support is treated as expenditures by the City and not by the Authority. However, these costs are offset by promotional and marketing activity costs paid by the Authority that benefit the City.

(i) Income Taxes

The Authority is exempt from income taxes as it is a political subdivision of the Commonwealth of Virginia; accordingly, no provision for income taxes is reflected in the accompanying financial statements.

(j) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(3) Cash and Cash Equivalents and Investments

All cash and investments of the Authority are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2 4400 et. seq. of the Code of Virginia (the Act) or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amount insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loans institutions are required to collateralize 100% of the deposits in excess of the FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. The cash and short-term investments are covered by the FDIC at several financial institutions or collateralized under the Act. The cash equivalents of $568,565 held by the LGIP and the certificates of deposit of $2,108,808 are collateralized under the Act. As such, there is no significant credit or custodial risk associated with these investments.

(4) Restricted Cash

At June 30, 2018, restricted cash includes $2,800,000 related to the renovation of the former J. C. Penney Building; $561,358 in Federal EDA Funds to be used for approved grant and loan program; $300,000 from the Commonwealth's Development Opportunity Fund Grant to be distributed to Movement Mortgage, LLC when performance measurements specified in the grant agreement have been met; and $215,392 to be distributed to Fort Norfolk Plaza Urgent Care, LLC when performance measurements specified in the grant agreement have been met.

(Continued)

(5) Accounts Receivable

Accounts receivable consists of a receivable in the amount of $16,547 including $8,327 due from Movement Mortgage, LLC; $4,258 due from Optima Health for electricity reimbursement related to the lease agreement of the 824 building; $3,345 due from BBL, ODU LLC for administrative expenses related to bonds; and $617 due from Ramsey Manufacturing for payment of a Federal EDA loan.

(6) Deferred Rent Receivable

Rental income is recognized over the term of the leases as it is earned, and the assets held for leasing purposes are classified as capital assets, net of accumulated depreciation on the statement of net position. For lease agreements that provide for scheduled annual rent increases or periods of free rent, rental income is recognized on a straight-line basis over the term of the lease. As of June 30, 2018, the outstanding balance of the deferred rent receivable is $1,304,606.

(7) Land and Land Improvements Held for Resale

The Authority entered into a real estate purchase agreement on August 28, 2014, to sell approximately 30 acres of the remaining Lake Wright Golf Course property to Northampton Development, LLC. The agreement was amended on July 17, 2015, to restate the “feasibility period” to commence on April 15, 2016, ending the earlier of two years from that date or eight months after the property is rezoned. On June 27, 2018, the Authority sold 32.93 acres for $9,814,460 to Northampton Development, LLC. As part of the agreement, $1,515,251 is due to the City of Norfolk and $8,200,000 is due to Simon Development. 4.41 acres of the Lake Wright Golf Course property was retained by the Authority and is held for resale recorded at $602,952, which represents the cost basis of 4.41 acres at approximately 136,724 per acre.

In addition, land and land improvements held for resale also includes three acres located at 7405 Sewells Point Road which are recorded at approximately $115,000 per acre totaling $345,000. On June 11, 2018, the Authority entered into a purchase and sale agreement with JSR Properties, LLC to purchase approximately 1.022 acres of land located at 7405 Sewells Points Road for $165,000. At June 30, 2018, they had not yet closed on the property.

(8) Grant Awards

On February 11, 2016, the Authority entered into a grant agreement with ADP, LLC for the renovation of approximately 288,662 rentable square feet of space located at Two Commercial Place. There are two phases of renovations. Phase One will include 146,855 square feet and Phase Two will include 141,807 square feet. The maximum aggregate amount of the Grant is $5,000,000 and will be paid in annual installments not to exceed $1,250,000 annually. On February 9, 2016, the Authority entered into a Cooperation Agreement with the City of Norfolk. The City agreed to transfer up to $5,000,000 in funds to the Authority for the ADP, LLC renovation. At June 30, 2018 $465,811 has been transferred to the Authority and distributed to ADP, LLC.

On June 28, 2016, City Council authorized the City to enter into a Cooperation Agreement with the Authority to provide up to $5,000,000 in a revenue sharing performance agreement over 15 years to IKEA. The agreement was executed on July 28, 2016, the date IKEA closed on the property. The purpose of this grant is to partially offset infrastructure related costs of the development of property located at 6000 Northampton Boulevard. IKEA will construct an approximately 350,000 square foot retail store with an exclusive parking

(Continued)

lot of at least 1,200 parking spaces. The term of the grant shall commence upon completion of construction of the improvements. At June 30, 2018, construction has not yet been completed.

On February 1, 2017, the Authority entered into a Cooperation agreement with the City of Norfolk for the Innovation Fund. The Authority will implement loans and grants at the City's request to facilitate economic revitalization efforts and promote the permanent full time equivalent job creation for low and moderate income residents of the City. The maximum loan or grant amount available to the borrower or grant applicant will be $150,000 with a minimum amount of $50,000. At June 30, 2018, $150,000 had been loaned to Embody, LLC (note 10).

On May 23, 2017, the Authority entered into a Cooperating agreement with the City of Norfolk to assist in establishing an urgent care medical facility in the mixed use property known as The Banks at Berkley in the amount of $380,000. On January 31, 2018, the Authority entered into a Grant agreement with Fort Norfolk Plaza Urgent Care, LLC to assist with build out costs not to exceed $380,000 to be paid in installments. Funds were received by the Authority on April 3, 2018. At June 30, 2018, $164,608 has been distributed to Fort Norfolk Plaza Urgent Care, LLC.

In March of 2017, the Authority received $600,000 from the Commonwealth's Development Opportunity Fund for Movement Mortgage, LLC. $300,000 was paid to Movement Mortgage on June 30, 2017 as a result of its certificate of occupancy being issued. The remaining $300,000 will be paid to Movement Mortgage once it has created 200 new jobs.

(9) Capital Assets

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 1,474,641	$ -	$ -	$ 1,474,641
Building and building improvements	15,851,913	95,481	-	15,947,394
Furniture, fixtures and equipment	156,570	-	(156,570)	-
	17,483,124	95,481	(156,570)	17,422,035
Accumulated depreciation	(284,357)	(794,983)	156,570	(922,770)
Net capital assets	$ 17,198,767	$ (699,502)	$ -	$ 16,499,265

The Authority entered into a cooperation agreement with the City which became effective in April 2016 to provide for a revenue bond for the remaining costs of improvements in the amount of $14,500,000. As this property was previously a retail department store, significant investment was needed to convert this property into usable office space. At June 30, 2018, $11,264,197 in building improvements have been made. The bond will be payable from funds provided by the City pursuant to a Cooperation Agreement and rental revenue received. The City irrevocably pledged its full faith and credit in the form of a General Obligation for the payment of principal and interest on the Economic Development Revenue Note, Series 2016 (note 12). At June 30, 2018, $14,420,000 in funds have been drawn and $500,000 in principal payments have been made.

(Continued)

On March 8, 2017, the Authority entered into a lease agreement with Sentara Health Plans, Inc. to lease approximately 45,000 square feet located at 824 N. Military Highway (formerly the J. C. Penney Building). As part of that agreement the Authority agrees to reimburse Sentara Health Plans, Inc. $1,035,000 in building improvements. The tenant improvements were completed prior to June 1, 2017 when the tenant took possession of the premises. On August 2, 2017, $1,035,000 was paid to Sentara Health Plans, Inc. for the building improvements.

(10) Loans Receivable

On April 29, 2014, the Authority issued a promissory note (the Note) for a loan of $250,000 with 5.5% interest to the Virginia Symphony Orchestra Group (the Symphony), which was due in full, including interest, on October 29, 2015. On October 30, 2015, the Authority amended certain key terms of the note due from the Symphony. The maturity date was extended from October 29, 2015 to September 1, 2020. A payment schedule was established requiring payment to be made as follows: (i) $25,000 on November 1, 2015 of which $15,000 was applied to principal and the remainder to cover professional fees and accrued interest; (ii) $35,000 on September 1, 2016; (iii) three equal annual installments of $50,000 from September 1, 2017 through September 1, 2019; and (iv) payment of the entire remaining indebtedness on the maturity date. In addition, payment of accrued interest after October 30, 2015, shall be waived at the maturity date so long as no event of default as provided in the note agreement has occurred by the maturity date. At June 30, 2018, the balance of the note receivable is $150,000.

On April 21, 2009, the City established the Major Urban Construction Impact Policy and Program (MUCIPP) to provide a fair and consistent method of assisting nonfranchised businesses in districts directly affected by the City's major and/or extended construction work. The program provides grants and loans to qualifying local businesses. The Authority became the pass-through vehicle responsible for receiving and approving applications, drawing the funds from the City, and distributing the funds to local businesses. The City retains the risk of default for the outstanding loans and the Authority maintains a payable to the City for the future receipt of repayment. During fiscal year 2018, there was one MUCIPP loan outstanding totaling $122,500. The interest free loan was payable in annual installments that began in fiscal year 2012 and ran through fiscal year 2015. Failure by the entity to make the contractual payments caused a default. The Authority currently has judgments for the full loan amount and has discussed possible solutions for repayment of this debt with the entity. On May 8, 2018, the loan receivable was transferred to the City of Norfolk for collection.

On April 11, 2017, the Authority entered into a loan agreement with Embody, LLC in the amount of $150,000 with a maturity date of April 1, 2027. This loan was approved as part of the Innovation Fund. Interest only on the note is payable in monthly installments beginning May 1, 2017 through April 1, 2020 with a fixed interest rate of 5.50% per annum. Beginning May 1, 2020, the outstanding principal and accrued interest on the note shall be payable in 84 monthly installments of $2,155. At June 30, 2018 the balance of the loan receivable is $150,000.

On November 14, 2013, the Norfolk Redevelopment and Housing Authority entered into a loan agreement with Ramsey Manufacturing, LLC in the amount of $62,348 with an interest rate of 3.5% per annum. The terms of the of the loan include 119 monthly installments of principal and interest in the amount of $676 with a balloon payment of the remaining principal and interest due at maturity in December 2023. In September 2016, the loans were transferred to the Authority as part of the Norfolk EDA Revolving Loan Fund. The

(Continued)

balance of the loan at the date of transfer was $46,770. The Authority has been collecting monthly payments from Ramsey Manufacturing, LLC. At June 30, 2018, the balance of the loan receivable is $36,387.

On December 20, 1999, the Norfolk Redevelopment and Housing Authority entered into a loan agreement with Waterside Fish Co, Inc. in the amount of $150,000 with an interest rate of 5.0% per annum. The terms of the of the loan include 239 monthly installments of principal and interest in the amount of $990 with a balloon payment of the remaining principal and interest due at maturity in January 2020. In September 2016, the loans were transferred to the Authority as part of the Norfolk EDA Revolving Loan Fund. The balance of the loan at the date of transfer was $36,404. The Authority has been collecting monthly payments from Waterside Fish Co, Inc. At June 30, 2018, the balance of the loan receivable is $18,047.

Loans receivable	$	354,434
Current portion		(67,456)
	$	286,978

(11) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include $67,233 in operational expenses related to 824 Building, $39,356 in grant funds due to Fort Norfolk Plaza Urgent Care, LLC, $3,844 related to administrative costs, and $157,751 in accrued interest related to the Bank of America Economic Development Revenue Note, Series 2016.

(12) Notes Payable

On December 14, 2014, the Authority entered into a promissory note to borrow $2,500,000 to finance the purchase of the real estate from the J.C. Penney Corporation. The Authority is to repay this loan in full, plus any unpaid interest, on the initial maturity date of September 30, 2017. Interest is to be paid monthly commencing on January 12, 2015 at one-month LIBOR plus 2.5%. The interest rate as of June 30, 2018 was 4.59% (annual interest was calculated using the June 30, 2018 monthly LIBOR rate of 2.09% plus 2.5%). The loan is collateralized by a certificate of deposit and a negative pledge agreement and matures on September 30, 2019.

Future principal and interest payments required under the promissory note agreement for the contractual life of the loans are as follows:

	Principal		Interest*	
2019	$	-	$	114,750
2020		2,500,000		26,688
	$	2,500,000	$	141,438

* Annual interest was calculated using the June 30, 2018 monthly LIBOR rate of 2.09% plus 2.5%.

(Continued)

The Authority entered into a cooperation agreement with the City which became effective in April 2016 to provide for a revenue bond for the remaining costs of improvements in the amount of $14,500,000. The bond will be payable from funds provided by the City pursuant to a Cooperation Agreement. The City irrevocably pledged its full faith and credit in the form of a General Obligation for the payment of principal and interest on the Economic Development Revenue Note, Series 2016. The bond matures five years from the closing date, with required annual principal payments of $100,000 beginning February 1, 2018. The interest rate for the note is one-month LIBOR plus 0.85% and in the event of default, the default rate would be the interest rate plus 4%. The interest rate at June 30, 2018 was 2.94% (annual interest was calculated using the June 30, 2018 monthly LIBOR rate of 2.09% plus 0.85%). At June 30, 2018, $14,420,000 in funds have been drawn on the bonds and $500,000 has been repaid using funds received from the City.

Future minimum principal payments are as follows:

Years Ending June 30,	
2019	$ 100,000
2020	100,000
2021	13,720,000
	$ 13,920,000

A summary of fiscal year 2018 changes in long-term obligations is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
TowneBank loan payable	$ 2,500,000	$ -	$ -	$ 2,500,000
Economic Development Revenue Note, Series 2016	10,185,000	3,835,000	(100,000)	13,920,000
	$ 12,685,000	$ 3,835,000	$ (100,000)	$ 16,420,000

$100,000 is due within a year.

(13) Revolving Loan Fund

On September 14, 2016, NRHA transferred $519,550 to the Authority to support the Citywide Partnership Fund and the Global Initiatives Fund. The Citywide Partnership Fund provides financial assistance to new and expanding businesses within the City that will create permanent employment opportunities for low to moderate-income residents. The Global Initiatives Fund provides patient, flexible capital to serve small and medium-sized enterprises that seek to expand their presence in the global marketplace. In addition to the grant funds, $83,174 in loans receivable were transferred from NRHA to the Authority. The Authority is now collecting on those receivables (see note 10).

(Continued)

(14) Lease Commitment

On March 8, 2017, the Authority entered into a lease agreement with Sentara Health Plans, Inc. to lease approximately 45,000 square feet located at 824 N. Military Highway (formerly the J. C. Penney Building) for $13.25 per usable square foot and increasing 2.5% per year until the expiration date of the agreement on August 31, 2024. The tenant took possession of the premises on June 1, 2017. Additional rent payable in monthly installments will include the tenant’s share of expenses that exceed base operating expenses and the tenant’s share of real estate taxes which exceed the base real estate taxes. The lease includes a renewal option to extend the initial term of the lease for two additional periods of five years each.

On March 11, 2016, the Authority entered into a lease agreement with Movement Mortgage, LLC to lease approximately 93,153 square feet located at 880 N. Military Highway (formerly the J.C. Penney Building) for $13.00 per usable square foot, increasing to $13.33 in year four, and then increasing 2.5% per year until the expiration date of the agreement on January 31, 2031. The tenant took possession of the premises on May 1, 2017. The terms of the lease include a three-year rent abatement.

Future minimum lease payments due to the Authority are as follows:

Years Ending June 30,		
2019	$	1,719,000
2020		1,719,000
2021		1,719,000
2022		1,719,000
2023		1,719,000
2024-2028		6,181,372
2028-2033		2,541,835
	$	17,318,207

(15) Restricted Net Position from City of Norfolk Grants

Restricted net position of $3,015,392 relates to a cooperation agreement with the City for funds to be used for capital projects, business expansion, retention and attraction efforts as well as loan funds drawn to be used for renovation of the former J. C. Penney Building.

(16) Risk Management

The Authority is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors’ and officers’ liability. The Authority’s coverage is provided through the City’s combination of purchased insurance policies and self-insurance plans.

(Continued)

(17) Related Party Transactions

The Authority receives pass-through funds from the City in order to make development grants and loans under programs, including the MUCIPP loan program, COF, EDA Revolving Loan Program, and the Innovation Fund, which are administered by the Authority on behalf of the City. In addition, the Authority collects and remits to the City all loan payments from borrowers in the MUCIPP, EDA Revolving Loan Program, and the Innovation Fund.

(18) Subsequent Events

On September 21, 2018, the Authority closed on the purchase and sale agreement with JSR Properties, LLC in the amount of $160,925 for approximately 1.022 acres of land located at 7405 Sewells Point Road (note 7).

On September 21, 2018, the Authority wired payment to Simon Development in the amount of $8,200,000 (note 7).

On September 25, 2018, the Authority made payment to the City of Norfolk in the amount of $1,515,251 (note 7).

On August 29, 2018, the Authority entered into an amended lease agreement with Sentara Health Plans, Inc. to lease an additional 44,428 square feet located at 824 N. Military Highway (formerly the J. C. Penney Building) for $13.58 per usable square foot and increasing 2.5% per year until the expiration date of the agreement on July 31, 2024. Additional rent payable in monthly installments will include the tenant's share of expenses that exceed base operating expenses and the tenant's share of real estate taxes which exceed the base real estate taxes. As part of that agreement, the Authority agrees to reimburse Sentara Health Plans, Inc. $815,042 in building improvements.

(Continued)

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INDEPENDENT AUDITORS' REPORT 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*

Board of Directors
Economic Development Authority
of the City of Norfolk, Virginia
Norfolk, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Economic Development Authority of the City of Norfolk, Virginia (the Authority) 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 November 20, 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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*.

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 result 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 20 2018