ECONOMIC DEVELOPMENT AUTHORITY OF THE CITY OF NORFOLK, VIRGINIA

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

Financial Statements

June 30, 2019

(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, 2019, 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 financial position of the Economic Development Authority of the City of Norfolk, Virginia as of June 30, 2019, and the changes in financial position and 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 18, 2019, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 18, 2019

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, 2019

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, 2019.

Financial Highlights for Fiscal Year 2019

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 $3,571,226 and total operating revenues of $7,084,447.

Other Financial Highlights:

- At the close of the fiscal year, the Authority's total cash and cash equivalents was $4,469,357.
- 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 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 $510,571 in fiscal year 2019 of which $100,000 was used for a principal payment and $410,571 for interest. The bond matures 5 years from the closing date, with required annual principal payments of $100,000 beginning February 1, 2018, 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, 2019, $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, 2019, the balance of the note receivable was $100,000. The Symphony has been making payments in accordance with the payment schedule.
- 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, 2019 the balance of the loan receivable is $150,000.

- Capital assets, net of depreciation, increased by $2,888,660 primarily as a result of building improvements made during fiscal year 2019 to the former J.C. Penney property as well as purchase of property located at 645 Church Street.

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, 2019, 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.

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 $11,849,935. The following table provides a summary of the Authority's net position as of June 30, 2019 and 2018:

Summary of Net Position

		2019	2018
Current assets		$ 2,737,225	$ 11,483,464
Investments		2,134,410	2,108,808
Capital assets		19,387,925	16,499,265
Restricted cash		2,041,287	3,876,750
Deferred rent receivable		2,424,138	1,304,606
Loans receivable		224,245	286,978
Land and land improvements held for resale		832,952	947,952
	Total assets	$ 29,782,182	$ 36,507,823
Current liabilities		$ 490,156	$ 10,083,435
Noncurrent liabilities		17,442,091	17,807,169
	Total liabilities	$ 17,932,247	$ 27,890,604
Net position:			
Net investment in capital assets		$ 3,067,925	$ 79,265
Restricted		-	3,015,392
Unrestricted		8,782,010	5,522,562
	Total net position	$ 11,849,935	$ 8,617,219

Overall, total net position increased by $3,232,716 in fiscal year 2019. The table below provides a summary of the changes in net position for the years ended June 30, 2019 and 2018.

Summary of Revenues, Expenses and Changes in Net Position

	2019	2018
Operating revenue	$ 7,084,447	$ 8,823,186
Operating expenses	3,571,226	3,707,197
Operating income/loss	3,513,221	5,115,989
Nonoperating revenue	287,906	185,238
Nonoperating expenses	(568,411)	(1,982,439)
Change in net position	3,232,716	3,318,788
Net position, beginning	8,617,219	5,298,431
Net position, ending	$ 11,849,935	$ 8,617,219

The decrease in operating revenue from fiscal year 2018 to fiscal year 2019 was primarily attributable to a large gain experienced in fiscal year 2018 for land sold to Northampton Development, LLC. While similar gain was not experienced in fiscal year 2019, the Authority did experience an increase in contributions received from the City. There was a small decrease in operating expenses. Nonoperating expenses decreased significantly in fiscal year 2019 due to a one-time large expense owed to the City in fiscal year 2018 associated with the Lake Wright development.

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, 2019

Assets

Current assets:		
Cash and cash equivalents (note 3)	$	2,428,070
Due from City of Norfolk		229,400
Accounts receivable (note 5)		16,495
Loans receivable - current portion (note 10)		63,260
Total current assets		2,737,225
Noncurrent assets:		
Restricted cash (note 4)		2,041,287
Investments (note 3)		2,134,410
Loans receivable (note 10)		224,245
Deferred rent receivable (note 6)		2,424,138
Capital assets, net of accumulated depreciation (note 9)		19,387,925
Land and land improvements held for resale (note 7)		832,952
Total noncurrent assets		27,044,957
Total assets	$	29,782,182

Liabilities

Current liabilities:		
Accounts payable and accrued expenses (note 11)	$	287,671
Deferred revenue		102,485
Notes payable - current portion (note 12)		100,000
Total current liabilities		490,156
Noncurrent liabilities:		
Note payable (note 12)		16,220,000
Due to City of Norfolk under MUCIPP program (note 10)		159,978
Due to City of Norfolk under Innovation Fund (note 8)		159,389
Deferred revenue		300,000
Revolving loan program (note 13)		602,724
Total noncurrent liabilities		17,442,091
Total liabilities	$	17,932,247

Net Position

Net investment in capital assets	$	3,067,925
Restricted		—
Unrestricted		8,782,010
Total net position	$	11,849,935

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, 2019

Operating revenues:		
City of Norfolk, incentive grants	$	1,972,784
City of Norfolk, contribution		2,535,571
Administrative fees		503,887
Gain on sale of land		45,925
Rent revenue		2,026,280
Total operating revenues		7,084,447
Operating expenses:		
Business development expense		1,884,310
824 building expenses		586,350
Depreciation		833,384
Professional fees		43,901
Administrative fees paid to other authorities		98,443
Travel		20,294
Promotion		50,073
Other		54,471
Total operating expenses		3,571,226
Operating income		3,513,221
Nonoperating revenues (expenses):		
Other income		215,164
Interest income		72,742
Interest expense		(568,411)
Total nonoperating expenses, net		(280,505)
Change in net position		3,232,716
Net position:		
Beginning		8,617,219
Ending	$	11,849,935

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, 2019

Cash flows from operating activities:		
Receipts from customers	$	1,513,172
Receipts for incentive grants		4,253,353
Payments to other authorities		(98,443)
Payments of incentive grants		(5,528,234)
Payments to suppliers for goods and services		(7,046,405)
Net cash used in operating activities		(6,906,557)
Cash flows from capital and related financing activities:		
Payment for purchase of capital assets		(3,722,044)
Payment of long-term debt		(100,000)
Proceeds from sale of land		160,925
Interest paid		(568,411)
Net cash used in financing activities		(4,229,530)
Cash flows from investing activities:		
Interest received		72,742
Other receipts		189,562
Receipt of payments on loan receivable		66,929
Net cash provided by investing activities		329,233
Net decrease in cash and cash equivalents		(10,806,854)
Cash and cash equivalents:		
Beginning		15,276,211
Ending	$	4,469,357
Reconciliation of operating income from operations to net cash used in operating activities:		
Operating income	$	3,513,221
Adjustment to reconcile operating income to net cash used in operating activities:		
Depreciation		833,384
Gain on sale of land		(45,925)
Increase in:		
Deferred rent receivable		(1,119,532)
Accounts payable and accrued expenses		19,487
Due from City of Norfolk		(229,400)
Decrease in:		
Accounts receivable		52
Deferred revenue		(162,594)
Due to developer		(8,200,000)
Due to City of Norfolk		(1,515,250)
Net cash used in operating activities	$	(6,906,557)

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, 2019, with a total balance of $620,873,155 maturing through fiscal year 2036. 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, 2019, there was $4,469,357 in cash and cash equivalents, including $2,781,023 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*. $2,041,287 of the cash and cash equivalents balance is restricted as of June 30, 2019 (note 4).

(c) Investments

The Authority considers all funds with an original maturity of greater than one year, to be long-term investments. At June 30, 2019, the Authority held a certificate of deposit with a maturity date of October 22, 2020, yielding 1.49% in the amount of $2,134,410 (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.

(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 $2,781,203 held by the LGIP and the certificates of deposit of $2,134,410 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, 2019, restricted cash includes $1,000,000 related to the renovation of the former J.C. Penney Building, $300,000 in Commonwealth's Development Opportunity Funds (COF) for Movement Mortgage, LLC, $159,978 in MUCIPP loan proceeds, and $581,309 in Federal EDA Funds to be used for approved grant and loan programs.

(5) Accounts Receivable

Accounts receivable consists of a receivable in the amount of $16,495 including $7,712 due from Movement Mortgage, LLC; $7,410 due from Optima Health for electricity reimbursement related to the lease agreement of the 824 building; and $1,373 due from Habitat for Humanity.

(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, 2019, the outstanding balance of the deferred rent receivable is $2,424,138.

(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 was paid to the City of Norfolk and $8,200,000 was paid 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 two acres located at 7405 Sewells Point Road which are recorded at approximately $115,000 per acre totaling $230,000. One of the acres previously included in land and land held for improvements located at 7405 Sewells Points Road at a value of $115,000 was sold on June 11, 2018, the Authority entered into a purchase and sale agreement with JSR Properties, LLC on September 21, 2018 to JSR Properties, LLC in the amount of $160,925 for a gain of $45,925.

(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. No funds were paid to ADP in fiscal year 2019.

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 lot of at least 1,200 parking spaces. The term of the grant shall commence upon completion of construction of the improvements. Construction was completed in March 2019. No funds were paid to IKEA in fiscal year 2019.

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, 2019, $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, 2019 $380,000 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 (COF) 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	$ 440,682	$ -	$ 1,915,323
Building and building improvements	15,947,394	3,281,362	-	19,228,756
	17,422,035	3,722,044	-	21,144,079
Accumulated depreciation	(922,770)	(833,384)	-	(1,756,154)
Net capital assets	$ 16,499,265	$ 2,888,660	$ -	$ 19,387,925

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, 2019, $12,983,141 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, 2019, $14,420,000 in funds have been drawn and $600,000 in principal payments have been made.

(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, 2019, the balance of the note receivable is $100,000.

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, 2019 the balance of the loan receivable is $150,000.

On November 14, 2013, the Norfolk Redevelopment and Housing Authority (NRHA) 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 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, 2019, the balance of the loan receivable is $30,690.

On December 20, 1999, the NRHA 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, 2019, the balance of the loan receivable is $6,815.

Loans receivable	$ 287,505
Current portion	(63,260)
	$ 224,245

(11) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include $55,945 in operational expenses related to 824 Building, $39,667 related to administrative costs, and $192,059 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, 2019 was 4.95% (annual interest was calculated using the June 30, 2019 monthly LIBOR rate of 2.45% 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*
2020	2,500,000	30,938
	$ 2,500,000	$ 30,938

* Annual interest was calculated using the June 30, 2019 monthly LIBOR rate of 2.45% plus 2.5%.

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, 2019 was 3.3% (annual interest was calculated using the June 30, 2018 monthly LIBOR rate of 2.45% plus 0.85%). At June 30, 2019, $14,420,000 in funds have been drawn on the bonds and $600,000 has been repaid using funds received from the City.

Future minimum principal payments are as follows:

Years Ending June 30,	
2020	$ 100,000
2021	13,720,000
	$ 13,820,000

A summary of fiscal year 2019 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	13,920,000	-	(100,000)	13,820,000
	$ 16,420,000	$ -	$ (100,000)	$ 16,320,000

$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).

(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. 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. 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,	
2020	$ 2,348,279
2021	2,348,279
2022	2,348,279
2023	2,348,279
2024	2,348,279
2025-2029	5,656,609
2030-2031	1,452,477
	$ 18,850,481

(15) 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.

(16) 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, Commonwealth's Development Opportunity Fund, 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.

(17) Subsequent Events

On August 9, 2019, the Authority extended the maturity date on its loan from TowneBank to September 30, 2021. The rate was reduced from 30-day LIBOR plus 2.50% to 30 day LIBOR plus 2.00%.

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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, 2019, 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 18, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 18, 2019