

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

Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)

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

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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, 2020, 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, 2020, 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 December 17, 2020, 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

Arlington, Virginia
December 17, 2020

**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, 2020

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, 2020.

Financial Highlights for Fiscal Year 2020

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 \$4,563,685 and total operating revenues of \$6,869,964.

Other Financial Highlights:

- At the close of the fiscal year, the Authority's total cash and cash equivalents was \$20,922,335.
- On December 14, 2014, the Authority entered into a promissory note to borrow \$2,500,000 to finance the purchase of real estate from the J.C. Penney Corporation. The loan was collateralized by a certificate of deposit and a negative pledge agreement. This loan was paid in full on June 30, 2020, from proceeds from the sale of the asset. The Authority also 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 to real estate 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 \$527,723 in fiscal year 2020 of which \$100,000 was used for a principal payment and \$427,723 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%.
- 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, 2020, the balance of the note receivable was \$50,000. 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, 2020, the balance of the loan receivable is \$150,000.

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(A Component Unit of the City of Norfolk, Virginia)
Management Discussion and Analysis (unaudited)
June 30, 2020

- Capital assets, net of depreciation, increased by \$504,823 primarily as a result of the purchase of Military Circle Mall (MCM) and the purchase of property located at 880 N. Military Highway offset by the sale of the former J.C. Penney property.

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, 2020, 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
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(A Component Unit of the City of Norfolk, Virginia)
Management Discussion and Analysis (unaudited)
June 30, 2020

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 \$11,492,451. The following table provides a summary of the Authority's net position as of June 30, 2020 and 2019:

Summary of Net Position

	<u>2020</u>	<u>2019</u>
Current assets	\$ 19,508,529	\$ 2,737,225
Investments	2,166,438	2,134,410
Capital assets	19,892,748	19,387,925
Restricted cash	1,570,968	2,041,287
Deferred rent receivable	-	2,424,138
Loans receivable	401,277	224,245
Land and land improvements held for resale	832,952	832,953
Total assets	<u>\$ 44,372,912</u>	<u>\$ 29,782,183</u>
Current liabilities	\$ 16,628,370	\$ 490,156
Noncurrent liabilities	16,252,091	17,442,091
Total liabilities	<u>\$ 32,880,461</u>	<u>\$ 17,932,247</u>
Net position:		
Net investment in capital assets	\$ 2,281,009	\$ 3,067,925
Unrestricted	9,211,442	8,782,010
Total net position	<u>\$ 11,492,451</u>	<u>\$ 11,849,935</u>

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Management Discussion and Analysis (unaudited)
June 30, 2020

Overall, total net position decreased by \$357,484 in fiscal year 2020. The table below provides a summary of the changes in net position for the years ended June 30, 2020 and 2019.

Summary of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>
Operating revenue	\$ 6,869,964	\$ 7,084,447
Operating expenses	<u>4,563,685</u>	<u>3,571,226</u>
Operating income/loss	<u>2,306,279</u>	<u>3,513,221</u>
Nonoperating revenue	78,789	287,906
Nonoperating expenses	<u>(2,742,552)</u>	<u>(568,411)</u>
Change in net position	(357,484)	3,232,716
Net position, beginning	<u>11,849,935</u>	<u>8,617,219</u>
Net position, ending	<u>\$ 11,492,451</u>	<u>\$ 11,849,935</u>

The decrease in operating revenue from fiscal year 2019 to fiscal year 2020 was primarily attributable to decrease in contributions from the City offset by a gain on the sale of the former J.C. Penney property. There was an increase in operating expenses of \$992,459 as a result of costs associated operating the newly acquired Military Circle Mall. Nonoperating expenses increased significantly in fiscal year 2020 due to the write-off of the deferred rent receivable as a result of the sale of the former J.C. Penney property.

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, 2020

Assets

Current assets:

Cash and cash equivalents (note 3)	\$	19,351,367
Accounts receivable (note 5)		5,566
Loans receivable - current portion (note 9)		<u>151,596</u>
Total current assets		<u>19,508,529</u>

Noncurrent assets:

Restricted cash (note 4)		1,570,968
Investments (note 3)		2,166,438
Loans receivable (note 9)		401,277
Capital assets, net of accumulated depreciation (note 8)		19,892,748
Land and land improvements held for resale (note 6)		<u>832,952</u>
Total noncurrent assets		<u>24,864,383</u>
Total assets	\$	<u>44,372,912</u>

Liabilities

Current liabilities:

Accounts payable and accrued expenses (note 10)	\$	626,631
Notes payable - current portion (note 11)		<u>16,001,739</u>
Total current liabilities		<u>16,628,370</u>

Noncurrent liabilities:

Note payable (note 11)		15,330,000
Due to City of Norfolk under MUCIPP program		159,978
Due to City of Norfolk under Innovation Fund (note 7)		159,389
Revolving loan fund (note 12)		<u>602,724</u>
Total noncurrent liabilities		<u>16,252,091</u>

Total liabilities	\$	<u>32,880,461</u>
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Net investment in capital assets	\$	2,281,009
Unrestricted		<u>9,211,442</u>
Total net position	\$	<u><u>11,492,451</u></u>

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, 2020

Operating revenues:	
City of Norfolk, incentive grants	\$ 1,578,744
City of Norfolk, contribution	527,723
Administrative fees	469,894
Gain on sale of land	2,960,302
Rent revenue	<u>1,333,301</u>
Total operating revenues	<u>6,869,964</u>
Operating expenses:	
Business development expense	1,934,164
824 Building expenses	641,199
Depreciation	1,007,800
Military Circle Mall	467,591
Professional fees	120,044
Administrative fees paid to other authorities	79,479
Travel	31,147
Promotion	28,688
Other	<u>253,573</u>
Total operating expenses	<u>4,563,685</u>
Operating income	<u>2,306,279</u>
Nonoperating revenues (expenses):	
Loss on disposal of property	(2,208,236)
Interest income	78,789
Interest expense	<u>(534,316)</u>
Total nonoperating expenses, net	<u>(2,663,763)</u>
Change in net position	(357,484)
Net position:	
Beginning	<u>11,849,935</u>
Ending	<u>\$ 11,492,451</u>

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, 2020

Cash flows from operating activities:	
Receipts from customers	\$ 4,298,375
Receipts for incentive grants	2,074,439
Payments to other authorities	(79,479)
Payments of incentive grants	(1,663,002)
Payments to suppliers for goods and services	<u>(1,675,614)</u>
Net cash provided by operating activities	<u>2,954,719</u>
Cash flows from capital and related financing activities:	
Payment for purchase of capital assets	(18,562,083)
Payment of long-term debt	(2,600,000)
Proceeds from sale of land	20,000,000
Proceeds from long-term debt	17,611,739
Interest paid	<u>(534,316)</u>
Net cash provided by financing activities	<u>15,915,340</u>
Cash flows from investing activities:	
Interest received	78,789
Other payments	(2,230,502)
Receipt of payments on loan receivable	<u>(265,368)</u>
Net cash used in investing activities	<u>(2,417,081)</u>
Net increase in cash and cash equivalents	16,452,978
Cash and cash equivalents:	
Beginning	<u>4,469,357</u>
Ending	<u>\$ 20,922,335</u>
Reconciliation of operating income from operations to net cash used in operating activities:	
Operating income	\$ 2,306,279
Adjustment to reconcile operating income to net cash used in operating activities:	
Depreciation	1,007,800
Gain on sale of land	(2,960,302)
Effect of changes in assets and liabilities:	
Accounts payable and accrued expenses	338,960
Accounts receivable	10,929
Deferred revenue	(402,485)
Deferred rent receivable	2,424,138
Due to City of Norfolk	<u>229,400</u>
Net cash provided by operating activities	<u>\$ 2,954,719</u>

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)

Notes to Financial Statements

June 30, 2020

(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, 2020, with a total balance of \$555,026,285 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, 2020, there was \$20,922,335 in cash and cash equivalents, including \$1,663,270 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*. \$1,570,968 of the cash and cash equivalents balance is restricted as of June 30, 2020 (note 4).

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements

June 30, 2020

(c) Investments

The Authority considers all funds with an original maturity of greater than one year, to be long-term investments. At June 30, 2020, the Authority held a certificate of deposit with a maturity date of October 22, 2020, yielding 1.49% in the amount of \$2,166,438 (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

Capital assets are defined as assets owned by the EDA with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. 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

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**ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements

June 30, 2020

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 loan 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 \$1,663,270 held by the LGIP and the certificates of deposit of \$2,166,438 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, 2020, restricted cash includes \$1,000,000 related to the renovation of the former J.C. Penney Building, \$159,978 in MUCIPP loan proceeds, and \$410,990 in Federal EDA Funds to be used for approved grant and loan programs.

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
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(A Component Unit of the City of Norfolk, Virginia)

Notes to Financial Statements

June 30, 2020

(5) Accounts Receivable

Accounts receivable consists of a receivable in the amount of \$5,566 including \$616 due from Ramsey Manufacturing; and \$4,950 due from Habitat for Humanity.

(6) 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 property to Northampton Development, LLC. 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.

(7) 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. The Authority paid \$1,250,000 to ADP during fiscal year 2020.

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 2020.

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, 2020, \$150,000 had been loaned to Embody, LLC with accrued interest of \$9,389 (note 9).

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 was returned to the Commonwealth's Development Opportunity Fund on January 15, 2020.

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

Notes to Financial Statements

June 30, 2020

(8) Capital Assets

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 1,915,323	\$ 7,979,601	\$ (1,474,641)	\$ 8,420,283
Building and building improvements	19,228,756	10,582,482	(18,141,127)	11,670,111
	21,144,079	18,562,083	(19,615,768)	20,090,394
Accumulated depreciation	(1,756,154)	(1,007,800)	2,566,308	(197,646)
Net capital assets	\$ 19,387,925	\$ 17,554,283	\$ (17,049,460)	\$ 19,892,748

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. On June 30, 2020, the Authority sold this property located at 824 N. Military Highway for a contract sales price of \$20,000,000.

On April 30, 2020, the Authority acquired the Military Circle Mall (MCM) from Retail, L.P. for a contract sales price of approximately \$11,000,000. On May 5, 2020, the Authority acquired from Kavya Hotels LLC, the former Double Tree Hotel located at 880 N. Military Highway for a contract sales price of approximately \$2,400,000.

(9) 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, 2020, the balance of the note receivable is \$50,000.

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, 2020 the balance of the loan receivable is \$150,000.

(Continued)

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

Notes to Financial Statements

June 30, 2020

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, 2020, the balance of the loan receivable is \$26,958.

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, 2020, the balance of the loan receivable is \$915.

During fiscal year 2020, the Authority entered into loan agreements with various companies totaling \$325,000. Interest rates are based on a six-month LIBOR rate at the time of application. Interest only payments were arranged for the borrowers until October 2020.

Loans receivable		\$	552,873
Current portion			<u>(151,596)</u>
			<u>\$ 401,277</u>

(10) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include \$264,395 in operational expenses, \$169,257 of expenses associated with MCM, and \$192,979 in accrued interest related to the Bank of America Economic Development Revenue Note, Series 2016.

(11) 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 matured on September 30, 2019 and was fully repaid.

(Continued)

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**
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Notes to Financial Statements

June 30, 2020

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, 2020 was 2.61% (annual interest was calculated using the June 30, 2020 monthly LIBOR rate of 2.45% plus 0.16%). At June 30, 2020, \$14,420,000 in funds have been drawn on the bonds and \$700,000 has been repaid using funds received from the City. \$1,000,000 of the funds drawn remain unspent are included in the restricted cash balance.

On April 30, 2020, the Authority entered into a purchase money note with a third party to borrow \$15,901,739 to finance the purchase of Military Circle Mall. The Authority is to repay this loan in full, plus any unpaid interest, on the maturity date of October 30, 2020. Interest is to be paid monthly commencing on May 1, 2020 at a fixed rate of 6%.

On May 5, 2020, the Authority entered into a promissory note with a bank to borrow \$1,710,000 to finance the purchase of a Double Tree Hotel. The Authority is to repay this loan in full, plus any unpaid interest, on the maturity date of May 5, 2029. Interest is to be paid monthly commencing on June 5, 2020, at one-month LIBOR plus 2.5%. The interest rate as of June 30, 2020 was 3.5%. The loan is collateralized by the real estate purchased.

A summary of fiscal year 2020 changes in long-term obligations is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
TowneBank loan payable	\$ 2,500,000	\$ -	\$ (2,500,000)	\$ -
TowneBank loan payable, 2020	-	1,710,000	-	1,710,000
Bank of America Purchase Money Note	-	15,901,739	-	15,901,739
Economic Development Revenue Note, Series 2016	13,820,000	-	(100,000)	13,720,000
	<u>\$ 16,320,000</u>	<u>\$ 17,611,739</u>	<u>\$ (2,600,000)</u>	<u>\$ 31,331,739</u>

(Continued)

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

Notes to Financial Statements

June 30, 2020

Future minimum principal payments are as follows:

Years Ending <u>June 30,</u>	
2021	\$ 16,001,739
2022	100,000
2023	13,767,229
2024	247,229
2025	247,229
Thereafter	<u>968,314</u>
	<u>\$ 31,331,739</u>

(12) 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 9).

(13) 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.

(14) 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.

(15) Subsequent Events

On July 23, 2020, the Authority satisfied the third-party note used to finance the purchase of MCM.



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, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 17, 2020.

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

Arlington, Virginia
December 17, 2020