

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

Financial Statements

June 30, 2022

(With Independent Auditors' Report Thereon)

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

Table of Contents

| | Page(s) |
|---|----------------|
| Independent Auditors' Report | 1-3 |
| Management Discussion and Analysis (Unaudited) | 4-6 |
| Basic Financial Statements: | |
| Statement of Net Position | 7 |
| Statement of Revenues, Expenses and Changes in Net Position | 8 |
| Statement of Cash Flows | 9 |
| Notes to Financial Statements | 10-18 |
| 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 <i>Government Auditing Standards</i> | 19-20 |



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Economic Development Authority of the City of Norfolk, Virginia (EDA or the Authority), a component unit for the City of Norfolk, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the EDA's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the EDA as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective July 1, 2021, the EDA adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

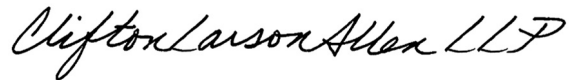
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2023, 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
March 1, 2023

**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, 2022

The following discussion and analysis of the Economic Development Authority of the City of Norfolk, Virginia (the Authority or the EDA) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2022.

Financial Highlights for Fiscal Year 2022

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 \$6,236,530 and total operating revenues of \$5,929,417.

Other Financial Highlights:

- At the close of the fiscal year, the Authority's total cash and cash equivalents was \$9,619,428.
- The Authority entered into a cooperation agreement with the City of Norfolk (the City) that 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 was to be payable from funds provided by the City pursuant to a Cooperation Agreement. This bond was paid in full during fiscal year 2021 with proceeds from an uncollateralized loan received from the City in the amount of \$13,720,000. As of June 30, 2022, the balance of the note payable to the City is \$12,762,400.
- 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. The note was paid in full as of July 7, 2021.
- Capital assets, net of depreciation, decreased by \$2,285,531 primarily due to the disposition of property at 645 Church Street and depreciation.

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.

**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, 2022

The statement of cash flows, when taken together with the statement of net position and statement of revenues, expenses and changes in net position, is designed to provide a general overview of the Authority's financial performance as of June 30, 2022.

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 its liabilities by \$12,725,936. The following table provides a summary of the Authority's net position as of June 30, 2022 and 2021.

Summary of Net Position

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Current assets | \$ 8,557,976 | \$ 4,877,010 |
| Investments | - | 2,179,488 |
| Capital assets | 16,797,338 | 19,085,869 |
| Restricted cash | 1,528,288 | 1,528,288 |
| Loans receivable | 917,202 | 306,093 |
| Land and land improvements held for resale | 832,952 | 832,952 |
| Total assets | <u>28,633,756</u> | <u>28,809,700</u> |
| Current liabilities | 847,713 | 1,148,556 |
| Noncurrent liabilities | 15,060,107 | 15,456,240 |
| Total liabilities | <u>15,907,820</u> | <u>16,604,796</u> |
| Net position: | | |
| Net investment in capital assets | 2,564,793 | 4,245,847 |
| Unrestricted | 10,161,143 | 7,959,057 |
| Total net position | <u>\$ 12,725,936</u> | <u>\$ 12,204,904</u> |

**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, 2022

Overall, total net position increased by \$521,032 in fiscal year 2022. The table below provides a summary of the changes in net position for the years ended June 30, 2022 and 2021.

Summary of Revenues, Expenses and Changes in Net Position

| | 2022 | 2021 |
|-------------------------|---------------|---------------|
| Operating revenue | \$ 5,929,417 | \$ 10,043,185 |
| Operating expenses | 6,236,530 | 9,113,033 |
| Operating income/loss | (307,113) | 930,152 |
| Nonoperating revenue | 2,695,804 | 58,806 |
| Nonoperating expenses | (1,867,659) | (276,505) |
| Change in net position | 521,032 | 712,453 |
| Net position, beginning | 12,204,904 | 11,492,451 |
| Net position, ending | \$ 12,725,936 | \$ 12,204,904 |

The decrease in operating revenue from fiscal year 2021 to fiscal year 2022 was primarily due to the one-time Coronavirus Relief Fund Stimulus grants received in fiscal year 2021. Nonoperating revenue increased significantly in fiscal year 2022 primarily as a result of the settlement payment of \$2,500,000 made by Cinemark, a prior tenant in the Military Circle Mall.

Future Outlook

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

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, 2022

Assets

| | |
|--|--------------|
| Current assets: | |
| Cash and cash equivalents (note 3) | \$ 8,091,140 |
| Accounts receivable (note 5) | 4,262 |
| Rents receivable (note 6) | 205,161 |
| Loans receivable - current portion (note 10) | 112,463 |
| Federal award receivable (note 8) | 97,351 |
| Prepaid expenses | 47,599 |
| Total current assets | 8,557,976 |
| Noncurrent assets: | |
| Restricted cash (note 4) | 1,528,288 |
| Investments (note 3) | - |
| Loans receivable (note 10) | 917,202 |
| Capital assets, net of accumulated depreciation (note 9) | 16,797,338 |
| Land and land improvements held for resale (note 7) | 832,952 |
| Total noncurrent assets | 20,075,780 |
| Total assets | 28,633,756 |

Liabilities

| | |
|---|---------------|
| Current liabilities: | |
| Accounts payable and accrued expenses (note 11) | 309,875 |
| Unearned rental revenue (note 6) | - |
| Deposits due to developers | 201,304 |
| Notes payable - current portion (note 12) | 336,534 |
| Total current liabilities | 847,713 |
| Noncurrent liabilities: | |
| Note payable (note 12) | 14,126,239 |
| Due to City of Norfolk under Innovation Fund (note 8) | 183,516 |
| Revolving loan fund (note 13) | 602,724 |
| Deferred inflows of resources from leases | 147,628 |
| Total noncurrent liabilities | 15,060,107 |
| Total liabilities | 15,907,820 |
| Net investment in capital assets | 2,564,793 |
| Unrestricted | 10,161,143 |
| Total net position | \$ 12,725,936 |

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 Change in Revenue, Expenses and Changes in Net Position
Year ended June 30, 2022

| | |
|-----------------------------------|---------------|
| Operating revenues: | |
| City of Norfolk, incentive grants | \$ 1,700,564 |
| City of Norfolk, contribution | 957,462 |
| Other grants | 549,900 |
| Administrative fees | 470,476 |
| Rent revenue | 2,251,015 |
| Total operating revenues | 5,929,417 |
| | |
| Operating expenses: | |
| Business development expense | 2,239,867 |
| 824 building expenses | 26,725 |
| Depreciation | 556,440 |
| Military Circle Mall | 3,056,768 |
| Professional fees | 69,136 |
| Promotion | 130,066 |
| Other | 157,528 |
| Total operating expenses | 6,236,530 |
| Operating income / (loss) | (307,113) |
| | |
| Nonoperating revenues (expenses): | |
| Other income | 2,641,166 |
| Gain / loss on disposal of assets | (1,807,797) |
| Interest income | 54,638 |
| Interest expense | (59,862) |
| Total nonoperating expenses, net | 828,145 |
| Change in net position | 521,032 |
| | |
| Net position: | |
| Beginning | 12,204,904 |
| Ending | \$ 12,725,936 |

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, 2022

| | |
|--|---------------------|
| Cash flows from operating activities: | |
| Receipts from customers | \$ 2,393,873 |
| Receipts for incentive grants | 3,445,568 |
| Receipts for other grants | 452,549 |
| Payments of incentive grants | (3,440,223) |
| Payments to suppliers for goods and services | (2,345,002) |
| Net cash provided by operating activities | <u>506,765</u> |
| Cash flows from capital and related financing activities: | |
| Payment for purchase of capital assets | (75,706) |
| Payment of long-term debt | (507,227) |
| Proceeds from long-term debt | - |
| Interest paid | (59,862) |
| Net cash used in financing activities | <u>(642,795)</u> |
| Cash flows from investing activities: | |
| Interest received | 54,638 |
| Other receipts | 2,641,166 |
| Incentive loans | (850,000) |
| Receipt of payments on loan receivable | 207,810 |
| Net cash provided by investing activities | <u>2,053,614</u> |
| Net decrease in cash and cash equivalents | <u>1,917,584</u> |
| Cash and cash equivalents: | |
| Beginning | 6,173,556 |
| Ending | <u>\$ 8,091,140</u> |
| Reconciliation of operating loss from operations to net cash provided by operating activities: | |
| Operating loss | \$ (307,113) |
| Adjustment to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation | 556,440 |
| Effect of changes in assets and liabilities: | |
| Accounts payable and accrued expenses | (6,439) |
| Deposits due to developers | (98,696) |
| Accounts receivable | 317,066 |
| Deferred rental revenue | (232,242) |
| Rents receivable | 203,845 |
| Deferred inflows | 147,628 |
| Grants receivable | (97,351) |
| Prepaid expenses | 23,627 |
| Net cash provided by operating activities | <u>\$ 506,765</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, 2022

(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 annual comprehensive 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, 2022, with a total balance of \$432,515,719 maturing through fiscal year 2036. All of these bonds were determined to be tax-exempt and 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.

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

Notes to Financial Statements
June 30, 2022

(b) Cash and Cash Equivalents

Cash includes cash on hand and cash deposited with financial institutions. At June 30, 2022, there was \$9,619,428 in cash and cash equivalents, including \$3,179,558 held in the Commonwealth's 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*. The Authority is a participant in the LGIP which is administered by the Commonwealth of Virginia Department of Treasury. The Commonwealth's Department of Treasury is committed to managing certain risk limiting provisions to maintain a stable net asset value (NAV) at \$1.00 per share, which is determined at the close of each business day. The goal of maintaining NAV is facilitated as follows:

- (a) The LGIP is rated 'AAAm' by Standard & Poor's and managed in a manner to comply with their 'AAAm' rating requirements.
- (b) The portfolio securities are valued using the amortized cost method, and on a weekly basis this valuation is compared to the current market to monitor any variance.
- (c) Investments are limited to short-term, high-quality credits that can be readily converted into cash with limited price variation.

\$1,528,288 of the cash and cash equivalents balance is restricted as of June 30, 2022 (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, 2022, there were no investment accounts.

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 asset 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.

(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.

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

Notes to Financial Statements
June 30, 2022

(e) Capital Assets

Capital assets are defined as assets owned by the Authority 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 Authority in its mission. Grants received by the Authority, but not earned by the grantee are treated as deferred revenue.

(g) Deposits Due From Developers

Deposits were collected from developers in relation to development proposals submitted to the Authority. These deposits will be paid back to the developers upon selection of a winning proposal.

(h) Administrative Fees

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

(i) 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.

(j) 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.

(k) 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.

(l) Lease Receivable

The Authority has recorded the receivable of right to use leased assets as a result of implementing GASB 87. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in the amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

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

Notes to Financial Statements
June 30, 2022

(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. At June 30, 2022, the Authority had approximately \$6,067,806 in excess of the insured amount. The Commonwealth 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 \$3,179,558 held by the LGIP 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, 2022, restricted cash includes \$1,000,000 related to the renovation of the former J.C. Penney Building, \$159,978 in the Major Urban Construction Impact Policy and Program (MUCIPP) loan proceeds, and \$368,310 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 \$4,262.

(6) Rents 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, 2022, gross rental income owed to the Authority of \$264,764 net of an allowance of doubtful accounts of \$207,230 totaled \$57,533. The leases expire at various dates through 2028. For the year ended June 30, 2022, the Authority recognized \$147,628 in future lease revenue, pursuant to these contracts and recorded as deferred inflows.

Total future minimum lease payments to be received under lease agreements are as follows:

| Year Ending June 30, | Rent Principal | Rent Interest | Rent Total Obligation |
|-------------------------|-------------------|------------------|--------------------------|
| 2023 | \$ 30,786 | \$ 2,479 | \$ 33,265 |
| 2024 | 31,374 | 1,890 | 33,265 |
| 2025 | 31,974 | 1,291 | 33,265 |
| 2026 | 21,077 | 734 | 21,811 |
| 2027 | 5,311 | 560 | 5,871 |
| Thereafter | 27,104 | 1,193 | 28,297 |
| | <u>\$ 147,628</u> | <u>\$ 8,147</u> | <u>\$ 155,774</u> |

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

Notes to Financial Statements
June 30, 2022

(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 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 that are recorded at approximately \$115,000 per acre totaling \$230,000.

(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 included 146,855 square feet and Phase Two included 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 the final grant payment in the amount of \$890,903 to ADP during fiscal year 2022.

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 constructed 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 commenced upon completion of construction of the improvements. Construction was completed in March 2019. The first payment under this agreement occurred in fiscal year 2022 in the amount of \$279,402.

On February 1, 2017, the Authority entered into a Cooperation agreement with the City of Norfolk for the Innovation Fund. The Authority implemented 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 was \$150,000 with a minimum amount of \$50,000. At June 30, 2022, \$150,000 had been loaned to Embody, LLC (note 10) and was paid in full in fiscal year 2022.

In December 2020, the Authority entered into a cooperation agreement with the City, whereby the City would pass through \$549,900 awarded under the CARES Act Supplemental Revolving Loan Fund grant to the Authority. As of June 30, 2022, \$97,351 was still due to be passed through from the City to the Authority.

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

Notes to Financial Statements
June 30, 2022

(9) Capital Asset

| | Beginning Balance | Additions | Retirements | Ending Balance |
|------------------------------------|----------------------|---------------------|-----------------------|----------------------|
| Land | \$ 8,117,117 | \$ - | \$ (440,682) | \$ 7,676,435 |
| Building and building improvements | 11,749,904 | 11,413 | (1,562,418) | 10,198,899 |
| Vehicles and equipment | - | 64,293 | - | 64,293 |
| | <u>19,867,021</u> | <u>75,706</u> | <u>(2,003,100)</u> | <u>17,939,627</u> |
| Accumulated depreciation | (781,152) | (556,440) | 195,303 | (1,142,289) |
| Net capital assets | <u>\$ 19,085,869</u> | <u>\$ (480,734)</u> | <u>\$ (1,807,797)</u> | <u>\$ 16,797,338</u> |

On April 30, 2020, the Authority acquired the Military Circle Mall 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.

In April 2021, the Authority passed a resolution to demolish the asset located at 645 Church Street. At the conclusion of the demolition, the Authority drafted a Deed of Gift to convey the site to the City of Norfolk. In October 2021, the City Council approved the conveyance and the asset was transferred.

(10) Loans Receivable

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 was 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. The Note was paid in full as of July 7, 2021.

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 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, 2022, the balance of the loan receivable is \$0.00. The note was paid off as of December 16, 2021, in the amount of \$13,040.

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

Notes to Financial Statements
June 30, 2022

During fiscal year 2020, the Authority entered into loan agreements with various companies totaling \$325,000. As of June 30, 2022, \$234,980 is outstanding. During fiscal year 2022, the Authority entered into loan agreements with various companies totaling \$450,000. 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. As of June 30, 2022, \$394,685 is outstanding.

Berkley Supermarket LLC was given a forgivable loan in the amount of \$400,000 to induce the opening of a grocery store in the Berkley community. The note has a fixed interest rate of 0%. Annual payments are forgiven bearing no events of default have taken place.

| | | |
|-------------------------------|-----------|------------------|
| Loans receivable | | |
| Current portion | \$ | 112,463 |
| Long term | | 517,202 |
| Berkley Supermarket long term | | 400,000 |
| | <u>\$</u> | <u>1,029,665</u> |

(11) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses totaling \$309,875 consist of \$179,633 of expenses associated with Military Circle Mall, \$115,677 in accrued interest and \$14,565 in other payables.

(12) Notes Payable

The Authority entered into a cooperation agreement with the City that became effective in April 2016 to provide for a revenue bond for the remaining costs of improvements in the amount of \$14,500,000. During fiscal year 2021, the revenue bond was paid in full with funds received from the City of Norfolk. These funds were received on January 8, 2021, as an uncollateralized loan from the City. There are no set repayment terms. The balance on the loan was \$12,762,400 at June 30, 2022.

On May 5, 2020, the Authority entered into a promissory note with TowneBank 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, 2022, was 4.29%. The loan is collateralized by the real estate purchased.

A summary of fiscal year 2022 changes in long-term obligations is as follows:

| | Beginning Balance | | Additions | | Reductions | | Ending balance |
|---------------------------------|----------------------|-----------|-----------|---------------------|------------|-------------------|----------------|
| TowneBank Loan Payable | \$ 1,710,000 | \$ | - | \$ (9,627) | \$ | 1,700,373 | |
| Note Payable to City of Norfolk | 13,260,000 | | - | (497,600) | | 12,762,400 | |
| | <u>\$ 14,970,000</u> | <u>\$</u> | <u>-</u> | <u>\$ (507,227)</u> | <u>\$</u> | <u>14,462,773</u> | |

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

Notes to Financial Statements
June 30, 2022

Future minimum principal payments are as follows:

| | Note Payable to City | TowneBank Loan | Total |
|------------|----------------------|------------------|-------------------|
| 2023 | \$ 300,000 | \$ 36,534 | \$ 336,534 |
| 2024 | 300,000 | 34,634 | 334,634 |
| 2025 | 300,000 | 36,865 | 336,865 |
| 2026 | 300,000 | 38,610 | 338,610 |
| 2027 | 300,000 | 44,205 | 344,205 |
| Thereafter | <u>11,262,400</u> | <u>1,509,525</u> | <u>12,771,925</u> |
| | \$ 12,762,400 | \$ 1,700,373 | \$ 14,462,773 |

(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 at the same time.

In July of 2020, the Authority, through a subrecipient agreement with the City of Norfolk, was awarded \$549,900 from the U.S. Economic Development Administration to assist Norfolk business owners impacted by the coronavirus pandemic. \$500,000 was to establish a revolving loan fund to alleviate sudden and severe economic dislocation caused by the pandemic and \$49,900 was provided to defray the cost of administering the revolving loan fund. In June of 2022, the U.S. Economic Development Administration approved an amendment to the original budget allowing for \$525,000 to be used for loan proceeds. As of June 30, 2022, the Authority disbursed \$450,000 to twelve (12) Norfolk businesses located in various census tracts within the City and operating within different industry clusters.

(14) 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.

(15) Related Party Transactions

The Authority receives pass-through funds from the City in order to make development grants and loans under programs, including the Major Urban Construction Impact Policy and Program (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.

**ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF NORFOLK, VIRGINIA**
(A Component Unit of the City of Norfolk, Virginia)
Notes to Financial Statements
June 30, 2022

(16) Subsequent Events

The Authority submitted an application for a \$20 million Port Infrastructure Development Program (PIDP) grant through the Commonwealth's Department of Transportation for the Offshore Wind Hub at the Lambert's Point Dock.

At the August 3, 2022 board meeting of the Economic Development Authority of the City of Norfolk, the directors voted to proceed with the closure and demolition of the Military Circle Mall. The original closure date was decided to be December 31, 2022 but was later modified to be January 31, 2023. Currently, all structures within the site footprint are expected to be demolished except for Ross Dress for Less and Optima (which is not owned by the Authority). Commencement of the demolition is anticipated to begin in the second quarter of calendar year 2023.



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), a component unit of the City of Norfolk, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 1, 2023.

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.

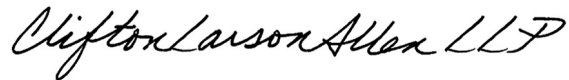
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not 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 financial statements. 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
March 1, 2023