

ECONOMIC DEVELOPMENT AUTHORITY CITY OF PORTSMOUTH, VIRGINIA

Component Unit of the city of Portsmouth, Virginia

Years Ended June 30, 2018 and 2017
(With Report of Independent Auditor Thereon)

Prepared By:
Department of Finance, city of Portsmouth, Virginia

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
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June 30, 2018 and 2017

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INTRODUCTORY SECTION

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Commissioners
June 30, 2018 and 2017

Anthony W. Hinds	Chairman
Junius L. Thompson*	Vice Chairman
Aaron J. Kelley	Treasurer
Robert D. Moore**	Assistant Secretary
Don L. Scott	Commissioner
Tracy Link	Commissioner
Miriam J. Jiggetts	Commissioner
Cathy Revell	Commissioner
Solomon H. Ashby, Jr.	General Counsel
Jeffrey S. Miller	General Counsel

* Mr. Thompson served as Vice Chairman of the Authority for FY2018 but resigned effective May 15, 2018.

**Robert D. Moore is an employee of the city and Director of the Department of Economic Development. He is not a voting member of the Authority.

FINANCIAL SECTION

Report of Independent Auditor

To the Board of Directors
Economic Development Authority of the city of Portsmouth, Virginia
Portsmouth, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Economic Development Authority of the city of Portsmouth, Virginia (the "Authority"), a component unit of the city of Portsmouth, Virginia, as of and for the years ended June 30, 2018 and 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audits 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 auditor's 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 Authority'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 Authority'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 Authority, as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years 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, as listed in the table of contents, 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 audits 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 Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory Section on page i is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Introductory Section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

Cheryl Bekaert LLP

Virginia Beach, Virginia
October 11, 2018

ECONOMIC DEVELOPMENT AUTHORITY CITY OF PORTSMOUTH, VIRGINIA

Component Unit of the city of Portsmouth, Virginia
Management's Discussion and Analysis
June 30, 2018 and 2017

This section of the Economic Development Authority's the "Authority") annual financial report presents Management's Discussion and Analysis (MD&A) of the Authority's financial performance during fiscal years ended June 30, 2018 and 2017. The MD&A should be read in conjunction with the financial statements and footnotes that follow this section.

Financial Highlights

- On June 28, 2018, the EDA closed on the sale of the property at 3215 Academy Avenue. The proceeds from the sale were \$92,156.
- The Local Incentive Program, formerly known as the Downtown Development Grant Program, awarded \$43,286 grants in FY2018. Another \$21,470 was approved for reimbursement upon completion of the improvements.
- On August 30, 2017, the properties on the 1500 Block of High Street were transferred from PRHA. The assessed value is \$316,240.
- Net position increased in FY2018 by \$388,473 primarily as a result of the capital contribution of the property from PRHA for \$316,240.

Overview of the Financial Statements

The financial section of this report has two components - Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are comprised of Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows, and Notes to the Basic Financial Statements.

The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Authority.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Management's Discussion and Analysis
June 30, 2018 and 2017

Financial Analysis

Net Position

The following table reflects the condensed components of net position:

Table 1

Summary of Net Position

As of June 30, 2018, 2017, and 2016

		2018	2017	2016
Assets:				
Current assets	\$	1,954,452	1,999,276	3,278,794
Capital assets		1,205,661	1,205,661	1,205,661
Other assets		11,158,202	10,637,603	9,699,186
Total assets		<u>14,318,315</u>	<u>13,842,540</u>	<u>14,183,641</u>
Liabilities:				
Current liabilities		<u>141,240</u>	<u>53,938</u>	<u>8,710</u>
Total liabilities		<u>141,240</u>	<u>53,938</u>	<u>8,710</u>
Net position:				
Net investment in capital assets		1,205,661	1,205,661	1,205,661
Restricted		1,323,169	1,118,810	1,013,038
Unrestricted		<u>11,648,245</u>	<u>11,464,131</u>	<u>11,956,232</u>
Total net position		<u>14,177,075</u>	<u>13,788,602</u>	<u>14,174,931</u>
Total liabilities and net position	\$	<u>14,318,315</u>	<u>13,842,540</u>	<u>14,183,641</u>

Net position (assets in excess of liabilities) may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, assets exceeded liabilities by \$14.2 million as of June 30, 2018, \$13.8 million as of June 30, 2017, and \$14.2 million as of June 30, 2016. Approximately \$1.2 million reflects the Authority's investment in capital assets, which are unavailable for future spending, as of June 30, 2018, 2017, and 2016. Approximately \$1.1 million reflects the Authority's restricted funds for future use to bring the North Pier to building-ready condition as of June 30, 2018.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Management's Discussion and Analysis
June 30, 2018 and 2017

Revenues, Expenses, and Changes in Net Position

The following table reflects the condensed revenues, expenses, and changes in net position:

Table 2

Summary of Changes in Net Position

Years Ended June 30, 2018, 2017, and 2016

		2018	2017	2016
Gain (loss) on sale of land	\$	(20,124)	-	599,500
Other operating revenues		125,567	125,647	283,122
Total operating revenues		105,443	125,647	882,622
Operating expenses		141,227	396,786	209,112
Operating income (loss)		(35,784)	(271,139)	673,510
Net nonoperating revenues (expenses)		424,257	(115,190)	(1,286,964)
Change in net position		388,473	(386,329)	(613,454)
Net position, beginning of year		13,788,602	14,174,931	14,788,385
Net position, end of year	\$	14,177,075	13,788,602	14,174,931

Total net position increased by \$388,473 for the fiscal year ended June 30, 2018. Net position decreased by \$386,329 and \$613,454 for the fiscal years ended June 30, 2017 and 2016, respectively. In fiscal year 2018, the increase was primarily the result of the transfer of the property at 1500 High Street. In fiscal year 2017, the decrease was primarily the result of the North Pier property rehabilitation expenses.

Operating expenses consisted of contractual services, economic and business development costs, and costs associated with maintaining the properties held for resale and investment properties (e.g., grounds maintenance).

Nonoperating revenues (expenses) consisted of investment income, contribution revenue from the city and costs associated with various development activities such as the local incentive grants.

Capital Assets

As of June 30, 2018, 2017 and 2016, the Authority had invested \$1,205,661 in capital assets, as detailed in Note 4.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Management's Discussion and Analysis
June 30, 2018 and 2017

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors 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 information should be directed to the Economic Development Authority, 200 High Street, Suite 200, Portsmouth, Virginia 23704 or call 757.393.8804.

BASIC FINANCIAL STATEMENTS

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Statements of Net Position
June 30, 2018 and 2017

		2018	2017
Assets:			
Current assets:			
Cash (note 2)	\$	1,954,452	1,988,859
Accounts receivable		-	10,417
Total current assets		<u>1,954,452</u>	<u>1,999,276</u>
Capital assets: (note 4)			
Land and air rights		<u>1,205,661</u>	<u>1,205,661</u>
Total capital assets		<u>1,205,661</u>	<u>1,205,661</u>
Other assets:			
Restricted cash (note 5)		1,007,087	1,005,919
Restricted receivable (note 5)		316,082	112,891
Property held for resale (note 6)		<u>9,835,033</u>	<u>9,518,793</u>
Total other assets		<u>11,158,202</u>	<u>10,637,603</u>
Total assets	\$	<u>14,318,315</u>	<u>13,842,540</u>
Liabilities and net position:			
Current liabilities:			
Accounts payable	\$	11,363	15,457
Grants and other payables		-	10,000
Deposits – other		5,000	5,000
Due to the city (note 9)		<u>124,877</u>	<u>23,481</u>
Total current liabilities		<u>141,240</u>	<u>53,938</u>
Total liabilities		<u>141,240</u>	<u>53,938</u>
Net position:			
Net investment in capital assets		1,205,661	1,205,661
Restricted		1,323,169	1,118,810
Unrestricted		<u>11,648,245</u>	<u>11,464,131</u>
Total net position		<u>14,177,075</u>	<u>13,788,602</u>
Total liabilities and net position	\$	<u>14,318,315</u>	<u>13,842,540</u>

See accompanying notes to basic financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Land sales	\$ 92,156	-
Cost of land sold	(112,280)	-
Loss on sale of land	(20,124)	-
Rental income (note 7)	125,000	125,000
Industrial revenue bond fees	537	559
Miscellaneous income	30	88
Net operating revenues	105,443	125,647
Operating expenses:		
Contractual services	9,670	28,225
Economic/business development	2,618	734
Utilities	12,521	11,311
Development properties	105,734	340,897
Other expenses	10,684	15,619
Total operating expenses	141,227	396,786
Operating loss	(35,784)	(271,139)
Nonoperating revenues (expenses):		
Local development grants (note 8)	(43,286)	(98,006)
Investment income	2,988	2,455
Contributions to the city (note 9)	(167,156)	(125,000)
Contributions from the city (note 9)	315,471	105,361
Contributions from PRHA (note 9)	316,240	-
Net nonoperating revenues (expenses)	424,257	(115,190)
Change in net position	388,473	(386,329)
Net position, beginning of year	13,788,602	14,174,931
Net position, end of year	\$ 14,177,075	13,788,602

See accompanying notes to basic financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Receipts from customers	\$	135,984	115,230
Receipts from land sales		92,156	-
Cash paid for land purchases		-	(832,645)
Payments to suppliers		(86,081)	(361,558)
Net cash provided by (used in) operating activities		142,059	(1,078,973)
Cash flows from noncapital financing activities:			
Payments to city of Portsmouth		(125,000)	(125,000)
Downtown development grants		(53,286)	(88,006)
Net cash used in noncapital financing activities		(178,286)	(213,006)
Cash flows from capital financing activities:			
Cash deposited in or reinvested in escrow		(1,168)	(411)
Net cash used in capital financing activities		(1,168)	(411)
Cash flows from investing activities:			
Interest received		2,988	2,583
Net cash provided by investing activities		2,988	2,583
Net decrease in cash		(34,407)	(1,289,807)
Cash, beginning of the year		1,988,859	3,278,666
Cash, end of the year	\$	1,954,452	1,988,859
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$	(35,784)	(271,139)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Changes in assets and liabilities:			
Accounts receivable		10,417	(10,417)
Property held for resale		112,280	(832,645)
Due to the city		59,240	23,481
Accounts payable		(4,094)	6,747
Deposits - other		-	5,000
Net cash provided by (used in) operating activities	\$	142,059	(1,078,973)
Significant noncash transactions:			
Transfer of properties from city	\$	112,280	-
Contribution from PRHA		316,240	-
Total significant noncash transactions	\$	428,520	-

See accompanying notes to basic financial statements.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Economic Development Authority of the city of Portsmouth (the "Authority") is a political subdivision of the Commonwealth of Virginia established for the purpose of fostering and stimulating economic development in the city of Portsmouth, Virginia (the "city"). It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities may promote industry and develop trade by inducing enterprises to locate and remain in Portsmouth. The Authority is also permitted to make loans and award grants for the purpose of stimulating economic development. The Authority is considered a component unit of the city. Component units are legally separate entities for which a Primary Government is financially accountable. The information in these financial statements will be included in the city's basic financial statements because of the significance of the Authority's financial relationship with the city. The Authority has no component units.

In addition, the Authority sponsors issuance of revenue bonds for the purpose of obtaining and constructing facilities. Generally, the Authority receives an annual service fee based on a percentage of the outstanding bonds at each anniversary of the issuance date.

Basis of Accounting and Presentation

The Authority is accounted for under the economic resources measurement focus and the accrual basis of accounting as an enterprise fund. Accordingly, revenues are recognized when earned and expenses are recognized when they are incurred. The intent is the recovery of the costs of property sales to the general public and periodic determination of revenues earned, expenses incurred, and change in net position as deemed appropriate for capital maintenance, policy management control, accountability, or other purposes. Costs incurred and paid from funds appropriated by the city for city-wide business development are not reflected in the financial statements of the Authority. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the Authority's ongoing operations. Operating revenues include gain or loss on sale of land and certain rental fees. Operating expenses include the cost of maintaining and selling property held for resale and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

The Authority considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Land and air rights are recorded at the acquisition value at the date of donation, which approximates fair value, or at the price paid to acquire the asset. Capital assets include land, buildings, equipment, and intangibles having a useful life greater than one year with a cost greater than \$5,000. Capital asset depreciation is calculated over the estimated useful lives using the straight-line method. Land and air rights include donated assets of \$1,205,661. Asset values under \$5,000 are expensed in the current period.

Property Held for Resale

Property is stated at acquisition cost plus improvements, but not in excess of net realizable value. Property contributed by the city is stated at the city's cost. Capitalized costs of projects are assigned to individual components of the projects based on specific identification. If specific identification is not practicable, capitalized costs are allocated to each parcel benefited, based on relative fair value before construction. As property is sold, all costs associated with that property are charged to cost of land sold.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 those estimates.

Accounts Receivable

Accounts receivable represent claims to cash or other assets from entities outside the Authority that arise from the sale of goods or services. Accounts receivable is shown at net realizable value.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position consists of the following components based on the extent of constraints upon the use of the resources:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt incurred to finance the capital assets.

Restricted – Reported when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or law or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Authority first applies restricted resources when an expense is incurred for which both restricted and unrestricted net position is available.

Unrestricted – Consists of funds available for any purpose.

(2) CASH

At June 30, 2018 and 2017, the carrying values and bank balances of the Authority's deposits with banks and savings institutions are \$1,954,452 and \$1,988,859, respectively.

Deposits

All cash of the Authority is 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 or covered by federal depository insurance.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(3) INDUSTRIAL REVENUE BONDS

Periodically, the Authority has issued Industrial Revenue Bonds as authorized in the Industrial Development and Revenue Bond Act, Section 15.2-4900 et. seq. of the Code of Virginia. These bonds provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2018 and 2017, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$2,685,640 and \$2,793,149, respectively.

	2018	2017
Places & Programs for Children		
10/1/2007	\$ 2,685,640	2,793,149
	\$ 2,685,640	2,793,149

(4) CAPITAL ASSETS

Capital assets as of June 30, 2018 and 2017 consist of the following:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land and air rights	\$ 1,205,661	-	-	1,205,661
Total capital assets not being depreciated	1,205,661	-	-	1,205,661
Authority capital assets	\$ 1,205,661	-	-	1,205,661

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(4) CAPITAL ASSETS

	Balance			Balance
	June 30, 2016	Additions	Deletions	June 30, 2017
Capital assets not being depreciated:				
Land and air rights	\$ 1,205,661	-	-	1,205,661
Total capital assets not being depreciated	1,205,661	-	-	1,205,661
Authority capital assets	\$ 1,205,661	-	-	1,205,661

(5) RESTRICTED CASH

As of June 30, 2018 and 2017, cash held in escrow was \$1,007,087 and \$1,005,919, respectively. Cash held in escrow is from the sale of 800 Crawford Street to The Breeden Company and interest earned. As agreed in the purchase and sale agreement, the cash will be held in escrow and will be applied to the infrastructure cost for the future development of the North Pier site. The Agreement will also reserve amounts paid in real estate taxes by the Breeden Company for the future rehabilitation of the North Pier as a development grant. As of June 30, 2018 and 2017, restricted real estate tax of \$316,082 and \$112,891, respectively, was due from the city to the Authority.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(6) PROPERTY HELD FOR RESALE

Property held for resale at June 30, 2018 and 2017 consists of the following:

		June 30, 2018	June 30, 2017
Downtown			
710 Lincoln Street (#00330012)	\$	45,670	45,670
219 Pavilion Drive (Crawford Connector)		210,021	210,021
0 Harbor Center Court (North Pier)		1,756,490	1,756,490
Port Centre Commerce Park, including:		28,910	28,910
1104, 1112, 1116 Port Centre Parkway			
425 Madison Street			
1021 High Street (#00630040)		409,088	409,088
1130 High Street (#00321580)		423,557	423,557
1500 Block High Street		316,240	-
Victory			
The Commons at Portsmouth Center		4,214,354	4,214,354
(formerly Victory Village), including:		1,028,315	1,028,315
3560 Victory Boulevard			
0 Campus Drive (#50240022)			
0 Campus Drive (#05240019)			
0 Village Way (#05240023)			
0 Village Way (#05240035)			
409 McLean Street			
3125 Victory Boulevard (#04930080)		194,210	194,210
3335 Victory Boulevard (Earl's Market site)		628,480	628,480
240 Beazley Drive		166,441	166,441
3336 Victory Boulevard (Burger King Parcel)		302,473	302,473
3345 Victory Boulevard (Chevron Property)		110,784	110,784
Total	\$	9,835,033	9,518,793

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(7) LEASES

As Lessor

Previously, the city redeveloped a tract of land to further economic development and enhancement of the city's downtown and waterfront areas through the development of a hotel and conference center with accompanying parking. A 250-room, first class, full-service destination hotel is currently owned by Ashford Hospitality Trust and operated by Remington Hospitality Services. The owner is leasing the air rights that the hotel is built on from the Authority. The conference center is being leased to and operated by the hotel owner. The parking garage is also being operated by the hotel owner.

Future minimum rental receipts from the rental of air rights and the conference center as of June 30, 2018 are as follows:

Fiscal Year Ended June 30, 2018	
2019	\$ 125,000
2020	125,000
2021	125,000
2022	125,000
2023	125,000
2024 - 2028	625,000
2029 - 2033	625,000
2034 - 2038	625,000
2039 - 2043	625,000
2044 - 2048	625,000
2049 - 2050	197,918
	<hr/>
	\$ 3,947,918

Rental income under the lease for air rights and the conference center was \$125,000 in both fiscal years ended June 30, 2018 and 2017, respectively. There was no additional income realized from the Hotel Garage Agreement by the Authority in years 2018 and 2017.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(8) LOCAL INCENTIVE AND BUSINESS RETENTION GRANTS

The Authority designates funds to provide financial incentives to encourage businesses to develop in Portsmouth. Businesses can apply for façade improvement grants, safety and security grants, and interior build-out grants. For the years ended June 30, 2018 and 2017, \$43,286 and \$98,006, respectively, was awarded to business owners. For the year ended June 30, 2018, another \$21,470 was approved for reimbursement upon completion of the improvements.

(9) RELATED PARTY TRANSACTIONS

The Commissioners of the Authority are appointed by the City Council. The city also provides the general administrative employees for the Authority. All expenses of the Authority are paid from a pooled cash fund held by the city, which resulted in \$82,721 and \$23,481 due to the city as of June 30, 2018 and 2017, respectively.

The Authority paid the city \$125,000 for the years ended June 30, 2018 and 2017 for the rental income from the air rights and the conference center disclosed in note 7.

The city contributed \$203,191 and \$105,361 for the years ended June 30, 2018 and 2017, respectively, to the Authority for real estate taxes on the North Pier site disclosed in note 5.

The city can donate land to the Authority for its disposition with the Authority retaining the proceeds from the sale unless the city requests that money be contributed back to the city. The city contributed property to the Authority in the amount of \$112,280 for the year ended June 30, 2018.

The Authority will pay the city \$42,156 in FY2019 for the city's portion of the sale of 3215 Academy Avenue.

The Authority obtained properties on the 1500 block of High Street from the Portsmouth Redevelopment and Housing Authority in August of 2017 with an assessed value of \$316,240.

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to the Basic Financial Statements
June 30, 2018 and 2017

(10) CONTINGENCIES AND POTENTIAL LITIGATION

There are no asserted claims against the Authority with the exception of the following:

The Authority is in arbitration regarding a property development contract. There is a potential for a settlement of approximately \$1.1 million to redeem some property. Since it presently is not possible to determine the outcome of this matter, no provision has been made in the financial statements for the ultimate resolution.

(11) SUBSEQUENT EVENTS

On July 17, 2018, the Authority approved the FIG application in the amount of \$23,502 received from Mr. Evan Harrell of Quantum Sales for his property located at 355 Broad Street.

**Report of Independent Auditor 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***

To the Board of Directors
Economic Development Authority of the city of Portsmouth, Virginia
Portsmouth, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Economic Development Authority of the city of Portsmouth, Virginia (the "Authority"), a component unit of the city of Portsmouth, Virginia, as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated October 11, 2018.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the 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 Authority'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control that, when combined, result in a material weakness, which is described in the accompanying schedule of findings as item 2018-001.

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 grants, 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 audits 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* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

Authority's Response to the Finding

The Authority's response to the finding identified in our audit is included in the *Schedule of Findings and Response*. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Cheryl Bekaert LLP

Virginia Beach, Virginia
October 11, 2018

**ECONOMIC DEVELOPMENT AUTHORITY
CITY OF PORTSMOUTH, VIRGINIA**

Schedule of Findings and Response
For the Fiscal Year Ended June 30, 2018

1) Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	Yes
Significant deficiencies identified:	None reported
Noncompliance material to the financial statements noted?	No

2) Finding Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding: 2018-001 – Completeness of Financial Records

Type of Finding: Material Weakness in Internal Control

Criteria:

To ensure yearly financial reports are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the Authority must have sufficient controls which are designed and operated to ensure that the Authority's financial records properly reflect all of the transactions entered into by the Authority on a continual basis.

Condition:

During our audit of the financial statements, we identified two instances where transactions entered into during the year were not properly reflected in the Authority's financial records.

- A stipulation during the July 2018 Board meeting under which the Authority's Board of Commissioners agreed to distribute a portion of the proceeds from the sale of land held for resale to the city but it was not reflected as an accrual at year end. This resulted in an understatement of liabilities and expenses of \$42,156.
- Twelve properties donated to the Authority by the Portsmouth Redevelopment and Housing Authority during the year were initially recorded with a combined book value of zero. GAAP requires donated assets to be recorded at the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. This resulted in an understatement of assets and revenues of \$316,240.

Cause:

Controls were not in place to ensure that all of the Authority's transactions were properly communicated and considered by and amongst the Authority and the city of Portsmouth, Virginia ("city").

Effect:

Until corrected, the Authority's financial statements and related records were materially misstated.

Auditor's Recommendation:

We recommend that the Authority implement a process to ensure that all transactions are communicated to the city's Finance Department in an appropriate and timely manner to ensure proper recording.

Management's Response:

Management agrees with the auditor's recommendation. New procedures will be put in place to ensure that all EDA transactions are reported timely and accurately.

3) Findings related to Compliance with Commonwealth of Virginia's Specifications

None