

PORTSMOUTH PORT AND INDUSTRIAL COMMISSION

Component Unit of the city of Portsmouth, Virginia

Years Ended June 30, 2019 and 2018
(With Report of Independent Auditor Thereon)

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

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
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INTRODUCTORY SECTION

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia

Commissioners

June 30, 2019

James E. Bento*.....Chairman

James E. Toups Vice-Chairman

Grant D. Reineberg... Treasurer

Robert D. Moore**.....Secretary

Brian Donahue**.....Assistant Secretary

Ronald R. Peterman. Commissioner

Edward A. Barham..... Commissioner

Guy T. Wallace Commissioner

* Mr. Bento served as Chairman of the Commission for FY2019 but his term expired on December 31, 2018. He was replaced by Ms. Camille Cherry on June 26, 2019.

** Robert D. Moore and Brian Donahue are employees of the city and Director and Assistant Director, respectively, of the Department of Economic Development. They are not voting members of the Commission.

FINANCIAL SECTION

Report of Independent Auditor

To the Board of Directors
Portsmouth Port and Industrial Commission
Portsmouth, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Portsmouth Port and Industrial Commission (the "Commission"), a component unit of the city of Portsmouth, Virginia, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Commission'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 Commission'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 Commission'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 Commission, as of June 30, 2019 and 2018, and the changes in its financial position and its 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 an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The List of Commissioners is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The List of Commissioners 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 September 27, 2019, on our consideration of the Commission'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 Commission'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 Commission's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cheryl Bekaert LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
September 27, 2019

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Management's Discussion and Analysis
June 30, 2019 and 2018

This section of the Portsmouth Port and Industrial Commission's ("the Commission") annual financial report presents Management's Discussion and Analysis (MD&A) of the Commission's financial performance during the fiscal years ended June 30, 2019 and 2018. The MD&A should be read in conjunction with the financial statements and footnotes that follow this section.

Financial Highlights

In December 2018, the bond purchase and financing agreement among the Commission, Young Men's Christian Association of South Hampton Roads (as successor to the YMCA of Portsmouth) and TowneBank relating to \$2,450,000 Bank Qualified Revenue Bond, Series 2015 was amended. Due to significant modifications to its interest rate provisions, the bond has been reissued for purposes of Treasury Regulations Section 1.1001-3 and such modifications result in a current refunding of the Series 2015 bond dated April 28, 2015.

At the close of the current fiscal year, the Commission reported a net decrease of \$5,831.

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 Commission 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 Commission.

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Management's Discussion and Analysis
June 30, 2019 and 2018

Financial Analysis

Net Position

The following table reflects the condensed net position:

Table 1			
Summary of Net Position			
As of June 30, 2019, 2018, and 2017			
	2019	2018	2017
Assets:			
Current assets	\$ 1,046,866	1,053,363	1,097,723
Other assets	<u>453,638</u>	<u>453,638</u>	<u>453,638</u>
Total assets	<u>1,500,504</u>	<u>1,507,001</u>	<u>1,551,361</u>
Liabilities:			
Current liabilities	<u>807</u>	<u>1,473</u>	<u>30,396</u>
Total liabilities	<u>807</u>	<u>1,473</u>	<u>30,396</u>
Net position - unrestricted	<u>1,499,697</u>	<u>1,505,528</u>	<u>1,520,965</u>
Total liabilities and net position	\$ <u>1,500,504</u>	<u>1,507,001</u>	<u>1,551,361</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 Commission, assets exceeded liabilities by \$1.5 million in FY2019, FY2018, and FY2017.

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Management's Discussion and Analysis
June 30, 2019 and 2018

Revenues, Expenses, and Changes in Net Position

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

Table 2

**Summary of Statement of Revenues, Expenses, and Change in Net Position
Years Ended June 30, 2019, 2018, and 2017**

	2019	2018	2017
Other operating income	\$ 500	2,215	2,180
Total operating income	500	2,215	2,180
Operating expenses	9,163	19,009	36,655
Operating loss	(8,663)	(16,794)	(34,475)
Net nonoperating revenues	2,832	1,357	4,230
Changes in net position	(5,831)	(15,437)	(30,245)
Net position, beginning of year	1,505,528	1,520,965	1,551,210
Net position, end of year	\$ 1,499,697	1,505,528	1,520,965

The total net position at June 30, 2019 was \$1,499,967, decreased by \$5,831 from fiscal year 2018 and by \$21,268 from fiscal year 2017.

Operating expenses consisted of contractual services and economic and business development costs.

The Commission's nonoperating revenues from investment income for the years ended June 30, 2019, 2018, and 2017 were \$2,832, \$1,357, and \$4,230, respectively.

Contacting the Commission's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Portsmouth Port and Industrial Commission, 200 High St., Suite 200, Portsmouth Virginia 23704 or call at 757.393.8804.

BASIC FINANCIAL STATEMENTS

PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA

Component Unit of the city of Portsmouth, Virginia
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets:		
Current assets:		
Cash (note 2)	\$ 1,046,866	1,050,787
Industrial revenue bond fees (note 3)	-	2,576
Total current assets	1,046,866	1,053,363
Other assets:		
Property held for resale (note 4)	453,638	453,638
Total other	453,638	453,638
Total assets	\$ 1,500,504	1,507,001
Liabilities and net position:		
Due to city (note 5)	\$ 807	1,473
Total current liabilities	807	1,473
Net position:		
Unrestricted	1,499,697	1,505,528
Total net position	1,499,697	1,505,528
Total liabilities and net position	\$ 1,500,504	1,507,001

PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
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, 2019 and 2018

	2019	2018
Operating revenues:		
Industrial revenue bonds	\$ -	2,215
Miscellaneous revenue	500	-
Total operating revenues	500	2,215
Operating expenses:		
Contractual services	6,250	6,000
Development properties	-	10,746
Economic/business development	1,105	750
Insurance	614	614
Other	1,194	899
Total operating expenses	9,163	19,009
Operating loss	(8,663)	(16,794)
Nonoperating revenues:		
Investment income	2,832	988
Investment income – PER Properties	-	369
Total nonoperating revenues	2,832	1,357
Changes in net position	(5,831)	(15,437)
Net position, beginning of year	1,505,528	1,520,965
Net position, end of year	\$ 1,499,697	1,505,528

PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA

Component Unit of the city of Portsmouth, Virginia
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers	\$ 3,076	-
Payments to suppliers	(9,829)	(47,932)
Net cash used in operating activities	(6,753)	(47,932)
Cash flows from investing activities:		
Interest received	2,832	1,357
Collections on notes receivable	-	73,746
Net cash provided by investing activities	2,832	75,103
Net increase (decrease) in cash	(3,921)	27,171
Cash, beginning of year	1,050,787	1,023,616
Cash, end of year	\$ 1,046,866	1,050,787
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (8,663)	(16,794)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Industrial revenue bond fees receivable	2,576	(2,215)
Due to city	(666)	(28,923)
Net cash used in operating activities	\$ (6,753)	(47,932)

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to Basic Financial Statements
June 30, 2019 and 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Portsmouth Port and Industrial Commission (the “Commission”) is a political subdivision of the Commonwealth of Virginia established for the purpose of fostering and stimulating economic development in the various ports within 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 Commission is considered a component unit of the city, but has no component units.

Basis of Accounting

The Commission’s financial statements are presented using 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 revenue earned, expenses incurred, and change in net assets 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 Commission.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the Commission’s ongoing operations. Operating revenues include gain 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 Commission considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

Property Held for Resale

Property is stated at acquisition cost plus improvements, but not in excess of net realizable value. 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.

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to Basic Financial Statements
June 30, 2019 and 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Net Position

Net position may consist of the following components based on the extent of constraints upon the use of 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 are placed on the use of the resources are either externally imposed by creditors, grantors, or contributors, or law or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Commission first applies restricted resources when an expense is incurred for which both restricted and unrestricted net position is available.

Unrestricted – Consists of funds that are available for any purpose.

(2) CASH

At June 30, 2019 and 2018, the carrying values and bank balances of the Commission's deposits with banks and savings institutions were \$1,046,866 and \$1,050,787, respectively.

Deposits

All cash of the Commission is maintained in accounts collateralized 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.

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to Basic Financial Statements
June 30, 2019 and 2018

(3) INDUSTRIAL REVENUE BOND

Periodically, the Commission issues Industrial Revenue Bonds to 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 Commission is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

In December 2018, the bond purchase and financing agreement among the Commission, Young Men's Christian Association of South Hampton Roads and TowneBank was modified resulting in a current refunding of the Series 2015 bond.

As of June 30, 2019 and 2018, there was Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$2,124,159 and \$2,215,058, respectively.

As of June 30, 2019 and 2018, there was interest fees receivable related to the outstanding bonds of \$0 and \$2,576, respectively.

(4) PROPERTY HELD FOR RESALE

Property held for resale at June 30, 2019 and 2018 consists of the following:

	June 30, 2019	June 30, 2018
Burton's Point		
3920 Burton's Point	\$ 39,497	39,497
3930 Burton's Point	414,141	414,141
Total	\$ 453,638	453,638

In January 2019, an offer was provided to purchase 3920 Burton's Point for the assessed value of the property or \$411,000. As of the date of the financial statements, a formal agreement has not been entered into.

(5) RELATED PARTY TRANSACTIONS

The Commissioners of the Commission are appointed by the city. The city also provides the general and administrative employees for the Commission.

All expenses of the Commission are paid from a pooled cash fund held by the city, which resulted in amounts due to the city of \$807 on June 30, 2019 and \$1,473 on June 30, 2018.

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

Component Unit of the city of Portsmouth, Virginia
Notes to Basic Financial Statements
June 30, 2019 and 2018

(6) SUBSEQUENT EVENTS

On July 23, 2019, the Commissioners of the Commission approved a resolution awarding a matching grant of \$180,000 related to a \$180,000 grant from the Commonwealth of Virginia's Development Opportunity Fund based on an anticipated capital investment of \$60,000,000 and the creation of 60 new jobs with an annual salary of at least \$50,000.

**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
Portsmouth Port and Industrial Commission
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 Portsmouth Port and Industrial Commission (the "Commission"), a component unit of the city of Portsmouth, Virginia, as of and for the years ended June 30, 2019 and 2018, and have issued our report thereon dated September 27, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Commission'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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 Commission'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 a deficiency in internal control that resulted in a material weakness, which is described in the accompanying schedule of finding and response as item 2019-001.

Compliance and Other Matters

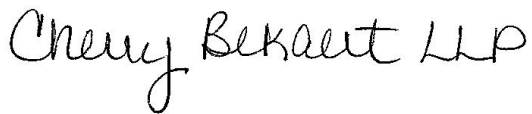
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect 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*.

Commission's Response to the Finding

The Commission's response to the finding identified in our audit is included in the schedule of finding and response. The Commission'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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Bekaert LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
September 27, 2019

**PORTSMOUTH PORT AND INDUSTRIAL COMMISSION
CITY OF PORTSMOUTH, VIRGINIA**

**Schedule of Finding and Response
Fiscal Year Ended June 30, 2019**

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

Finding: 2019-001 – Accuracy 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 ("U.S. GAAP"), the Commission must have sufficient controls designed and operated to ensure the Commission's financial records properly reflect all of the transactions entered into by the Commission on a continual basis.

Condition:

During our audit of the financial statements, we identified one instance where a transaction was not accurately reflected in the Commission's financial records. Specifically, a portion of an Economic Incentive grant was initially recorded as being due and payable at June 30, 2019. However, the requirements of the grant were not satisfied at June 30, 2019 and, therefore, the grant was not payable at that date. This resulted in an overstatement of liabilities and expenses of \$60,000.

Cause:

Controls were not in place to ensure all of the Commission's Economic Incentive Grant Agreements were properly examined in order to ensure accurate accounting treatment.

Effect:

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

Auditor's Recommendation:

We recommend the Commission review and examine Economic Incentive Grant Agreements more closely to ensure all necessary requirements have been met before liabilities and expenses are recorded.

Management's Response:

Management agrees with the auditor's recommendation. New procedures will be put in place to ensure Economic Incentive Grant liabilities and expenses are not recorded before underlying grant requirements have been met.

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

None reported