

# ECONOMIC DEVELOPMENT AUTHORITY CITY OF PORTSMOUTH, VIRGINIA

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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

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

Component Unit of the city of Portsmouth, Virginia

Table of Contents

June 30, 2019 and 2018

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**Page  
Number**

**Introductory Section**

|                             |   |
|-----------------------------|---|
| List of Commissioners ..... | i |
|-----------------------------|---|

**Financial Section**

|                                     |     |
|-------------------------------------|-----|
| Report of Independent Auditor ..... | 1-2 |
|-------------------------------------|-----|

|   |     |
|---|-----|
| Management's Discussion and Analysis - Required Supplementary Information ..... | 3-6 |
|---|-----|

Basic Financial Statements:

|   |       |
|---|-------|
| Statements of Net Position.....                                     | 7     |
| Statements of Revenues, Expenses, and Changes in Net Position ..... | 8     |
| Statements of Cash Flows.....                                       | 9     |
| Notes to Basic Financial Statements.....                            | 10-19 |

|  |       |
|--|-------|
| Report of Independent Auditor on Internal Control over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> ..... | 20-21 |
|--|-------|

## **INTRODUCTORY SECTION**

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

Component Unit of the city of Portsmouth, Virginia  
Commissioners  
June 30, 2019 and 2018

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Cathy Revell..... Chairman (July 2018 – May 2019)  
Don Scott ..... Chairman (June 2019)  
Kyle J. Kovachik..... Treasurer  
Robert D. Moore\* ..... Secretary  
Brian Donahue\* ..... Assistant Secretary  
Anthony W. Hinds ..... Commissioner  
Tracey Link..... Commissioner  
Ray A. Smith, Sr. .... Commissioner  
Malcom Mitchell..... Commissioner  
Jeffrey S. Miller ..... General Counsel  
Kelsey Swieringa ..... General Counsel

\* Denotes Robert D. Moore and Brian Donahue are employees of the city and they are the Director and Assistant Director of the Department of Economic Development. They are not voting members 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, 2019 and 2018, 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, 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 Authority's basic financial statements. The Introductory Section 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 September 30, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Virginia Beach, Virginia  
September 30, 2019

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

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

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This section of the Economic Development Authority's (the "Authority" or the "EDA") annual financial report presents Management's Discussion and Analysis (MD&A) of the Authority's financial performance during 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**

- On September 21, 2018, nineteen properties were transferred from the Portsmouth Redevelopment and Housing Authority ("PRHA"). The assessed value is \$952,930.
- On December 13, 2018, the EDA closed on the purchase of Victory Village. The purchase price of the property was \$5,123,929.
- On January 31, 2019, the EDA issued a five-year Revenue Note in the amount of \$5,217,000 with a true interest cost of 3.210212%. The proceeds were used to finance the acquisition of Victory Village.
- On April 23, 2019, the EDA closed on the purchase of a 3-acre parcel on Victory Blvd. adjacent to Victory Village. The purchase price of the property was \$817,740.
- The Local Incentive Program, formerly known as the Downtown Development Grant Program, awarded \$328,355 in grants during the fiscal year 2019.

**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, 2019 and 2018

**Financial Analysis**

*Net Position*

The following table reflects the condensed components of net position:

**Table 1**

**Summary of Net Position**

**As of June 30, 2019, 2018, and 2017**

|                                    | 2019          | 2018       | 2017       |
|------------------------------------|---------------|------------|------------|
| Assets:                            |               |            |            |
| Current assets                     | \$ 1,600,408  | 1,954,452  | 1,999,276  |
| Capital assets                     | 1,205,661     | 1,205,661  | 1,205,661  |
| Other assets                       | 16,732,979    | 11,158,202 | 10,637,603 |
| Total assets                       | 19,539,048    | 14,318,315 | 13,842,540 |
| Liabilities:                       |               |            |            |
| Current liabilities                | 158,412       | 141,240    | 53,938     |
| Revenue Note, Series 2019          | 5,217,000     | -          | -          |
| Total liabilities                  | 5,375,412     | 141,240    | 53,938     |
| Net position:                      |               |            |            |
| Net investment in capital assets   | 1,205,661     | 1,205,661  | 1,205,661  |
| Restricted                         | -             | 1,323,169  | 1,118,810  |
| Unrestricted                       | 12,957,975    | 11,648,245 | 11,464,131 |
| Total net position                 | 14,163,636    | 14,177,075 | 13,788,602 |
| Total liabilities and net position | \$ 19,539,048 | 14,318,315 | 13,842,540 |

As of June 30, 2019, the EDA reported total assets of \$19.5 million, which is \$5.2 million more than the fiscal year 2018 and \$5.7 million more than the fiscal year 2017. The increase is primarily due to the purchase of Victory Village.

At the end of the fiscal year 2019, total liabilities were \$5.4 million, an increase of \$5.2 million and \$5.3 million over the fiscal years 2018 and 2017 due to the issuance of a Revenue Note.

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, 2019, \$14.2 million as of June 30, 2018, and \$13.8 million as of June 30, 2017 primarily due to \$16.7 million (FY 2019), \$11.2 million (FY 2018) and \$10.6 million (FY 2017) in other assets. Approximately \$1.2 million reflects the Authority's investment in capital assets, which are unavailable for future spending, as of June 30, 2019, 2018, and 2017.

**ECONOMIC DEVELOPMENT AUTHORITY  
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 condensed revenues, expenses, and changes in net position:

**Table 2**

**Summary of Changes in Net Position**

**Years Ended June 30, 2019, 2018, and 2017**

|                                      | <b>2019</b>   | <b>2018</b> | <b>2017</b> |
|--------------------------------------|---------------|-------------|-------------|
| Loss on sale of land                 | \$ -          | (20,124)    | -           |
| Other operating revenues             | 126,342       | 125,567     | 125,647     |
| Total operating revenues             | 126,342       | 105,443     | 125,647     |
| Operating expenses                   | 678,120       | 141,227     | 396,786     |
| Operating loss                       | (551,778)     | (35,784)    | (271,139)   |
| Net nonoperating revenues (expenses) | 538,339       | 424,257     | (115,190)   |
| Change in net position               | (13,439)      | 388,473     | (386,329)   |
| Net position, beginning of year      | 14,177,075    | 13,788,602  | 14,174,931  |
| Net position, end of year            | \$ 14,163,636 | 14,177,075  | 13,788,602  |

Total net position decreased by \$13,439 for the fiscal year ended June 30, 2019. Net position increased by \$388,473 and decreased by \$386,329 for the fiscal years ended June 30, 2018 and 2017, respectively. For the fiscal year ended June 30, 2019, the decrease was primarily the result of writing off real estate taxes receivable on the North Pier Site due to the termination of the agreement and increased landscaping and maintenance costs related to development properties. 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, 2019, 2018, and 2017, 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, 2019 and 2018

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**Long-term debt**

During the fiscal year 2019, the Authority issued a five-year Revenue Note in the amount of \$5,217,000. At the end of the current fiscal year, the \$5,217,000 remains outstanding.

Additional information on the Authority's long-term debt can be found in Note 5 of the financial statements.

**Economic Outlook**

The Authority's mission is to attract, retain, and expand high quality industry and business to create a stable, diverse tax base and economy; thereby, creating jobs and improving the standard of living for the citizens of Portsmouth. The outlook for the current and prospective fiscal periods is continued modest revenue growth in these high quality industries; thereby, creating additional job opportunities.

**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 St., 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, 2019 and 2018

|                                      | 2019          | 2018       |
|--------------------------------------|---------------|------------|
| <b>Assets:</b>                       |               |            |
| Current assets:                      |               |            |
| Cash (note 2)                        | \$ 1,600,340  | 1,954,452  |
| Accounts receivable                  | 68            | -          |
| Total current assets                 | 1,600,408     | 1,954,452  |
| Capital assets: (note 4)             |               |            |
| Land and air rights                  | 1,205,661     | 1,205,661  |
| Total capital assets                 | 1,205,661     | 1,205,661  |
| Other assets:                        |               |            |
| Restricted cash (note 6)             | -             | 1,007,087  |
| Restricted receivable (note 10)      | -             | 316,082    |
| Security deposit receivable          | 4,016         | -          |
| Property held for resale (note 7)    | 16,728,963    | 9,835,033  |
| Total other assets                   | 16,732,979    | 11,158,202 |
| Total assets                         | \$ 19,539,048 | 14,318,315 |
| <b>Liabilities and net position:</b> |               |            |
| Current liabilities:                 |               |            |
| Accounts payable                     | \$ 24,393     | 11,363     |
| Accrued interest                     | 69,777        | -          |
| Unearned revenues                    | 10,417        | -          |
| Deposits – other                     | -             | 5,000      |
| Due to the city (note 10)            | 53,825        | 124,877    |
| Total current liabilities            | 158,412       | 141,240    |
| Long term liabilities:               |               |            |
| Revenue note, Series 2019 (note 5)   | 5,217,000     | -          |
| Total long term liabilities          | 5,217,000     | -          |
| Total liabilities                    | 5,375,412     | 141,240    |
| <b>Net position:</b>                 |               |            |
| Net investment in capital assets     | 1,205,661     | 1,205,661  |
| Restricted                           | -             | 1,323,169  |
| Unrestricted                         | 12,957,975    | 11,648,245 |
| Total net position                   | 14,163,636    | 14,177,075 |
| Total liabilities and net position   | \$ 19,539,048 | 14,318,315 |

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, 2019 and 2018

|                                       | 2019          | 2018       |
|---------------------------------------|---------------|------------|
| Operating revenues:                   |               |            |
| Land sales                            | \$ -          | 92,156     |
| Cost of land sold (note 10)           | -             | (112,280)  |
| Loss on sale of land                  | -             | (20,124)   |
| Rental income (note 8)                | 125,000       | 125,000    |
| Industrial revenue bond fees          | 533           | 537        |
| Miscellaneous income                  | 809           | 30         |
| Net operating revenues                | 126,342       | 105,443    |
| Operating expenses:                   |               |            |
| Contractual services                  | 21,975        | 9,670      |
| Economic/business development         | 57,370        | 2,618      |
| Utilities                             | 13,025        | 12,521     |
| Development properties                | 569,823       | 105,734    |
| Other expenses                        | 15,927        | 10,684     |
| Total operating expenses              | 678,120       | 141,227    |
| Operating loss                        | (551,778)     | (35,784)   |
| Nonoperating revenues (expenses):     |               |            |
| Local development grants (note 9)     | (155,703)     | (43,286)   |
| Investment income                     | 21,210        | 2,988      |
| Contributions to the city (note 10)   | (125,000)     | (167,156)  |
| Contributions from the city (note 10) | -             | 315,471    |
| Interest expense                      | (69,777)      | -          |
| Cost of issuance                      | (85,321)      | -          |
| Contributions from PRHA (note 10)     | 952,930       | 316,240    |
| Net nonoperating revenues             | 538,339       | 424,257    |
| Change in net position                | (13,439)      | 388,473    |
| Net position, beginning of year       | 14,177,075    | 13,788,602 |
| Net position, end of year             | \$ 14,163,636 | 14,177,075 |

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, 2019 and 2018

|   | 2019           | 2018      |
|---|----------------|-----------|
| Cash flows from operating activities:   |                |           |
| Receipts from customers   | \$ 122,258     | 135,984   |
| Receipts from land sales  | -              | 92,156    |
| Cash paid for land purchases  | (5,941,000)    | -         |
| Payments to suppliers   | (414,643)      | (86,081)  |
| Net cash provided by (used in) operating activities   | (6,233,385)    | 142,059   |
| Cash flows from noncapital financing activities:  |                |           |
| Payments to city of Portsmouth  | (125,000)      | (125,000) |
| Downtown development grants   | (155,703)      | (53,286)  |
| Net cash used in noncapital financing activities  | (280,703)      | (178,286) |
| Cash flows from capital financing activities:   |                |           |
| Proceeds from revenue note  | 5,217,000      | -         |
| Cash paid for issuance cost   | (85,321)       | -         |
| Cash received from escrow funds   | 1,007,087      | -         |
| Cash deposited in or reinvested in escrow   | -              | (1,168)   |
| Net cash provided by (used) in capital financing activities                                     | 6,138,766      | (1,168)   |
| Cash flows from investing activities:   |                |           |
| Interest received   | 21,210         | 2,988     |
| Net cash provided by investing activities   | 21,210         | 2,988     |
| Net decrease in cash  | (354,112)      | (34,407)  |
| Cash, beginning of the year   | 1,954,452      | 1,988,859 |
| Cash, end of the year   | \$ 1,600,340   | 1,954,452 |
| Reconciliation of operating loss to net cash provided by (used in) operating activities:        |                |           |
| Operating loss  | \$ (551,778)   | (35,784)  |
| Direct write off of restricted receivable   | 316,082        | -         |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: |                |           |
| Changes in assets and liabilities:  |                |           |
| Accounts receivable   | (68)           | 10,417    |
| Security deposit receivable   | (4,016)        | -         |
| Property held for resale  | (5,941,000)    | 112,280   |
| Due to the city   | (71,052)       | 59,240    |
| Accounts payable  | 13,030         | (4,094)   |
| Deposits payable  | (5,000)        | -         |
| Other liabilities   | 10,417         | -         |
| Net cash provided by (used in) operating activities   | \$ (6,233,385) | 142,059   |
| Significant noncash transactions:   |                |           |
| Transfer of properties from city  | \$ -           | 112,280   |
| Contributions of properties from PRHA   | 952,930        | 316,240   |
| Total significant noncash transactions  | \$ 952,930     | 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 Basic Financial Statements  
June 30, 2019 and 2018

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Economic Development Authority of the city of Portsmouth (the “Authority” and the “EDA”) 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 for financial statement purposes and, as such, will be a blended component unit in the Comprehensive Annual Financial Report of the city of Portsmouth. Future funding and ongoing cash flows of the Authority are dependent on the city. In evaluating how to define the Authority, for financial reporting purposes, management has determined that there are no entities over which the Authority exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Authority. Since the Authority does not exercise significant influence or accountability over other entities, it 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 Basic Financial Statements  
June 30, 2019 and 2018

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**(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 Basic Financial Statements  
June 30, 2019 and 2018

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**(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 that available for any purpose.

**(2) CASH**

At June 30, 2019 and 2018, the carrying values and bank balances of the Authority's deposits with banks and savings institutions are \$1,600,340 and \$1,954,452, 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 Basic Financial Statements  
June 30, 2019 and 2018

**(3) CONDUIT DEBT - 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, 2019 and 2018, there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$2,571,845 and \$2,685,640, respectively.

|                                | 2019         | 2018      |
|--------------------------------|--------------|-----------|
| Places & Programs for Children |              |           |
| 10/1/2007                      | \$ 2,571,845 | 2,685,640 |
|                                | \$ 2,571,845 | 2,685,640 |

**(4) CAPITAL ASSETS**

Capital assets as of June 30, 2019 and 2018 consist of the following:

|  | Balance<br>June 30, 2018 | Additions | Deletions | Balance<br>June 30, 2019 |
|--|--------------------------|-----------|-----------|--------------------------|
| 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 Basic Financial Statements  
June 30, 2019 and 2018

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**(5) LONG-TERM DEBT**

In January 2019, the Authority issued a five-year Revenue Note in the amount of \$5,217,000 with a true interest cost of 3.21%. Proceeds were used to finance the acquisition of property in the Victory Crossing area and issuance costs.

The following table summarizes the authority's future debt service requirements:

|                       | <b>Principal</b>    | <b>Interest</b> | <b>Debt<br/>Service</b> |
|-----------------------|---------------------|-----------------|-------------------------|
| Years ending June 30: |                     |                 |                         |
| 2020                  | \$ -                | 160,488         | 160,488                 |
| 2021                  | -                   | 167,466         | 167,466                 |
| 2022                  | -                   | 167,466         | 167,466                 |
| 2023                  | -                   | 167,465         | 167,465                 |
| 2024                  | 5,217,000           | 167,465         | 5,384,465               |
|                       | <b>\$ 5,217,000</b> | <b>830,350</b>  | <b>6,047,350</b>        |

**(6) RESTRICTED CASH**

As of June 30, 2019 and 2018, cash held in escrow was \$0 and \$1,007,087, respectively. Cash held in escrow was from the sale of 800 Crawford Street to The Breeden Company and interest earned. As agreed in the purchase and sale agreement, the cash would be held in escrow and would be applied to the infrastructure cost for the future development of the North Pier site. The Agreement between the Breeden Investment Properties and the EDA was terminated in March 2019. The escrow account was subsequently closed and the funds transferred to the TowneBank account.

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

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

**(7) PROPERTY HELD FOR RESALE**

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

|   | <b>June 30, 2019</b> | <b>June 30, 2018</b> |
|---|----------------------|----------------------|
| <b>Downtown</b>                             |                      |                      |
| 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              | 316,240              |
| <b>Victory</b>                              |                      |                      |
| 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)                   | 817,740              | -                    |
| 0 Village Way (05240024) including:         | 5,123,260            | -                    |
| 111 Campus Drive (05240025)                 |                      |                      |
| 0 Freedom Ave (05240026)                    |                      |                      |
| 271 Freedom Ave (05240027)                  |                      |                      |
| 175 Freedom Ave (05240028)                  |                      |                      |
| 350 John T. Casteen III Dr. (05240029)      |                      |                      |
| 3606 Victory Blvd (05240030)                |                      |                      |
| 0 Village Way (05240034)                    | 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              |
| Properties from PRHA:                       |                      |                      |
| 801 High Street                             | 58,610               | -                    |
| 504 High Street                             | 21,270               | -                    |
| 508 Effingham Street                        | 21,270               | -                    |
| 510 Effingham Street                        | 7,550                | -                    |
| 512 Effingham Street                        | 7,550                | -                    |
| 514 Effingham Street                        | 7,550                | -                    |
| 516 Effingham Street                        | 9,600                | -                    |
| 518 Effingham Street                        | 12,350               | -                    |
| 602 Fifth Street                            | 233,730              | -                    |

Continued

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

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

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**(7) PROPERTY HELD FOR RESALE (Continued)**

|                       | <b>June 30, 2019</b> | <b>June 30, 2018</b> |
|-----------------------|----------------------|----------------------|
| 0 London Blvd.        | 240,660              | -                    |
| 1047 London Blvd.     | 13,060               | -                    |
| 1020 High Street      | 63,790               | -                    |
| 833 High Street       | 115,330              | -                    |
| 3002 Deep Creek Blvd. | 26,950               | -                    |
| 3006 Deep Creek Blvd. | 25,410               | -                    |
| 1506 High Street      | 16,040               | -                    |
| 1100 High Street      | 56,210               | -                    |
| 466 Primrose          | 8,450                | -                    |
| 470 Primrose          | 7,550                | -                    |
| <b>Total</b>          | <b>\$ 16,728,963</b> | <b>9,835,033</b>     |

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

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

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**(8) 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 and operated by Shamin Hotels. 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, 2019 are as follows:

| <u>Fiscal Years Ended June 30,</u> |                     |
|------------------------------------|---------------------|
| 2020                               | \$ 125,000          |
| 2021                               | 125,000             |
| 2022                               | 125,000             |
| 2023                               | 125,000             |
| 2024                               | 125,000             |
| 2025 - 2029                        | 625,000             |
| 2030 - 2034                        | 625,000             |
| 2035 - 2039                        | 625,000             |
| 2040 - 2044                        | 625,000             |
| 2045 - 2049                        | 625,000             |
| 2050                               | 72,918              |
|                                    | <u>\$ 3,822,918</u> |

Rental income under the lease for air rights and the conference center was \$125,000 in fiscal years ended June 30, 2019 and 2018, respectively. There was no additional income realized from the Hotel Garage Agreement by the Authority in years 2019 and 2018.

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

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

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**(9) 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, 2019 and 2018, \$155,703 and \$53,286, respectively, was paid to business owners. The Authority may, at times, approve local incentive grants that are not paid out by the end of the fiscal year. This is due to language that has been written into the agreements that requires certain tasks to be completed before the grants are paid. Due to uncertainties surrounding the completion of future contract requirements, a liability was not recorded in relation to the grants as of June 30, 2019 or 2018.

**(10) 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 \$53,825 and \$82,721 due to the city as of June 30, 2019 and 2018, respectively. The Authority also owed the city \$42,156 at June 30, 2018 for the city's portion of the sale of 3215 Academy Avenue. This amount was paid to the City during the year ended June 30, 2019.

The Authority paid the city \$125,000 for each of the years ended June 30, 2019 and 2018 for the rental income from the Hotel Garage Agreement disclosed in note 8.

During the year ended June 30, 2019, Breeden Development terminated the agreement for the North Pier Development. The original agreement stated that the City would pay to EDA the amount of real estate taxes that Breeden paid on the Crawford St. parcel in order to offset the development costs at the North Pier site. For the year ended June 30, 2018, the City contributed \$203,191 to the Authority for real estate taxes on the North Pier site. At June 30, 2018, the City recognized a restricted receivable from the city related to the real estate taxes of \$316,082, which included contributions from prior years. When the development agreement terminated, EDA was no longer eligible to receive the real estate taxes paid by Breeden Development on the Crawford St. parcel. At June 30, 2019, the \$316,082 restricted receivable from the City has been written off and no tax income is due from the City going forward. The direct write off of the restricted receivable is being included in development properties expense on the Statement of Revenues, Expenses, and Changes in Net Position.

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 amounts of \$0 and \$112,280 for the years ended June 30, 2019 and 2018, respectively.

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

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

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**(10) RELATED PARTY TRANSACTIONS (CONTINUED)**

The Authority obtained 19 properties in September of 2018 from the Portsmouth Redevelopment and Housing Authority with an assessed value of \$952,930. The Authority also 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.

**(11) CONTINGENCIES AND POTENTIAL LITIGATION**

There are no asserted claims against the Authority.

**(12) SUBSEQUENT EVENTS**

On July 16, 2019, the following actions were taken by the EDA's Board of Commissioners:

- The Authority approved an extension of the Feasibility Period for the residential development of 409 McLean Street. The Resolution adopted on May 21, 2019 authorized the extension of the Feasibility Period under the Agreement through August 1, 2019. It is in the interest of all parties to extend the Feasibility Period through September 18, 2019.
- The Authority approved an amendment of existing agreements and documents related to Ocean Yacht with regard to selling an existing Repair Property. The Chair and Vice Chair are each authorized to execute the agreements and documents in accordance with the Resolution.
- The Authority determined the optimal use of the Victory Site to be for the development of a centrally-located entertainment district to include casino gaming. Staff was authorized and directed to market the Victory Site for development of an entertainment district to include casino gaming.

**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, 2019 and 2018, and have issued our report thereon dated September 30, 2019.

**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.

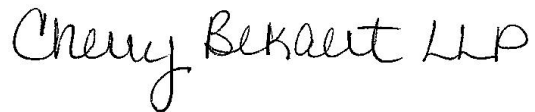
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

**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.

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

Virginia Beach, Virginia  
September 30, 2019