

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Annual Financial Report
For the Year Ended June 30, 2020**

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Directory of Officials
June 30, 2020**

Board of Directors

Douglas L. Sbertoli, Chairman

Hugh D. Keogh, Vice Chairman

Dr. James A. Shultz, Secretary/Treasurer

Ray D'Aguanno

Tracy Kemp Stallings

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
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Report of Independent Auditor

To the Board of Directors
Watkins Centre Community Development Authority
Chesterfield, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Watkins Centre Community Development Authority (the "Authority"), a component unit of the County of Chesterfield, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt About the Authority's Ability to Continue as a Going Concern

As discussed in Note 8 to the financial statements, during the current fiscal year, the Authority made the final principal payment on the Series 2007 Bonds. At that point, the Authority had fulfilled and completed its responsibilities. The dissolution and termination of the Authority will take place in fiscal year 2021. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Board of Directors is presented for purposes of additional information and is not a required part of the basic financial statements. The Board of Directors has not been subjected to the auditing procedures applied in the audit 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 28, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Richmond, Virginia
September 28, 2020

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Management's Discussion and Analysis (Unaudited)
June 30, 2020**

This section of the Watkins Centre Community Development Authority's (the "Authority") Annual Financial Report presents our management's discussion and analysis of the Authority's financial performance, as of and during the fiscal year ended June 30, 2020. Please read it in conjunction with the Authority's financial statements and notes thereto, which follow this section.

The Authority

The Authority, a political subdivision of the Commonwealth of Virginia, (the "Commonwealth") was created on August 23, 2006 pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2, Code of Virginia. The Authority was created to finance, plan, acquire, and construct transportation infrastructure improvements within or benefiting the Watkins Centre Development District (the "District"). Revenue bonds in the aggregate amount of \$20 million were sold on November 6, 2007 to finance the project.

Fiscal Year 2020 Financial Highlights

- Total net position increased \$1,256,361 (124.1%) to \$243,767.
- Revenues decreased \$1,672,909 (54.3%) to \$1,408,123.
- Expenses decreased \$157,546 (50.9%) to \$151,762.
- Bond interest in the amount of \$163,620 was paid.
- Bond principal of \$3,030,000 was paid.

Overview of Annual Financial Report

The Authority's annual financial report consists of two parts - management's discussion and analysis (this section, which is unaudited) and the audited financial statements. The governmental activities are reported through government-wide and governmental fund financial statements.

Government-wide Financial Statements. The government-wide financial statements provide readers with a broad view of the Authority's finances using the accrual basis of accounting in a manner similar to that of a private-sector business. The *Statement of Net Position (Deficit)* presents information on all assets and liabilities, with the difference reported as net position (deficit). Over time, increases or decreases in net position (deficit) may serve as a useful indicator of whether the financial status of the Authority is improving or deteriorating. The *Statement of Activities* presents information that shows how the Authority's net position (deficit) changed during the fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will have actual cash flows in a future fiscal period.

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Governmental Fund Financial Statements. The governmental fund financial statements reinforce the information provided in the government-wide financial statements by providing a narrower focus. The governmental fund financial statements, using the modified accrual basis of accounting, look at near-term inflows and outflows of spendable resources and the available balances of those resources at the end of the fiscal year. The *Balance Sheet* reports the Authority's fund balance as of the fiscal year-end. Fund balance information is useful when evaluating the Authority's near-term financing requirements. The *Statement of Revenues, Expenditures, and Changes in Fund Balance* is the statement of activities for the governmental fund. Consistent with the current financial resources measurement focus, this financial statement reports expenditures rather than expenses. To facilitate comparison, reconciliations are presented for the governmental fund *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balance* to the government-wide financial statements.

Notes to the Financial Statements. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and governmental fund financial statements.

Financial Analysis of the Authority

Government-wide financial analysis. The Authority's assets exceeded liabilities by \$243,767 at the close of the most recent fiscal year. The Authority remitted a bond principal payment in the amount of \$3,030,000, which was the final payment of the Authority's outstanding long-term debt. The Authority's deficit net position decreased by \$1,256,361 (124.1%) during fiscal year 2020 to a net position of \$243,767 (see Table 1).

**Table 1
Condensed Summary of Net Position
As of June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Current and other assets	\$250,672	\$ 2,077,889
Current and other liabilities	<u>6,905</u>	<u>3,090,483</u>
Net position – unrestricted (deficit)	<u>\$243,767</u>	<u>\$(1,012,594)</u>

The Authority's total revenues decreased from the prior year by \$1,672,909 (54.3%) to \$1,408,123. Approximately 97.7% of the Authority's revenues came from incremental taxes and 2.3% came from interest income. The County of Chesterfield, Virginia (the "County") has committed to remit District related incremental tax and special assessment revenues collected by the County to the Authority. The Authority's total expenses decreased from the prior year by \$157,546 (50.9%) to \$151,762. Approximately 72.5% of the Authority's expenses relate to bond interest and 27.5% to administrative expenses (see Table 2).

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Management's Discussion and Analysis (Unaudited)
June 30, 2020**

**Table 2
Condensed Summary of Changes in Net Position
For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Expenses:		
General government		
Administrative	\$ 41,773	\$ 44,215
Bond interest	<u>109,989</u>	<u>265,093</u>
Total expenses	<u>151,762</u>	<u>309,308</u>
General revenues:		
Incremental taxes	1,375,160	1,297,326
Special assessments	-	1,720,002
Interest income	<u>32,963</u>	<u>63,704</u>
Total general revenues	<u>1,408,123</u>	<u>3,081,032</u>
Change in net position	1,256,361	2,771,724
Net position (deficit) – beginning of year	<u>(1,012,594)</u>	<u>(3,784,318)</u>
Net position (deficit) – end of year	\$ <u>243,767</u>	\$ <u>(1,012,594)</u>

Key elements contributing to these results are as follows:

- Revenues decreased \$1,672,909 (54.3%). Incremental taxes were sufficient to retire the remaining debt outstanding and special assessments were not necessary during the current fiscal year.
- Expenses decreased by \$157,546 (50.9%) mainly due to less interest paid on the outstanding debt due to payments of bond principal during the fiscal year.

Governmental fund financial analysis. As previously noted, the focus of the governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. At the end of the current fiscal year, the Authority's governmental fund balance was \$243,283, a decrease of \$1,826,605 (88.2%) from prior year (see Table 3).

**Table 3
Condensed Summary of Fund Balance
As of June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Current and other assets	<u>\$250,188</u>	<u>\$2,076,740</u>
Current liabilities	\$ <u>6,905</u>	\$ <u>6,852</u>
Fund balance:		
Restricted	-	2,036,571
Assigned	<u>243,283</u>	<u>33,317</u>
Total fund balance	<u>243,283</u>	<u>2,069,888</u>
Total liabilities and fund balance	<u>\$250,188</u>	<u>\$2,076,740</u>

**WATKINS CENTRE
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The Authority's governmental fund total revenues decreased from the prior year by \$1,672,909 (54.3%) to \$1,408,123 and governmental fund total expenditures increased from the prior year by \$99,226 (3.2%) to \$3,234,728 (see Table 4).

**Table 4
Condensed Summary of Changes in Fund Balance
For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Revenues:		
Incremental taxes	\$ 1,375,160	\$1,297,326
Special assessments	-	1,720,002
Interest income	<u>32,963</u>	<u>63,704</u>
Total revenues	<u>1,408,123</u>	<u>3,081,032</u>
Expenditures:		
Administrative	41,108	44,924
Bond interest	163,620	313,578
Bond principal	<u>3,030,000</u>	<u>2,777,000</u>
Total expenditures	<u>3,234,728</u>	<u>3,135,502</u>
Decrease in fund balance	(1,826,605)	(54,470)
Fund balance – beginning of year	<u>2,069,888</u>	<u>2,124,358</u>
Fund balance – end of year	\$ <u>243,283</u>	\$ <u>2,069,888</u>

As previously noted under Table 2, the change in the Authority's revenues is mainly due to a decrease in special assessments. Special assessments were not levied during the current year.

Debt Administration and Capital Assets

On November 6, 2007, the Authority issued \$20,000,000 in revenue bonds to finance certain infrastructure improvements for the District. During the year, the Authority made the final principal payment on the Series 2007 Bonds in the amount of \$3,030,000. The Authority has fulfilled and completed its responsibilities and will begin the dissolution and termination of the Authority in fiscal year 2021. More information on the bonds and debt service requirements is presented in Note 4 of the notes to the financial statements.

The Authority has no capital assets. The Authority entered into an agreement with the Developer to develop plans for the facilities and to construct the infrastructure improvements. The Developer was required to ensure that the improvements were maintained in good and safe condition. Upon completion of the improvements, the Authority agreed that the Developer would transfer all rights, guarantees, maintenance obligations, or other evidence of contingent obligations of third persons with respect to the facilities to an applicable public entity, the County, or the Commonwealth.

**WATKINS CENTRE
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Management's Discussion and Analysis (Unaudited)
June 30, 2020**

Requests for Information

The purpose of this financial report is to provide interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For additional information or answers to questions, please contact the Chesterfield County Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Statement of Net Position
June 30, 2020**

Assets

Cash and cash equivalents (Note 3)	\$250,177
Prepaid expenses	484
Interest receivable	<u>11</u>
Total assets	<u>250,672</u>

Liabilities

Current liabilities:	
Accounts payable	<u>6,905</u>
Total liabilities	<u>6,905</u>

Net position	<u>\$243,767</u>
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See accompanying notes to the financial statements.

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**Statement of Activities
For the Year Ended June 30, 2020**

Expenses

General government – administrative	\$ 41,773
Bond interest expense (Note 4)	<u>109,989</u>
Total expenses	<u>151,762</u>

General revenues

Incremental taxes (Note 5)	1,375,160
Interest income	<u>32,963</u>
Total general revenues	<u>1,408,123</u>

Change in net position	1,256,361
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Net position

Beginning of year, (deficit)	<u>(1,012,594)</u>
End of year	\$ <u>243,767</u>

See accompanying notes to the financial statements.

**WATKINS CENTRE
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**Balance Sheet - Governmental Fund
June 30, 2020**

Assets

Cash and cash equivalents (Note 3)	\$250,177
Interest receivable	<u>11</u>
Total assets	<u>\$250,188</u>

Liabilities

Accounts payable	\$ <u>6,905</u>
Total liabilities	<u>6,905</u>

Fund Balance

Assigned	<u>243,283</u>
Total fund balance	<u>243,283</u>
 Total liabilities and fund balance	 <u>\$250,188</u>

Reconciliation of the Balance Sheet to the Statement of Net Position

Total Fund Balance	\$243,283
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Amounts reported for governmental activities in the Statement of
Net Position are different because:

Prepayment for future costs is deferred in the governmental activities, but is treated as an expenditure in the governmental fund.	<u>484</u>
 Net position of governmental activities	 <u>\$243,767</u>

See accompanying notes to the financial statements.

**WATKINS CENTRE
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**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2020**

Revenues:

Incremental taxes (Note 5)	\$ 1,375,160
Interest income	<u>32,963</u>
Total revenues	<u>1,408,123</u>

Expenditures:

General government – administrative	41,108
Debt service – interest (Note 4)	163,620
Debt service – principal (Note 4)	<u>3,030,000</u>
Total expenditures	<u>3,234,728</u>

Net change in fund balance	(1,826,605)
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Fund balance, July 1, 2019	<u>2,069,888</u>
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Fund balance, June 30, 2020	\$ <u>243,283</u>
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(Continued)

See accompanying notes to the financial statements.

**WATKINS CENTRE
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**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance to the Statement of Activities
For the Year Ended June 30, 2020**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balance – total governmental fund	\$ (1,826,605)
Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Position.	3,030,000
Prepaid expenses are reported as an expenditure in the governmental fund statements since current financial resources were used, whereas prepaid expenses are reported as an asset in the Statement of Net Position and has no effect on net position. This adjustment is the net change of prepaid expenses.	(665)
The governmental fund reports interest on long-term debt when it becomes due, whereas the interest is accrued and reported as a liability in the Statement of Net Position. This adjustment is the net change in accrued interest payable on long-term debt.	<u>53,631</u>
Change in net position of governmental activities	\$ <u>1,256,361</u>

See accompanying notes to the financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2020**

1. DESCRIPTION OF THE AUTHORITY AND ITS ACTIVITIES

The Watkins Centre Community Development Authority (the “Authority”), a political subdivision of the Commonwealth of Virginia (the “Commonwealth”), was created on August 23, 2006 pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2, Code of Virginia by the Board of Supervisors (the “Board”) of the County of Chesterfield, Virginia (the “County”). The Authority is governed by a board of five directors appointed by the Board. The Authority is presented as a component unit in the County’s Comprehensive Annual Financial Report (the “CAFR”).

The Authority was created for the purpose of financing, planning, acquiring, and constructing transportation infrastructure improvements within or benefiting the Watkins Centre Development District (the “District”). The District is located in the northwest quadrant of the County at the intersection of State Routes 288 and State Route 60. On August 26, 2009, the Board amended its ordinance that created the Authority to include two additional parcels in the District consisting of approximately 2.385 acres. The Authority’s improvements are part of a mixed-use development project that provides retail, commercial, and office components.

The County has committed to remit District related incremental tax and special assessment revenues collected to the Authority. The Authority has full control over all operations but must comply with certain bond indentures and trust agreements. The Authority made the final principal and interest payment on the Series 2007 Bonds during the year. Since the bonds were paid in full, the tax increment contribution plan expired and all subsequent incremental tax revenues shall be retained by the County.

The Authority engaged MuniCap, Inc., a public finance consulting firm, to perform financial and administrative duties required for the revenue bonds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Model

The financial statements presented for the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (the “GAAP”) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (the “GASB”). The Authority’s Annual Financial Report includes:

- Management’s Discussion and Analysis (the “MD&A”) (unaudited) – MD&A is required supplementary information that introduces the financial statements and provides an analytical overview of the Authority’s activities for the year. It describes the decisions or conditions that are expected to have a significant effect on financial positions or results of operations.

WATKINS CENTRE
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Notes to the Financial Statements
June 30, 2020

- Financial Statements – The financial statements include both government-wide and governmental fund statements and related notes. The notes are an integral part of the financial statements and communicate information that is essential for fair presentation of the financial statements that is not displayed on the face of the statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements consist of a Statement of Net Position and a Statement of Activities and reflect a full economic resources measurement focus and the accrual basis of accounting. The Statement of Net Position reports information about all assets and liabilities of the Authority, both current and long-term. The Statement of Activities measures the Authority's operations over the past year. All changes in revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Interest income, real estate, and sales tax increment revenues and special assessments are classified as general revenues and used to offset net expenses.

The governmental fund financial statements consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when both measurable and available and are considered available if received within 45 days after the end of the accounting period. Expenditures are recognized when the liability is incurred. The Balance Sheet measures only current assets and liabilities. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports only on the Authority's near-term inflows and outflows of spendable resources for the year.

Because government-wide and governmental fund financial statements are designed to present information from different perspectives, the governmental fund financial statements include a summary reconciliation between the governmental fund and government-wide statements.

The activities of the Authority and all financial resources are accounted for in the General Fund major governmental fund, which accounts for all financial resources, except those required to be accounted for in another fund.

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Notes to the Financial Statements
June 30, 2020**

- C. Cash Equivalents
The Authority considers all highly liquid investments with an original maturity of less than three months when purchased to be cash equivalents.
- D. Risk Management
The Authority maintains liability insurance for Public Officials/Directors and Officers exposure.
- E. Net Position and Fund Balance
Net position represents the difference between assets and liabilities and is reported as restricted when there are limitations imposed on the use of resources either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Amounts with no such restrictions are presented as unrestricted. Assigned fund balance represents amounts considered available for new spending at the direction of management.
- F. Income Taxes
The Authority is a governmental entity and, therefore, is exempt from federal and state income taxes.
- G. Administrative Functions
The County provides certain administrative services to the Authority.

3. DEPOSITS

As of June 30, 2020, the carrying value of the Authority's deposits with their respective credit ratings by Standard and Poor's ("S&P") and original maturities, was as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>	<u>Credit Rating</u>
Money market funds	<u>\$250,177</u>	July 1, 2020	AAAm

- A. Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Virginia Security for Public Deposits Act requires financial institutions holding public deposits in excess of amounts covered by Federal insurance to pledge collateral to a pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the requirements of the Act and for notifying local governments of compliance by banks and savings and loans. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Accordingly, all deposits in banks and savings and loans are considered to be insured.

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As required by State statute, the Policy requires that commercial paper, with a maturity of 270 days or less, shall be rated by at least two of the following: Moody's Investors Service, within its NCO/Moody's rating of prime 1, by Standard & Poor's, within its rating of "A-1", by Fitch Investor's Services, within its rating of "F-1", by Duff and Phelps, within its rating of "D-1", or by their corporate successors. Corporate notes, with a maturity of no more than five years, shall have a rating of at least "Aa" by Moody's Investors Service, and a rating of at least "AA" by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service, and for maturities over one year and not exceeding five years, a rating of at least "AA" by Standard & Poor's and "Aa" by Moody's Investor Service. Asset-backed securities with a duration of no more than five years and a rating of no less "AAA" by two rating agencies, one of which must be either Moody's Investors Service or Standard & Poor's.

B. Concentration of Credit Risk

The trust indenture establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 35% of the Authority's total funds available for investment may be invested in commercial paper and no more than 5% of the total funds available for investment may be invested in commercial paper from any one issuing corporation. As of June 30, 2020, excluding money market funds, the Authority had no investments.

C. Interest Rate Risk

Interest rate risk is the impact that fluctuations in market interest rates can have on the value of the Authority's investments. The Authority's funds are invested in money market funds as permitted in the trust indenture. Money market funds are considered cash equivalents and have an average maturity date of less than three months. As of June 30, 2020, excluding money market funds, the Authority had no investments.

D. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value or collateral securities that are in the possession of an outside party. Any investment held by an outside party will be held as agent for the benefit of the Trustee as fiduciary for the Authority and not for the bank serving as Trustee in its commercial capacity. As of June 30, 2020, \$177 of the Authority's \$250,177 demand deposits was exposed to custodial credit risk since the funds were invested in money market accounts that were

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uncollateralized and not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

E. Fair Value Measurements

GAAP has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is based on the valuation inputs used to measure the fair value of investments with Level 1 inputs being quoted prices in active markets for identical assets; Level 2 inputs being significant other observable inputs; and Level 3 inputs being significant unobservable inputs. As of June 30, 2020, excluding money market funds, the Authority had no investments.

4. **REVENUE BONDS**

On November 6, 2007, the Authority issued \$20 million in revenue bonds for the purpose of (1) financing certain transportation infrastructure for the District; (2) funding a debt service reserve fund; (3) funding payment of a portion of the interest on the bonds through March 1, 2009; (4) paying the costs of issuing the bonds; and (5) paying administrative expenses through March 1, 2009. The revenue bonds were limited obligations of the Authority secured by pledged revenues consisting of incremental tax revenues and special assessment revenues collected by the County. The bonds were repaid with the tax increment revenues and, to the extent tax increment revenues are not sufficient, special assessment revenues. As of June 30, 2020, there were no bonds outstanding.

The following is a summary of long-term debt transactions for the year ended June 30, 2020:

	Balance <u>June 30, 2019</u>	<u>Decrease</u>	Balance <u>June 30, 2020</u>
Bonds payable	\$3,030,000	\$3,030,000	<u> -</u>

For the year ended June 30, 2020, the Authority reported total bond interest expense of \$109,989, which includes \$163,620 interest paid on the bonds, less \$53,631 bond interest accrued in the prior year.

5. **INCREMENTAL TAXES AND SPECIAL ASSESSMENTS**

The revenue bonds were limited obligations of the Authority secured and payable from the Authority's right, title, and interest in pledged revenues collected by the County. The pledged revenue consists of tax increment revenues and special assessment revenues. The current year's pledged revenues were not impacted by the COVID-19 pandemic. Since the bonds were paid in full during the year, the tax increment contribution plan expired and all subsequent incremental tax revenues shall be retained by the County.

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Tax increment revenues are payments received by the Authority from appropriations by the Board, derived from:

- Real Property Tax Increments – The County will pay 64% of its ad valorem real property tax revenues (including roll back taxes, but not including special tax revenues) collected each calendar year on taxable property within the District that exceed the base amount collected in calendar year 2006 of \$82,000. Real property tax increment revenues are collected by the County by June 5 and December 5 each year to be remitted to the Authority by August 1 and February 1, respectively. For the year ended June 30, 2020, the County appropriated and remitted to the Authority \$1,128,006 in real property tax increments.
- Sales Tax Increments – The County will pay to the Authority 34% of its local portion of sales tax revenue collected each calendar year from retail establishments within the District. The County appropriates payments to the Authority in the fiscal year in which they are due. For the year ended June 30, 2020, the County appropriated and remitted to the Authority \$247,154 in sales tax revenues related to calendar year 2018.

Special assessment revenues are derived from special assessments levied and collected on all taxable real property within the District subject to special assessments. The total amount of special assessments equals the sum of the principal and interest due on the bonds plus administrative expenses less other amounts available for the payment of debt service and expenses, including incremental tax revenues. The special assessments are collected by the County in the same manner and at the same time as it collects ad valorem real property taxes, which is June 5 and December 5 each year. The special assessments are remitted to the Authority by August 1 and February 1, respectively. No special assessments were levied during the current fiscal year.

6. CLAIMS AND LAWSUITS

At June 30, 2020, there were no claims or lawsuits pending involving the Authority that are considered material to the Authority's financial statements.

7. RELATED PARTY TRANSACTIONS

The County provides certain administrative services to the Authority, which includes maintaining the general ledger, preparing financial statements, and coordinating the annual financial statement audit. During the year ended June 30, 2020, the Authority made payments of \$6,840 to the County.

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8. SUBSEQUENT EVENTS

During the current fiscal year, the Series 2007 Bonds were paid in full and the Authority has fulfilled and completed its responsibilities. The dissolution and termination of the Authority will take place in fiscal year 2021.

**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
Watkins Centre Community Development Authority
Chesterfield, 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 governmental activities and the major fund of the Watkins Centre Community Development Authority (the "Authority"), a component unit of the County of Chesterfield, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 28, 2020. Our report included an emphasis paragraph regarding the Authority's ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* 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 blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive style.

Richmond, Virginia
September 28, 2020