# PENINSULA TOWN CENTER
# COMMUNITY DEVELOPMENT AUTHORITY

## AUDITED FINANCIAL STATEMENTS
## AS OF JUNE 30, 2019 AND 2018

**CUSIP NUMBERS:**
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THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

# PENINSULA TOWN CENTER COMMUNITY DEVELOPMENT AUTHORITY

## ANNUAL FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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# I. *BOARD OF DIRECTORS*

Ms. Judy Miller, Chairman

Mr. Brian DeProfio, Vice Chairman

Mr. James A. "Pete" Peterson

Mr. James Eason

Vacancy

Mr. Nick Hobbs, Secretary/Treasurer/Alternate

Patricia Melochick, Assistant Secretary/Treasurer

# II. *AUDITOR'S OPINION*

THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1635 Eagle Harbor Pkwy, Ste 4
Fleming Island, FL 32003
t: 904-264-1665
www.tng.cc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Peninsula Town Center Community Development Authority

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Peninsula Town Center Community Development Authority (Authority), as of and for the years ended June 30, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 Authority as of June 30, 2019, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As described in Note 2-I to the financial statements, in 2019 the Authority adopted new accounting guidance, *GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

***Other Matters***

*Prior Period Financial Statements*

The financial statements of the Authority as of June 30, 2018 were audited by other auditors whose report, dated May 13, 2019, expressed an unmodified opinion on those statements.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 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.

Sincerely,

The Nichols Group

The Nichols Group, PA
Certified Public Accountants
Fleming Island, Florida

March 31, 2020

# III. *MANAGEMENT'S DISCUSSION AND ANALYSIS*

The Management's Discussion and Analysis of the Peninsula Town Center Community Development Authority's (the "Authority") financial performance provides an overall review of the Authority's financial activities for the fiscal periods ended June 30, 2019 and 2018. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the Authority's financial performance.

*Financial Highlights*

1. The Authority incurred long term debt of $92,850,000 in Special Obligation Bonds on September 6, 2007, bearing interest at 5.8% to 6.45% per annum. The Authority's debt will be paid through the collection of special assessments, special *ad valorem* taxes and incremental tax revenues imposed on the chargeable properties benefiting from the capital improvements.

2. On August 15, 2018, the Authority issued $77,880,000 in Special Obligation Refunding Bonds, Series 2018 to refund the Series 2007 Bonds and to pay costs related to the issuance of the Series 2018 Bonds. For more information, please see Note 6 of the Notes to the Financial Statements.

3. Net Deficit at June 30, 2019 and 2018 totaled $(21,634,418) and $(22,969,247), respectively.

4. Capital assets at June 30, 2019 and 2018 totaled $47,823,915 and $48,034,743, respectively. On January 18, 2011, the City of Hampton issued a Certificate of Completion for the public improvements. Costs associated with the site preparation of $22,802,439 were expensed. The land and parking structure will be owned by the Authority. The cost of the parking structure is being depreciated using the straight-line method over its estimated useful life.

5. The Retail Portion of the Annual Installment totaling $578,332 and $668,006 was collected in fiscal years 2019 and 2018, respectively.

6. Special *ad valorem* taxes of $507,570 and $471,582 were remitted in fiscal years 2019 and 2018, respectively.

7. Incremental tax revenues totaling $2,299,644 and $2,138,471 were collected in fiscal years 2019 and 2018, respectively.

8. Special assessments totaling $3,640,000 were billed and collected in fiscal years 2018. No special assessments were delinquent as of June 30, 2019. No special assessments were required to be collected during fiscal year 2019.

9. In March 2013, the construction lender, HSBC Realty Credit Corporation, foreclosed on property within the District owned by the Developer. The property was sold to Hampton Owners, LLC. In September 2014, Hampton Owners, LLC subsequently sold the majority of parcels to three entities.

10. The board of directors for the Authority, at a meeting held on September 19, 2017, has approved revisions to the original public improvement development plans to accommodate the developer's proposed revisions to the development.

**Overview of the Financial Statements**

This annual report consists of two parts – Management's Discussion and Analysis and the basic financial statements consisting of a *Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows,* and related footnotes. The Statement of Net Position represents the financial position of the Authority and provides information about the activities of the Authority, including all short-term and long-term financial resources and obligations. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in financial position. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**Summary Statement of Net Position:**

| | 2019 | 2018 |
|---|---|---|
| **Assets:** | | |
| Current and Other Assets | $ 11,325,112 | $ 15,625,905 |
| Capital Assets | 47,823,915 | 48,034,743 |
| Total Assets | 59,149,027 | 63,660,648 |
| Deferred outflow of resources | 888,805 | - |
| Total Assets and deferred outflow of resources | 60,037,832 | 63,660,648 |
| **Liabilities:** | | |
| Current Liabilities | 1,338,545 | 3,078,625 |
| Long Term Liabilities | 80,333,705 | 83,551,270 |
| Total Liabilities | 81,672,250 | 86,629,895 |
| **Net Position:** | | |
| Net investment in capital assets | (32,509,790) | (36,690,527) |
| Restricted assets | 400,840 | 12,132,334 |
| Unrestricted assets | 10,474,532 | 1,588,946 |
| Total Net Position | $ (21,634,418) | $ (22,969,247) |

Bond proceeds were used to finance the District's infrastructure improvements and other administrative expenses of the Authority.

**Summary Statement of Revenues, Expenses, and Changes in Net Position:**

| | 2019 | 2018 |
|---|---|---|
| Operating Revenue | $ 3,518,797 | $ 6,966,214 |
| Operating Expenses | (163,410) | (125,299) |
| Operating Income (Loss) | 3,355,387 | 6,840,915 |
| Non-Operating Revenues | 4,680,718 | 166,831 |
| Non-Operating Expenses | (6,701,276) | (5,754,680) |
| Total non-operating revenues/(expenses) | (2,020,558) | (5,587,849) |
| Change in Net Position | $ 1,334,829 | $ 1,253,066 |

For fiscal year 2019, no assessments were required due to the refunding of the Series 2007 Bonds. Incremental tax revenues and facilities charge revenues were used to pay debt service and administrative expenses.

**Capital Assets**

The Authority's capital assets at June 30, 2019 consisted of land and a parking structure financed with the Series 2007 Bonds to be owned by the Authority. The parking structure is being depreciated using the straight-line method over the estimated useful life.

**Long-Term Debt**

The Authority issued $92,850,000 of Special Obligation Bonds, Series 2007, dated September 6, 2007, paying interest at 5.80% to 6.45% per annum, and due in annual installments with maturities ranging from 2011 to 2037. This bond issuance represents 100% of the Authority's long-term debt balance as of June 30, 2018. On August 15, 2018, the Authority issued $77,880,000 in Special Obligation Refunding Bonds, Series 2018 to refund the Series 2007 Bonds and to pay costs related to the issuance of the Series 2018 Bonds. The Series 2007 Bonds have since been redeemed in full.

The proceeds from the Series 2007 Bonds were used to finance construction of certain public infrastructure improvements within the District including land, road and traffic improvements, parking facilities, storm water management improvements, water and sewer extensions and improvements, streetscaping and parks.

The debt service on the Series 2018 Bonds will be paid annually beginning September 1, 2020 by the revenue received from the special assessments, *ad valorem* taxes levied on the property owners within the District, and incremental tax revenues generated by the business operations within the District.

**Revenues**

Revenues are being paid from three sources:

- Special Assessments, which can be separated into Annual Payment A & B, Annual Payment A is collected from property owners to the extent first available pledged revenues are insufficient to fund the annual revenue requirement. Annual Payment B is equal to 0.50% of sales by retail establishments within the District (Also known as the "Retail Portion"),

- Special *Ad Valorem* taxes of $0.25 per $100 of assessed value of taxable real estate levied on the parcels in the District,
- Incremental tax revenues, including real property taxes, sales taxes, meals taxes, and amusement taxes above the base value.

These revenue collections totaled $5,200,624 and $6,570,481 for fiscal years 2019 and 2018, respectively.

**Revisions to the Development Plans**

At a meeting of the board of directors on September 19, 2017, the board approved alterations to the Authority's property and easements in connection with a proposal by the developer to make changes to Executive Drive to accommodate the "Power Center" improvements. The "Power Center" will consist of two commercial buildings totaling 98,000 square feet on the westernmost parcel of the District.

**Refunding of Series 2007 Bonds**

On August 15, 2018, the Authority issued $77,880,000 in Special Obligation Refunding Bonds, Series 2018 (the Series 2018 Bonds) to refund the Series 2007 Bonds and to pay costs related to the issuance of the Series 2018 Bonds. The Series 2018 Bonds were issued as follows:

| | Par Value | Rate | Final Maturity | Price |
|---|---|---|---|---|
| Term 2023 | $ 2,325,000 | 4.00% | September 1, 2023 | 102.338% |
| Term 2028 | $ 6,000,000 | 4.50% | September 1, 2028 | 103.915% |
| Term 2037 | $ 21,970,000 | 5.00% | September 1, 2037 | 104.207% |
| Term 2045 | $ 38,385,000 | 5.00% | September 1, 2045 | 103.453% |
| Turbo Term Bond | $ 9,200,000 | 4.50% | September 1, 2045 | 100.000% |

The Series 2018 Bonds were issued at the request of the developer pursuant to an Amended and Restated Indenture of Trust and an Amended and Restated Memorandum of Understanding to reduce the interest rate and extend the financing terms on the original bonds in order to facilitate additional development to include retail, hotel, office, theater, and residential space.

Interest is payable on March 1 and September 1 beginning on March 1, 2019. Sinking fund payments are due to begin on September 1, 2020.

**Economic Factors and Future Outlook**

Presently, the Authority is not aware of any other significant changes in conditions that would have a significant effect on the administrative expenses in the near future.

However, in recent weeks, the COVID-19 outbreak in the United States has resulted in reduced customer traffic and the temporary reduction of operating hours for the stores in the Peninsula Town Center, as well as temporary store closures when government mandated. These recent developments are expected to result in lower sales and gross margin for the stores and will impact the Retail Portion of the Annual Installment.

**Contacting Authority's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to reflect the Authority's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to the Authority's administrator, MuniCap, Inc., at 8965 Guilford Road, Suite 210, Columbia, Maryland 21046.

# IV. *FINANCIAL STATEMENTS*

**PENINSULA TOWN CENTER**
**COMMUNITY DEVELOPMENT AUTHORITY**
**STATEMENTS OF NET POSITION**
**As of June 30,**

| | 2019 | 2018 |
|---|---|---|
| Assets: | | |
| Current Assets | | |
| Accrued interest receivable | $ 63,381 | $ 13,775 |
| Accrued facilities charges receivable | 41,883 | 26,616 |
| Due from primary government | 2,029,320 | 3,453,180 |
| Short term investments | 8,789,688 | - |
| Total Current Assets | 10,924,272 | 3,493,571 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 400,840 | 12,132,334 |
| Capital assets, net of depreciation | 47,823,915 | 48,034,743 |
| Total Noncurrent Assets | 48,224,755 | 60,167,077 |
| Total Assets | 59,149,027 | 63,660,648 |
| Deferred outflows of resources: | | |
| Deferred loss from restructure of debt | 888,805 | - |
| Total deferred outflows of resources | 888,805 | - |
| Total assets and deferred outflows of resources | 60,037,832 | 63,660,648 |
| Liabilities: | | |
| Current Liabilities | | |
| Accounts payable | 73,628 | 76,153 |
| Accrued interest payable | 1,264,917 | 1,828,472 |
| Short-term portion of long-term debt | - | 1,174,000 |
| Total Current Liabilities | 1,338,545 | 3,078,625 |
| Noncurrent Liabilities | | |
| Bonds payable, long-term portion | 77,880,000 | 84,489,000 |
| Discount on long-term debt | - | (937,730) |
| Premium on long term debt | 2,453,705 | - |
| Total Noncurrent Liabilities | 80,333,705 | 83,551,270 |
| Total Liabilities | 81,672,250 | 86,629,895 |
| Net Position: | | |
| Net investment in capital assets | (32,509,790) | (36,690,527) |
| Restricted | 400,840 | 12,132,334 |
| Unrestricted | 10,474,532 | 1,588,946 |
| Total Net Position | $(21,634,418) | $ (22,969,247) |

The accompanying notes to the financial statements are an integral part of this statement.

## PENINSULA TOWN CENTER
## COMMUNITY DEVELOPMENT AUTHORITY
## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
**For the Years Ending June 30,**

| | 2019 | 2018 |
|---|---|---|
| Operating Revenues | | |
| Special assessments | $ - | $ 3,640,000 |
| Incremental tax revenues | 2,949,621 | 2,682,277 |
| Facilities charge revenues | 569,176 | 643,937 |
| Total Operating Revenues | 3,518,797 | 6,966,214 |
| Operating Expenses | | |
| Administrative fees | 120,261 | 71,422 |
| Legal fees | 33,947 | 36,181 |
| Lockbox fees | 4,246 | 4,785 |
| Accounting and audit fees | 4,000 | 12,000 |
| Insurance expense | 956 | 911 |
| Total Operating Expenses | 163,410 | 125,299 |
| Operating Income | 3,355,387 | 6,840,915 |
| Non-Operating Revenues (Expenses) | | |
| Interest income | 277,532 | 166,831 |
| Penalties and interest on delinquent payments | 35 | - |
| Miscellaneous income | 151 | - |
| Developer contribution | 4,403,000 | - |
| Bond interest expense | (3,965,047) | (5,543,852) |
| Bond issue costs | (2,525,401) | - |
| Depreciation expense | (210,828) | (210,828) |
| Total Non-Operating Revenues (Expenses) | (2,020,558) | (5,587,849) |
| Change in net position | 1,334,829 | 1,253,066 |
| Net position, beginning of year | (22,969,247) | (24,222,313) |
| Net position, end of year | $ (21,634,418) | $ (22,969,247) |

The accompanying notes to the financial statements are an integral part of this statement.

**PENINSULA TOWN CENTER**
**COMMUNITY DEVELOPMENT AUTHORITY**
**STATEMENTS OF CASH FLOWS**
**For the Years Ending June 30,**

| | 2019 | 2018 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Cash received from property owners | 4,622,292 | $ 5,902,474 |
| Cash received from retailers | 578,332 | 668,006 |
| Cash payments for administrative fees | (123,627) | (88,217) |
| Cash payments for accounting and audit fees | (4,000) | (14,600) |
| Cash payments for legal fees | (32,748) | (26,691) |
| Cash payments for lockbox fees | (4,645) | (4,794) |
| Cash payments for lockbox county remittance | (273,194) | - |
| Cash payments for insurance | (956) | (911) |
| Net Cash Provided by Operating Activities | 4,761,454 | 6,435,267 |
| Cash Flows from Investing Activities | | |
| Interest received on investments | 158,540 | 296,738 |
| Cash payments for short term investments | (8,720,301) | - |
| Net Cash Provided by Investing Activities | (8,561,761) | 296,738 |
| Cash Flows from Capital and Related Financing Activities | | |
| Interest paid on bonds | (4,564,942) | (5,513,951) |
| Principal paid on bonds | - | (984,000) |
| Redemption of bonds | (85,663,000) | - |
| Proceeds from bond issuance | 79,718,050 | - |
| Bond issuance costs | (1,824,481) | - |
| Developers contribution | 4,403,000 | - |
| Miscellaneous income | 151 | - |
| Penalties and interest received | 35 | - |
| Net Cash Used in Capital and Related Financing Activities | (7,931,187) | (6,497,951) |
| Net Change in Cash and Investments | (11,731,494) | 234,054 |
| Cash and Investments, Beginning of Year | 12,132,334 | 11,898,280 |
| Cash and Investments, End of Year | $ 400,840 | $ 12,132,334 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | $ 3,355,387 | $ 6,840,915 |
| Adjustments | | |
| Decrease in due from primary government | 1,423,859 | (419,802) |
| Decrease (increase) in facilities charges receivable | (15,267) | 24,069 |
| (Decrease) increase in accounts payable | (2,525) | (9,915) |
| Net Cash Provided by Operating Activities | $ 4,761,454 | $ 6,435,267 |

The accompanying notes to the financial statements are an integral part of this statement.

# V. *NOTES TO THE FINANCIAL STATEMENTS*

## NOTE 1—FINANCIAL REPORTING ENTITY

The Peninsula Town Center Community Development Authority (the "Authority") was established pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Section 15.2-5152 *et seq*., of the Code of Virginia, 1950 as amended (the "Act"). The Act provides for the creation of an authority and a related Special Assessment District (the "District") for the sole purpose of financing, constructing, and maintaining, if necessary, certain public improvements within, contiguous to or serving the District. In accordance with the Act, the Authority was created as a Virginia public body by the adoption of an ordinance by the City of Hampton City Council on February 22, 2006.

The Peninsula Town Center Community Development Authority, $92,850,000 Special Obligation Bonds, Series 2007 (the "Bonds"), were issued pursuant to an Indenture of Trust (the "Indenture") by and between the Authority and Wells Fargo Bank, National Association (the "Trustee"), dated as of September 1, 2007, and a limited offering memorandum for the Bonds dated August 29, 2007. The Bonds are limited obligations payable from (i) special assessments levied on the taxable parcels in the District, (ii) special *ad valorem* taxes to be levied on the taxable parcels in the District, and (iii) certain incremental tax revenues pledged to the payment of the Bonds. The City of Hampton, Virginia (the "City), will apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the taxes and assessments.

At a meeting of the Board of Directors on October 18, 2016, the Board approved a resolution authorizing the issuance of refunding bonds, which will be used to refund the Series 2007 Bonds. The 2007 Bonds were refunded with $77,880,000 of Series 2018 Special Obligation Refunding Bonds on August 15, 2018. The proceeds of the Series 2018 Bonds provide funding of the Debt Service Reserve Fund and certain other funds and accounts established by the Indenture.

The District consists of approximately 77 acres of land within the City near the southern end of the Virginia Peninsula. The development, when completed, is expected to contain shopping, dining, office, entertainment and residential components, all within a short walk of each other. The development's goal is to be the premiere destination shopping center in the south-eastern Virginia peninsula. At a meeting of the Board of Directors on March 29, 2017, the Board approved a revision to the original development plan to include the construction of a hotel and apartments, along with revisions to the roadways. At a meeting of the Board of Directors on September 19, 2017, the Board authorized certain alterations to the District property and easements in connection with a proposal by the developer to make certain changes to Executive Drive to accommodate the "Power Center" improvements.

The powers of the Authority are exercised by five members appointed by the City Council in accordance with the Act. The City Council also appoints successor members of the Authority for a term of four years.

The Authority's management believes these financial statements present all activities for which the Authority is financially accountable.

## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources.

### A. Basis of Presentation

The Authority's basic financial statements consist of a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. The Authority uses enterprise fund accounting to maintain its financial records during the fiscal year. Enterprise fund accounting focuses on the determination of operating income, financial position and changes in financial position, and cash flows.

### B. Measurement Focus and Basis of Accounting

The Authority's financial activity is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Authority are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs.

Net Position is segregated into Net Investment in Capital Assets, Restricted, and Unrestricted components, if applicable.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, and measurement focus relates to the timing of the measurements made. The Authority uses the accrual basis of accounting and the flow of economic resources measurement focus for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

### C. Cash and Investments

Cash received by the Authority is deposited with a financial institution or invested. Deposits and investments having an original maturity of three months or less at the time they are purchased are presented in the financial statements as Cash and Cash Equivalents. Investments with an initial maturity of more than three months are reported as Investments.

### D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their fair market value on the date that they will be donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. The Authority does not depreciate infrastructure improvements that will be donated upon completion/acquisition. Assets owned by the Authority are depreciated on a straight-line basis over the estimated useful life. Interest expense during the period of construction is capitalized, net of investment earnings.

### E. Net Position

Net Position represents the difference between assets, liabilities, and deferred inflows/outflows of resources. Net Position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Authority first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

### F. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Authority, these revenues are special assessments, special *ad valorem* taxes, and incremental tax revenues. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the Authority. All revenues and expenses not meeting this definition are reported as non-operating.

### G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### H. Income Taxes

The Authority is a governmental entity, and therefore, is exempt from all federal and state income taxes.

### I. New Accounting Standards

The Authority has adopted all current Statements of the GASB that are applicable. In fiscal year 2019, GASB Statement No. 88 was implemented which requires disclosures related to debt, including direct borrowings and direct placements. See Note 6 for these disclosures, where applicable.

### J. Future Accounting Standards

GASB has issued new standards that will become effective in future fiscal years. The Authority will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

## NOTE 3—CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of June 30, 2019 and 2018:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| US Treasury money market funds | $ | 338,849 | $ | 12,036,784 |
| Cash | | 61,991 | | 95,550 |
| Total cash and cash equivalents | $ | 400,840 | $ | 12,132,334 |

Cash and cash equivalents are carried at cost, which approximates fair market value.

### A. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. There is no custodial credit risk to these accounts as the entire bank balance was covered by federal depository insurance or collateralized in accordance with the Indenture.

### B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. As a means of limiting exposure to fair value losses arising from rising interest rates, the Indenture requires the investment of moneys in the Debt Service Reserve Fund must mature or be payable at the option of the Trustee not more than ten years after the date of their purchase. The Authority's investments in money market funds are withdraw-able on demand.

### C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indenture specifies the minimum rating of different types of cash equivalents and investments in order to address this risk. Investments in the money market funds at June 30, 2019 and 2018 have met the specified ratings criteria.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances, or money market mutual funds, the Indenture establishes stringent credit standards for these investments to minimize portfolio risk. All money held in the funds created by the Indenture which are on deposit with any bank will be continuously secured in the manner required by the Indenture.

### D. Concentration of Credit Risk

Concentration of credit risk can also arise by failing to adequately diversify investments. The Indenture establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. Not more than 35% of the Authority's total funds available for investment may be invested in commercial paper, and not more than 5% of the Authority's total funds available for investment may be invested in the commercial paper of any single issuer.

**E. Fair Value Measurements**

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The Authority's investments in money market funds totaling $338,849 are valued using quoted market prices (Level 1 inputs).

## NOTE 4—INVESTMENTS

Investments are reported at amortized cost and are segregated into short-term and long-term components based on the maturity date of the investment. Investments maturing within one year are considered short-term. Amortization of investment premiums or discounts is calculated using the straight-line method. All investments are expected to be held until maturity. Investments consisted of the following at June 30, 2019:

| | Par Value | Interest Rate | Maturity |
|---|---|---|---|
| US Treasury Bill | $ 7,081,000 | 2.46% | 8/29/2019 |
| US Treasury Bill | $ 1,745,000 | 2.28% | 10/31/2019 |

## NOTE 5—CAPITAL ASSETS

The Authority's capital asset activity for the years ended June 30, 2019 and 2018 was as follows:

| | Beginning Balance | Additions | Transfers | Expense | Ending Balance |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Land | $ 41,165,179 | $ - | $ - | $ - | $ 41,165,179 |
| Vertical core construction | 8,433,205 | - | - | - | 8,433,205 |
| Total Capital Assets | 49,598,384 | - | - | - | 49,598,384 |
| Accumulated depreciation | (1,563,641) | (210,828) | - | - | (1,774,469) |
| Net Capital Assets | $ 48,034,743 | $ (210,828) | $ - | $ - | $ 47,823,915 |

| | Beginning Balance | Additions | Transfers | Expense | Ending Balance |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Land | $ 41,165,179 | $ - | $ - | $ - | $ 41,165,179 |
| Vertical core construction | 8,433,205 | - | - | - | 8,433,205 |
| Total Capital Assets | 49,598,384 | - | - | - | 49,598,384 |
| Accumulated depreciation | (1,352,813) | (210,828) | - | - | (1,563,641) |
| Net Capital Assets | $ 48,245,571 | $ (210,828) | $ - | $ - | $ 48,034,743 |

Public improvements acquired and constructed with the Bond proceeds consisted of land, road and traffic improvements, parking facilities, storm water management improvements, water and sewer extensions and improvements, streetscaping and parks. Pursuant to the Memorandum of Understanding, the infrastructure improvements will be transferred by the Authority to the appropriate public entity for their operation and maintenance upon final inspection and acceptance. The public improvements were completed as of June 30, 2009, and the City issued a Certificate of Completion for the public improvements on January 18, 2011.

According to the Development Acquisition Agreement, land for the public portion of the District was purchased from the Developer at bond closing for $27,600,000. The cost of the land as reported in the financial statements includes the purchase price of the public portion of the District plus site work costs to ready the property for the improvements.

The public parking garage owned by the Authority is being depreciated using the straight-line method over an estimated useful life of 40 years.

## NOTE 6—LONG-TERM OBLIGATIONS

Long term debt consisted of the following at June 30, 2019 and 2018:

| **2019** | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Series 2007 Bonds** | | | | | |
| Term 2017 | $ - | $ - | $ - | $ - | $ - |
| Term 2024 | 13,002,000 | - | (13,002,000) | - | - |
| Term 2028 | 13,844,000 | - | (13,844,000) | - | - |
| Term 2037 | 58,817,000 | - | (58,817,000) | - | - |
| Unamortized Deferred Bond Costs | (937,730) | - | 937,730 | - | - |
| **Total Series 2007 Bonds** | 84,725,270 | - | (84,725,270) | - | - |
| **Series 2018 Bonds** | | | | | |
| Term 2023 | - | 2,325,000 | - | 2,325,000 | - |
| Term 2028 | - | 6,000,000 | - | 6,000,000 | - |
| Term 2037 | - | 21,970,000 | - | 21,970,000 | - |
| Term 2045 | - | 38,385,000 | - | 38,385,000 | - |
| Turbo Term 2045 | - | 9,200,000 | - | 9,200,000 | - |
| Series 2018 Bond Premium | - | 2,538,970 | (85,265) | 2,453,705 | - |
| **Total Series 2018 Bonds** | - | 80,418,970 | (85,265) | 80,333,705 | - |
| **Net Bonds Payable** | $84,725,270 | $ 80,418,970 | $ (84,810,535) | $80,333,705 | $ - |

| **2018** | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Series 2007 Bonds** | | | | | |
| Term 2017 | $ 984,000 | $ - | $ (984,000) | $ - | $ - |
| Term 2024 | 13,002,000 | - | - | 13,002,000 | 1,174,000 |
| Term 2028 | 13,844,000 | - | - | 13,844,000 | - |
| Term 2037 | 58,817,000 | - | - | 58,817,000 | - |
| Total Series 2007 Bonds Payable | 86,647,000 | - | (984,000) | 85,663,000 | 1,174,000 |
| Less: Unamortized Bond Discount | (986,655) | - | 48,925 | (937,730) | |
| **Net Bonds Payable** | $85,660,345 | $ - | $ (935,075) | $84,725,270 | $ 1,174,000 |

### A. Special Obligation Bonds, Series 2007

On September 6, 2007, the Authority issued $92,850,000 in Special Obligation Bonds Series 2007 to finance the construction of public infrastructure improvements located within the District, to fund a reserve fund, to fund capitalized interest on the Bonds, to fund certain administrative expenses, and to pay costs relating to the issuance of the Bonds. The City, on behalf of the Authority, will impose and collect the special assessment and *ad valorem* taxes and has agreed to apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the taxes.

The Bonds are limited obligations of the Authority, payable solely from and secured by revenues collected from special assessment taxes, *ad valorem* taxes and incremental tax revenues after payment of administrative expenses.

The Bonds originally consisted of the following:

- $ 3,889,000 in 5.80% term bonds maturing on September 1, 2017
- $13,502,000 in 6.25% term bonds maturing on September 1, 2024
- $14,378,000 in 6.35% term bonds maturing on September 1, 2028
- $61,081,000 in 6.45% term bonds maturing on September 1, 2037

Interest on the Bonds is payable semiannually on March 1 and September 1 of each year beginning on March 1, 2008. Principal payments on the Bonds are due each September 1 according to the mandatory sinking fund redemption schedule.

Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest payments totaled $3,965,047 and $5,543,852 for the years ended June 30, 2019 and 2018, respectively.

The Bonds are subject to optional redemption, extraordinary optional redemption, mandatory sinking fund redemption, and special mandatory redemption. The Bonds were redeemed by Series 2018 – see Note B.

## B. Special Obligation Bonds, Series 2018

On August 10, 2018, the Authority issued $77,880,000 in Special Obligation Bonds, Series 2018 in five terms as follows:

| | | Amount | Maturity | Interest Rate | Price |
|---|---|---|---|---|---|
| Term 2023 | $ | 2,325,000 | 9/1/2023 | 4.00% | 102.34% |
| Term 2028 | $ | 6,000,000 | 9/1/2028 | 4.50% | 103.92% |
| Term 2037 | $ | 21,970,000 | 9/1/2037 | 5.00% | 104.21% |
| Term 2045 | $ | 38,385,000 | 9/1/2045 | 5.00% | 103.45% |
| Turbo Term Bonds | $ | 9,200,000 | 9/1/2045 | 4.50% | 100.00% |

The Series 2018 Bonds were issued to refund all of the outstanding Series 2007 Bonds, fund a repair and replacement account, fund a debt service reserve fund for the Series 2018 Bonds, fund the administrative expenses through July 1, 2020, and pay the costs of issuing the Series 2018 Bonds. The Authority, on behalf of the District, will impose and collect the special taxes and has agreed to apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the special taxes, including assessing penalties and interest and foreclosure proceedings. In addition, when special taxes are imposed, a lien is made on the applicable parcels.

The Series 2018 Bonds are limited obligations of the Authority payable solely from and secured by a pledge of special taxes and certain funds held by the Trustee.

Interest on the Series 2018 Bonds is payable according to the terms specified by the Indenture semiannually on March 1 and September 1 of each year beginning on March 1, 2019. Interest on the Series 2018 Bonds is calculated on the basis of a 360-day year comprised of twelve 30-day months. For the Series 2018 Bonds, interest paid in fiscal year 2019 was $2,066,031.

### 1. Optional Redemption

The Series 2018 Bonds may be redeemed at the option of the Authority on or after September 1, 2027 from any money available for such purpose, in whole or in part at 100% of the principal amount of the Bonds plus accrued interest to the redemption date.

### 2. Extraordinary Mandatory Redemption

The Series 2018 Bonds are subject to extraordinary mandatory redemption in whole or in part on any date from any prepayments of special assessments or at any time from any funds remaining in the project fund after completion of the improvements. As of June 30, 2019, no special mandatory redemptions have been made.

### C. Mandatory Sinking Fund Redemption

The Series 2018 Bonds are required to be redeemed each September 1 in the years and in the amounts set forth below:

| | Term 2023 4% $2,325,000 | | Term 2028 4.5% $6,000,000 | |
|---|---|---|---|---|
| **Year Ending June 30:** | Principal | Interest | Principal | Interest |
| 2020 | $ - | $ 46,500 | $ - | $ 135,000 |
| 2021 | 205,000 | 93,000 | - | 270,000 |
| 2022 | 600,000 | 84,800 | - | 270,000 |
| 2023 | 705,000 | 60,800 | - | 270,000 |
| 2024 | 815,000 | 32,600 | - | 270,000 |
| 2025-2029 | - | - | 6,000,000 | 873,000 |
| 2030-2034 | - | - | - | - |
| 2035-2039 | - | - | - | - |
| 2040-2044 | - | - | - | - |
| 2045-2049 | - | - | - | - |
| Total | $ 2,325,000 | $ 317,700 | $ 6,000,000 | $ 2,088,000 |

| | Term 2037 5% $21,970,000 | | Term 2045 4.5% $38,385,000 | |
|---|---|---|---|---|
| **Year Ending June 30:** | Principal | Interest | Principal | Interest |
| 2020 | $ - | 549,250 | $ - | 959,625 |
| 2021 | - | 1,098,500 | - | 1,919,250 |
| 2022 | - | 1,098,500 | - | 1,919,250 |
| 2023 | - | 1,098,500 | - | 1,919,250 |
| 2024 | - | 1,098,500 | - | 1,919,250 |
| 2025-2029 | - | 5,492,500 | - | 9,596,250 |
| 2030-2034 | 10,015,000 | 4,587,250 | - | 9,596,250 |
| 2035-2039 | 11,955,000 | 1,556,000 | 3,645,000 | 9,596,250 |
| 2040-2044 | - | - | 22,975,000 | 7,144,750 |
| 2045-2049 | - | - | 11,765,000 | 304,500 |
| Total | $ 21,970,000 | $ 16,579,000 | $ 38,385,000 | $ 44,874,625 |

| Year Ending June 30: | Turbo Term Bonds 5% $9,200,000 Principal | Interest | Total Series 2018 Bonds Principal | Interest |
|---|---|---|---|---|
| 2020 | $ - | 207,000 | $ - | $ 1,897,375 |
| 2021 | 130,000 | 414,000 | 335,000 | 3,794,750 |
| 2022 | 90,000 | 408,150 | 690,000 | 3,780,700 |
| 2023 | 105,000 | 404,100 | 810,000 | 3,752,650 |
| 2024 | 120,000 | 399,375 | 935,000 | 3,719,725 |
| 2025-2029 | 850,000 | 1,901,475 | 6,850,000 | 17,863,225 |
| 2030-2034 | 1,405,000 | 1,662,300 | 11,420,000 | 15,845,800 |
| 2035-2039 | 2,060,000 | 1,291,275 | 17,660,000 | 12,443,525 |
| 2040-2044 | 2,955,000 | 818,325 | 25,930,000 | 7,963,075 |
| 2045-2049 | 1,485,000 | 34,425 | 13,250,000 | 338,925 |
| Total | $ 9,200,000 | $ 7,540,425 | $ 77,880,000 | $ 71,399,750 |

### D. Additional Bonds

Additional bonds may be issued by the Authority to finance subsequent phases of the District improvements, to refund, defease, or purchase any bonds outstanding, to finance the costs incurred with the issuance and sale of additional bonds, and to fund the debt service reserve fund upon issuance of additional bonds.

## NOTE 7—SPECIAL ASSESSMENTS

The Bonds are special obligations of the Authority payable solely from and secured by a pledge of District Taxes and Assessments. District Taxes and Assessments are defined as follows:

(i) special assessments levied on the taxable parcels in the District,
(ii) special *ad valorem* taxes levied on the taxable parcels in the District, and
(iii) certain incremental tax revenues pledged to the payment of the Bonds.

The Rate and Method of Apportionment of Special Assessments and the Amended and Restated Rate and Method of Apportionment Assessments for the Authority adopted by the City Council sets forth the methodology applied in the calculation and collection of the District Taxes and Assessments.

### A. Special Assessment

The annual special assessment is to be collected from each parcel of taxable property within the District (excepting those for which the assessment lien has been prepaid) each year in an amount equal to the "Annual Installment." The annual installment will be equal to the assessment amount due in any calendar year.

### 1. Retail Portion of the Annual Installment ("Annual Payment B")

A portion of the Special Assessment will be collected in an amount equal to one-half of one percent of each $1.00 of retail sales generated and reported each year by all retail establishments located within the District (the "Retail Portion").

An Amended and Restated Collection Agreement dated July 1, 2018 states the Landowners of the retail property within the District agree to pay or cause to be paid to the City the portion of Annual Payment B that has not been remitted by retailers on a monthly basis. These delinquent amounts will be billed and collected in the same manner and at the same time as the City's Ad Valorem real estate taxes. Delinquent Annual Payment B amounts for 2018 totaling $32,662 have been billed to property owners for collection in tax year 2020.

The Retail Portion of the Annual Installment or "Facilities Charge" was to be collected starting January 1, 2010. The Retail Portion of the Annual Installment totaling $578,332 and $668,006 was remitted in fiscal years 2019 and 2018, respectively.

### 2. Back-up Portion of Annual Installment ("Annual Payment A")

The "Back-up Portion" of the Annual Installment is calculated annually by the administrator according to the Rate and Method of Apportionment of Special Assessments and confirmed by the Authority. The Annual Payment A is equal to the difference between the Annual Installment and the sum of all revenues collected and appropriated to the Authority for the Retail Portion from the preceding calendar year, the Incremental Tax Revenues from the preceding year, and the revenues collected from the Special *Ad Valorem* Tax.

Per the Annual Assessment Report, no Back-up Portion of the Annual Installment was required to be collected for tax year 2018 due to the issuance of the Series 2018 Bonds.

Per the Annual Assessment Report, the Back-up Portion of the Annual Installment totaled $3,640,000 for tax year 2017, payable in two equal installments on December 5, 2017 and June 5, 2018. According to the City, all Special Assessments for tax year 2017 have been paid and remitted to the Authority.

## B. Special *Ad Valorem* Taxes

The Special *Ad Valorem* Tax equals $0.25 per $100 of the assessed fair market value of any taxable real estate, or the assessable value of taxable leasehold property within the District. Special *ad valorem* taxes equal to $507,570 and $471,582 were remitted to the City and subsequently transferred to the Authority in fiscal years 2019 and 2018, respectively.

### C. Incremental Tax Revenues

The Incremental Tax Revenues include the real property tax incremental revenues, sales tax incremental revenues, as specified in the Memorandum of Understanding dated April 25, 2006 and the Amended Memorandum of Understanding dated April 11, 2018, among the Authority, the City Council, and the developer. Incremental tax revenues totaling $2,299,644 and $2,138,471 were collected and remitted to the Authority in fiscal years 2019 and 2018, respectively.

## NOTE 8—CHANGES OF OWNERSHIP

### A. Foreclosure on the property

On March 28, 2013, the Construction Lender sold the property within the District owned by the Developer to Hampton Owners, LLC as a result of failure to reach an agreement in the restructuring of the Consolidated, Amended and Restated Building Loan.

### B. Sale of Parcels

On September 29, 2014, twelve parcels in the District owned by Hampton Owners, LLC were sold to Peninsula Main VA, LLC, three parcels were sold to Peninsula Parking Lot VA, LLC, and two parcels were sold to Peninsula Retail/Apt VA, LLC. These seventeen parcels represent approximately 70% of the total Back-up Portion of the Annual Installment.

## NOTE 9—SUBSEQUENT EVENTS

### Current Assessments

Per the Annual Assessment Report, there is Annual Payment A due of $374,000 for the tax year 2019. As of December 5, 2019, $1,436 is outstanding. The incremental tax revenues, special *Ad Valorem* tax, and Retail Portion of the special assessments revenues are estimated to be insufficient to pay all costs of the Authority for the period.

## NOTE 10—ARBITRAGE

When applicable, arbitrage calculations are performed on the Authority's funds to determine any arbitrage rebate or yield restriction liability. No liabilities for arbitrage rebate or yield restrictions were identified in fiscal years ending June 30, 2019 and 2018.

## NOTE 11—CONTINGENT LIABILITIES

As of March 31, 2020, there were no claims or lawsuits pending against the Authority.

## NOTE 12—EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2020, the date which the financial statements were available to be issued.

In recent weeks, the COVID-19 outbreak in the United States has resulted in reduced customer traffic and the temporary reduction of operating hours for the stores in the Peninsula Town Center, as well as temporary store closures when government mandated. These recent developments are expected to result in lower sales and gross margin for the stores and will impact the Retail Portion of the Annual Installment.

THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1635 Eagle Harbor Pkwy, Ste 4
Fleming Island, FL 32003
t: 904-264-1665
f: 904-269-9683
www.tng.cc


## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Peninsula Town Center Community Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and *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 Peninsula Town Center Community Development Authority (Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 31, 2020.

**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) to determine the 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

The Nichols Group

The Nichols Group, PA
Certified Public Accountants
Fleming Island, Florida

March 31, 2020