

**NEW PORT
COMMUNITY DEVELOPMENT AUTHORITY**

**AUDITED FINANCIAL STATEMENTS
AS OF JUNE 30, 2020 AND 2019**

CUSIP NUMBERS:

648121 AA9

648121 AB7



NEW PORT COMMUNITY DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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I. BOARD OF DIRECTORS

Ms. Angel L. Jones, Vice Chairman

Dr. Jaclyn Walker

Ms. Brittany Mayes

Ms. Monica Holloman

Ms. Kristian Johnson

Other Officers:

Ms. Mimi Terry, Secretary / Treasurer

II. AUDITOR'S OPINION



THE NICHOLS GROUP, P.A.
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To the Board of Directors
New Port Community Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the New Port Community Development Authority (Authority), as of and for the years ended June 30, 2020 and 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, 2020 and 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.

Other Matters

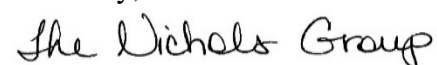
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022, 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, PA
Fleming Island, Florida
April 29, 2022

III. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the New Port Community Development Authority's (the "Authority") financial performance provides an overall review of the Authority's financial activities for the years ended June 30, 2020 and 2019. 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 \$16,240,000 in Special Assessment Bonds on May 24, 2006, bearing interest from 5.50% to 5.60% per annum with maturities ranging from 2009 to 2036. The Authority's debt will be paid through the collection of special assessments collected from the taxable parcels within the District.
2. Net position at June 30, 2020 and 2019 totaled (\$10,919,645) and (\$10,358,167) respectively due to the donation of public improvements to the City of Portsmouth in 2018.
3. Construction costs at June 30, 2020 and 2019 were \$4,033,921 and \$4,033,921, respectively, which represents the Phase 1B Section 2 costs, of which the sewer, water and roads are 50% complete. In 2018, the public improvements attributable to the Phase 1A and Phase 1B, section 1 were donated to the City of Portsmouth.
4. Special Assessments of \$1,094,151, and \$1,072,235 were assessed for the 2019 and 2018 tax years, respectively. Currently, approximately \$847,824, and \$837,113 for tax years 2019 and 2018, respectively, are delinquent. Delinquent special assessments of \$86,621 and penalties and interest of \$18,492 were collected from property owners during fiscal year 2020. Delinquent assessments totaled approximately \$7,306,004 for tax years 2010 through 2020.
5. The continuing delinquencies have resulted in draws from the Debt Service Reserve Fund totaling \$1,281,528 to pay debt service and administrative expenses due. As of June 30, 2020, the Debt Service Reserve Fund balance is \$247,660, which results in a current deficiency of \$1,272,826, below the requirement of \$1,520,486.
6. On March 8, 2012, the property was foreclosed on by Cygnus VA, LLC, the holder of the development notes. Cygnus has subsequently become delinquent on its assessment payments and has not taken on any disclosure reporting responsibilities, although it has agreed to assist with the preparation of the quarterly disclosure reports. No such disclosure reports have been received since the report dated September 30, 2014.
7. In February 2014, three parcels owned by Cygnus were turned over to the County Treasurer's office for tax sale. The tax sale was delayed pending the outcome of legislation to allow delinquent special assessments to be paid out of tax sale proceeds. The sale was again

delayed pending the Virginia Supreme Court ruling in Cygnus' lawsuit. As of March 15, 2022, the City had foreclosed on four parcels totaling 114.49 acres and held an auction that the City cancelled on December 13, 2021 due to lack of bidding. As of January 13, 2022 the next auction has not yet been scheduled.

8. Sinking fund payments of \$284,000 and \$249,000, were not made on September 1, 2019, and 2018, respectively. Interest payments due on outstanding Bonds for fiscal years 2020 and 2019 were deferred. At June 30, 2020, \$4,160,613 was accrued for unpaid interest, which was recorded as a long-term liability.
9. On April 26, 2019, the Authority has removed Manufacturers and Traders Trust Company ("the Trustee") as the trustee and appointed UMB Bank, National Association ("Successor Trustee").

Overview of the Financial Statements

This annual report consists of two parts – (i) Management's Discussion and Analysis and (ii) 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 Project and provides information about the activities of the Project, 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 net total 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.

Comparative Financial Statements

Summary Statement of Net Position:

	<u>2020</u>	<u>2019</u>
Assets:		
Current Assets	\$ 34,327	\$ 30,283
Other Assets	1,602,809	1,354,725
Capital Assets	5,526,298	5,526,298
Total Assets	<u>7,163,434</u>	<u>6,911,306</u>
Liabilities:		
Current Liabilities	45,297	19,837
Long Term Liabilities	18,037,782	17,249,636
Total Liabilities	<u>18,083,079</u>	<u>17,269,473</u>
Net Position	<u>\$ (10,919,645)</u>	<u>\$ (10,358,167)</u>

Assessments and bond proceeds were used to finance the District's infrastructure improvements, and to pay debt service and other administrative costs of the Authority. Prepaid assessments were used to redeem bonds. The decrease in net position is due to the increasing unpaid debt service costs.

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

	<u>2020</u>	<u>2019</u>
Operating Revenue	\$ 280,041	\$ 182,549
Operating Expenses	84,307	78,460
Operating Income	<u>195,734</u>	<u>104,089</u>
Non-Operating Revenues	30,934	22,938
Non-Operating Expenses	<u>(788,146)</u>	<u>(788,146)</u>
Change in Net Position	<u><u>\$ (561,478)</u></u>	<u><u>\$ (661,119)</u></u>

The decrease in net position is due to operating costs and debt service exceeding collections of prepayment revenues, assessments and penalties and interest due to delinquent assessments.

Capital Assets

The Authority's capital assets consisted of construction in progress of public improvements financed with the Series 2006 bonds and construction financing costs. In fiscal year 2018, the Phase 1A and Phase 1B Section 1 public improvements were donated to the City of Portsmouth totaling \$10,765,857 and were recorded as "donated assets" in the financial statements. There is currently no construction activity.

Long-Term Debt

The Authority issued Special Assessment Bonds, Series 2006, dated May 24, 2006, 5.50% to 5.60% interest rates, and due in annual installments beginning September 1, 2009 with a final maturity of September 1, 2036. This bond issuance represents 100% of the Authority's long-term debt balance.

The proceeds from the bonds are being used to finance construction of certain public infrastructure improvements within the District including water distribution and wastewater collection systems, roadways and improvements, site grading and landscaping.

The debt service will be paid annually beginning September 1, 2009, by the income received from the special assessments levied on the property owners within the District.

As of June 30, 2020 all debt service due between September 1, 2015 and September 1, 2020 was deferred at the direction of the bondholders, due to non-payment of special assessments and insufficient funds in the Debt Service Reserve Fund. On March 1, 2021, interest of \$780,116 was paid to the bondholders.

Special Assessments

Special assessments of \$1,094,151 were imposed for tax year 2019, due to be paid in fiscal year 2020 in four quarterly installments of \$273,538. As of June 30, 2021, the City has collected and remitted special assessments in the amount of approximately \$246,328 to the Authority.

Special assessments of \$1,072,235 were imposed for tax year 2018, due to be paid in fiscal year 2019 in four quarterly installments of \$268,059. As of June 30, 2021, the City has collected and remitted special assessments in the amount of approximately \$235,123 to the Authority.

As of February 8, 2022, the City reports total delinquencies for tax years 2011-2020 were \$7,234,310. See Note 7 for more details.

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.

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 Project'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

NEW PORT COMMUNITY DEVELOPMENT AUTHORITY STATEMENTS OF NET POSITION

As of June 30,

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Accrued interest receivable	\$ 13	\$ 1,946
Accrued assessments receivable	33,949	28,318
Accrued penalties and interest receivable	365	19
Total Current Assets	<u>34,327</u>	<u>30,283</u>
Noncurrent Assets		
Restricted cash and cash equivalents	1,602,809	1,354,725
Capital assets	5,526,298	5,526,298
Total Noncurrent Assets	<u>7,129,107</u>	<u>6,881,023</u>
Total Assets	<u>7,163,434</u>	<u>6,911,306</u>
Liabilities		
Current Liabilities		
Accounts payable	45,297	19,837
Total Current Liabilities	<u>45,297</u>	<u>19,837</u>
Long Term Liabilities		
Long-term interest payable	4,160,613	3,380,498
Bonds payable	14,007,000	14,007,000
Less: discount on long-term debt	(129,831)	(137,862)
Total Long Term Liabilities	<u>18,037,782</u>	<u>17,249,636</u>
Total Liabilities	<u>18,083,079</u>	<u>17,269,473</u>
Net Position		
Net investment in capital assets	(8,350,871)	(8,342,840)
Restricted	1,602,809	1,354,725
Unrestricted	(4,171,583)	(3,370,052)
Total Net Position	<u>\$ (10,919,645)</u>	<u>\$ (10,358,167)</u>

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

NEW PORT COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET
POSITION

For the Years Ending June 30,

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Special assessment revenues	\$ 280,041	\$ 182,549
Total Operating Revenues	<u>280,041</u>	<u>182,549</u>
Operating Expenses		
Administrative fees	50,230	42,761
Legal and accounting fees	33,527	35,149
Insurance expense	550	550
Total Operating Expenses	<u>84,307</u>	<u>78,460</u>
Operating Income	<u>195,734</u>	<u>104,089</u>
Non-Operating Revenues (Expenses)		
Investment income	12,096	20,419
Penalties and interest income	18,838	2,519
Bond interest expense	(788,146)	(788,146)
Total Non-Operating Revenues (Expenses)	<u>(757,212)</u>	<u>(765,208)</u>
Change in Net Position	(561,478)	(661,119)
Net Position, Beginning of Year	<u>(10,358,167)</u>	<u>(9,697,048)</u>
Net Position, End of Year	<u><u>\$ (10,919,645)</u></u>	<u><u>\$ (10,358,167)</u></u>

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

NEW PORT COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ending June 30,

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Cash receipts from property owners	\$ 274,410	\$ 251,976
Cash payments for administrative fees	(36,192)	(41,382)
Cash payments for legal and accounting fees	(22,105)	(27,896)
Cash payments for insurance	(550)	-
Net Cash Provided by Operating Activities	<u>215,563</u>	<u>182,698</u>
Cash Flows from Investing Activities:		
Interest received on investments	<u>14,029</u>	<u>19,641</u>
Net Cash Provided by Investing Activities	<u>14,029</u>	<u>19,641</u>
Cash Flows from Capital and Related Financing Activities:		
Penalties and interest received	<u>18,492</u>	<u>8,232</u>
Net Cash Provided by Capital and Related Financing Activities	<u>18,492</u>	<u>8,232</u>
Net Change in Cash and Cash Equivalents	248,084	210,571
Cash and Cash Equivalents, Beginning of Year	<u>1,354,725</u>	<u>1,144,154</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,602,809</u></u>	<u><u>\$ 1,354,725</u></u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 195,734	\$ 104,089
Adjustments		
(Increase) decrease in assessments receivable	(5,631)	69,427
Decrease in prepaid expenses	-	550
Increase in accounts payable	<u>25,460</u>	<u>8,632</u>
Net Cash Provided by Operating Activities	<u><u>\$ 215,563</u></u>	<u><u>\$ 182,698</u></u>

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 New Port 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 (the “Act”) as amended. 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 Ordinance No. 2005-71 by the City of Portsmouth (the “City”) City Council on August 23, 2005. On February 14, 2006, the City Council enacted Ordinance No. 2006-12 authorizing the levy of the special assessments on land within the boundaries of the District and adopting the Rate and Method of Apportionment of Special Assessments providing for the lien of the special assessments to be established and levied by the City.

The New Port Community Development Authority, Special Assessment Bonds, Series 2006 (the “Bonds”), were issued pursuant to an Indenture of Trust (the “Indenture”) by and between the Authority and Manufacturers and Traders Trust Company (the “Trustee”), dated as of May 1, 2006, and a limited offering memorandum for the bonds dated May 12, 2006. On April 26, 2019, the Trustee was removed, and the owners of the majority outstanding bonds appointed UMB Bank, National Association (“Successor Trustee”). The Bonds are limited obligations payable from special assessments imposed and collected by the City Council of the City of Portsmouth, Virginia, against the taxable real property in the District. Unless prepaid, such special assessments are payable in installments at the same time general real estate taxes are paid. The City will apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the special assessment annual installment.

The District consists of approximately 187 acres of land within the City of Portsmouth, Virginia, in the midtown area of the City generally known as Victory Crossing, approximately four miles southwest of the City’s downtown. The District is located approximately six miles from the downtown area of the City of Norfolk, Virginia, and approximately twenty-five miles from the City of Virginia Beach, Virginia, oceanfront. The District is expected to contain approximately 1,576 residential units of various types.

The Authority is governed by a board of five directors, four of which are appointed by the City Council, one of which is designated by the City Manager. The City Council also appoints successor directors 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 net 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 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 Cash Equivalents

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.

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 capital assets as all assets will be donated to another public entity upon completion/acquisition.

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. 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 Statements No. 88 and No. 89 were implemented. GASB Statement No. 88 requires disclosures related to debt and GASB Statement No. 89 simplifies accounting for financing costs incurred during the construction period.

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
US Treasury money market fund	\$ 1,602,809	\$ 1,354,725
Total	<u>\$ 1,602,809</u>	<u>\$ 1,354,725</u>

A. Custodial Credit Risk

Custodial credit risk 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 provisions under the Indenture.

Cash and cash equivalents consist of investments in money market accounts. Such underlying securities were held by financial institutions in their trust departments in the Authority's name.

B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. The Authority does not have a policy to limit its exposure to interest rate risk; however, the Authority's deposits 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 permitted investments. Investments at June 30, 2020 and 2019 were in money market funds, currently rated "AAAm" by Standard and Poor's.

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 funds held in the accounts 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 Authority places no limits on the amount that may be invested in any one 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 \$1,602,809 are valued using quoted market prices (Level 1 inputs).

NOTE 4—RECEIVABLES

Receivables at June 30, 2020 and 2019 consist of interest and dividends on investments, and assessments and penalties and interest due to the Authority from the City. The interest and dividend receivables and assessments due from the City are considered collectible in full within one year.

NOTE 5—CAPITAL ASSETS

The Authority's capital asset activity for the years ended June 30, 2020 and 2019 was as follows:

2020	Beginning Balance	Additions	Reductions	Ending Balance
Construction in Progress	\$ 4,033,921	\$ -	\$ -	\$ 4,033,921
Capitalized Bond Interest	1,878,963	-	-	1,878,963
Capitalized Investment Income	(386,586)	-	-	(386,586)
Total Capital Assets	<u>\$ 5,526,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,526,298</u>

2019	Beginning Balance	Additions	Reductions	Ending Balance
Construction in Progress	\$ 4,033,921	\$ -	\$ -	\$ 4,033,921
Capitalized Bond Interest	1,878,963	-	-	1,878,963
Capitalized Investment Income	(386,586)	-	-	(386,586)
Total Capital Assets	<u>\$ 5,526,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,526,298</u>

Construction in progress consists of public infrastructure improvements, including water distribution and wastewater collection systems, roadways and improvements, site grading and landscaping. Pursuant to the Development/Acquisition Agreement, the infrastructure improvements will be transferred by the Authority to the City of Portsmouth for their operation and maintenance upon final inspection and acceptance by the City. In fiscal year 2018 the public infrastructure improvements relating to Phase 1A and Phase 1B Section 1 were conveyed to the City of Portsmouth.

Financing costs of the public improvements, consisting of bond interest offset by investment income, is considered a cost of the improvements during the construction period prior to GASB

89 implemented in 2019. There was no construction activity during fiscal years 2020 and 2019; therefore, the debt service costs are considered an expense of the Authority.

NOTE 6—LONG-TERM OBLIGATIONS

Bonds payable consisted of the following at June 30, 2020 and 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
2020					
Term 2026	\$ 4,277,000	\$ -	\$ -	\$ 4,277,000	\$ 320,000 *
Term 2036	9,730,000	-	-	9,730,000	-
Less: Unamortized Discount	(137,862)	-	8,031	(129,831)	-
Net Bonds Payable	\$ 13,869,138	\$ -	\$ 8,031	\$ 13,877,169	\$ 320,000
	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
2019					
Term 2026	\$ 4,277,000	\$ -	\$ -	\$ 4,277,000	\$ 284,000 *
Term 2036	9,730,000	-	-	9,730,000	-
Less: Unamortized Discount	(145,892)	-	8,030	(137,862)	-
Net Bonds Payable	\$ 13,861,108	\$ -	\$ 8,030	\$ 13,869,138	\$ 284,000

*As no sinking fund payments are expected to be made in the foreseeable future, all debt is classified as a long-term liability.

No mandatory sinking fund payments were made in fiscal years 2020 or 2019 due to continued delinquent assessments.

A. Special Assessment Revenue Bonds, Series 2015

On May 24, 2006, the Authority issued \$16,240,000 in Special Assessment Bonds Series 2006 to finance the construction of public infrastructure improvements located within the District, to fund a reserve fund, to fund construction period interest and administrative expenses, and to pay costs relating to the issuance of the Bonds.

The Bonds were issued in two series as follows:

	Par Value	Interest Rate	Final Maturity Date
Term 2026	\$ 5,325,000	5.500%	9/1/2026
Term 2036	\$ 10,915,000	5.600%	9/1/2036

The City, on behalf of the Authority, will impose and collect the special assessment annual installments and has agreed to apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the special assessment annual installments.

The Bonds are limited obligations of the Authority, payable solely from and secured by revenues collected from special assessments after payment of administrative expenses.

Interest on the Bonds is payable semiannually on March 1 and September 1 of each year beginning on September 1, 2006. 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.

There were no interest payments made for the years ended June 30, 2020 and 2019. All interest payable has been classified as a long-term liability, given no payments are expected to be made in the foreseeable future.

The Bonds are subject to optional redemption, special mandatory redemption, and mandatory sinking fund redemption.

The bond discount is being amortized over the life of the bonds using the straight-line method.

B. Optional Redemption

The Bonds may be redeemed at the option of the Authority prior to their respective maturities in whole or in part at any time on or after September 1, 2016, plus accrued interest to the redemption date at the following redemption principal amounts:

<u>Redemption Date</u>	<u>Redemption Price</u>
September 1, 2016 to August 31, 2017	101%
September 1, 2017 or thereafter	100%

C. Special Mandatory Redemption

The Bonds are subject to special mandatory redemption at a redemption price equal to 100% of the principal amount plus accrued interest on any March 1 or September 1 from prepaid assessments or moneys remaining in the Project Fund after completion of the improvements. There were no special mandatory redemptions in fiscal year 2020 or 2019.

D. Mandatory Sinking Fund Redemption

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

For the Year Ending June 30:	Term 2026		Term 2036	
	Principal	Interest	Principal	Interest
2021	\$ 320,000	\$ 164,780	\$ -	\$ 544,992
2022	360,000	146,080	-	544,992
2023	401,000	125,153	-	544,992
2024	446,000	101,860	-	544,992
2025	492,000	76,065	-	544,992
2026-2030	1,137,000	63,883	2,136,000	2,552,536
2031-2035	-	-	4,987,000	1,473,668
2036-2037	-	-	2,609,000	149,044
Total	<u>\$ 3,156,000</u>	<u>\$ 677,821</u>	<u>\$ 9,732,000</u>	<u>\$ 6,900,208</u>

For the Year Ending June 30:	Total Bonds	
	Principal	Interest
2021	\$ 320,000	\$ 709,772
2022	360,000	691,072
2023	401,000	670,145
2024	446,000	646,852
2025	492,000	621,057
2026-2030	3,273,000	2,616,419
2031-2035	4,987,000	1,473,668
2036-2037	2,609,000	149,044
Total	<u>\$ 12,888,000</u>	<u>\$ 7,578,029</u>

No mandatory sinking fund redemption payments were made on September 1, 2019 or 2018. Outstanding principal and interest payments from prior fiscal years total \$1,119,000 and \$4,160,613, respectively.

NOTE 7—SPECIAL ASSESSMENTS

Annual special assessments are 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, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. Special assessments, unless prepaid, will be payable in installments at the same time general real estate taxes are paid to the City of Portsmouth. The City has agreed to apply its customary tax payment enforcement proceedings to the collection of any delinquent

payment of special real property taxes. Taxes are due quarterly each year on September 30, December 31, March 31, and June 30.

Assessments totaling \$1,094,151 have been imposed on property owners for the tax year 2019 due quarterly during the fiscal year ending June 30, 2020. As of June 30, 2020, approximately \$906,363 of these assessments were delinquent.

Assessments totaling \$1,072,235 have been imposed on property owners for the tax year 2018 due quarterly during the fiscal year ending June 30, 2019. As of June 30, 2020, approximately \$837,113 of these assessments were delinquent.

In fiscal year 2020, \$86,621 of delinquent special assessments and \$18,492 of penalties and interest charges were paid by property owners. Total delinquencies as of June 30, 2020 for tax years 2010-2019 were \$6,438,169.

<u>Tax Year</u>	<u>Delinquent Amount</u>
2010	\$ 216
2011	63,937
2012	747,779
2013	695,020
2014	754,859
2015	816,618
2016	800,942
2017	815,322
2018	837,113
2019	906,363
Total	<u><u>\$ 6,438,169</u></u>

Due to the continued delinquencies, tax parcel numbers 0524-0010, 0523-0010 and 0524-0032 were turned over to the City Treasurer's Office for tax sale in February 2014. The tax sale was delayed pending passage of the bill SB 1448, which was signed by the governor in March 2015. That bill allows delinquent special assessments to be paid out of tax sale proceeds. The sale was again delayed pending the Virginia Supreme Court ruling in Cygnus' lawsuit. As of June 30, 2020, the City had confirmed no foreclosure proceedings had commenced.

NOTE 8—DRAWS ON RESERVE FUND

Due to the delinquent payment of annual assessments, draws on the Reserve Fund total \$1,281,528 to pay interest on the bonds and administrative expenses of the Authority from August 29, 2014 to November 18, 2016.

As of June 30, 2020, the Reserve Fund balance was \$247,660, which is \$1,272,826 below the reserve requirement of \$1,520,486.

NOTE 9—ARBITRAGE REQUIREMENTS

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 June 30, 2020 and 2019. The Bondholders have directed that no further arbitrage calculations be performed.

NOTE 10—CONTINGENT LIABILITIES

As of June 30, 2020, there were no claims or lawsuits pending against the Authority.

NOTE 11—SUBSEQUENT EVENTS

A. Delinquent Assessments

As of February 8, 2022, the County reported the following special assessments were delinquent:

<u>Tax Year</u>	<u>Delinquent Amount</u>
2011	64,404
2012	740,237
2013	702,562
2014	754,288
2015	786,194
2016	800,575
2017	815,355
2018	833,905
2019	850,950
2020	885,840
Total	<u><u>\$ 7,234,310</u></u>

B. Reserve Fund Delinquencies

As of January 31, 2022, the Reserve Fund balance was \$247,706, which is \$1,272,780 below the reserve requirement of \$1,520,486.

C. Non-Payment of Debt Service

Principal payments due between September 1, 2015 and September 1, 2021 have been deferred at the direction of the bondholders, due to non-payment of special assessments and insufficient funds in the Debt Service Reserve Fund.

On March 1, 2021 a payment for accrued and unpaid interest for \$780,116 has been made to the bond holders.

On February 3, 2022 a payment for accrued and unpaid interest for \$780,116 has been made to the bond holders.

NOTE 12—EVALUATION OF SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through April 29, 2022, the date which the financial statements are available to be issued.

VI. COMPLIANCE



THE NICHOLS GROUP, P.A.
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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
New Port 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 New Port Community Development Authority (Authority), 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, April 29, 2022.

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.

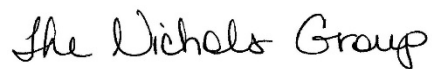
Compliance and Other Matters

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,

A handwritten signature in cursive script that reads "The Nichols Group".

The Nichols Group, PA
Fleming Island, Florida

April 29, 2022