

**NEW PORT  
COMMUNITY DEVELOPMENT AUTHORITY**

**AUDITED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2021, AND 2020**

**CUSIP NUMBERS:**

648121 AA9

648121 AB7



**THE NICHOLS GROUP, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

**NEW PORT  
COMMUNITY DEVELOPMENT AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS  
JUNE 30, 2021, AND 2020**

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## ***I. BOARD OF DIRECTORS***

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Mr. Bryant Thomas, Chairman

Ms. Stephanie Elliott-Williams, Vice Chair

Mr. Shawn Garfield, Secretary/Treasurer

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## II. AUDITOR'S OPINION

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THE NICHOLS GROUP, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Directors  
New Port Community Development Authority

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the business-type activities of the New Port Community Development Authority (Authority) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2021 and 2020, 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.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's

ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

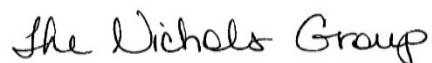
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, 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 September 12, 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,

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

The Nichols Group, PA

Fleming Island, Florida

September 12, 2022

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### ***III. MANAGEMENT'S DISCUSSION AND ANALYSIS***

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The Management's Discussion and Analysis of the New Port Community Development Authority's (the "Authority" or "District") financial performance provides an overall review of the Authority's financial activities for the years ended June 30, 2021, and 2020. 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 (the "Bonds") on May 24, 2006, bearing interest from 5.50% to 5.60% per annum with maturities ranging from 2026 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, 2021 and 2020 totaled (\$11,616,485) and (\$10,919,645) respectively due to the donation of public improvements to the City of Portsmouth in 2018.
3. Construction costs at June 30, 2021 and 2020 were \$4,033,921, 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, (the "City").
4. Special Assessments of \$1,118,136 and \$1,094,151 were assessed for the 2020 and 2019 tax years, respectively. As of February 8, 2022, approximately \$885,840 and \$850,950 for tax years 2020 and 2019, respectively, were delinquent. Delinquent special assessments of \$57,996 were collected from property owners during fiscal year 2021. Delinquent assessments totaled \$7,234,310 for tax years 2011-2020 as of February 8, 2022. We have been unable to obtain total delinquencies as of June 30, 2021, or 2022.
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, 2021, the Debt Service Reserve Fund balance was \$247,686, which results in a current deficiency of \$1,236,967, below the requirement of \$1,484,653.
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. An auction to sell

the parcels, now a total of four, was scheduled but cancelled on December 13, 2021, due to lack of bidding. A subsequent auction was held on June 15, 2022, which also failed as no qualifying bids were received. See Note 11D for further details.

8. Sinking fund payments of \$320,000 and \$284,000, were not made on September 1, 2020, and 2019, respectively. Interest payments due on outstanding Bonds for fiscal year 2020 were deferred. At June 30, 2021, \$4,160,613 was accrued for unpaid interest, all but \$780,115 of which was recorded as a long-term liability.
9. On April 26, 2019, the Authority removed Manufacturers and Traders Trust Company (“the Trustee”) as the trustee and appointed UMB Bank, National Association (“Successor Trustee”).
10. Lapis, a private investment firm that specializes in getting problem land district financings back on track, is now the owner of all of the Bonds. They are spending money on engineers and land use attorneys to assess the infrastructure in the District and deal with the large tax and assessment liens on the vacant land.

### **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:**

	<b><u>2021</u></b>	<b><u>2020</u></b>
Assets:		
Current Assets	\$ 40,168	\$ 34,327
Other Assets	929,187	1,602,809
Capital Assets	<u>5,526,298</u>	<u>5,526,298</u>
Total Assets	<u>6,495,653</u>	<u>7,163,434</u>
Liabilities:		
Current Liabilities	846,439	45,297
Long Term Liabilities	<u>17,265,698</u>	<u>18,037,782</u>
Total Liabilities	<u>18,112,137</u>	<u>18,083,079</u>
Net Position	<u>\$ (11,616,484)</u>	<u>\$ (10,919,645)</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:**

	<b><u>2021</u></b>	<b><u>2020</u></b>
Operating Revenues	\$ 256,176	\$ 280,041
Operating Expenses	<u>(171,492)</u>	<u>(84,307)</u>
Operating Income	<u>84,684</u>	<u>195,734</u>
Non-Operating Revenues	6,624	30,934
Non-Operating Expenses	<u>(788,147)</u>	<u>(788,146)</u>
Operating Income	<u>(781,523)</u>	<u>(757,212)</u>
Changes in Net Position	<u>\$ (696,839)</u>	<u>\$ (561,478)</u>

The increase in the negative change 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 and the amount of the construction in progress not yet accepted was \$4,033,921 at June 30, 2021 and 2020.

### **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 is 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, 2021, all debt service 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 \$1,118,136 were imposed for tax year 2020, due to be paid in fiscal year 2021 in four quarterly installments of \$279,534. As of June 30, 2021, the City has collected and remitted special assessments in the amount of approximately \$192,303 to the Authority.

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 \$304,324 to the Authority.

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

### **Economic Factors and Future Outlook**

Presently, the Authority is not aware of any other significant changes in economic 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.

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## ***IV. FINANCIAL STATEMENTS***

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**NEW PORT COMMUNITY DEVELOPMENT AUTHORITY  
STATEMENTS OF NET POSITION  
As of June 30,**

	<b><u>2021</u></b>	<b><u>2020</u></b>
Assets		
Current Assets		
Accrued interest receivable	\$ 7	\$ 13
Accrued assessments receivable	39,826	33,949
Accrued penalties and interest receivable	335	365
Total Current Assets	<u>40,168</u>	<u>34,327</u>
Noncurrent Assets		
Restricted cash and cash equivalents	929,187	1,602,809
Capital assets	5,526,298	5,526,298
Total Noncurrent Assets	<u>6,455,485</u>	<u>7,129,107</u>
Total Assets	<u>6,495,653</u>	<u>7,163,434</u>
Liabilities		
Current Liabilities		
Accounts payable	66,324	45,297
Accrued interest payable	780,115	-
Total Current Liabilities	<u>846,439</u>	<u>45,297</u>
Long Term Liabilities		
Long-term interest payable	3,380,498	4,160,613
Bonds payable	14,007,000	14,007,000
Less: discount on long-term debt	(121,800)	(129,831)
Total Long-Term Liabilities	<u>17,265,698</u>	<u>18,037,782</u>
Total Liabilities	<u>18,112,137</u>	<u>18,083,079</u>
Net Position		
Net investment in capital assets	(8,358,902)	(8,350,871)
Restricted	929,187	1,602,809
Unrestricted	(4,186,769)	(4,171,583)
Total Net Position	<u>\$ (11,616,484)</u>	<u>\$ (10,919,645)</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><b>2021</b></u>	<u><b>2020</b></u>
Operating Revenues		
Special assessment revenues	\$ 256,176	\$ 280,041
Total Operating Revenues	<u>256,176</u>	<u>280,041</u>
Operating Expenses		
Administrative fees	94,216	50,230
Legal and accounting fees	76,726	33,527
Insurance expense	550	550
Total Operating Expenses	<u>171,492</u>	<u>84,307</u>
Operating Income	<u>84,684</u>	<u>195,734</u>
Non-Operating Revenues (Expenses)		
Investment income	142	12,096
Penalties and interest income	6,482	18,838
Bond interest expense	<u>(788,147)</u>	<u>(788,146)</u>
Total Non-Operating Revenues (Expenses)	<u>(781,523)</u>	<u>(757,212)</u>
Change in Net Position	(696,839)	(561,478)
Net Position, Beginning of Year	<u>(10,919,645)</u>	<u>(10,358,167)</u>
Net Position, End of Year	<u><u>\$ (11,616,484)</u></u>	<u><u>\$ (10,919,645)</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><b>2021</b></u>	<u><b>2020</b></u>
Cash Flows from Operating Activities:		
Cash receipts from property owners	\$ 250,300	\$ 274,410
Cash payments for administrative fees	(92,445)	(36,192)
Cash payments for legal and accounting fees	(57,470)	(22,105)
Cash payments for insurance	(550)	(550)
Net Cash Provided by Operating Activities	<u>99,835</u>	<u>215,563</u>
Cash Flows from Investing Activities:		
Interest received on investments	<u>147</u>	<u>14,029</u>
Net Cash Provided by Investing Activities	<u>147</u>	<u>14,029</u>
Cash Flows from Capital and Related Financing Activities:		
Penalties and interest received	6,512	18,492
Interest paid on bonds	(780,116)	-
Net Cash Provided by Capital and Related Financing Activities	<u>(773,604)</u>	<u>18,492</u>
Net Change in Cash and Cash Equivalents	(673,622)	248,084
Cash and Cash Equivalents, Beginning of Year	<u>1,602,809</u>	<u>1,354,725</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 929,187</u></u>	<u><u>\$ 1,602,809</u></u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 84,684	\$ 195,734
Adjustments		
(Increase) decrease in assessments receivable	(5,877)	(5,631)
Increase in accounts payable	<u>21,028</u>	<u>25,460</u>
Net Cash Provided by Operating Activities	<u><u>\$ 99,835</u></u>	<u><u>\$ 215,563</u></u>

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

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## ***V. NOTES TO THE FINANCIAL STATEMENTS***

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### **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 City Council (the “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 of Portsmouth, Virginia (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 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 in the midtown area 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 presently governed by a board of three directors, 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.

## **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, 2021, and 2020:

	<u><b>2021</b></u>	<u><b>2020</b></u>
US Treasury money market fund	\$ 929,187	\$ 1,602,809
Total	<u>\$ 929,187</u>	<u>\$ 1,602,809</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, 2021 and 2020 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 \$929,187 are valued using quoted market prices (Level 1 inputs).

## **NOTE 4—RECEIVABLES**

Receivables at June 30, 2021 and 2020 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, 2021, and 2020 was as follows:

<b>2021</b>	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	\$ 5,526,298	\$ -	\$ -	\$ 5,526,298

<b>2020</b>	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	\$ 5,526,298	\$ -	\$ -	\$ 5,526,298

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 implementation in 2019. Debt service costs subsequent to fiscal year 2018 are considered an expense of the Authority.

## NOTE 6—LONG-TERM OBLIGATIONS

Bonds payable consisted of the following at June 30, 2021 and 2020:

<b>2021</b>	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Term 2026	\$ 4,277,000	\$ -	\$ -	\$ 4,277,000	\$ 360,000
Term 2036	9,730,000	-	-	9,730,000	
Less: Unamortized Discount	(129,832)	-	8,032	(121,800)	
<b>Net Bonds Payable</b>	<b>\$ 13,877,168</b>	<b>\$ -</b>	<b>\$ 8,032</b>	<b>\$ 13,885,200</b>	<b>\$ 360,000</b>
<b>2020</b>	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Term 2026	\$ 4,277,000	\$ -	\$ -	\$ 4,277,000	\$ 320,000
Term 2036	9,730,000	-	-	9,730,000	
Less: Unamortized Discount	(137,862)	-	8,030	(129,832)	
<b>Net Bonds Payable</b>	<b>\$ 13,869,138</b>	<b>\$ -</b>	<b>\$ 8,030</b>	<b>\$ 13,877,168</b>	<b>\$ 320,000</b>

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

No mandatory sinking fund payments were made in fiscal years 2021 or 2020 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:

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

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

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.

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.

One year's interest payment was made for the year ended June 30, 2021. There had been no interest payments made since fiscal 2015 prior to that payment. Because of the substantial amount of outstanding debt service, all but the current year's interest payable has been classified as a long-term liability.

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 2021 or 2020.

### 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:	<u>Term 2026</u>		<u>Term 2036</u>	
	Principal	Interest	Principal	Interest
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	544,000	47,575	-	544,992
2027-2031	593,000	16,308	2,979,000	2,409,316
2032-2036	-	-	5,396,000	1,182,944
2037	-	-	1,357,000	37,996
Total	<u>\$ 2,836,000</u>	<u>\$ 513,041</u>	<u>\$ 9,732,000</u>	<u>\$ 6,355,216</u>

For the Year Ending June 30:	<u>Total Bonds</u>	
	Principal	Interest
2022	\$ 360,000	\$ 691,072
2023	401,000	670,145
2024	446,000	646,852
2025	492,000	621,057
2026	544,000	592,567
2027-2031	3,572,000	2,425,624
2032-2036	5,396,000	1,182,944
2037	1,357,000	37,996
Total	<u>\$ 12,568,000</u>	<u>\$ 6,868,257</u>

No mandatory sinking fund redemption payments were made on September 1, 2021, or 2020. Outstanding principal and interest payments from prior fiscal years total \$1,439,000 and

\$4,160,613, respectively. All but \$780,115 of the outstanding interest has been recorded as a long-term liability.

#### **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. 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 \$1,118,136 have been imposed on property owners for the tax year 2020 due quarterly during the fiscal year ending June 30, 2021. As of June 30, 2021, the City has collected and remitted \$192,303 to the Authority.

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, 2021, the City has collected and remitted \$304,324 to the Authority.

In fiscal year 2021, \$57,996 of delinquent special assessments were paid by property owners.

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. See Note 11D for further details.

Lapis, a private investment firm that specializes in getting problem land district financings back on track, is now the owner of all of the Bonds. They are spending money on engineers and land use attorneys to assess the infrastructure in the District and deal with the large tax and assessment liens on the vacant land.

#### **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, 2022, the Reserve Fund balance was \$247,686, which is \$1,236,967 below the reserve requirement of \$1,484,653.

## 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, 2019, and 2018. The Bondholders have directed that no further arbitrage calculations be performed.

## NOTE 10—CONTINGENT LIABILITIES

As of June 30, 2021, there were no claims or lawsuits pending against the Authority.

## NOTE 11—SUBSEQUENT EVENTS

### 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
<b>Total</b>	<b><u><u>\$ 7,234,310</u></u></b>

We have been unable to obtain total delinquencies by year as of June 30, 2021, or 2022.

### B. Reserve Fund Delinquencies

As of May 31, 2022, the Reserve Fund balance was \$46,359, which is \$1,438,294 below the reserve requirement of \$1,484,653. A withdrawal of \$201,350 was made from the Reserve Fund in February 2022 for payment of interest on February 3.

### 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. Future principal payments will be deferred for the foreseeable future.

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

#### **D. Bondholder Lawsuit**

In 2020, the Portsmouth City Treasurer received an order from Portsmouth Circuit Court allowing the City Treasurer to proceed with a tax/special assessment foreclosure against three delinquent Cygnus properties. The City Treasurer moved to auction off the properties. The first auction for all three properties was scheduled for December 2021. It appears that that auction was canceled or, at least, did not produce any qualified bidders. Another auction was held on June 15, 2022, which also failed because no qualifying bids were received. The bond trustee, acting at the direction of the bondholders, is seeking to intervene in the foreclosure action, presumably to encourage or force the City Treasurer to get the properties auctioned off. The bondholders are questioning the manner in which the City Treasurer is conducting the auctions.

At this time the CDA is not a named party in the dispute and is not involved. The dispute is among the bond trustee/bondholders, the City Treasurer and Cygnus as owner of the delinquent properties.

#### **NOTE 12—EVALUATION OF SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through September 12, 2022, the date which the financial statements are available to be issued.

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## VI. COMPLIANCE

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THE NICHOLS GROUP, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

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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 the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the New Port Community Development Authority (Authority) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 12, 2022.

#### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 or significant deficiencies may exist that were not identified.



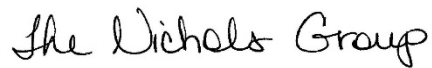
## **Report on Compliance and Other Matters**

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

### **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

September 12, 2022