

**NEW PORT
COMMUNITY DEVELOPMENT AUTHORITY**

**AUDITED FINANCIAL STATEMENTS
AS OF JUNE 30, 2024, AND 2023**

CUSIP NUMBERS:

648121 AA9

648121 AB7



THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

**NEW PORT
COMMUNITY DEVELOPMENT AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS
JUNE 30, 2024, AND 2023**

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I. BOARD OF DIRECTORS

Bryant Thomas, Chairman

Stephanie Elliott-Williams, Vice Chair

Cortney Skinner, Secretary/Treasurer

Steven Carter

Shonda Taylor

Monica Holleman, Alternate

II. INDEPENDENT AUDITOR'S REPORT



THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2024 and 2023, 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, 2024 and 2023, 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

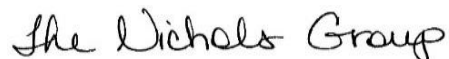
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, 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 March 28, 2025 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Sincerely,

The Nichols Group

The Nichols Group, PA

Fleming Island, Florida

March 28, 2025

III. MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2024, and 2023. 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, 2024 and 2023 totaled (\$13,825,272) and (\$13,076,650) respectively, due to the donation of public improvements to the City of Portsmouth, (the "City") in 2018 and continued unpaid debt service.
3. Construction costs at June 30, 2024 and 2023 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.
4. Special Assessments of \$1,183,691 and \$1,160,902 were assessed for the 2023 and 2022 tax years, respectively, to be paid in fiscal year 2024 and 2023, respectively. As of February 10, 2025, \$941,331 and \$923,049 for tax years 2023 and 2022, respectively, were delinquent. According to the City Treasurer, delinquent assessments totaled \$8,580,936 for tax years 2013-2023.
5. As of June 30, 2024, the balance in the Debt Service Reserve Fund was \$49,975, which is \$1,434,678 less than the reserve requirement of \$1,484,653. The draws from the Debt Service Reserve Fund resulted from non-payment of annual assessments on behalf of certain property owners. There were no draws from the Debt Service Reserve Fund in fiscal years 2024 and 2023 as no debt service payments were made
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.

8. 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 have hired engineers and land use attorneys to assess the infrastructure in the District and manage the large tax and assessment liens on the vacant land. As of October 31, 2024, the four parcels have been sold at auction for a total of \$4,062,044, with the CDA receiving its portion of \$466,590 in October 2024 and \$2,893,430 in January 2025. Over the next three months, Bonds will be cancelled, and the remaining liens and debt service revised.
9. On April 26, 2019, the Authority removed Manufacturers and Traders Trust Company (the “Trustee”) as the trustee and appointed UMB Bank, National Association (the “Successor Trustee”).
10. Sinking fund payments of \$446,000 and \$401,000, were not made on September 1, 2023, and 2022, respectively. Interest payments due on outstanding Bonds for fiscal years 2024 and 2023 were deferred. On June 30, 2024, \$5,720,843 was accrued for unpaid interest, which was recorded as a long-term liability.

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 Statements of Net Position:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Assets:			
Current Assets	\$ 59,896	\$ 57,614	\$ 53,379
Other Assets	262,090	198,643	171,109
Capital Assets	<u>5,526,298</u>	<u>5,526,298</u>	<u>5,526,298</u>
Total Assets	<u>5,848,284</u>	<u>5,782,555</u>	<u>5,750,786</u>
Liabilities:			
Current Liabilities	43,421	17,216	21,644
Long Term Liabilities	<u>19,630,135</u>	<u>18,841,989</u>	<u>18,053,844</u>
Total Liabilities	<u>19,673,556</u>	<u>18,859,205</u>	<u>18,075,488</u>
Net Position	<u>\$ (13,825,272)</u>	<u>\$ (13,076,650)</u>	<u>\$ (12,324,702)</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 Statements of Revenues, Expenses, and Changes in Net Position:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Revenue	\$ 248,497	\$ 238,982	\$ 277,266
Operating Expenses	<u>221,122</u>	<u>210,408</u>	<u>188,451</u>
Operating Income	<u>27,375</u>	<u>28,574</u>	<u>88,815</u>
Non-Operating Revenues	12,149	7,624	1,114
Non-Operating Expenses	<u>(788,146)</u>	<u>(788,146)</u>	<u>(798,147)</u>
Change in Net Position	<u>\$ (748,622)</u>	<u>\$ (751,948)</u>	<u>\$ (708,218)</u>

The increase in the negative change in net position in fiscal year 2023 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.

Management is not aware of any construction activity at this time, and the amount of the construction in progress not yet accepted was \$4,033,921 at June 30, 2024 and 2023.

Long-Term Debt

The Authority issued Special Assessment Bonds, Series 2006, dated May 24, 2006, with interest rates ranging from 5.50% to 5.60% 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, 2024, all mandatory sinking fund payments between September 1, 2017, and September 1, 2024, were deferred at the direction of the bondholders due to non-payment of special assessments and insufficient funds in the Debt Service Reserve Fund. No interest payments were made in fiscal years 2024 and 2023.

Special Assessments

Special assessments of \$1,183,691 were imposed for tax year 2023, due to be paid in fiscal year 2024 in four quarterly installments of \$295,923. As of June 30, 2024, the City had collected tax year 2023 special assessments of \$239,670.

Special assessments of \$1,160,902 were imposed for tax year 2022, due to be paid in fiscal year 2023 in four quarterly installments of \$290,226. As of June 30, 2024, the City had collected tax year 2022 special assessments of \$237,317.

As of February 10, 2025, the City reports total delinquencies of \$8,580,936 for tax years 2013-2023.

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.

IV. FINANCIAL STATEMENTS

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

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets		
Accrued interest receivable	\$ 1,090	\$ 824
Accrued assessments receivable	58,806	56,790
Total Current Assets	<u>59,896</u>	<u>57,614</u>
Noncurrent Assets		
Restricted cash and cash equivalents	262,090	198,643
Capital assets	5,526,298	5,526,298
Total Noncurrent Assets	<u>5,788,388</u>	<u>5,724,941</u>
Total Assets	<u>5,848,284</u>	<u>5,782,555</u>
Liabilities		
Current Liabilities		
Accounts payable	43,421	17,216
Total Current Liabilities	<u>43,421</u>	<u>17,216</u>
Long-Term Liabilities		
Long-term interest payable	5,720,843	4,940,728
Bonds payable	14,007,000	14,007,000
Less: discount on long-term debt	(97,708)	(105,739)
Total Long-Term Liabilities	<u>19,630,135</u>	<u>18,841,989</u>
Total Liabilities	<u>19,673,556</u>	<u>18,859,205</u>
Net Position		
Net investment in capital assets	(8,382,994)	(8,374,963)
Restricted	262,090	198,643
Unrestricted	(5,704,368)	(4,900,330)
Total Net Position	<u>\$ (13,825,272)</u>	<u>\$ (13,076,650)</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 Ended June 30,

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Prepayment revenues	\$ 6,665	\$ -
Special assessment revenues	241,832	238,982
Total Operating Revenues	248,497	238,982
Operating Expenses		
Administrative fees	69,359	62,431
Legal and accounting fees	151,763	147,427
Insurance expense	-	550
Total Operating Expenses	221,122	210,408
Operating Income	27,375	28,574
Non-Operating Revenues (Expenses)		
Investment income	11,923	6,778
Penalties and interest income	226	846
Bond interest expense	(788,146)	(788,146)
Total Non-Operating Revenues (Expenses)	(775,997)	(780,522)
Change in Net Position	(748,622)	(751,948)
Net Position, Beginning of Year	(13,076,650)	(12,324,702)
Net Position, End of Year	\$ (13,825,272)	\$ (13,076,650)

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 Ended June 30,

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities:		
Cash receipts from property owners	\$ 246,524	\$ 235,505
Cash payments for administrative fees	(60,716)	(64,795)
Cash payments for legal and accounting fees	(134,202)	(149,492)
Cash payments for insurance	-	(550)
Net Cash Provided by Operating Activities	<u>51,606</u>	<u>20,668</u>
Cash Flows from Investing Activities:		
Interest received on investments	<u>11,658</u>	<u>6,020</u>
Net Cash Provided by Investing Activities	<u>11,658</u>	<u>6,020</u>
Cash Flows from Capital and Related Financing Activities:		
Penalties and interest received	<u>183</u>	<u>846</u>
Net Cash Provided By Capital and Related Financing Activities	<u>183</u>	<u>846</u>
Net Change in Cash and Cash Equivalents	63,447	27,534
Cash and Cash Equivalents, Beginning of Year	<u>198,643</u>	<u>171,109</u>
Cash and Cash Equivalents, End of Year	<u>\$ 262,090</u>	<u>\$ 198,643</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 27,375	\$ 28,574
Adjustments		
Increase in assessments receivable	(2,016)	(3,478)
Increase (decrease) in accounts payable	26,204	(4,428)
Increase in penalties and interest accrual	<u>43</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 51,606</u>	<u>\$ 20,668</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 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 (the “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 governed by a board of five 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 recorded cost 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

GASB Statement No. 100, Accounting Changes and Error Corrections, became effective in fiscal year 2024. Any accounting changes or error corrections noted during the audit will be presented pursuant to the new standard.

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, 2024, and 2023:

	<u>2024</u>	<u>2023</u>
US Treasury money market fund	\$ 262,090	\$ 198,643
Total	<u>\$ 262,090</u>	<u>\$ 198,643</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 are 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, 2024 and 2023 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 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 \$262,090 are valued using quoted market prices (Level 1 inputs).

NOTE 4—RECEIVABLES

Receivables at June 30, 2024 and 2023 consist of interest and dividends on investments and assessments and penalties and interest due to the Authority from the City or property owners, which are considered collectible in full within one year.

NOTE 5—CAPITAL ASSETS

The Authority's capital asset activity for the years ended June 30, 2024, and 2023 was as follows:

2024	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
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

2023	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
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 for Phase 1B Section 2. Pursuant to the Development/Acquisition Agreement, the infrastructure improvements will be transferred by the Authority to the City 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 totaling \$10,765,857 were conveyed to the City.

The remaining improvements are approximately 50% complete as of 2018. At this time, management is not aware of any ongoing construction and plan for completion.

NOTE 6—LONG-TERM OBLIGATIONS

Bonds payable consisted of the following at June 30, 2024 and 2023:

2024	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Term 2026	\$ 4,277,000	\$ -	\$ -	\$ 4,277,000	\$ 492,000
Term 2036	9,730,000	-	-	9,730,000	
Less: Unamortized Discount	(105,738)	-	8,030	(97,708)	
Net Bonds Payable	\$ 13,901,262	\$ -	\$ 8,030	\$ 13,909,292	\$ 492,000

2023	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Term 2026	\$ 4,277,000	\$ -	\$ -	\$ 4,277,000	\$ 446,000
Term 2036	9,730,000	-	-	9,730,000	
Less: Unamortized Discount	(113,768)	-	8,030	(105,738)	
Net Bonds Payable	\$ 13,893,232	\$ -	\$ 8,030	\$ 13,901,262	\$ 446,000

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 2024 or 2023 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 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.

There were no interest payments made for the fiscal years ending June 30, 2024 and 2023. Interest payments of \$780,116 each were made for fiscal years ending June 30, 2022, and 2021. There were no interest payments made from fiscal year 2015 through fiscal year 2020. Because of the substantial amount of outstanding debt service, all 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 monies remaining in the Project Fund after completion of the improvements. There were no special mandatory redemptions in fiscal year 2024 or 2023.

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:

<u>For the Year</u> <u>Ending June 30:</u>	<u>Term 2026</u>		<u>Term 2036</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 492,000	\$ 76,065	\$ -	\$ 544,880
2026	544,000	47,575	-	544,880
2027	593,000	16,308	-	544,880
2028	-	-	651,000	526,652
2029	-	-	709,000	488,572
2030-2034	-	-	4,599,000	1,741,516
2035-2037	-	-	3,771,000	327,460
Total	<u>\$ 1,629,000</u>	<u>\$ 139,948</u>	<u>\$ 9,730,000</u>	<u>\$ 4,718,840</u>

<u>For the Year</u> <u>Ending June 30:</u>	<u>Total Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2025	\$ 492,000	\$ 620,945
2026	544,000	592,455
2027	593,000	561,188
2028	651,000	526,652
2029	709,000	488,572
2030-2034	4,599,000	1,741,516
2035-2037	3,773,000	327,460
Total	<u>\$ 11,359,000</u>	<u>\$ 4,858,788</u>

No mandatory sinking fund redemption payments were made on September 1, 2024, or 2023. Total outstanding principal and interest payments from prior fiscal years total \$2,648,000 and \$5,720,843 respectively. All 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 annual special assessments. Taxes are due quarterly each year on September 30, December 31, March 31, and June 30.

Special assessments of \$1,183,691 were imposed for tax year 2023, due to be paid in fiscal year 2024 in four quarterly installments of \$295,923. As of June 30, 2024, the City had collected tax year 2023 special assessments of \$239,670.

Special assessments of \$1,160,902 were imposed for tax year 2022, due to be paid in fiscal year 2023 in four quarterly installments of \$290,226. As of June 30, 2024, the City had collected tax year 2022 special assessments of \$237,317.

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.

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 working with engineers and land use attorneys to assess the infrastructure in the District and manage the large tax and assessment liens on the vacant land. Once all parcels have been sold, and the proceeds of the sale received, along with regular revenues, Bonds will be cancelled, and the remaining liens and debt service revised.

NOTE 8—DRAWS ON RESERVE FUND

Due to the delinquent payment of annual assessments, draws on the Reserve Fund totaled \$1,482,878 to pay interest on the Bonds and administrative expenses of the Authority from August 29, 2014, to June 30, 2024.

As of June 30, 2024, the balance in the Debt Service Reserve Fund was equal to \$49,975, which is \$1,434,678 less than 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 ending June 30, 2019, and 2018. The Bondholders have directed that no further arbitrage calculations be performed.

NOTE 10—CONTINGENT LIABILITIES

In January 2023, the Trustee filed a complaint in the United States District Court against the Authority, City, and the City Treasurer for failing to pay principal and interest to bondholders and failing to enforce the timely collection of the assessments, as well as failing to collect delinquent assessments and distribute proceeds from the resultant tax auction of the delinquent property to the Trustee.

In April 2024, the Trustee entered into a Settlement Agreement with the City Treasurer that, among other items, specified terms for auctioning the delinquent parcels located within the District boundaries and the distribution of the proceeds thereof. Concurrently therewith, the Trustee, Authority, City and City Treasurer executed a Joint Stipulation of Dismissal to terminate the previously filed litigation.

As of June 30, 2024, there were no other claims or lawsuits pending against the Authority.

NOTE 11—SUBSEQUENT EVENTS

A. Delinquent Assessments

As of February 10, 2025, the County reported the following special assessments were delinquent:

Tax Year	Delinquent Amount
2013	\$184,193
2014	722,147
2015	755,700
2016	769,524
2017	811,159
2018	833,905
2019	850,950
2020	885,840
2021	903,138
2022	923,049
2023	941,331
Total	\$8,580,936

B. Non-Payment of Debt Service

Principal payments due between September 1, 2017, and September 1, 2024, 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 July 22, 2024, two of the delinquent parcels were sold at auction for \$631,186, with the CDA receiving its portion of \$466,590 in October 2024. On October 31, 2024, the two remaining delinquent parcels were sold at auction for a total of \$3,430,858, with the CDA receiving its portion of \$2,893,430 in January 2025. Over the next three months, the proceeds of all sales at auction, along with regular revenues, will be utilized to repay and cancel outstanding Bonds, as well as to reconcile and settle any remaining assessment liens and debt service obligations.

NOTE 12—EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2025, the date on which the financial statements were available to be issued.

VI. COMPLIANCE



THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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

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

To the Board of Directors
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, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 28, 2025.

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



The Nichols Group, PA
Fleming Island, Florida

March 28, 2025