

PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

CUSIP Numbers:

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PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY

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PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY

Board of Directors

Ms. Judy Miller, Chairman

Mr. Brian DeProfio, Vice Chairman

Ms. Mary Bunting

Mr. James Eason

Vacancy

Mr. Nick Hobbs, Alternate and Secretary/Treasurer

Mr. James A. “Pete” Peterson, Alternate

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May 13, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Peninsula Town Center Community Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Peninsula Town Center Community Development Authority (Authority) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Specifications for Audits of Authorities, Boards, and Commissions, issued by the Auditor of Public Accounts for the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2019, 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 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 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 Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Dufresne CPA Services, PA".

Dufresne CPA Services, PA

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

The Management’s Discussion and Analysis of the Peninsula Town Center Community Development Authority’s (the “Authority”) financial performance provides an overall review of the Authority’s financial activities for the fiscal periods ended June 30, 2018 and 2017. The intent of this discussion and analysis is to look at the Authority’s financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the Authority’s financial performance.

Financial Highlights

1. The Authority incurred long term debt of \$92,850,000 in Special Obligation Bonds on September 6, 2007, bearing interest at 5.8% to 6.45% per annum. The Authority’s debt will be paid through the collection of special assessments, special *ad valorem* taxes and incremental tax revenues imposed on the chargeable properties benefiting from the capital improvements.
2. Net Deficit at June 30, 2018 and 2017 totaled \$(22,969,247) and \$(24,222,313), respectively.
3. Capital assets at June 30, 2018 and 2017 were \$48,034,743 and \$48,245,571, respectively. On January 18, 2011, the City of Hampton issued a Certificate of Completion for the public improvements. Costs associated with the site preparation of \$22,802,439 were expensed. The land and parking structure will be owned by the Authority. The cost of the parking structure is being depreciated using the straight-line method over its estimated useful life.
4. On March 1, 2011, a special mandatory redemption of \$478,000 was made from funds remaining in the Project Fund after completion of the improvements. On March 1, 2016, a special mandatory redemption of \$2,900,000 was made from prepaid assessments.
5. The Retail Portion of the Annual Installment totaling \$668,006 and \$556,533 was collected in fiscal years 2018 and 2017, respectively.
6. Special *ad valorem* taxes of \$471,582 and \$432,634 were remitted in fiscal years 2018 and 2017, respectively.
7. Incremental tax revenues totaling \$2,138,471 and \$1,949,088 were collected in fiscal years 2018 and 2017, respectively.
8. Special assessments totaling \$3,640,000 and \$2,935,000 were billed and collected in fiscal years 2018 and 2017, respectively. No special assessments were delinquent as of June 30, 2018. No special assessments were required for tax year 2018.
9. In March 2013, the construction lender, HSBC Realty Credit Corporation, foreclosed on property within the District owned by the Developer. The property was sold to Hampton Owners, LLC. In September 2014, Hampton Owners, LLC subsequently sold the majority of parcels to three entities.
10. The board of directors for the Authority, at a meeting held on September 19, 2017, has approved revisions to the original public improvement development plans to accommodate the developer’s proposed revisions to the development.

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

11. On August 15, 2018, the Authority issued \$77,880,000 in Special Obligation Refunding Bonds, Series 2018 to refund the Series 2007 Bonds and to pay costs related to the issuance of the Series 2018 Bonds. For more information, please see Note 9 of the Notes to the Financial Statements.

Overview of the Financial Statements

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

Summary Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current and Other Assets	\$ 15,625,905	\$ 15,126,025	\$ 15,066,435
Capital Assets	48,034,743	48,245,571	48,456,399
Total Assets	<u>63,660,648</u>	<u>63,371,596</u>	<u>63,522,834</u>
Liabilities:			
Current Liabilities	3,078,625	2,917,564	2,706,989
Long Term Liabilities	83,551,270	84,676,345	85,611,420
Total Liabilities	<u>86,629,895</u>	<u>87,593,909</u>	<u>88,318,409</u>
Net Position:			
Net investment in capital assets	(36,690,527)	(37,414,774)	(37,155,021)
Restricted assets	12,132,334	11,898,280	11,938,475
Unrestricted assets	1,588,946	1,294,181	420,971
Total Net Position	<u>\$ (22,969,247)</u>	<u>\$ (24,222,313)</u>	<u>\$ (24,795,575)</u>

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

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Summary Statements of Revenues, Expenses, and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenue	\$ 6,966,214	\$ 6,093,606	\$ 9,435,748
Operating Expenses	<u>(125,299)</u>	<u>(143,601)</u>	<u>(145,697)</u>
Operating Income (Loss)	<u>6,840,915</u>	<u>5,950,005</u>	<u>9,290,051</u>
Non-Operating Revenues	166,831	433,434	444,625
Non-Operating Expenses	<u>(5,754,680)</u>	<u>(5,810,177)</u>	<u>(5,980,021)</u>
Total non-operating revenues/(expenses)	<u>(5,587,849)</u>	<u>(5,376,743)</u>	<u>(5,535,396)</u>
Change in Net Position	<u>\$ 1,253,066</u>	<u>\$ 573,262</u>	<u>\$ 3,754,655</u>

Special assessments, incremental tax revenues, facilities charge revenues and investment income were used in part to pay bond interest and administrative expenses.

Capital Assets

The Authority's capital assets at June 30, 2018 consisted of public improvements financed with the Series 2007 Bonds to be owned by the Authority. In 2011, the City of Hampton issued a Certificate of Completion for the public improvements funded with the proceeds from the Series 2007 Bonds. Costs associated with the site preparation were expensed in fiscal year 2011. The parking structure is being depreciated using the straight-line method over the estimated useful life.

Long-Term Debt

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

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

The debt service was paid annually beginning September 1, 2011 by the revenue received from the special assessments, *ad valorem* taxes levied on the property owners within the District, and incremental tax revenues generated by the business operations within the District.

On March 1, 2011, a special mandatory redemption of \$478,000 was made on the Series 2007 Bonds from funds remaining in the Project Fund after completion of the improvements. On March 1, 2016, a special mandatory redemption of \$2,900,000 was made on the Series 2007 Bonds from prepaid assessments.

Revenues

Revenues are being paid from three sources:

- Special Assessments, including a retail portion equal to 0.50% of sales by retail establishments within the District ("Retail Portion"),

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

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

These revenue collections totaled \$6,570,481 and \$6,014,010 for fiscal years 2018 and 2017, respectively.

Revisions to the Development Plans

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

Refunding of Series 2007 Bonds

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

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

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

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

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Economic Factors and Future Outlook

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

Contacting the Authority's Financial Management

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

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017**

		<u>2018</u>	<u>2017</u>
Assets:			
Current Assets			
Accrued interest receivable	Note 4	\$ 13,775	\$ 143,682
Accrued facilities charges receivable	Note 4	26,616	50,685
Due from primary government	Note 4	3,453,180	3,033,378
Total Current Assets		<u>3,493,571</u>	<u>3,227,745</u>
Noncurrent Assets			
Restricted cash and cash equivalents	Note 3	12,132,334	11,898,280
Capital assets, net of depreciation	Note 5	48,034,743	48,245,571
Total Noncurrent Assets		<u>60,167,077</u>	<u>60,143,851</u>
Total Assets		<u>63,660,648</u>	<u>63,371,596</u>
Liabilities:			
Current Liabilities			
Accounts payable		76,153	86,068
Accrued interest payable		1,828,472	1,847,496
Short-term portion of long-term debt	Note 6	1,174,000	984,000
Total Current Liabilities		<u>3,078,625</u>	<u>2,917,564</u>
Noncurrent Liabilities			
Bonds payable, long-term portion	Note 6	84,489,000	85,663,000
Less discount on long-term debt		(937,730)	(986,655)
Total Noncurrent Liabilities		<u>83,551,270</u>	<u>84,676,345</u>
Total Liabilities		<u>86,629,895</u>	<u>87,593,909</u>
Net Position:			
Net investment in capital assets		(36,690,527)	(37,414,774)
Restricted		12,132,334	11,898,280
Unrestricted		1,588,946	1,294,181
Total Net Position		<u>\$ (22,969,247)</u>	<u>\$ (24,222,313)</u>

The accompanying notes are an integral part of this statement.

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Special assessments	\$ 3,640,000	\$ 2,935,000
Incremental tax revenues	2,682,277	2,600,725
Facilities charge revenues	643,937	557,881
Total Operating Revenues	<u>6,966,214</u>	<u>6,093,606</u>
Operating Expenses		
Administrative fees	71,422	90,149
Legal fees	36,181	41,546
Lockbox fees	4,785	4,458
Accounting and audit fees	12,000	6,600
Insurance expense	911	848
Total Operating Expenses	<u>125,299</u>	<u>143,601</u>
Operating Income (Loss)	<u>6,840,915</u>	<u>5,950,005</u>
Non-Operating Revenues (Expenses)		
Interest income	166,831	433,434
Bond interest expense	(5,543,852)	(5,599,349)
Depreciation expense	<u>(210,828)</u>	<u>(210,828)</u>
Total Non-Operating Revenues (Expenses)	<u>(5,587,849)</u>	<u>(5,376,743)</u>
Change in net position	1,253,066	573,262
Net position, beginning of year	<u>(24,222,313)</u>	<u>(24,795,575)</u>
Net position, end of year	<u><u>\$ (22,969,247)</u></u>	<u><u>\$ (24,222,313)</u></u>

The accompanying notes are an integral part of this statement.

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
Cash Flows from Operating Activities		
Cash received from property owners	\$ 5,902,474	\$ 5,437,376
Cash received from retailers	668,006	556,533
Cash payments for administrative fees	(88,217)	(36,724)
Cash payments for accounting and audit fees	(14,600)	-
Cash payments for legal fees	(26,691)	(38,157)
Cash payments for lockbox fees	(4,794)	(4,424)
Cash payments for insurance	(911)	-
Net Cash Provided by Operating Activities	<u>6,435,267</u>	<u>5,914,604</u>
Cash Flows from Investing Activities		
Interest received on investments	296,738	432,498
Net Cash Provided by Investing Activities	<u>296,738</u>	<u>432,498</u>
Cash Flows from Capital and Related Financing Activities		
Interest paid on bonds	(5,513,951)	(5,566,297)
Principal paid on bonds	(984,000)	(821,000)
Net Cash Used in Capital and Related Financing	<u>(6,497,951)</u>	<u>(6,387,297)</u>
Net Change in Cash and Investments	234,054	(40,195)
Cash and Investments, Beginning of Year	<u>11,898,280</u>	<u>11,938,475</u>
Cash and Investments, End of Year	<u>\$ 12,132,334</u>	<u>\$ 11,898,280</u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 6,840,915	\$ 5,950,005
Adjustments		
Increase in due from primary government	(419,802)	(98,349)
Decrease in prepaid expenses	-	848
Decrease (increase) in facilities charges receivable	24,069	(1,348)
(Decrease) increase in accounts payable	(9,915)	63,448
Net Cash Provided by Operating Activities	<u>\$ 6,435,267</u>	<u>\$ 5,914,604</u>

The accompanying notes are an integral part of this statement.

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 – REPORTING ENTITY

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

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

At a meeting of the Board of Directors on October 18, 2016, the Board approved a resolution authorizing the issuance of refunding bonds, which will be used to refund the Series 2007 Bonds. The 2007 Bonds were refunded with \$77,880,000 of Series 2018 Special Obligation Refunding Bonds on August 15, 2018. See Note 9-Subsequent Events for more information.

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

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

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. The 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.

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Cash and Investments

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

D. Capital Assets

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

E. Net Position

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

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

F. Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Income Taxes

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

I. New Accounting Standards

The Authority has adopted all current Statements of the GASB that are applicable.

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—DEPOSITS AND INVESTMENTS

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

Cash equivalents include money market accounts and repurchase agreements. Repurchase agreements are 100% collateralized by US Government securities at market values sufficient to cover the face value of the investments. Such underlying securities were held by financial institutions in their trust departments in the Authority's name.

Cash, cash equivalents, and investments consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Repurchase agreements	\$ -	\$ 9,501,009
US Treasury money market funds	12,036,784	2,346,160
Cash	95,550	51,111
Total cash and cash equivalents	<u>\$ 12,132,334</u>	<u>\$ 11,898,280</u>

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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

On September 1, 2017, the repurchase agreement matured. Those funds have been reinvested in a U.S. Government money market fund.

A. Custodial Credit Risk

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

B. Interest Rate Risk

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

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indenture specifies the minimum rating of different types of cash equivalents and investments in order to address this risk. Investments in the money market funds at June 30, 2018 and 2017 have met the specified ratings criteria.

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

D. Concentration of Credit Risk

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

E. Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The Authority's investments in U.S. Treasury money market funds totaling \$12,036,784 are valued using quoted market prices (Level 1 inputs).

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 4—RECEIVABLES

Receivables at June 30, 2018 and 2017 consisted of interest and dividends on investments, facilities charges due from retailers, and amounts collected and due to be paid to the Authority from the City. All receivables are considered collectible in full within one year.

NOTE 5—CAPITAL ASSETS

The Authority's capital asset activity for the years ended June 30, 2018 and 2017 was as follows:

	Beginning Balance	Additions	Transfers	Expense	Ending Balance
<u>2018</u>					
Land	\$ 41,165,179	\$ -	\$ -	\$ -	\$ 41,165,179
Vertical core construction	8,433,205	-	-	-	8,433,205
Total Capital Assets	49,598,384	-	-	-	49,598,384
Accumulated depreciation	(1,352,813)	(210,828)	-	-	(1,563,641)
Net Capital Assets	\$ 48,245,571	\$ (210,828)	\$ -	\$ -	\$ 48,034,743
	Beginning Balance	Additions	Transfers	Expense	Ending Balance
<u>2017</u>					
Land	\$ 41,165,179	\$ -	\$ -	\$ -	\$ 41,165,179
Vertical core construction	8,433,205	-	-	-	8,433,205
Total Capital Assets	49,598,384	-	-	-	49,598,384
Accumulated depreciation	(1,141,985)	(210,828)	-	-	(1,352,813)
Net Capital Assets	\$ 48,456,399	\$ (210,828)	\$ -	\$ -	\$ 48,245,571

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

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

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

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 6—LONG-TERM OBLIGATIONS

Long term debt consisted of the following at June 30, 2018 and 2017:

<u>2018</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
\$3,889,000 Term 2017 Series 2007 Bonds bearing interest at 5.80% payable semiannually, maturing September 1, 2017	\$ 984,000	\$ -	\$ (984,000)	\$ -	\$ -
\$13,502,000 Term 2024 Series 2007 Bonds bearing interest at 6.25% payable semiannually, maturing September 1, 2024	13,002,000	-	-	13,002,000	1,174,000
\$14,378,000 Term 2028 Series 2007 Bonds bearing interest at 6.35% payable semiannually, maturing September 1, 2028	13,844,000	-	-	13,844,000	-
\$61,081,000 Term 2037 Series 2007 Bonds bearing interest at 6.45% payable semiannually, maturing September 1, 2037	58,817,000	-	-	58,817,000	-
Total Bonds Payable	\$ 86,647,000	\$ -	\$ (984,000)	\$ 85,663,000	\$ 1,174,000
Less: Unamortized Deferred Bond Costs	(986,655)	-	48,925	(937,730)	
Net Bonds Payable	\$ 85,660,345	\$ -	\$ (935,075)	\$ 84,725,270	\$ 1,174,000
<hr/>					
<u>2017</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
\$3,889,000 Term 2017 Series 2007 Bonds bearing interest at 5.80% payable semiannually, maturing September 1, 2017	\$ 1,805,000	\$ -	\$ (821,000)	\$ 984,000	\$ 984,000
\$13,502,000 Term 2024 Series 2007 Bonds bearing interest at 6.25% payable semiannually, maturing September 1, 2024	13,002,000	-	-	13,002,000	-
\$14,378,000 Term 2028 Series 2007 Bonds bearing interest at 6.35% payable semiannually, maturing September 1, 2028	13,844,000	-	-	13,844,000	-
\$61,081,000 Term 2037 Series 2007 Bonds bearing interest at 6.45% payable semiannually, maturing September 1, 2037	58,817,000	-	-	58,817,000	-
Total Bonds Payable	\$ 87,468,000	\$ -	\$ (821,000)	\$ 86,647,000	\$ 984,000
Less: Unamortized Deferred Bond Costs	(1,035,580)	-	48,925	(986,655)	
Net Bonds Payable	\$ 86,432,420	\$ -	\$ (772,075)	\$ 85,660,345	\$ 984,000

**PENINSULA TOWN CENTER
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

A. Special Obligation Bonds, Series 2007

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

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

The Bonds originally consisted of the following:

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

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

Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest payments totaled \$5,513,951 and \$5,566,297 for the years ended June 30, 2018 and 2017, respectively.

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

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, 2017, plus accrued interest to the redemption date at 100% of the redemption principal amount.

C. Extraordinary Optional Redemption

The Bonds are subject to extraordinary optional redemption prior to maturity at the option of the Authority, in whole only, at any time at a redemption price equal to the principal amount plus accrued interest to the redemption date should the development be condemned or damaged or destroyed such that the utilization of the development is substantially impaired.

**PENINSULA TOWN CENTER
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

D. 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, transfers from the Debt Service Reserve Fund pursuant to the Indenture, or moneys remaining in the Project Fund after completion of the improvements. On March 1, 2016, a special mandatory redemption of \$2,900,000 was made from prepaid assessments. On March 1, 2011, a special mandatory redemption of \$478,000 was made from funds remaining in the Project Fund after completion of the public improvements.

E. Mandatory Sinking Fund Redemption

The Bonds are required to be redeemed prior to maturity by the Authority on September 1 in the years and in the amounts set forth below, as revised for the special mandatory redemptions on March 1, 2016 and March 1, 2011:

Year Ending June 30:	Term 2024 6.25% \$13,502,000		Term 2028 6.35% \$14,378,000	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,174,000	\$ 775,938	\$ -	\$ 879,094
2020	1,375,000	696,281	-	879,094
2021	1,590,000	603,625	-	879,094
2022	1,823,000	496,969	-	879,094
2023	2,072,000	375,250	-	879,094
2024-2028	4,968,000	319,500	9,831,000	3,503,009
2029-2033	-	-	4,013,000	127,413
2034-2038	-	-	-	-
Total	<u>\$ 13,002,000</u>	<u>\$ 3,267,563</u>	<u>\$ 13,844,000</u>	<u>\$ 8,025,892</u>

Year Ending June 30:	Term 2037 6.45% \$61,081,000		Total Series 2007 Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ -	\$ 3,793,697	\$ 1,174,000	\$ 5,448,729
2020	-	3,793,697	1,375,000	5,369,072
2021	-	3,793,697	1,590,000	5,276,416
2022	-	3,793,697	1,823,000	5,169,760
2023	-	3,793,697	2,072,000	5,048,041
2024-2028	-	18,968,483	14,799,000	22,790,992
2029-2033	20,488,000	16,479,557	24,501,000	16,606,970
2034-2038	38,329,000	6,602,962	38,329,000	6,602,962
Total	<u>\$ 58,817,000</u>	<u>\$ 61,019,487</u>	<u>\$ 85,663,000</u>	<u>\$ 72,312,942</u>

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

F. Proposed Refunding

At a meeting of the Board of Directors on October 18, 2016, the Board approved a resolution authorizing the issuance of refunding bonds, which will be used to refund the Series 2007 Bonds. The 2007 Bonds were refunded with \$77,880,000 of Series 2018 Special Obligation Refunding Bonds on August 15, 2018. See Note 9-Subsequent Events for more information.

NOTE 7—REVENUES

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

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

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

A. Special Assessment

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

i. Retail Portion of the Annual Installment

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

The Retail Portion of the Annual Installment was to be collected starting January 1, 2010. The Retail Portion of the Annual Installment totaling \$668,006 and \$556,533 was remitted in fiscal years 2018 and 2017, respectively. Please note, not all retailers are submitting the Retail Portion of the Annual Installment or providing an accurate accounting of their retail sales. As a result, the Authority cannot estimate the Retail Portion of the Annual Installment currently due and unpaid from retailers not in compliance with the requirements of this charge.

ii. Back-up Portion of Annual Installment

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

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

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

Per the Annual Assessment Report, the Back-up Portion of the Annual Installment totaled \$2,935,000 for tax year 2016, payable in two equal installments on December 5, 2016 and June 5, 2017. According to the City, all Special Assessments for tax year 2016 have been paid and remitted to the Authority.

B. Special Ad Valorem Taxes

The Special *Ad Valorem* Tax equals \$0.25 per \$100 of the assessed fair market value of any taxable real estate, or the assessable value of taxable leasehold property within the District. Special *ad valorem* taxes equal to \$471,582 and \$432,634 were remitted to the City in fiscal years 2018 and 2017, respectively.

C. Incremental Tax Revenues

The Incremental Tax Revenues equal a portion of the real property tax incremental revenues, sales tax incremental revenues, meals tax incremental revenues and amusement tax incremental revenues as specified in the Memorandum of Understanding dated April 25, 2006, among the Authority, the City Council, and the developer. Incremental tax revenues totaling \$2,138,471 and \$1,949,088 were collected and remitted to the Authority in fiscal years 2018 and 2017, respectively.

NOTE 8—CHANGES IN OWNERSHIP

A. Foreclosure on the property

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

B. Sale of Parcels

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

NOTE 9—SUBSEQUENT EVENTS

A. Current Assessments

Per the Annual Assessment Report, there is no Back-up Portion of the Annual Installment for tax year 2018, as the incremental, special ad valorem, and retail portion of the special assessments revenues are estimated to be sufficient to pay all costs of the Authority for the period.

**PENINSULA TOWN CENTER
COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

B. Restructuring

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

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

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

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

NOTE 10—ARBITRAGE

When applicable, arbitrage calculations are performed on the Authority's funds to determine any arbitrage rebate or yield restriction liability. No liabilities for arbitrage rebate or yield restrictions were identified in fiscal years June 30, 2018 and 2017.

NOTE 11—CONTINGENT LIABILITIES

There are no claims or lawsuits pending against the Authority.

NOTE 12—EVALUATION OF SUBSEQUENT EVENTS

The Authority has since evaluated subsequent events through May 13, 2019, the date which the financial statements are available to be issued.

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May 13, 2019

**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 Director
Peninsula Town Center Community Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts for the Commonwealth of Virginia, the financial statements of the business-type activities of the Peninsula Town Center Development Authority (Authority), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated May 13, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dufresne CPA Services, PA