

LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

CUSIP Number:
548207 AC3

LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY

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LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY

Board of Directors

Debra Girvin, Chairman

Arthur J. Heinz, Vice Chairman

Bethany Miller, Secretary

Robert M. Bullock

Mark Wauford

Report of Independent Auditor

The Board of Directors
Lower Magnolia Green Community Development Authority
Chesterfield, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Lower Magnolia Green Community Development Authority (the "Authority"), as of and for the years ended June 30, 2016 and 2015, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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. Those standards and specifications 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016 and 2015, and the changes in its financial position, and its cash flows for the year 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 6 be presented to supplement the basic financial statements. Such information, although not 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory Section is presented for purposes of additional information and is not a required part of the basic financial statements. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016 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 the internal controls 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.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive, flowing style.

Richmond, Virginia
September 29, 2016

**LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

The Management's Discussion and Analysis of the financial performance of Lower Magnolia Green Community Development Authority (the "Authority") provides an overall review of the Authority's financial activities for the fiscal years ended June 30, 2016 and 2015. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Authority's financial performance.

Financial Highlights

1. The Authority was established by an ordinance adopted by the Board of Supervisors of Chesterfield County, Virginia, in August 2007. However, there was no financial activity related to the Authority until such time as bonds were issued in April 2015.
2. The Authority incurred long term debt of \$28,070,000 in Special Assessment Bonds on April 9, 2015, in three series bearing interest at 4.0% and 5.0% per annum with final maturities of March 1, 2025, March 1, 2035, and March 1, 2045. The Authority's debt will be paid through the collection of special assessments imposed on the chargeable properties benefiting from the public improvements.
3. Net position at June 30, 2016 and 2015 totaled \$2,094,493 and \$2,116,168, respectively, due primarily to payments for public improvements along with charges for administrative fees and bond issuance costs.
4. Capital assets at June 30, 2016 and 2015 were \$2,106,938 and \$657,339, respectively, which represents ongoing construction to the public improvements, net of related financing costs.
5. No special assessments have been imposed on property owners for the fiscal years ending June 30, 2016 and 2015.

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 net 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.

**LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

Comparative Financial Analysis

Summary Statements of Net Position

	<u>2016</u>	<u>2015</u>
Assets:		
Current and other assets	\$ 28,566,958	\$ 30,236,985
Capital assets	<u>2,106,938</u>	<u>657,339</u>
Total assets	<u>30,673,896</u>	<u>30,894,324</u>
Liabilities:		
Current liabilities	475,172	673,488
Long-term debt	<u>28,104,231</u>	<u>28,104,668</u>
Total Liabilities	<u>28,579,403</u>	<u>28,778,156</u>
Net Position		
Restricted	2,569,430	2,789,407
Unrestricted	<u>(474,937)</u>	<u>(673,239)</u>
Total Net Position	<u>\$ 2,094,493</u>	<u>\$ 2,116,168</u>

Net position is due primarily to the receipt of prepaid assessments offset by payments for public improvements and the Authority's administrative fees and bond issuance costs.

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

	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 38,019	\$ 3,045,018
Operating Expenses	<u>59,694</u>	<u>12,161</u>
Operating Income	(21,675)	3,032,857
Non-operating Expenses	<u>-</u>	<u>(916,689)</u>
Change in Net Position	<u>\$ (21,675)</u>	<u>\$ 2,116,168</u>

Net position decreased in 2016 due primarily to a decrease in prepayment revenues, while at the same time experiencing an increase in the Authority's administrative fees. Special assessments will not be collected until such time as construction is substantially complete and additional funds are needed to pay debt service.

Capital Assets

The Authority's capital assets consisted of construction in progress of the public improvements, net of bond interest expense and investment income. Construction in progress at June 30, 2016 and 2015 was \$414,444 and \$347,132, respectively, which represents costs of the public improvements.

**LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

Long-Term Debt

The Authority issued Special Assessment Bonds, Series 2015, totaling \$28,070,000 dated April 9, 2015 in three series bearing interest at 4.0% and 5.0% per annum with final maturities of March 1, 2025, March 1, 2035, and March 1, 2045. This bond issuance represents 100% of the Authority's long-term debt balance. The Bonds are subject to mandatory sinking fund, optional, and special mandatory redemption requirements as specified in the Indenture.

The proceeds from the Bonds are being used to finance construction of certain public infrastructure improvements within the District consisting primarily of upgrades to existing public roads; to fund a debt service reserve fund; to fund the payment of interest on the Bonds during the construction period; to pay costs of issuing the Bonds; and to pay administrative expenses of the Authority and Chesterfield County, Virginia.

Mandatory sinking fund payments will be made annually beginning March 1, 2018 from special assessment revenues received by the Authority after the payment of administrative expenses.

Economic Factors and Future Outlook

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

Contacting Authority's Financial Management

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

**LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION
AS OF JUNE 30,**

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Restricted cash and cash equivalents	\$ 28,566,723	\$ 30,236,736
Accrued interest receivable	235	249
Total Current Assets	<u>28,566,958</u>	<u>30,236,985</u>
Noncurrent Assets		
Capital assets	<u>2,106,938</u>	<u>657,339</u>
Total Noncurrent Assets	<u>2,106,938</u>	<u>657,339</u>
Total Assets	<u>30,673,896</u>	<u>30,894,324</u>
Liabilities		
Current Liabilities		
Accounts payable	13,239	12,161
Accrued liabilities	1,200	350,332
Accrued interest payable	460,733	310,995
Total Current Liabilities	<u>475,172</u>	<u>673,488</u>
Noncurrent Liabilities		
Long-term portion of bonds payable	28,070,000	28,070,000
Premium/(discount) on long-term debt, net	34,231	34,668
Total Noncurrent Liabilities	<u>28,104,231</u>	<u>28,104,668</u>
Total Liabilities	<u>28,579,403</u>	<u>28,778,156</u>
Net Position		
Restricted	2,569,430	2,789,407
Unrestricted	<u>(474,937)</u>	<u>(673,239)</u>
Net Position	<u>\$ 2,094,493</u>	<u>\$ 2,116,168</u>

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

**LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30,**

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Prepayment revenues	\$ 38,019	\$ 3,045,018
Operating Expenses		
Administrative fees	48,304	12,161
Legal fees	5,000	-
Accounting and audit fees	6,390	-
Total Operating Expenses	<u>59,694</u>	<u>12,161</u>
Operating Income (Loss)	<u>(21,675)</u>	<u>3,032,857</u>
Non-Operating Expenses		
Bond issuance costs	<u>-</u>	<u>(916,689)</u>
Total Non-Operating Expenses	<u>-</u>	<u>(916,689)</u>
Change in Net Position	(21,675)	2,116,168
Net Position, Beginning of Year	<u>2,116,168</u>	<u>-</u>
Net Position, End of Year	<u><u>\$ 2,094,493</u></u>	<u><u>\$ 2,116,168</u></u>

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

**LOWER MAGNOLIA GREEN
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Cash receipts from property owners	\$ 38,019	\$ 3,045,018
Cash payments for administrative fees	(52,226)	-
Cash payments for accounting and audit fees	(6,390)	-
Net Cash (Used in) Provided by Operating Activities	<u>(20,597)</u>	<u>3,045,018</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	<u>3,329</u>	<u>439</u>
Net Cash Provided by Investing Activities	<u>3,329</u>	<u>439</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from bond issuance	-	27,543,368
Acquisition and construction of capital assets	(414,444)	-
Interest paid on bonds	(1,236,301)	-
Bond issuance costs paid	(2,000)	(352,089)
Net Cash (Used in) Provided by Capital and Related Financing Activities	<u>(1,652,745)</u>	<u>27,191,279</u>
Change in Cash Balance	(1,670,013)	30,236,736
Cash, Beginning of Year	<u>30,236,736</u>	<u>-</u>
Cash, End of Year	<u><u>\$ 28,566,723</u></u>	<u><u>\$ 30,236,736</u></u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash (Used in)		
Provided by Operating Activities:		
Operating Income (Loss)	\$ (21,675)	\$ 3,032,857
Adjustments		
Increase in accounts payable	<u>1,078</u>	<u>12,161</u>
Net Cash (Used in) Provided by Operating Activities	<u><u>\$ (20,597)</u></u>	<u><u>\$ 3,045,018</u></u>

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

LOWER MAGNOLIA GREEN COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1—REPORTING ENTITY

The Lower Magnolia Green 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. The Authority was created pursuant to the Act by an ordinance (the “CDA Ordinance”) adopted by the Board of Supervisors of Chesterfield County, Virginia (the “County Board”) on August 22, 2007, as amended on December 19, 2007, at the request of Magnolia Green Development LLC (the “Prior Owner”) which, at the time the CDA Ordinance was adopted, owned all of the property within the District. The Prior Owner’s interest was subsequently acquired through foreclosure proceedings by 6801 Woolridge Road – Moseley LP, (the “Developer”).

The Lower Magnolia Green Community Development Authority, Special Assessment Bonds, Series 2015 (the “Bonds”), were authorized by a resolution adopted by the Authority on March 9, 2015. The Bonds were issued pursuant to an Indenture of Trust (the “Indenture”) by and between the Authority and UMB Bank, N.A. (the “Trustee”), dated as of March 1, 2015.

The Bonds are intended to be paid primarily from special assessments imposed and collected by the County 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 in the County. Special assessments, when imposed, will be made a lien on parcels subject to taxation in the District, and, by an ordinance adopted on September 26, 2007, the County Board has agreed to levy and to collect special assessments against the taxable real property in the District pursuant to the Amended and Restated Special Assessment Agreement dated as of December 1, 2007, and apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the special assessment annual installment. By resolution adopted March 11, 2015, the County Board approved an Addendum to Amended and Restated Special Assessment Agreement affirming the special assessment and clarifying the obligations and responsibilities of the parties, and setting the maximum amount of the special assessments to \$84,232,072.37 to recognize the prepayment of certain special assessments.

The District consists of approximately 1,661 acres of land within the County on a site located approximately 18 miles southwest of the central business district in Richmond, Virginia, and approximately 123 miles south of Washington, D.C. The District was created in connection with a planned mixed-use development originally consisting of approximately 2,173 single family units, 923 multi-family units, 459,000 square feet of retail, and 2,000 square feet of office development to be built in three phases. The Developer currently owns approximately 80% of the land within the District, with the remaining land owned by affiliates of the Developer.

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

LOWER MAGNOLIA GREEN COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

States of America (“GAAP”) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (the “GASB”) and other recognized authoritative sources.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Cash and Cash Equivalents

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

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their fair market value on the date that they will be donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. Interest expense during the construction period is capitalized, net of investment earnings. 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 their use either through enabling legislation adopted by the Authority or through external restrictions imposed by

LOWER MAGNOLIA GREEN COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 GAAP 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.

NOTE 3—CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted entirely of U.S. Treasury money market funds as of June 30, 2016 and 2015. Cash and cash equivalents are carried at cost, which approximates fair market value.

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 primarily of investments in money market accounts. Such underlying securities were held by financial institutions in their trust departments in the Authority's name.

B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. The Authority does not have a policy to limit its exposure to interest rate risk; however, the Authority's deposits in money market funds are withdraw-able on demand.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indenture specifies the minimum rating of permitted investments. Investments at June 30, 2016 and 2015 were in money market funds currently rated "AAAm" by Standard and Poor's and "Aaa-mf" by Moody's.

LOWER MAGNOLIA GREEN COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 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. The Indenture establishes limitations on the holdings of non-U.S. Government obligations as well.

NOTE 4—CAPITAL ASSETS

Construction in progress consists of soft costs related to the public improvements, which will consist primarily of realigning and widening, from two lanes to four lanes, two existing public roads, which at their intersection abut the District and provide ingress and egress to the eastern entrance of the development. The proceeds of the Bonds are to be used primarily to fund the costs of these public improvements. Pursuant to the Development/Acquisition Agreement, the public improvements will be conveyed to the County or other such public entity as the County may designate.

The Authority's capital asset activity for the years ended June 30, 2016 and 2015 was as follows:

<u>2016</u>	Beginning Balance	Additions	Reductions	Ending Balance
Construction in progress	\$ 347,132	\$ 67,312	\$ -	\$ 414,444
Capitalized bond interest	310,895	1,385,602	-	1,696,497
Capitalized investment income	(688)	(3,315)	-	(4,003)
Total Capital Assets	<u>\$ 657,339</u>	<u>\$ 1,449,599</u>	<u>\$ -</u>	<u>\$ 2,106,938</u>

<u>2015</u>	Beginning Balance	Additions	Reductions	Ending Balance
Construction in progress	\$ -	\$ 347,132	\$ -	\$ 347,132
Capitalized bond interest	-	310,895	-	310,895
Capitalized investment income	-	(688)	-	(688)
Total Capital Assets	<u>\$ -</u>	<u>\$ 657,339</u>	<u>\$ -</u>	<u>\$ 657,339</u>

As of June 30, 2016 construction on the public improvements had not commenced.

LOWER MAGNOLIA GREEN COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 5—LONG-TERM OBLIGATIONS

A. Special Assessment Revenue Bonds, Series 2015

On April 9, 2015, the Authority issued \$28,070,000 in Special Assessment Revenue Bonds, Series 2015, to finance certain public roadway improvements and related infrastructure serving the District, to fund a debt service reserve fund, to fund certain construction period interest on the Bonds through March 1, 2017, to fund initial administrative expenses, and to pay costs of issuing the Bonds. Pursuant to the Amended and Restated Special Assessment Agreement dated December 1, 2007, and the Addendum to the Amended and Restated Special Assessment Agreement dated March 12, 2015, the County, on behalf of the Authority, will impose and collect the special assessment annual installments and has agreed to apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the special assessment annual installments.

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

Interest on the Bonds is payable according to the terms specified by the Indenture semiannually on March 1 and September 1 of each year commencing on September 1, 2015. Interest on the Bonds is calculated on the basis of a 360-day year comprised of twelve 30-day months. The Term 2025 Bonds were issued at a discount of \$25,794. The Term 2035 Bonds were issued at a premium of \$60,562. The discount and premium are being amortized using the straight-line method over the life of each term of bonds. The Bonds were issued in three series as follows:

	<u>Principal Amount</u>	<u>Rate</u>	<u>Final Maturity</u>
Term 2025	\$ 2,130,000	4.00%	March 1, 2025
Term 2035	\$ 7,855,000	5.00%	March 1, 2035
Term 2045	\$ 18,085,000	5.00%	March 1, 2045

Interest payments totaled \$1,236,301 for the year ended June 30, 2016. There were no interest payments made for the year ending June 30, 2015.

Bonds payable consisted of the following at June 30, 2016 and 2015:

	<u>Balance</u>		<u>Balance</u>
2016	<u>July 1, 2015</u>	<u>Increase</u>	<u>June 30, 2016</u>
Series 2015, Term 2025	\$ 2,130,000	\$ -	\$ 2,130,000
Less: Unamortized discount	(25,201)	-	(22,593)
Total, Term 2025	<u>2,104,799</u>	<u>-</u>	<u>2,107,407</u>
Series 2015, Term 2035	7,855,000	-	7,855,000
Plus: Unamortized premium	59,869	-	(3,045)
Total, Term 2035	<u>7,914,869</u>	<u>-</u>	<u>7,911,824</u>
Series 2015, Term 2045	18,085,000	-	18,085,000
Total Bonds Payable	<u>\$28,104,668</u>	<u>\$ -</u>	<u>\$ 28,104,231</u>

LOWER MAGNOLIA GREEN COMMUNITY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

2015	Bond Issuance	Increase	Decrease	Balance June 30, 2015
Series 2015, Term 2025	\$ 2,130,000	\$ -	\$ -	\$ 2,130,000
Less: Unamortized discount	(25,794)	-	593	(25,201)
Total, Term 2025	2,104,206	-	593	2,104,799
Series 2015, Term 2035	7,855,000	-	-	7,855,000
Plus: Unamortized premium	60,562	-	(693)	59,869
Total, Term 2035	7,915,562	-	(693)	7,914,869
Series 2015, Term 2045	18,085,000	-	-	18,085,000
Total Bonds Payable	\$28,104,768	\$ -	\$ (100)	\$ 28,104,668

The Bonds are subject to optional redemption, special mandatory redemption, and mandatory sinking fund redemption. Principal payments on the Bonds are due each March 1 beginning March 1, 2018 according to the mandatory sinking fund redemption schedule.

B. Optional Redemption

The Bonds maturing on or after March 1, 2026 are subject to redemption before maturity at the option of the Authority on or after March 1, 2025 from any money available for such purpose, in whole or in part at any time, at a redemption price equal to the principal amount of the Bonds plus accrued interest to the redemption date.

C. Special Mandatory Redemption

The Bonds are subject to special mandatory redemption prior to maturity in whole or in part on any interest payment date from any prepayments of special assessments, from any funds remaining in the project fund after completion of the improvements, or on March 1, 2020 from any funds remaining in the Escrowed Improvements Account. No special mandatory redemptions have been made to date.

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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>Term 2025</u>		<u>Term 2035</u>	
<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ 85,200	\$ -	\$ 392,750
2018	130,000	85,200	-	392,750
2019	165,000	80,000	-	392,750
2020	200,000	73,400	-	392,750
2021	240,000	65,400	-	392,750
2022-2026	1,395,000	148,800	470,000	1,963,750
2027-2031	-	-	3,320,000	1,548,500
2032-2036	-	-	4,065,000	530,250
Total	<u>\$2,130,000</u>	<u>\$538,000</u>	<u>\$ 7,855,000</u>	<u>\$6,006,250</u>

	<u>Term 2045</u>		<u>Total</u>	
<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ 904,250	\$ -	\$ 1,382,200
2018	-	904,250	130,000	1,382,200
2019	-	904,250	165,000	1,377,000
2020	-	904,250	200,000	1,370,400
2021	-	904,250	240,000	1,362,400
2022-2026	-	4,521,250	1,865,000	6,633,800
2027-2031	-	4,521,250	3,320,000	6,069,750
2032-2036	1,250,000	4,521,250	5,315,000	5,051,500
2037-2041	7,970,000	3,473,000	7,970,000	3,473,000
2042-2045	8,865,000	1,147,250	8,865,000	1,147,250
Total	<u>\$18,085,000</u>	<u>\$22,705,250</u>	<u>\$28,070,000</u>	<u>\$29,249,500</u>

NOTE 6—SPECIAL ASSESSMENTS

Annual special assessments are to be imposed and collected on all the real property within the District (excepting those for which the assessment lien has been prepaid). The annual revenue requirement, 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 in the County pursuant to the Amended and Restated Special Assessment Agreement and the Addendum to Amended and Restated

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Special Assessment Agreement. Special Assessments are payable to the Authority no later than June 30 and December 31 of each year.

No special assessments have been imposed on property owners for the fiscal years ending June 30, 2016 and 2015.

NOTE 7—CONTINGENT LIABILITIES

There are no claims or lawsuits pending against the Authority.

NOTE 8—EVALUATION OF SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through September 30, 2016, the date which the financial statements are available to be issued.

**Report of Independent Auditor 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***

The Board of Directors
Lower Magnolia Green Community Development Authority
Chesterfield, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, 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 Lower Magnolia Green Community Development Authority (the "Authority"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 29, 2016.

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 opinion 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* and one instance of noncompliance that is required to be reported under *Specifications for Audits of Authorities, Boards and Commissions* as shown on the following page:

Criteria: Section 2.2-3115 of the *Code of Virginia* requires local government officials to file an annual Financial Disclosure Statement by December 15th.

Condition: We noted three instances where local government officials serving the Authority did not file a Financial Disclosure Statement on a timely basis.

Cause: Completed Financial Disclosure Statements were not filed by December 15, 2015.

Effect: Non-compliance may result in action by the Commonwealth.

Recommendation: Local government officials should complete the Financial Disclosure Statements in accordance with prescribed requirements.

Management's Response: The Authority's general counsel will propose procedures to the Authority's Board to attempt to ensure that Authority directors timely file all required Financial Disclosure Statements in the future.

The Authority's Response to Finding

The Authority's response to the finding identified in our audit is included herein. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in blue ink that reads "Cheryl Behrman CP". The signature is written in a cursive, flowing style.

Richmond, Virginia
September 29, 2016