MARQUIS COMMUNITY DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA

(A Component Unit of the County of York, Virginia)

Financial Statements

Years Ended June 30, 2023 and 2022

MARQUIS COMMUNITY DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA
Financial Statements
Years Ended June 30, 2023 and 2022

Table of Contents

MARQUIS COMMUNITY DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA

(A Component Unit of the County of York, Virginia)

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Marquis Community Development Authority of York County, Virginia
Yorktown, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Marquis Community Development Authority of York County, Virginia, (the "Authority") a component unit of the County of York, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

701 Town Center Drive, Suite 700 • Newport News VA 23606 • 757-873-1033 • Fax 757-873-1106 • www.BEcpas.com

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Substantial Doubt Regarding Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern. As discussed in Note 9 to the financial statements, the Authority anticipates that it will be in default of its bond payment during fiscal year 2024. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The 2022 financial statements were audited by other auditors whose report dated November 1, 2022, expressed an unmodified opinion on those statements and included a section describing conditions that raised substantial doubt about the Authority's ability to continue as a going concern.

Report on the Audit of the Financial Statements (Continued)

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 18, 2023

This section of the Marquis Community Development Authority of York County, Virginia's (the "Authority") annual financial report presents a discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2023 and 2022. Please read it in conjunction with the Authority's financial statements following this section.

FINANCIAL HIGHLIGHTS

- As of June 30, 2023, capital assets, net of depreciation, included $19,009,195 in completed public improvements related to the roads, stormwater basins, storm drain, and the portion of the improvements financed with the 2015 bonds.
- The Authority's total net position in FY2023 is a deficit of $22,328,772, primarily due to a large amount of outstanding debt service including principal and interest.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Authority's financial activities and financial position. The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position provide 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 liabilities are included in the Statement of Net Position, which represents the financial position of the Authority. 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's finances meet its cash flow needs. Finally, the Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided on the Financial Statements.

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows

These financial statements look at all financial transactions and ask the question, "How did we do financially?". The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer this question. These statements include all assets, liabilities, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. The accrual basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the Authority's net position (deficits) and related changes. This change in net position is important because it tells the reader that, for the Authority as a whole, the financial position of the Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 10 and 11 of this report.

The Statement of Cash Flows provides information about how the Authority finances and meets the cash flow needs of its operations and can be found on page 12 of this report.

The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS

Summary of Statement of Net Position

	6/30/2023	6/30/2022	6/30/2021
Current assets	$ 480,849	$ 563,176	$ 791,054
Noncurrent assets	19,009,195	19,688,095	20,366,995
Total assets	19,490,044	20,251,271	21,158,049
Current liabilities	2,027,066	954,755	440,403
Noncurrent liabilities	39,791,750	39,426,125	38,978,885
Total liabilities	41,818,816	40,380,880	39,419,288
Net investment in capital assets	(20,782,555)	(18,509,230)	(17,383,090)
Unrestricted	(1,546,217)	(1,620,379)	(878,149)
Total net position (deficit)	(22,328,772)	(20,129,609)	(18,261,239)
Total liabilities and net position	$ 19,490,044	$ 20,251,271	$ 21,158,049

At June 30, 2023, current assets include the amounts collected by the County to be transferred to the Authority and interest receivable. Capital and other noncurrent assets include the completed improvements financed with the 2007 bonds related to the roads, stormwater basins and the storm drain, and the portion of the improvements financed with the 2015 bonds, net of depreciation. Also, at June 30, 2023, 2022 and 2021, liabilities exceeded assets by $22,328,772, $20,129,609, and $18,261,239, respectively. The Authority's total net position decreased by $2,199,163 and $1,868,370 in fiscal years 2023 and 2022, respectively, due primarily to the depreciation recorded on the capital assets and an increase in accrued interest expense as a result of assessment collections being less than interest due

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

	6/30/2023	6/30/2022	6/30/2021
Operating Revenues			
Incremental tax revenues	$ 711,642	$ 1,070,194	$ 1,113,893
Special assessment	130,895	130,895	104,716
Total operating revenues	842,537	1,201,089	1,218,609
Operating Expenses			
Administrative and audit fees	256,835	244,730	225,316
Legal fees	10,800	46,777	31,634
Depreciation	678,900	678,900	-
Total operating expenses	946,535	970,407	256,950
Total Nonoperating Expenses, Net	(2,095,165)	(2,099,052)	(2,069,311)
Donated Capital Assets	-	-	(3,982,305)
Public Research & Development	-	-	(67,500)
Change in Net Position	(2,199,163)	(1,868,370)	(5,157,457)
Net position, beginning of year	(20,129,609)	(18,261,239)	(13,103,782)
Net position, end of the year	$ (22,328,772)	$ (20,129,609)	$ (18,261,239)

For the years ended June 30, 2023, and 2022, the Authority reported $711,642 and $1,070,194 respectively, in incremental tax revenues, which was used toward debt service in 2023 and 2022.

Special assessments of $130,895 were recognized in 2023 and 2022 from the property owner in accordance with the terms of the bond restructuring.

Operating expenses consisted of payments to the County for their administrative and collection services, MuniCap, Inc. for their accounting, bookkeeping and other administrative services, Board members for their service and attendance at meetings, depreciation, and payments to the trustee, auditors, and attorneys for their professional services.

Nonoperating revenues represent interest earned on cash investments. Nonoperating expenses consist of interest on the bonds.

Capital Assets

	6/30/2023	6/30/2022	6/30/2021
Capital assets not being depreciated:			
2015 public improvements	-	-	3,464,370
Roads	-	-	7,524,128
Stormwater basins	-	-	4,442,390
Storm drain	-	-	4,936,106
Capital assets being amortized/ depreciated:			
Software	9,000	9,000	9,000
2015 public improvements	3,464,370	3,464,370	-
Roads	7,524,128	7,524,128	-
Stormwater basins	4,442,390	4,442,390	-
Storm drain	4,936,107	4,936,107	-
Accumulated amortization/ depreciation	(1,366,800)	(687,900)	(9,000)
Total capital assets	$ 19,009,195	$ 19,688,095	$ 20,366,995

During FY2023 and FY2022, depreciation was recorded on the capital assets representing the 2015 public improvements and the roads, stormwater basins, and storm drains financed from the 2007 bond proceeds. The depreciation was computed using the straight-line basis over a useful life of thirty years. Capital assets also include an intangible asset of computer software, which is fully amortized. During FY2021 capital assets were donated to Newport News Waterworks and York County for a portion of the 2015 public improvements, waterlines, and sanitary sewer lines from the 2007 bonds for a total of $3,982,305. Also during FY2021, the Authority expensed $67,500 for public research and development costs incurred for a building that did not materialize. There were no construction costs for 2023 or 2022.

Additional information on capital assets can be found in Note 3 to the basic financial statements.

Long-term Obligations

	6/30/2023	6/30/2022	6/30/2021
Series 2007 Refunding Bonds	$ 28,875,000	$ 28,875,000	$ 28,875,000
Series 2007 Accretion of interest payable	4,143,750	3,778,125	3,412,500
Series 2015 Capital Appreciation Bonds	6,773,000	6,773,000	4,404,482
Series 2015 Accretion of interest payable	-	-	2,286,903
	$ 39,791,750	$ 39,426,125	$ 38,978,885

The Authority issued Revenue Bonds, Series 2007, dated November 28, 2007, totaling $32,860,000. The bond proceeds are being used to fund public infrastructure improvements including the Marquis Parkway and Route 199 improvements, storm drainage systems, sanitary sewers and other public improvements needed to support the planned retail development. The debt service is paid semi-annually using incremental tax revenues received by the Authority.

The original Series 2007 Bonds were restructured and reissued on March 1, 2012. Original Bonds in the amount of $2,805,000 were redeemed and the remainder was reissued in three series with a final maturity of September 1, 2041. All outstanding delinquent assessments as of the restructure date were forgiven. The annual installment of the special assessments and the County collection fees were fixed. In addition, the County agreed to extend remittance of the incremental tax revenues through the life of the reissued bonds.

The Authority issued convertible capital appreciation revenue bonds, dated October 27, 2015, totaling $4,404,482. The bond proceeds were used to purchase completed improvements related to the Marquis Parkway Extension. Debt service is accreted and compounded semi-annually at a rate of 7.5% until conversion on September 1, 2021. Debt service was then to be paid semi-annually from incremental tax revenues.

The Bond Indenture also established, and the Board of Supervisors levied, a Special Assessment Tax that will be collected from the owner(s) within the Marquis Community Development Authority District (the "District") in the event the incremental tax revenue and revenue stabilization fund are not sufficient to pay the debt service. In addition, through the indenture, the County placed a tax lien on the property owned by the Authority to provide further recourse against non-payment of debt service.

Due to a shortfall in pledged revenues as a result of the limitation on special assessments that may be levied in order to pay debt service, only a partial interest payment was made on March 1, 2022, September 1, 2022, and March 1, 2023. The total amount of the shortfall was $1,245,163.

Additional information can be found in Note 4 to the basic financial statements.

Economic Factors

- Progress continues to be made for a local church's purchase and renovation of the former JCPenney space. Once completed, the space will not only serve as the primary location for church functions and events, but is also anticipated to house a daycare facility and some small retail spaces on the outward-facing portions of the building.
- The single family detached homes constructed by Ryan Homes have essentially been completed at this point. A substantial amount of work has also taken place on the multi-family residential units in the development, which is the final major residential component of the project.
- The Marquis' undeveloped retail parcels continue to attract substantial interest, primarily for uses that would require some form of revision to the original Marquis master plan. York County staff consistently reviews and evaluates these opportunities in determining the greatest probability of long-term success for the project.
- During fiscal year 2023, there was one board meeting held on April 11, 2023.

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., 8965 Guilford Road, Suite 210, Columbia, Maryland 21046.

THE MARQUIS COMMUNITY DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Statements of Net Position

	6/30/2023	6/30/2022
Assets		
Current assets:		
Restricted cash and cash equivalents	$ 220,506	$ 224,108
Due from Primary Government - incremental taxes	128,697	204,150
Due from Primary Government - special assessment	130,895	130,895
Due from Trustee	-	3,865
Interest receivable	751	158
Total current assets	480,849	563,176
Noncurrent assets:		
Capital assets:		
Depreciable	20,375,995	20,375,995
Less accumulated amortization/depreciation	(1,366,800)	(687,900)
Total noncurrent assets	19,009,195	19,688,095
Total assets	$ 19,490,044	$ 20,251,271
Liabilities		
Current liabilities:		
Accounts payable	$ 8,171	$ 9,406
Interest payable	1,824,088	927,313
Due to Primary Government - incremental taxes	176,865	-
Unearned revenues	17,942	18,036
Total current liabilities	2,027,066	954,755
Noncurrent liabilities:		
Revenue bonds payable, net of discount	35,648,000	35,648,000
Interest payable accretion	4,143,750	3,778,125
Total noncurrent liabilities	39,791,750	39,426,125
Total liabilities	41,818,816	40,380,880
Net Position		
Net investment in capital assets	(20,782,555)	(18,509,230)
Unrestricted deficit	(1,546,217)	(1,620,379)
Total net deficit	(22,328,772)	(20,129,609)
Total liabilities and net deficit	$ 19,490,044	$ 20,251,271

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

THE MARQUIS COMMUNITY DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended 6/30/2023	Year Ended 6/30/2022
Operating Revenues		
Incremental tax revenues	$ 711,642	$ 1,070,194
Special assessment	130,895	130,895
Total operating revenues	842,537	1,201,089
Operating Expenses		
Administrative and audit fees	256,835	244,730
Legal fees	10,800	46,777
Depreciation	678,900	678,900
Total operating expenses	946,535	970,407
Operating Income (Loss)	(103,998)	230,682
Nonoperating Revenues (Expenses)		
Investment income	7,235	300
Interest expense	(2,102,400)	(2,099,352)
Total nonoperating expenses, net	(2,095,165)	(2,099,052)
Change in Net Deficit	(2,199,163)	(1,868,370)
Total net deficit, beginning of year	(20,129,609)	(18,261,239)
Total net deficit, end of year	$ (22,328,772)	$ (20,129,609)

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

THE MARQUIS COMMUNITY DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA
A COMPONENT UNIT OF THE COUNTY OF YORK, VIRGINIA
Statements of Cash Flows

	Year Ended 6/30/2023	Year Ended 6/30/2022
Cash Flows From Operating Activities		
Receipts from Primary Government	$ 1,094,761	$ 1,323,185
Payments to suppliers for goods and services	(265,005)	(299,652)
Net cash provided by operating activities	829,756	1,023,533
Cash Flows From Investing Activities		
Interest received on investments	6,642	149
Net cash provided by investing activities	6,642	149
Cash Flows From Capital and Related Financing Activities		
Interest paid on bonds	(840,000)	(1,134,400)
Net cash used in capital and related financing activities	(840,000)	(1,134,400)
Net decrease in cash and cash equivalents	(3,602)	(110,718)
Restricted cash and cash equivalents, beginning of year	224,108	334,826
Restricted cash and cash equivalents, end of year	$ 220,506	$ 224,108
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (103,998)	$ 230,682
Depreciation	678,900	678,900
(Increase) Decrease in due from Primary Government	75,453	121,177
(Increase) Decrease in due from Trustee	3,865	(3,865)
Increase (Decrease) in due to Primary Government	176,865	-
Increase (Decrease) in unearned revenues	(94)	919
Increase (Decrease) in accounts payable	(1,235)	(4,280)
Net cash provided by operating activities	$ 829,756	$ 1,023,533

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Marquis Community Development Authority of York County, Virginia (the Authority) is a "community development authority" as permitted under Code of Virginia Sections 15.2-5152, et seq., and other applicable provisions of Chapter 51, Title 15.2 of the Code of Virginia of 1950, as amended (the Act). On October 30, 2006, The Marquis at Williamsburg LLC (the Landowner) filed a petition (the Petition) for creation of the Authority with the Board of Supervisors of the County of York, Virginia (the County). The Petition, which may be subject to amendment or change, allows the Authority to finance, acquire and construct public improvements in connection with the proposed development of a regional shopping and entertainment center. In accordance with the Act, the Petition was accepted by the County Board of Supervisors' Ordinance No. 06-34 and approved December 19, 2006. By its Resolution, the County Board of Supervisors determined that the creation of the Authority to assist in financing certain improvements in connection with the proposed development within the Marquis Community Development Authority District (the District) would benefit the County's citizens, by promoting increased employment opportunities, a strengthened economic base, increased tax revenues and additional commercial, entertainment and business opportunities, and will meet the increased demands placed upon the County as a result of development within the Community Development District. The Authority was thereby created as a political subdivision in accordance with the applicable provision of the Act as referenced above.

On November 8, 2007, a "Declaration of Notice of Special Assessment" (the Declaration) was filed by the Landowner and the Authority with the Clerk's Office for the County Circuit Court, placing a "Special Assessment Lien" on the property within the boundaries of the District to pay the costs of public improvements to benefit property within the District.

On July 25, 2008, Marquis, LLC was purchased by CIT Marquis Williamsburg RE Holding LLC (CIT) in a foreclosure. CIT was the primary lender to the original developer, and closed on its foreclosed purchase in late January 2009.

As of June 14, 2011, the ownership of the property within the District has been transferred from CIT Marquis at Williamsburg RE Holdings, LLC to Marquis Williamsburg RE Holdings, LLC c/o Cavalier Marquis Investors, LLC.

The Authority Revenue Bonds Series 2007 were issued pursuant to an Indenture of Trust agreement (the Indenture) by and between the Authority and Wells Fargo Bank, N.A. (the Trustee), dated as of November 1, 2007 and a limited offering memorandum for the bonds dated November 28, 2007. The 2007 bonds in the amount of $32,860,000 were sold to provide funds to finance certain infrastructure improvements within the District established by the Authority. On September 24, 2015, Wells Fargo Bank, N.A. was replaced by Wilmington Trust National Association as the Trustee.

On October 27, 2015, the Authority issued convertible capital appreciation revenue bonds in the amount of $4,404,482 to finance additional public infrastructure improvements located within the District, and other costs of issuing the bonds pursuant to previous indentures and further supplemented by a Third Supplemental Indenture dated September 1, 2015 between the Authority and Wilmington Trust National Association, as the successor Trustee.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

A. Reporting Entity, Continued

The District consists of a land area of approximately 222.85 acres in the County, just outside the City of Williamsburg, Virginia. The District is located south of Water Country USA near exit 242 off Interstate 64 at the intersection of Interstate 64 and State Route 199. The District is expected to include an approximately 1.1 million square foot mixed-use, open-air entertainment and retail center, consisting of approximately 909,502 square feet of commercial/retail space, approximately 123,414 square feet of office space, approximately 71,080 square feet of hotel space and approximately 16,000 square feet of restaurant space. Target, Best Buy and Kohl's are open for business. Dick's Sporting Goods closed at the beginning of calendar year 2022.

The Authority is governed by a Board of five directors appointed by the County Board of Supervisors, who also appoints successor directors of the Authority. Directors serve for four-year terms and may be reappointed.

The current directors appointed are as follows:

Director	Occupation	Term Expires
Leigh Houghland	Senior Vice President, Chesapeake Bank	February 2027
Robert L. Bailey	CEO, Colonial Virginia Bank	February 2027
Vernard Lockwood	Retired Banker	February 2027
Thomas Langston	Program Engineer, Department of the Army	February 2027
Jeff Clemons	Senior Vice President, PNC Bank	February 2027

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

B. Basis of Accounting and Presentation

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units as prescribed in the requirements issued by the Governmental Accounting Standards Board (GASB).

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, changes in net position, financial position, and cash flows. The Authority is a discretely presented component unit in the County's financial statements.

The Authority's financial activity is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the Authority are included on the Statement of Net Position. Net Position is segregated into Net Investment in Capital Assets, Restricted, and Unrestricted components, as applicable. The Statement of Revenues, Expenses, and Changes in

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Presentation, Continued

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.

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 for reporting purposes, wherein revenues are recognized when they are earned and expenses are recognized when they are incurred. The Authority distinguishes operating revenues and expenses from non-operating items, wherein operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. All other revenues and expenses are considered non-operating.

C. Cash, Cash Equivalents and Investments

The Authority considers all highly liquid investments with an original maturity of less than three months when purchased to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair market value. 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 deletions during the year. Donated capital assets are recorded at acquisition value on the date donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. Capital assets consist of completed improvements related to the 2015 bonds, roads, stormwater basins and the storm drain financed with the 2007 Bonds, and an intangible asset of computer software. Prior to GASB 89, interest expense during the period of construction was capitalized, net of investment earnings. Assets that are not part of the public improvements with a cost of $5,000 or more are capitalized and depreciated on a straight-line method over their estimated useful life. The estimated useful life of computer software is three years. The estimated useful life of the assets related to the 2015 bonds and the 2007 bonds is thirty years.

E. Net Position

Net position may consist of the following components based on the extent of constraints upon the use of the resources:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt incurred to finance the capital assets.

Restricted – Reported when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or law or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Authority first

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Net Position, Continued

applies restricted resources when an expense is incurred for which both restricted and unrestricted net position is available.

Unrestricted – Consists of funds that are available for any purpose.

F. 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.

G. Income Taxes

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

H. Future Accounting Standards

The 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 2 – CASH AND CASH EQUIVALENTS

A. Investment Policy

Virginia statutes authorize the Authority to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit or time deposits insured by the Federal Deposit Insurance Corporation (FDIC), and the Commonwealth of Virginia's Local Government Investment Pool. The Authority's cash equivalents are separately invested and reinvested by the Trustee, at the direction of the Authority, in accordance with the statues of the Commonwealth of Virginia and the Indenture. Cash equivalents are valued at fair value.

B. Restricted Cash

At June 30, 2023 and 2022, restricted cash consisted of $220,506 and $224,108, respectively, for debt reserves and administrative expenses.

C. Credit Risk

As required by Virginia statutes, the Indenture requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's, S&P, or Fitch Investor's Service (Fitch). Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by S&P and "P-1" by Moody's. Notes having a maturity of greater than one year must be rated "AA" by S&P and "Aa" by Moody's.

NOTE 2 – CASH AND CASH EQUIVALENTS, Continued

D. **Credit Risk, Continued**

Although Virginia statutes do not impose credit standards on repurchase agreement counterparties, bankers' acceptances, or money market mutual funds, the Indenture established 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 Virginia Security for Public Deposits Act (the Act).

E. Concentration of Credit Risk

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.

F. Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Indenture requires the investment of monies 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.

G. Custodial Risk

Custodial risk is the risk that in the event of a bank failure, deposits made might not be returned. There is no custodial credit risk to these accounts as the entire bank balance was covered by the FDIC or collateralized in accordance with the Act. Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of Federal Savings and Loan Insurance Corporation limits. The State Treasury Board is responsible for monitoring compliance by banks and savings and loans.

Cash received by the Authority is deposited with a financial institution or invested. Cash and cash equivalents consisted entirely of U.S. Treasury money market funds at June 30, 2023 and 2022.

On September 24, 2015, when Wells Fargo Bank, N.A. was replaced by Wilmington Trust as the Trustee, the Authority invested bond proceeds in a Blackrock Liquidity Fund money market fund registered under the Investment Company Act of 1940, as amended.

Cash equivalents include money market accounts and consisted of the following at June 30, 2023 and 2022:

	6/30/2023	Rating	6/30/2022
US Treasury money market funds	$ 220,506	AAAm	$ 224,108

NOTE 3 – CAPITAL ASSETS

The four anchor stores have each received permanent certificates of occupancy; however, in fiscal year 2022, Dick's Sporting Goods closed for business. In fiscal year 2021, the Authority accepted and conveyed a small portion of the improvements from the 2015 bonds, and the waterlines and sanitary sewer lines from the 2007 bonds. The remaining completed improvements from the 2007 bonds and the 2015 bonds have been recorded as Roads, Stormwater basins, Storm drain, and 2015 public improvements, and are being depreciated on a straight-lie basis over their useful lives of thirty years.

The Authority's capital asset activity for the years ended June 30, 2023 and 2022 was as follows:

	Balance July 1, 2022	Additions	Transfers	Reductions	Balance June 30, 2023
Capital assets being amortized/depreciated:					
Computer software	9,000	-	-	-	9,000
Public improvements 2015	3,464,370	-	-	-	3,464,370
Roads	7,524,128	-	-	-	7,524,128
BMP Basins	4,442,390	-	-	-	4,442,390
Storm Drain	4,936,107	-	-	-	4,936,107
Total capital assets being amortized/depreciated	20,375,995	-	-	-	20,375,995
Less accumulated amortization/depreciation for:					
Computer software	(9,000)	-	-	-	(9,000)
Public improvements 2015	(115,479)	(115,479)	-	-	(230,958)
Roads	(250,804)	(250,804)	-	-	(501,608)
BMP Basins	(148,080)	(148,080)	-	-	(296,160)
Storm Drain	(164,537)	(164,537)	-	-	(329,074)
Total accumulated amortization/depreciation	(687,900)	(678,900)	-	-	(1,366,800)
Total capital assets being amortized/depreciated, net	$ 19,688,095	$ (678,900)	$ -	$ -	$ 19,009,195

NOTE 3 – CAPITAL ASSETS, Continued

	Balance July 1, 2021	Additions	Transfers	Reductions	Balance June 30, 2022
Capital assets not being depreciated:					
Public improvements 2015 to be transferred	3,464,370	-	(3,464,370)	-	-
Roads	7,524,128	-	(7,524,128)	-	-
BMP Basins	4,442,390	-	(4,442,390)	-	-
Storm Drain	4,936,107	-	(4,936,107)	-	-
Total capital assets not being depreciated	20,366,995	-	(20,366,995)	-	-
Capital assets being amortized/depreciated:					
Computer software	9,000	-	-	-	9,000
Public improvements 2015	-	-	3,464,370	-	3,464,370
Roads	-	-	7,524,128	-	7,524,128
BMP Basins	-	-	4,442,390	-	4,442,390
Storm Drain	-	-	4,936,107	-	4,936,107
Total capital assets being amortized/depreciated	9,000	-	20,366,995	-	20,375,995
Less accumulated amortization/depreciation for:					
Computer software	(9,000)	-	-	-	(9,000)
Public improvements 2015	-	(115,479)	-	-	(115,479)
Roads	-	(250,804)	-	-	(250,804)
BMP Basins	-	(148,080)	-	-	(148,080)
Storm Drain	-	(164,537)	-	-	(164,537)
Total accumulated amortization/depreciation	(9,000)	(678,900)	-	-	(687,900)
Total capital assets being amortized/depreciated, net	-	(678,900)	20,366,995	-	19,688,095
Total	$ 20,366,995	$ (678,900)	$ -	$ -	$ 19,688,095

NOTE 4 – LONG-TERM OBLIGATIONS

The Authority’s long-term debt activity for the years ended June 30, 2023 and 2022 was as follows:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023
Series A 2007 Refunding Bonds	$ 5,675,000	$ -	$ -	$ 5,675,000
Series B 2007 Refunding Bonds	16,700,000	-	-	16,700,000
Series C 2007 Capital Appreciation Bonds	6,500,000	-	-	6,500,000
Accretion of interest payable	3,778,125	365,625	-	4,143,750
Total 2007 Refunding Bonds	32,653,125	365,625	-	33,018,750
Series 2015 Capital Appreciation Bonds	6,773,000	-	-	6,773,000
Total Long-term Debt	$ 39,426,125	$ 365,625	$ -	$ 39,791,750

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022
Series A 2007 Refunding Bonds	$ 5,675,000	$ -	$ -	$ 5,675,000
Series B 2007 Refunding Bonds	16,700,000	-	-	16,700,000
Series C 2007 Capital Appreciation Bonds	6,500,000	-	-	6,500,000
Accretion of interest payable	3,412,500	365,625	-	3,778,125
Total 2007 Refunding Bonds	32,287,500	365,625	-	32,653,125
Series 2015 Capital Appreciation Bonds	4,404,482	2,368,518	-	6,773,000
Accretion of interest payable	2,286,903	-	(2,286,903)	-
Total 2015 Capital Appreciation Bonds	6,691,385	2,368,518	(2,286,903)	6,773,000
Total Long-term Debt	$ 38,978,885	$ 2,734,143	$ (2,286,903)	$ 39,426,125

A. 2007 Special Obligation Bonds and Refunding Bonds

On November 27, 2007, the Authority issued special obligation bonds (the 2007 Bonds) in the amount of $32,860,000 to finance the construction of public infrastructure improvements located within the District. The 2007 Bonds are limited obligations payable primarily from:

(1) Incremental tax revenues collected by the County pursuant to the terms of the Memorandum of Understanding dated as of November 1, 2007, between the County, the Authority and The Marquis at Williamsburg, LLC, as the initial landowner and the developer, and

(2) Special assessments imposed and collected, at the request of the Authority, by the County against the taxable real property in the District pursuant to the terms of a Rate and Method of Apportionment of Assessment approved by the County Board of Supervisors on October 16, 2007 as part of Ordinance 07-20.

It is anticipated that debt service on the 2007 Bonds and other expenses of the Authority will be paid first from incremental tax revenues and then such portion of the Annual Installment of the Special Assessments as it may be necessary to collect in any year. The 2007 Bonds do not constitute a pledge of the faith and credit of the Authority or the County and the principal of, premium, if any, and interest on the bonds are payable solely from the Pledged Revenues and other sources pledged to such payment pursuant to the Indenture.

Interest on the 2007 Bonds is payable each March 1 and September 1, and commenced on March 1, 2008. Interest on the 2007 Bonds is computed on the basis of a year of 360 days and twelve 30-day months, subject to the terms of the restructuring and reissuance.

A Supplemental Indenture of Trust was signed by the Authority and Trustee as of August 30, 2010. Under the terms of the Supplemental Indenture, the debt service payment due on September 1, 2010 was paid from the following funds and accounts (in order of priority): the Revenue Fund, the Project Fund, the County Project Fund and the Reserve Fund. In addition, a portion of the Project Fund

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

A. 2007 Special Obligation Bonds and Refunding Bonds, Continued

balance was allocated to be used to pay certain costs of the public improvements and administrative expenses. The Supplemental Indenture also addressed the use of the South Pod Account and deferred the payment of principal on the Bonds beginning with the principal payment due September 1, 2011 until the earlier of (i) such time as Pledged Revenues are available to make principal payments or (ii) 100 percent of the Beneficial Owners determine a principal payment schedule for the Series 2007 Bonds.

On March 1, 2012, the 2007 Bonds were restructured and reissued pursuant to a Restructuring Memorandum of Understanding, as amended by the First Amendment to Memorandum of Understanding, a Revised Rate and Method of Apportionment, an Amended and Restated Continuing Disclosure Agreement, and a Second Supplemental Indenture of Trust among the bondholders, Marquis Williamsburg RE Holding LLC (as Property Owner), Authority, Trustee, and County. Under the restructuring and reissuance terms, the original 2007 Bonds have been restructured, $2,805,000 of the original Bonds have been redeemed using certain funds held under the Indenture, and 2007 Refunding Bonds have been reissued in three series as listed below:

	Principal Amount	Interest Rate	Final Maturity
Series A	$ 5,675,000	5.100%	September 1, 2036
Series B	16,700,000	5.625%	September 1, 2041
Series C (Capital Appreciation Bonds)	6,500,000	5.625%	September 1, 2041
Total	$ 28,875,000		

Under the modification, the terms of the 2007 Bonds have been extended to a final maturity of September 1, 2041. Interest on the Series A and B 2007 Refunding Bonds is payable on March 1 and September 1 beginning September 1, 2012. Interest on the Series C (Capital Appreciation) 2007 Refunding Bonds will accrete from the reissuance date of March 1, 2012 and compound semiannually on March 1 and September 1 of each year beginning September 1, 2012 until maturity or earlier redemption. Accretion of interest is recorded as an addition to long-term debt and the interest payable classified with noncurrent debt. For the fiscal year ended June 30, 2023 and 2022, interest payments on the Series A and Series B 2007 Refunding Bonds totaled $594,315 and $982,310, respectively.

Special Mandatory Redemption

The Series A and B 2007 Refunding Bonds are subject to special mandatory redemption in whole or in part in minimum amounts of $1,000, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the redemption date, at any time as specified in the documents. The Series C 2007 Refunding Bonds are subject to special mandatory redemption in whole or in part in minimum amounts of $1,000, at a redemption price plus accrued interest after all Series A and B 2007 Refunding Bonds have been redeemed.

Debt Service Reserve Requirement

As of the March 12, 2012 reissuance date, the Debt Service Reserve Fund was funded at $650,000. The Debt Service Reserve requirement is $1,228,800 and, as of June 30, 2023 and 2022, there were no funds in the Debt Service Reserve fund.

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

A. 2007 Special Obligation Bonds and Refunding Bonds, Continued

Mandatory Sinking Fund Redemptions

Mandatory debt service requirements for the 2007 Refunding Bonds consist of the following:

Year Ending	Series A Bonds 5.100%		Series B Bonds 5.625%		Series C Bonds 5.625%	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ -	$ 289,425	$ -	$ 939,375	$ -	$ -
2025	-	289,425	-	939,375	-	-
2026	-	289,425	-	939,375	-	-
2027	395,000	279,353	-	939,375	-	-
2028	420,000	258,570	-	939,375	-	-
2029-2033	2,430,000	941,715	2,340,000	4,566,938	-	-
2034-2038	2,430,000	255,510	7,100,000	3,083,906	-	-
2039-2043	-	-	7,260,000	844,313	6,500,000	26,890,476
Total	$ 5,675,000	$ 2,603,423	$ 16,700,000	$ 13,192,031	$ 6,500,000	$ 26,890,476

B. 2015 Convertible Capital Appreciation Revenue Bonds

On October 27, 2015, the Authority issued convertible capital appreciation revenue bonds (the "2015 Bonds") in the amount of $4,404,482 to finance additional public infrastructure improvements located within the District, and other costs of issuing the 2015 Bonds pursuant to the previous Indentures and further supplemented by a Third Supplemental Indenture dated September 1, 2015 between the Authority and Wilmington Trust National Association, as the successor Trustee. The 2015 Bonds are limited obligations of the Authority payable from incremental tax revenues and special assessments imposed on the property owners. The authorization to collect special assessments terminates in 2041, while the final stated maturity of the 2015 Bonds is September 1, 2045. Holders of the 2015 Bonds from and after September 1, 2041 can only look to incremental tax revenues as a source of payment for the 2015 Bonds. The 2015 Bonds are subject to mandatory sinking fund redemptions and special mandatory redemption. Incremental tax revenues consist of payments from appropriations by the Board of Supervisors derived from certain tax collections within the District, plus an additional 16.5 acre parcel outside the District on which a Target retail store has been constructed. The Target parcel is not subject to special assessments, since it lies outside of the District.

The 2015 Bonds were initially issued as capital appreciation bonds and converted to current interest bonds on September 1, 2021, the "conversion date". Prior to the conversion date, the 2015 Bonds did not pay interest on a current basis, but increased in value by the accumulation of earned interest from their initial principal amounts on the issue date to the conversion date. Interest will be compounded each March 1 and September 1, commencing March 1, 2016 at a rate of 7.5% according to the table of accreted values. The accreted value at the conversion date was $6,773,000. Following the conversion date, interest on the 2015 Bonds will be payable semiannually on each March 1 and September 1, commencing March 1, 2022 at a rate of 7.5%. Interest due on March 1, 2022 was $253,988, however because of insufficient tax increment financing (TIF) revenues and limitations on special assessments used to pay debt service, only $152,091 was paid. Interest due during FY23 was $507,975, however, because of insufficient TIF revenues and limitations on special assessments used to pay debt service only $245,685 was paid.

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

B. 2015 Convertible Capital Appreciation Revenue Bonds, Continued

Mandatory debt service requirements for the 2015 Bonds after conversion consist of the following:

Year Ending	Series 2015 CAB Bonds	
June 30, 2023	Principal	Interest
2024	-	507,975
2025	-	507,975
2026	-	507,975
2027	-	507,975
2028	-	507,975
2029-2033	-	2,539,875
2034-2038	-	2,539,875
2039-2043	-	2,539,875
2044-2047	6,773,000	761,889
Total	$ 6,773,000	$ 10,921,388

Special Mandatory Redemption

The 2015 Bonds are subject to special mandatory redemption, but only after payment in full of the 2007 Refunding Bonds, from amounts on deposit in the redemption account of the bond fund in whole or in part at any time at a redemption price equal to the accreted value of the 2015 Bonds to be redeemed and following the conversion date, at a redemption price equal to the principal amount of the 2015 Bonds to be redeemed plus accrued interest.

Debt Service Reserve Requirement

According to the Third Supplemental Indenture of Trust, the debt service reserve requirement for the 2015 Bonds is equal to $507,975. The balance in the 2015 Debt Service Reserve Fund as of June 30, 2022 and 2023 is $0.

C. Event of Default

The Bonds may not be accelerated in the event of default. A delinquent installment of interest or principal will be carried forward until it is paid and will bear interest at the interest rate on the applicable Bond until the payment date. The current shortage from the March 1, 2022, September 1, 2022 and March 1, 2023 bond interest payable is $1,245,163.

NOTE 5 – INCREMENTAL TAX REVENUES AND SPECIAL ASSESSMENTS

The County agreed to pay the Authority certain Incremental Tax Revenues for each year in which the bonds are outstanding, which began February 1, 2010. The Incremental Tax Revenues equal the sum of all real property, personal property, business licenses, sales, and food and beverage tax incremental revenues, which exceed those collected by the County within the District during calendar year 2006, the base year.

The Incremental Tax Revenues anticipated to be collected and paid to the Authority each calendar year will be included as part of the annual credit that is applied to the annual installment in that calendar

NOTE 5 – INCREMENTAL TAX REVENUES AND SPECIAL ASSESSMENTS, Continued

year. Per the terms of the First Amendment to Memorandum of Understanding, all Incremental Tax Revenues will be paid by the County to the Trustee on a monthly basis. At June 30, 2023 and 2022, the County reported $711,642 and $1,070,194, respectively, in incremental revenues, which were paid to the Authority and used for debt service.

The County has agreed to pay Incremental Tax Revenues to the Authority as long as the bonds are outstanding. Surplus Incremental Tax Revenues will be used to redeem Bonds. Any surplus above the limit stated in the Second Supplemental Indenture will be split between the County and the redemption of bonds. The County will make monthly payments of Incremental Tax Revenues to the Trustee, subject to the County's right to retain an annual amount to compensate the County for services provided to the District. The County's annual compensation has been fixed per the terms of the bond restructuring and reissuance as follows:

Calendar year 2012	$ 300,000	
Calendar year 2013	$ 200,000	
Calendar years 2014 to 2016	$ 150,000	
Calendar years 2017 until redemption	$ 150,000	plus 3% each year

The Indenture established, and the County Board of Supervisors levied, a Special Assessment Tax that will be collected from the property owner(s) within the District in the event the incremental tax revenue and revenue stabilization fund are insufficient to pay the debt service. Special Assessment Revenues are derived from Special Assessments levied and collected on all taxable real property within the District subject to the Special Assessments. The annual installments are collected in the same manner and at the same time as the County's real estate taxes and are subject to the same penalties and interest, procedures, tax sale and lien priorities in case of delinquencies as are provided for regular property taxes of the County. The Special Assessment on any parcel may be fully paid at any time and the obligation to pay the annual installments permanently satisfied.

The amount of the annual revenue installments due from the property owners has been fixed per the restructuring documents. These amounts have been revised due to the prepayment of sixteen parcels in conjunction with the issuance of the 2015 Bonds and other prepayments received (see below).

In May 2023, the County Commissioner of Revenue's Office determined that three parcels included in the tax incremental area should have been excluded due to zoning as residential during the relevant time periods. The three parcels paid $235,818 in incremental taxes due to the misclassification of zoning. The County will recover those funds over the next 12 months at $19,652 per month. As of June 30, 2023, $58,953 has been recovered by the County leaving a balance of $176,865.

Prepayment of Assessments

On October 27, 2015, the Landowner provided notice to the Authority exercising its right to prepay the Special Assessments related to five parcels within the District pursuant to the Prepayment Discount Option, as more fully described in the Series 2015 Limited Offering Memorandum. The prepayment proceeds of $612,889 were deposited in the trust accounts and were used for the purposes described

NOTE 5 – INCREMENTAL TAX REVENUES AND SPECIAL ASSESSMENTS, Continued

Prepayment of Assessments, Continued

in the Series 2015 Limited Offering Memorandum. Due to the prepayments, the annual installment of special assessments has been revised. The revised future assessments to be collected are as follows:

For years:	Annual Installment
2022 - 2026	$ 130,894
2027 - 2041	$ 157,073

NOTE 6 — ARBITRAGE REQUIREMENTS

When applicable, arbitrage calculations are performed on the Authority's funds to determine any arbitrage rebate or yield restriction liability. No liabilities for arbitrage rebate or yield restrictions were identified in fiscal years ending June 30, 2023 and 2022.

NOTE 7— CONTINGENT LIABILITIES

As of June 30, 2023, there were no claims or lawsuits pending against the Authority.

NOTE 8 – SUBSEQUENT EVENTS

Fiscal year 2024 incremental tax revenues in the amount of $17,942 were paid to the County prior to June 30, 2023 and remitted to the Authority on July 18, 2023.

NOTE 9 – CASH LIQUIDITY FOR FUTURE DEBT SERVICE PAYMENTS AND GOING CONCERN

The Series 2007 Bonds were restructured in 2015 limiting the availability of future special assessments to cover any shortfall in TIF revenues. The terms of the restructuring have materially inhibited the Authority's ability to pay its operating expenses, including debt service, in an economic environment of declining sales. The delay in expanding the retail portion of the development, along with the impact of the closing of Dick's Sporting Goods on sales revenues, have resulted in lower-than-forecasted TIF revenues available for the Authority's expenses.

There have been regular draws on the Series 2007 Debt Service Reserve Fund and Series 2015 Debt Service Reserve Fund to make the regularly scheduled debt service payments on the Bonds each September and March since September 1, 2015. As of August 31, 2023, the Series 2007 Debt Service Reserve Fund was depleted and the balance in the Series 2015 Debt Service Reserve Fund was $3. Due to a shortfall in pledged revenues, only partial interest payments were made beginning on March 1, 2022. The total amount of the shortage was $348,388 as of June 30, 2022. As of June 30, 2023, the shortage for the September 1, 2022 bond interest payment totals $418,388 and the March 1, 2023 bond interest payment shortage totals $478,388.

NOTE 9 – CASH LIQUIDITY FOR FUTURE DEBT SERVICE PAYMENTS AND GOING CONCERN, Continued

The next scheduled debt service payment due on September 1, 2023, consists of an interest payment in the amount of $868,388. However, the bondholders directed the Trustee to only pay $400,000. This will result in a total interest shortage as of September 1, 2023 of $1,713,551. TIF revenues are not projected to be sufficient to make up the difference between the debt service requirements and the current balances in the trust accounts. Currently, the Authority does not have any plans to mitigate the shortfall in revenues and the expected default on the Bonds. Therefore, there is substantial doubt regarding the entity's ability to continue as a going concern.

BROWNEDWARDS
certified public accountants

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

To the Board of Directors
Marquis Community Development Authority of York County, Virginia
Yorktown, Virginia

We have audited, 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, the financial statements of the business-type activities of the Marquis Community Development Authority of York County, Virginia (the "Authority"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 18, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 18, 2023

MARQUIS COMMUNITY DEVELOPMENT AUTHORITY

SUMMARY OF COMPLIANCE MATTERS
June 30, 2023

As more fully described in the 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,* we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investments Laws
Conflicts of Interest Act
Procurement Laws
Uniform Disposition of Unclaimed Property Act