MARQUIS COMMUNITY DEVELOPMENT AUTHORITY OF YORK COUNTY, VIRGINIA

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

Financial Statements

Years Ended June 30, 2016 and 2015

MARQUIS COMMUNITY DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA
Financial Statements and Supplemental Information
Years Ended June 30, 2016 and 2015

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MARQUIS COMMUNITY DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA

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

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Directors
Marquis Community Development Authority
York County, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements 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 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 years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the financials, the Authority reclassified legal and bond issuance fees for the year ended June 30, 2015 to conform to the presentation for the year ended June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matters

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, 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory Section on page 1 is presented for the purpose of additional analysis 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 December 5, 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 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.

Cherry Bekaert LLP

Virginia Beach, Virginia
December 5, 2016

This section of the Marquis Community Development Authority, 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, 2016 and 2015. Please read it in conjunction with the Authority's financial statements following this section.

FINANCIAL HIGHLIGHTS

- At June 30, 2016, capital assets, net of depreciation, included $22,091,448 of construction in progress related to the Marquis Parkway Extension. At June 30, 2015, capital assets, net of depreciation, included $18,561,448 of construction in progress. In 2013, North Pod sewer improvements totaling $696,035, plus allocated capitalized finance charges, were accepted by and conveyed to York County.
- In October 2015, the Authority issued an additional $4,404,482 in convertible capital appreciation revenue bonds bearing interest at 7.5%. These bonds were issued to finance the improvements related to the Marquis Parkway Extension and related costs of issuance. Upon conversion in September 2021, the accreted par value will be $6,773,000. The final maturity of the bonds is September 1, 2045.
- Todd Interests, owner of the Marquis retail center, sold the four anchor buildings to private investors, thus solidifying the stability of the development. Todd Interests has developed plans to expand the project into a mixed use center and has continued to work closely with a real estate company to secure new commercial tenants.
- The Office of Economic Development (OED) and the Marquis Community Development Authority (CDA) have worked cooperatively with the owner of the Marquis retail center to stabilize the existing development and stimulate new commercial investment. Sam's Club purchased a site of 13.49 acres for $4,250,000.

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, liabilities, deferred outflows of resources, and deferred inflows of resources 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, deferred outflows of resources, deferred inflows of resources, 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 and changes in those positions (deficits). 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 9 and 10 of this report.

The Statement of Cash Flows provides information about how the Authority finances and meets the cash flow needs of its operations. The Statement of Cash Flows can be found on page 11 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

	6/30/2016	6/30/2015	6/30/2014
Current assets	$ 2,578,393	$ 1,721,140	$ 2,142,772
Noncurrent assets	24,416,800	20,886,800	20,886,800
Total assets	26,995,193	22,607,940	23,029,572
Deferred outflows of resources	98,580	144,079	189,577
Total assets and deferred outflows of resources	$ 27,093,773	$ 22,752,019	$ 23,219,149
Current liabilities	$ 416,571	$ 502,039	$ 448,615
Noncurrent liabilities	35,089,906	30,093,750	29,728,125
Total liabilities	35,506,477	30,595,789	30,176,740
Net investment in capital assets	(7,311,103)	(6,615,123)	(6,569,624)
Restricted for debt service	574	1,908	966
Unrestricted	(1,102,175)	(1,230,555)	(388,933)
Total net position	(8,412,704)	(7,843,770)	(6,957,591)
Total liabilities and net position	$ 27,093,773	$ 22,752,019	$ 23,219,149

At June 30, 2016, current assets include the unspent bond proceeds that are invested until they are needed to pay for expenses and debt service. Capital and other noncurrent assets include the completed improvements financed with the 2015 bonds, construction in progress on the North Pod, and the deferred charge on the restructuring. Also, at June 30, 2016 and 2015, liabilities exceed assets by $8,412,704 and $7,843,770, respectively. The Authority's total net position decreased by $568,934 in fiscal year 2016, primarily due to increased interest expense, operating expenses and bond issuance costs related to the issuance of the 2015 bonds partially offset by increases in prepayments of special assessments.

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

	6/30/2016	6/30/2015	6/30/2014
Operating Revenues			
Incremental tax revenues	$ 829,996	$ 880,974	$ 905,169
Special assessment	975,467	148,952	150,000
Penalties and interest	-	-	1,714
Total operating revenues	1,805,463	1,029,926	1,056,883
Operating Expenses			
Administartive and audit fees	223,780	199,864	202,546
Legal fees	9,258	7,832	31,809
Total operating expenses	233,038	207,696	234,355
Total Non-Operating Expenses, net	(2,141,359)	(1,708,409)	(1,638,988)
Change in Net Position	(568,934)	(886,179)	(816,460)
Net position, beginning of the year	(7,843,770)	(6,957,591)	(6,141,131)
Net position, end of the year	$ (8,412,704)	$ (7,843,770)	$ (6,957,591)

For the years ended June 30, 2016 and 2015, the Authority reported $829,996 and $880,974, respectively, in incremental tax revenues, which was used toward debt service in 2016 and 2015. Special assessments of $975,467 and $148,952 were collected in 2016 and 2015, respectively, from the property owner in accordance with the terms of the bond restructuring. In 2016, the developer paid special assessments in the amount of $895,883 as part of the issuance of the 2015 convertible capital appreciation bonds.

Operating expenses consisted of payments to the County for their administrative and collection services, MuniCap, Inc. for their accounting, bookkeeping and other administrative services and payments to the trustee, auditors and attorneys for their professional services.

Non-operating income represents interest earned on cash investments and a contribution by the developer at issuance of the 2015 bonds. Non-operating expenses consisted of interest on the bonds not capitalized since construction was suspended. The Authority also incurred costs associated with the issuance of the 2015 bonds.

Capital Assets

	6/30/2016	6/30/2015	6/30/2014
Capital assets not being depreciated:			
Construction in progress	$ 22,091,448	$ 18,561,448	$ 18,561,448
Capitalized interest expense	2,325,352	2,325,352	2,325,352
Total	$ 24,416,800	$ 20,886,800	$ 20,886,800

All infrastructure assets are capitalized. The Authority's capital assets consist of construction in progress of public improvements, financed with 2007 and 2015 bonds, and an intangible asset of computer software, which is fully amortized.

Construction in progress at June 30, 2016 and 2015 was $22,091,448 and $18,561,448 respectively, which represents approximately 85.0% for 2016 and 71.4% for 2015 of the estimated public improvements completion costs of $26,000,000. Once construction is completed, ownership of the assets will be transferred to the appropriate public entity per the terms of the indenture.

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

Long-term Obligations

	6/30/2016	6/30/2015	6/30/2014
Series 2007 Refunding Bonds	$ 28,875,000	$ 28,875,000	$ 28,875,000
Series 2015 CAB Bonds	4,404,482	-	-
	$ 33,279,482	$ 28,875,000	$ 28,875,000

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 continue construction 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 will then 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 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.

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

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
Statements of Net Position

	6/30/2016	6/30/2015
Assets		
Current assets:		
Restricted cash and cash equivalents	$ 2,335,908	$ 1,410,046
Due from primary government - incremental taxes	241,878	310,954
Interest receivable	607	140
Total current assets	2,578,393	1,721,140
Noncurrent assets:		
Capital assets:		
Nondepreciable	24,416,800	20,886,800
Depreciable	9,000	9,000
Less accumulated amortization	(9,000)	(9,000)
Total noncurrent assets	24,416,800	20,886,800
Total assets	26,995,193	22,607,940
Deferred outflows of resources:		
Deferred loss from restructure of debt	295,740	295,740
Less accumulated amortization	(197,160)	(151,661)
Total deferred outflows of resources	98,580	144,079
Total assets and deferred outflows of resources	$ 27,093,773	$ 22,752,019
Liabilities		
Current liabilities:		
Accounts payable	$ 6,971	$ 92,439
Interest payable	409,600	409,600
Total current liabilities	416,571	502,039
Noncurrent liabilities:		
Revenue bonds payable, net of discount	33,279,482	28,875,000
Interest payable accretion	1,810,424	1,218,750
Total noncurrent liabilities	35,089,906	30,093,750
Total liabilities	35,506,477	30,595,789
Net Position		
Net investment in capital assets	(7,311,103)	(6,615,123)
Restricted for debt service	574	1,908
Unrestricted (deficit)	(1,102,175)	(1,230,555)
Total net position	(8,412,704)	(7,843,770)
Total liabilities and net position	$ 27,093,773	$ 22,752,019

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

THE MARQUIS COMMUNITY DEVELOPMENT AUTHORITY
OF YORK COUNTY, VIRGINIA

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended 6/30/2016	Year Ended 6/30/2015
Operating Revenues		
Incremental tax revenues	$ 829,996	$ 880,974
Special assessment	975,467	148,952
Total operating revenues	1,805,463	1,029,926
Operating Expenses		
Administrative and audit fees	223,780	199,864
Legal fees	9,258	7,832
Total operating expenses	233,038	207,696
Operating Income	1,572,425	822,230
Nonoperating Revenues (Expenses)		
Investment income	4,288	946
Interest expense	(1,865,974)	(1,639,923)
Bond issue costs	(329,673)	(69,432)
Developer contributions	50,000	-
Total nonoperating expenses, net	(2,141,359)	(1,708,409)
Change in Net Position	(568,934)	(886,179)
Total net position, beginning of year	(7,843,770)	(6,957,591)
Total net position, end of year	$ (8,412,704)	$ (7,843,770)

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

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

	Year Ended 6/30/2016	Year Ended 6/30/2015
Cash Flows From Operating Activities		
Receipts from Primary Government	$ 1,874,539	$ 1,022,821
Payments to suppliers for goods and services	(318,506)	(153,372)
Net cash provided by operating activities	1,556,033	869,449
Cash Flows From Investing Activities		
Interest received on investments	3,820	880
Net cash provided by investing activities	3,820	880
Cash Flows From Capital and Related Financing Activities		
Proceeds from bond issuance	4,404,482	-
Bond issuance costs paid	(329,673)	(69,432)
Acquisition and contruction of capital assets	(3,530,000)	-
Interest paid on bonds	(1,228,800)	(1,228,800)
Developers contribution	50,000	-
Net cash used in capital and related financing activities	(633,991)	(1,298,232)
Net change in cash and cash equivalents	925,862	(427,903)
Cash and cash equivalents, beginning of year	1,410,046	1,837,949
Cash and cash equivalents, end of year	$ 2,335,908	$ 1,410,046
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,572,425	$ 822,230
Decrease (increase) in due from Primary Government	69,076	(7,105)
Decrease in prepaid expense	-	900
Increase (decrease) in accounts payable	(85,468)	53,424
Net cash provided by operating activities	$ 1,556,033	$ 869,449
Noncash investing, capital and financing activities:		
Amortization of deferred loss from restructuring	$ 45,499	$ 45,498

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Marquis Community Development Authority (the Authority) is a "community development authority" as permitted under Virginia Code 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 (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 Board of Supervisors' Ordinance No. 06-34 and approved December 19, 2006. By its Resolution, the Board of Supervisors determined that the creation of the Authority to assist in financing certain improvements in connection with the proposed development within the Community Development 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 Marquis Community Development Authority (the District) to pay the costs of public improvements to benefit property within the District.

The Marquis Community Development Authority Revenue Bonds Series 2007 were issued pursuant to an Indenture of Trust agreement (the Indenture) by and between the Authority and the 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 trustee.

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

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 Marquis Development is expected to include an approximate 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. Dick's Sporting Goods, Target, Best Buy and Kohl's are open for business.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Authority is governed by a board of five directors appointed by the 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
James W. Noel, Jr.	Director, Economic Dev. Authority of York County	November 2018
Thomas E. Anderson	Retired	November 2018
Robert L. Bailey	CEO, Colonial Virginia Bank	November 2018
James B. Majka	Residential Real Estate Agent, Long & Foster	November 2018
Leigh Houghland	Senior Vice President, Chesapeake Bank	November 2018

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 statements 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 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 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. 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 proprietary fund's principal ongoing operations. All other revenues and expenses are considered non-operating.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of less than three months when purchased to be cash equivalents.

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 on the date donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. Capital assets consist of construction in progress and an intangible asset of computer software. Interest expense during the period of construction is capitalized, net of investment earnings. Upon completion, assets will be transferred to the appropriate public entity. 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.

E. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has one item that meets the criterion for this category – deferred loss from restructure of debt. In addition to liabilities, the Statement of Net Position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

F. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows 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 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 net position is available.

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 2 – CASH AND CASH EQUIVALENTS

A. Investment Policy

State statute authorizes the Authority to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, repurchase agreements, certificates of deposit or time deposits insured by the FDIC, and the local government investment pool. The Authority's investments 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.

B. Credit Risk

As required by state statute, 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.

Although state statute does 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.

C. 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.

D. Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Indenture requires the investment of moneys in the Debt Service Reserve Fund must mature or be payable at the option of the Trustee not more than ten years after the date of their purchase.

E. 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 federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Public Deposits Act). Under the Public Deposits 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 FSLIC limits. The State Treasury Board is responsible for monitoring compliance by banks and savings and loans.

NOTE 2 – CASH AND CASH EQUIVALENTS, Continued

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

On September 24, 2015, when Wells Fargo Bank, N.A. was replaced by Wilmington Trust as trustee, the Authority invested bond proceeds in a Blackrock Liquidity Fund money market fund registered under the Investment Company Act of 1940, as amended. For the fiscal year ended June 30, 2015, the Authority had bond proceeds invested in the Virginia State Non-Arbitrage Program (SNAP) money market mutual fund registered under the Investment Company Act of 1940, as amended, and individual portfolios managed by the Program's Investment Manager. Sections 2.2-4700 through 2.2-4705 of the Code of Virginia, the Government Non-Arbitrage Investment Act, authorizes the Virginia Treasury Board to provide assistance to the Commonwealth of Virginia, counties, cities, and towns in the Commonwealth, and to their agencies, institutions and authorities of any combination of the foregoing ("Virginia governments") in the management of and accounting for their bond funds, including, without limitation, bond proceeds, reserves, and sinking funds, and the investment thereof.

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. 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. Cash, cash equivalents and investments consisted of the following at June 30, 2016 and 2015:

	6/30/2016	Rating	6/30/2015
US Treasury money market funds	$ 2,335,908	AAAm	$ 224,569
Money market mutual funds	-	AAAm	1,185,477
Total	$ 2,335,908		$ 1,410,046

NOTE 3 – CAPITAL ASSETS

The five anchor stores have each received permanent certificates of occupancy; however the Authority has not yet accepted the project as complete, pending execution of a signed assumption agreement and maintenance agreement with the developer. Since the project has not been accepted by the Authority, it has elected to show the asset as construction in progress rather than show it as placed into service. With the issuance of the 2015 convertible capital appreciation revenue bonds, the Authority acquired $3,530,000 in additional construction in progress. See Note 4 below for additional information.

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Capital assets not being depreciated:				
Construction in progress	$ 18,561,448	$ 3,530,000	$ -	$ 22,091,448
Capitalized interest expense	2,821,491	-	-	2,821,491
Interest revenue on investments	(496,139)	-	-	(496,139)
Total capital assets not being depreciated	20,886,800	3,530,000	-	24,416,800
Capital assets being amortized:				
Computer software	9,000	-	-	9,000
Total capital assets being amortized	9,000	-	-	9,000
Less accumulated depreciation for:				
Computer software	(9,000)	-	-	(9,000)
Total accumulated amortization	(9,000)	-	-	(9,000)
Total capital assets being amortized, net	-	-	-	-
Total	$ 20,886,800	$ 3,530,000	$ -	$ 24,416,800

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Capital assets not being depreciated:				
Construction in progress	$ 18,561,448	$ -	$ -	$ 18,561,448
Capitalized interest expense	2,821,491	-	-	2,821,491
Interest revenue on investments	(496,139)	-	-	(496,139)
Total capital assets not being depreciated	20,886,800	-	-	20,886,800
Capital assets being amortized:				
Computer software	9,000	-	-	9,000
Total capital assets being amortized	9,000	-	-	9,000
Less accumulated depreciation for:				
Computer software	(9,000)	-	-	(9,000)
Total accumulated amortization	(9,000)	-	-	(9,000)
Total capital assets being amortized, net	-	-	-	-
Total	$ 20,886,800	$ -	$ -	$ 20,886,800

NOTE 4 – LONG-TERM OBLIGATIONS

On November 27, 2007, the Authority issued special obligation bonds (the 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 Marquis Community Development Authority District pursuant to the terms of a Rate and Method of Apportionment of Assessment approved by the Board of Supervisors on October 16, 2007 as part of Ordinance 07-20.

It is anticipated that debt service on the 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 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 Bonds shall be payable each March 1 and September 1, commencing March 1, 2008. Interest on the 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.

For the fiscal year ended June 30, 2016 and 2015, interest payments totaled $1,228,800 in each year.

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 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 defers 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.

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

On March 1, 2012, the 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 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 Bonds have been extended to a final maturity of September 1, 2041. Interest on the Series A and B Bonds is payable on March 1 and September 1 beginning September 1, 2012. Interest on the Series C (Capital Appreciation) 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.

The Authority's long-term debt activity for the years ended June 30, 2016 and 2015 was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Bonds payable	$ 28,875,000	$ -	$ -	$ 28,875,000
Accretion of interest payable	1,218,750	365,625	-	1,584,375
Less: deferred amount on restructure	(144,079)	-	45,499	(98,580)
Total	$ 29,949,671	$ 365,625	$ 45,499	$ 30,360,795

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Bonds payable	$ 28,875,000	$ -	$ -	$ 28,875,000
Accretion of interest payable	853,125	365,625	-	1,218,750
Less: deferred amount on restructure	(189,577)	-	45,498	(144,079)
Total	$ 29,538,548	$ 365,625	$ 45,498	$ 29,949,671

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

Special Mandatory Redemption

The reissued Series A and B 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 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 Bonds have been redeemed.

Debt Service Reserve Requirement

As of the 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, 2016, the balance in the Debt Service Reserve fund was $944,920, which is included in restricted cash of $2,335,908.

On February 25, 2015, a draw was made on the Reserve Fund in the amount of $45,290 in order to pay March 1 debt service. This amount was replenished in June 2015 from incremental tax revenues received. On September 1, 2015, the Trustee transferred $287,705 from the Debt Service Reserve Fund to make the September 1, 2015 interest payment due on the 2007 Bonds.

2007 Bonds payable for the fiscal years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Series A Term bonds bearing interest at 5.100% payable semi-annually, maturing September 1, 2036	$ 5,675,000	$ 5,675,000
Series B Term bonds bearing interest at 5.625% payable semi-annually, maturing September 1, 2041	16,700,000	16,700,000
Series C deferred interest bonds bearing interest at 5.625% accreting semi-annually, maturing September 1, 2041	6,500,000	6,500,000
Total	$ 28,875,000	$ 28,875,000
Due within one year	$ -	$ -

Mandatory debt service requirements 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
2017	$ -	$ 289,425	$ -	$ 939,375	-	-
2018	-	289,425	-	939,375	-	-
2019	-	289,425	-	939,375	-	-
2020	-	289,425	-	939,375	-	-
2021	-	289,425	-	939,375	-	-
2022-2026	-	1,447,125	-	4,696,875	-	-
2027-2031	2,200,000	1,177,845	-	4,696,875	-	-
2032-2036	2,820,000	540,600	6,365,000	3,840,609	-	-
2037-2041	655,000	16,703	8,370,000	1,781,156	-	-
2042	-	-	1,965,000	55,266	6,500,000	26,890,476
Total	$ 5,675,000	$ 4,629,398	$ 16,700,000	$ 19,767,656	$ 6,500,000	$ 26,890,476

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

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 successor trustee (the "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 will 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 will initially be issued as capital appreciation bonds and will convert to current interest bonds on September 1, 2021, the "conversion date". Prior to the conversion date, the 2015 Bonds will not pay interest on a current basis, but will increase 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 will be $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%.

The Authority's long-term debt activity for the 2015 Bonds for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Series 2015 CAB Bonds	$ -	$ 4,404,482	$ -	$ 4,404,482
Accretion of interest payable	-	226,049	-	226,049
Total	**$ -**	**$ 4,630,531**	**$ -**	**$ 4,630,531**

NOTE 4 – LONG-TERM OBLIGATIONS, Continued

Mandatory debt service requirements after conversion consist of the following:

Year Ending	Series 2015 CAB Bonds	
June 30,	Principal	Interest
2017	$ -	$ -
2018	-	-
2019	-	-
2020	-	-
2021	-	-
2022-2026	-	2,285,888
2027-2031	-	2,539,875
2032-2036	-	2,539,875
2037-2041	-	2,539,875
2042-2046	6,773,000	1,777,837
Total	$ 6,773,000	$ 11,683,350

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 2007 Bonds and 2015 Bonds is equal to $1,736,775. The balance in the 2015 Debt Service Reserve Fund is $508,654, which, when combined with the balance of $944,920 from the 2007 Bonds, totals $1,453,575, which is included in restricted cash of $2,335,908.

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 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, 2016 and 2015 the County collected $829,996 and $880,974, 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 York 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, procedures, 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.

All outstanding delinquent Special Assessments as of the reissuance date have been forgiven. The amount of the annual revenue installments due from the Property Owner has been fixed per the restructuring documents. These amounts have been revised due to the prepayment of 16 parcels in conjunction with the issuance of the 2015 Bonds and other prepayments received (see below).

NOTE 5 – INCREMENTAL TAX REVENUES AND SPECIAL ASSESSMENTS, Continued

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 in the Series 2015 Limited Offering Memorandum. Additional prepayments totaling $282,994 were received during fiscal year 2016. As a result of the prepayments, the Special Assessment liens on the related parcels have been released.

Due to the prepayments noted above, the annual installment of special assessments has been revised. The revised future assessments to be collected are as follows:

For years:	Annual Installment
2016	$ 78,536
2017 - 2021	$ 104,715
2022 - 2026	$ 130,894
2027 - 2041	$ 157,073

NOTE 6 – RECLASSIFICATION OF PRIOR PERIOD

The financial statements as of and for the year ending June 30, 2015 have been reclassified for legal and bond issuance fees. Accruals were made based on information provided by legal counsel for unbilled fees as of June 30, 2015. It was later determined that the information provided was inadequate to ascertain that these fees were actually associated with issuance of the 2015 Bonds. The effect of this reclassification decreased legal fees and increased bond issuance costs by $69,432. The reclassification had no effect on net position.

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
Marquis Community Development Authority
York County, 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 Marquis Community Development Authority of York County, Virginia, (the "Authority"), as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon dated December 5, 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 grants, 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* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

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 Authority'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.

Cherry Bekaert LLP

Virginia Beach, Virginia
December 5, 2016