

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Annual Financial Report
For the Year Ended June 30, 2018**

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Directory of Officials
June 30, 2018**

Board of Directors

Douglas L. Sbertoli, Chairman

Vacant, Vice Chairman

Hugh D. Keogh, Secretary/Treasurer

Dr. James A. Shultz

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Table of Contents**

	<u>Page</u>
Report of Independent Auditor	1-2
Management's Discussion and Analysis (unaudited)	3-7
 Financial Statements	
 Government-wide Financial Statements	
Statement of Net Position (Deficit).....	8
Statement of Activities.....	9
 Governmental Fund Financial Statements	
Balance Sheet.....	10
Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit) ...	10
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	12
 Notes to the Financial Statements	 13-20
 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 <i>Government Auditing Standards</i>	
	21-22

Report of Independent Auditor

Board of Directors
Watkins Centre Community Development Authority
Chesterfield, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Watkins Centre Community Development Authority (the "Authority"), a component unit of the County of Chesterfield, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 Directory of Officials is presented for purposes of additional information and is not a required part of the basic financial statements. The Directory of Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Richmond, Virginia
September 26, 2018

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Management's Discussion and Analysis (Unaudited)
June 30, 2018**

This section of the Watkins Centre Community Development Authority's (the "Authority") Annual Financial Report presents our management's discussion and analysis of the Authority's financial performance, as of and during the fiscal year ended June 30, 2018. Please read it in conjunction with the Authority's financial statements and notes thereto, which follow this section.

The Authority

The Authority, a political subdivision of the Commonwealth of Virginia, (the "Commonwealth") was created on August 23, 2006 pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2, Code of Virginia. The Authority was created to finance, plan, acquire, and construct transportation infrastructure improvements within or benefiting the Watkins Centre Development District (the "District"). Revenue bonds in the aggregate amount of \$20 million were sold on November 6, 2007 to finance the project.

Fiscal Year 2018 Financial Highlights

- Total net deficit decreased \$2,593,608 (40.7%) to a net deficit amount of \$3,784,318.
- Revenues increased \$107,064 (3.7%) to \$3,039,769.
- Expenses decreased \$140,229 (23.9%) to \$446,161.
- Bond interest in the amount of \$450,738 was paid.
- Bond principal of \$2,540,000 was paid.

Overview of Annual Financial Report

The Authority's annual financial report consists of two parts - management's discussion and analysis (this section, which is unaudited) and the audited financial statements. The governmental activities are reported through government-wide and governmental fund financial statements.

Government-wide Financial Statements. The government-wide financial statements provide readers with a broad view of the Authority's finances using the accrual basis of accounting in a manner similar to that of a private-sector business. The *Statement of Net Position (Deficit)* presents information on all assets and liabilities, with the difference reported as net position (deficit). Over time, increases or decreases in net position (deficit) may serve as a useful indicator of whether the financial status of the Authority is improving or deteriorating. The *Statement of Activities* presents information that shows how the Authority's net position (deficit) changed during the fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will have actual cash flows in a future fiscal period.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Management's Discussion and Analysis (Unaudited)
June 30, 2018**

Governmental Fund Financial Statements. The governmental fund financial statements reinforce the information provided in the government-wide financial statements by providing a narrower focus. The governmental fund financial statements, using the modified accrual basis of accounting, look at near-term inflows and outflows of spendable resources and the available balances of those resources at the end of the fiscal year. The *Balance Sheet* reports the Authority's fund balance as of the fiscal year-end. Fund balance information is useful when evaluating the Authority's near-term financing requirements. The *Statement of Revenues, Expenditures, and Changes in Fund Balance* is the statement of activities for the governmental fund. Consistent with the current financial resources measurement focus, this financial statement reports expenditures rather than expenses. To facilitate comparison, reconciliations are presented for the governmental fund *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balance* to the government-wide financial statements.

Notes to the Financial Statements. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and governmental fund financial statements.

Financial Analysis of the Authority

Government-wide financial analysis. The Authority's liabilities exceeded assets by \$3,784,318 at the close of the most recent fiscal year. The Authority remitted a bond principal payment in the amount of \$2,540,000, which resulted in a reduction of the Authority's outstanding long-term debt. The Authority's net deficit decreased by \$2,593,608 (40.7%) during fiscal year 2018 to a net deficit of \$3,784,318 (see Table 1).

**Table 1
Condensed Summary of Net Position (Deficit)
As of June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ <u>2,135,055</u>	\$ <u>2,128,929</u>
Long-term liabilities	3,030,000	5,806,332
Other liabilities	<u>2,889,373</u>	<u>2,700,523</u>
Total liabilities	<u>5,919,373</u>	<u>8,506,855</u>
Net position (deficit) – unrestricted	\$(<u>3,784,318</u>)	\$(<u>6,377,926</u>)

The purpose of the Authority is to issue debt as a means to finance transportation infrastructure improvements. The improvements, which consist mainly of road improvements, were conveyed to the Commonwealth effective March 31, 2010 at the direction of the Authority. Since the Authority has no capital assets, the outstanding debt without an offsetting investment in capital assets presents a negative balance, or deficit, for net position under full accrual accounting in the government-wide financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Management's Discussion and Analysis (Unaudited)
June 30, 2018**

The Authority's total revenues increased from the prior year by \$107,064 (3.7%) to \$3,039,769. Approximately 42.9% of the Authority's revenues came from incremental taxes, 55.6% came from special assessments, and 1.5% came from interest income. The County of Chesterfield, Virginia (the "County") has committed to remit District related incremental tax and special assessment revenues collected by the County to the Authority. The Authority's total expenses decreased from the prior year by \$140,229 (23.9%) to \$446,161. Approximately 91.3% of the Authority's expenses relate to bond amortization and interest and 8.7% relate to administrative expenses (see Table 2).

**Table 2
Condensed Summary of Changes in Net Position (Deficit)
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Expenses:		
General government		
Administrative	\$ 38,781	\$ 49,018
Bond amortization and interest	<u>407,380</u>	<u>537,372</u>
Total expenses	<u>446,161</u>	<u>586,390</u>
General revenues:		
Incremental taxes	1,303,405	1,300,958
Special assessments	1,690,000	1,542,712
Interest income	<u>46,364</u>	<u>89,035</u>
Total general revenues	<u>3,039,769</u>	<u>2,932,705</u>
Change in net position (deficit)	2,593,608	2,346,315
Net position (deficit) – beginning of year	<u>(6,377,926)</u>	<u>(8,724,241)</u>
Net position (deficit) – end of year	<u>\$(3,784,318)</u>	<u>\$(6,377,926)</u>

Key elements contributing to these results are as follows:

- Special assessments were increased by \$147,288 (9.5%) from the prior year to compensate for the expected increase in debt service of \$95,774 and the decrease in interest income resulting from the maturity of the Authority's guaranteed investment contract ("GIC"), which resulted in \$42,671 less interest income earned in the current year.
- Expenses decreased by \$140,229 (23.9%) from prior year largely due to a decrease in the Authority's bond interest expense.

Governmental fund financial analysis. As previously noted, the focus of the governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. At the end of the current fiscal year, the Authority's governmental fund balance was \$2,124,358, an increase of \$10,250 (0.5%) from prior year (see Table 3).

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Management's Discussion and Analysis (Unaudited)
June 30, 2018**

**Table 3
Condensed Summary of Balance Sheet
As of June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ <u>2,134,615</u>	\$ <u>2,128,489</u>
Current liabilities	\$ <u>10,257</u>	\$ <u>14,381</u>
Fund balance:		
Restricted	2,020,456	2,072,026
Assigned	<u>103,902</u>	<u>42,082</u>
Total fund balance	<u>2,124,358</u>	<u>2,114,108</u>
Total liabilities and fund balance	\$ <u>2,134,615</u>	\$ <u>2,128,489</u>

The Authority's restricted fund balance of \$2,020,456 at June 30, 2018 represents resources that are subject to external restrictions as to how they must be used. This amount is restricted for future debt service.

The Authority's governmental fund total revenues increased from the prior year by \$107,064 (3.7%) to \$3,039,769 and governmental fund total expenditures increased from the prior year by \$86,109 (2.9%) to \$3,029,519 (see Table 4).

**Table 4
Condensed Summary of Changes in Fund Balance
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Revenues:		
Incremental taxes	\$1,303,405	\$1,300,958
Special assessments	1,690,000	1,542,712
Interest income	<u>46,364</u>	<u>89,035</u>
Total revenues	<u>3,039,769</u>	<u>2,932,705</u>
Expenditures:		
Administrative	38,781	48,446
Bond interest	450,738	575,964
Bond principal	<u>2,540,000</u>	<u>2,319,000</u>
Total expenditures	<u>3,029,519</u>	<u>2,943,410</u>
Increase (decrease) in fund balance	10,250	(10,705)
Fund balance – beginning of year	<u>2,114,108</u>	<u>2,124,813</u>
Fund balance – end of year	\$ <u>2,124,358</u>	\$ <u>2,114,108</u>

As previously noted under Table 2, the change in the Authority's revenues is mainly due to an increase in the amount of special assessments collected. Special assessments were increased due to the expected increase in debt service and a decrease in interest income because the Authority's GIC investment matured.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Management's Discussion and Analysis (Unaudited)
June 30, 2018**

Debt Administration and Capital Assets

On November 6, 2007, the Authority issued \$20,000,000 in revenue bonds to finance certain infrastructure improvements for the District. A principal payment of \$2,540,000 was made during the current fiscal year bringing the outstanding bond principal balance to \$5,807,000. More information on the bonds and debt service requirements is presented in Note 4 of the notes to the financial statements.

The Authority has no capital assets. The Authority entered into an agreement with the Developer to develop plans for the facilities and to construct the infrastructure improvements. The Developer was required to ensure that the improvements were maintained in good and safe condition. Upon completion of the improvements, the Authority agreed that the Developer would transfer all rights, guarantees, maintenance obligations, or other evidence of contingent obligations of third persons with respect to the facilities to an applicable public entity, the County, or the Commonwealth.

Requests for Information

The purpose of this financial report is to provide interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For additional information or answers to questions, please contact the Chesterfield County Accounting Department, 9901 Lori Road, Chesterfield, Virginia 23832.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Statement of Net Position (Deficit)
June 30, 2018**

Assets

Cash and cash equivalents (Note 3)	\$ 113,999
Prepaid expenses	440
Interest receivable	160
Restricted:	
Cash and cash equivalents (Note 3)	2,017,663
Interest receivable	<u>2,793</u>
Total assets	<u>2,135,055</u>

Liabilities

Current liabilities:	
Accounts payable	10,257
Accrued interest payable (Note 4)	102,784
Bonds payable (Note 4)	2,776,332
Non-current liabilities:	
Bonds payable, net of discount (Note 4)	<u>3,030,000</u>
Total liabilities	<u>5,919,373</u>

Net position (deficit) – unrestricted	<u>\$(3,784,318)</u>
--	-----------------------------

See accompanying notes to the financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Statement of Activities
For the Year Ended June 30, 2018**

Expenses

General government – administrative	\$ 38,781
Bond amortization and interest expense (Note 4)	<u>407,380</u>
Total expenses	<u>446,161</u>

General revenues

Incremental taxes (Note 5)	1,303,405
Special assessments (Note 5)	1,690,000
Interest income	<u>46,364</u>
Total general revenues	<u>3,039,769</u>

Change in net position (deficit)	2,593,608
----------------------------------	-----------

Net position (deficit)

Beginning of year	<u>(6,377,926)</u>
End of year	<u>\$(3,784,318)</u>

See accompanying notes to the financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Balance Sheet - Governmental Fund
June 30, 2018**

Assets

Cash and cash equivalents (Note 3)	\$ 113,999
Interest receivable	160
Restricted:	
Cash and cash equivalents (Note 3)	2,017,663
Interest receivable	<u>2,793</u>
Total assets	<u><u>\$2,134,615</u></u>

Liabilities

Accounts payable	\$ <u>10,257</u>
Total liabilities	<u>10,257</u>

Fund Balance

Restricted for debt service	2,020,456
Assigned	<u>103,902</u>
Total fund balance	<u><u>2,124,358</u></u>

Total liabilities and fund balance	<u><u>\$2,134,615</u></u>
------------------------------------	---------------------------

Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)

Total Fund Balance	\$ 2,124,358
--------------------	--------------

Amounts reported for governmental activities in the
Statement of Net Position (Deficit) are different because:

Bonds payable, net of discount, are not due and payable in the current period and are not reported in the governmental fund.	(5,806,332)
---	-------------

Interest on long-term debt is not accrued in the governmental fund, but is recognized as an expenditure when due.	(102,784)
--	-----------

Prepayment for future costs is deferred in the governmental activities, but is treated as an expenditure in the governmental fund.	<u>440</u>
--	------------

Net position (deficit) of governmental activities	<u><u>\$(3,784,318)</u></u>
---	-----------------------------

See accompanying notes to the financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2018**

Revenues:

Incremental taxes (Note 5)	\$1,303,405
Special assessments (Note 5)	1,690,000
Interest income	<u>46,364</u>
Total revenues	<u>3,039,769</u>

Expenditures:

General government – administrative	38,781
Debt service – interest (Note 4)	450,738
Debt service – principal (Note 4)	<u>2,540,000</u>
Total expenditures	<u>3,029,519</u>

Net change in fund balance	<u>10,250</u>
----------------------------	---------------

Fund balance, July 1, 2017	<u>2,114,108</u>
----------------------------	------------------

Fund balance, June 30, 2018	<u><u>\$2,124,358</u></u>
-----------------------------	---------------------------

(Continued)

See accompanying notes to the financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance to the Statement of Activities
For the Year Ended June 30, 2018**

Net change in fund balance – total governmental fund	\$ 10,250
--	-----------

Amounts reported for governmental activities in the Statement of Activities are different because:

The governmental fund reports the effect of bond discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the amortization amount of bond discount.	(1,600)
--	---------

Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Position (Deficit).	2,540,000
---	-----------

The governmental fund reports interest on long-term debt when it becomes due, whereas the interest is accrued and reported as a liability in the Statement of Net Position (Deficit). This adjustment is the net change in accrued interest payable on long-term debt.	<u>44,958</u>
--	---------------

Change in net position (deficit) of governmental activities	<u>\$2,593,608</u>
---	--------------------

See accompanying notes to the financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

1. DESCRIPTION OF THE AUTHORITY AND ITS ACTIVITIES

The Watkins Centre Community Development Authority (the “Authority”), a political subdivision of the Commonwealth of Virginia (the “Commonwealth”), was created on August 23, 2006 pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2, Code of Virginia by the Board of Supervisors (the “Board”) of the County of Chesterfield, Virginia (the “County”). The County appoints the members of the Watkins Centre CDA board and has pledged a tax increment of certain real property and sales taxes collected within the District as a revenue source for retiring debt issued by Watkins Centre CDA. The County’s obligation is limited to the amount of tax increments collected as well as to any special assessments collected on the Watkins Centre CDA’s behalf. The Authority is presented as a component unit in the County’s Comprehensive Annual Financial Report (CAFR).

The Authority was created for the purpose of financing, planning, acquiring, and constructing transportation infrastructure improvements within or benefiting the Watkins Centre Development District (the “District”). The District is located in the northwest quadrant of the County at the intersection of State Routes 288 and State Route 60. On August 26, 2009, the Board amended its ordinance that created the Authority to include two additional parcels in the District consisting of approximately 2.385 acres. The Authority’s improvements are part of a mixed-use development project that provides retail, commercial, and office components.

The County has committed to remit District related incremental tax and special assessment revenues collected to the Authority. The Authority has full control over all operations but must comply with certain bond indentures and trust agreements. The Authority engaged Municap, Inc., a public finance consulting firm, to perform financial and administrative duties required for the revenue bonds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Model

The financial statements presented for the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (the “GAAP”) applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (the “GASB”). The Authority’s Annual Financial Report includes:

- Management’s Discussion and Analysis (the “MD&A”) (unaudited) – MD&A is required supplementary information that introduces the financial statements and provides an analytical overview of the Authority’s activities for the year. It describes the

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

decisions or conditions that are expected to have a significant effect on financial positions or results of operations.

- Financial Statements – The financial statements include both government-wide and governmental fund statements and related notes. The notes are an integral part of the financial statements and communicate information that is essential for fair presentation of the financial statements that is not displayed on the face of the statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements consist of a Statement of Net Position (Deficit) and a Statement of Activities and reflect a full economic resources measurement focus and the accrual basis of accounting. The Statement of Net Position (Deficit) reports information about all assets and liabilities of the Authority, both current and long-term. The Statement of Activities measures the Authority's operations over the past year. All changes in revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Interest income, real estate, and sales tax increment revenues and special assessments are classified as general revenues and used to offset net expenses.

The governmental fund financial statements consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when both measurable and available and are considered available if received within 45 days after the end of the accounting period. Expenditures are recognized when the liability is incurred. The Balance Sheet measures only current assets and liabilities. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports only on the Authority's near-term inflows and outflows of spendable resources for the year.

Because government-wide and governmental fund financial statements are designed to present information from different perspectives, the governmental fund financial statements include a summary reconciliation between the governmental fund and government-wide statements.

The activities of the Authority and all financial resources are accounted for in the General Fund major governmental fund, which accounts for all

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

financial resources, except those required to be accounted for in another fund.

- C. 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. Restricted Assets
Certain assets held by the Trustee are classified as restricted on the Statement of Net Position (Deficit) and the Balance Sheet because their use is limited by revenue bond covenants. The trust indenture requires the Authority to maintain debt service reserve funds for use in the event pledged revenues are insufficient to pay debt service on the bonds. When both restricted and unrestricted resources are available for use, the Authority uses restricted resources first and then unrestricted resources as they are needed.
- E. Bond Discounts
Bond discounts are presented as a reduction to the carrying amount of the bonds outstanding on the Statement of Net Position (Deficit). Bond discounts are amortized over the life of the bonds using the bonds outstanding method.
- F. Risk Management
The Authority maintains liability insurance for Public Officials/Directors and Officers exposure.
- G. Net Position (Deficit) and Fund Balance
Net position (deficit) represents the difference between assets and liabilities and is reported as restricted when there are limitations imposed on the use of resources either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Amounts with no such restrictions are presented as unrestricted.
- Restricted fund balance represents the portion of fund balance reserved for debt service. At the direction of the Authority, and at a time when the balance in the debt service reserve account is sufficient to pay or redeem the outstanding bonds, the Trustee may use the restricted funds for the payment of the bonds. Assigned fund balance represents amounts considered available for new spending at the direction of management.
- H. Income Taxes
The Authority is a governmental entity and, therefore, is exempt from federal and state income taxes.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

I. Administrative Functions

The County provides certain administrative services to the Authority.

3. DEPOSITS

As of June 30, 2018, the carrying value of the Authority's deposits with their respective credit ratings by Standard and Poor's ("S&P") and original maturities, was as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>	<u>Credit Rating</u>
Money market funds	<u>\$2,131,662</u>	July 1, 2018	AAAm

A. Credit Risk

As required by the Authority's trust indenture, the Authority's permitted investments are subject to the provisions of Chapter 45, Title 2.2, Code of Virginia as amended, entitled "Investment of Public Funds Act". Statutes authorize the Authority to invest in: indebtedness unconditionally guaranteed by the Commonwealth; government obligations and certificates; savings accounts or time deposits in any bank that are secured by the Virginia Security for Public Deposits Act; obligations of the International Bank for Reconstruction and Development, Asian Development Bank, and African Development Bank; certain obligations of any state in the United States on which the full faith and credit of such state is pledged; certain bankers' acceptances; and certain money market mutual funds.

The trust 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 three leading rating agencies (Moody's, S&P, and Fitch). Certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks maturing in one year or less must have a rating of at least "A-1" by S&P and "P-1" by Moody's. Notes having a maturity of greater than one year and not exceeding five years must have a rating of at least "AA" by S&P and "Aa" by Moody's.

All money held in the funds created by the trust indenture, which are on deposit with any bank, will be continuously secured in the manner required by the Virginia Security for Public Deposits Act, which establishes uniformity in securing public deposits throughout the Commonwealth.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

- B. Concentration of Credit Risk
The trust indenture establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 35% of the Authority's total funds available for investment may be invested in commercial paper and no more than 5% of the total funds available for investment may be invested in commercial paper from any one issuing corporation. As of June 30, 2018, excluding money market funds, the Authority had no investments.
- C. Interest Rate Risk
Interest rate risk is the impact that fluctuations in market interest rates can have on the value of the Authority's investments. The Authority's funds are invested in money market funds as permitted in the trust indenture. Money market funds are considered cash equivalents and have an average maturity date of less than three months. As of June 30, 2018, excluding money market funds, the Authority had no investments.
- D. Custodial Credit Risk
Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value or collateral securities that are in the possession of an outside party. Any investment held by an outside party will be held as agent for the benefit of the Trustee as fiduciary for the Authority and not for the bank serving as Trustee in its commercial capacity. As of June 30, 2018, the entire amount of the cash and cash equivalents balance of \$2,131,662 is invested in a money market fund that is uninsured and uncollateralized.
- E. Fair Value Measurements
GAAP has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is based on the valuation inputs used to measure the fair value of investments with Level 1 inputs being quoted prices in active markets for identical assets; Level 2 inputs being significant other observable inputs; and Level 3 inputs being significant unobservable inputs. As of June 30, 2018, excluding money market funds, the Authority had no investments.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

4. REVENUE BONDS

On November 6, 2007, the Authority issued \$20 million in revenue bonds for the purpose of (1) financing certain transportation infrastructure for the District; (2) funding a debt service reserve fund; (3) funding payment of a portion of the interest on the bonds through March 1, 2009; (4) paying the costs of issuing the bonds; and (5) paying administrative expenses through March 1, 2009. The revenue bonds are limited obligations of the Authority secured by pledged revenues consisting of incremental tax revenues and special assessment revenues collected by the County. The bonds are being repaid with the tax increment revenues and, to the extent tax increment revenues are not sufficient, special assessment revenues. Cash investments in excess of the reserve requirements will also be applied to the debt service on the bonds.

Revenue bonds outstanding at June 30, 2018 are as follows:

	Original <u>Issue Amount</u>	Interest <u>Rate</u>	Annual Principal <u>Requirements</u>	Amount <u>Outstanding</u>
Bonds issued, Due 2020	\$20,000,000	5.4%	\$2,777,000-\$3,030,000	\$5,807,000
Less: Discount				<u>668</u>
Net revenue bonds				<u>\$5,806,332</u>

Debt service requirements to maturity for the revenue bonds are as follows:

Years Ended			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$2,777,000	\$313,578	\$3,090,578
2020	<u>3,030,000</u>	<u>163,620</u>	<u>3,193,620</u>
Total	<u>\$5,807,000</u>	<u>\$477,198</u>	<u>\$6,284,198</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2018:

	Balance <u>June 30, 2017</u>	<u>Decrease</u>	Balance <u>June 30, 2018</u>	Amounts Due Within <u>One Year</u>
Bonds payable	\$8,347,000	\$2,540,000	\$5,807,000	\$2,777,000
Less: Discounts	<u>2,268</u>	<u>1,600</u>	<u>668</u>	<u>668</u>
Net bonds payable	<u>\$8,344,732</u>	<u>\$2,538,400</u>	<u>\$5,806,332</u>	<u>\$2,776,332</u>

For the year ended June 30, 2018, the Authority reported total bond amortization and interest expense of \$407,380, which includes \$450,738 interest paid on the bonds, \$1,600 amortization of bond discount, and \$102,784 bond interest accrued less \$147,742 bond interest accrued in the prior year.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

5. INCREMENTAL TAXES AND SPECIAL ASSESSMENTS

The revenue bonds are limited obligations of the Authority secured and payable from the Authority's right, title, and interest in pledged revenues collected by the County. The pledged revenue consists of tax increment revenues and special assessment revenues.

Tax increment revenues are payments received by the Authority from appropriations by the Board, derived from:

- Real Property Tax Increments – The County will pay 64% of its ad valorem real property tax revenues (including roll back taxes, but not including special tax revenues) collected each calendar year on taxable property within the District that exceed the base amount collected in calendar year 2006 of \$82,000. Real property tax increment revenues are collected by the County by June 5 and December 5 each year to be remitted to the Authority by August 1 and February 1, respectively. For the year ended June 30, 2018, the County appropriated and remitted to the Authority \$1,004,544 in real property tax increments.
- Sales Tax Increments – The County will pay to the Authority 34% of its local portion of sales tax revenue collected each calendar year from retail establishments within the District. The County appropriates payments to the Authority in the fiscal year in which they are due. For the year ended June 30, 2018, the County appropriated and remitted to the Authority \$298,861 in sales tax revenues related to calendar year 2016.

Special assessment revenues are derived from special assessments levied and collected on all taxable real property within the District subject to special assessments. The total amount of special assessments equals the sum of the principal and interest due on the bonds plus administrative expenses less other amounts available for the payment of debt service and expenses, including incremental tax revenues. The special assessments are collected by the County in the same manner and at the same time as it collects ad valorem real property taxes, which is June 5 and December 5 each year. The special assessments are remitted to the Authority by August 1 and February 1, respectively. For the year ended June 30, 2018, the County remitted \$1,690,000 in special assessments to the Authority.

6. CLAIMS AND LAWSUITS

At June 30, 2018, there were no claims and lawsuits pending involving the Authority that are considered material to the Authority's financial statements.

**WATKINS CENTRE
COMMUNITY DEVELOPMENT AUTHORITY
(A Component Unit of the County of Chesterfield, Virginia)
Notes to the Financial Statements
June 30, 2018**

7. RELATED PARTY TRANSACTIONS

The County provides certain administrative services to the Authority, which includes maintaining the general ledger, preparing financial statements, and coordinating the annual financial statement audit. During the year ended June 30, 2018, the Authority made payments of \$6,840 to the County, which included prior year's accrual of \$1,710 and accrued a liability for \$1,710 at June 30, 2018.

8. SUBSEQUENT EVENTS

At June 30, 2018, the County collected incremental taxes and special assessments on behalf of the Authority. Since the County appropriates payments to the Authority in the fiscal year in which they are due and the payment is not due to the Authority until August 1, 2018, the Authority does not meet the time criteria to recognize the revenues or a receivable related to these collections. In accordance with the Memorandum of Understanding between the County, the Authority, the owners of land within the District, and the Developer, the County remitted the following to the Authority's Trustee on August 1, 2018: (1) \$450,341 for the real property tax increment collected by the County by June 5, 2018, (2) \$300,664 for the sales tax increment collected by the County for calendar year 2017, and (3) \$764,603 in special assessments collected by the County by June 5, 2018.

**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
Watkins Centre Community Development Authority
Chesterfield, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and the major fund of the Watkins Centre Community Development Authority (the "Authority"), a component unit of the County of Chesterfield, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Richmond, Virginia
September 26, 2018