H2O COMMUNITY DEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS
AS OF JUNE 30, 2024, AND 2023

CUSIP NUMBER:
404371 AA4

THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

H2O
COMMUNITY DEVELOPMENT AUTHORITY

AUDITED FINANCIAL STATEMENTS
AS OF JUNE 30, 2024, AND 2023

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I. *BOARD OF DIRECTORS*

Brian DeProfio, Chairman

Chad S. Roberts, Vice Chairman

Nicholas Hobbs, Secretary/Treasurer

Michael Johnson, Assistant Secretary/Treasurer

Mary Bunting

THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1635 Eagle Harbor Pkwy, Ste 4
Fleming Island, FL 32003
t: 904-264-1665
f: 904-269-9683
www.tng.cc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
H2O Community Development Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the H2O Community Development Authority (Authority) as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2024 and 2023, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2025, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Sincerely,

The Nichols Group

The Nichols Group, PA

Fleming Island, Florida

March 17, 2025

III. *MANAGEMENT'S DISCUSSION AND ANALYSIS*

The Management's Discussion and Analysis of the financial performance of the H2O Community Development Authority (the "Authority") provides an overall review of the Authority's financial activities for the years ended June 30, 2024, and 2023. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the Authority's financial performance.

Financial Highlights

1. The Authority incurred long term debt of $9,440,000 in Special Assessment Bonds on May 16, 2007 (the "Series 2007 Bonds"), bearing interest at 5.20% per annum. The Authority's debt was paid through the collection of special assessments imposed on the taxable properties in the H2O Community Development Authority District, (the "District") benefiting from the capital improvements.

2. At the May 5, 2020, board meeting, the board approved a resolution authorizing the application of cancelled bonds to sinking fund redemptions and to the prepayment of special assessments, as the result of an agreement between one of the landowners and the bondholder. On March 1, 2021, the bondholder tendered $3,892,000 in Series 2007 Bonds to Wilmington Trust, (the "Trustee") for cancellation representing the landowner's prepayment of special assessments on the property.

3. Due to prepayments by two of the largest property owners in the District, the collection of future installments was limited. Therefore, after discussions with the City of Hampton, Virginia, (the "City"), the Authority, and the Authority's counsel, it was decided that pursuing a refunding would be the best option to remedy this issue while also being able to capture significant interest rate savings.

4. On June 23, 2021, the Authority issued a $342,000 Special Assessment Revenue Bond (the "Series 2021 Bond") in order to redeem the Series 2007 Bonds. The Series 2021 Bond was placed with Old Point National Bank at an interest rate of 2.48%.

5. Net Position at June 30, 2024 and 2023 totaled $5,147,496 and $5,357,000, respectively.

6. Capital assets, net of depreciation at June 30, 2024 and 2023 were $5,387,773 and $5,612,264, respectively, which reflects the completion in fiscal year 2019 of all capital assets as defined in the Authority and City approved Settlement Agreement. Public improvements of $966,417 were recorded as donated capital assets in fiscal year 2019. The remaining public improvements are owned by the Authority and are being depreciated using the straight-line method over their useful life.

7. Special assessments of $46,621 and $57,855 were imposed in fiscal years 2024 and 2023, respectively. There were no delinquencies as of June 30, 2024.

Overview of the Financial Statements

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

Comparative Financial Statements

Summary Statement of Net Position:

	2024	2023	2022
Assets:			
Other assets	$ 77,454	$ 67,205	$ 57,883
Capital assets	5,387,773	5,612,264	5,836,755
Total assets	5,465,227	5,679,469	5,894,638
Liabilities:			
Current liabilities	43,890	30,957	27,459
Long-term debt, net of discount	273,841	291,512	308,755
Total Liabilities	317,731	322,469	336,214
Net Position			
Net investment in capital assets	5,096,261	5,303,509	5,511,174
Restricted	51,969	40,344	31,650
Unrestricted	(734)	13,147	15,600
Total Net Position	$ 5,147,496	$ 5,357,000	$ 5,558,424

The decrease in net position is primarily the result of depreciation recorded annually on the capital assets.

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

	2024	2023	2022
Operating Revenues	$ 50,808	$ 55,103	$ 53,450
Operating Expenses	28,583	24,375	31,448
Operating Income	22,225	30,728	22,002
Non-operating Revenues	63	65	74
Non-operating Expenses	(231,792)	(232,217)	(232,656)
Change in Net Position	$ (209,504)	$ (201,424)	$ (210,580)

The negative change in net position from 2023 to 2024 is primarily due to decreased special assessments and increased administrative fees. The improvement in the change in net position from 2022 to 2023 was primarily due to increased special assessments and decreased administrative fees.

Capital Assets

The Authority's capital assets at June 30, 2024 and 2023 were $5,387,773 and $5,612,264, respectively. Per the signed Settlement Agreement, all previously reported construction in progress has been completed and accepted by the Authority. The Authority now holds title to approximately 87.5% of the capital assets, which are being depreciated using the straight-line method over their estimated useful life of thirty years. The remaining public improvements were expensed in 2019.

With the execution of the Settlement Agreement, the H2O Master Association has accepted responsibility for maintaining all improvements owned by the Authority at the expense of the Master Association pursuant to the terms of the Public Improvement Maintenance Agreement.

Long-Term Debt

The Authority issued $9,440,000 of Special Assessment Bonds, Series 2007, dated May 16, 2007, paying interest at 5.20% per annum, and due in annual installments beginning September 1, 2010, with a final maturity of September 1, 2037.

The proceeds from the bonds were used to finance construction of certain public infrastructure improvements within the District, including road and alley improvements, parking, storm water management improvements, sanitary sewer lines and pump stations, lighting, fencing, sidewalks, and streetscapes.

The debt service was paid annually by the revenue received from the special assessments levied on the property owners within the District.

On May 5, 2020, the board approved a resolution authorizing the application of cancelled bonds to sinking fund redemptions and to the prepayment of special assessments, as the result of an agreement between one of the landowners and the bondholder. As of March 1, 2021, $3,892,000 in bonds had been submitted for cancellation.

Included in the above prepayments, in November and December of 2020, two of the largest property owners in the district, who were collectively responsible for paying 80% of the special assessments, prepaid the special assessments on the properties they owned. As a result of the prepayment, there were only forty-four residential properties in the District paying annual installments each year, which would cover only a small portion of the administrative expenses. After discussions with the City, Authority, and Authority's counsel, it was decided that pursuing a refunding would be the best option to remedy this issue while also being able to capture significant interest rate savings.

On June 23, 2021, the Authority refunded its Series 2007 Bonds by issuing a $342,000 Special Assessment Revenue Bond, Series 2021, paying 2.48% per annum, and due in annual installments beginning September 1, 2021, with a final maturity of September 1, 2037. A restructuring analysis completed with a closing date of August 1, 2021, and a 3.0% interest rate resulted in approximate savings of $436,845.

Special Assessments

Special assessments totaling $46,621 and $57,855 were imposed on the property owners within the District in fiscal years 2024, and 2023, respectively. There were no delinquencies as of June 30, 2024.

Economic Factors and Future Outlook

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

Contacting Authority's Financial Management

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

IV. *FINANCIAL STATEMENTS*

H2O COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION
As of June 30,

	2024	2023
Assets		
Current Assets		
Due from primary government	$ 25,485	$ 26,861
Total Current Assets	25,485	26,861
Noncurrent Assets		
Restricted cash and cash equivalents	51,969	40,344
Capital assets, net of depreciation	5,387,773	5,612,264
Total Noncurrent Assets	5,439,742	5,652,608
Total Assets	5,465,227	5,679,469
Liabilities		
Current Liabilities		
Accounts payable	23,809	11,162
Accrued interest payable	2,410	2,552
Current portion of long-term debt	17,671	17,243
Total Current Liabilities	43,890	30,957
Noncurrent Liabilities		
Bonds payable	273,841	291,512
Total Noncurrent Liabilities	273,841	291,512
Total Liabilities	317,731	322,469
Net Position:		
Net investment in capital assets	5,096,261	5,303,509
Restricted	51,969	40,344
Unrestricted	(734)	13,147
Total Net Position	$ 5,147,496	$ 5,357,000

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

H2O COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30,

	2024	2023
Operating Revenues		
Special assessment revenues	$ 50,808	$ 55,103
Total Operating Revenues	50,808	55,103
Operating Expenses		
Administrative fees	24,083	19,325
Audit fees	4,500	4,500
Insurance	-	550
Total Operating Expenses	28,583	24,375
Operating Income	22,225	30,728
Non-Operating Revenues (Expenses)		
Interest income	9	8
Penalties and interest on delinquent assessments	54	57
Bond interest expense	(7,301)	(7,727)
Depreciation expense	(224,491)	(224,490)
Total Non-Operating Expenses	(231,729)	(232,152)
Change in Net Position	(209,504)	(201,424)
Net Position at Beginning of Year	5,357,000	5,558,424
Net Position at End of Year	$ 5,147,496	$ 5,357,000

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

H2O COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

	2024	2023
Cash Flows from Operating Activities		
Cash receipts from property owners	$ 52,239	$ 54,532
Cash payments for administrative fees	(15,937)	(16,104)
Cash payments for audit fees	-	(4,500)
Cash payments for insurance	-	(550)
Net Cash Provided by Operating Activities	36,302	33,378
Cash Flows from Capital and Related Financing Activities		
Interest paid	(7,443)	(7,866)
Principal paid	(17,243)	(16,826)
Net Cash Used in Capital and Related Financing Activities	(24,686)	(24,692)
Cash Flows from Investing Activities		
Interest and dividends received on investments	9	8
Net Cash Provided by Investing Activities	9	8
Change in Cash and Cash Equivalents	11,625	8,694
Cash and Cash Equivalents, Beginning of Year	40,344	31,650
Cash and Cash Equivalents, End of Year	$ 51,969	$ 40,344
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 22,225	$ 30,728
Adjustments		
Decrease (increase) in due from primary government	1,430	(571)
Increase in accounts payable	12,647	3,221
Net Cash Provided by Operating Activities	$ 36,302	$ 33,378

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

V. *NOTES TO THE FINANCIAL STATEMENTS*

NOTE 1—FINANCIAL REPORTING ENTITY

The H2O Community Development Authority (the "Authority") was established pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Section 15.2-5152 *et seq*., of the Code of Virginia, 1950 (the "Act") as amended. The Act provides for the creation of an authority and a related Special Assessment District (the "District") for the sole purpose of financing, constructing, and maintaining, if necessary, certain public improvements within, contiguous to, or serving the District. In accordance with the Act, the Authority was created as a Virginia public body by the adoption of Ordinance No. 05-0589 by the City Council of the City of Hampton, Virginia, (the "City") on September 28, 2005.

The H2O Community Development Authority, Special Assessment Bonds, Series 2007 (the "Bonds"), were issued pursuant to an Indenture of Trust (the "Indenture") by and between the Authority and Manufacturers and Traders Trust Company (now Wilmington Trust, the "Trustee"), dated as of May 1, 2007, and a limited offering memorandum for the bonds dated April 26, 2007. The Bonds were limited obligations payable from special assessments imposed and collected by the City, against the taxable real property in the District. Unless prepaid, such special assessments were payable in installments at the same time general real estate taxes were paid. The City applied its customary tax payment enforcement procedures to the collection of any delinquent payments of the special assessment annual installment.

On June 23, 2021, the Authority refunded the Bonds by issuing a $342,000 Special Assessment Revenue Bond, Series 2021, (the "Series 2021 Bond") payable from special assessments imposed and collected by the City against the taxable real property in the District. The Series 2021 Bond is a private placement with Old Point National Bank ("Old Point"). There is no longer a trustee, as the funds are held by the City in an account at Old Point.

The District consists of approximately twenty-five acres of land within the City adjacent to Freeman Drive and approximately one quarter mile from the Hampton Coliseum and the Hampton Roads Convention Center. The District is located approximately seven miles from downtown Newport News and approximately twenty-five miles east of the City of Williamsburg's historic district. At the time the Series 2007 Bonds were issued, the District was expected to contain approximately 481 residential units of various types with the option to include an additional 102 residential units. On September 2, 2010, the Hampton Redevelopment and Housing Authority terminated the developer's option to purchase additional land, which would have included the additional 102 residential units, under the Land Agreement.

The Authority is governed by a board of five directors who are appointed by the City, one of which is designated by the City Manager. The City also appoints successor directors of the Authority for a term of four years. In 2017, the Authority and the City approved changes to stagger the directors' terms over a four-year period and to remove the requirement that the directors be recommended by the former developer.

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. 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) and other recognized authoritative sources.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Cash, Cash Equivalents, and Investments

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

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their cost on the date that they will be donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. Interest expense during the period of construction, net of investment earnings, was capitalized through fiscal year 2019. The Authority does not depreciate the infrastructure improvements that will be donated to a public entity upon completion/acquisition. Any improvements deemed to be owned by the Authority, once completed, will be depreciated using the straight-line method over their useful lives.

E. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on the use of resources 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 assets are available.

F. Operating Revenues and Expenses

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

G. Use of Estimates

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

H. Income Taxes

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

I. New Accounting Standards

GASB Statement No. 100, Accounting Changes and Error Corrections, became effective in fiscal year 2024. Any accounting changes or error corrections noted during the audit will be presented pursuant to the new standard.

J. Future Accounting Standards

GASB has issued new standards that will become effective in future fiscal years. The Authority will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE 3—CASH AND CASH EQUIVALENTS

Per the Series 2021 Bond's Memorandum of Understanding (the "MOU"), the City is now the fiscal agent for the Authority.

Cash and cash equivalents consisted of checking account cash of $51,969 and $40,344 at June 30, 2024 and 2023, respectively.

A. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. There was no custodial credit risk to the Series 2021 Bond as the entire bank balance was covered by federal depository insurance.

B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. The Series 2021 Bond's MOU requires the City, as the Authority's fiscal agent, to establish and maintain a bank account on the Authority's behalf for the deposit of special assessment revenues and to ensure the payment of administrative expenses and debt service.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Series 2021 Bond's MOU requires the City, as fiscal agent for the Authority, to be responsible for all bank accounts for the Series 2021 Bond to ensure the payment of debt service and administrative expenses.

D. Concentration of Credit Risk

Concentration of credit risk can also arise by failing to adequately diversify investments. Per the Series 2021 Bond's MOU, the City is the fiscal agent responsible for all bank accounts on the Authority's behalf for the Series 2021 Bond to ensure the payment of debt service and administrative expenses.

E. Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. There were only cash deposits held in a checking account as of June 30, 2024, and 2023.

NOTE 4—RECEIVABLES

Receivables at June 30, 2024 and 2023 consist of assessments due to the Authority from the City of Hampton, all of which are considered collectible in full within one year.

NOTE 5—CAPITAL ASSETS

The Authority's capital asset activity for the years ended June 30, 2024, and 2023 were as follows:

2024	Beginning Balance	Additions	Reductions	Donations	Ending Balance
Public improvements	$ 6,734,717	$ -	$ -	$ -	$ 6,734,717
Accumulated depreciation	(1,122,453)	(224,491)	-	-	(1,346,944)
Net Capital Assets	$ 5,612,264	$ (224,491)	$ -	$ -	$ 5,387,773

2023	Beginning Balance	Additions	Reductions	Donations	Ending Balance
Public improvements	$ 6,734,717	$ -	$ -	$ -	$ 6,734,717
Accumulated depreciation	(897,962)	(224,491)	-	-	(1,122,453)
Net Capital Assets	$ 5,836,755	$ (224,491)	$ -	$ -	$ 5,612,264

The Authority's net capital assets at June 30, 2024 were $5,387,773 as a result of the reclassification of $6,734,717 of construction in progress to public improvements in fiscal year 2019. The Authority now holds title to approximately 87.5% of the project improvements, consisting of road and alley improvements, parking, storm water management, sewer, and pump stations. These improvements are being depreciated using the straight-line method over their estimated useful life of thirty years

With the execution of the Settlement Agreement on May 16, 2018, the H2O Master Association has accepted responsibility for maintaining all improvements owned by the Authority at the expense of the Master Association pursuant to the terms of the Public Improvement Maintenance Agreement.

NOTE 6—LONG-TERM OBLIGATIONS

The Authority's long-term debt activity for the years ending June 30, 2024, and 2023 were as follows:

2024	Beginning Balance	Increase	Decrease	Ending Balance	Due within one year
Series 2021 Bonds	$ 308,755	$ -	$ (17,243)	$ 291,512	$ 17,671
Total Bonds Payable	$ 308,755	$ -	$ (17,243)	$ 291,512	$ 17,671

2023	Beginning Balance	Increase	Decrease	Ending Balance	Due within one year
Series 2021 Bonds	$ 325,581	$ -	$ (16,826)	$ 308,755	$ 17,243
Total Bonds Payable	$ 325,581	$ -	$ (16,826)	$ 308,755	$ 17,243

A. Special Assessment Bonds, Series 2007

On May 16, 2007, the Authority issued $9,440,000 in Special Assessment Bonds Series 2007 to finance the construction of public infrastructure improvements located within the District, to fund a reserve fund, to fund construction period interest and administrative expenses, and to pay costs relating to the issuance of the Bonds. The City, on behalf of the Authority, imposed and collected the special assessment annual installments and agreed to apply its customary tax payment enforcement procedures to the collection of any delinquent payments of the special assessment annual installments, which included the assessment of penalties and interest, and tax foreclosure proceedings on delinquent parcels. The Bonds were redeemed in full on June 23, 2021. See Note 6A3 for further discussion.

The Bonds were limited obligations of the Authority, payable solely from and secured by revenues collected from special assessments after payment of administrative expenses.

Interest on the Bonds was payable semiannually on March 1 and September 1 of each year beginning on September 1, 2007. Principal payments on the Bonds were due each September 1 according to the mandatory sinking fund redemption schedule. Interest was calculated on the basis of a 360-day year comprised of twelve 30-day months.

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

1. Cancelled Bonds Resolution

At the May 5, 2020, board meeting, the board approved a resolution authorizing the application of cancelled bonds to sinking fund redemptions and the prepayment of special assessments. The resolution was prepared at the request of one of the landowners (Sandler) who had an arrangement with the bondholder (Cygnus) that once certain approvals were obtained from the City for the development of property in the District, Cygnus would tender Bonds to the Trustee in the principal amount that would be redeemed if Sandler had prepaid the special assessment on the property. The resolution stated that if Cygnus requested the Bonds to be cancelled and credited against the sinking fund installment, the Authority would agree the corresponding special assessment on the Sandler property was deemed to be prepaid. The sinking fund debt service schedule was then adjusted to reflect the cancellation of these Bonds. As of March 1, 2021, $3,892,000 in Bonds had been submitted to the Trustee for cancellation or redemption.

2. Refunding of 2007 Bonds

In November and December of 2020, two of the largest property owners in the District, who were collectively responsible for paying 80% of the special assessments, prepaid the special assessments on the properties they owned. As a result of the prepayment, there are only forty-four residential properties in the District that are paying annual installments each year. The amount of annual installments that can be collected from these properties is limited, and monies collected from them could only cover $5,000 of the approximately $30,000 in administrative costs each year. After discussions with the City, Authority, and Authority's counsel, it was decided that pursuing a refunding would be the best option to remedy this issue while also being able to capture significant interest rate savings.

The refunding of the Bonds resulted in an unamortized bond discount of $75,559 which was recorded as loss on redemption on the financial statements in fiscal year 2021.

B. Special Assessment Revenue Bond, Series 2021

On June 23, 2021, the Authority redeemed the Series 2007 Bonds by issuing a $342,000 Special Assessment Revenue Bond, Series 2021, payable from special assessments imposed and collected by the City against the taxable real property in the District. The Series 2021 Bond is a private placement and is held by Old Point National Bank. The issuance of the Series 2021 Bond reduced the interest rate from 5.20% to 2.48%, and a restructuring analysis completed with a closing date of August 1, 2021, and an interest rate of 3.0% resulted in approximate savings of $436,845. The issuance will also reduce future legal and trustee fees as these tasks will be managed by the City. The City, acting as the Authority's fiscal agent, will ensure the payment of debt service and administrative expenses pursuant to the Series 2021 Bond's MOU.

The Authority has the right to prepay the Series 2021 Bond, in whole or in part, upon not less than two business days prior written notice to the lender. Partial prepayments will be applied pro-rata to the remaining outstanding installments of principal, no partial prepayment of the principal amount of the Series 2021 Bond will be made in an amount less than $5,000 and, in the case of prepayment in full, all accrued interest on the Series 2021 Bond and other amounts payable to the lender in connection with the Series 2021 Bond will be paid.

Interest payments totaled $7,443 and $7,866 in fiscal years 2024 and 2023, respectively.

The Series 2021 Bond is required to be redeemed prior to maturity by the Authority on September 1 in the years and in the amounts set forth below:

For the Year Ending June 30:	Principal	Interest
2025	$ 17,671	$ 7,010
2026	18,109	6,567
2027	18,558	6,112
2028	19,019	5,646
2029	19,490	5,169
2030-2034	104,945	18,255
2035-2038	93,720	4,720
Total	$ 291,512	$ 53,479

NOTE 7—SPECIAL ASSESSMENTS

Annual special assessments are collected from each parcel of taxable property within the District (excepting those for which the assessment lien has been prepaid) each year in an amount equal to the "Annual Revenue Requirement". The Annual Revenue Requirement, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. Special assessments, unless prepaid, are payable in installments at the same time general real estate taxes are paid to the City. The City has agreed to apply its customary tax payment enforcement proceedings to the collection of any delinquent payment of special assessments.

Assessments totaling $46,621 and $57,855 were imposed on property owners for the fiscal years ending June 30, 2024, and 2023, respectively. According to the Memorandum of Understanding among the City, the Authority, and the developer, these assessments are due in two equal installments on December 5 and June 5 of each year and shall be remitted to the Authority within thirty calendar days of receipt by the City. There were no delinquencies as of June 30, 2024.

NOTE 8—ARBITRAGE

When applicable, arbitrage calculations are performed on the Authority's funds to determine any arbitrage rebate or yield restriction liability. No liabilities for arbitrage rebate or yield restrictions were identified in the fiscal year ending June 30, 2024.

NOTE 9—CONTINGENT LIABILITIES

As of June 30, 2024, there were no claims or lawsuits pending against the Authority.

NOTE 10—SUBSEQUENT EVENTS

Assessments totaling $50,974 were imposed on the property owners for fiscal year ending June 30, 2025. As of February 28, 2025, $606 was delinquent.

NOTE 11—EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 17, 2025, the date which the financial statements were available to be issued.

THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

1635 Eagle Harbor Pkwy, Ste 4
Fleming Island, FL 32003
t: 904-264-1665
f: 904-269-9683
www.tng.cc

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

To the Board of Directors
H2O Community Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia*,* the financial statements of the business-type activities of the H20 Community Development Authority (Authority) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 17, 2025.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Sincerely

The Nichols Group

The Nichols Group, PA
Fleming Island, Florida

March 17, 2025