

**CUTALONG II
COMMUNITY DEVELOPMENT AUTHORITY**

**AUDITED FINANCIAL STATEMENTS
AS OF JUNE 30, 2025, and 2024**

CUSIP NUMBERS:

232101 AA3

232101 AB1

232101 AC9



THE NICHOLS GROUP, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

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COMMUNITY DEVELOPMENT AUTHORITY
AUDITED FINANCIAL STATEMENTS
AS OF JUNE 30, 2025 AND 2024**

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I. BOARD OF DIRECTORS

John Edmund Snyder, III, Chairman

Gary Griffith, Vice Chairman

Lindsey Snyder McClellan, Secretary

James Alan Snyder, Jr.

Vacancy

II. AUDITOR'S OPINION



THE NICHOLS GROUP, P.A.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cutalong II Community Development Authority
Mineral, VA

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Cutalong II Community Development Authority (Authority), as of and for the years ended June 30, 2025 and 2024, 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, 2025 and 2024, and the respective changes in financial position, and cash flows thereof for the years 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 October 30, 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
October 30, 2025

III. MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the financial performance of the Cutalong II Community Development Authority (the "Authority" or "District") provides an overall review of the Authority's financial activities for the years ended June 30, 2025, and 2024. 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 was established by Ordinance No. 2021-14 adopted by the Board of County Supervisors of Louisa County, Virginia (the "County Board"), on December 6, 2021.
2. The Authority incurred long term debt of \$30,000,000 in Special Assessment Bonds (the "Bonds") on March 14, 2022, in three series bearing interest at 4.00%, 4.25%, and 4.50% per annum, with final maturities of March 1, 2032, March 1, 2042, and March 1, 2055, respectively. The Authority's debt will be paid through the collection of special assessments imposed on the chargeable properties benefiting from the public improvements.
3. Net position at June 30, 2025 and 2024 totaled (\$4,776,086) and (\$3,810,893) respectively, due primarily to the acceptance and donation of completed assets and administrative and debt service expenses of the Authority.
4. Capital assets at June 30, 2025 and 2024 totaled \$19,342,999 and \$14,786,029 respectively, and were 87% complete as reported in the developer's quarterly disclosure report as of June 30, 2025.
5. There were no special assessments imposed on the property owners for the 2025 and 2024 tax years. Obligations were funded from the Capitalized Interest Account and bond proceeds. The special assessments imposed on property owners for the 2026 tax year totaled \$1,662,635.

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:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Assets:			
Current assets	\$ 7,003,264	\$ 12,783,722	\$ 17,821,187
Capital assets	19,342,999	14,786,029	10,093,023
Long-term assets	-	-	1,296,300
Total assets	<u>26,346,263</u>	<u>27,569,751</u>	<u>29,210,510</u>
Liabilities:			
Current liabilities	1,244,349	1,380,644	2,336,630
Long-term debt	29,878,000	30,000,000	30,000,000
Total Liabilities	<u>31,122,349</u>	<u>31,380,644</u>	<u>32,336,630</u>
Net Position			
Net investment in capital assets	(10,657,001)	(15,213,971)	(19,906,977)
Restricted	6,976,739	12,728,788	19,044,744
Unrestricted	(1,095,824)	(1,325,710)	(2,263,887)
Total Net Position	<u>\$ (4,776,086)</u>	<u>\$ (3,810,893)</u>	<u>\$ (3,126,120)</u>

The net deficit in all years is the result of the use of bond proceeds to fund administrative expenses and debt service.

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Operating Expenses	\$ 107,605	\$ 80,369	\$ 96,269
Operating Income (Loss)	(107,605)	(80,369)	(96,269)
Non-operating Revenues/(Expenses)	(857,588)	(505,529)	(620,730)
Donated capital assets	-	(98,875)	(33,076)
Change in Net Position	<u>\$ (965,193)</u>	<u>\$ (684,773)</u>	<u>\$ (750,075)</u>

The change in net position is a result of unpaid administrative fees and lower interest and dividend income.

Capital Assets

The Authority's capital assets consisted of construction in progress of the public improvements, totaling \$3,917,858 and \$15,425,141 and completed public improvements not yet accepted by Louisa County (the "County") as of June 30, 2025. The public improvements were 87% complete per the RP20 Cutalong Consolidated LLC's (the "Developer") June 30, 2025, quarterly disclosure report status of completion table. The completed improvements consist of well/water development, a water treatment plant interim phase and a wastewater treatment plant interim phase. Construction continues on a main connector loop through the development, a wastewater collection system, and walking trails.

Preliminary engineering costs related to Highway 208 of \$98,875 were donated in fiscal year 2024. These costs were recorded as donated capital assets in the fiscal year 2024 financial statements.

Long-Term Debt

The Authority issued Special Assessment Bonds, Series 2022, totaling \$30,000,000 dated March 14, 2022, in three series bearing interest at 4.00%, 4.25%, and 4.50% per annum with final maturities of March 1, 2032, March 1, 2042, and March 1, 2055, respectively. This bond issuance represents 100% of the Authority's long-term debt balance. The Bonds are subject to mandatory sinking fund, optional, and special mandatory redemption requirements as specified in the Indenture of Trust (the "Indenture"), entered into between the Authority and U.S. Bank Trust Company, National Association, (the "Trustee") on March 1, 2022.

The proceeds from the Bonds are being used to finance construction of certain public infrastructure improvements, to fund a debt service reserve fund, to fund the payment of interest on the Bonds during the construction period, and to pay costs of issuing the Bonds and certain administrative expenses.

Mandatory sinking fund payments begin on March 1, 2026, from special assessment revenues received by the Authority after the payment of administrative expenses.

Special Assessments

Annual special assessments are to be imposed and collected on all real property within the District to pay debt service and operating costs of the Authority. Per the Limited Offering Memorandum, all special assessments are due on December 5 of each year.

There were no special assessments imposed on the property owners for the 2025 tax year. Obligations were funded from the Capitalized Interest Account and bond proceeds. Special assessments imposed on the property owners for the 2026 tax year totaled \$1,662,635.

Economic Factors and Future Outlook

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

Contacting Authority's Financial Management

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

IV. FINANCIAL STATEMENTS

**CUTALONG II
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION
As of June 30,**

	<u>2025</u>	<u>2024</u>
Assets		
Current Assets		
Restricted cash and cash equivalents	\$ 6,976,739	\$ 8,944,891
Short-term investments	-	3,783,897
Accrued interest receivable	25,079	53,478
Prepaid expenses	1,446	1,456
Total Current Assets	<u>7,003,264</u>	<u>12,783,722</u>
Noncurrent Assets		
Construction in progress	3,917,858	9,054,366
Public improvements	15,425,141	5,731,663
Total Noncurrent Assets	<u>19,342,999</u>	<u>14,786,029</u>
Total Assets	<u>26,346,263</u>	<u>27,569,751</u>
Liabilities		
Current Liabilities		
Accounts payable	93,947	7,576
Accrued liabilities	586,669	931,335
Accrued interest payable	441,733	441,733
Current portion of long-term debt	122,000	-
Total Current Liabilities	<u>1,244,349</u>	<u>1,380,644</u>
Noncurrent Liabilities		
Long-term debt	29,878,000	30,000,000
Total Noncurrent Liabilities	<u>29,878,000</u>	<u>30,000,000</u>
Total Liabilities	<u>31,122,349</u>	<u>31,380,644</u>
Net Position		
Net investment in capital assets	(10,657,001)	(15,213,971)
Restricted	6,976,739	12,728,788
a Unrestricted	<u>(1,095,824)</u>	<u>(1,325,710)</u>
Net Position	<u>\$ (4,776,086)</u>	<u>\$ (3,810,893)</u>

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

**CUTALONG II
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ending June 30,**

	<u>2025</u>	<u>2024</u>
Operating Expenses		
Administrative fees	\$ 94,149	\$ 69,413
Legal fees	7,500	5,000
Accounting and audit fees	4,500	4,500
Insurance expense	1,456	1,456
Total operating expenses	<u>107,605</u>	<u>80,369</u>
 Operating Income (Loss)	 <u>(107,605)</u>	 <u>(80,369)</u>
 Non-operating Revenues (Expenses)		
Interest and dividend income	467,610	819,669
Bond interest expense	<u>(1,325,198)</u>	<u>(1,325,198)</u>
Total Non-Operating Revenues (Expenses)	<u>(857,588)</u>	<u>(505,529)</u>
 Donated Capital Assets	 <u>-</u>	 <u>(98,875)</u>
Change in Net Position	(965,193)	(684,773)
Net Position, Beginning of Year	<u>(3,810,893)</u>	<u>(3,126,120)</u>
Net Position, End of Year	<u>\$ (4,776,086)</u>	<u>\$ (3,810,893)</u>

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

**CUTALONG II
COMMUNITY DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ending June 30,**

	<u>2025</u>	<u>2024</u>
Cash Flows from Operating Activities		
Cash payments for administrative fees	\$ (21,225)	\$ (82,946)
Net Cash Used in Operating Activities	<u>(21,225)</u>	<u>(82,946)</u>
Cash Flows from Investing Activities		
Interest and dividends received on investments	548,788	780,461
Investments matured	3,731,118	1,228,862
Net Cash Provided by Investing Activities	<u>4,279,906</u>	<u>2,009,323</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(4,901,635)	(5,743,750)
Interest paid on bonds	(1,325,198)	(1,325,198)
Net Cash Used in Capital and Related Financing Activities	<u>(6,226,833)</u>	<u>(7,068,948)</u>
Change in Cash and Cash Equivalents	(1,968,152)	(5,142,571)
Cash and Cash Equivalents, Beginning of Year	8,944,891	14,087,462
Cash and Cash Equivalents, End of Year	<u>\$ 6,976,739</u>	<u>\$ 8,944,891</u>
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	\$ (107,605)	\$ (80,369)
Adjustments		
Increase (decrease) in accounts payable	86,370	(4,117)
Decrease in prepaid expenses	10	1,540
Net Cash Used in Operating Activities	<u>\$ (21,225)</u>	<u>\$ (82,946)</u>
Supplemental Information		
Donated Capital Assets	<u>\$ -</u>	<u>\$ (98,875)</u>
Construction in progress in accrued liabilities	<u>\$ 586,669</u>	<u>\$ 931,335</u>

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 Cutalong II Community Development Authority (the “Authority”) was established pursuant to the Virginia Water and Waste Authorities Act, Chapter 51, Section 15.2-5152 *et seq.*, of the *Code of Virginia*, 1950 (the “Act”), as amended. The Act provides for the creation of an authority and a related Special Assessment District (the “District”) for the sole purpose of financing, constructing, and maintaining, if necessary, certain public improvements within, contiguous to, or serving the District. The Authority was created pursuant to the Act by an ordinance (the “CDA Ordinance”) adopted by the Board of County Supervisors of Louisa County, Virginia (the “County Board”) on December 6, 2021.

The Cutalong II Community Development Authority, Special Assessment Bonds, Series 2022 (the “Bonds”), were authorized by a resolution adopted by the Authority on December 10, 2021. The Bonds were issued pursuant to an Indenture of Trust (the “Indenture”) by and between the Authority and U.S. Bank Trust Company, National Association (the “Trustee”), dated as of March 1, 2022.

The Authority issued Special Assessment Bonds, Series 2022, totaling \$30,000,000 dated March 14, 2022, in three series bearing interest at 4.00%, 4.25%, and 4.50% per annum with final maturities of March 1, 2032, March 1, 2042, and March 1, 2055, respectively. This bond issuance represents 100% of the Authority’s long-term debt balance.

The proceeds from the Bonds are being used to finance construction of certain public infrastructure improvements, to fund a debt service reserve fund, to fund the payment of interest on the Bonds during the construction period, and to pay costs of issuing the Bonds and certain administrative expenses.

The Bonds are intended to be paid primarily from special assessments imposed and collected by Louisa County (the “County”) against the taxable real property in the District. Fifteen parcels have been excluded from the District, as they were sold before the creation of the District. Unless prepaid, such special assessments are payable at the same time the County’s general ad valorem real estate taxes are paid. Special assessments, when imposed, will be made a lien on parcels subject to taxation in the District, and, pursuant to the Memorandum of Understanding, the County will levy and collect special assessments and pursue the collection of delinquent payments with the same diligence it employs in the collection of the County’s real estate taxes.

Cutalong II is a mixed-use development located near Lake Anna in Louisa County, Virginia and is being developed as a premier second and primary home golf and recreation community outside of the Washington D.C. beltway. The master plan provides for 891 residential units, forty-five acres of commercial development, a waterfront community center, and an 18-hole championship golf course. Cutalong is comprised of approximately 1,045 acres of which approximately 743 acres are located in the District.

The development is being undertaken by RP20 Cutalong Consolidated LLC (the “Developer”), which is indirectly owned and controlled by Reef Capital Partners LLC (“Reef”), which is the primary investor in the project. The non-member manager of the Developer is Stillwater Equity Partners LLC (“Stillwater”), which is a wholly-owned subsidiary of Reef.

The Authority is governed by a board of five directors appointed by the County Board. The current board members’ terms will expire on December 1, 2025. The successor of each member is appointed by the County Board for a term of four years, except that any person appointed to fill a vacancy will serve only for the unexpired term. Any member is eligible for reappointment. There is presently one vacancy.

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 and Cash Equivalents

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

Investments with an initial maturity of more than three months are reported as Investments. Investments are reported at fair value and are segregated into short-term and long-term components. Investments maturing within one year are considered short-term. All investments are expected to be held until maturity.

D. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their fair market value on the date that they will be donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. The Authority does not depreciate incomplete or unaccepted capital assets as all assets will be donated to a public entity upon completion/acquisition. If the Authority accepts completed capital assets, they will be depreciated using the straight-line method over their useful life.

E. Net Position

Net position represents the difference between assets, liabilities, and deferred inflows/outflows of resources. Net Position is reported as restricted when there are limitations imposed on its 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 resources are available.

F. Operating Revenues and Expenses

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

G. Use of Estimates

The preparation of financial statements in conformity with 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

Cash and cash equivalents consisted of the following as of June 30, 2025, and 2024:

	<u>2025</u>	<u>2024</u>
Money market funds	\$ 6,976,739	\$ 8,944,891
Total cash and cash equivalents	<u>\$ 6,976,739</u>	<u>\$ 8,944,891</u>

A. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. There is no custodial credit risk to these accounts as the entire bank balance was covered by federal depository insurance or collateralized in accordance with the provisions under the Indenture.

Cash and cash equivalents consist of investments in money market accounts. Such underlying securities were held by financial institutions in their trust departments in the Authority's name.

B. Interest Rate Risk

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. As a means of limiting exposure to fair value losses arising from rising interest rates, the Indenture requires the investments of money in the Debt Service Reserve Fund to mature or be payable at the option of the Trustee not more than ten years after the date of their purchase. The Authority's deposits in money market funds are withdraw-able on demand.

C. Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Indenture specifies that the Trustee may rely upon the Authority’s written instructions as to both the suitability and legality of directed investments. Investments at June 30, 2025 and 2024 were in money market funds, currently rated “AAAm” by Standard and Poor’s.

All funds held in the accounts created by the Indenture which are on deposit with any bank will be continuously secured in the manner required by the Indenture.

D. Concentration of Credit Risk

Concentration of credit risk can arise by failing to adequately diversify investments. The Indenture establishes no limitations on portfolio composition by the issuer.

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. The Authority’s investments in money market funds totaling \$6,976,739 are valued using quoted market prices (Level 1 inputs).

NOTE 4—INVESTMENTS

Investments are reported at fair value and are segregated into short-term and long-term components based on the maturity date of the investment. Investments maturing within one year are considered short-term. All investments are expected to be held until maturity. There were no investments as of June 30, 2025.

Investments consisted of the following at June 30, 2024:

	<u>Par Value</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Market Value</u>
US Treasury Note	\$2,455,000	1.250%	8/31/2024	\$ 2,437,864
US Treasury Note	\$1,383,000	1.125%	2/28/2025	\$ 1,346,033

At the February 7, 2023, board meeting, the board approved a resolution to allow John Snyder, as vice-chairman, to make investment decisions on behalf of the board.

NOTE 5—RECEIVABLES

Receivables at June 30, 2025, consisted of interest and dividends on investments and are considered collectable in full within one year.

NOTE 6—CAPITAL ASSETS

The Authority’s capital asset activity for the years ended June 30, 2025, and 2024, was as follows:

	Beginning Balance	Additions	Transfers	Donations	Ending Balance
<u>2025</u>					
Construction in progress	\$ 9,054,366	\$ 4,556,969	\$ (9,693,477)	\$ -	\$ 3,917,858
Public Improvements	5,731,663	-	9,693,477	-	15,425,141
Total Capital Assets	<u>\$ 14,786,029</u>	<u>\$ 4,556,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,342,999</u>
	Beginning Balance	Additions	Transfers	Donations	Ending Balance
<u>2024</u>					
Construction in progress	\$ 10,093,023	\$ 4,791,881	\$ (5,731,663)	\$ (98,875)	\$ 9,054,366
Public Improvements	-	-	5,731,663	-	5,731,663
Total Capital Assets	<u>\$ 10,093,023</u>	<u>\$ 4,791,881</u>	<u>\$ -</u>	<u>\$ (98,875)</u>	<u>\$ 14,786,029</u>

The completed improvements consist of well/water development, a water treatment plant interim phase, a wastewater treatment plant interim phase and Highway 208 improvements. Construction continues on a main connector loop through the development, Highway 652 entrance improvements and walking trails. The public improvements were 87% complete per the Developer June 30, 2025, quarterly disclosure report status of completion table.

The proceeds of the Bonds are to be used primarily to fund the costs of these public improvements. Pursuant to the Development/Acquisition Agreement, on completion, the public improvements will be conveyed to the County, the Authority, or other such public entity as the Authority may designate. The Developer will be responsible for the maintenance of all public improvements financed by the Bonds once transferred.

Preliminary engineering costs related to Highway 208 of \$98,875 were donated in fiscal year 2024. These costs were recorded as donated capital assets in the financial statements.

NOTE 7—LONG-TERM OBLIGATIONS

Bonds payable consisted of the following at June 30, 2025 and 2024:

	Balance July 1, 2024	Increase	Decrease	Balance June 30, 2025	Due in one year
<u>2025</u>					
Series 2022, Term 2032	\$ 1,632,000	\$ -	\$ -	\$ 1,632,000	\$ 122,000
Series 2022, Term 2042	6,657,000	-	-	6,657,000	-
Series 2022, Term 2055	21,711,000	-	-	21,711,000	-
Total Bonds Payable	<u>\$ 30,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000,000</u>	<u>\$ 122,000</u>

<u>2024</u>	<u>Balance</u> <u>July 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2024</u>	<u>Due in</u> <u>one year</u>
Series 2022, Term 2032	\$ 1,632,000	\$ -	\$ -	\$ 1,632,000	\$ -
Series 2022, Term 2042	6,657,000	-	-	6,657,000	-
Series 2022, Term 2055	21,711,000	-	-	21,711,000	-
Total Bonds Payable	<u>\$ 30,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,000,000</u>	<u>\$ -</u>

A. Special Assessment Bonds, Series 2022

The Authority issued Special Assessment Bonds, Series 2022, totaling \$30,000,000 dated March 14, 2022, in three series bearing interest at 4.00%, 4.25%, and 4.50% per annum with final maturities of March 1, 2032, March 1, 2042, and March 1, 2055, respectively. This bond issuance represents 100% of the Authority's long-term debt balance. The Bonds are subject to mandatory sinking fund, optional, and special mandatory redemption requirements as specified in the Indenture entered into between the Authority and the Trustee.

The proceeds from the Bonds are being used to finance construction of certain public infrastructure improvements, to fund a debt service reserve fund, to fund the payment of interest on the Bonds during the construction period, and to pay costs of issuing the Bonds and certain administrative expenses.

The funding of the Capitalized Interest Account will service the Bonds for the first three years, after which the Bonds will be amortized over thirty years, resulting in a final maturity of thirty-three years from issuance.

The Bonds are intended to be paid primarily from special assessments imposed and collected by the County against the taxable real property in the District. Unless prepaid, such special assessments are payable at the same time the County's general ad valorem real estate taxes are paid. Special assessments, when imposed, will be made a lien on parcels subject to taxation in the District, and, pursuant to the Memorandum of Understanding, the County will levy and collect special assessments and pursue the collection of delinquent payments with the same diligence it employs in the collection of the County's real estate taxes

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

The Bonds were issued in three series as follows:

	<u>Principal Amount</u>	<u>Rate</u>	<u>Final Maturity</u>
Term 2032	\$ 1,632,000	4.00%	March 1, 2032
Term 2042	\$ 6,657,000	4.25%	March 1, 2042
Term 2055	\$ 21,711,000	4.50%	March 1, 2055

Interest on the Bonds is payable according to the terms specified by the Indenture annually on March 1 of each year commencing on March 1, 2023. Interest on the Bonds is calculated based on a 360-day year comprised of twelve 30-day months. Interest payments for both fiscal years 2025 and 2024 amounted to \$1,325,198 each.

Principal payments on the Bonds are due each March 1 beginning March 1, 2026, according to the mandatory sinking fund redemption schedule.

B. Optional Redemption

The Bonds may be called for redemption at the option of the Authority, in whole or in part, in increments of \$5,000, any time, during the following optional redemption periods, upon payment of the following redemption prices, plus interest accrued to the optional redemption date.

<u>Redemption Period</u>	<u>Redemption Price</u>
March 1, 2027 – February 29, 2028	103%
March 1, 2028 – February 28, 2029	102%
March 1, 2029 – February 28, 2030	101%
March 1, 2030, and thereafter	100%

C. Special Mandatory Redemption

The Bonds are subject to special mandatory redemption, in whole or in part, in minimum amounts of \$5,000, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption on any interest payment date from amounts deposited into the Prepayment Account, or at any time after the completion date of the public improvements from monies remaining in the Project Fund or any amounts transferred from the Net Proceeds Account to the Redemption Account.

D. Mandatory Sinking Fund Redemption

The Bonds are required to be redeemed each March 1 in the years and in the amounts set forth below:

Year Ending June 30:	<u>Term 2032</u>		<u>Term 2042</u>	
	Principal	Interest	Principal	Interest
2026	\$ 122,000	\$ 65,280	\$ -	\$ 282,923
2027	155,000	60,400	-	282,923
2028	191,000	54,200	-	282,923
2029	229,000	46,560	-	282,923
2030	269,000	37,400	-	282,923
2031-2035	666,000	40,840	1,361,000	1,361,190
2036-2040	-	-	3,435,000	860,710
2041-2045	-	-	1,861,000	120,275
2046-2050	-	-	-	-
2051-2055	-	-	-	-
Total	<u>\$ 1,632,000</u>	<u>\$ 304,680</u>	<u>\$ 6,657,000</u>	<u>\$ 3,756,790</u>

Year Ending June 30:	<u>Term 2055</u>		<u>Total</u>	
	Principal	Interest	Principal	Interest
2026	\$ -	\$ 976,995	\$ 122,000	\$ 1,325,198
2027	-	976,995	155,000	1,320,318
2028	-	976,995	191,000	1,314,118
2029	-	976,995	229,000	1,306,478
2030	-	976,995	269,000	1,297,318
2031-2035	-	4,884,975	2,027,000	6,287,005
2036-2040	-	4,884,975	3,435,000	5,745,685
2041-2045	3,417,000	4,739,310	5,278,000	4,859,585
2046-2050	7,719,000	3,471,480	7,719,000	3,471,480
2051-2055	10,575,000	1,472,760	10,575,000	1,472,760
Total	<u>\$ 21,711,000</u>	<u>\$ 24,338,475</u>	<u>\$30,000,000</u>	<u>\$ 28,399,945</u>

NOTE 8—SPECIAL ASSESSMENTS

Annual special assessments are to be imposed and collected on all the real property within the District (excepting those for which the assessment lien has been prepaid or exempted). The annual revenue requirement, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) other amounts available for the payment of such debt service and expense. Special assessments, unless prepaid, will be payable on December 5 of each year.

There were no special assessments imposed on the property owners for the 2025 or 2024 tax years. Obligations were funded from the Capitalized Interest Account and bond proceeds.

NOTE 9—ARBITRAGE

When applicable, arbitrage calculations are performed on the Authority's funds to determine any arbitrage rebate or yield restriction liability. There is a potential yield reduction liability totaling \$6,234 for the fiscal year ending June 30, 2025. The payment due date for arbitrage liability is April 30, 2027. No liabilities for arbitrage rebate or yield restriction were identified in the fiscal year ending June 30, 2024.

NOTE 10—CONTINGENT LIABILITIES

As of June 30, 2025, there were no claims or lawsuits pending against the Authority.

NOTE 11—EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 30, 2025, the date which the financial statements were available to be issued.

VI. COMPLIANCE



THE NICHOLS GROUP, P.A.
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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
Cutalong II Community Development Authority
Mineral, VA

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 Cutalong II Community Development Authority (Authority), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 30, 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

October 30, 2025