

WATERWOOD IMPROVEMENT ASSOCIATION, INC.

*FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION*

*FOR THE YEAR ENDED DECEMBER 31, 2021*



**Davis, Heinemann & Company, P.C.**

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## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
FINANCIAL STATEMENTS	
Balance Sheet .....	3
Statement of Revenues and Expenses .....	4
Statement of Changes in Members' Equity .....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7
SUPPLEMENTARY INFORMATION	
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION .	15
Schedule of Operating Fund Revenues and Expenses - Budget and Actual.....	16
Supplementary Information on Future Major Repairs and Replacements.....	17



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**Independent Auditor's Report**

To the Board of Directors  
Waterwood Improvement Association  
Huntsville, Texas 77320

Dear Board Members:

**Opinion**

We have audited the accompanying financial statements of Waterwood Improvement Association (a nonprofit organization), which comprise the balance sheet as of December 31, 2021, and the related statements of revenues and expenses, changes in members' equity, cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waterwood Improvement Association as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Waterwood Improvement Association 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 opinion.

**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 Waterwood Improvement Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **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 opinion. 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 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, including omissions, 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, 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 Waterwood Improvement Association'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 Waterwood Improvement Association'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.

Respectfully submitted,

*Davis, Heinemann & Co.*

Davis, Heinemann & Company, P.C.

Huntsville, Texas  
August 26, 2022

**Waterwood Improvement Association, Inc.**  
**Balance Sheet**  
**As of December 31, 2021**

**ASSETS**

Cash and Cash Equivalents, Including		
Interest-bearing Deposits	\$	1,465,134
Annual Charges Receivable and Accrued		
Interest on Delinquent Receivables,		
Less Allowance for Bad Debts		681,656
Accrued Interest Receivable		47,010
Prepaid Expense		18,087
Long-term Accounts and Interest Receivable		627,039
Investments		4,871,936
Land		1,317,587
Construction in Progress		-
Property and Equipment, Less		
Accumulated Depreciation		<u>462,260</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u><u>9,490,709</u></u></b>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Accounts Payable and Other Accrued Liabilities	\$	16,823
Capital Improvement Damage Deposits		3,000
Payroll Taxes Payable		2,457
Long-term Debt		650,019
<b>TOTAL LIABILITIES</b>		<u><u>672,299</u></u>

**MEMBERS' EQUITY**

Unrestricted - Undesignated		8,500,364
Accumulated Other Comprehensive Income		318,046
<b>TOTAL MEMBERS' EQUITY</b>		<u><u>8,818,410</u></u>

<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$</b>	<b><u><u>9,490,709</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**Waterwood Improvement Association, Inc.**  
**Statement of Revenues and Expenses**  
**For the Year Ended December 31, 2021**

**REVENUES**

Annual Charges	\$ 1,048,652
Interest on Delinquent Annual Charges	102,356
Recoveries	76,674
Investment Income	219,897
Contributions	2,750
Capital Improvement Fees	12,684
Property Transfer Fees	13,650
Unrealized Gain/(Loss) on Securities	(85,683)
Fireworks Donations	3,825
Trailer Park Maintenance and Operating Fee	1,080
Pool Pass Maintenance and Operating Fee	4,539
Lot Sales	16,587
Other Income	6,804
Gain/(Loss) on Sale of Assets	810
<b>Total Revenues</b>	<u>1,424,625</u>

**EXPENSES**

Vehicle Expense	21,944
Bad Debts	214,133
Repairs and Maintenance - Buildings	897
Contract Labor	563
Community Events	9,333
EMS Contract	96,253
Insurance	27,632
Grounds Maintenance Contract and Landscaping	122,891
Miscellaneous	25,402
Office Expense	34,066
Salaries and Payroll Tax	130,856
Professional Fees	59,083
Pool Maintenance	9,576
Road Repair and Maintenance	58,083
Golf Course Maintenance	45,000
Property Taxes	7,627
Travel and Meals	893
Utilities and Services	66,053
Depreciation	44,755
Bond Amortization	11,999
Waterwood Volunteer Fire Department	51,500
Security Services	196,087
<b>Total Expenses</b>	<u>1,234,626</u>

**EXCESS (DEFICIENCY) OF REVENUES  
OVER (UNDER) EXPENSES**

**\$ 189,999**

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

**Waterwood Improvement Association, Inc.**  
**Statement of Changes in Members' Equity**  
**For the Year Ended December 31, 2021**

<b>MEMBERS' EQUITY, BEGINNING OF YEAR</b>	\$ 8,628,411
Excess Revenues Over Expenses	<u>189,999</u>
<b>MEMBERS' EQUITY, END OF YEAR</b>	<u><u>\$ 8,818,410</u></u>

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

**Waterwood Improvement Association, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net Revenues Over Expenses	\$	189,999
<b>Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:</b>		
Unrealized (Gain)/Loss on Securities		85,683
Depreciation		44,755
Bond Amortization		11,999
(Gain)/Loss on Disposal of Assets		(810)
<b>(Increase)/Decrease in:</b>		
Member Annual Charges Receivable		(290,727)
Interest Receivable		7,653
Prepaid Expense		4,040
Long-term Receivable		(587,074)
<b>Increase/(Decrease) in:</b>		
Accounts Payable		(36,757)
Capital Improvement Damage Deposits		-
Payroll Taxes		2,254
<b>NET CASH FROM/(USED BY) OPERATING ACTIVITIES</b>		<u><u>(568,985)</u></u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investments - Purchases		-
Investments - Sales or Called		675,000
Construction in Progress		-
Proceeds on Disposal of Assets		1,552
Property Deeded in Lieu of Fees		-
Fixed Asset Purchase		(39,592)
<b>NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES</b>		<u><u>636,960</u></u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Interest Paid		-
Loan Proceeds		650,019
Decrease in Long-term Debt		-
<b>NET CASH (USED)/PROVIDED BY FINANCING ACTIVITIES</b>		<u><u>650,019</u></u>

<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		717,994
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		747,140
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$	<u><u>1,465,134</u></u>

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



WATERWOOD IMPROVEMENT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2021

NOTE A – NATURE OF ORGANIZATION

Waterwood Improvement Association, Inc. (WIA) is a non-profit corporation, organized for the purpose of promoting and developing the common good and social welfare of the homeowners of the Waterwood subdivision, including providing for the maintenance of common areas and other improvements. In addition, the Association provides security, EMS service, garbage pickup and fire department services for Waterwood residents. The Waterwood development is located in San Jacinto County and is comprised of more than 1,000 acres of lots and developed home sites, in addition to greenbelts and other common areas. The Waterwood subdivision has approximately 2,000 lots, of which approximately 400 are improved.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. In accordance with generally accepted accounting principles, the financial statements have been prepared on the accrual basis.

According to ASU 2018-08 the Association must evaluate its sources of revenue to determine whether the revenue is a contribution or an exchange. It was determined that the Association's revenues are classified as exchanges, which are reciprocal transfers in which each party receives and sacrifices approximate commensurate value. No contributions were recorded during 2021. Expenses are recognized when they are incurred.

Annual Charges

The Association is funded primarily through funds received from annual charges and investment portfolio income. In accordance with the provisions of the land deed covenants and other legal agreements, annual charges are levied on all lot owners, with the exception of lots owned by governmental entities, those exempted under the terms of legal agreements with the Association, and those owned by the Association. The annual charges are recognized on the active accounts as income at the time they are levied. The annual charges are levied each November, and if not paid by December 31, become delinquent and bear interest at the rate of ten percent per annum. The Association, when appropriate, files liens on undeveloped and developed lots or forecloses on properties on which unpaid annual charges, interest and any legal fees incurred, exist. All amounts due to the Association are maintained as accounts receivable and the amounts determined to be uncollectible are written off as bad debts using the allowance method.

### Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are directly associated with the unit (that is, common property without which the units could not be occupied and exterior property that is normally part of a freestanding unit). Greenbelts are an example of common property owned by the Association and not capitalized.

The Association capitalizes personal property greater than \$5,000 at cost and depreciates it using the straight-line method over the estimated useful life.

### Income Taxes

A qualifying homeowners' association may be taxed either as a homeowners' association or as a regular corporation. As a homeowners' association, annual charge income is exempt from taxation if certain elections are made, and the association is taxed only on its non-membership income, such as bank or taxable bond interest earnings and gain on sale of certain assets, at regular federal corporate rates. In 2021, the Association qualified under Section 528 of the Internal Revenue Code as a homeowners' association and has extended the filing of Form 1120-H.

### Statement of Cash Flows

For purposes of reporting cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents. This includes the Association's investment in the Morgan Stanley Money Market Fund and Invesco Mutual Fund which invests in instruments with a maturity of less than 90 days.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### NOTE C – MARKETABLE AND NONMARKETABLE SECURITIES

The Association adopted SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, which requires classification of securities into one of three categories, depending on the entity's intent and ability to hold the security until maturity. In addition, the Association has adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which describes the timing and ability of an entity to use fair value accounting.

All of the bonds held at year end are considered to be "available for sale" according to SFAS No. 115 and are recorded at fair market value.

Realized gains and losses are recorded in the statement of revenues and expenses in the period they are earned. Bond premium/discount is amortized by the Association using the effective-

interest method required by SFAS No. 115 as calculated by the investment brokers, Morgan Stanley.

The aggregate cost and market values of the investment securities are summarized as follows:

Available-for-sale Securities:	Amortized Cost	Market	Cumulative Unrealized Gains/ (Losses)
<u>Unrestricted Bonds</u>			
State and Municipal Securities with AAA, AA, A and BAA Ratings	\$ 4,553,890	\$ 4,871,936	\$ 318,046
Total	<u>\$ 4,553,890</u>	<u>\$ 4,871,936</u>	<u>\$ 318,046</u>

During the year ended December 31, 2021, no bonds were purchased and four bonds were called for a net realized gain of \$0 in 2021.

Net unrealized holding losses on available-for-sale securities in the amount of \$85,683 for the year ended December 31, 2021, have been included in accumulated other comprehensive income of \$318,046.

Maturities of available-for-sale debt securities at December 31, 2021 are as follows:

<u>Bond Maturities</u>	<u>Fair Value</u>
Due in One Year or Less (Before December 31, 2022)	\$ -
Due Between January 1, 2023 and December 31, 2026 (1 to 5 Years)	-
Due Between January 1, 2027 and December 31, 2031 (5 to 10 Years)	65,158
Due Between January 1, 2032 and December 31, 2041 (10 to 20 Years)	2,677,589
Due January 1, 2042 or After (20 Years or More)	2,129,189
Total Investment in Available-for-Sale Securities	<u>\$ 4,871,936</u>

Actual maturities may differ from contractual maturities because nearly all borrowers have the right to call or prepay obligations with or without call or prepayment penalties. For purposes of this schedule, the actual maturity dates were used.

At June 30, 2022, the market value was \$4,319,322, a decrease of \$552,613, primarily due to the economic trend of rising interest rates, which, correspondingly, causes bond values to decline.

NOTE D – ASSESSMENTS AND ACCRUED INTEREST ON DELINQUENT RECEIVABLES

Balance, Beginning of Year	\$	3,563,227
Plus: Assessments		1,048,652
Plus: Interest		102,356
Plus: Miscellaneous Other Billings		56,939
Less: Collections/Write offs		(1,889,694)
Plus: Other Items and Adjustments		22,713
Balance, End of Year	\$	<u>2,904,193</u>

The annual fee for 2021 was \$700 for single family lots (\$650 in 2020) and \$765 in 2021 for multi-family lots (\$780 in 2020).

The Association set up an allowance for uncollectible accounts for delinquent assessments and interest in 2008. Net accounts receivable as of December 31, 2021, is shown below:

Annual Charges/Interest Receivable	\$	2,904,193
Less: Allowance for Bad Debts		(2,222,537)
Net Annual Charges/Interest Receivable	\$	<u>681,656</u>

In the current year-end, the amount for accounts receivable includes the balances for members using a payment plan. Beginning in 2022, all balances are due by December 31, even for those using a payment plan.

Annual charge invoices are mailed in early November which detail the options for payment: 1) Pay all fees and interest due by December 31, 2021; 2) Set up a payment plan of not less than three months; or 3) Deed the property to the Association in satisfaction of membership assessment debt. The Association will pay any back property taxes owed on the property.

All fees are due by December 31. Interest on the most recent assessment begins January 1. If payment is not received by December 31, the Association sends out 209 letters, beginning in February/March, which detail the options for those with unpaid accounts. 1) Pay all unpaid fees and interest, 2) Set up a payment plan, 3) Deed the property to the Association. Unpaid accounts after 45 days after the receipt of the 209 letters are sent to the Association's attorney for collection. At this time the Association attorney sends a 209 letter to the delinquent property owner, and after 45 days from receipt, if the account remains delinquent, the Association attorney requests the Association to complete an authorization to proceed forward with filing suit for foreclosure of the assessment lien.

As of December 31, 2015, WWP, meaning Waterwood Partners, LLC and any affiliate entities, including ILS (Investor Land Services), owned 531 of the 1,619 total undeveloped lots in Waterwood. Although WWP and ILS were billed for fees on all their lots, they made only nominal payments of fees owed.

In 2015, the Association sued WWP and ILS for the fees and interest owed. A settlement agreement to the lawsuit was reached by mediation in August 2016 which was officially recorded at the courthouse in January 2018. Major terms of the settlement are as follows:

- 1) WWP and ILS will, upon the closing of the sale of each lot they own in the Waterwood subdivision, pay an amount equal to 15% of the gross sales price to the Association.
- 2) WWP and ILS will convey title to various lots in Park Forest Village without ready access to electricity to the Association, at no cost to the Association. In January 2017, 164 lots were transferred.
- 3) WWP and ILS will pay all future costs to develop undeveloped lots in Tournament Village, Piney Point, Fairway Village, and their remaining lots in Park Forest Village.
- 4) By the terms of the August 2016 settlement agreement, the Association has not billed WWP and ILS annual fees for lots they own for five years, from 2016 through July 2021.

Annual fees billed as of December 31, 2021, were not paid and the Association has offered a settlement to WWP (Waterwood Partners) regarding lost revenue due to properties not sold by WWP at SJCAD (San Jacinto Central Appraisal District) value, lost revenue for the annual charges for 2021 (August 23, 2021 to December 31, 2021) and the annual charges for 2022 (January 1, 2022 to September 30, 2022). Revenue of \$110,440 from WWP was recognized in 2021 for 2021 fees required to be paid.

#### NOTE E – LAND AND PROPERTY AND EQUIPMENT

Land and property and equipment consists of the following categories:

	Cost
Land	\$ 1,317,587
Construction in Progress	-
Vehicles	48,768
Equipment	37,205
Buildings and Improvements	957,747
Total Property and Equipment	2,361,307
Less: Accumulated Depreciation	(581,460)
Net Cost	\$ 1,779,847

Land consists primarily of parkways, public areas (i.e. dump site), acreage, and 193 lots owned by the Association and is valued at \$1,318,329, of which \$250,000 represents a strip of land along the east side of Waterwood Parkway, approximately six miles long and 150 feet wide, which was purchased by the Association in order to maintain a no-cut zone in the entrance to the Waterwood subdivision.

In 2016, the Association purchased, for \$1,006,513, the parkway right of way from FM 980 to Bob Christian Road, the parkway right of way from State Highway 190 to where the parkway becomes a two-lane road, and the billboard, plus the land surrounding the billboard, located on the south side of State Highway 190 across from Waterwood Parkway. In addition, the Association obtained the right to approve the posting of signs and placement of any items within 200 feet of the parkway right of way and within 200 feet of the rights of way of roads within Waterwood.

NOTE F – FEDERAL INCOME TAX

The Association files Form 1120-H, a U.S. Income Tax Return for Homeowners’ associations, annually. The investment policy of the Association encourages investing all bonds in tax-free rather than taxable securities, which is the primary reason for the minimal income tax liability.

NOTE G – LONG-TERM DEBT

The Association obtained an agreement with Morgan Stanley to provide a \$1,000,000 line of credit with an interest rate not to exceed 4% to be used for funds to be available to construct, install and operate a fiber optic network to be used by the Waterwood community. The contractor, LCS Fibercom, LLC, (LCS) agrees to repay all principal advanced by the Association to LCS plus actual interest charged to the Association by Morgan Stanley. The term of the line of credit is within 60 months of the first disbursement. Upon the conclusion of the 60<sup>th</sup> month, any remaining balance shall be paid in full or refinanced.

The total assets pledged for the line of credit is \$4,089,552.

Long-term Debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>
Line of Credit \$	<u>-</u>	<u>\$ 650,019</u>	<u>\$ -</u>	<u>\$ 650,019</u>
\$	<u>-</u>	<u>\$ 650,019</u>	<u>\$ -</u>	<u>\$ 650,019</u>

NOTE H – LONG-TERM RECEIVABLE

The contractor, LCS Fibercom, LLC, (LCS) agrees to repay all principal advanced by the Association to LCS plus actual interest charged to the Association by Morgan Stanley. The term of the line of credit is within 60 months of the first disbursement. Upon the conclusion of the 60<sup>th</sup> month, any remaining balance shall be paid in full or refinanced.

NOTE I – MEMBERS’ EQUITY

Instead of specifically designating Members’ Equity for particular purposes, The Association uses a five-year forecast of income and expenditures model in planning future requirements.

#### NOTE J – EMS (EMERGENCY MEDICAL SERVICES)

The Association renewed its contract with Allegiance Ambulance, effective January 1, 2020 (through December 31, 2021), for annual compensation of \$96,253 (\$8,021 monthly) to provide emergency medical services to all Waterwood residents.

#### NOTE K – GROUNDS MAINTENANCE CONTRACT

Effective January 21, 2021 and extending until January 22, 2023, Timberlake Nursery received a two-year contract to provide grounds maintenance for \$112,500 per year (\$9,375 per month plus sales tax), with additional services billed separately.

#### NOTE L – SECURITY SERVICES CONTRACT

Effective January 1, 2020, the Association established a contract with Global Executive Protection to provide security services for the residents of Waterwood. The contract shall continue until terminated by either party with at least thirty days' notice. Global Executive Protection will provide services seven days a week, twenty-four hours a day, billed at \$20 per hour (time and a half for holiday pay). The Association paid \$196,087 for security services in 2021.

#### NOTE M – FIBER OPTIC NETWORK INSTALLATION PROJECT

The Association entered into a contract June 15, 2021, with LCS FiberCom, LLC, (LCS) to install and operate a fiber optic network within the general physical boundaries of Waterwood. The Association obtained a one-million-dollar line of credit through the Association's bond broker, Morgan Stanley, and advances the funds to LCS periodically, on an as-needed basis. The Association shall hold liens on all major fiber materials and supplies. LCS is required to have general liability insurance in amounts sufficient to cover all advanced funds. Funds advanced by the line of credit are shown as a long-term debt. A long-term receivable was also set up for line of credit and other cash payments advanced to LCS by the Association. LCS shall repay the funds advanced by June 16, 2026 or will refinance the outstanding balance.

#### NOTE N – COMMITMENTS UNDER NONCAPITALIZED LEASES

The Association does not have any capitalized or noncapitalized leases.

#### NOTE O – RELATED PARTY TRANSACTIONS

No material related party transactions were noted during 2021.

#### NOTE P – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Association's financial assets available within one year of the balance sheet date for general expenditures:

Cash and Cash Equivalents	\$	1,465,134
Annual Charges/Interest Receivable (Net)		681,656
Accrued Interest Receivable		47,010
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$	<u>2,193,800</u>

The Association staggers the maturities of the bond portfolio so that a portion of the Association's investments mature periodically. Currently, due to the economic environment of rising interest rates, the Association is converting the bonds to cash as they are called or mature. This action provides a larger cash balance to meet short-term needs of the Association.

#### NOTE Q – SUBSEQUENT EVENTS

##### Fiber Optic Network Installation Project

The Association entered into a contract June 15, 2021, with LCS FiberCom, LLC, (LCS) to install and operate a fiber optic network within the general physical boundaries of Waterwood. The Association obtained a one million dollar line of credit through the Association's bond broker, Morgan Stanley, and advances the funds to LCS. During installation and operation, major equipment is titled in the name of LCS with the Association as the lien holder on all major fiber materials and supplies. LCS has general liability insurance in amounts sufficient to cover all advanced funds. LCS shall repay the funds advanced by June 16, 2026, or will refinance the outstanding balance.

The network is primarily for the use and enjoyment of the residents and businesses within Waterwood and other external clients the parties mutually agree would benefit from the venture as a whole. The basic design of the network has the capacity to accommodate every property under the direction of the Association, currently estimated at 2,035 lots plus various non-residential properties, without major rework along the trunk and distribution lines. The proposed system design is for a standardized Gigabit Passive Optical Network (GPON) network. At completion of the installation of the project, the Association shall own two (2) fiber optic lines for its proprietary use.

As of the date of this report, installation of the fiber optic network is completed and fully operational in Greentree Village, Whispering Pines I and Whispering Pines 2. Currently LSC has approximately 74 paying customers. Installation activities have progressed north across FM 980 along Waterwood Parkway. The main fiber trunk line is installed through Lakeview Estates and progressing down Latrobe past Doral, Pebble Beach Way and continuing towards LaJolla.

The Association had no other reportable subsequent events through August 26, 2022, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2021.



*Supplementary Information*



**DAVIS, HEINEMANN & COMPANY, P.C.**

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INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTARY INFORMATION

To the Board of Directors and Property Owners  
Waterwood Improvement Association

The information included in the Schedule of Operating Fund Revenues and Expenses – Budget and Actual for the year ended December 31, 2021, on page 16 is presented only for supplementary analysis purposes. Such information (except for the budget information, which was compiled without audit from information that is the representation of management, on which we did not express an opinion or any other form of assurance) has been subjected to certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The supplementary information on future major repairs and replacements on page 17 is not a required part of the basic financial statements of the Association but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

*Davis, Heinemann + Co.*

Davis, Heinemann & Company, P.C.  
August 26, 2022

**Waterwood Improvement Association, Inc.**  
**Schedule of Operating Fund Revenues and Expenses - Budget and Actual - Budgetary Basis**  
**For the Year Ended December 31, 2021**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Annual Charges	\$ 626,525	\$ 1,048,652	\$ 422,127
Interest on Delinquent Annual Charges	-	102,356	102,356
Recoveries	57,750	76,674	18,924
Investment Income	220,500	219,897	(603)
Contributions	3,000	2,750	(250)
Capital Improvement Fees	16,000	12,684	(3,316)
Property Transfer Fees	8,500	13,650	5,150
Fireworks Donations	4,000	3,825	(175)
Trailer Park Maintenance and Operating Fees	2,400	1,080	(1,320)
Pool Pass Maintenance and Operating fees	4,000	4,539	539
WWP Lot Sales	14,200	16,587	2,387
Other Income	85	6,804	6,719
Gain/(Loss) on Sale of Assets	-	810	810
<b>Total Revenues</b>	<u>956,960</u>	<u>1,510,308</u>	<u>553,348</u>
<b>BUDGETED EXPENSES</b>			
Vehicle Expense	19,016	21,944	(2,928)
Repairs and Maintenance	606	897	(291)
Licenses and Fees	-	-	-
Community Events	11,000	9,333	1,667
EMS Contract	96,253	96,253	-
Insurance	19,377	27,632	(8,255)
Interest Expense	-	-	-
Grounds Maintenance Contract and Landscaping	115,100	122,891	(7,791)
Miscellaneous	2,000	25,402	(23,402)
Office Expense	27,131	34,066	(6,935)
Salaries, Payroll Tax and Benefits	123,362	130,856	(7,494)
Professional Fees	24,795	59,083	(34,288)
Pool Maintenance	8,100	9,576	(1,476)
Road Repair and Maintenance	70,000	58,083	11,917
Golf Course Maintenance	45,000	45,000	-
Property Taxes	2,965	7,627	(4,662)
Travel and Meals	476	893	(417)
Utilities and Services	69,838	66,053	3,785
Volunteer Fire Department Contribution	109,350	51,500	57,850
MUD Contribution	43,300	-	43,300
Security Services	192,738	196,087	(3,349)
Contract Labor	3,458	563	2,895
<b>Total Budgeted Expenses</b>	<u>983,865</u>	<u>963,739</u>	<u>20,126</u>
<b>Excess (Deficiency) Revenues Over (Under)</b>			
Budgeted Expenses	(26,905)	546,569	573,474
<b>Reconciliation of Budget Basis Revenues Over/(Under) Expenditures to Accrual Basis Change in Net Position</b>			
<b>Budget Basis Revenues Over/(Under) Expenditures</b>			
Unrealized Gain/(loss) on Securities	-	(85,683)	(85,683)
Depreciation Expense	-	(44,755)	(44,755)
Bad Debts	-	(214,133)	(214,133)
Bond Premium/Discount Amortization	-	(11,999)	(11,999)
<b>Total Non-Cash and Non-Budgeted Expenses</b>	<u>-</u>	<u>(356,570)</u>	<u>(356,570)</u>
<b>Change in Members' Equity</b>	<u>\$ (26,905)</u>	<u>\$ 189,999</u>	<u>\$ 216,904</u>

WATERWOOD IMPROVEMENT ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
 REPLACEMENTS (COMPILED)  
 For the Year Ended December 31, 2021

Asset Replacement Schedule

<u>Asset</u>	<u>Make/Model/Description</u>	<u>Model Year</u>	<u>Year Acquired</u>	<u>Useful Life</u>	<u>Remaining Life</u>	<u>Replacement Cost</u>
Fire Engine	Kenworth (Used)	2010	2016	20	9	\$175,000
Brush Truck	Dodge (Used)	2010	2018	20	9	100,000
Fire Tools	Various	-	2019	10	8	35,000
Fire Station	Wood Frame - Hardiplank - Asphalt Shingle	1998	2000	50	27	300,000
Office Building	Wood Frame - Hardiplank - Asphalt Shingle	2005	2005	50	34	175,000
Generator	Generac	-	2017	15	11	15,000
Security Vehicle	Toyota - Camry	-	2018	4	1	25,000
Security Vehicle	Nissan - Frontier	-	2020	4	3	30,000
Swimming Pool	In-ground - Gunite	-	2017	25	21	300,000
Pavillion	Wood Frame - Asphalt Shingle - Concrete	-	2017	40	36	100,000
Community Park Parking Lot	Concrete	-	2017	40	36	100,000
Pool Fencing	Wrought Iron	-	2017	40	36	25,000
						\$1,380,000

At some time in the future, major repairs on the road surfaces may be required. The extent of any major repairs or resurfacing will have to be assessed on a case-by-case basis. San Jacinto County is responsible for all subdivision road maintenance as evidenced by an easement granted to the County in 1979. The Association primarily performs minor maintenance on the roads, such as fixing potholes, crack seal, or other similar work, as approved by the Board of Directors.