

WATERWOOD IMPROVEMENT ASSOCIATION, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022



Davis, Heinemann & Company, P.C.

Certified Public Accountants

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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, 2022, 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, 2022, 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 7, 2024

Waterwood Improvement Association, Inc.
Balance Sheet
As of December 31, 2022

ASSETS

Cash and Cash Equivalents, Including Interest-bearing Deposits	\$ 2,392,828
Annual Charges Receivable and Accrued Interest on Delinquent Receivables,	1,894,072
Accrued Investment Interest Receivable	32,915
Prepaid Expense	19,326
Long-term Accounts and Interest Receivable	1,041,010
Investments	3,274,993
Land	1,317,587
Property and Equipment, Less Accumulated Depreciation	<u>415,104</u>
TOTAL ASSETS	\$ <u><u>10,387,835</u></u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

Accounts Payable and Other Accrued Liabilities	\$ 113,297
Capital Improvement Damage Deposits	2,000
Payroll Taxes Payable	225
Long-term Debt, Including Interest	991,010
TOTAL LIABILITIES	<u><u>1,106,532</u></u>

MEMBERS' EQUITY

Unrestricted - Undesignated	9,401,625
Accumulated Other Comprehensive Income	(120,322)
TOTAL MEMBERS' EQUITY	<u><u>9,281,303</u></u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ <u><u>10,387,835</u></u>

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, 2022

REVENUES

Annual Charges	\$ 1,024,549
Interest on Delinquent Annual Charges	39,250
Recoveries	346,471
Investment Income	182,904
Contributions	3,000
Capital Improvement Fees	12,800
Property Transfer Fees	9,300
Unrealized Gain/(Loss) on Securities	(438,367)
Fireworks Donations	2,292
Trailer Park Maintenance and Operating Fee	840
Pool Pass Maintenance and Operating Fees	4,211
Other Income	21,325
Total Revenues	<u>1,208,575</u>

EXPENSES

Vehicle Expense	25,942
Bad Debts	237,322
Repairs and Maintenance - Buildings	2,395
Contract Labor	753
Community Events	15,849
EMS Contract	96,253
Insurance	29,038
Grounds Maintenance Contract and Landscaping	133,556
Miscellaneous	12,161
Office Expense	49,067
Salaries and Payroll Tax	122,177
Professional Fees	253,899
Pool Maintenance	9,844
Road Repair and Maintenance	41,703
Golf Course Maintenance	42,400
Property Taxes	10,641
Travel and Meals	1,432
Utilities and Services	83,569
Depreciation	47,156
Bond Amortization	(6,424)
Waterwood Volunteer Fire Department	75,377
Security Services	216,951
Total Expenses	<u>1,501,061</u>

EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	\$ <u>(292,486)</u>
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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, 2022

MEMBERS' EQUITY, BEGINNING OF YEAR, AS PREVIOUSLY STATED	\$ 8,818,410
Prior Period Adjustment (See Note Q)	755,379
MEMBERS' EQUITY, BEGINNING OF YEAR, AS RESTATED	9,573,789
Excess Revenues Over Expenses	<u>(292,486)</u>
MEMBERS' EQUITY, END OF YEAR	<u><u>\$ 9,281,303</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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Net Revenues Over Expenses	\$ (292,486)
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:	
Unrealized (Gain)/Loss on Securities	438,367
Depreciation	47,156
Bond Amortization	(6,424)
(Increase)/Decrease in:	
Member Annual Charges Receivable	(457,037)
Interest Receivable	14,095
Prepaid Expense	(1,239)
Long-term Receivable	(413,971)
Increase/(Decrease) in:	
Accounts Payable	96,474
Capital Improvement Damage Deposits	(1,000)
Payroll Taxes	(2,232)
NET CASH FROM/(USED BY) OPERATING ACTIVITIES	<u>(578,297)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Investments - Sales or Called	1,165,000
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES	<u>1,165,000</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Loan Proceeds	340,991
NET CASH (USED)/PROVIDED BY FINANCING ACTIVITIES	<u>340,991</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 927,694
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,465,134</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,392,828</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, 2022

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 2,013 lots, of which 477 are improved and 1,322 are billable.

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 2022. 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 direct write-off method. The allowance method was used in prior years.

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 a thirty per cent rate. In 2022, 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:			Cumulative Unrealized Gains/ (Losses)
	Amortized Cost	Market	
<u>Unrestricted Bonds</u>			
State and Municipal Securities with AAA, AA, A and BAA Ratings	\$ 2,050,480	\$ 2,012,298	\$ (38,182)
<u>Restricted Bonds</u>			
State and Municipal Securities with AAA, AA, A and BAA Ratings	1,344,835	1,262,695	(82,140)
Total	\$ <u>3,395,315</u>	\$ <u>3,274,993</u>	\$ <u>(120,322)</u>

During the year ended December 31, 2022, no bonds were purchased, one was sold, and six bonds were called for a net realized gain of \$11,874 in 2022.

Net unrealized holding gains/(losses) on available-for-sale securities in the amount of (\$438,367) for the year ended December 31, 2022, have been included in accumulated other comprehensive income of (\$120,322).

Maturities of available-for-sale debt securities at December 31, 2022 are as follows:

<u>Bond Maturities</u>	<u>Fair Value</u>
Due in One Year or Less (Before December 31, 2023)	\$ -
Due Between January 1, 2024 and December 31, 2027 (1 to 5 Years)	-
Due Between January 1, 2028 and December 31, 2032 (5 to 10 Years)	-
Due Between January 1, 2033 and December 31, 2042 (10 to 20 Years)	2,271,397
Due January 1, 2043 or After (20 Years or More)	1,003,596
Total Investment in Available-for-Sale Securities	\$ <u>3,274,993</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.

NOTE D—ASSESSMENTS AND ACCRUED INTEREST ON DELINQUENT RECEIVABLES

The annual fee for 2022 was \$775 for single family lots and \$850 in 2022 for multi-family lots.

The Association changed accounting methods in 2022 from the allowance method to the direct write-off method. The receivable balance is supported by the total of individual property balances.

At year-end, the amount for accounts receivable includes the balances for members using a payment plan. Beginning in 2023, all balances are due by December 31, even for those using a payment plan.

Annual charge invoices are billed November 1 and 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 letters, required by Section 209.006 of the Texas Residential Property Owners Protection Act, which detail the options for those with unpaid accounts. 1) Pay all unpaid fees and interest; or 2) Set up a payment plan; or 3) Deed the property to the Association in lieu of paying the unpaid fees and interest. Unpaid accounts after 45 days are sent to the Association’s attorney iation collection. At this time the Association attorney sends a collection letter to the delinquent property owner. If the account remains delinquent, the Association attorney requests the Association to complete an authorization to proceed with filing suit for foreclosure of the assessment lien. The Association will pay any back property taxes owed on the property deeded to the Association as long as there are not outstanding liens on the property and the delinquent taxes are not material to the value of the property. Properties deeded to the Association are offered for sale to Waterwood Partners, LLC under a right of first refusal agreement.

NOTE E – LAND AND PROPERTY AND EQUIPMENT

Land and property and equipment consists of the following categories:

		<u>Cost</u>
Land	\$	1,317,587
Vehicles		48,768
Equipment		37,205
Buildings and Improvements		<u>957,747</u>
Total Property and Equipment		2,361,307
Less: Accumulated Depreciation		<u>(628,616)</u>
Net Cost	\$	<u><u>1,732,691</u></u>

Land consists primarily of parkways, public areas (i.e. dump site), acreage, and 193 lots owned by the Association and is valued at \$1,317,587. The Association has an agreed contract to sell 167 properties in the Park Forest Village subdivision to Waterwood Partners, LLC for \$200,000 with an expected closing date of January 31, 2024.

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 a \$1,000,000 line of credit with Morgan Stanley. This line of credit is to be used for funding the construction, installation and operations of 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 up to a maximum of 4%.

Long-term Debt:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending</u> <u>Balance</u>	<u>Interest</u> <u>Payable</u>
Line of Credit	\$ 650,019	\$ 310,000	\$ -	\$ 960,019	\$ 30,991
	<u>\$ 650,019</u>	<u>\$ 310,000</u>	<u>\$ -</u>	<u>\$ 960,019</u>	<u>\$ 30,991</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 60th month, any remaining balance shall be paid in full or refinanced. As of December 31, 2022, the balance in the long-term receivable account was \$1,010,019 and the related interest receivable was \$30,991. In addition, the Association began making loans directly to LCS and directly loaned \$50,000 in 2022. The contractor expects to begin repaying the debt in 2023.

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, 2021 through December 31, 2022, for annual compensation of \$96,253 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, 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. The Association paid \$216,951 for security services in 2022.

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 – LEASE COMMITMENTS

The Association does not have any lease commitments.

NOTE O – RELATED PARTY TRANSACTIONS

No material related party transactions were noted during 2022.

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	\$ 2,392,828
Annual Charges Receivable, Including Interest Receivable	1,894,072
Accrued Investment Interest Receivable	<u>32,915</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ <u>4,319,815</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 – PRIOR PERIOD ADJUSTMENT

During 2022, the Association changed its accounting method for reporting accounts receivable from the allowance method to the direct write-off method. The Association felt that the direct write-off method would more accurately reflect the Association’s financial reporting by property.

NOTE R– SUBSEQUENT EVENTS

The Association evaluated subsequent events through August 7, 2024, 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, 2022.

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 1 and 2, Bay Hill, Augusta, Country Club Estates 1 and 3, and the Villas. Installation of the fiber network in Fairway One, Lakeview Estates, the Beach and Bass Boat Village are expected to be completed by year end 2023. Currently, LCS has approximately 200 paying customers, which is the initial target minimum that makes the current valuation of the project to exceed its obligation (net positive value), making the investment less susceptible to risk of default.

During 2023 the entire line of credit was repaid to Morgan Stanley, including interest due.

Waterwood Partners

Waterwood Partners, LLC (WWP) and any affiliate entities, including Investor Land Services (ILS) and Keystone, owned 433 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. Legal proceedings subsequently followed.

WIA and Waterwood Partners (WWP) agreed on January 9, 2023, to a settlement of past due annual assessments. WWP paid WIA \$449,225 to settle delinquent dues. WWP also agreed to purchase 167 lots in Park Forest for \$200,000 payable by December 31, 2023. WWP paid \$50,000 in 2023 for non-refundable earnest money on the purchase. WIA agreed to allow WWP to have right-of-first-refusal on any lots WIA obtains through legal action at previously agreed pricing, depending on the subdivision of the property. WWP agreed to pay WIA 10% of the gross sales price for any properties they sell to any purchaser buying less than 30 lots. Any purchaser buying 30 lots or more is considered a Successor Investor and is subject to pay WIA 10% of any lots they sell. Any lots still owned by WWP or Successor Investor(s) after 8 years shall be required to pay 50% of the final 3 years' annual assessments and remain current for future years at 100% of annual assessments and any other fees.



DAVIS, HEINEMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2022, 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 7, 2024

Waterwood Improvement Association, Inc.
Schedule of Operating Fund Revenues and Expenses - Budget and Actual - Budgetary Basis
For the Year Ended December 31, 2022

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Annual Charges	\$ 684,690	\$ 1,024,549	\$ 339,859
Interest on Delinquent Annual Charges	-	39,250	39,250
Recoveries	30,000	346,471	316,471
Investment Income	210,000	182,904	(27,096)
Contributions	3,000	3,000	-
Capital Improvement Fees	12,000	12,800	800
Property Transfer Fees	13,500	9,300	(4,200)
Fireworks Donations	4,000	2,292	(1,708)
Trailer Park Maintenance and Operating Fees	2,400	840	(1,560)
Pool Pass Maintenance and Operating Fees	4,000	4,211	211
WWP - HOA Fee Make-up	100,000	-	(100,000)
Other Income	800	21,325	20,525
Total Revenues	1,064,390	1,646,942	582,552
BUDGETED EXPENSES			
Vehicle Expense	19,250	25,942	(6,692)
Repairs and Maintenance	1,000	2,395	(1,395)
Community Events	10,000	15,849	(5,849)
EMS Contract	96,253	96,253	-
Insurance	25,000	29,038	(4,038)
Grounds Maintenance Contract and Landscaping	116,000	133,556	(17,556)
Miscellaneous	2,200	12,161	(9,961)
Office Expense	23,300	49,067	(25,767)
Salaries, Payroll Tax and Benefits	137,100	122,177	14,923
Professional Fees	49,200	253,899	(204,699)
Pool Maintenance	10,000	9,844	156
Road Repair and Maintenance	42,500	41,703	797
Golf Course Maintenance	45,000	42,400	2,600
Property Taxes	15,000	10,641	4,359
Travel and Meals	1,200	1,432	(232)
Utilities and Services	67,000	83,569	(16,569)
Volunteer Fire Department Contribution	97,850	75,377	22,473
Security Services	196,100	216,951	(20,851)
Contract Labor	750	753	(3)
Total Budgeted Expenses	954,703	1,223,007	(268,304)
Excess (Deficiency) Revenues Over (Under) Budgeted Expenses	109,687	423,935	314,248
Reconciliation of Budget Basis Revenues Over/(Under) Expenditures to Accrual Basis Change in Net Position			
Budget Basis Revenues Over/(Under) Expenditures			
Unrealized Gain/(loss) on Securities	-	(438,367)	(438,367)
Depreciation Expense	-	(47,156)	(47,156)
Bad Debts	-	(237,322)	(237,322)
Bond Premium/Discount Amortization	-	6,424	6,424
Total Non-Cash and Non-Budgeted Expenses	-	(716,421)	(716,421)
Change in Members' Equity	\$ 109,687	\$ (292,486)	\$ (402,173)

Waterwood Improvement Association, Inc.
Supplementary Information on Future Major Repairs and Replacements (Compiled)
For the Year Ended December 31, 2022

Asset Replacement Schedule

<u>Asset</u>	<u>Make/Model</u> <u>Description</u>	<u>Model</u> <u>Year</u>	<u>Year</u> <u>Acquired</u>	<u>Useful</u> <u>Life</u>	<u>Remaining</u> <u>Life</u>	<u>Replacement</u> <u>Cost</u>
Brush Truck	Dodge (Used)	2010	2018	20	8	\$ 88,800
Community Park Parking Lot	Concrete	-	2017	40	35	90,000
Computers/Copiers	Various	-	Various	4	0	17,600
Computer Server	Unknown	-	2021	10	8	9,113
Digital E-Sign	Unknown	-	2019	10	6	16,349
Trash Dump Gate	Unknown	-	2019	10	6	14,973
Fire Engine	Kenworth (Used)	2010	2016	20	8	177,600
Fire Station	Hardiplank - Asphalt Shingle	1998	2000	50	26	165,920
Fire Station	Air Conditioner	-	2006	20	3	5,040
Fire Tools	Various	-	2019	10	7	22,400
Generator	Generac	-	2017	15	10	9,600
Office Building	Wood frame - Hardiplank Shingle	-	2005	50	33	210,000
Office Furniture	Various	-	Various	20	5	33,820
Pavillion	Wood frame - Asphalt Shingle - Concrete	-	2017	40	35	102,000
RV/Trailer Storage	Limestone Road	-	2016	20	13	78,275
Security Vehicle	Toyota - Camry	2018	2023	4	4	37,336
Security Vehicle	Nissan - Frontier	2019	2020	4	2	28,092
Shade Structure	Located at Pool/ Playground	-	2021	4	2	33,646
Signs & Electric	Rock & Granite	-	1999	50	24	146,788
Swimming Pool	In-ground - Gunite	-	2017	25	20	312,000
Pool Fencing	Wrought Iron	-	2017	40	34	18,600
						<u>\$ 1,617,952</u>

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.