

WATERWOOD IMPROVEMENT ASSOCIATION, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2023



Davis, Heinemann & Company, P.C.

Certified Public Accountants

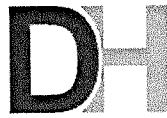
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Independent Auditor's Report

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, 2023, 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, 2023, 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
November 8, 2024

Waterwood Improvement Association, Inc.
Balance Sheet
As of December 31, 2023

ASSETS

Cash and Cash Equivalents, Including		
Interest-bearing Deposits	\$	1,908,527
Annual Charges Receivable and Accrued		
Interest on Delinquent Receivables,		1,765,295
Accrued Investment Interest Receivable		25,037
Prepaid Expense		22,319
Long-term Accounts and Interest Receivable		1,177,972
Investments		2,657,038
Land		1,317,587
Construction in Progress		132,181
Property and Equipment, Less		
Accumulated Depreciation		402,368
TOTAL ASSETS	\$	<u>9,408,324</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

Accounts Payable and Other Accrued Liabilities	\$	100,228
Payroll Taxes Payable		111
TOTAL LIABILITIES		<u>100,339</u>

MEMBERS' EQUITY

Unrestricted - Undesignated		9,346,190
Accumulated Other Comprehensive Income		(38,205)
TOTAL MEMBERS' EQUITY		<u>9,307,985</u>

TOTAL LIABILITIES AND MEMBERS' EQUITY	\$	<u>9,408,324</u>
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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, 2023

REVENUES

Annual Charges	\$ 1,137,498
Interest on Delinquent Annual Charges	313
Interest on Long-term Receivable	41,993
Recoveries	34,498
Investment Income	175,861
Contributions	3,000
Capital Improvement Fees	16,065
Property Transfer Fees	10,600
Gain/(Loss) on Sale of Assets	4,544
Unrealized Gain/(Loss) on Securities	82,117
Fireworks Donations	4,999
Trailer Park Maintenance and Operating Fee	480
Pool Pass Maintenance and Operating Fees	3,724
Other Income	30,647
Total Revenues	<u>1,546,339</u>

EXPENSES

Vehicle Expense	21,331
Bad Debts	296,101
Repairs and Maintenance - Buildings	2,303
Community Events	13,558
EMS Contract	96,253
Insurance	34,119
Interest Expense	12,915
Grounds Maintenance Contract and Landscaping	181,781
Miscellaneous	37,805
Office Expense	43,700
Salaries and Payroll Tax	130,888
Professional Fees	76,213
Pool Maintenance	14,141
Road Repair and Maintenance	10,404
Golf Course Maintenance	45,600
Property Taxes	66,695
Travel and Meals	3,241
Utilities and Services	78,713
Depreciation	46,378
Bond Amortization	73
Waterwood Volunteer Fire Department	67,652
Contract Labor	180
Security Services	239,613
Total Expenses	<u>1,519,657</u>

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

\$ 26,682

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, 2023

MEMBERS' EQUITY, BEGINNING OF YEAR,	\$ 9,281,303
Excess Revenues Over Expenses	<u>26,682</u>
MEMBERS' EQUITY, END OF YEAR	<u><u>\$ 9,307,985</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, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Net Revenues Over Expenses	\$	26,682
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:		
(Gain)/Loss on Sale of Assets		(4,544)
Unrealized (Gain)/Loss on Securities		(82,117)
Bad Debt		296,101
Depreciation		46,378
Bond Amortization		73
Interest Expense Included in Interest Repayments		12,915
(Increase)/Decrease in:		
Member Annual Charges Receivable		(167,324)
Interest Receivable		7,878
Prepaid Expense		(2,993)
Long-term Receivable		(136,962)
Increase/(Decrease) in:		
Accounts Payable		(13,069)
Capital Improvement Damage Deposits		(2,000)
Payroll Taxes		(114)
NET CASH FROM/(USED BY) OPERATING ACTIVITIES		<u>(19,096)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investments - Sales or Called		700,000
Proceeds on Disposal of Assets		6,800
Fixed Asset Purchase		(168,080)
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES		<u>538,720</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loaned to LCS - from W IA		
Loan Repayments		(960,019)
Interest Repayments		(43,906)
NET CASH (USED)/PROVIDED BY FINANCING ACTIVITIES		<u>(1,003,925)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS		(484,301)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>2,392,828</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$	<u><u>1,908,527</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, 2023

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 2023. 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.

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 flat 30% rate. In 2023, 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>	<u>Cost</u>	<u>Market</u>	<u>(Losses)</u>
State and Municipal Securities with AAA, AA, A and BAA Ratings	\$ 2,695,242	\$ 2,657,038	\$ (38,204)
Total	<u>\$ 2,695,242</u>	<u>\$ 2,657,038</u>	<u>\$ (38,204)</u>

During the year ended December 31, 2023, no bonds were purchased or sold, and four bonds were called for a net realized gain of \$3,067 in 2023.

Net unrealized holding gains/(losses) on available-for-sale securities in the amount of \$82,117 for the year ended December 31, 2023, have been included in accumulated other comprehensive income of (\$38,205).

Maturities of available-for-sale debt securities at December 31, 2023 are as follows:

<u>Bond Maturities</u>	<u>Fair Value</u>
Due in One Year or Less (Before December 31, 2024)	\$ -
Due Between January 1, 2025 and December 31, 2028 (1 to 5 Years)	-
Due Between January 1, 2029 and December 31, 2033 (5 to 10 Years)	-
Due Between January 1, 2034 and December 31, 2043 (10 to 20 Years)	1,992,593
Due January 1, 2044 or After (20 Years or More)	664,445
Total Investment in Available-for-Sale Securities	<u>\$ 2,657,038</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 2023 was \$850 for single family lots and \$925 in 2023 for multi-family lots.

The Association uses the direct write-off method to record and write off delinquent accounts. 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, with minimal exceptions, 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 for 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 so long as there are no 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 first right of 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
Construction in Progress		132,181
Vehicles		62,105
Equipment		37,205
Buildings and Improvements		<u>957,747</u>
Total Property and Equipment		2,506,825
Less: Accumulated Depreciation		<u>(654,689)</u>
Net Cost	\$	<u><u>1,852,136</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.

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 operation of a fiber optic network to be used by the Waterwood community. By agreement, there is no term limit on the line of credit. It remains in effect until terminated by either party. During 2023, the Association paid back the entirety of the balance borrowed plus interest. The balance at year-end remains at zero.

Long-term Debt:

	Beginning Balance	Additions	Repayments	Ending Balance	Interest Payable
Line of Credit	\$ 960,018	\$ -	\$ 960,018	\$ -	\$ -
	<u>\$ 960,018</u>	<u>\$ -</u>	<u>\$ 960,018</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE H – LONG-TERM RECEIVABLE

The Association agreed to lend funds to the contractor, LCS Fibercom, LLC, (LCS) to build a fiber optic network for the benefit of the Waterwood community. LCS agrees to repay all principal advanced by the Association to LCS plus actual interest charged to the Association by the Morgan Stanley line of credit, up to a maximum of four percent (4%). The term of the agreement is sixty (60) months after the initial distribution is made to LCS by the Association. Upon the conclusion of the 60th month, any remaining balance shall be paid in full or refinanced. As of December 31, 2023, the balance in the long-term receivable account was \$1,105,019 and the related interest receivable was \$72,953. In addition, the Association began making loans directly to LCS and directly loaned \$95,000 in 2023. The contractor began repaying the debt interest in 2024.

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, 2023 (through December 31, 2024), 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 22, 2023 and extending until January 22, 2025, Timberlake Nursery received a two-year contract to provide grounds maintenance for \$114,900 per year (\$9,575 per month plus sales tax), with additional services billed separately. The Association paid \$122,340 in 2023.

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 \$234,449 for security services in 2023.

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

During 2023, Jamie Groskopf, the owner of LCS Fibercom (LCS), became a Board member of the Association. As of December 31, 2023, LCS owed the Association \$1,105,019 plus interest. See Notes H and Q for more details.

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	\$ 1,907,056
Annual Charges, Including Interest Receivable	1,734,964
Accrued Investment Interest Receivable	<u>25,037</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ <u>3,667,057</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

The Association evaluated subsequent events through November 8, 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, 2023.

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.

Installation of the fiber optic network is completed and operational in Greentree Village, Whispering Pines 1 and 2, Bay Hill, Augusta, Country Club Estates 1 and 3, Fairway One, Piney Point, Putters Point and Lakeview Estates. Installation of the fiber network in The Beach, Bass

Boat Village, Park Forest Village and The Villas is still under construction. Currently, LCS has approximately 227 paying customers, which exceeds 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 2024, LCS began making monthly interest payments on the debt owed.

Waterwood Partners

Waterwood Partners, LLC (WWP) and any affiliate entities, including Investor Land Services (ILS) and Keystone, own 433 of the 1,619 total undeveloped lots in Waterwood. Although WWP and ILS were billed for fees on all their lots (prior to the 2017 Agreed Final Judgement), they made only nominal payments of fees owed. Legal proceedings subsequently followed.

The Association and Waterwood Partners (WWP) agreed on January 9, 2023, to a settlement of past due annual assessments of \$1,067,304. WWP paid the Association \$450,000 to settle delinquent dues on January 13, 2023. WWP also agreed to purchase 167 lots in Park Forest for \$200,000. WWP paid \$200,000 for the lots on January 17, 2024. In addition, the Association agreed to allow WWP to have right-of-first-refusal on any lots the Association obtains through legal action at previously agreed pricing, depending on the subdivision of the property. WWP agreed to pay the Association 10% of the gross sales price during the first five (5) years of the agreement and 12.5% during the last three (3) years of the agreement for any properties they sell to any purchaser buying less than thirty lots. Any purchaser buying thirty lots or more is considered a Successor Investor and is subject to pay the Association ten percent (10%) of any lots they sell. Any lots still owned by WWP or Successor Investor(s) after eight years shall be required to pay 50% of the final three years' annual assessments and remain current for future years at 100% of annual assessments and any other fees.



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, 2023, 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.

November 8, 2024

Waterwood Improvement Association, Inc.
Schedule of Operating Fund Revenues and Expenses - Budget and Actual - Budgetary Basis
For the Year Ended December 31, 2023

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Annual Charges	\$ 1,031,200	\$ 1,137,498	\$ 106,298
Interest on Delinquent Annual Charges	-	313	313
Interest on Long-term Receivable	-	41,993	41,993
Recoveries	50,000	34,498	(15,502)
Investment Income	191,500	175,861	(15,639)
Contributions	3,000	3,000	-
Capital Improvement Fees	9,600	16,065	6,465
Property Transfer Fees	9,500	10,600	1,100
Fireworks Donations	4,000	4,999	999
Trailer Park Maintenance and Operating Fees	2,000	480	(1,520)
Pool Pass Maintenance and Operating fees	4,000	3,724	(276)
Other Income	440	30,647	30,207
Total Revenues	1,305,240	1,459,678	154,438
BUDGETED EXPENSES			
Vehicle Expense	23,000	21,331	1,669
Bad Debt Expense	250,325	296,101	
Repairs and Maintenance	2,000	2,303	(303)
Community Events	18,500	13,558	4,942
EMS Contract	96,253	96,253	-
Insurance	31,100	34,119	(3,019)
Grounds Maintenance Contract and Landscaping	170,800	181,781	(10,981)
Miscellaneous	5,000	37,805	(32,805)
Office Expense	34,000	43,700	(9,700)
Salaries, Payroll Tax and Benefits	140,500	130,888	9,612
Professional Fees	118,400	76,213	42,187
Pool Maintenance	12,000	14,141	(2,141)
Road Repair and Maintenance	56,500	10,404	46,096
Golf Course Maintenance	45,000	45,600	(600)
Property Taxes	6,000	66,695	(60,695)
Travel and Meals	1,500	3,241	(1,741)
Utilities and Services	75,000	78,713	(3,713)
Volunteer Fire Department Contribution	25,000	67,652	(42,652)
Security Services	211,000	239,613	(28,613)
Contract Labor	3,500	180	3,320
Total Budgeted Expenses	1,325,378	1,460,291	(89,137)
Excess (Deficiency) Revenues Over (Under)			
Budgeted Expenses	(20,138)	(613)	19,525
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	-	82,117	82,117
Gain /(Loss) on Sale of Assets	-	4,544	4,544
Interest Expense	-	(12,915)	(12,915)
Depreciation Expense	-	(46,378)	(46,378)
Bond Premium/Discount Amortization	-	(73)	(73)
Total Non-Cash and Non-Budgeted Expenses	-	27,295	(59,366)
Change in Members' Equity	\$ (20,138)	\$ 26,682	\$ 46,820

Waterwood Improvement Association, Inc.
Supplementary Information on Future Major Repairs and Replacements (Compiled)
For the Year Ended December 31, 2023

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	7	\$ 88,800
Community Park Parking Lot	Concrete	-	2017	40	34	90,000
Computers/Copiers	Various	-	Various	4	0	17,600
Computer Server	Unknown	-	2021	10	7	9,113
Digital E-Sign	Unknown	-	2019	10	5	16,349
Trash Dump Gate	Unknown	-	2019	10	5	14,973
Fire Engine	Kenworth (Used)	2010	2016	20	7	177,600
Fire Station	Hardiplank - Asphalt Shingle	1998	2000	50	25	165,920
Fire Station	Air Conditioner	-	2006	20	2	5,040
Fire Tools	Various	-	2019	10	6	22,400
Generator	Generac	-	2017	15	9	9,600
Office Building	Wood frame - Hardiplank Shingle	-	2005	50	32	210,000
Office Furniture	Various	-	Various	20	4	33,820
Pavillion	Wood frame - Asphalt Shingle - Concrete	-	2017	40	36	102,000
RV/Trailer Storage	Limestone Road	-	2016	20	12	78,275
Security Vehicle	Toyota - Tacoma	2023	2023	5	5	35,898
Security Vehicle	Nissan - Frontier PU	2019	2020	5	1	28,092
Shade Structure	Located at Pool/ Playground	-	2021	4	1	33,646
Signs & Electric	Rock & Granite	-	1999	50	23	146,788
Swimming Pool	In-ground - Gunite	-	2017	25	19	312,000
Pool Fencing	Wrought Iron	-	2017	40	33	18,600
						<u>\$ 1,616,514</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.