

WATERWOOD IMPROVEMENT ASSOCIATION, INC.

*FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION*

*FOR THE YEAR ENDED DECEMBER 31, 2024*



**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, 2024, 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, 2024, 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, 2025

**Waterwood Improvement Association, Inc.**  
**Balance Sheet**  
**As of December 31, 2024**

**ASSETS**

Cash and Cash Equivalents, Including		
Interest-bearing Deposits	\$	2,113,219
Annual Charges Receivable and Accrued		
Interest on Delinquent Receivables,		662,972
Accrued Investment Interest Receivable		22,015
Prepaid Expense		22,319
Long-term Accounts and Interest Receivable		1,170,173
Investments		2,394,843
Land		1,356,420
Construction in Progress		134,312
Property and Equipment, Less		
Accumulated Depreciation		389,450
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>8,265,723</b>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Accounts Payable and Other Accrued Liabilities	\$	97,710
Payroll Taxes Payable		130
<b>TOTAL LIABILITIES</b>		<b>97,840</b>

**MEMBERS' EQUITY**

Unrestricted - Undesignated		8,273,052
Accumulated Other Comprehensive Income		(105,169)
<b>TOTAL MEMBERS' EQUITY</b>		<b>8,167,883</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$</b>	<b>8,265,723</b>

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, 2024**

**REVENUES**

Annual Charges	\$ 1,165,387
Legal Collection Fees	83,502
Interest on Delinquent Annual Charges	9,283
Interest on Long-term Receivable	44,201
Recoveries	42,703
Investment Income	169,524
Contributions	3,000
Capital Improvement Fees	3,200
Property Transfer Fees	24,900
Unrealized Gain/(Loss) on Securities	(66,964)
Realized Gain/(Loss) on Sale of Investments	7,470
Fireworks Donations	3,850
Trailer Park Maintenance and Operating Fee	360
Pool Pass Maintenance and Operating Fees	3,920
Lot Sales	258,239
Other Income	57,813
<b>Total Revenues</b>	<u>1,810,388</u>

**EXPENSES**

Vehicle Expense	24,779
Bad Debts	1,284,869
Repairs and Maintenance - Buildings	4,406
Community Events	12,559
EMS Contract	96,253
Insurance	42,524
Grounds Maintenance Contract and Landscaping	218,152
Miscellaneous	2,754
Office Expense	54,687
Salaries and Payroll Tax	149,042
Professional Fees	313,918
Pool Maintenance	19,874
Road Repair and Maintenance	198,530
Golf Course Maintenance	45,600
Property Taxes	45,155
Travel and Meals	7,664
Utilities and Services	88,139
Depreciation	43,270
Bond Amortization	2,701
Waterwood Volunteer Fire Department	40,414
Contract Labor	1,200
Security Services	254,000
<b>Total Expenses</b>	<u>2,950,490</u>

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

\$ (1,140,102)

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, 2024**

<b>MEMBERS' EQUITY, BEGINNING OF YEAR,</b>	\$ 9,307,985
Excess Revenues Over Expenses	<u>(1,140,102)</u>
<b>MEMBERS' EQUITY, END OF YEAR</b>	<u><u>\$ 8,167,883</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, 2024**

**CASH FLOWS FROM OPERATING ACTIVITIES**

<b>Net Revenues Over Expenses</b>	\$ (1,140,102)
<b>Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:</b>	
Unrealized (Gain)/Loss on Securities	66,964
Realized (Gain)/Loss on Securities	(7,470)
Bad Debt	1,284,869
Interest Accrual on Long-term Receivable	(44,201)
Depreciation	43,270
Bond Amortization	2,701
 (Increase)/Decrease in:	
Member Annual Charges Receivable	(182,546)
Interest Receivable	3,022
Prepaid Expense	-
 Increase/(Decrease) in:	
Accounts Payable	(2,518)
Payroll Taxes	19
<b>NET CASH FROM/(USED BY) OPERATING ACTIVITIES</b>	<b>24,008</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investments - Sales or Called	200,000
Interest Paid on Long-term Receivable	52,000
Fixed Asset Purchase	(71,316)
<b>NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES</b>	<b>180,684</b>

NET INCREASE IN CASH AND CASH EQUIVALENTS	204,692
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,908,527
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 2,113,219</b>

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, 2024**

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 supports 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 2,010 lots, of which 485 are improved, 1,300 are billable and 1,087 are deemed to be collectible.

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 2024. 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 2024, 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	\$ <u>2,500,012</u>	\$ <u>2,394,843</u>	\$ <u>(105,169)</u>
Total	\$ <u><u>2,500,012</u></u>	\$ <u><u>2,394,843</u></u>	\$ <u><u>(105,169)</u></u>

During the year ended December 31, 2024, no bonds were purchased or sold, and four bonds were called for a net realized gain of \$7,470 in 2024.

Net unrealized holding gains/(losses) on available-for-sale securities in the amount of (\$66,964) for the year ended December 31, 2024, have been included in accumulated other comprehensive income of (\$105,169).

Maturities of available-for-sale debt securities at December 31, 2024 are as follows:

<u>Bond Maturities</u>	<u>Fair Value</u>
Due in One Year or Less (Before December 31, 2025)	\$ -
Due Between January 1, 2026 and December 31, 2029 (1 to 5 Years)	-
Due Between January 1, 2030 and December 31, 2034 (5 to 10 Years)	-
Due Between January 1, 2035 and December 31, 2044 (10 to 20 Years)	1,713,236
Due January 1, 2045 or After (20 Years or More)	<u>681,607</u>
Total Investment in Available-for-Sale Securities	\$ <u><u>2,394,843</u></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 2024 was \$900 for single family lots and \$1,135 in 2024 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. The increased bad debt expense in the current year is due to the ongoing implementation of the change in methodology from not charging account balances off until after legal maximum of four years, to the current method of charging any unpaid membership fees to bad debt if not paid by December 31. When fully implemented, the balance on accounts at year-end should only be the current year's assessment, with the exception of any lots which do not have clear title or other issues that would keep the Association from wanting to own the property outright.

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. The options include: 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. If the property is deeded back to the Association, the Association will pay any back property taxes owed on the property 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. At this time, the Association's attorney sends a collection letter to the delinquent property owner. If the account remains delinquent, the Association's attorney requests the Association to complete an authorization to proceed with filing suit for foreclosure of the assessment lien.

Beginning in 2020, the Association initiated more vigorous actions to collect on delinquent HOA annual assessments. Actions taken included the Association along with the Association's attorney approaching Perdue, Brandon, Fielder, Collins & Mott, LLC, the law firm that provides customized tax collection services to San Jacinto County Appraisal District and Tax Assessor & Collector, to pursue tax collections on Waterwood properties with outstanding tax liens. Properties with tax liens do not allow for the Association to foreclose on properties with delinquent HOA annual assessments. The Association initially referred 150 properties with delinquent HOA annual assessments and delinquent taxes to the law firm. To date, the law firm has filed over 75 tax suits, ultimately clearing the tax liens on these properties, and in turn, allowing for the properties to be sold at auction with the Association to request excess proceeds on the sale and/or to collect future annual assessments from the new property owner(s). In addition, the Association authorized the Association's attorney to file foreclosure suits on over 65 delinquent properties. Since 2020, these efforts, along with implementing other collection processes in accordance with Section 209.006 of the Texas Residential Property Owners Protection Act, have led to a significant decrease in total bad debt expense compared to what the total bad debt expense would have been if these efforts had not been taken and should result in a substantial decrease in bad debt expense in the future.

At year-end, the amount for accounts receivable includes the balances for members using a payment plan. All balances, with minimal exceptions, are due by December 31, even for those using a payment plan.

NOTE E – LAND AND PROPERTY AND EQUIPMENT

Land and property and equipment consists of the following categories:

		<u>Cost</u>
Land	\$	1,356,420
Construction in Progress		134,312
Buildings and Improvements		974,684
Equipment		50,620
Vehicles		<u>62,105</u>
Total Property and Equipment		2,578,141
Less: Accumulated Depreciation		<u>(697,959)</u>
Net Cost	\$	<u><u>1,880,182</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 \$1,356,420. The Association sold 167 properties in the Park Forest Village subdivision to Waterwood Partners, LLC for \$200,000 on January 17, 2024. The Association purchased a lot on Waterwood Parkway for \$38,833 in 2024 to improve drainage.

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 has a \$1,000,000 line of credit with Morgan Stanley. The line of credit was not used during 2024 and the balance at year-end remains at zero.

NOTE H – LONG-TERM RECEIVABLE

The Association lent 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 interest, up to a maximum of four percent (4%). The original term of the agreement was sixty (60) months after the initial distribution was made to LCS by the Association. Upon the conclusion of the 60<sup>th</sup> month, any remaining balance would be paid in full or refinanced. However, in 2024, the Board of Directors voted to extend the term an additional 12 months. As of December 31, 2024, the balance in the long-term receivable account was \$1,105,019 and the related interest receivable was \$65,154

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 has a contract with Allegiance Ambulance, effective January 1, 2023 through December 31, 2024, for annual service charges of \$96,253 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 the Association. The Association paid \$122,584 in 2024 for the contract and an additional \$95,568 to other vendors for services not included in the landscaping contract, such as heavy hauling and tree removal.

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. The Association paid \$254,000 for security services in 2024.

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 can advance the funds to LCS periodically, on an as-needed basis. The line of credit was not used during 2024. 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 within sixty months plus any extensions 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 2,010 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 complete, and all required subdivisions are operational for all who initially signed up for service.

NOTE N – WATERWOOD PARTNERS

Waterwood Partners, LLC (WWP) and any affiliate entities, including Investor Land Services (ILS) and Keystone, own 600 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.

WWP purchased an additional 167 lots in Park Forest for \$200,000 on January 17, 2024. In addition, the Association has given WWP 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 during the first five (5) years and 12.5% during the last three (3) years of the agreement. 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.

NOTE O – LEASE COMMITMENTS

The Association does not have any lease commitments.

NOTE P – RELATED PARTY TRANSACTIONS

During 2023, Jamie Groskopf, the owner of LCS Fibercom (LCS), become a Board member of the Association. As of December 31, 2024, LCS owed the Association \$1,105,019 plus interest. See Notes H and M for more details.

NOTE Q – 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	\$ 2,113,219
Annual Charges, Including Interest Receivable	662,972
Accrued Investment Interest Receivable	<u>22,015</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ <u><u>2,798,206</u></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 R- SUBSEQUENT EVENTS

Beginning January 1, 2025, the Association reduced the hours of its security services from twenty-four hours per day to twelve hours a day based on cash flow needs.

The Association evaluated subsequent events through November 8, 2025, 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, 2024.



**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, 2024, 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, 2025

**Waterwood Improvement Association, Inc.**  
**Schedule of Operating Fund Revenues and Expenses - Budget and Actual**  
**For the Year Ended December 31, 2024**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Annual Charges	\$ 1,123,700	\$ 1,165,387	\$ 41,687
Legal Collection Fees Income	-	83,502	83,502
Interest on Delinquent Annual Charges	-	9,283	9,283
Interest on Long-term Receivable	-	44,201	44,201
Recoveries	40,000	42,703	2,703
Investment Income	151,500	169,524	18,024
Contributions	3,000	3,000	-
Capital Improvement Fees	12,800	3,200	(9,600)
Property Transfer Fees	12,000	24,900	12,900
Unrealized Gain/(Loss) on Securities	-	(66,964)	(66,964)
Realized Gain/(Loss) on Sale of Investments	-	7,470	7,470
Fireworks Donations	4,000	3,850	(150)
Trailer Park Maintenance and Operating Fees	2,400	360	(2,040)
Pool Pass Maintenance and Operating fees	3,200	3,920	720
Lot Sales	-	258,239	258,239
Other Income	400	57,813	57,413
<b>Total Revenues</b>	<u>1,353,000</u>	<u>1,810,388</u>	<u>457,388</u>
<b>BUDGETED EXPENSES</b>			
Vehicle Expense	18,400	24,779	(6,379)
Bad Debt Expense	273,700	1,284,869	(1,011,169)
Repairs and Maintenance	1,500	4,406	(2,906)
Community Events	15,000	12,559	2,441
EMS Contract	96,253	96,253	-
Insurance	33,100	42,524	(9,424)
Grounds Maintenance Contract and Landscaping	171,000	218,152	(47,152)
Miscellaneous	3,000	2,754	246
Office Expense	38,250	54,687	(16,437)
Salaries, Payroll Tax and Benefits	139,000	149,042	(10,042)
Professional Fees	141,000	313,918	(172,918)
Pool Maintenance	12,000	19,874	(7,874)
Road Repair and Maintenance	40,000	198,530	(158,530)
Golf Course Maintenance	45,000	45,600	(600)
Property Taxes	12,600	45,155	(32,555)
Travel and Meals	1,800	7,664	(5,864)
Utilities and Services	85,250	88,139	(2,889)
Volunteer Fire Department Contribution	71,900	40,414	31,486
Security Services	220,000	254,000	(34,000)
Depreciation Expense	-	43,270	(43,270)
Bond Premium/Discount Amortization	-	2,701	(2,701)
Contract Labor	1,000	1,200	(200)
<b>Total Budgeted Expenses</b>	<u>1,419,753</u>	<u>2,950,490</u>	<u>(1,530,737)</u>
<b>Excess (Deficiency) Revenues Over (Under) Budgeted Expenses</b>	<u>\$ (66,753)</u>	<u>\$ (1,140,102)</u>	<u>\$ (1,073,349)</u>

**Waterwood Improvement Association, Inc.**  
**Supplementary Information on Future Major Repairs and Replacements (Compiled)**  
**For the Year Ended December 31, 2024**

**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.