

TOWNEWEST HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Townwest Homeowners Association, Inc.

Opinion

We have audited the accompanying financial statements of Townwest Homeowners Association, Inc., which comprise the balance sheets as of December 31, 2023 and 2024, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years 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 Townwest Homeowners Association, Inc. as of December 31, 2023 and 2024, and the results of its operations and its cash flows for the years 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 the 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.

Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note E are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 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 the 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 the 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cox CPA Services, Inc.

Cox CPA Services, Inc.
Houston, Texas
December 15, 2025

TOWNEWEST HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2024 and 2023

	2024			2023		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
ASSETS						
Current Assets						
Cash	\$ 358,762	703	\$ 359,465	\$ 205,461	\$ 321,182	\$ 526,643
Certificates of deposit	-	472,000	472,000	-	137,000	137,000
Assessments receivable, net of an allowance for credit losses of \$55,550 for 2023, and \$106,300 for 2024	45,376	-	45,376	85,347	-	85,347
Other assets	150	7,046	7,196	-	5,716	5,716
Prepaid expense	17,139	-	17,139	12,977	-	12,977
TOTAL CURRENT ASSETS	421,427	479,749	901,176	303,785	463,898	767,683
TOTAL ASSETS	\$ 421,427	\$ 479,749	\$ 901,176	\$ 303,785	\$ 463,898	\$ 767,683
LIABILITIES AND FUND BALANCES						
Current Liabilities						
Accounts payable	\$ 33,755	\$ -	\$ 33,755	\$ 16,046	\$ -	\$ 16,046
Prepaid assessments	232,242	-	232,242	192,956	-	192,956
TOTAL CURRENT LIABILITIES	265,997	-	265,997	209,002	-	209,002
FUND BALANCES	155,430	479,749	635,179	94,783	463,898	558,681
TOTAL LIABILITIES AND FUND BALANCES	\$ 421,427	\$ 479,749	\$ 901,176	\$ 303,785	\$ 463,898	\$ 767,683

See accompanying notes to financial statements.

TOWNWEST HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
For the Years Ended December 31, 2024 and 2023

	2024			2023		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
REVENUES						
Regular assessments	\$ 514,776	\$ -	\$ 514,776	\$ 514,776	\$ -	\$ 514,776
Interest income	466	16,026	16,492	314	17,560	17,874
Other income	98,068	-	98,068	79,433	-	79,433
TOTAL REVENUES	613,310	16,026	629,336	594,523	17,560	612,083
EXPENSES						
Administrative	37,337	-	37,337	25,999	-	25,999
Capital improvements	-	175	175	-	186,201	186,201
Community events	3,657	-	3,657	2,332	-	2,332
Credit loss	51,880	-	51,880	20,519	-	20,519
Federal income tax	-	-	-	775	-	775
Insurance	36,083	-	36,083	34,444	-	34,444
Landscaping	71,886	-	71,886	72,827	-	72,827
Legal and professional	82,745	-	82,745	68,154	-	68,154
Management fees	51,687	-	51,687	52,216	-	52,216
Pool maintenance	65,549	-	65,549	91,254	-	91,254
Property tax	-	-	-	4,267	-	4,267
Repairs and maintenance	33,786	-	33,786	35,855	-	35,855
Utilities	118,053	-	118,053	110,242	-	110,242
TOTAL EXPENSES	552,663	175	552,838	518,884	186,201	705,085
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	60,647	15,851	76,498	75,639	(168,641)	(93,002)
BEGINNING FUND BALANCES						
Transfers between funds	-	-	-	(444,205)	444,205	-
ENDING FUND BALANCES	\$ 155,430	\$ 479,749	\$ 635,179	\$ 94,783	\$ 463,898	\$ 558,681

See accompanying notes to financial statements.

TOWNEWEST HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	2024			2023		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Excess (deficit) of revenues over expenses	\$ 60,647	\$ 15,851	\$ 76,498	\$ 75,639	\$ (168,641)	\$ (93,002)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:						
(Increase) decrease in:						
Assessments receivable	(10,779)	-	(10,779)	(21,450)	-	(21,450)
Allowance for credit losses	50,750	-	50,750	15,237	-	15,237
Other assets	(150)	(1,330)	(1,480)	-	(3,747)	(3,747)
Prepaid expense	(4,162)	-	(4,162)	338	-	338
Increase (decrease) in:						
Accounts payable	17,709	-	17,709	(5,594)	-	(5,594)
Prepaid assessments	39,286	-	39,286	(16,475)	-	(16,475)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	153,301	14,521	167,822	47,695	(172,388)	(124,693)
CASH FLOWS FROM FINANCING ACTIVITIES						
Maturity (purchase) of certificates of deposit	-	(335,000)	(335,000)	-	337,000	337,000
Interfund transfers and borrowings	-	-	-	(156,002)	156,002	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	-	(335,000)	(335,000)	(156,002)	493,002	337,000
NET INCREASE (DECREASE) IN CASH	153,301	(320,479)	(167,178)	(108,307)	320,614	212,307
CASH AT BEGINNING OF YEAR	205,461	321,182	526,643	313,768	568	314,336
CASH AT END OF YEAR	\$ 358,762	\$ 703	\$ 359,465	\$ 205,461	\$ 321,182	\$ 526,643
SUPPLEMENTAL DISCLOSURE						
Income taxes paid	\$ -	\$ -	\$ -	\$ 775	\$ -	\$ 775
Interest paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

TOWNEWEST HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2024

NOTE A—NATURE OF ORGANIZATION

Townewest Homeowners Association, Inc. was incorporated in the State of Texas on September 23, 1974. The Association is responsible for the operation and maintenance of the common property. The Association consists of common areas such as the clubhouse, swimming pool and sports courts. The community consists of 1446 residential units and is located in the greater Houston, Texas area.

NOTE B—DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 15, 2025, the date that the financial statements were available to be issued.

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association’s governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund—This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund—This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member assessments and Allowance for Credit Losses

The Financial Accounting Standards Board (FASB) issued new guidance in 2021 that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standard Codification (ASC). The Association does not believe the performance obligation relating to the replacement fund meets the required contractual liability obligations necessary to implement ASC606. Therefore, the Association has chosen not to change its revenue recognition accounting policies until such time that authoritative accounting guidance for the common interest realty association is issued or industry consensus is achieved. As a result, Association members are subject to assessments to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners.

TOWNEWEST HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2024

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member assessments and Allowance for Credit Losses (continued)

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. The Association treats uncollectible assessments as credit losses. Methods, inputs and assumptions used to evaluate when assessments are considered uncollectible include closely monitoring of outstanding assessment balances by management, member payment history of outstanding assessment balances, and susceptibility to factors outside the Association's control. Management analyzes the collectability of assessments receivable on a regular basis and allows for credit losses for those it feels are not collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Cash and Cash Equivalents

The Association considers all short term investments with a maturity of three months or less to be cash equivalents.

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 owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method over the estimated useful life.

Prepaid Assessments

Prepaid assessments represent payments received from association members during the current year which relate to assessments for the subsequent year.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The Association maintains a majority of its cash balances at one financial institution. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are approximately \$71,182 as of December 31, 2023 and \$112,188 as of December 31, 2024.

TOWNEWEST HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2024

NOTE D—INCOME TAXES

The Association recognizes and disclosed its tax positions in accordance with accounting standards, which requires the disclosure of uncertain tax positions and related penalties and interest recognized in the financial examination by a taxing authority. Accordingly, no related penalties or interest were recognized in the financial statements. Federal tax returns for the past three years are still subject to examination.

The Association may be taxed either as a homeowners' association or as a regular corporation. As a homeowners' association, in accordance with Internal Revenue Service Code Section 528, the association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. The Association's investment income and non-exempt income, if any, would be subject to tax. For the year ended December 31, 2023 and 2024, the Association elected to be taxed as a homeowners' association.

As a regular corporation, the Association is allowed to carry over to future period's excess of expenses for the maintenance of the common property over membership source income, to offset future income from membership sources per Internal Revenue Service Code Section 277.

NOTE E—FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$458,182 at December 31, 2023 and \$472,703 at December 31, 2024, are held in separate accounts and are generally not available for operating purposes.

The Association's board of directors conducted a study during April 2024 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to levy special assessments, or it may delay major repairs and replacements until funds are available.

SUPPLEMENTARY INFORMATION

TOWNEWEST HOMEOWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 December 31, 2024

An independent engineer conducted a study in April 2024 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
<u>Property Site Elements</u>		
Concrete Flatwork, Partial	2-30+	\$ 223,600
Deck, Wood	4	6,000
Fence, Chain Link, Park	1	10,050
Fences, Steel, Paint Finishes	9	9,750
Fences, Steel, Replacement	2	42,250
Irrigation System	6	150,000
Light Poles and Fixtures	11	33,000
Pavilions, Park, Renovations	5	28,000
Playground and Exercise Equipment	1	150,000
Signage, Entrance Monuments, Renovation	3	15,000
Site Furniture, Phased	3-18	40,000
Sport Courts, Soccer Goals	14	5,600
Sport Courts, Tennis, Color Coat	1	15,180
Sport Courts, Tennis, Fence	24	30,400
Sport Courts, Tennis, Light Poles and Fixtures	21	42,000
Sport Courts, Tennis and Soccer, Surface Replacement	10	257,850
<u>Clubhouse and Common Buildings Elements</u>		
Air Handling and Condensing Units, Split System	16	11,000
Interior Renovations, Complete	17	50,000
Interior Renovations, Partial	7	13,000
Rest Rooms, Renovation	4	8,000
Roof, Asphalt Shingles	14	30,000
Security System	11	19,000
Walls, Siding, Composite Hardboard, Paint Finishes and Repairs	3	9,500
Walls, Siding, Composite Hardboard, Replacement (Repl. With Fiber Cement)	9	45,600
Walls, Siding, Fiber Cement, Garage Building	29	7,200
Windows and Doors	5	38,500
<u>Pool Elements</u>		
Concrete Deck, Textured Coating, Partial Replacements and Repairs	9	62,425
Diving Board	5	23,000
Fence, Steel, Paint Finishes (Incl. Playground)	9	13,200
Fence, Steel, Replacement	2	55,440
Furniture, Phased	3-11	16,500
Mechanical Equipment, Phased	3-13	45,000
Pavilions, Replacement	9	18,000
Pool Finishes, Plaster	5	105,050
Pool Finishes, Tile	5	41,800
Shade Structure	14	13,500
Structures and Deck, Total Replacement	17	1,719,000
Water Slide	9	50,000
		\$ 3,229,795