

**ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

For the Year Ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Royal Oaks Residential Community Owners Association, Inc.

Opinion

We have audited the accompanying financial statements of Royal Oaks Residential Community Owners Association, Inc., which comprise the balance sheet as of December 31, 2023, and the related statements of revenues, expenses, and changes in fund balance and 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 Royal Oaks Residential Community Owners Association, Inc. as of December 31, 2023, and the results of its operations 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 Royal Oaks Residential Community Owners Association, Inc. 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 F 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 Royal Oaks Residential Community Owners Association, Inc.'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 Royal Oaks Residential Community Owners Association, Inc.'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 Royal Oaks Residential Community Owners Association, Inc.'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
April 16, 2024

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.

BALANCE SHEET

December 31, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash	\$ 1,367,204	\$ 696,037	\$ 2,063,241
Certificates of deposit	-	1,917,000	1,917,000
Assessments receivable, net of an allowance for credit losses of \$35,715	21,460	-	21,460
Due from Replacement Fund	70,383	-	70,383
Prepaid expense	9,956	12,730	22,686
Right-of-use asset	5,787	-	5,787
Interest receivable	-	47,916	47,916
Utility deposit	1,936	-	1,936
	<hr/>	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,476,726	2,673,683	4,150,409
Property and Equipment, net			
Automobile	15,108	-	15,108
Accumulated depreciation	(6,043)	-	(6,043)
	<hr/>	<hr/>	<hr/>
	9,065	-	9,065
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 1,485,791</u>	<u>\$ 2,673,683</u>	<u>\$ 4,159,474</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ 179,191	\$ -	\$ 179,191
Accrued expenses	28,673	-	28,673
Prepaid assessments	1,095,903	-	1,095,903
Due to Operating Fund	-	70,383	70,383
Refundable deposits	7,250	-	7,250
Lease liability	5,787	-	5,787
Deferred revenue - trash reimbursement	157,905	-	157,905
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	1,474,709	70,383	1,545,092
FUND BALANCES	<hr/>	<hr/>	<hr/>
	11,082	2,603,300	2,614,382
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,485,791</u>	<u>\$ 2,673,683</u>	<u>\$ 4,159,474</u>

See accompanying notes to financial statements.

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Regular assessments	\$ 2,441,043	\$ 297,708	\$ 2,738,751
Interest income	11,692	98,777	110,469
Trash reimbursement	266,377	-	266,377
Other	87,640	-	87,640
TOTAL REVENUES	<u>2,806,752</u>	<u>396,485</u>	<u>3,203,237</u>
EXPENSES			
Administrative	64,216	-	64,216
Capital improvements, net	-	707,064	707,064
Community events	39,586	-	39,586
Credit losses	2,417	-	2,417
Depreciation	3,022	-	3,022
Insurance	46,664	-	46,664
Janitorial supplies	20,901	-	20,901
Landscaping	540,203	-	540,203
Lease / rental expense	30,582	-	30,582
Legal and professional	30,434	-	30,434
Management fees	26,412	-	26,412
Payroll expenses	371,158	-	371,158
Pest control	5,557	-	5,557
Repairs and maintenance	260,862	-	260,862
Security	1,073,164	-	1,073,164
Trash removal	236,874	-	236,874
Utilities	137,857	-	137,857
TOTAL EXPENSES	<u>2,889,909</u>	<u>707,064</u>	<u>3,596,973</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(83,157)	(310,579)	(393,736)
BEGINNING FUND BALANCES	116,588	2,891,530	3,008,118
Transfers between funds	(22,349)	22,349	-
ENDING FUND BALANCES	<u>\$ 11,082</u>	<u>\$ 2,603,300</u>	<u>\$ 2,614,382</u>

See accompanying notes to financial statements.

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2023

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficit) of revenues over expenses	\$ (83,157)	\$ (310,579)	\$ (393,736)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	4,684	-	4,684
Due from Replacement Fund	5,214	-	5,214
Depreciation	3,022	-	3,022
Prepaid expense	270	(12,730)	(12,460)
Right-of-use asset	8,054	-	8,054
Interest receivable	-	(39,180)	(39,180)
Increase (decrease) in:			
Accounts payable	13,380	-	13,380
Accrued expenses	1,845	-	1,845
Due to Operating Fund	-	(5,214)	(5,214)
Refundable deposits	(10,000)	-	(10,000)
Lease liability	(8,054)	-	(8,054)
Deferred revenue - trash reimbursement	4,318	-	4,318
Prepaid assessments	(227,121)	-	(227,121)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(287,545)	(367,703)	(655,248)
CASH FLOWS FROM INVESTING ACTIVITIES			
Certificates of deposit	-	(426,000)	(426,000)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	(426,000)	(426,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	(22,349)	22,349	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(22,349)	22,349	-
NET INCREASE (DECREASE) IN CASH	(309,894)	(771,354)	(1,081,248)
CASH AT BEGINNING OF YEAR	1,677,098	1,467,391	3,144,489
CASH AT END OF YEAR	<u>\$ 1,367,204</u>	<u>\$ 696,037</u>	<u>\$ 2,063,241</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -
See accompanying notes to financial statements.			

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE A—NATURE OF ORGANIZATION

Royal Oaks Residential Community Owners Association, Inc. was incorporated in the State of Texas on February 25, 2000. The Association is responsible for the operation and maintenance of the common property. The Association consists of common areas such as park. The community consists of 875 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 April 16, 2024, 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 reality 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.

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

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE C—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$857,100 as of December 31, 2023.

NOTE D – TRASH REIMBURSEMENT

The Association entered into an agreement with Harris County Municipal Utility District on April 25, 2022, for trash reimbursement program. The MUD District periodically reimburses a portion of the trash expenses paid by the Association. This agreement is ongoing and automatically renews for 2023 based on the signed agreement from 2022.

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE E—INCOME TAXES

The Association was granted tax exempt status from Federal income tax under Section 501 (c) (4) of the Internal Revenue Service Code. Under this form the organization, all income other than unrelated business income is exempt, including interest income. Information return Form 990 is required to be filed each year. Accordingly, no provision for federal tax is made in the financial statements.

The Association recognizes and discloses 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.

The tax years ending 2021, 2022, and 2023 are still open to audit.

NOTE F—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 \$2,660,953 as of December 31, 2023, are held in separate accounts and are generally not available for operating purposes.

The Association's board of directors conducted a study during September 2019 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.

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE G—LEASE

The Association has obligations under an operating lease for its management office. The lease expires after five years and two months following the first day of the month after the Commencement date, June 1, 2019, and provide for renewal options of three (3) years. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

The Association agrees to pay to Landlord the monthly payments of base rent as below, the applicable sales or use or excise tax, pro rata share of operating expenses, real estate taxes, and insurance etc.:

Period	Rate/SF	Monthly Rent	Annual Rent
Months 1-2	\$ -		\$ -
Months 3-12	9.50	1,140.00	13,680.00
Months 13-24	9.79	1,174.20	14,090.40
Months 25-36	10.08	1,209.60	14,515.20
Months 37-48	10.38	1,245.60	14,947.20
Months 49-62	10.69	1,282.80	15,393.30

The following is table presents future minimum lease payments and the impact of discounting:

	Annual Rent
2024	<u>\$ 6,414</u>
Future minimum lease payments	6,414
Impact of discounting	<u>(627)</u>
Present value of lease liabilities	<u>\$ 5,787</u>

The weighted-average remaining lease term and weighted-average discount rate were as follows:

Weighted-average remaining lease term	3 years
Weighted-average discount rate	5%

NOTE H – PROPERTY AND EQUIPMENT

Property and equipment consists of an automobile with an estimated useful life of 5 years.

Depreciation expense was approximately \$6,043 for the year ended December 31, 2023.

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE I – ADOPTION OF ASU 2016-13 AND RELATED STANDARDS

Effective January 1, 2023, the Association adopted ASU 2016-13, Financial Instruments—*Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Association adopted this new guidance utilizing the modified retrospective transition method. Topic 326 requires measurement and recognition of expected versus incurred losses for financial assets held. Financial assets held by the Association that are subject to ASU 2016-13 include assessments receivable. The adoption of this ASU did not have a material impact on the Association's financial statements but did change how the allowance for credit losses is determined.

SUPPLEMENTARY INFORMATION

ROYAL OAKS RESIDENTIAL COMMUNITY OWNERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS

AND REPLACEMENTS (UNAUDITED)

December 31, 2023

An independent engineer conducted a study in September 2019 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>		
Bridges, Capital Repairs	0	\$ 127,348
Concrete Streets (Incl. Curbs), Partial	0 - 27+	3,419,664
Gate Entry System, Cameras	0	122,635
Gate Entry System, Kiosk Entry Panels	10	65,033
Gate Entry System, Loop Detectors, Phased	0 - 7	60,150
Gate Entry System, Readers, Phased	0 - 7	307,581
Gate Entry System, Scanners	8	23,651
Gate Operators, Phased	0 - 7	877,080
Gates	0	423,857
Irrigation System	18	621,855
Light Poles and Fixtures	7	147,930
Pavers, Masonry, Main Entrance	2	94,502
Perimeter Walls, Panelized Masonry, Partial, Through 2038	0 - 27+	2,192,937
Perimeter Walls, Panelized Masonry, Partial, 2039- 2049	17 - 27+	3,502,731
Playground Equipment	1	113,849
Playground, Rest Room, Renovation	8	10,164
Playground, Shade Structures, Partial	21 - 27+	48,890
Play Surface, Artificial Turf	6	117,505
Signage, Renovation, Main Entrance	8	60,626
Signage, Replacement, Street and Traffic, Phased	0 - 11	102,443
Sport Court, Light Poles and Fixtures	17	13,599
Sport Court, Surface Replacement	22	73,966
<u>Guard House and Office Elements</u>		
Exterior Renovation, Main Guard House	2	29,568
Furniture, Offices	0	64,605
Interior Renovation, Main Guard House (2019 is Budgeted)	0	264,957
Roofs, Concrete Tiles (Incl. Playground Rest Room)	8	19,819
Westpark South Guard House, Replacement (Incl. Concrete, Landscape)	0	100,000
Windows and Doors, Main Guard House	13	19,123
		\$ 13,026,068