

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.
REPORT ON AUDIT OF
FINANCIAL STATEMENTS

For the Year Ended
December 31, 2021

Nagesh & Carter, PLLC

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.

TABLE OF CONTENTS

		Page
1	Independent Auditors' Report	1
2	Balance Sheets As of December 31, 2021 With Summarized Comparative Information as of December 31, 2020	4
3	Statements of Assessments, Revenues and Expenses, and Changes in Fund Balances For the Year Ended December 31, 2021 With Summarized Comparative Information for the Year Ended December 31, 2020	5
4	Statements of Cash Flows For the Year Ended December 31, 2021 With Summarized Comparative Information for the Year Ended December 31, 2020	6
5	Notes to Financial Statements	7
6	Supplemental Schedules	
a	Analysis of Assessments, Revenues, and Expenses Average per Home per Year and as a Percentage of Total Assessments and Revenues For the Year Ended December 31, 2021	11
b	Analysis of Assessments, Revenues, and Expenses For the Years Ended December 31, 2021, and 2020	12



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.

Opinion

We have audited the accompanying financial statements of PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC. (the "Association"), which comprise the Balance Sheet as of December 31, 2021, and the related Statement of Assessments, Revenues and Expenses, and Changes in Fund Balances and Statement of 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 the Association, as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in conformity 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet 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.

Emphasis of Matter - Future Major Repairs and Replacements

As disclosed in Note 4, the Association has not conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property. As of December 31, 2021, the Association has accumulated \$13,455, for future major repairs and replacements. The Association property was constructed in 1979 and consists of 2228 homes and an apartment complex. As the funds accumulated by the Association are not adequate, when funds are required for major repairs and replacements, the Association has to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined, and our opinion is not modified with respect to this matter.

Emphasis of Matter – Operating Deficit

During the year ended December 31, 2021, the Association's expenses exceed assessments and revenues by \$63,280. The increase in expenses has resulted from substantial increase in insurance and community event expenses of the Association. The current assessments are not adequate to cover the expenses of the Association. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Association's December 31, 2020, financial statements, and our report dated November 28, 2023, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' 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 auditors' 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 judgement 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 of the Association 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 11 and 12, as identified in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Regulatory Requirements - Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the information on future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Nagesh & Carter, PLLC

Nagesh & Carter, PLLC
Houston, Texas
November 29, 2023

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.
BALANCE SHEETS
As of December 31, 2021
With Summarized Comparative Information as of December 31, 2020

	Operating Fund	Replacement Fund	Property and Equipment Fund	Totals 31-Dec-21	Summarized Totals 31-Dec-20
<u>ASSETS</u>					
Cash and cash equivalents	\$164,261	\$13,455	-	\$177,716	\$258,717
Accounts receivable	85,195	-	-	85,195	31,509
Allowance for doubtful accounts	(1,714)	-	-	(1,714)	(2,560)
Prepaid expenses	16,885	-	-	16,885	24,059
Total current assets	264,627	13,455	-	278,082	311,725
<u>PROPERTY AND EQUIPMENT</u>					
Furniture and equipment	-	-	\$50,773	\$50,773	\$50,773
Improvements	-	-	118,099	118,099	118,099
Computer software	-	-	1,545	1,545	1,545
Community service vehicle	-	-	23,452	23,452	23,452
Christmas wreaths and accessories	-	-	85,722	85,722	85,722
Land	-	-	1	1	1
Accumulated depreciation	-	-	(233,836)	(233,836)	(224,780)
Total assets	\$264,627	\$13,455	\$45,756	\$323,838	\$366,537
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$30,960	-	-	\$30,960	\$37,494
Prepaid maintenance fees	161,975	-	-	161,975	134,860
Total liabilities	192,935	-	-	192,935	172,354
Fund balance	71,692	\$13,455	\$45,756	130,903	194,183
Total liabilities and fund balance	\$264,627	\$13,455	\$45,756	\$323,838	\$366,537

*The accompanying notes are an integral
part of these financial statements.*

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES,
AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2021
With Summarized Comparative Information for the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Property and Equipment Fund	Totals 31-Dec-21	Summarized Totals 31-Dec-20
Assessment and revenues					
Maintenance fees	\$423,320	-	-	\$423,320	\$423,605
Maintenance fees south grand apartments	22,734	-	-	22,734	22,734
Late fees and fines	8,262	-	-	8,262	12,000
Interest income	17	-	-	17	124
Adjustments and write-off	(2,400)	-	-	(2,400)	(2,400)
Transfer fees	12,660	-	-	12,660	12,887
Other income	21,151	-	-	21,151	26,021
Total assessments and revenues	485,744	-	-	485,744	494,971
Operating expenses					
Administrative expenses	161,286	-	-	161,286	167,934
Contract	170,740	-	-	170,740	170,042
Facility maintenance	62,727	-	-	62,727	74,348
Utilities	101,021	-	-	101,021	106,284
Community events	35,087	-	-	35,087	8,476
Depreciation	-	-	\$9,056	9,056	9,114
Insurance	9,158	-	-	9,158	8,889
Total operating expenses	540,019	-	9,056	549,075	545,087
Amount before replacement funding	(54,275)	-	(9,056)	(63,331)	(50,116)
Replacement fund					
Fund transfers	50,179	(\$50,179)	-	-	-
Interest	-	51	-	51	646
Revenue over (under) expenses	(4,096)	(50,128)	(9,056)	(63,280)	(49,470)
Fund balance, beginning of the year	75,788	63,583	54,812	194,183	243,653
Fund balance, end of the year	\$71,692	\$13,455	\$45,756	\$130,903	\$194,183

*The accompanying notes are an integral
part of these financial statements.*

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2021
With Summarized Comparative Information for the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Property and Equipment Fund	Totals 31-Dec-21	Summarized Totals 31-Dec-20
Operations					
Assessments and revenues over (under) expenses	(\$4,096)	(\$50,128)	(\$9,056)	(\$63,280)	(\$49,470)
Adjustments to reconcile assessments and revenues over (under) expenses to cash flow from operations					
Accounts receivable	(53,686)	-	-	(53,686)	(5,720)
Allowance for doubtful accounts	(846)	-	-	(846)	2,160
Prepaid expenses	7,174	-	-	7,174	(7,953)
Accounts payable	(6,534)	-	-	(6,534)	10,348
Prepaid maintenances fees	27,115	-	-	27,115	(16,806)
Depreciation	-	-	9,056	9,056	9,114
Total from operations	(30,873)	(50,128)	-	(81,001)	(58,327)
Increase (decrease) in cash	(30,873)	(50,128)	-	(81,001)	(58,327)
Cash and cash equivalents, beginning of the year	195,134	63,583	-	258,717	317,044
Cash and cash equivalents, end of the year	\$164,261	\$13,455	-	\$177,716	\$258,717

*The accompanying notes are an integral
part of these financial statements.*

1. NATURE OF ORGANIZATION

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC. (the "Association") was incorporated in the State of Texas as a not-for-profit corporation on March 5, 1979. The Association is organized for the purposes of providing for maintenance preservation, and architectural control of the residences and common properties within the Pecan Grove subdivision, a community of 2,228 homes and an apartment complex, in Fort Bend County, Texas, and to promote the recreation, health, safety, and welfare of the owners, residents, and tenants.

2. DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 29, 2023, the date that the financial statements were available to be issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUND ACCOUNTING

The Association's governing documents provide certain guidelines for 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 for future major repairs and replacements.

Property Fund – This fund is used to account for the property owned by the Association.

MEMBER ASSESSMENTS

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The assessments, or maintenance fees assessed, are based on an annual budget as adopted by the Board of Directors (the "Board") pursuant to the governing documents of the Association. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. Any excess assessments over expenses at year end are retained by the Association for use in the succeeding year or transferred to the replacement fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

TRANSFER FEES

Transfer fees are assessed upon the sale or transfer of title to any lot, to provide account information upon sale of the property or refinance of the property. The Association's performance obligation related to its Transfer fee revenues are satisfied, when the Association resolves the old account balance, if any, and transfers the account to the new owner in the event of a sale.

ASSESSMENTS RECEIVED IN ADVANCE-REPLACEMENT FUND, CONTRACT LIABILITIES

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is (are) recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. As of December 31, 2021, and 2020, the Association did not have any contract liabilities for assessments received in advance.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR ADJUSTMENTS AND WRITE-OFFS

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments 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 estimates the allowance for doubtful accounts based on various factors with an emphasis on the age of past due accounts and the current collection status of the accounts.

The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control. At December 31, 2021, and 2020 the Association had accounts receivable of \$85,195, and \$31,509, respectively, and allowances for doubtful accounts of \$1,714 and \$2,560, respectively.

PROPERTY AND EQUIPMENT

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the homes. Property and equipment acquired by the Association are recorded at cost and property contributed by the developer is recorded at fair value at the date of the contribution.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT

The Association's capitalized property and equipment is depreciated over its estimated useful life using the straight-line method of depreciation.

Asset	Estimated Useful Life (Years)
Equipment	5 – 7
Furniture and fixture	5 – 10
Community service vehicle	6-10
Computer software	5
Land improvement	20

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.

CASH AND CASH EQUIVALENTS

For the purposes of reporting cash flows, the Association considers all highly liquid investments purchased with an original maturity of three months or less as cash and cash equivalents in the accompanying balance sheet.

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. Although the Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements, the Board has established a fund for this purpose. As of December 31, 2021, and 2020, the Association had \$13,455 and \$63,583, respectively, accumulated for future major repairs and replacements. These funds are held in a separate account and are generally not available for operating expenses.

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

When funds are required for major repairs and replacements, and the funds accumulated by the Association are not adequate, the Association has to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

5. FEDERAL INCOME TAXES

The Internal Revenue Service (the "IRS") has granted the Association tax-exempt status as a not-for-profit social welfare organization, pursuant to Internal Revenue Code ("IRC") Section 501(c)(4). Accordingly, the Association is exempt from federal income tax except on any "unrelated business income."

Because of its federal 501(c)(4) status, the Association is also exempt from Texas sales and use tax on its purchases, and from Texas franchise tax.

Annually, the Association files Form 990 – Return of Organization Exempt from Income Tax, with the IRS. The Association is not required to file any Texas tax returns.

The Association is subject to audit by both federal and state taxing authorities. Returns and tax status for 2022, 2021, 2020, and 2019 remain open to examination. The Association believes that it complies with the requirements of IRC Section 501(c)(4), and that accordingly, no significant tax liability would result from any such audits.

6. SUMMARIZED COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

SUPPLEMENTAL SCHEDULES

Nagesh & Carter, PLLC

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.
ANALYSIS OF ASSESSMENTS, REVENUES, AND EXPENSES
AVERAGE PER HOME PER YEAR AND AS A PERCENTAGE OF TOTAL ASSESSMENTS AND REVENUES
For the Year Ended December 31, 2021

	Amount	Average Per Home Per Year	%age of Total Revenues
Assessments and Revenues			
Maintenance fees	\$423,320	\$190.00	87.14%
Maintenance fees south grand apartments	22,734	10.20	4.68%
Late fees and fines	8,262	3.71	1.70%
Interest income	68	0.03	0.01%
Adjustments and write-off	(2,400)	(1.08)	-0.49%
Transfer fees	12,660	5.68	2.61%
Other income	21,151	9.49	4.35%
Total assessments and revenues	485,795	218.04	100.00%
Administrative expenses			
Accounting	35,707	16.03	22.14%
Audit	5,500	2.47	3.41%
Legal and collections	9,434	4.23	5.85%
Salaries	42,360	19.01	26.26%
Newsletter	26,439	11.87	16.39%
Rent	9,100	4.08	5.64%
Taxes and payroll	4,272	1.92	2.65%
Administrative expenses - other	28,474	12.78	17.65%
Total administrative expenses	161,286	72.39	33.20%
Contract			
Deputy patrol	136,255	61.16	28.05%
Motor cycle patrol	34,485	15.48	7.10%
Total contract	170,740	76.63	35.15%
Facility maintenance			
Parks and esplanades maintenance	50,874	22.83	10.47%
Community vehicle service	10,499	4.71	2.16%
Other maintenance	1,354	0.61	0.28%
Total facility maintenance	62,727	28.15	12.91%
Utilities	101,021	45.34	20.79%
Community events	35,087	15.75	7.22%
Depreciation	9,056	4.06	1.86%
Insurance	9,158	4.11	1.89%
Total expenses	549,075	246.44	113.03%
Net assessments and revenue over expenses	(\$63,280)	(\$28.40)	-13.03%

*The foregoing notes are an integral
part of these financial statements.*

PECAN GROVE PLANTATION PROPERTY OWNERS ASSOCIATION, INC.
ANALYSIS OF ASSESSMENTS, REVENUES, AND EXPENSES
For the Years Ended December 31, 2021 and 2020

	31-Dec-21	31-Dec-20
Assessments and Revenues		
Maintenance fees	\$423,320	\$423,605
Maintenance fees south grand apartments	22,734	22,734
Late fees and fines	8,262	12,000
Interest income	68	770
Adjustments and write-off	(2,400)	(2,400)
Transfer fees	12,660	12,887
Other income	21,151	26,021
Total assessments and revenues	485,795	495,617
Administrative expenses		
Accounting	35,707	31,280
Audit	5,500	5,000
Legal and collections	9,434	14,425
Salaries	42,360	43,126
Newsletter	26,439	31,453
Rent	9,100	8,400
Taxes and payroll	4,272	6,201
Administrative expenses - other	28,474	28,049
Total administrative expenses	161,286	167,934
Contract		
Deputy patrol	136,255	137,247
Motor cycle patrol	34,485	32,795
Total contract	170,740	170,042
Facility maintenance		
Parks and esplanades maintenance	50,874	62,002
Community vehicle service	10,499	11,911
Other maintenance	1,354	435
Total facility maintenance	62,727	74,348
Utilities	101,021	106,284
Community events	35,087	8,476
Depreciation	9,056	9,114
Insurance	9,158	8,889
Total expenses	549,075	545,087
Net assessments and revenue over expenses	(\$63,280)	(\$49,470)

*The foregoing notes are an integral
part of these financial statements.*