

Sienna Townhome Association

Financial Statements and
Supplementary Information
December 31, 2023 and 2022

Sienna Townhome Association
Independent Auditor's Report and
Financial Statements
December 31, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors of
Sienna Townhome Association, Inc.

Opinion

We have audited the accompanying financial statements of Sienna Townhome Association (the Association), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in fund balances 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 Sienna Townhome Association as of December 31, 2023 and 2022, 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 audits 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 Sienna Townhome Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Sienna Townhome 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 Sienna Townhome 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 Sienna Townhome 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 supplemental information in future major repairs and replacements on page 13 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.

Ralph and Ralph, P.C.

Houston, Texas
July 15, 2024

Sienna Townhome Association
Balance Sheet
December 31, 2023

	Operating	Reserve	Total
Assets			
Cash and cash equivalents	\$ 192,519	\$ 14,156	\$ 206,675
Investments	220,000	-	220,000
Accounts receivable, assessment	56,554	-	56,554
Accounts receivable, affiliate	165	-	165
Accounts receivable, other	3,175	-	3,175
Accounts receivable, interfund	-	314,460	314,460
Prepaid insurance	4,555	-	4,555
Total current assets	\$ 476,968	\$ 328,616	\$ 805,584
 Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	\$ 6,744	\$ -	6,744
Accounts payable, affiliate	52,398	-	52,398
Accounts payable, developer	-	-	-
Accounts payable, interfund	314,460	-	314,460
Prepaid assessment	83,978	-	83,978
Total current liabilities	457,580	-	457,580
 Fund balance			
Fund balance	19,388	328,616	348,004
Total fund balance	19,388	328,616	348,004
 Total liabilities and fund balance	\$ 476,968	\$ 328,616	\$ 805,584

See notes to financial statements.

Sienna Townhome Association
Balance Sheet
December 31, 2022

	Operating	Reserve	Total
Assets			
Cash and cash equivalents	\$ 186,091	\$ 14,113	\$ 200,204
Accounts receivable, assessment	28,093	-	28,093
Accounts receivable, affiliate	140	-	140
Accounts receivable, interfund	-	109,840	109,840
Prepaid insurance	4,093	-	4,093
Total current assets	\$ 218,417	\$ 123,953	\$ 342,370
Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	\$ 27,223	\$ -	27,223
Accounts payable, affiliate	245	-	245
Accounts payable, developer	-	-	-
Accounts payable, interfund	109,840	-	109,840
Prepaid assessment	81,109	-	81,109
Total current liabilities	218,417	-	218,417
Fund balance			
Fund balance	-	123,953	123,953
Total fund balance	-	123,953	123,953
Total liabilities and fund balance	\$ 218,417	\$ 123,953	\$ 342,370

See notes to financial statements.

Sienna Townhome Association
Statement of Revenues and Expenses and Change in Fund Balances
For the Year Ended December 31, 2023

	<u>Operating</u>	<u>Reserve</u>	<u>Total</u>
Revenues			
Assessment	\$ 221,153	\$ -	\$ 221,153
Working capital fees	-	69,600	69,600
Developer subsidy	-	-	-
Other income	16,493	-	16,493
Interest income	3,272	42	3,314
Total revenues	<u>\$ 240,918</u>	<u>\$ 69,642</u>	<u>\$ 310,560</u>
Expenses			
Building maintenance	7,081	-	7,081
Management fee to SPRAI	36,000	-	36,000
Insurance	11,904	-	11,904
Professional fees	19,136	-	19,136
Miscellaneous	9,409	-	9,409
Reserve expenses	-	2,979	2,979
Total expenses	<u>83,530</u>	<u>2,979</u>	<u>86,509</u>
Change in fund balance	<u>157,388</u>	<u>66,663</u>	<u>224,051</u>
Transfer, capital contribution	(138,000)	138,000	-
Fund balance, beginning of year	-	123,953	123,953
Fund balance, end of year	<u>\$ 19,388</u>	<u>\$ 328,616</u>	<u>\$ 348,004</u>

See notes to financial statements.

Sienna Townhome Association
Statement of Revenues and Expenses and Change in Fund Balances
For the Year Ended December 31, 2022

	<u>Operating</u>	<u>Reserve</u>	<u>Total</u>
Revenues			
Assessment	\$ 238,718	\$ -	\$ 238,718
Working capital fees	-	77,200	77,200
Developer subsidy	17,500	-	17,500
Other income	15,271	-	15,271
Interest income	98	30	128
Total revenues	<u>\$ 271,587</u>	<u>\$ 77,230</u>	<u>\$ 348,817</u>
Expenses			
Management fee to SPRAI	24,000	-	24,000
Insurance	212,977	-	212,977
Professional fees	16,089	-	16,089
Miscellaneous	5,823	-	5,823
Total expenses	<u>258,889</u>	<u>-</u>	<u>258,889</u>
Change in fund balance	<u>12,698</u>	<u>77,230</u>	<u>89,928</u>
Transfer, capital contribution	(1,237)	1,237	-
Fund balance, beginning of year	<u>(11,461)</u>	<u>45,486</u>	<u>34,025</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 123,953</u>	<u>\$ 123,953</u>

See notes to financial statements.

Sienna Townhome Association
Statement of Cash Flows
For the Year Ended December 31, 2023

	<u>Operating</u>	<u>Reserve</u>	<u>Total</u>
Cash flows, operating activities			
Change in fund balance	\$ 157,388	\$ 66,663	\$ 224,051
Adjustment to reconcile change in fund balance to net cash (Increase) decrease in:			
Accounts receivable, assessment	(28,461)	-	(28,461)
Accounts receivable, affiliate	(25)	-	(25)
Accounts receivable, other	(3,175)	-	(3,175)
Accounts receivable, interfund	-	(204,620)	(204,620)
Prepaid insurance	(462)	-	(462)
Increase (decrease) in:			
Accounts payable	(20,479)	-	(20,479)
Accounts payable, affiliates	52,153	-	52,153
Accounts payable, developer	-	-	-
Accounts payable, interfund	204,620	-	204,620
Prepaid assessments	2,869	-	2,869
Net cash provided (used), operating	<u>364,428</u>	<u>(137,957)</u>	<u>226,471</u>
Cash flows, investing activities			
Investment purchases	<u>(220,000)</u>	-	<u>(220,000)</u>
Net cash provided (used), investing	<u>(220,000)</u>	-	<u>(220,000)</u>
Cash flows, financing activities			
Transfers, capital contributions	<u>(138,000)</u>	138,000	<u>-</u>
Net cash provided (used), financing	<u>(138,000)</u>	138,000	<u>-</u>
Net increase (decrease) in cash and cash equivalents	6,428	43	226,471
Cash and cash equivalents, beginning of year	<u>186,091</u>	<u>14,113</u>	<u>200,204</u>
Cash and cash equivalents, end of year	<u>\$ 192,519</u>	<u>\$ 14,156</u>	<u>\$ 206,675</u>
Supplemental disclosure:			
Income tax paid	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -

See notes to financial statements.

Sienna Townhome Association
Statement of Cash Flows
For the Year Ended December 31, 2022

	<u>Operating</u>	<u>Reserve</u>	<u>Total</u>
Cash flows, operating activities			
Change in fund balance	\$ 12,698	\$ 77,230	\$ 89,928
Adjustment to reconcile change in fund balance to net cash			
(Increase) decrease in:			
Accounts receivable, assessment	(19,464)	-	(19,464)
Accounts receivable, affiliate	(140)	-	(140)
Accounts receivable, other	-	-	-
Accounts receivable, interfund	-	(77,199)	(77,199)
Prepaid insurance	169,174	-	169,174
Increase (decrease) in:			
Accounts payable	(158,775)	-	(158,775)
Accounts payable, affiliates	(15,541)	-	(15,541)
Accounts payable, developer	(17,500)	-	(17,500)
Accounts payable, interfund	77,199	-	77,199
Prepaid assessments	(147)	-	(147)
Net cash provided (used), operating	<u>47,504</u>	<u>31</u>	<u>47,535</u>
 Net increase (decrease) in cash and cash equivalents	 47,504	 31	 47,535
 Cash and cash equivalents, beginning of year	 <u>138,587</u>	 <u>14,082</u>	 <u>152,669</u>
Cash and cash equivalents, end of year	<u>\$ 186,091</u>	<u>\$ 14,113</u>	<u>\$ 200,204</u>
 Supplemental disclosure:			
Income tax paid	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -

See notes to financial statements.

Note 1 – Nature of Organization

Sienna Townhome Association (the Association) is a Texas non-profit corporation incorporated on September 13, 2018 for the purpose of exercising all the powers and privileges and performing all the duties and obligations of the Association as set forth in the Supplemental Declaration of CC&Rs for Sienna Townhomes, including, but not limited to, the cost of all management, repair, and maintenance of the townhome neighborhood, located in Fort Bend County, Texas. The Association is under development and is anticipated to consist of up to 424 units when fully developed. As of December 31, 2023, the Townhome Association consisted of 184 assessable units and 40 units in development for a total of 224 units.

Note 2 - Summary of Significant Accounting Policies

Date of Management's Review

In preparation of the financial statements, the Association has evaluated the events and transactions for potential recognition or disclosure through June 25, 2024, the date the financial statements were available to be issued.

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.

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

Fair Value of Financial Instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, prepaid expenses and accounts payable. The recorded values of the cash and cash equivalents, accounts receivable, prepaid expenses and accounts payables approximate their fair values based on their short-term nature.

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association levies annual assessments determined and approved by the Board of Directors. Association 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 is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the reserve fund assessments are satisfied when these funds are expended for their designated purpose. Other income is recognized when the services are performed. Receivables are stated at the billed amount plus any unpaid late fees. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Sienna Townhome Association
Notes to Financial Statements (Continued)
December 31, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

Member Assessments (Continued)

Assessments are charged to all units that are owned by builders or homeowners. The annual assessment is prorated if a unit is transferred during the year. The annual rates for 2023 and 2022 were \$1,320 and \$1,800, respectively.

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 assess late fees to the account of unit owners whose assessments are 30 days or more delinquent; receivables from owners are secured by an automatic lien on the property.

The Association assesses the collectability of the receivables based on a review of the individual accounts receivable to determine if it is necessary to adjust the allowance for doubtful accounts. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration include consideration of past experience and susceptibility to factors outside the Association's control. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary. Any excess assessments at year end are retained by the Association for use in the succeeding years.

Working Capital Fees

In addition to assessments, the Association collects a working capital fee. The working capital fee is a one-time fee, due from the homeowner when a new home is purchased from the builder and on existing home resales. The working capital fee is equal to 100% of the annual assessment and is a separate amount due and payable to the Association and cannot be applied as a credit against or prepayment of any other assessments levied against a lot.

Special Assessments

The Association may also levy one or more special assessments in any fiscal year for the purpose of defraying, in whole or in part, the cost of any construction, reconstruction, or repair or replacement of a capital improvement located upon the common elements.

Special assessments in excess of the assessment amount require approval by the members. As long as the declarant has an option unilaterally to subject additional property to the Association's declaration, the declarant may annually elect either to pay assessments on its property or pay the Association the difference between the amount of assessments collected on all other property subject to assessment and the amount of actual expenses incurred to operate the Association during the fiscal year.

The Association recognizes special assessment revenue from members (or other funds for specific projects) as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to reserve assessments.

During the years ended December 31, 2023 and 2022, no special assessment was levied by the Association.

Prepaid Assessment

Assessments for the current year are included in revenue. Amounts billed or payments received for periods subsequent to the balance sheet date are presented as "prepaid assessments", a liability account.

Sienna Townhome Association
Notes to Financial Statements (Continued)
December 31, 2023 and 2022

Note 2 – Summary of Significant Accounting Policies (Continued)

Contract Liabilities (Reserve Assessments Received in Advance)

The Association recognizes revenue from members (or other funds for specific projects) as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to reserve assessments. At December 31, 2023, the contract liabilities balance was \$0.

Federal Income Taxes

The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the years ended December 31, 2023, no interest or penalties were paid or accrued.

Estimates

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

Note 3 -Federal Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2023. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government. For the year ended December 31, 2023, the tax liability was \$0.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Note 5- Related Party Transactions

The Association is engaged in a management agreement and an administrative and accounting services agreement, which are subject to cancellation based on non-performance by either party or upon a certain number of days' notice. In accordance with the agreements, the Association pays monthly fees to SPRAI; amounts paid under these agreements totaled \$43,200 and \$28,800 in 2023 and 2022, respectively.

In the normal course of operations, certain expenses are paid by one of the Sienna Plantation entities; the other entities then reimburse the paying entity for their allocated portions of the expense. Additionally, the Association collects fees on behalf of SPCAI. The Association accounts receivable at December 31, 2023 include \$165 due from SPCAI. Accounts payable to affiliated associations at December 31, 2023 were \$15,212 and \$37,185 from SPRAI and SPCAI, respectively. At December 31, 2022, accounts payable to SPCAI totaled \$105.

Sienna Townhome Association
Notes to Financial Statements (Continued)
December 31, 2023 and 2022

Note 6 – Future Repairs and Replacement Reserves

The Association's governing documents require funds be accumulated for future repairs and replacements. During 2020, the developer began the process to convey common property to the Association. Accumulated funds, which aggregate approximately \$328,616 on December 31, 2023, are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent consulting firm, who conducted a study in 2023 to estimate the remaining useful lives and the replacement costs of the common property components of its common property. 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 replacement 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 increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 6 – Declarant Control

The Association is under declarant control. No assessment is levied on lots owned by the declarant.

Supplementary Information

Sienna Plantation Community Association, Inc.
 Supplementary Information on Future Major Repairs
 And Replacements (Unaudited)

An independent reserve study firm conducted a study in 2023 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. The estimated costs were obtained from licensed contractors who inspected the property. The study projected reserve fund analysis for non-annual maintenance items over a 30-year period. The capital items listed are those that are typically the responsibility of the Association and are listed at current replacement costs.

Estimated current replacement costs have not been revised since that date but replacement costs in 30-year period have taken into account the effects of inflation between the date of the study and the date that the components will require repair or replacement, using an inflation rate of 2.5%. The study used 0% interest rate assumption.

The following information is based on the study and presents significant information about the components of common property. At December 31, 2023, the Association has designated \$328,616 of its net assets for major repairs and replacements.

<u>Components Group</u>	<u>Estimated Remaining Useful Lives (years)</u>	<u>Current Replacement Cost</u>
Concrete	8-10	20,607
Painting: Exterior	8-10	401,269
Structural Repairs	38-40	3,215,298
Roofing	18-20	1,456,872
		<u>\$ 5,094,046</u>