

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS
NOVEMBER 30, 2021 AND 2020**

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Homeowners
Devonshire Homeowners Association, Inc.
Penfield, New York

Opinion

We have audited the accompanying financial statements of Devonshire Homeowners Association, Inc. which comprises the balance sheets as of November 30, 2021 and 2020, 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 Devonshire Homeowners Association, Inc. as of November 30, 2021 and 2020, 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 Devonshire Homeowners Association, Inc. 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 Devonshire Homeowners 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.

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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.


In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Devonshire Homeowners 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 Devonshire Homeowners 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 on page 10 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.

Handwritten signature in cursive script that reads "Bruno, DiGuardi & Roy, LLP".

Rochester, New York
December 16, 2021

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS NOVEMBER 30, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 470,312	\$ 369,156
Accounts receivable from homeowners, net of allowance for doubtful accounts of \$0 in 2021 and \$1,186 in 2020	2,419	1,200
Prepaid expenses	<u>10,382</u>	<u>9,785</u>
Total assets	<u>\$ 483,113</u>	<u>\$ 380,141</u>

LIABILITIES AND FUND BALANCES

	<u>2021</u>	<u>2020</u>
Liabilities		
Accounts payable	\$ 19,420	\$ 30,256
Advance payments from homeowners	15,134	13,834
Contract liabilities (assessments received in advance-major maintenance fund)	442,557	329,790
Accrued income tax payable	<u>2</u>	<u>261</u>
Total liabilities	<u>477,113</u>	<u>374,141</u>
Fund balances		
Operating	6,000	6,000
Major maintenance	<u>0</u>	<u>0</u>
Total fund balances	<u>6,000</u>	<u>6,000</u>
	<u>\$ 483,113</u>	<u>\$ 380,141</u>

See accompanying notes and independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES FOR THE YEARS ENDED NOVEMBER 30, 2021 AND 2020

	2021			2020		
	Operating Fund	Major Maintenance Fund	Total	Operating Fund	Major Maintenance Fund	Total
Revenues						
Common charges	\$ 325,317	\$ 83,004	\$ 408,321	\$ 321,224	\$ 165,631	\$ 486,855
Interest	0	700	700	0	2,102	2,102
Other	4,280	0	4,280	4,532	0	4,532
Total revenues	329,597	83,704	413,301	325,756	167,733	493,489
Expenses						
Landscaping	132,629	0	132,629	118,133	23,166	141,299
Refuse removal	43,600	0	43,600	36,955	0	36,955
Building and grounds repairs and maintenance	41,218	68,919	110,137	49,181	145,814	194,995
Administrative expenses	2,506	0	2,506	3,029	0	3,029
Management fees	28,644	0	28,644	27,810	0	27,810
Legal and professional fees	5,217	0	5,217	2,040	0	2,040
Insurance	58,694	0	58,694	55,714	0	55,714
Snow removal	30,600	0	30,600	36,830	0	36,830
Property taxes	1,272	0	1,272	1,263	0	1,263
Income taxes	2	0	2	261	0	261
Total expenses	344,382	68,919	413,301	331,216	168,980	500,196
Excess of revenues over (under) expenses	(14,785)	14,785	0	(5,460)	(1,247)	(6,707)
Transfers	14,785	(14,785)	0	5,460	(5,460)	0
Fund balances - beginning of year	6,000	0	6,000	6,000	6,707	12,707
Fund balances - end of year	<u>\$ 6,000</u>	<u>\$ 0</u>	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 0</u>	<u>\$ 6,000</u>

See accompanying notes and independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Excess of revenues under expenses	\$ 0	\$ (6,707)
Adjustments to reconcile excess of revenues under expenses to net cash and cash equivalents provided by operating activities:		
(Increase) decrease in:		
Accounts receivable from homeowners, net	(1,219)	801
Prepaid expenses	(597)	3,593
Increase (decrease) in:		
Accounts payable	(10,836)	25,647
Advance payments from homeowners	1,300	5,748
Contract liabilities (assessments received in advance-major maintenance fund)	112,767	33,047
Accrued income tax payable	<u>(259)</u>	<u>(946)</u>
Net cash and cash equivalents provided by operating activities	101,156	61,183
Cash and cash equivalents - beginning of year	<u>369,156</u>	<u>307,973</u>
Cash and cash equivalents - end of year	<u>\$ 470,312</u>	<u>\$ 369,156</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 261</u>	<u>\$ 1,207</u>

See accompanying notes and independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2021 AND 2020

NOTE 1: SUMMARY OF OPERATIONS

The Association was incorporated under Section 402 of the New York State Not-For-Profit Corporation Law on June 27, 1984, for the purpose of owning common land and maintaining common areas (consisting of exteriors, asphalt, grounds, and lawns) of two hundred and thirty-six residential townhomes in Penfield, New York. The board of directors hires an independent property management firm to manage the Association.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents - The Association considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Fund Accounting - The Association's governing documents provide certain guidelines for governing its financial activities, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. 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 operation of the Association.

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

Member Assessments - Association members are subject to monthly assessments to provide funds for the Association's operating and major maintenance expenses. Assessment revenue is recognized as the related performance obligations related to its operating and major maintenance assessments are satisfied over time on a daily pro-rata basis using the input method as disclosed in Note 3 to the financial statements.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are significantly in arrears. It is the opinion of management that the Association will not ultimately prevail against all of the homeowners whose assessments are delinquent and, accordingly, an allowance for doubtful accounts of \$0 and \$1,186 has been established for the years ending November 30, 2021 and 2020, respectively. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control.

See independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2021 AND 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes - Pursuant to the Tax Reform Act of 1976, homeowner associations are permitted to make an annual election to be treated as a regular corporation or a tax-exempt organization. Each year the Association will file its tax returns under the election which is most beneficial to the organization. Under Section 528 of the Internal Revenue Code, taxes are paid on non-exempt function income (principally interest, net of expenses).

The Association's tax returns for the years ending 2018, 2019 and 2020 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

Subsequent Events - In preparing these financial statements, the Association has evaluated events and transactions for potential recognition and disclosure through December 16, 2021, the date the financial statements were available to be issued. Specific events have been identified in Note 9 to these financial statements.

NOTE 3: NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued guidance that created Topic 606, *Revenue Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of December 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning major maintenance fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of December 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities (assessments received in advance-major maintenance fund).

See independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2021 AND 2020

NOTE 4: CONTRACT LIABILITIES (ASSESSMENTS RECEIVED IN ADVANCE-MAJOR MAINTENANCE FUND)

Contract liabilities (assessments received in advance-major maintenance fund) records the deferral of assessments allocated to the major maintenance fund as a result of the adoption of the new revenue recognition policy described in Note 3.

The implementation of this new policy requires assessments budgeted for the major maintenance fund to be deferred as follows:

	<u>2021</u>	<u>2020</u>
Budgeted assessments for the years ended November 30, 2021 and 2020	\$ 195,771	\$ 198,678
Assessments deferred in the current year	112,767	33,047
Assessments previously recognized in the current year	<u>0</u>	<u>0</u>
Major maintenance assessments	\$ <u>83,004</u>	\$ <u>165,631</u>

As of November 30, 2021 and 2020, contract liabilities (assessments received in advance-major maintenance fund) is recorded as follows:

	<u>2021</u>	<u>2020</u>
Beginning contract liabilities	\$ 329,790	\$ 296,743
Assessments deferred	<u>112,767</u>	<u>33,047</u>
Ending contract liabilities	\$ <u>442,557</u>	\$ <u>329,790</u>

NOTE 5: OWNERS' ASSESSMENTS

Monthly assessments to owners for the years ended November 30, 2021 and 2020 were \$184, of which a portion is allocated to the major maintenance fund. The annual budget and assessments of owners are determined by the board of directors. The Association transfers any annual operating surplus or deficit to or from the major maintenance fund. As of December 1, 2021, monthly assessments increased to \$220.

See independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2021 AND 2020

NOTE 5: OWNERS' ASSESSMENTS (CONTINUED)

The effects of unused and uncollectible assessments at November 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Total assessments	\$ 521,088	\$ 521,088
Less: contract liabilities	112,767	33,047
Less: current year deemed uncollectible	<u>0</u>	<u>1,186</u>
Total assessments recognized	\$ <u>408,321</u>	\$ <u>486,855</u>

NOTE 6: COMMITMENTS

The Association has entered into an agreement with Realty Performance Group, Inc. for management of its operations. The agreement provides for a monthly fee of \$2,459 for the year ending November 30, 2022. The agreement may be renewed at a fee increased by the greater of 3% or the increase in the consumer price index.

NOTE 7: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has elected to accumulate funds for future major repairs and replacements. Accumulated funds are accounted for separately and generally are not available for expenditures for normal operations.

The board of directors and the management company determine amounts to be allocated to the major maintenance fund. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the major maintenance fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 8: CONCENTRATIONS OF CREDIT RISK

The Association's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Association places its cash investments with high credit quality institutions. At times such investments may be in excess of the FDIC insurance limit. The Association routinely assesses the financial strength of these organizations and, as a consequence, believes that its credit risk exposure is limited. As of November 30, 2021 and 2020, the Association had an uninsured cash balance of \$221,600 and \$119,176, respectively.

See independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2021 AND 2020

NOTE 9: SUBSEQUENT EVENT

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings. While the disruption is expected to be temporary, there is some uncertainty about homeowners' continued ability to pay common charges. This could have a negative impact on operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

See independent auditors' report.

DEVONSHIRE HOMEOWNERS ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS**

NOVEMBER 30, 2021

A prior management company updated a study dated January 1, 2016, to estimate the remaining useful lives and the replacement costs of components of common property. The costs are based upon estimated current replacement costs.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Asphalt sealing	4	\$ 13,000
Asphalt driveways	0 to 10	560,750
Painting	4	30,000
Roofs	17	300,000
Patio sidewalks	0	29,405
Tree work	0	8,942
Foundation repairs	0	9,195
Landscape improvements	0	85,266

See independent auditors' report.