

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2019



VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Villa Nova Homeowners' Association, Inc.
Boca Raton, Florida

We have reviewed the accompanying financial statements of Villa Nova Homeowners' Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility 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; this includes 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Villa Nova Homeowners' Association, Inc.
Boca Raton, Florida

Required Supplementary Information

Management has omitted supplementary information about 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 required part of the basic financial statements, is required by the Financial Accounting Standards Board, who 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.

Gladstone & Company, LLC

Gladstone & Company, LLC
Certified Public Accountants
Sunrise, Florida
March 26, 2020

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEET
December 31, 2019

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 21,021	\$ 46,619	\$ 67,640
Cash - Rental Deposits	6,500	-	6,500
Member Assessments Receivable	1,559	-	1,559
Prepaid Insurance	<u>1,320</u>	<u>-</u>	<u>1,320</u>
 Total Assets	 <u>\$ 30,400</u>	 <u>\$ 46,619</u>	 <u>\$ 77,019</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 3,421	\$ -	\$ 3,421
Prepaid Owners Assessments	7,103	-	7,103
Contract Liabilities	-	33,320	33,320
Rental Deposits	<u>6,500</u>	<u>-</u>	<u>6,500</u>
 Total Liabilities	 17,024	 33,320	 50,344
 FUND BALANCE	 <u>13,376</u>	 <u>13,299</u>	 <u>26,675</u>
 Total Liabilities and Fund Balance	 <u>\$ 30,400</u>	 <u>\$ 46,619</u>	 <u>\$ 77,019</u>

See accompanying notes and accountant's review report.

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
REVENUES			
Member Assessments	\$ 97,880	\$ -	\$ 97,880
Late Fee Income	550	-	550
Legal Fees Reimbursement	200	-	200
Application Fee Income	2,400	-	2,400
Miscellaneous Income	36	-	36
Capital Contributions	1,400	-	1,400
Interest Income	<u>-</u>	<u>168</u>	<u>168</u>
Total Revenues	<u>102,466</u>	<u>168</u>	<u>102,634</u>
EXPENSES			
Accounting Management Fees	4,800	-	4,800
Electricity	5,260	-	5,260
Insurance Expense	2,999	-	2,999
Irrigation	3,396	-	3,396
Lake Maintenance	2,975	-	2,975
Landscaping	48,649	-	48,649
Miscellaneous Expense	61	-	61
Office Expense	1,743	-	1,743
Professional Fees	45,619	-	45,619
Repairs and Maintenance	1,777	-	1,777
Special Projects	1,000	-	1,000
Tree Trimming	5,745	-	5,745
Website	<u>852</u>	<u>-</u>	<u>852</u>
Total Expenses	<u>124,876</u>	<u>-</u>	<u>124,876</u>
Excess (Deficiency) of Revenues over Expenses	(22,410)	168	(22,242)
Fund Balance - Beginning of Year	49,576	64	49,640
Interfund Transfers	(13,067)	13,067	-
Prior Period Adjustment	<u>(723)</u>	<u>-</u>	<u>(723)</u>
Fund Balance - End of Year	<u>\$ 13,376</u>	<u>\$ 13,299</u>	<u>\$ 26,675</u>

See accompanying notes and accountant's review report.

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (Deficiency) of Revenues over Expenses	(22,410)	168	(22,242)
Adjustments to Reconcile Excess (Deficiency) of Revenues over Expenses to Net Cash Provided by (Used in) Operating Activities:			
(Increase) Decrease in:			
Member Assessments Receivable	(722)	-	(722)
Prepaid Insurance	(169)	-	(169)
Cash - Rental Deposits	500	-	500
Interfund Borrowings	(2,333)	2,333	-
Interfund Transfers	(13,067)	13,067	-
Increase (Decrease) in:			
Accounts Payable and Accrued Expenses	(3,239)	-	(3,239)
Rental Deposits	(500)	-	(500)
Contract Liabilities	-	7,000	7,000
Prepaid Owner Assessments	<u>5,025</u>	<u>-</u>	<u>5,025</u>
Net Cash Provided by (Used in) Operating Activities	<u>(36,915)</u>	<u>22,568</u>	<u>(14,347)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(36,915)	22,568	(14,347)
Cash and Cash Equivalents - Beginning of Year	<u>57,936</u>	<u>24,051</u>	<u>81,987</u>
Cash and Cash Equivalents - End of Year	<u>\$ 21,021</u>	<u>\$ 46,619</u>	<u>\$ 67,640</u>
SUPPLEMENTAL INFORMATION			
Income Taxes Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cash - Rental Deposits represents escrow amounts held by the Association. The Cash does not belong to the Association and has therefore been excluded from total Cash and Cash Equivalents.

See accompanying notes and accountant's review report.

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization – Villa Nova Homeowners' Association, Inc. (the "Association") is a homeowner association incorporated as a not-for-profit corporation in the state of Florida on July 1, 1986. The Association consists of 76 residential units and is responsible for the operation and maintenance of the common property located in Boca Raton, Florida.

2. 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.

3. Use of Estimates in the Preparation of Financial Statements – 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.

4. Basis of Accounting – The books and records are maintained on the accrual basis of accounting which recognizes revenues when earned, regardless of when received, and expenses when incurred, regardless of when paid, which is in accordance with generally accepted accounting principles.

5. Member Assessments – Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. 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. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

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 owners whose assessments are delinquent, in accordance with the Association's late fee policy. At December 31, 2019, the Association had delinquent assessments of \$1,559. 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.

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. The balances of assessments receivable as of the beginning and end of the year are \$837 and \$1,559, respectively.

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2019

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

6. Income Taxes – The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended December 31, 2019, no interest or penalties were paid or accrued.

The Association may be taxed either as a homeowners association or as a regular corporation. This election is made annually taking into account the best interest of the Association. For the year ended December 31, 2019, the Association elected to file as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that Section, the Association excludes from taxation exempt function income, which generally consists of revenue from assessments to owners. The Association's investment income and other nonexempt income are subject to tax at a rate of 30%, net of any applicable expenses.

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, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. Under federal and state income tax laws, an entity's income tax returns are subject to examination by the applicable taxing authorities; however, there are currently no examinations for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2016.

7. Cash and Cash Equivalents – For purposes of the December 31, 2019 balance sheet and statement of cash flows for the year ended December 31, 2019, the Association considers all highly liquid debt instruments and certificates of deposit with original maturity dates of three months or less to be cash equivalents.

8. Interest Income – The Board of Directors' policy is to allocate to the operating and replacement funds all interest earned on their respective cash accounts.

9. Concentration of Credit Risk – Financial instruments which potentially subject the Association to concentrations of credit risk are primarily cash and assessments receivable. The Association invests its excess cash in both deposits and high-quality short-term liquid money market instruments with major financial institutions, and the carrying value approximates market value. The Association has not experienced losses related to these investments. The Association believes it is not exposed to any significant credit risk on cash and assessments receivable.

10. Recognition of Assets and Depreciation Policy – 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.

11. Comprehensive Income – ASC 220 (formerly SFAS No. 130) requires "a full set of general-purpose financial statements to be expanded to include the reporting of comprehensive income." Comprehensive income is comprised of two components, net income and other comprehensive income. For the year ended December 31, 2019, there were no items that qualify as comprehensive income.

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2019

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

12. Fair Value of Financial Instruments – The carrying amounts of cash, receivables, and payables approximate their fair values due to their short-term maturities.

13. Contract Liabilities – The Association recognizes revenue from members 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 replacement reserve assessments. The balances of contract liabilities as of the beginning and end of the year are \$26,320 and \$33,320, respectively.

NOTE B – REPLACEMENT FUND

In accordance with Florida Statutes, the Association has established a general reserve for contingencies and capital improvements, as allowed by Florida Statutes. Accordingly, the funding requirements of \$7,000 and \$7,000 have been included in the 2019 and 2020 budgets. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations. The Board of Directors had a study conducted by professional engineers in 2018 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs.

The following disclosure is made in accordance with Florida Statute 720.303(6)(c)2:

THE BUDGET OF THE ASSOCIATION PROVIDES FOR LIMITED VOLUNTARY DEFERRED EXPENDITURE ACCOUNTS, INCLUDING CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE, SUBJECT TO LIMITS ON FUNDING CONTAINED IN OUR GOVERNING DOCUMENTS. BECAUSE THE OWNERS HAVE NOT ELECTED TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6), FLORIDA STATUTES, THESE FUNDS ARE NOT SUBJECT TO THE RESTRICTIONS ON USE OF SUCH FUNDS SET FORTH IN THAT STATUTE, NOR ARE RESERVES CALCULATED IN ACCORDANCE WITH THAT STATUTE.

The activity in the Replacement fund was as follows:

Component	Fund Balance 1/1/2019	Contract Liabilities Balance 1/1/19	Budgeted Assessments	Interest Income	Interfund Transfers	Expenses	Contract Liabilities Balance 12/31/2019	Fund Balance 12/31/19
General	\$ -	\$ 26,320	\$ 7,000	\$ -	\$ -	\$ -	\$ 33,320	-
General-Fund Balance					13,067			13,067
Interest Income	64	-	-	168	-	-	-	232
	<u>\$ 64</u>	<u>\$ 26,320</u>	<u>\$ 7,000</u>	<u>\$ 168</u>	<u>\$ 13,067</u>	<u>\$ -</u>	<u>\$ 33,320</u>	<u>\$ 13,299</u>

Pursuant to FASB ASC 606, the Association recognizes replacement fund revenue from members as the related performance obligations are satisfied. For the year ended December 31, 2019, the Association recognized no member assessment revenue.

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2019

NOTE C – WINDSTORM INSURANCE

Common property of the Association is located in South Florida, an area proven geographically prone to hurricanes. The Association's insurance policies define deductibles and exclusions which will yield uncovered costs if common property damage claims occur. If additional funds are needed to replace or repair common property, the Association has the right, subject to governing documents, to increase regular assessments, pass special assessments, borrow funds or delay major repairs and replacements until funds are available.

NOTE D – PRIOR PERIOD ADJUSTMENTS

There were 2019 prior period adjustments to the operating fund due to the prior year's understatement of prepaid maintenance. The adjustments decreased the opening fund balance by \$723. There is no effect on current year income or loss.

NOTE E – LEGAL MATTERS

Case No. 50-2018-SC-025983XXXXSB

In 2019, the Association was party to a court case involving a homeowner. The case was settled in favor of the Association in March 2019. In January 2020, the court ruled that the Association, as the prevailing party in the aforementioned case, was entitled to collect their attorney's fees in the amount of \$30,066 from the plaintiff.

Other

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE F – OTHER COMMITMENTS AND CONTINGENCIES

The Association has contracted with various vendors for various services to maintain the common property related to certain administrative, building operations and maintenance, and contract expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

NOTE G – CAPITAL CONTRIBUTIONS

At the closing and transfer of title to the homeowner, the homeowner shall contribute a two hundred (\$200) assessment payment to the Association. This contribution shall be used by the Association for the purpose of initial and nonrecurring capital expenses of the Association. These capital contributions may be commingled by the Association with any of its other funds and, accordingly, they have been included in the operating fund.

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2019

NOTE H – FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from 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 January 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 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 January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2019:

Total Fund Balance, as previously reported, at January 1, 2019	\$ 75,960
Adjustment	<u>(26,320)</u>
Total Fund Balance, as adjusted, at January 1, 2019	<u>\$ 49,640</u>

The effect of the adoption is a decrease in the amount of 2019 replacement fund member assessments recognized as revenue by \$7,000 and a recording of contract liabilities at December 31, 2019 of \$33,320. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	Amounts That Would Have Been Reported Under Former Guidance	Effects of Applying New Guidance	As Reported Under New Guidance
Liabilities:			
Contract Liabilities	\$ -	\$ 33,320	\$ 33,320
Total Liabilities	\$ 17,024	\$ 33,320	\$ 50,344
Fund Balance:			
Ending Fund Balance	\$ 59,995	\$ (33,320)	\$ 26,675

VILLA NOVA HOMEOWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
December 31, 2019

NOTE H – FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (Continued)

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported Under Former Guidance	Effects of Applying New Guidance	As Reported Under New Guidance
Revenues:			
Member Assessments	\$ 104,880	\$ (7,000)	\$ 97,880
(Deficiency) of Revenues over Expenses	\$ (15,242)	\$ (7,000)	\$ (22,242)
Cash Flows:			
(Deficiency) of Revenues over Expenses	\$ (15,242)	\$ (7,000)	\$ (22,242)
Increase in Contract Liabilities	\$ -	\$ 7,000	\$ 7,000

NOTE I – INTERFUND TRANSFERS

At the April 16, 2019 Board meeting, a motion was approved to transfer funds from the operating fund to the replacement fund. Accordingly, a transfer of \$12,667 was made in May 2019. In addition, capital contributions of \$400 were transferred from the operating fund to the replacement fund. The total interfund transfers were \$13,067.

NOTE J – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through, March 26, 2020, the date that the financial statements were available to be issued.