

**TWIN RIVERS
HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2020

Joseph R. Michalak, LLC
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Twin Rivers Homeowners Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Twin Rivers Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of revenue, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Twin Rivers Homeowners Association, Inc. as of December 31, 2020, 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.

INDEPENDENT AUDITOR'S REPORT
December 31, 2020
Twin Rivers Homeowners Association, Inc.

Other Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 6 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements be presented to supplement the basic financial statements. Such information, although not a 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 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.

Joseph R. Michalak, LLC

Joseph R. Michalak, LLC
Certified Public Accountant

Maitland, Florida
January 27, 2021

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

December 31, 2020

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS:			
Cash, including interest-bearing deposits	\$ 342,120	\$ 173,770	\$ 515,890
Assessments receivable	8,750	-	8,750
Prepaid expenses	11,450	-	11,450
Deposit	410	-	410
TOTAL ASSETS	<u>\$ 362,730</u>	<u>\$ 173,770</u>	<u>\$ 536,500</u>
LIABILITIES:			
Accounts payable and accrued expenses	\$ 20,550	\$ -	\$ 20,550
Assessments received in advance	83,660	-	83,660
Contract liabilities (Note 7)	-	173,770	173,770
TOTAL LIABILITIES	<u>104,210</u>	<u>173,770</u>	<u>277,980</u>
FUND BALANCE	<u>258,520</u>	<u>-</u>	<u>258,520</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 362,730</u>	<u>\$ 173,770</u>	<u>\$ 536,500</u>

The accompanying notes are an integral part of the financial statements.

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

Year Ended December 31, 2020

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE:			
Assessments	\$ 244,610	\$ 19,640	\$ 264,250
Interest	960	170	1,130
Other	1,370	-	1,370
	246,940	19,810	266,750
TOTAL REVENUE			
EXPENSES:			
Utilities	21,200	-	21,200
Lakes and waterways	5,070	-	5,070
Contract grounds maintenance	81,000	-	81,000
Special projects	28,060	-	28,060
Other grounds maintenance	9,660	-	9,660
Contract management fee	37,980	-	37,980
Office and other	1,030	-	1,030
Legal and accounting	10,950	-	10,950
Insurance	16,280	-	16,280
Postage, printing, supplies	12,090	-	12,090
Replacement expenses	-	19,810	19,810
	223,320	19,810	243,130
TOTAL EXPENSES			
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES			
	23,620	-	23,620
FUND BALANCE – Beginning of year			
	234,900	-	234,900
FUND BALANCE – End of year			
	\$ 258,520	\$ -	\$ 258,520

The accompanying notes are an integral part of the financial statements.

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2020

	OPERATING FUND	REPLACEMENT FUND
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenue over expenses	\$ 23,620	\$ -
Adjustment to reconcile excess of revenue over expenses to net cash provided by operating activities:		
(Increase) decrease in:		
Assessments receivable	< 1,460 >	-
Prepaid expenses	< 7,480 >	-
Increase (decrease) in:		
Accounts payable and accrued expenses	13,820	-
Assessments received in advance	69,350	-
Contract liabilities	-	< 1,640 >
	97,850	< 1,640 >
NET CASH PROVIDED (USED) BY OPERATIONS		
CASH AT BEGINNING OF YEAR	244,270	175,410
CASH AT END OF YEAR	\$ 342,120	\$ 173,770

The accompanying notes are an integral part of the financial statements.

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 1: NATURE OF ORGANIZATION

Twin Rivers Homeowners Association, Inc., is a common interest development and is incorporated in the State of Florida as a not-for-profit corporation. The Association is responsible for the administration, operation and maintenance of the common property within the development. The development consists of 1,173 residential units located in Seminole County, Florida.

The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), bylaws, and rules and regulations.

NOTE 2: DATE OF MANAGEMENT'S REVIEW

The Association has adopted Financial Accounting Standards Board ASC No. 855 *Subsequent Events* (ASC 855). This standard is intended to establish general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 requires issuers to reflect in their financial statements and disclosures the effects of subsequent events that provide additional evidence about conditions at the balance sheet date. In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through the date that the financial statements were available to be issued.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

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

Cash and Cash Equivalents

The Association considers cash on hand, demand deposits with financial institutions, money market accounts and all short-term investments to be included in cash and cash equivalents. The Association places its cash and cash equivalents with high credit quality institutions and believes the risk of loss is remote. Periodically, such deposits may be in excess of federally insured limits.

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

(Note 3 continued)

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments are recognized as revenue as the Association satisfies its performance obligation to the unit owners. Performance obligations include the administration, operation and maintenance of the common property in the development. The Association's performance obligations related to its annual operating assessments are satisfied over time on a daily pro-rata basis. Revenues are recorded at transaction amounts expected to be collected. 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 thirty days or more delinquent. The Association treats uncollectible assessments as variable consideration and, as such, records an impairment loss against total assessed revenue. Methods and assumptions used to evaluate whether an impairment loss has occurred includes an evaluation of past experience and the Association's susceptibility to factors outside the Association's control. Management has estimated the allowance for uncollectible assessments to be \$ 14,450 as of December 31, 2020.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Real and Personal Common Property

Real and personal common property acquired by the original owners from the developer is not recognized in the Association's financial statements, in accordance with prevalent industry practice, because it is commonly owned by the individual Association members and its disposition by the Board of Directors is restricted. Similarly, major repairs, replacements and improvements to real and personal property are not recognized.

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.

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

(Note 3 continued)

Fair Value Measurement

Under FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Association has determined that there was no material difference between the carrying value and fair value of its financial assets and liabilities at December 31, 2020; therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2020.

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 reserves.

The Association elected to adopt the revenue recognition standard effective January 1, 2020 using the modified retrospective method. This method allows the standard to be adopted retrospectively through a cumulative adjustment recognized upon adoption. The cumulative adjustment recorded upon adoption of ASC 606 consisted of changes in the recognition of replacement fund assessments, and accordingly the accumulated funds for future major repairs and replacements are now largely classified as a performance obligation liability and not fund balance.

NOTE 4: INCOME TAXES

The Association elects annually to be taxed as either a corporation under Internal Revenue Code (IRC) 277 or as a homeowners association under IRC 528 in its tax filing with the Internal Revenue Service (IRS). Form 1120 is used when filing as a corporation and Form 1120-H is used when filing as a homeowners association. With either election the Association is generally taxed only on its non-membership income, such as bank interest, investment earnings and other non-exempt function income.

The Association follows FASB ASC, *Accounting for Uncertainty in Income Taxes*, which provides guidance on accounting for uncertainty in income taxes recognized in the Association's financial statements. The guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2020, the Association had no uncertain tax positions that require either recognition or disclosure in the Association's financial statements. Generally, the Association's tax returns remain open for three years for federal income tax examination.

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 5: COMMITMENTS AND CONTINGENCIES

Commitments

The Association has entered into various short-term contractual agreements with outside vendors and service providers to maintain its common property and to administer the Association. These contracts have different expiration dates and renewal terms.

Concentrations of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist primarily of bank accounts with balances in excess of amounts insured by the Federal Deposit Insurance Corporation and assessments receivable. Management of the Association evaluates the financial stability of its depositories and considers the risk of loss to be remote. The Association's assessments receivable are related to billed assessments. The Association monitors the collectibility of these assessments receivable and pursues collection. Management routinely assesses the uncollectibility of the Association's assessments receivable and provides for allowances for doubtful accounts based on this assessment.

Litigation

During the course of its operations, the Association is subject to various claims, torts, and actions. Management reviews the validity of such actions and acts accordingly. Management does not believe the outcome of any current actions will result in material loss to the Association or will materially affect its business, financial position, or future operating results.

Insurance Matters

In the event of a disaster, the Association could be exposed to losses for damages in excess of insurance coverage limits. Management considers this risk of loss to be remote and its insurance coverage adequate.

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 6: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$ 173,770 at December 31, 2020, are held in separate accounts and are generally not available for operating purposes. The Association levied assessments of \$ 18,000 for the year ended December 31, 2020.

During the fall of 2020 the Board of Directors, with the assistance of the property manager, estimated the remaining useful lives and replacement costs of common property components. The Association is funding for major repairs and replacements over the remaining useful lives and considering amounts previously accumulated in the replacement fund.

Actual expenditures 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, 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.

The following table presents significant information about the components of common property:

COMPONENT	BALANCE 1/1/2020	FUNDING DURING YEAR	INTEREST INCOME	EXPENSES DURING YEAR	BALANCE 12/31/2020
Capital improvements	\$ 175,410	\$ 18,000	\$ 170	\$ -	\$ 193,580
Road landscaping	-	-	-	19,110	< 19,110 >
Landscaping	-	-	-	700	< 700 >
	<u>\$ 175,410</u>	<u>\$ 18,000</u>	<u>\$ 170</u>	<u>\$ 19,810</u>	<u>\$ 173,770</u>

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 7: 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 requirements of new guidance as of January 1, 2020, 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, 2020. Adoption of the new guidance resulted in changes to our accounting policies for assessments 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, 2020:

Fund Balance as previously reported January 1, 2020	\$	410,310
Adjustment		<u>< 175,410 ></u>
Fund Balance as adjusted and reported January 1, 2020	\$	<u>234,900</u>

The effect of the adoption is an increase in 2020 replacement assessments by \$ 1,640 and a recording of a contract liability at December 31, 2020, of \$ 173,770 for the replacement fund. 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 2020 financial statements. Following are the line items from our balance sheet as of December 31, 2020, 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:

	<u>AMOUNTS THAT WOULD HAVE BEEN REPORTED</u>	<u>EFFECTS OF APPLYING NEW GUIDANCE</u>	<u>AS REPORTED</u>
LIABILITIES			
Contract liabilities	\$ -	\$ 173,770	\$ 173,770
FUND BALANCE	<u>\$ 432,290</u>	<u>\$ < 173,770 ></u>	<u>\$ 258,520</u>

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

(Note 7 continued)

The following are the line items from the statement of revenue, expenses, and changes in fund balance and the statement of cash flows for the year ended December 31, 2020, 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:

	<u>AMOUNTS THAT WOULD HAVE BEEN REPORTED</u>	<u>EFFECTS OF APPLYING NEW GUIDANCE</u>	<u>AS REPORTED</u>
REVENUE:			
Regular assessment	\$ 262,610	\$ 1,640	\$ 264,250
Excess of revenue over expenses	21,880	1,640	23,620
CASH FLOWS:			
Increase (decrease) contract liabilities	-	< 1,640 >	< 1,640 >
FUND BALANCE	\$ 432,290	\$ < 173,770 >	\$ 258,520

TWIN RIVERS HOMEOWNERS ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
(UNAUDITED)**

December 31, 2020

The Association's Board of Directors had an independent reserve study conducted in 2018 to estimate the remaining useful lives and the replacement costs of components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components. Estimated current replacement costs have not been revised since the study was completed and do not take into account the effects of inflation between the date of the estimate and the date that the components will require repair or replacement.

The following is based on the estimate and presents significant information about the components of common property:

COMPONENT	ESTIMATED REMAINING USEFUL LIFE (YEARS)	ESTIMATED CURRENT REPLACEMENT COST	REPAIRS/REPLACEMENTS DECEMBER 31, 2020
Entry lighting	5	\$ 32,000	\$ -
Irrigation	1	38,000	-
Landscaping	-	35,000	< 700 >
Perimeter wall	8	29,000	-
Signage, entry monument	5	136,000	-
Capital improvements	-	-	193,580
Road landscaping	-	-	< 19,110 >
		<u>\$ 270,000</u>	<u>\$ 173,770</u>

See auditor's report.