

**THE DEVON ASSOCIATION OF OWNERS
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

DRAFT

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INDEPENDENT AUDITORS' REPORT

To the Devon Association of Owners
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the Devon Association of Owners, which comprise statements of assets, liabilities, and fund balance - *AICPA FRF FOR SMEs* as of December 31, 2019, and the related statements of revenues and expenses - *AICPA FRF FOR SMEs*, changes in fund balances - *AICPA FRF FOR SMEs*, and cash flows - *AICPA FRF FOR SMEs* 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 the *Financial Reporting Framework for Small- and Medium-Sized Entities*; 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 judgement, 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 the Devon Association of Owners as of June 30, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with the *Financial Reporting Framework for Small- and Medium-Sized Entities*.

Basis of Accounting

We draw attention to Note 2 of the financial which describes the basis of accounting. The financial statements are prepared in accordance with the *Financial Reporting Framework for Small- and Medium-Sized Entities* issued by the American Institute of Certified Public Accountants, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Devon Association of Owners' June 30, 2019 financial statements, and our report dated August 28, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles require that supplementary information on future major repairs and replacements on page 12 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.

October 16, 2020
Wilmington, Delaware

THE DEVON ASSOCIATION OF OWNERS
 Statements of Assets, Liabilities,
 and Fund Balance - AICPA FRF FOR SMEs
 June 30,

<u>ASSETS</u>				
	<u>2 0 2 0</u>			<u>2 0 1 9</u>
	<u>Operating</u>	<u>Common</u>		<u>Summarized</u>
	<u>Fund</u>	<u>Area</u>	<u>Total</u>	<u>Total for</u>
		<u>Fund</u>		<u>Comparison</u>
				<u>Only</u>
CURRENT ASSETS				
Cash and Equivalents	\$ 87,049	\$1,297,474	\$1,384,523	\$1,007,743
Assessments Receivable (net allowance for doubtful accounts)	33,871	-0-	33,871	19,046
Prepaid Expenses	42,574	-0-	42,574	20,168
Inventories				
Fuel Oil	20,909	-0-	20,909	20,329
Parts	14,778	-0-	14,778	14,396
Cleaning Supplies	2,838	-0-	2,838	3,060
TOTAL CURRENT ASSETS	<u>202,019</u>	<u>1,297,474</u>	<u>1,499,493</u>	<u>1,084,742</u>
PROPERTY AND EQUIPMENT				
Furniture and Fixtures	5,790	-0-	5,790	5,790
Maintenance Equipment	7,392	-0-	7,392	7,392
Office Equipment	44,575	-0-	44,575	44,575
	57,757	-0-	57,757	57,757
Accumulated Depreciation	(57,757)	-0-	(57,757)	(57,757)
NET PROPERTY AND EQUIPMENT	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>TOTAL ASSETS</u>	<u>\$ 202,019</u>	<u>\$1,297,474</u>	<u>\$1,499,493</u>	<u>\$1,084,742</u>
 <u>LIABILITIES AND FUND BALANCES</u> 				
CURRENT LIABILITIES				
Payroll and Taxes Payables	\$ 3,085	\$ -0-	\$ 3,085	\$ 6,767
Accounts Payable	64,096	-0-	64,096	35,957
Prepaid Assessments	37,942	-0-	37,942	39,975
TOTAL CURRENT LIABILITIES	<u>105,123</u>	<u>-0-</u>	<u>105,123</u>	<u>82,699</u>
FUND BALANCE	<u>96,896</u>	<u>1,297,474</u>	<u>1,394,370</u>	<u>1,002,043</u>
<u>TOTAL LIABILITIES</u>				
<u>AND FUND BALANCES</u>	<u>\$ 202,019</u>	<u>\$1,297,474</u>	<u>\$1,499,493</u>	<u>\$1,084,742</u>

See accompanying notes to financial statements.

THE DEVON ASSOCIATION OF OWNERS
 Statements of Revenues and Expenses - AICPA FRF FOR SMES
 For the Year Ended June 30, 2020 with Summarized
 Information For the Year Ended June 30, 2019

	<u>2 0 2 0</u>			<u>2 0 1 9</u>
	<u>Operating Fund</u>	<u>Common Area Fund</u>	<u>Total</u>	<u>Summarized Total for Comparison Only</u>
REVENUES				
Member Assessments	\$1,447,672	\$ 385,560	\$1,833,232	\$1,798,921
Interest	13	162	175	210
Late Fees	3,005	-0-	3,005	2,896
Garage Fees	26,857	-0-	26,857	26,434
Unit Services & Supplies	11,394	-0-	11,394	9,373
Bad Debt Recovery	13,000	-0-	13,000	-0-
Miscellaneous	34,427	-0-	34,427	26,702
TOTAL REVENUES	<u>1,536,368</u>	<u>385,722</u>	<u>1,922,090</u>	<u>1,864,536</u>
EXPENSES				
ADMINISTRATIVE EXPENSES				
Access Cards	158	-0-	158	1,258
Bad Debts	9,796	-0-	9,796	19,079
Communications	11,574	-0-	11,574	15,063
Employee Benefits	1,059	-0-	1,059	896
Fees and Inspections	550	-0-	550	550
Income Tax	2,914	-0-	2,914	1,196
Insurance	105,630	-0-	105,630	121,954
Management Fees	42,000	-0-	42,000	42,000
Miscellaneous	5,179	-0-	5,179	10,923
Office Expenses	17,676	-0-	17,626	16,305
Payroll Expense	231,159	-0-	231,159	315,481
Payroll Taxes	18,616	-0-	18,616	25,631
Professional Fees	20,205	-0-	20,205	12,635
Reserve Study	-0-	5,955	5,955	-0-
Security	110,675	-0-	110,675	-0-
TOTAL ADMINISTRATIVE	<u>577,191</u>	<u>5,955</u>	<u>583,146</u>	<u>582,971</u>
COMMON AREA EXPENSES				
Electricity	157,024	-0-	157,024	163,403
Exterminating	6,346	-0-	6,346	6,640
Gas and Fuel	145,922	-0-	145,922	128,584
General Maintenance	204,174	-0-	204,174	170,930
Grounds Maintenance	45,166	-0-	45,166	62,610
Pool Expenses	32,036	-0-	32,036	19,854
Repairs & Replacements	22,062	38,674	60,736	58,630
Snow Removal	2,620	-0-	2,620	21,826
Television Contract	115,963	-0-	115,963	101,348
Waste Removal	29,114	-0-	29,114	26,517
Water and Sewer	147,516	-0-	147,516	146,962
TOTAL COMMON AREA	<u>907,943</u>	<u>38,674</u>	<u>946,617</u>	<u>907,304</u>
TOTAL EXPENSES	<u>1,485,134</u>	<u>44,629</u>	<u>1,529,763</u>	<u>1,490,275</u>
EXCESS REVENUES OVER EXPENSES	<u>\$ 51,234</u>	<u>\$ 341,093</u>	<u>\$ 392,327</u>	<u>\$ 374,261</u>

See accompanying notes to financial statements.

THE DEVON ASSOCIATION OF OWNERS
 Statements of Change in Fund Balances - AICPA FRF FOR SMEs
 For the Years Ended June 30,

	<u>Operating Fund</u>	<u>Common Area Fund</u>	<u>Total</u>
FUND BALANCE: July 1, 2018	\$ (4,950)	\$ 632,732	\$ 627,782
Excess Revenues Over Expenses - Year Ended June 30, 2019	25,951	348,310	374,261
Transfer of Funds	<u>101,240</u>	<u>(101,240)</u>	<u>-0-</u>
<u>FUND BALANCE: June 30, 2019</u>	122,241	879,802	1,002,043
Excess Revenues Over Expenses - Year Ended June 30, 2020	51,234	341,093	392,327
Transfer of Funds	<u>(76,579)</u>	<u>76,579</u>	<u>-0-</u>
<u>FUND BALANCE: June 30, 2020</u>	<u>\$ 96,896</u>	<u>\$1,297,474</u>	<u>\$1,394,370</u>

See accompanying notes to financial statements.

THE DEVON ASSOCIATION OF OWNERS
Notes to Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE 1 NATURE OF ENTITY

The Devon Association of Owners is a condominium association established in the state of Delaware in 1980. The Association is responsible for the maintenance, regulation, and administration of certain private facilities for the use, benefit, and enjoyment of the unit owners of the community. They are governed in accordance with the "Unit Property Act" of the State of Delaware (Title 25, Chapter 22 and certain portions of Chapter 81, "DUCIOA" of the Delaware Code of Regulations). The Devon consists of 221 residential units and 11 commercial units, occupying a high-rise building located in Wilmington, Delaware.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with the *Financial Reporting Framework for Small- and Medium-Sized Entities* issued by the American Institute of Certified Public Accountants, which is a special purpose framework and not U.S. generally accepted accounting principles (U.S. GAAP). The accounting principles that compose the framework are appropriate for the preparation and presentation of small- and medium-sized entity financial statements, based on the needs of the financial statement users and costs and benefit considerations. This special purpose framework, unlike U.S. GAAP, does not require the lessee of real and personal property to report a gross asset and liability on the balance sheet and to recognize revenue under the new GAAP Revenue Recognition Model. We have chosen the option to recognize lease obligation and expenses under the accrual basis of accounting and to recognize revenues earned under the accrual basis of accounting. These methods are consistent with lease and revenue recognition methods used in all prior years.

The AICPA FRF for SMEs was adopted retrospectively as of the beginning of 2018. Adopting the new basis of accounting did not change total fund balance previously reported at the beginning and end of 2018.

THE DEVON ASSOCIATION OF OWNERS
Notes to Financial Statements (Cont'd)
For the Years Ended June 30, 2020 and 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of Accounting (cont'd)

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 general operations of the Association.

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

Cash and Equivalents

The Association considers cash and cash equivalents to be those short-term investments with original maturities of six months or less.

Accounts Receivable

The Association maintains an allowance for potentially uncollectible accounts. The allowance establishes a reserve for specific balances that management believes are uncollectible. Changes in the allowance are charged to the period in which management determines the changes to be necessary.

When management determines that an assessment receivable is uncollectible the balance is removed from the assessment receivables balance and is charged against the allowance. Subsequent recoveries of amounts previously written off are credited directly to earnings.

As of June 30, 2020 and 2019, the allowance for doubtful accounts was \$38,729 and \$41,933, respectively. Bad debt expense for 2020 and 2019 amounted to \$9,796 and \$19,079, respectively. In 2020, \$13,000 of bad debt previously allowed for was recovered.

THE DEVON ASSOCIATION OF OWNERS
Notes to Financial Statements (Cont'd)
For the Years Ended June 30, 2020 and 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property and Equipment

Real property 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. It is the Association's responsibility to preserve and maintain the common property.

Personal property and equipment purchased for use by the Association are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	5 Years
Maintenance equipment	5 Years
Office equipment	5 Years

Depreciation expense was \$-0- for the fiscal years ending June 30, 2020 and 2019.

Maintenance and repairs are charged to operations when incurred. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

Member Assessments

Homeowners are subject to monthly assessments to provide funds for the Association's operating expenses, building maintenance, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. It is the opinion of the Association that the Association will ultimately prevail against unit owners with delinquent assessments.

THE DEVON ASSOCIATION OF OWNERS
Notes to Financial Statements (Cont'd)
For the Years Ended June 30, 2020 and 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Estimates

The preparation of financial statements in conformity with the *Financial Reporting Framework for Small- and Medium-Sized Entities* 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.

Fair Value Measurements

The carrying amounts for cash, cash equivalents, receivables and current liabilities reported in the balance sheet approximate fair values. Other assets, including property and equipment, are also subject to periodic impairment assessments under the accounting principles, however these assets have been omitted from the above disclosure.

NOTE 3 INCOME TAXES

Condominium associations may be taxed either as a homeowners' association under Internal Revenue Code Section 528 or as regular corporations. For the years ended June 30, 2020 and 2019, the Association was taxed as a homeowners' association. As a homeowners' association, the association is not taxed on tax exempt functions, only on interest and unrelated business income. The election is made annually with the objective to create the lowest tax liability. The Association is exempt from state income taxes.

The Association's federal tax return filings are generally subject to examination by taxing authorities for three years after the returns are filed. The Association has considered their tax provisions and interpretations and believes their estimates are appropriate based on current facts and circumstances, and they continually evaluate expiring statutes of limitations, changes in tax law and new authoritative rulings. Accordingly, there are no provisions for income taxes, penalties, or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

THE DEVON ASSOCIATION OF OWNERS
Notes to Financial Statements (Cont'd)
For the Years Ended June 30, 2020 and 2019

NOTE 4 COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior-year summarized comparative information, which has been restated in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with the *Financial Reporting Framework for Small- and Medium-Sized Entities*. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

NOTE 5 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in a separate account and are generally not available for operating purposes.

The Association engaged an independent engineer, who conducted a study in February 2020, to estimate the remaining useful lives and the replacement costs of the common property components. 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 may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs for major repairs and replacements. If additional funds are needed, however, the Association has the right to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

THE DEVON ASSOCIATION OF OWNERS
Notes to Financial Statements (Cont'd)
For the Years Ended June 30, 2020 and 2019

NOTE 6 CONTINGENCY

The Association maintains its cash and cash equivalents in bank accounts, which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts as of June 30, 2020 and 2019. The Association believes that it is not exposed to any significant risk on cash and cash equivalents.

NOTE 7 SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 16, 2020, the date on which the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure.

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SUPPLEMENTARY INFORMATION

THE DEVON ASSOCIATION OF OWNERS
 Supplementary Information on
 Future Major Repairs and Replacements
 (Unaudited)
 June 30, 2020

In February 2020, the Association engaged an independent engineer to conduct a study 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. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation.

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

<u>Components</u>	<u>Estimated Remaining Useful Life (in years) as of February 2020</u>	<u>Estimated Current Replacement Costs as of February 2020</u>
Site Work	2 to 35	\$ 359,841
Pool Items	2 to 39	293,182
Pool House/Cabana	6 to 19	154,139
Exterior Items - Main Building	5 to 39	1,031,154
Interior Items - Main Building	2 to 21	816,852
Interior Items - Lobby	2 to 2	269,442
Building Systems	1 to 30	<u>5,079,895</u>
		<u>\$8,004,505</u>
Common Area Fund Balance at June 30, 2020		<u>\$1,297,474</u>