

**VILLA CANADA
ASSOCIATION, INC.**

Financial Statements
And
Supplementary Information
December 31, 2021 and 2020



An Accountancy and Consulting Company

HR & ASSOCIATES, LLP

10670 Civic Center Drive, Suite 200

Rancho Cucamonga, CA 91730

Phone: (909) 444-0021

Fax: (909) 444-2153

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors Villa Canada Association, Inc.

We have reviewed the accompanying financial statements of Villa Canada Association, Inc., which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenues and expenses, changes in members' equity, and cash flows for the years 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 the Association's 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 the 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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants (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.

We are required to be independent of Villa Canada Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountants' Conclusion

Based on our reviews, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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, 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 compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

HR & ASSOCIATES, LLP

HR & Associates, LLP
Rancho Cucamonga, CA
March 05, 2022

**VILLA CANADA
ASSOCIATION, INC.**
Balance Sheets
December 31, 2021 and 2020

ASSETS

	2021	2020
Operating Assets		
Cash and Cash Equivalents	\$ 588,959	\$ 416,135
Investments	-	300,000
Members Assessment Receivable	4,093	3,046
Prepaid Insurance	3,100	2,559
Prepaid Income Taxes	1,488	1,505
Total Assets	\$ 597,640	\$ 723,245

LIABILITIES AND MEMBERS' EQUITY

Liabilities		
Accounts Payable	\$ 9,296	\$ 42,288
Prepaid Assessments	22,021	9,862
Income Taxes Payable	31	369
Contract Liabilities (Assessments Received in Advance - Replacement Fund)	469,050	514,485
Total Liabilities	500,398	567,004
Members' Equity	97,242	156,241
Total Liabilities And Members' Equity	\$ 597,640	\$ 723,245

**VILLA CANADA
ASSOCIATION, INC.**

Statements Of Revenues And Expenses And Changes In Members' Equity
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Member Assessments:		
Assessments - Operations	\$ 124,918	\$ 71,532
Future Major Repairs and Replacements	138,420	79,680
Transfer From (To) Assessments Received In Advance	45,435	98,306
Interest Earned	691	4,434
	<u>309,464</u>	<u>253,952</u>
Total Revenues		
Expenses:		
Landscape Contract	42,138	38,530
Utilities	46,543	40,765
Management Contract	15,000	13,750
Legal and Professional	6,091	7,437
Insurance	63,053	48,755
Administrative	3,674	3,768
Pest Control	748	884
Maintenance	7,005	11,029
Other Tax and License	308	322
Penalties	1	8
Provision for Income Taxes	47	1,096
	<u>184,608</u>	<u>166,344</u>
Total Expenses		
Excess Of Revenues Over Expenses		
Before Replacement Fund Allocations	124,856	87,608
Major Repairs and Replacements	(183,855)	(177,986)
	<u>(58,999)</u>	<u>(90,378)</u>
Deficit Of Revenues Over Expenses		
Beginning Members' Equity	156,241	761,104
Transfer From (To) Contract Liabilities	-	(514,485)
	<u>\$ 97,242</u>	<u>\$ 156,241</u>
Ending Members' Equity		

See Independent Accountants' Review Report
The accompanying notes are an integral part of the financial statements.

**VILLA CANADA
ASSOCIATION, INC.**
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Deficit Of Revenues Over Expenses	\$ (58,999)	\$ (90,378)
Adjustments To Reconcile Deficit Of Revenues Over Expenses To Net Cash Provided (Used) By Operating Activities:		
Transfer To/From Contract Liabilities	(45,435)	-
Decrease (Increase) in Members Assessment Receivables	(1,047)	(1,046)
Decrease (Increase) in Prepaid Income Taxes	17	(1,505)
Decrease (Increase) in Prepaid Insurance	(541)	(563)
Increase (Decrease) in Accounts Payable	(32,992)	(121,565)
Increase (Decrease) in Prepaid Assessments	12,159	757
Increase (Decrease) in Income Taxes Payable	(338)	(1,348)
Total Adjustments	<u>(68,177)</u>	<u>(125,270)</u>
Net Cash Provided (Used) By Operating Activities	(127,176)	(215,648)
Cash Flows From Investing Activities		
(Increase) Decrease in Investments	<u>300,000</u>	<u>-</u>
Increase (Decrease) In Cash	172,824	(215,648)
Cash and Cash Equivalents At Beginning Of Year	<u>416,135</u>	<u>631,783</u>
Cash and Cash Equivalents At End Of Year	<u><u>\$ 588,959</u></u>	<u><u>\$ 416,135</u></u>
Analysis of Cash and Cash Equivalents:		
Cash and Cash Equivalents - Operations	\$ 111,665	\$ 113,718
Cash and Cash Equivalents - Future Major Repairs and Replacements	<u>477,294</u>	<u>302,417</u>
Total Cash And Cash Equivalents	<u><u>\$ 588,959</u></u>	<u><u>\$ 416,135</u></u>
Supplemental Disclosures		
Income Taxes Paid	<u><u>\$ 369</u></u>	<u><u>\$ 3,957</u></u>

**VILLA CANADA
ASSOCIATION, INC.**
Notes to Financial Statements
December 31, 2021 and 2020

(1) Organization

Villa Canada Association, Inc. is statutory association organized as a not-for-profit corporation for the purposes of maintaining and preserving the common property of Villa Canada Association, Inc. and consists of 51 residential units. The Association began its operations in February 1972.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. Accordingly revenues and expenses are recorded when recognized. Disbursements from replacement funds generally may be made only for designated purposes.

Interest Earned

The Association's policy is to initially allocate to replacement funds interest earned on all cash accounts net of income taxes.

Cash Equivalents

Highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Investments

Investments with maturities over three months are considered to be investments. Investments are carried at cost, plus accrued interest, which approximates market.

Property and Equipment

Property and equipment purchased after initial contribution are stated at cost.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contract Liabilities (Assessments Received in Advance – Replacement Fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance – replacement fund) 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 (Assessments Received in Advance – Replacement Fund) as of December 31, 2021 and 2020 are \$45,435 and \$98,306, respectively.

**VILLA CANADA
ASSOCIATION, INC.**
Notes to Financial Statements
December 31, 2021 and 2020

(3) Income Taxes

For the years ended December 31, 2021 and 2020, the Association has been granted tax-exempt status under Federal and California income tax codes. The codes permit the Association to elect to have members' dues and assessments exempt from income taxes. In both years, the Association elected to file as a regular corporation. The Association had an excess of expenses for maintenance of the common property over membership source income. That excess may be carried over to offset future income from membership sources. The Association's investment income and other non-exempt income were subject to federal tax rate of 21 percent for federal and 8.84 percent for California.

In 2021, the Association had taxable income of \$80 and \$341 for federal and state, respectively. In 2020, the federal taxable income was \$3,500 and state taxable income was \$4,084. The tax provisions for the years ended December 31, 2021 and 2020 consisted of the following:

	2021	2020
Federal Provision	\$ 17	\$ 735
State Provision	30	361
Subtotal	47	1,096
Add: Penalties	1	8
Less: Prior Year's Credits & Estimated Payments	(1,505)	(2,240)
Total Income Tax Payable (Credits)	\$ (1,457)	\$ (1,136)

The Association has adopted the recognition requirements for uncertain income positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Association has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Association believes the income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Association's financial condition, results of operations or cash flows. Accordingly, the Association has not recorded any reserves, or restated accruals for interest and penalties for uncertain income tax positions at December 31, 2021.

The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Association believes it is no longer subject to income tax examinations for years prior to 2018.

The Association's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

**VILLA CANADA
ASSOCIATION, INC.**
Notes to Financial Statements
December 31, 2021 and 2020

(4) Homeowner Assessments

Monthly assessments to owners were approximately \$420 in 2021 and \$405 in 2020. Of that amount, approximately \$226 and \$130 were designated to replacement funds in 2021 and 2020, respectively.

The annual budget and assessments of homeowners are determined by the board of directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

(5) Cash and Cash Equivalents

The Association's cash, cash equivalents and investment account balances as of December 31, 2021 and 2020 were as follows:

<u>Institution</u>	<u>Interest Rate</u>	<u>Amount</u>
<u>2021</u>		
Cash and Cash Equivalents for Operations:		
Pacific Western Bank	-	\$ 111,565
Petty Cash		<u>100</u>
Total		111,665
Cash and Cash Equivalents For Future Major Repairs and Replacements:		
Pacific Western Bank	0.050%	<u>477,294</u>
Total Cash and Cash Equivalents		<u>\$ 588,959</u>

**VILLA CANADA
ASSOCIATION, INC.**
Notes to Financial Statements
December 31, 2021 and 2020

(5) Cash and Cash Equivalents (Con't)

<u>Institution</u>	<u>Interest Rate</u>	<u>Amount</u>
<u>2020</u>		
Cash and Cash Equivalents for Operations:		
Union Bank	-	\$ 113,718
Cash and Cash Equivalents For Future Major Repairs and Replacements:		
Union Bank	0.050%	<u>302,417</u>
Total Cash and Cash Equivalents		416,135
Investments For Future Major Repairs and Replacements:		
Union Bank	0.393%	<u>300,000</u>
Total Cash, Cash Equivalents and Investments		<u>\$ 716,135</u>

(6) Assessments Receivable

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears. It is the opinion of the Association that it will prevail against homeowners whose assessments are delinquent, but have recorded an allowance for doubtful accounts if deemed necessary.

**VILLA CANADA
ASSOCIATION, INC.**
Notes to Financial Statements
December 31, 2021 and 2020

(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 (CIRA) 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 the 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 the 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.

The 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 effect of the adoption is a decrease in 2020 assessments by \$98,306 and a recording of Contract Liabilities (Assessments Received In Advance – Replacement Fund) at December 31, 2020, of \$514,485. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

(8) Major Repairs and Replacements

For the years ended December 31, 2021 and 2020, the major repairs and replacements consisted of the following:

	2021	2020
Asphalt	\$ 127,934	\$ -
Roof	-	13,297
Paint	58,834	5,247
Landscape	20,991	26,726
Gutters	-	5,760
Contingency	1,935	26,434
Insurance Claim	(25,839)	83,712
Slope	-	16,810
Total Expenditures for Major Repairs and Replacements	<u>\$ 183,855</u>	<u>\$ 177,986</u>

(9) Subsequent Events

The Association has evaluated subsequent events for recognition and disclosure through March 5, 2022, which is the date the financial statements were available to be issued.

**VILLA CANADA
ASSOCIATION, INC.**
Supplementary Information on Future Major
Repairs and Replacements
December 31, 2021
(Un-audited)

Strategic Reserves conducted a study on October 29, 2019 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates are based on future estimated replacement costs. Funding requirements were based on an annual inflation rate of 3.0 percent and interest of 1.8 percent, net of taxes, on amounts funded for future major repairs and replacements costs.

Components	Estimated Remaining Useful Life in Years	Estimated Future Replacement Costs	2022 Funding Requirement	Contract Liabilities Balance at December 31, 2021
Asphalt	2-12	\$ 345,395	\$ 21,510	\$ 70,657
Roof	0-4	28,880	18,966	266,026
Painting	1-2	128,811	20,669	62,975
Lighting	1-19	9,319	421	5,491
Landscape	0-6	37,461	8,311	39,945
Gutters	-	91,786	3,113	23,525
Contingency	-	-	476	431
		<u>\$ 641,652</u>	<u>\$ 73,466</u>	<u>\$ 469,050</u>