

TO: Hickory Grove Village Board of Managers
FROM: Rick Jachimiak
SUBJECT: 2018 Financial Statement Discussion
DATE: October 23, 2019

The following is my analysis of the 2018 Financial Statements.

In general, I conclude that the financial position has improved dramatically during 2018. For example, the total assets doubled from \$14,421 to \$28,871. In concert with that, the \$3,969 additions to reserves were more than double the additions in 2017. This improved the health of the Association significantly. However additional diligence is needed in ensuring sound finances.

There are areas of weakness that remained at December 31, 2018:

- A. The Operating Fund Cash was not enough to cover even one month's expenses. This increases the chances that funds set aside for Reserves would need to be used for operating expenses. Ideally, money set aside for Reserves should never be used for anything other than their intended purpose.
- B. The total Operating Fund balance is negative. This indicates that the Reserve Funds might be used for operating purposes. Because funds might be used for Operating purposes, the Reserve Fund balances could be in jeopardy.
- C. The Asphalt Reseal Reserve account is negative.

The weaknesses suggest two corrective measures:

- 1) Set up a plan to eliminate the deficit in operating funds.
 - a. This could be accomplished, possible over a multi-year period, by including a specific line in the annual budgets, until the deficit is eliminated.
 - b. Alternatively, simply spend less than budgeted amounts. While there is little discretion in where money is spent, I believe that there should be a strict moratorium on non-budgeted items while an Operating Fund deficit exists.
 - c. Furthermore, in the budgeting process, make a deliberate attempt to avoid underbudgeting. In other words, during times of Operating Fund deficiency, it is much better to overestimate budget items than to underestimate. Err on the side of caution.
- 2) Eliminate the negative Reserve Balance for the Asphalt Reserve
 - a. The Board took action on this item at its September 25, 2019, meeting, when it authorized transfer from sufficient funds from the unallocated reserves (Interest and Contingency) to the Asphalt Reseal Reserve that, combined with monthly schedule additions should erase the deficit by December 2019.



ANALYSIS CHECKLIST

The following is a checklist, developed to analyze the annual financial statements of a condominium, applied to the Hickory Grove Village Condominium:

a. Auditor Opinion and Notes

- i. Financial Statements are audited
- ii. Audit opinion is "clean" (statements fairly represent the financial position)
- iii. Notes to Financial Statements do not indicate ongoing or future problems. Any past issues are or were properly addressed.

b. Balance sheet

- i. Sufficient Operating Fund Cash to cover one-month's expenses?
 -  **The Operating Fund Cash (negative \$305) is not enough to cover one-month's expenses**
 - $\$151,730 \div 12 = \$12,644$ One month's expenses in budget.
 - $(\$305) < \$12,644$
 - Any significant change from prior year is understood and proper?
- ii. Accounts Receivable less than 10% of Assessments (as listed under Revenues)
 $\$350 \div \$159,600 = 0.2\%$
- iii. Any Interfund Balances are for a good and appropriate purpose (e.g., short-term bookkeeping convenience, avoid borrowing costs, maximize investment return, part of a fund-replenishment plan, etc.)?
 - The Operating Fund owes \$936 to the Reserve Funds?
 - The specific reason is not apparent from the financial reports.
 - Due to the relatively small amount it is assumed that it is for short term bookkeeping convenience.
- iv. Accounts Payable less than 10% of Annual Expenses
 - $\$1,327 \div \$151,730 = 0.9\%$
- v. Operating Fund Balance is a positive number?
 -  **The Operating Fund balance is negative \$5,229**
 - Cash flow impact is mitigated by Prepaid HOA Fees (\$3,007) unpaid bills (\$1,327).
 - It appears that operations are being funded by, in effect, using some of the money that was to be set aside for Reserve Funds? Reserve Fund balances should be fully funded is segregated accounts and not used for operations. Otherwise there may be insufficient funds when the reserve funds are needed, whether for planned expenditures or for emergencies).
 - Consider whether a Capital Replenishment budget line should be created in the 2020 budget.
 - In the meantime, any avoid unbudgeted discretionary spending.

c. Statement of Revenues and Expenses and Changes in Fund Balances

- i. Excess (Deficiency) of Revenues Over Expenses is a positive number
 - Good news: this indicates that progress is being made in reducing the negative Operating Fund Balance

- The negative Operating Fund balance improved by \$894, from negative \$6,123 at 12/31/17 to negative \$5,229 at 12/31/18.
 - ii. Any material changes in the Revenue Lines are understood and proper
 - iii. Any material changes in Expense lines are understood and proper
 - The most significant increases were in Water (+\$1,855) and Snow Removal (+\$3,511), which were more than offset by decreases in Landscaping (-\$7,668, mostly Mulch), Repairs/Maintenance (-\$2,904) and Taxes (-\$3,198).
 - iv. Reserve Funds Balances increased (after accounting for any use of funds for their intended purpose)
- d. Schedule of Changes in Reserve Fund Balance
 - i. Any charges to a Reserve Fund are for the intended purpose
 - There were none
 - ii. Each Fund Balance is a positive number
 - 🚩 The Asphalt Reseal reserve account is negative
 - Consider using unallocated reserves Reserve Interest (\$960 at 12/31/18) and Contingency Reserves (\$1,218) to bring the Reseal Reserve balance to at least zero by 12/31/19.

ACTUAL VERSUS BUDGET FULL YEAR

The following compares actual revenue and expenditure compared to the budgeted amounts. This information may be helpful in the preparation of the 2020 budget.

	Budget 2017	Actual 2017	Diff	Budget 2018	Actual 2018	Diff
4010 Assessment Income	159,600.00	159,600.00	-	159,600.00	159,600.00	-
5220 Investment Interest	75.00	157.24	82.24	-	210.52	210.52
5310 Late Fees	150.00	200.00	50.00	-	220.00	220.00
5390 Misc income	-	-	0	-	643.51	643.51
	<u>\$ 159,825.00</u>	<u>\$ 159,957.24</u>	<u>\$ 132.24</u>	<u>\$ 159,600.00</u>	<u>\$ 160,674.03</u>	<u>\$ 1,074.03</u>
7210 Electric	6,000.00	6,396.24	396.24	6,000.00	6,024.05	24.05
7150 Water	15,000.00	13,561.12	(1,438.88)	15,000.00	15,415.90	415.90
7495 Weed N Feed	3,600.00	7,564.66	3,964.66	3,780.00	3,567.00	(213.00)
7525 Weed N Feed	-	-	-	-	-	-
7503 Additional Landscaping	3,329.00	698.48	(2,630.52)	-	1,847.08	1,847.08
7505 Mulch	10,008.00	6,166.13	(3,841.87)	-	-	-
7520 Lawn Maintenance Contract	41,325.00	42,153.00	828.00	45,000.00	43,500.00	(1,500.00)
7525 Hydrant Inspection	900.00	978.75	78.75	900.00	978.75	78.75
7530 Snow Plow Contract	40,100.00	40,777.60	677.60	42,151.00	44,631.00	2,480.00
7535 Salt High Lift	2,000.00	2,512.13	512.13	2,000.00	2,169.56	169.56
7540 Sprinkler Maintenance	3,500.00	5,415.66	1,915.66	5,200.00	4,750.04	(449.96)
7560 Repairs / Maintenance	2,000.00	6,666.71	4,666.71	2,000.00	4,327.99	2,327.99
7570 Back Flow RPZ Inspection	500.00	610.00	110.00	610.00	710.00	100.00
8250 Legal Fees	750.00	60.50	(689.50)	750.00	-	(750.00)
8256 Tax Preparation	700.00	865.00	165.00	900.00	1,005.00	105.00
8270 Management Fee	16,416.00	15,768.00	(648.00)	16,416.00	16,416.00	-
8320 Office / Postage	500.00	1,478.26	978.26	750.00	771.24	21.24
8350 Meeting Expense	-	46.80	46.80	-	-	-
8415 Insurance	5,500.00	5,306.64	(193.36)	5,500.00	5,606.61	106.61
8590 NYS Franchise Tax	100.00	13.00	(87.00)	100.00	9.00	(91.00)
8600 Property Tax	3,785.00	3,193.83	(591.17)	2,040.00	-	(2,040.00)
8990 Miscellaneous Expense	-	280.00	280.00	-	-	-
9500 Reserve Funding	3,812.00	3,969.24	157.24	10,503.00	8,050.96	(2,452.04)
	<u>\$ 159,825.00</u>	<u>\$ 164,481.75</u>	<u>\$ 4,656.75</u>	<u>\$ 159,600.00</u>	<u>\$ 159,780.18</u>	<u>\$ 180.18</u>
Net Income	-	(4,524.51)	4,524.51	-	893.85	(893.85)

	Budget 2017	Actual 2017	Diff	Budget 2018	Actual 2018	Diff
9101 Reserve Interest	-	157.24	157.24	-	210.52	210.52
9160 Reseal Reserve	1,500.00	1,500.00	-	1,203.00	1,203.00	-
9185 Asphalt/Resurface Reserve	-	-	-	2,000.00	2,000.00	-
9190 Sewer/Water Line Reserve	650.00	650.00	-	650.00	650.00	-
9192 Concrete Reserve	850.00	850.00	-	850.00	850.00	-
9195 Contingency Reserve	812.00	812.00	-	800.00	800.00	-
9196 Fence Reserve	-	-	-	1,000.00	504.02	(495.98)
9197 Pond Reserve	-	-	-	2,000.00	833.38	(1,166.62)
9198 Tree Reserve	-	-	-	2,000.00	1,000.04	(999.96)
Total Reserve Funding	<u>\$ 3,812.00</u>	<u>\$ 3,969.24</u>	<u>\$ 157.24</u>	<u>\$ 10,503.00</u>	<u>\$ 8,050.96</u>	<u>\$(2,452.04)</u>