

TO: Hickory Grove Village Board of Managers
FROM: Rick Jachimiak, Treasurer
SUBJECT: 2020 Annual Statement Discussion
DATE: April 28, 2021

The following is my analysis of the 2020 Financial Statements for the Hickory Grove Village Condominium Association, Inc. and the "2020 Financial Statement Additional Notes".

The financial position of the Hickory Grove Village Condominium has improved, as evidenced by these items:

- An outstanding adjustment entry was processed in the Road Resurface Reserve account.
 - The resulting balance is \$13,706, which is considered to be sufficient, with ongoing annual additions, for any foreseeable repairs.
- Virtually all reserve funds are now deposited into a separate (savings) account.
- The amount set aside in the Reserve Fund, which is for future major repairs and replacements, has increased to \$34,311.
- The Operating Fund, though still negative, has improved from the prior year.
 - Note that despite the negative balance, there is at this time sufficient cash available for day-to-day operations without a need to borrow from reserve funds or from any other source, primarily due to prepaid HOA fees paid by some Unit Owners.

There are two areas of concern:

1. The low level of operating funds, which were negative \$4,599 at year-end.

It is recommended that the annual budget continue to have an Operating Fund Replenishment line until the Operating Fund balance is positive at year end. Also, every effort should be made to ensure that spending does not otherwise exceed the budgeted amount.

2. The required "Supplementary information about future repairs and replacements of common property" is omitted, because there is no Reserve Cost Study.


It is recommended that the Board of Managers periodically consider whether to expend money for a Reserve Cost Study that would allow for the publication of the Supplementary Information in the annual report.

In the meantime, the Board of Managers should provide the basis for determining the amounts in the HOA Fee that are for the Reserve Fund Accounts. For 2020, this is accomplished in Note G in the separate document, "2020 Financial Statement Additional Notes".


ANALYSYS CHECKLIST

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

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?
 -  As in prior years, the CPA’s comments state that Management has omitted supplementary information about future major repairs and replacements, as required by the Financial Accounting Standards Board.
 - It is understood that the required Supplementary Information would reflect information typically found in a Reserve Cost Study, where a qualified independent source would estimate the timing and cost of certain future major repairs, such as road repair.
 - The Condominium does not have a Reserve Cost Study
 - Such a study requires a significant expenditure of funds, ultimately funded through HOA fees.
 - Although Reserve Cost Studies are considered a “best practice” by some, they do not generally appear to be used by similar condominiums in Western New York.
 - The Board of Managers is weighing the benefits of a Reserve Cost Study against the financial burden it may impose.

b. Balance sheet

- i. Sufficient Operating Fund Cash & Equivalents to cover one-month’s expenses?
 -  The Operating Fund Cash and Cash Equivalents (\$2,382) is not enough to cover one-month’s expenses.
 - $\$179,512 \div 12 = \$14,959$ One Month’s Expenses in Budget.
 - $\$2,383 < \$14,959$
- ii. Any significant change from prior year is understood and proper?
 - There was a material drop in prepaid assessments from \$10,570 the prior year, to \$406 at 12/31/20. Upon further inspection, it was determined that a large amount of prepaid assessments were processed shortly after year-end. These funds, voluntarily prepaid by some Unit Owners helps provide a comfortable buffer for operating funds.
- iii. Accounts Receivable less than 10% of Assessments
 - $\$202 \div \$175,107 = 0.12\%$
- iv. 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 interfund balance (\$31) is negligible.
- v. Accounts Payable less than 10% of Annual Expenses
 - $\$6,746 \div \$171,136 = 3.9\%$
- vi. Operating Fund Balance is a positive number?

- The Operating Fund balance is *negative* \$4,599
- The cash flow impact is mitigated by Prepaid HOA Fees processed in January 2021. As of January 31, 2021, the Prepaid HOA Fees were \$12,872.
- Although negative, the Operating Fund Balance improved by \$2,306, the Excess of Reserves Over Expenses.
- An Operating Fund Replenishment line has now been added to the budget to help eventually move the Operating Fund balance to a positive number. The budgeted amount is \$1,064 in improvement for 2021.
- It is recommended that the Operating Fund Replenishment line remain in the annual budget until the Operating Fund balance is positive at year end.

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

- i. Excess (Deficiency) of Revenues Over Expenses is a positive number?
 - The number is a positive, \$2,306
- ii. Any material changes in the Revenue Lines are understood and proper
 - The special assessment for the dead-tree replacement project represents a one-time revenue of \$17,760 in 2019. There was no such special assessment in 2020.
- iii. Any material changes in Expense lines are understood and proper
 - Insurance expense grew by \$399 (7%) from \$5,839 to \$6,238. This appears to be consistent with rising insurance rates in general.
 - Water expenses grew by \$3,057 (20%) from \$15,484 to \$18,541. This is due to the drier than normal summer that resulted in more sprinkling.
 - Landscaping expenses were up \$4,725 (10%) from \$48,234 to \$52,959. In addition to increase landscaping costs, there were additional costs for mulch in the utility beds, which were not expended in the prior year.
 - Repairs and Maintenance costs dropped by \$3,906 (-36%) from \$10,752 to \$6,846. This is primarily due to two items: (1) a \$1,600 drop in sprinkler maintenance costs, and (2) a one-time credit of \$1,523 to reverse a 2018 expense (charging the Road Repair Reserve, instead).
- iv. Reserve Funds Balances increased (after accounting for any use of funds for their intended purpose)
 - Reserve Funds Balances increased from \$32,391 to \$34,311.

d. Schedule of Changes in Reserve Fund Balance

- i. Any charges to a Reserve Fund are for the intended purpose
 - The charges to the reserve funds are described in Note E of the 2020 Financial Statement Additional Notes.
- ii. Each Fund Account Balance is a positive number
 - The Asphalt Reseal Reserve is negative \$26, but this negative balance is considered to be negligible for this account.