

TO: Hickory Grove Village Board of Managers

FROM: Rick Jachimiak, Treasurer

SUBJECT: 2021 Annual Statement Discussion

DATE: April 27, 2022

The following is my analysis of the 2021 Financial Statements for the Hickory Grove Village Condominium Association, Inc. and the “2021 Financial Statement Additional Notes”.

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

- The amount set aside in the Reserve Fund, which is for future major repairs and replacements, has increased from \$34,311 to \$42,292, and now stands at \$556 per unit.
- The Operating Fund balance at year-end is now a positive number (\$1,286). This is a significant improvement over prior years when the Operating Fund balance was negative.
- The Combined Fund Balance has increased from \$7,507 at the end of 2017, to \$43,578 at the end of 2021.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Operating Fund	(6,123)	(5,229)	(6,905)	(4,599)	1,286
Reserve Fund	13,630	21,681	32,391	34,311	42,292
Combined Fund Balance	\$ 7,507	\$ 16,452	\$ 25,486	\$ 29,712	\$ 43,578

Two areas have been identified as opportunities for improvement:

1. Increase the Operating Funds Cash and Cash Equivalents, which were \$9,195 at year-end.

It is recommended that the *Operating Funds Cash and Cash Equivalents* cover at least the average monthly operating expenses, which is \$14,779 based on the 2022 budget.

It is recommended that the board:

- Carefully monitor expenses to ensure that expenditures do not exceed the revenues.
  - One opportunity is to limit the number of days that water is used for lawn irrigation.
- Be alert to opportunities generate additional revenue by investing a portion of the Reserve Funds in Certificates of Deposits or similarly safe instruments when interest rates increase.
- Consider employing an operating fund replenishment strategy in the 2023 budget, like the one used in 2021, whereby budgeted revenues purposefully exceed budgeted expenditures.

2. Address the missing information required by account standards. The “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 continue to provide the basis for determining the amounts in the HOA Fee that are for the Reserve Fund Accounts. For 2021, this is accomplished in Note G in the separate document, “2021 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 continues to weigh the benefits of a Reserve Cost Study against its cost.

### b. Balance sheet

- i.  Sufficient Operating Fund Cash & Equivalents to cover one-month’s expenses?
  -  The Operating Fund Cash and Cash Equivalents (\$9,195) is not enough to cover one-month’s expenses, which excludes additions to reserves.
    - $(\$187,872 - \$10,530) \div 12 = \$177,342 \div 12$   
 $= \$14,779$  One Month’s Operating Expenses in Budget
    - $\$9,195 < \$14,779$
- ii.  Any significant change from prior year is understood and proper?
  - Repairs and Maintenance fees increased by \$1,035 (15%) from \$6,846 to \$7,882. This is primarily due to miscellaneous repairs made, including upkeep near the mailboxes and near the fence at the perimeter of the property.
- iii.  Accounts Receivable less than 10% of Assessments
  - $\$208 \div \$180,576 = 0.12\%$
- 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.)?
  - Interfund balances are negligible (\$
- v.  Accounts Payable less than 10% of Annual Expenses
  - $\$1,301 \div \$171,136 = 0.76\%$
- vi.  Operating Fund Balance is a positive number?

- The Operating Fund balance is *positive* \$1,286
  - After years of being negative, the Operating Fund Balance is now a positive number. This is due to Revenues exceeding Expenses by \$5,885. This is primarily due to these items:
    - \$1,064 Operating Fund Replenishment in the 2021 budget
    - \$2,654 budgeted for a Reserve cost study that was not spent.
- 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, \$5,885.
  - ii.  Any material changes in the Revenue Lines are understood and proper
    - No material changes.
  - iii.  Any material changes in Expense lines are understood and proper
    - Repairs and Maintenance increased by 15.1% (\$1,035), from the prior year.
      - Repairs included repairs near the mailboxes and work in the common areas near the fences.
      - It is noted that this increase followed a prior-year decrease of 35%.
  - iv.  Reserve Funds Balances increased (after accounting for any use of funds for their intended purpose)
    - Reserve Funds Balances increased from \$34,311 to \$42,292.
- 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, as described in Note E of the 2021 Financial Statement Additional Notes, are consistent with each fund's purpose.
  - ii.  Each Fund Account Balance is a positive number