

TO: Hickory Grove Village Board of Managers

FROM: Rick Jachimiak, Treasurer

SUBJECT: 2022 Annual Statement Discussion

DATE: August 14, 2023

The following is my analysis of the 2022 Financial Statements for the Hickory Grove Village Condominium Association, Inc. and the “2022 Financial Statement Additional Notes”.

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

- The problem of insufficient Operating Funds and Cash Equivalents has been resolved. The Operating Funds are now sufficient to cover at least one-month’s expenses.
- Additional Income is now being generated by Certificates of Deposit. The two Certificates of Deposits with balances at December 31, 2022, are expected to generate an additional \$1,115 in 2023 reserve fund income. Additional CD investments can increase that amount.

Based on the analysis checklist applied to the 2022 financials, there are two major area remains for concern:

1. The reserve balances decreased in 2022. Withdrawals from the reserves exceeded the additions.

- The Tree Reserve balance and annual additions do not appear to be sufficient to cover ongoing needs.

	2019	2020	2021	2022
Additions		\$1,000	\$1,010	\$1,064
Withdrawals		\$2,489	\$1,057	\$3,356
Balance	\$4,258	\$2,769	\$2,721	\$429

- The amounts expended from the Asphalt Reseal Reserve exceeded the amount available for withdrawal in 2002.
- The Pond Reserve Fund balance (\$3,978) with additions may be insufficient for future needs. The 2022 removal of vegetation at a cost of \$5,438 appears to have been largely ineffective.

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.

Recommendations:

- A. Substantially increase the budgeted additions for the Tree Reserve. Setting the 2024 budgeted additions for the Tree Reserve to \$2,400 (from \$1,064 in 2023) would increase the monthly HOA Fee by about \$1.46.
- B. Implement the four-year resealing policy now, by deferring the next driveway resealing (for the 33 Units in the southern end) to 2024.
- C. Adopt a multi-year herbicide application program (currently under consideration) for the retention basin and adjust the budgeted additions for the Pond Reserve accordingly.
- D. 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.

## 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. CPA Opinion and Notes

- i.  Financial Statements are reviewed by an Independent Accountant (CPA)
- ii.  CPA says statements appear to comply with accounting standards
- 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 (\$17,751) is now enough to cover one-month's expenses, which excludes additions to reserves. (This is a significant improvement from prior years when the balance was insufficient to cover one-month's expenses.)
  - $(\$198,872 - \$12,876) \div 12 = \$185,996 \div 12$   
 $= \$15,500$  One Month's Operating Expenses in Budget
  - $\$17,751 > \$15,500$
- ii.  Any significant changes from prior year are understood and proper?
  - All are okay.
- iii.  Accounts Receivable less than 10% of Assessments
  - There are no accounts receivable at year end.
- 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.)?
  - There are no Interfund balances this year
- v.  Accounts Payable less than 10% of Annual Expenses
  - $\$1,611 \div \$176,713 = 0.91\%$

- vi.  Operating Fund Balance is a positive number?
  - The Operating Fund balance is *positive* \$2,035 at year end
  
- c. Statement of Revenues and Expenses and Changes in Fund Balances (Operating Fund)
  - i.  Excess (Deficiency) of Revenues Over Expenses is a positive number?
    - The Operating Fund number is a positive \$749.
  - 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?
    - Utility Fees increased by \$2,350 (9.5%) from \$24,676 in 2021. This is due to increase in utility rates. Both water rates and electricity rates increased significantly.
    - Repairs and Maintenance increased by \$1,918 (24.3%). This is primarily due to the irrigation system costs. The prior vendor no longer wishes to perform the service and the new vendor's costs are significantly higher.
    - Professional Fees increased by \$667 (43.7%). This was primarily due to legal fees to prepare the proposed change to the By-Laws (that would prevent future renting of Units).
  - iv.  Reserve Funds Balances increased?
    - 🚩 Reserve Funds Balances decreased from \$42,292 to \$38,317.
    - 🚩 Total Withdrawals (\$14,568) exceeded total Additions.
    - 🚩 The funds withdrawn for the Asphalt has a small balance (\$3,246) exceeded the amount available (\$2,140)
    - 🚩 The Tree Reserve has a small balance (\$429) relative to the year's Tree Reserve withdrawals (\$3,356)
    - 🚩 The Pond Reserve has a small balance (\$3,978) relative to the year's Tree Reserve withdrawals (\$5,438)
  
- 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