

Northfield Homes Association, Inc. (NHA)
2012 Financial Review

	2010 Actual	2011 Actual	2012 Actual	2012 Fav.(-Unfav.) to 2011	
				Amount	Percent
Income:					
NHA Assessments	\$ 136,567	\$ 154,780	\$ 146,404	\$ (8,376)	-5.4%
NHA Residence Transfer Fee	250	250	750	500	200.0%
Interest/Dividend Income	919	878	402	(476)	-54.2%
Finance Charges	466	591	485	(106)	-17.9%
Total Income	\$ 138,202	\$ 156,499	\$ 148,041	\$ (8,458)	-5.4%
Expenses					
KCMO Water--Irrigation	\$ 18,058	\$ 28,793	\$ 51,219	\$ (22,426)	-77.9%
Lawn Care Services	74,149	72,463	73,510	(1,047)	-1.4%
Irrigation System Maint/Repairs	16,391	14,193	10,999	3,194	22.5%
Snow Removal	15,778	16,025	-	16,025	100.0%
Tree Removal/Replacement	1,164	8,085	-	8,085	100.0%
Tree Sprays	1,825	378	-	378	100.0%
KCPL	436	452	459	(7)	-1.5%
Miscellaneous	5,779	3,629	3,557	72	2.0%
Total Expenses	\$ 133,580	\$ 144,018	\$ 139,744	\$ 4,274	3.0%
Balance Favorable/(Unfav.)	\$ 4,622	\$ 12,481	\$ 8,297	\$ (4,184)	-33.5%
Memo:					
NHA Assessment per Unit	\$ 1,600	\$ 1,720	\$ 1,720		
Total Expenses per Unit	\$ 1,596	\$ 1,694	\$ 1,644		
NHA Reserves at 12/31	\$ 32,004	\$ 36,630	\$ 44,778		
Occupied Units at 12/31	84	85	85		

Income -- \$148,041

The 2012 NHA assessments were \$1720 per residence -- the same as 2011. The number of occupied units was the same on 12/31/12 as 12/31/11 -- 85. Transfer fees of \$750 were received in 2012 from 3 residence transfers. Interest and dividend income of \$402 was less than the \$878 received in 2011 due to declining interest rates plus less average balances in the Money Market account due to the prepaid lawn care contract terms explained below. Delinquent, unpaid assessments and finance charges totalled \$4,693 at 12/31/12 from 5 homeowners owing varying amounts.

Expenses

KCMO Water (Irrigation and Stormwater) -- \$51,219 -- Stormwater charges were \$481 of this expense. These fees to NHA are based on the square footage of runoff service on the portion of the property not owned by the homeowner, i.e. sidewalks and a large portion of driveways. The fee is \$.50/month for each 500 square feet of runoff surface. Some homes are given 50% credits on NHA bills for having "detention areas". Individual homeowners are also assessed stormwater charges on their personal water bills based on square footage runoff area of the homeowner owned portion of each property, i.e. roof area + 1 foot perimeter + deck areas.

The irrigation water charges rose from \$28,024 in 2011 to \$50,738 in 2012, an increase of about 80%. Irrigation water charges were less than \$18,000 in 2010. Total irrigation water gallons used increased from 5,730,000 in 2011 to 9,423,000 in 2012. The average cost per yard was almost \$600 representing usage of about 110,000 gallons per maintained area (including common area watering). Considerable disparity was noted in individual yard usage due to varying lot sizes in Northfield Village. Also, it was noted approximately 80% of the irrigation water charges were assessed an 8.7% sales tax. No clear pattern was evident on why the KC Water Dept. assesses sales tax on some meters and none on others.

The summer of 2012 was abnormally hot and dry and the KC Water Dept. continues to increase water rates.

There are 24 individual meters charged to NHA (not including 2 masters). Each meter is assessed a fixed fee per month ranging from \$11.00 to \$13.00 (assessed each month although the irrigation system is only on for 5 or 6 months). Using an average of \$12.00/month, these charges total over \$3,000/year of the annual irrigation water expense without any actual water usage costs included.

Recommendation: The Board made the decision in 2012 to increase the time and frequency of irrigation watering in an attempt to keep the lawns and common areas green and healthy. A method of polling homeowners should be implemented to determine if the majority of homeowners want to continue this practice at the expense level incurred or adopt a more conservative policy of only maintaining the health of the lawns in the peak summer months. It is also noted lower lawn mowing costs could result from less frequent mowings likely under a "maintenance-only" watering policy.

Lawn Care Services -- \$73,510 -- This category includes mowing, chemical applications, common area maintenance, and other non-contract groundskeeping services approved by the Board. NHA changed providers of these services, irrigation services, and snow removal services in 2012 -- from Messengers to Perfect Turf (P.T.). The Messengers contract provided for pay-after-provided terms based on a contract rate sheet. The Perfect Turf contract is a pay-in-advance contract with discounts for advance payment. The total 2012 lawn care cost itemized on the P.T. contract cost sheet totalled \$75,625. The terms provided for a discount of \$9,000 for a net of \$66,625 if the lawn care services were prepaid. As additional incentive to prepay, NHA received three 2-5" free snow removals for 2012 had they been required. As noted later, this portion of the incentives resulted in zero snow removal costs.

The contractual rate sheet agreed upon with P.T. itemizes rates for each provided service, e.g. 30 lawn mowings, 6 chemical/grub lawn applications, common area maintenance, irrigation system startup/shutdown/backflow testing, tree spraying, etc. The Board accepted the prepay option and two payments of \$33,312.50 each were paid to P.T. prior to February 1, 2012 and May 1, 2012 respectively. Additionally, P.T. provided non-contract lawn care as approved by the Board in the amount of \$6,885 (\$1,500-raccoon and opossum removal, \$1,600-extra turf renovation, \$483-removal of 7 tree stumps, \$800-replacement of 2 easement trees, \$2,475-dirt work/erosion repair behind 8612 through 8620 Liston, & \$27 for weed-killing chemicals).

Observation: As noted, NHA paid \$800 for replacement of 2 easement trees. A previously obtained legal opinion stated NHA did not have authority under the present Declaration of Restrictions to replace trees in Northfield Village.

Recommendations: One problem with prepayment of vendor services is the difficulty in maintaining adequate controls to assure all the prepaid services were actually received since no invoices were generated. For example, a method to confirm 30 lawn mowings, 6 chemical applications, 2 shrub prunings, 6 common area bed maintenance services, 4 sprinkler checkups, 2 choke cherry/pine tree sprayings, soil aeration/overseed, etc. The Board should confirm they have a procedure in place to confirm all the varied procedures and frequencies were, in fact, satisfactorily received.

Another problem with prepayment to a service provider is risk. Since all of this contract service was prepaid prior to actual receipt of the services, NHA was at risk for non-performance. If the service provider had not performed any services after the services were fully prepaid, NHA would have had to come up with an additional \$66,625, at minimum, to obtain the services from another provider. The worse-case prepaid exposure equals an additional \$785 for each homeowner. The Board should develop a method to determine if the majority of residents are in agreement with this risk vs. benefit arrangement.

Irrigation System Maintenance/Repairs -- \$10,999 -- The amount charged to this account in 2012 included: \$5,313 Repair to sprinkler heads, controllers, and lines
\$5,686 Irrigation System Upgrade

Note: In 2011, irrigation system startup/backflow testing/adjustments/shutdown were categorized in this account. In 2012, those costs were bundled into the prepaid lawn care contract.

Snow Removal -- \$0 -- As noted above, due to the inclusion of snow removal credit incentives in the prepaid lawn care contract and the reduction of snow removal occurrences in 2012, no snow removal costs were incurred.

Tree Removal/Replacement -- \$0 -- No costs were charged to this account in 2012. As noted above, P.T. removed 7 tree stumps (\$483) and replaced 2 easement trees (\$800) that were categorized into the lawn care contract.

Tree Sprays -- \$0 -- No costs were charged to this account in 2012. The prepaid lawn care contract included charges to NHA for 2 chemical treatments of choke cherry trees (\$600) and 2 chemical treatments of Austrian Pines (\$600). I observed no documentation in file indicating these services were performed.

KCPL Meter Charges -- \$459 -- NHA paid KCPL approximately \$38/month for electricity supplied to the two irrigation system master controllers.

Miscellaneous -- \$3,557 -- Charges in this category included:

\$1,364	Property insurance on NHA assets plus officer liability insurance.
\$2,148	Material costs for repairs/painting of first entrance monument and gazebos (\$663) by NFV volunteers. Mudjacking of uneven sidewalks (\$1,485) by A-1 Concrete.
-\$1,710	Reversal from collection of assessments/finance charges previously written off.
\$732	Net charges for legal actions to pursue collection of delinquent assessments. Total legal charges of \$2,353 were offset by collections of \$1,621 from homeowners.
\$408	Office supplies, directory printing, "Welcome Kit" printing, and postage.
\$236	Ground Committee expenses to support volunteer clean-up efforts.
\$233	Federal Income Tax paid by NHA on net income.
\$146	Missouri State Income Tax paid by NHA on net income.
\$3,557	Total Miscellaneous

Conclusion

This financial review compares the final 2012 NHA Profit and Loss Statement to the documentation supplied to me in support of those figures. I followed generally accepted auditing procedures in performing this review but not all all tests and steps normally performed by a CPA firm were performed. In my opinion, however, the results shown above accurately states the financial position of the Northfield Village Homeowners Association.

My thanks to Neil Miller, Treasurer, for providing the necessary files and reports to conduct this review. The residents of Northfield Village are indebted to Neil, the other Board and Committee members, and volunteers for their unpaid services.

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