

## Narrative

### **2015 Northfield Homes Association Financial Review**

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Methodology used in Financial Review: This review was based on a comparison trail from the reported P&L statement figures to the NHA General Ledger, Check Register, Bank Statements, and supporting documents in file. The reported Cash Reserves were also confirmed against the Bank Statements. The review was performed using Cash Basis reports.

**Income**--\$162,970 -- The 2015 NHA assessments were \$1,720 per residence -- the same as recent years. The number of owned units at year end were 89 -- the same as 2014. The dues portion of income was \$160,231. This amount was confirmed as 89 units X \$1,720 = \$153,080 plus 2014 dues of \$1,711 for residences at 8632 Liston and 3001 87 St. collected in 2015 plus \$5,440 previous years dues collected from properties at 8702 Britt, 8654 Britt, 3016 87 St., and 3124 86 St. There were no unpaid dues at year end after consideration of Bad Debt write-offs as noted later in that category. Transfer fees of \$1,000 applicable to 4 home sales were verified paid: 8602 Britt (twice), 3016 87 St., and 2918 86 Ter. Dividends and Interest of \$373 were verified received from NHA Credit Union accounts. Finance Charges of \$1,366 were received from delinquent assessments paid and from units not paying on an annual basis.

### **Expenses**

Lawn Care Services -- \$76,058 -- This category includes mowing, chemical applications, common area maintenance, and (in 2015) other non-contract groundskeeping services approved by the Board. The majority of this expense was a prepayment of \$70,902 on January 10 to the grounds service provider, Perfect Turf and Landscaping (PT), for their contracted services. Other payments to PT included dethatching and overseeding (\$2,350), nut grass treatment (\$1,140), phosphorus application on landscaping beds (\$250), irrigation system repairs (\$645) [Note: This \$645 amount should have been charged to the Irrigation Repairs account], and bedding plants (\$221). Additional amounts paid to others included additional bedding plants (\$274), deer and weed sprays (\$186), and 6 soil samples analyzed by the Univ. of Missouri extension service (\$90).

Under a 2 year contract term with PT ending in 2016, the NHA prepays for contract lawn care services prior to February 1. In return for prepayment, the NHA received a 12% discount (\$9,668) from PT's gross bid. Additionally, the first \$4,300 of any snow removal costs incurred in the calendar year are not charged to the NHA.

Risks are associated with the benefits noted above. Prepayment of services is not a generally accepted or approved business practice and it places the NHA at significant monetary risk if PT fails to perform any or all of the prepaid services. The prepaid services include 30 lawn mowings, 6 chemical lawn treatments, 12 common area bed maintenances, 2 bush/shrub prunings, 1 top dress mulching, 4 choke cherry & Austrian pine sprays, 1 soil aeration/overseeding, 1 Spring cleanup, 1 Fall cleanup, irrigation system startup, shutdown, & backflow testing, and 4 seasonal sprinkler checkups. [There is no evidence in file that indicates the NHA had a system to determine the performance frequency of the services prepaid or if the services were performed. In some cases, monthly invoices from PT were noted in file but they were standard forms, often consecutively numbered, and with 'service performed' dates (when included) that did not conform with known actual performance dates]. Perfect Turf has diminished incentive to provide quality service, correct errors, or respond on a timely basis since they were paid prior to providing any services.

Narrative

\$3,295	It was calculated the NHA overpaid for mowings in 2015 by this amount.	
	Prepaid: \$18/unit X 30 mowings X 90 units = \$48,600 – 12% discount =	\$42,768
	Received: \$18/unit X 28 mowings X 89 units = \$44,856 – 12% discount =	\$39,473
		\$3,295

As noted previously, it is unknown if the NHA received most of the other prepaid services but no invoices were found in file for the following items.

\$1,663	1 Fertilizer application – prepaid for 6 turf/grub treatments, invoices received for 5 (with no performance dates shown).	
\$326	1 Shrub pruning – prepaid for 2, invoiced for 1	
\$792	5 Landscape bed maintenances – prepaid for 12, invoiced for 7	
\$2,156	1 Fall cleanup – prepaid for 1, no invoice showing performance	
\$2,684	Soil Aeration/Overseed – Prepaid this amount , no invoice showing performance but an invoice for \$2,350 for hand dethatching/overseeding was additionally paid.	
\$10,916	<b>Total</b>	

It is recommended the Board request a refund from PT of any prepaid services determined to be not received by the NHA. Since 2016 is the final year of a 2 year contract, the Board should obtain competitive bids for the services presently provided by PT – on an 'apples-to-apples' basis as closely as possible. Whether the Board decides to retain PT based on their new bid and their satisfactory past performance or change service provider, consideration should be given to accepting a bid without a prepayment requirement and paying for services only after they have been performed and invoiced –and verified by the NHA.

Non-Contract Lawn Care – No expenses were charged to this account in 2015. In past years, some lawn care expenses not included in the prepaid lawn care contract were charged to this account. This year noted items of this nature were included in the above Lawn Care Services category.

KCMO Water - Irrigation – \$33,918 – There are 24 individual water meters in the NHA (not including 2 master controllers serving all the other homes not on individual meters). Each individual meter is assessed a fixed fee per month ranging from about \$13 early in 2015 to as much as about \$15 late in 2015 as the Water Dept. continues to raise their rates for both meter fixed charges and water usage (sales tax is charged to approximately 80% of the meters). The irrigation system is activated only 7 months or so but the NHA pays these fixed fees each month – resulting in annual fixed fee meter charges of over \$4,000/yr being included in the total cost of \$33,918 before considering any charges for actual water usage. To reduce these fixed costs, the Board has initiated a program to place 2 or more individually metered homes on 1 meter. So far, 14 homes are on 7 meters. The Board has authorized 5 additional homes to be converted to existing meters in 2016.

It was noted several high irrigation water usage charges at individually metered homes were incurred when the system was shut down. Two homes on the same meter (3009 87 Ter. & 8720 Liston) incurred high charges due to leakage or other causes – \$1,266 for the entire year – approximately 50% higher than most other 2 meter homes. For the 2 months of December 2014 & January 2015 alone (when the

## Narrative

system was shut down) these 2 homes were charged \$373 for water usage of over 57,000 gallons. Similar instances when the system was shut down were noted at 3028 87 Ter. (2 homes – 57,500 gallons), 8678 Britt (1 home – 6,000 gallons), and 8651 Allenton (3 homes – over 14,000 gallons). Considering the water charge increases implemented in recent years and planned for the future, it is important that residents timely advise of water leaks so quick action can be taken to report the leaks and the service provider can be requested to respond on a timely basis to repair the leakage so homeowners are not paying for large volumes of costly, wasted water.

Irrigation System Repairs/Maintenance -- \$2,345 – Repair costs of \$1,998 were incurred for sprinkler head repairs listed on PT invoice 29767. Additional charges of \$277 and \$197 were incurred for PT repairs to irrigation water controllers #2 and #3 respectively. Offsetting these costs was a reimbursement of \$127 from Google to repair damage they caused when replacing fiber boxes.

KCMO Stormwater charges – \$563 – These fees to the NHA were charged by the KCMO water department based on the square footage of hard surfaces on property not owned by the homeowner, e.g. sidewalks and driveways. Homeowners can be assessed on their personal water bills for roof, deck, and patio areas. These fees are primarily billed to the NHA on a semi-annual basis.

KCPL Sprinkler Controller charges – \$486 – KCPL charged the NHA \$39.36 per month for electrical power to the 2 master water controllers (including periods when the irrigation system is shut down). This fee increased to approximately \$46 per month in October as electrical usage started appearing (unusual for this account). Invoices for most months were not included in file for investigation.

Snow Removal – \$0 – As noted previously, as part of the PT prepayment contract, the NHA receives a credit of up to \$4,300 snow removal costs. This credit resulted in no snow removal services being charged to the NHA in 2015.

Insurance – \$1,727 – Charges paid to State Farm Insurance primarily for property damage insurance on the NHA owned assets plus officer liability insurance.

Website Maintenance – \$633 – Paid to Business Website Links in Knoxville, TN for the NHA website hosting and maintenance – \$35 per month plus an annual fee. [No invoices were found in file for 5 of the monthly payments or a one-time payment of \$213]. Invoicing was changed to 6 months prepayment in January 2016.

Office Expenses – \$222 – Homeowner directories, Care Committee supplies, rubber stamps, paper supplies, and budget copies.

Postage and Delivery – \$115 – Annual rental of post office box and postage for various NHA mailings.

Legal and Professional – \$333 credit – Legal process collection of delinquent dues/finance charges (\$468) offset by attorney fees (\$135).

## Narrative

Bad Debt Expense – \$3,175 – Write-off of uncollectible dues and finance charges from bankruptcy or foreclosure periods for properties at 3124 86 St. (\$2,160) and 8702 Britt (\$1,015).

Miscellaneous and all other – \$225

\$78	Federal and State income tax amounts paid by the NHA.
\$65	Room rental paid to Primrose for the NHA annual meeting.
\$30	HOA registration and change fees paid to Missouri Secretary of State.
\$21	Deck posts purchased at Lowe's.
\$29	Cost of supplies to repair second entry 'No Solicitation' sign.
\$2	All other/rounding

The Cash Reserves of the NHA at 2015 year end were over \$116,000. The NHA needs reserves in place to cover unplanned expenditures and eventual replacement of NHA fixed assets. Since NFAV does not have facilities owned by some HOAs like a clubhouse or pool, maintenance or replacement of NHA fixed assets is limited to items such as the irrigation system, entrance structures, etc. Some HOAs pay for these types of expenses via special assessments to residents or a combination of reserves plus special assessments. The Board should determine the proper level of reserves to meet its future needs. If the reserve at the time exceeds this level, the Board should consider reducing the annual assessments to an amount that will achieve the desired reserve level over time.

All items in the Cash Basis P&L were confirmed in accordance with the review steps outline earlier in the first paragraph. All supporting documents and invoices were found in the files provided to me with the exceptions noted within the applicable category. The NHA is greatly indebted to the financial work performed by Neil Miller and Sandi Loos. Their competent efforts saved the NHA a considerable amount of money that otherwise would be required to retain a property management service.

Prepared by Tom Files

January 25, 2016

P&L

<b>Northfield Homes Associations, Inc. (NHA)</b>				
<b>2015 Profit and Loss Statement</b>				
Prepared: January 25, 2016		Actual	Actual	Actual
		2015	2014	2013
<b>Income</b>				
NHA Assessments		\$ 160,231	\$ 145,811	\$ 146,100
NHA Residence Transfer Fees		\$ 1,000	\$ 500	\$ 1,000
Dividends/Interest		\$ 373	\$ 326	\$ 299
Finance Charges		\$ 1,366	\$ 300	\$ 357
<b>Total Income</b>		<b>\$ 162,970</b>	<b>\$ 146,937</b>	<b>\$ 147,756</b>
<b>Expense</b>				
Lawn Care Services		\$ 76,058	\$ 80,529	\$ 68,425
Non-Contract Lawn Care		0	\$ 451	\$ 6,948
Non-Contract Landscape Services		0	\$ 3,900	0
KCMO Water-Irrigation		\$ 33,918	\$ 35,402	\$ 38,863
Irrigation System Repairs/Maintenance		\$ 2,345	\$ 897	\$ 11,734
KCMO Stormwater Charges		\$ 563	\$ 648	\$ 655
KCPL Sprinkler Controller Charges		\$ 486	\$ 472	\$ 461
Snow Removal		0	\$ 6,370	\$ 6,160
Other Repairs/Maintenance		0	\$ 3,831	\$ 2,976
Real Estate Taxes		0	0	\$ 699
Insurance		\$ 1,727	\$ 1,602	\$ 1,366
Website Maintenance		\$ 633	\$ 563	\$ 598
Office Supplies/Expenses		\$ 222	\$ 35	\$ 301
Postage		\$ 115	\$ 171	\$ 170
Legal and Professional		\$ (333)	\$ 80	\$ 415
Bad Debt Expense		\$ 3,175	0	0
Miscellaneous		\$ 225	\$ 222	\$ 360
<b>Total Expense</b>		<b>\$ 119,134</b>	<b>\$ 135,173</b>	<b>\$ 140,131</b>
<b>Net Ordinary Income</b>		<b>\$ 43,836</b>	<b>\$ 11,764</b>	<b>\$ 7,625</b>
Non-Recurring Income		0	\$ 8,627	0
<b>Net Income</b>		<b>\$ 43,836</b>	<b>\$ 20,391</b>	<b>\$ 7,625</b>
<b>Memo:</b>				
NHA Assessment per Unit		\$ 1,720	\$ 1,720	\$ 1,720
Total Expense per Unit		\$ 1,339	\$ 1,519	\$ 1,611
Excess Assessments vs. Expenses per Unit		\$ 381	\$ 201	\$ 109
NHA Reserves at 12/31		\$ 116,721	\$ 72,620	\$ 52,292
Occupied Units at 12/31		89	89	87