

# Prosperity Heights HOA Finance Committee Meeting

August 18, 2021 7:00 PM via Zoom.

Notice and Zoom link provided to owners via email and on website

Meeting was recorded (Due to technical issues, the video file cannot be located.  
These Minutes were created from notes taken during the meeting.)

Notes of Meeting

Attendees:

Jeff Allen  
Monica Duggal  
Mark Westerfield  
Keith Fulk  
Conrad Heer  
Michael Hayes / Shannon Turner  
Ruth Robertson  
Sue Braunstein

- 1. 18 Month Audit Period.** Although the HOA governing documents call for an audit each year, the FC previously recommended and the Board approved using an 18-month audit period covering July 1, 2020, to December 31, 2021 as the HOA transitions to a calendar year budget. The alternative would have been an audit covering the July 1 to June 30, 2021, FY and another audit covering the 6-month period
- 2. Monthly Bank Reconciliations.** The Finance Committee (FC) discussed the process by which the HOA bank accounts will be reviewed and reconciled, in order to comply with the policies in the Auditor's report and compliance with representations made to the insurance company in support of the fidelity bond.

The decision was made that Monica Duggal will download the monthly bank statement each month and will independently reconcile the account on Quickbooks. She will post the bank statement and the reports to DropBox, after redacting the account numbers. This process was delayed for June and July 2021 due to the transition to Jeff Allen as the new HOA Treasurer and to learning the new QuickBooks online software.

Subsequent to the Zoom meeting, the FC discussed via email the means by which the bank statements and reconciliation reports will be disseminated. In addition to posting the documents in DropBox, Monica will send the bank statements and reconciliation reports to each Board member. This is in compliance with the Auditor's report which calls for each Board member to review the bank statement each month. The financial documents should also be posted on the HOA website each month, either independently (linking to DropBox) or as part of the Agenda and Minutes for Board meetings.

3. **Review of Auditor's Report.** The FC reviewed and discussed the Auditor's report, and in particular the letter to the Board with conclusions and recommendations.
- a. **Past Due Assessments.** Generally, the HOA is at or under the target level of 3% of annual assessments past due. Collections processes were separately discussed at the meeting. Jeff noted that current receipts from invoices sent out around July 1, 2021, are ongoing but are on par with past years.
  - b. **Excess Operating Funds.** The Auditor's letter states that the HOA had a surplus in operating funds of \$49,987. This is not accurate. That amount reflected the fact that the Replacement Reserve funds had been moved to the Operating Account. This was corrected when the Replacement Reserve account was established and \$32,861 was transferred to that account.

The resulting balance in the Operating account is appropriate in the opinion of the FC given possible unforeseen expenses. The Auditor's letter suggests excess operating funds should be in the range of 10% to 20%. The FC took this into consideration when setting the interim 6-month budget (July 1 to December 31, 2021) and will do so for the 2022 annual budget, however, the FC believes the excess funds should be set higher than the 20% amount. Because the HOA has one annual assessment, sufficient funds must be in the Operating Account at the end of the year to carry over until Owners pay the next assessment. In addition, some expenses are unpredictable, such as tree work, and these expenses could be significant, so additional reserve funds are the prudent option. No discreet Operating Reserve account has been established, either as a bank account or as an internal account within QuickBooks.

The Auditor's Letter states that excess operating funds can be transferred to Replacement Reserves. This is not correct, and the FC rejects this option. The Replacement Reserve account is fully funded for the foreseeable future and if funds were transferred to that account, they could not legally be transferred out to be used for any purpose other than replacing items covered by the Replacement Reserve (the playground area and the entrance sign). We believe the Auditor confused Operating Reserves with Replacement Reserves.

- c. **Fiscal Year.** The Auditor's Letter recommended that the HOA use either a calendar year or fiscal year for all purposes. This process has been implemented and, as of January 1, 2022, the HOA will be on a calendar year for the budget, tax returns, and all other purposes.
- d. **Authorize Signers.** The Auditor's Letter states that the bank account has only one authorized signer. This is not correct. In fact, at that time there were four signers on the checking account. As discussed at the last Board meeting, this has now been corrected and the authorized signers are Jeff

Allen, Monica Duggal, and Steve Boveri. Other individuals who had remained as signers on the account were removed.

- e. **Insurance Coverage.** The Auditor's Letter contains a recommendation on appropriate crime and D&O coverage for the HOA. As previously discussed, and approved at Board meeting, the HOA changed insurance companies as of the June 2021 policy renewal date. The current policy complies with Virginia Code requirements for fidelity coverage, and also provides coverage for theft or forgery by third parties – which would not be covered by the fidelity bond. This would cover computer theft and stolen checks. The Board discussed procedures which must be followed by the Treasurer, the HOA, and the Board in order to comply with requirements for the fidelity bond.
  - f. **Investment Policy.** The Auditor's Letter discusses potential issues with how HOA funds are invested. All of the HOA funds are fully FDIC insured.
  - g. **Monitoring Activities.** The Auditor's Letter provides recommendations for the Board monitoring of HOA finances. The FC fully agrees with these recommendations and is attempting to fully comply.
    - **“Each month the individual board members should be performing monitoring activities.”**
    - **“When performed routinely, these monitoring activities strengthen the Association's internal controls and are essential to ensuring the financial security of the Association's resources.”**
    - **Board “should obtain and read the monthly financial statements ...”**
    - **“At a minimum, the financial statements should include a balance sheet, income statement with budget to actual variances, a check register, a general ledger and bank statements with reconciliations.”**
    - **“Variances and unusual transactions should be discussed with management and resolved in a timely manner.”**
4. **Auditor's Report and Conclusions.**  
In addition to the Auditor's Letter and separate report was prepared that raised other issues which the FC reviewed.
- a. No transactions for which there was a lack of documentation. All transactions were recognized in the financial statements.
  - b. Financial statements were neutral, consistent, and clear.
  - c. No difficulties performing audit.
  - d. No disagreement arose during course of audit.
  - e. Deficiencies in HOA internal controls were noted.
    - i. **Limited number of individuals performing accounting function.**  
The FC believes that the new procedures have addressed this issue.
    - ii. **Cash basis accounting.** Although the Auditor pushes the HOA to use accrual accounting, the FC disagrees and, for a number of

reasons, believes that cash accounting reports are the best option for the HOA and most accurately stated our finances for the benefit of the Board and Owners.

**5. Vendors.**

The FC discussed the various vendors to determine when the contracts were last reviewed and whether we should search for alternative vendors for better pricing or services.

- a. Trash.** The current contract runs through the end of 2023 and does not have an easy means by which the contract can be terminated without penalty. This is the HOA's largest expense. The FC recommends that this be put on the calendar for review in the Spring of 2023 to begin the process for re-bidding the trash vendor contract.
  - b. Legal.** Discussion on the HOA lawyer was deferred although the FC believes that it would be prudent to investigate other options.
  - c. Landscaping.** This contract runs through 2022 but can be terminated with notice. The process for re-bidding this contract has commenced and will be separately reported.
  - d. Auditor.** The FC believes strongly that the HOA needs to search for an alternative accounting firm for the annual audit. The current audit report is not focused on the issues which the FC believes should be address and the expense incurred, for work which is not helpful or material, is excessive. This search needs to be completed around the end of the year for the next audit which would take place after the first of the year 2022.
  - e. Insurance.** As previously presented to the Board, the HOA has purchased insurance from a new carrier at a substantial price savings.
  - f. Tree Companies.** The FC discussed creating a "Preferred Vendor" program so that the tree companies the HOA uses on a regular basis comply with the insurance requirements and also agree to indemnify the HOA for any claims arising from their activities. This change would comply with the representations made when purchasing the new insurance coverage.
- 6. Reserve Study.** The FC decided to defer this process for a few months pending due to current projects. The target is to complete the Reserve Study toward the end of the year or early 2022.
- 7. Assessments Status.** As of the FC meeting, about 30 out of 208 Owner had not paid their assessment and their accounts were past due. Jeff noted that this was consistent with past years. The FC decided to send out follow up invoices to the past due Owners with a late fee. Thereafter, for delinquent accounts, the next set of invoices will also include accrued interest on the balance due. The decision how to proceed next was deferred to a future FC meeting, but the FC decided to seek authority from the Board before letters to Owners were sent out which referenced possible liens on property or other collection efforts, as permitted under the Declaration.

8. **Future Audit Scope.** See 5(d) above. The FC believes that the scope of any future audit must be clarified and limited to matters directly related to receipt of payments and proper disbursement of funds. The most recent audit included 10 pages of Adjusting Journal Entries for line items that are not of concern and primarily driven by the Auditor's preference for accrual accounting. The FC discussed the possibility of amending the HOA documents to better reflect the type of review that is deemed appropriate, but no decision was reached.