



**Fork Landing Farms
Homeowners Association, Inc**
Financial Compilation and Audit Summary

Reporting Period: January 1, 2018 through September 30, 2020

Fork Landing Farms HOA Audit Committee
Date of Report: November 7, 2020

INTRODUCTION

Fork Landing Farms Homeowners Association Audit Committee Established

On Sept 17, 2020, the FL Board established the Audit Committee to conduct an internal audit of the HOA's income and expenses for the period January 1, 2018 to 2020 year-to-date. The Committee is comprised of volunteers from the community that are not currently or have not previously served on the Executive Board. Committee members appointed were Lois Mathews (Chair), Janice Imwold and Brian Baer.

The Audit Committee is charged to conduct the following:

1. Review the documentation supporting each invoice or expense to assure it is an approved and budgeted expense.
2. Verify that expenses are compiled and accurately reported in our financial statements.
3. Review our income statements.
4. Verify current bank balances are accurate.
5. The Committee is authorized to make recommendations regarding the Association's accounting and management practices.
6. Create a Summary Audit Report to be distributed directly to the Association of Homeowners.
7. Recommend whether a full, independent audit is needed; and if so, what the costs would be.

The Audit Committee members clearly stated to the Board and affirm again in this report that none of them are trained accountants or have the credentials to certify our financial processes. However, the Committee agreed to use their joint administrative business experiences and utilize guidance from various trusted resources to conduct their work.

A main source of guidance came from the *Foundation for Community Association Research "Best Practices for Financial Operations"* and *"Best Practices for Governance"*. This organization is a primary resource recommended by the State of Delaware Attorneys General Ombudsman for Common interest Communities (HOA) Office. These resources amplify the "Generally Accepted Accounting Principles" (GAAP Compliance).

Link: <https://foundation.caionline.org/publications/best-practices-reports/>

The Audit Committee's chief aims were to compile, collate, index, label, review and organize the HOA financial records and supporting documentation, minutes, and board correspondence so that we are "audit-ready". Our summary audit report and hard-copy, individually annotated expense examinations will hopefully assist the Board and our community in making the decision as to what level of professional accounting review or further certified audit is necessary. At a minimum, it will provide a sure-footed path to improving our accounting and historical record keeping practices.

The methodology used by the Audit Committee as well as brief bios describing our skill sets are included within this report.

After an intense six weeks review of almost a decade of historical records, one thing is crystal clear--there is absolutely no doubt that the most valuable asset Fork Landing Farms possesses is the community pride, "sweat equity", and generosity of service displayed by the homeowners. It is in this spirit that the Audit Committee offers their findings.

Sincerely,

The Audit Committee

TIMELINE OF FORK LANDING FARMS HOA:

- Fork Landing Farms was originally developed in 2011 by Developer David Kenton*
- Original Plot contained **77** lots (18 duplexes and 41 single homes)
- In January 2016, the Developer re-subdivided the Plan to **64** lots (5 duplexes, and 54 single-family homes)
- Original primary builder in 2011 was Capstone Homes; they continued to construct 16 homes over the last 9 years
- To expedite buildout, Ryan Homes became the predominant builder in 2016, eventually constructing 40 homes
- In August 2017, 75% of the lots were sold, which triggered the Developer to deed over the common areas, and turn control of the HOA finances to the homeowners that same month
- In 2019 and 2020, Insight Homes completed one home; and T&S Builders constructed 6 homes.
- Lot #8 remains vacant, but is owned privately with no intention to build at this time
- In August 2020, the final home settled

**Mr. Kenton is also the “Declarant” in our governing documents; he also served as President of the FL Farm HOA until it was turned over to the community in Aug 2017.*

TABLE 1

Fork Landing Farms Home Sales 2011 through Sept 2020 Total: 64 Lots						
Year	1 st Owner Settlements	Resales		Year	1 st Owner Settlements	Resales
2011	2	0		2016	5	2
2012	7	0		2017	29	0
2013	5	0		2018	8	0
2014	0	1		2019	2	1
2015	1	1		2020	5	3
64 Original Home Sales – 8 Resales Completed 1 additional resale pending settlement Nov 2020 (Lot 68) 1 additional resale pending settlement Dec 2020 (Lot 33)						

IDENTIFYING ACCURATE GOVERNING DOCUMENTS AFFECTING FINANCIAL MANAGEMENT OF OUR HOA

Before beginning the audit process, it was important for the Audit Committee to have a clear understanding as to what documents govern our financial activities. The Bylaws and Restrictions contain *the procedures for the conduct of the affairs of the Association of our common interest community*. Association Bylaws and Declaration of Restrictions strictly mandate: a) what type of expenses are authorized to be paid from annual and capital assessment funds; b) dictate what assessment funds can and cannot be used for operating expenses and capital improvement expenditures; and c) what funds must be deposited into a Reserve Account. The Bylaws and Declaration of Restrictions also contain language regarding the frequency of auditing our financial records; they mandate recordkeeping standards and budget requirements. It was, therefore, imperative that the Committee be working with an accurate set of governing documents.

The Committee was aware of the community’s decision to amend the Bylaws and Declaration of Restrictions in the Fall of 2018 and early 2019. Those intended changes included:

1. Limiting the Number of Rental Units to 10%
2. Granting the Board “power to make changes to Bylaws and Declaration of Restrictions after notice to homeowners”

3. Electing to conduct a financial REVIEW every three years at a cost of \$2,000 (vs. a full audit annually at cost of \$4800)

However, the Committee was unable to locate a set of the recorded amended Bylaws and Declaration of Restrictions documents that incorporated the above changes. The FL website contained an unrecorded version of the documents with the changes embedded throughout, but the documents were not signed, notarized, or recorded. The changes were not clearly noted (red-lined; track-changed or summarized), which made it difficult to discern what was added, deleted and/or amended to each document.

It was further noted that on November 17, 2019 and on Dec 9, 2018 the Board confirmed the amendments “have been filed in Sussex County” by the attorney. The Board circulated amended copies of the Bylaws and Declaration of Restrictions that contained the integrated changes; however, the changes to the documents were not clearly defined. The documents were not signed by our President, nor notarized. The documents lacked Recorder of Deeds stamps. They had various dates.

An examination by the Committee of the Sussex County Recorder of Deeds Office, as well as an extensive review of Fork Landing HOA meeting minutes and Board correspondence, review of legal correspondence and legal invoices indicated that the amendments voted on by the Community in Sept 2018 and Feb 2019 appeared not to be recorded, and therefore are not in effect according to the Fork Landing Bylaws and Declaration of Restrictions:

- Per our Declaration of Restrictions #29, Pg. 12 *“No such waiver, abandonment, termination, modification or alteration shall become effective until the proper instrument in writing shall be executed and recorded in the Office of the Recorder of Deeds”. Written consent of 75% of owners is required to amend Declaration of Restrictions.*
- Per our Bylaws, Article X, Section 2, Page 36: *“A modification or amendment of these Bylaws shall become effective only if such modification or amendment is recorded in the Office of the Recorder of Deeds in and for Sussex County, Delaware.*

These findings, along with a review of the legal correspondence and legal invoices from Moore & Rutt’s attorney Jamie Sharp prompted the Audit Committee to issue an immediate alert to the Board, asking them to confirm with Mr. Sharp if the draft documents were ever recorded in Sussex County Recorder of Deeds; and to ask his guidance on how to correct the unrecorded documents issue.

On Sept 29, 2020, Attorney Jamie Sharp responded to the Board:

“...My records reflect that there were discussions in late 2018-early 2019 regarding the proposed changes to the restrictions and Bylaws noted above.... I do not recall that these amended documents had been approved or recorded. I could search the property records if you wish to confirm.”

On Oct 2, 2020, Attorney Sharp confirmed that the draft documents were never recorded and wrote to the Board:

“I caution you against disseminating an “integrated” document showing changes made over time to those documents. I’ve seen that in other cases and find that the integrated documents often contain errors and can result in incorrect understandings of what changes are made. A better practice is to have copies of all recorded documents handy. Often amendments will be numbered and will identify the changes made, the reasons for the change, when they were made, etc. I recognize that this can be somewhat frustrating to review if many changes are made to the documents but I feel it provides better certainty as to the contents of those documents. To that end, I suggest removing the amended document on your website and only posting the recorded documents; whatever they may be. “

RECOMMENDATION #1: Due to the importance of this issue and the liability it presented to our Association, on Oct 2, 2020 the Audit Committee submitted an early recommendation to the Board President that the Executive Board, the Bylaws Committee and all homeowners be notified that non-binding, unrecorded versions of the Fork Landing HOA Bylaws and Declaration of Restrictions were circulated and posted to the FL Website, and that these unrecorded versions of the documents should be discarded. The incorrect documents were removed from the website after the Oct 15, 2020 Executive Board meeting and replaced with the correct set of governing documents.

Until such time as another review of the Bylaws and Declaration of Restrictions is conducted, voted upon by homeowners and recorded in Sussex County Recorder of Deeds, Fork Landing Farms does NOT have a rental limitation of 10%. It still mandates a full audit annually, and the Executive Board does not have the power to make any changes to the Bylaws or Declaration of Restrictions unless the majority of votes are obtained per the governing documents listed below. In other words, the original recorded documents from 2011 and 2016 are what governs our property and they will be used for the basis for this Audit Review:

TABLE 2

Governing Documents Affecting Financial Management of Fork Landing Farms, Inc. <i>https://www.forklandinghoa.org/rules-reg-s</i>			
Document Name	Where Recorded/Filed	Date Recorded/Filed	Instrument Number
Original Fork Landing Declaration of Restrictions	Sussex County Recorder of Deeds Office (Prepared by Attorney Bonnie Benson)	Apr 27, 2011	2011000013325 Book 3885 Pages 197-211
First Amendment to Declaration of Restrictions	Sussex County Recorder of Deeds Office (Prepared by Moore & Rutt, Attorney Adkins)	Jan 6, 2016	2016000000471 Book 4492 Pages 132-142
Original Bylaws	Sussex County Recorder of Deeds Office (Prepared by Moore & Rutt, Attorney Adkins)	Jan 29, 2016	2016000003156 Book 4500 Pages 206-245
Certificate of Incorporation for Fork Landing Farms Homeowners Association, Inc	Filed State of Delaware, Division of Corporations	Jan 4, 2016	File #5930506
Notice of Relinquishment and Termination of Declarant Control for Fork Landing Farms, Inc.	Recording/Filing not Required This Notice by Declarant (D. Kenton) declares his intention to turn control of the Common Areas and Association over to homeowners at the Annual Meeting on Aug 12, 2017.	Jun 27, 2017	N/A
Deed – Fork Landing Common Areas conveyed from Declarant (D.Kenton) to Fork Landing Farms Homeowners Association, Inc.	Sussex County Recorder of Deeds Office Note: This deed conveyance does NOT include Title Insurance. (Prepared by Moore & Rutt)	Nov 20, 2017	2017000043691 Book 4802 Pages 102-103

A note of clarification: The FL Architectural Guidelines do not affect the financial management or audit requirements of our HOA, nor are they recorded in Sussex County Recorder’s Office. Therefore, they are not included in the above discussion and table.

STATE AND CORPORATE STATUTES AFFECTING THE FINANCIAL MANAGEMENT OF OUR HOA

Fork Landing Farms Homeowners Association, Inc., is a registered Non-Profit Delaware Corporation, created for the purpose of operating, maintaining, managing and controlling the common areas and to enforce the restrictive covenants of Fork Landing Farms subdivision. Our Declaration of Restrictions refers to our HOA as a **“Maintenance Corporation”**.

Each lot owner is a Member of this Association entitled to one vote per lot. Each Homeowner shares in the assets and the liabilities affecting our HOA corporation. Managing, monitoring and sustaining the financial health and effective governance of our HOA is essential as it has a direct impact on the value of our homes. Poor management and lack of fiscal foresight can lead to increases of annual assessment dues (currently \$400 per year) and the levying of potential for “special assessment(s)” to cover costs of unforeseen expenses.

Fork Landing Farms HOA, Inc. is subject to portions of Chapter 81 of Title 25 of the Delaware Code, commonly known as the Delaware Uniform Common Interest Ownership Act or *DUCIOA*, a complicated statute that impacts our audit requirements to a degree; however, DUCIOA largely relies on the recorded Bylaws and Restrictions as the lead document in making decisions on the financial management of an HOA.

BYLAWS AND DECLARATION OF RESTRICTIONS SECTIONS PERTAINING TO FINANCIAL MANAGEMENT

Our Declaration of Restrictions (#27-b; Pg. 8-9) describes the types of assessments that can be levied by the Association for the purpose of “maintenance of common areas and open spaces”:

1. **Annual Assessments:** For the audit years 2017 and 2018 each lot owner paid \$300 annually; the annual assessment increased to \$400 on January 1, 2019 per homeowner vote at 2018 Annual meeting. Annual assessments remain at \$400 in 2020.
2. **Capital Contribution:** When a new home was built on an empty lot, the Association was authorized to collect at settlement the equivalent of two (2) years assessments from the new homeowner to be deposited into our Reserve Account. This is a one-time charge collected by the settlement attorney. (Capital contribution for audit years was \$600 until January 1, 2019, and it increased to \$800 when the annual dues were raised.) This same two-times the annual assessment capital contribution is also charged to buyers on all resales of properties.
3. **Special Assessments:** Are assessed from time to time to pay for capital improvements. To date, there has not been a special assessment levied by the HOA.

All of the above assessments will result in a lien against your property if not paid.

The Audit Committee referred to the following sections outlined in the FL Bylaws that relate to financial management:

1. **Minutes** (Pg. 6 Sec 15) – The Association shall maintain minutes of all meetings of its members and Executive Board, a record of all actions taken by the members or Executive Board without a meeting, and a record of all actions taken by a committee of the Executive Board in place of the Executive Board on behalf of the Association.
2. **Record Keeping** (Sec 17-(a-g)-Pg. 7) – The Association shall keep a copy of the following records at its principal office (Office of HOA President):
 - a) Its original or restated Certificate of Incorporation and Bylaws and all amendments to them currently in effect;
 - b) The minutes of all Association meetings and records of all action taken by members without a meeting for the past three (3) years;

- c) Any financial statements and tax returns of the Association prepared for the past three (3) years, together with the report of the auditors of the financial records;
 - d) A list of the names and addresses of its current members of the Executive Board and officers;
 - e) Its most recent annual report delivered to the Secretary of State;
 - f) The Association's most recent RESERVE STUDY; and
 - g) Financial and other records sufficiently detailed to enable the Association to comply with Section 81-409 of the DUCOIA Act (This section lists the documents required to be presented to a new owner in the event of resale of the property.)
- 3. Power and Duties of Executive Board** (Pg. 13-Sec 2(o)): Keeping books with detailed accounts in chronological order of the receipts and expenditures affecting the operation of Fork Landing Farms, and the administration of Fork Landing Farms, specifying the maintenance and repair expenses of the common elements, and any other expenses incurred, including those for the repair and replacement reserve.....**All books and records shall be kept in accordance with good and accepted accounting practices, and the same shall be audited at least once a year** by an outside auditor employed by the Executive Board who shall not be a resident of Fork Landing Farms, or an owner of a Lot herein. The cost of such audit shall be a common expense.
- 4. Operation of Property** (Article V-Sec 1-(a-g) pg. 21-23)- Includes detailed requirements regarding preparation and adoption of itemized budget for payment of common expenses.
- 5. Reserves** (Art V-Sec 1(d)-pg. 23): Describes funding of the Reserve Account; and (Sec 17 (f) Pg. 7) indicates the need to conduct a **Reserve Study** to anticipate its future needs. The main purpose of a **reserve study** is to analyze the overall components of a **HOA** to try and determine how long it will be before assets will need repair or replacement and estimate the cost of such upkeep. **Reserve studies** also serve to enable the board of directors to analyze the overall strength of the **reserve** fund, avoid special assessments and maintain a reasonable annual assessment.

FORK LANDING AUDIT REQUIREMENTS AND TYPES OF AUDITS

State law DUCIOA 25 Del C. sections 81-306 and 81-318 imply a certified audit be conducted every 3 years.

In addition, our current Bylaws (Sec 2(o) Pg. 13) mandate that we are required to conduct an audit once a year; however, the document does not define what type of audit.

There has not been an audit conducted on our finances since homeowners assumed control of the HOA in August 2017. It is not known from the records available to the Committee if an audit was conducted by the Declarant (Mr. Kenton) prior to transferring control to the homeowners, as is appears to be required by State Law under DUCUOIA 25 Del C. Sec 81-303. There are **three levels** of a financial audit: **Certified Audit** by a CPA, a **Review**, and a **Compilation**.

TABLE 3

<i>Levels of Audits</i>		
TYPE OF AUDIT	COST	DESCRIPTION
<p>Certified Audit – <i>Conducted by a CPA</i></p> <p><i>Note: The Audit Committee attempted to conduct their review using this level of examination.</i></p> <p><i>The Audit Committee is not qualified to issue an Opinion Report.</i></p>	<p>\$4,800 to \$5,000 for each year reviewed</p>	<p>An audit is an examination of an organization’s accounting records and procedures by an independent certified public accountant for the purpose of verifying the fairness of the presentation of financial statements. An association’s <u>governing documents</u> and/or <u>state statutes</u> may require an annual audit. However, in the absence of a state mandate, external verification of the accuracy and completeness of the association’s financial records is a sound business practice. <i>The audit should include, but is not limited to, the following: confirmation of selected transactions and balances with outside parties (such as banks and contractors); a physical inspection of records; a trace of transactions to supporting documentation and authorization by someone within the association; and review of the association’s legal documents and minutes.</i></p> <p>After the audit is complete, the CPA will prepare an opinion report that details one of the following four outcomes:</p> <ol style="list-style-type: none"> 1. The auditor issues an unqualified or clean opinion that states that the financial statements are presented fairly in all material respects. 2. The auditor issues a qualified opinion that says the statements, with certain reservations are fairly presented. 3. The auditor disclaims his/her ability to issue an opinion. 4. The auditor issues an adverse or negative opinion.
<p>2) REVIEW – <i>Conducted by a CPA</i></p>	<p>\$3,000 to \$3,500 for each year reviewed</p>	<p>A review is less thorough than an audit, thus a less costly analysis of an association’s financial activities. It provides the board with <i>some assurance that the financial statements are consistent with typical trends without the detailed examination obtained in an audit.</i> In a review, the CPA interviews management personnel and others involved in the association’s accounting process in order <i>to assess the association’s financial procedures.</i></p> <p>The reviewer <i>compares the actual amounts with the association’s prior year line items and looks for trends or irregularities.</i> The <u>review provides a significantly lower level of assurance than an audit does.</u> The report states that the CPA is not aware of any material or significant changes that should be made to the financial statements in order for them to conform with GAAP or OCBOA.</p>

<p>3) COMPILATION - Conducted by an Accountant</p> <p><i>This is the type of financial examination the Board contracted with PK&S in December 2019. It was not completed as it was determined it would not satisfy our Bylaw requirement.</i></p>	<p>\$2,000 for each year reviewed</p>	<p>A compilation is a presentation of financial statements prepared by an accountant, not necessarily a CPA, but does not provide any level of assurance regarding the financial statements. Compilations should also be prepared in accordance with GAAP or OCBOA.</p> <p>Through a compilation, the association asks an accountant to prepare its year-end statements based on the information that the board or manager provides. The accountant does not make any representation about the accuracy and completeness of the financial statements. However, if he/she becomes aware that the statements are incorrect, he/she is obligated to disclose that fact.</p>
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The above audit definitions are excerpted from Foundation for Community Association Research "Best Practices for Financial Operations" (p. 9-10). This organization is listed as a trusted resource on the State of Delaware AG Ombudsman's for Common Interest Communities (HOA) Office Link: <https://foundation.caionline.org/publications/best-practices-reports/>

BOARD DISCUSSIONS AND ACTIONS REGARDING AUDIT REQUIREMENTS FOR FORK LANDING FARMS HOA

- On February 24, 2019, the homeowners voted electronically to approve a **Certified Audit** be conducted every 3 years at a cost of \$5,000, beginning in 2020.
- On September 21, 2019 at an Executive Board Meeting (not an Annual Meeting) another vote was taken to opt for an audit **Review** (cost of \$2,000) instead of a Certified Audit (cost \$5,000) every 3 years. The minutes for this meeting indicate "87% in favor" of a Review. A meeting attendee list was not attached to the minutes to determine if the requisite 2/3 majority of home owner votes were attained.
- In December 2019, the Board contracted with PKS & Company (CPA firm) to conduct a "**Compilation**" (NOT A **Review**) for \$2,000 to cover YR 2019. The Compilation was to begin in February 2020. This work was delayed due to COVID-related business closures. (Refer to **APPENDIX I** for PK&S letter of engagement).
- On September 1, 2020, the newly seated Board requested that PK&S put the Compilation project on hold until they could confer with legal counsel as to what our options are available to us regarding the audit requirement.
- At the September 17, 2020 Exec Board meeting, it was announced that our attorney (Mr. James Sharp of Moore & Rutt) was consulted regarding conducting a "Compilation" instead of a "Review". Mr. Sharp attorney advised that a Compilation did not meet the requirements of our Bylaws to satisfy as an audit. A motion was taken and approved by the Executive Board to cancel the Compilation since work with PK&S accountants had not started.
- *This will save an expense of \$2,000 in the 2020 budget; however, the audit requirement in our Bylaws must still be addressed.*
- At the same September 17, 2020 meeting, the Board agreed that in lieu of the audit an Audit Committee of homeowners would be appointed to conduct an "internal review audit" as a first step in collating our financial records and to conduct a preliminary review of HOA finances from 2018 through Sept 2020. The committee was granted full access to the Association's accounting records.
- On October 2, 2020, the attorney, Mr. Sharp, advised the Board that upon further review of the DUCOIA statute, which is vague with regard to single-family home community audit-requirements, there is a *possibility* that by amending our FL bylaws to include a 'formal examination of our Association accounting records, financial situation and compliance with **some other set of standards by which the community intends to conduct its audits** and provide some sort of independent review', we **may** be able to legally eliminate the certified audit requirement.
- The Board decided to wait for receipt and review of the Audit Committee Report and obtain community input before proceeding further.

RECOMMENDATION #2: The Audit Committee recommends that the Board and the FL Bylaws Committee consider changing legal representation. The law firm Moore & Rutt has provided counsel to Fork Landing since 2011. They developed our original governing documents of 2011, 2016 (Attorney Jason Adkins), and the firm continued to provide counsel in 2018 and 2019 (Mr. Sharp) regarding the incomplete attempt to amend the Bylaws and Declarations. Legal fees represent one of our largest expenses. Over the past 4 years 70% of the legal fees incurred were related to Bylaws, DUCOIA, audit requirements and ARC guidelines. The balance of legal fees related to legal issues with regard to homeowner accounts. We would benefit from a fresh legal perspective.

TABLE 4

LEGAL FEES - Moore & Rutt, PA 2017-2020		
Year	Total Annual Amount	Related to Bylaws-DUCOIA and Audit and ARC Guidelines
2017	\$ 2,930.00	\$ 2,530.00 (ARC Guidelines)
2018	\$ 2,408.00	\$ 2,113.00
2019	\$ 766.50	\$ 333.50
2020	\$ 1,527.50	\$ 315.00
Total:	\$ 7,632.00	\$ 5,291.50
Note: YR2021 Budget has allocated another \$2,500 to complete the Bylaw amendments next year.		

RECOMMENDATION #3: The Audit Committee recommends that the Board and the Bylaw Committee consider implementing some of the guidance offered from Foundation for Community Association Research (CAI) **“Best Practices for Governance”**, recommended by the State AG Office. The CAI organization’s purpose is to foster vibrant, responsive, competent community associations that promote harmony, a sense of community and responsible leadership. The guide provides function-specific best practices and actual case studies that will help inform the re-writing of our Bylaws and Declaration of Restrictions and may help reduce legal consultation fees.

Link: <https://foundation.caionline.org/publications/best-practices-reports/>

METHODOLOGY USED BY AUDIT COMMITTEE:

REQUESTED WORKING DOCUMENTS:

On September 19, 2020, the Audit Committee requested from the Board and/or HPS Management the following financial documents and governing documents for the years 2018, 2019 and 2020 year-to-date:

- HPS Monthly Invoice List containing details of each expense paid from FL bank accounts
- HPS General Ledgers
- HPS Invoice Lists monthly and year-end
- Bank Statements for Operating Account and Reserve Account
- Contracts, Leases and Retainers
- Executive Summary Minutes
- Annual Meeting Minutes
- Board email correspondence related to all financial transactions, contracts, capital improvements, etc.
- Actual Budgets 2017 through 2020
- Capital Contribution receipts from HPS
- Requested copies of recorded amended Bylaws and Declaration of Restrictions from Nov 2018, Dec 2019
- Requested legal clarification as to whether our HOA falls under DUCOIA governance; and therefore, subject to their audit requirements.

PROJECT OUTLINE:

On September 25, 2020, Committee Chair presented the outline to committee members and the Board President

Phase 1:

Reviewed each monthly expense as listed on the HPS monthly financial reports for 2018, 2019, 2020

- a) Assigned a numerical annotation to each monthly expense (example "20-08-01" - year, month, expense item on HPS report for that particular month) in order to catalog a hard copy of our findings for potential future audit.
- b) After referring to the approved budget, master contracts, meeting minutes and other sources, completed a brief summary sheet for each expense **using the following six criteria:**
 1. Was the expense in the current budget?
 2. Did the expense exceed budget – if so, by how much?
 3. Does it pertain to a contract? If so, was the invoice accurate by line item to the contract?
 4. Was this expense approved by the Board before payment authorized?
 5. Was sufficient supporting documentation provided for this expense/invoice?
 6. Was this expense accurately reflected in HPS financial statements?

Phase 2:

After the initial individual expense review, a deeper examination of each expense was conducted.

- Efforts were made to track down supporting documentation from Board DropBox files, HPS and vendors
- Special attention was paid to items that were not on the approved budget or had exceeded the budgeted amount
- Special attention was paid to our largest line item expenses: Landscaping (mowing), Landscaping Enhancements, Irrigation, Legal, Pier Maintenance and Grounds Maintenance.

After clarifying individual expenses, the Audit Committee also:

- Reviewed the monthly bank statements and reconciled them with HPS monthly reports, verifying deposits, transfers of funds to and from Operating and Reserve accounts; reconciled discrepancies as we went along with assistance of HPS and direct communication with vendors.
- Reviewed all meeting minutes and board email correspondence available to assist in confirming actions taken.

Phase 3: Compiled Audit summary and recommendations for delivery to the Board and Community.

This methodology and criteria used was developed by the Audit Committee in accordance with general good accounting practices and specifically upon recommendations provided in the CAI “*Best Practices Guide for Financial Operations.*”

Once our methodology was approved by the Board, the Audit Committee worked independently, by phone and in person throughout the rest of the review process.

The Audit Committee concentrated on a comprehensive review of FY2018, FY2019 and FY2020 (through Sept 2020). We occasionally reached back to briefly review 2017 financials for reference, clarification and continuity. *The Audit Committee did not conduct a full review of FY2017.*

When the Audit Committee lacked sufficient documentation, or found conflicting data, an *Audit Request* was made to the Board in order to satisfy the questions. That information was tracked down by the current President and/or Secretary in detail and forwarded to the Audit Committee to support this Audit Summary.

This review encompasses the finances related to every aspect of our community, i.e., storm drains, common areas, pier, irrigation and entrance improvements. The Committee focused higher scrutiny on our largest expenses, Lawn Service, Landscape Enhancements, Pier Maintenance and Legal Fees.

On two occasions, the Audit Committee was compelled to provide an alert to the Board that impacted timely and important findings that may impact 2020 and 2021 budgeting decisions and Bylaw legal matters. The first occasion involved 2018 legal fees incurred for reviewing Bylaws by law firm Moore and Rutt for which there was no final recorded legal documents to support the expenses (addressed in detail earlier in this report); and, the second occasion was in reference to the 2020 over-payment and duplicate payment made to Sullivan’s Landscaping in April and July 2020 that will be described in more detail later in this report.

At all times, the Audit Committee practiced strict confidentiality standards in order to protect the privacy of homeowner information. This report contains no individual names or individual attribution for any actions.

Throughout this summary, the Audit Committee will offer Recommendations gleaned from the Best Practices Financial Operations Guide as well as specific record keeping recommendations based on specific examples of our individual expense review. These recommendations are highlighted and numbered throughout the document in order for the Board to formally consider adopting as standard internal practice. This audit review incorporates the specific standards outlined in the ***Fork Landing Farms HOA Accounting Resolution*** passed by our Board on Sept 17, 2020 **(APPENDIX II)**

MANAGING AGENT FOR FL HOA

HPS MANAGEMENT:

HPS Management has been contracted to serve as the Managing Agent for our Association's financial needs since December 2017. Prior to that, Guardian Property Management served our community until they were bought out by HPS. HPS Management is a national company with offices in many states.

HPS has access to FL HOA financial documents dating back to 2012.

HPS uses *Modified Cash Method* of accounting, which is similar to a checking account. This method records income when deposited and expenses when paid, unlike an accrual system that records income when earned and expenses when incurred. Almost 95% of HPS associations are on a cash basis.

HPS managers are trained and certified by the Community Associate Institute (CAI), the same organization whose resources were used by the Audit Committee and cited previously in this report.

On the 15th of each month, HPS emails a financial packet to the Board that includes the following items:

- Balance Sheet – lists bank account balances for Operating Account and Reserve Account
- Income Statement-Operating Account – Lists ACTUAL and BUDGETED amounts Year-to-Date and **will identify the line items that are exceeding the approved budget amount**
- General Ledger Trial Balance with Details
- Cash disbursements – list of every expense/invoice paid that month
- Bank Statements for Operating and Reserve Account
- List of homeowner assessment balances

During these 3 audit years, we had 3 different banks: **Community Association Bank** until Dec 2017; **Union Bank** until August 2019; when HPS converted to our current **Seacoast Bank**.

This audit review could not have been conducted to the degree of detail without the historical documents and professional assistance of our HPS account manager, Ms. Leah Thompson.

Our contact at HPS is Leah Thompson <https://www.hpsmanagement.com/>

TABLE 5

HPS MANAGEMENT FEES AND EXPENSES 2018 TO 2020 YEAR-TO-DATE			
	2018 (\$156/mo.)	2019 (\$175.00/mo.)	2020 (\$187.50/mo.)
Monthly Mgmt. Fee	\$ 1,872.00	\$ 2,100.00	\$ 2,250.00 (thru 12/30)
Expenses Postage, copies, mailings...)	\$ 227.50	\$ 373.05	\$ 494.81 (thru 9/30)
TOTAL HPS EXPENSES:	\$2,099.50	\$2,473.05	\$ 2,744.81
<i>Monthly management fee to increase to \$200 per month Jan 2021</i>			

RECOMMENDATION #4: The Committee strongly recommends that the Association continue to contract with a management services organization such as HPS Management to ensure independent, reliable, accurate, bonded and insured financial statements

UNDERSTANDING OUR HOA FINANCIAL ACCOUNTS

INDIVIDUAL HOMEOWNER ACCOUNTS

- HPS maintains individual accounts for each homeowner to keep track of their assessment payments
- The annual assessments paid semi-annually at \$200 each are deposited into the Operating Fund

In addition, HPS maintains two bank accounts for our HOA:

OPERATING ACCOUNT – also referred to as Working Fund: **Balance as of 9/30/20 is \$21,164.20**

- All annual assessments (paid by each homeowner \$400 annually) and capital reserve contributions (a one-time charge of 2x the annual assessment depending on what year you moved here) go into the Operating Account.
- All expenses are paid out of the Operating Account.
- Quarterly, a transfer of funds is made *from* the Operating Account to the Reserve Account of all capital reserve contributions deposited by settlement attorneys when a home is sold.
- A monthly bank statement is sent to the Board on the 15th of each month.
- The bank account is connected directly to HPS accounting systems for ease in monthly reconciliation, reduction of costly paper checks and convenience in making electronic deposits.
- No one on the Board has direct debit access to this account. Its management is governed by the HPS contract.
- HPS refers to our Bylaws to manage certain aspects of our account, specifically as they relate to mandated deposit of Capital Contributions into the Reserve Fund, and other budget related actions.

RESERVE ACCOUNT – also referred to as “Capital Reserve Fund”: **Balance as of 9/30/20: \$34,528.37**

- The purpose and management of the Reserve Fund is defined by our Bylaws (*Art. V-Sec1(d)-Pg. 23*), and calls for an annual “*Reserve Study to be conducted*” (*Sec. 17 (f); pg. 7*).
- HPS maintains a separate bank account to hold these Reserve Funds.
- This account is essentially our *savings account*
- The Board is required to maintain “reasonable reserves” for unexpected future repairs/replacements and to pay for “capital improvements”.
- ***IMPORTANT: Depletion of the Reserve Account due to unexpected expenses could necessitate the Board levying a Special Assessment to replenish the Reserves.***
- Capital Reserve deposits into this account include:
 - 2x annual assessment at settlement (currently \$400x2 = \$800) when a home is sold,
 - Plus, pro-rated amount of annual assessment due at each home settlement,
 - A *portion* of the annual assessment, the amount of which is determined by the Board, and
 - Bank interest earned annually on Reserve Account

RESERVE ACCOUNT CAPITAL CONTRIBUTIONS BREAKDOWN

Our current Reserve Account balance is **\$34,528.37**. The Reserve account is primarily funded by 3 main sources:

1. **Capital Reserve Contribution at Settlement:** The 2x annual assessment capital contributions is collected at settlement (currently \$800). This is a one-time charge to the buyers when a home is sold in our community; including resales.

The amount of the capital contribution assessment over the years ranges from as low as \$-0- in 2011; \$700 in 2012-15; \$600 for 2017-2018; and increased to our current rate of \$800 Jan 1, 2019. The Developer set the assessment rates until Aug 2017 when homeowners assumed control. There are no minutes prior to 2016 to refer in order to explain how the assessments were determined in the first few years. Assessment rates are now controlled by community vote taken at our Annual Meeting.

Additionally, at settlement the *pro-rated* amount of the semi-annual assessment fee is also collected and is sent to HPS. These amounts vary greatly depending on what date settlement occurs.

2. **Portion of \$400 Annual Assessment:** A portion of our annual \$400 assessment (dues) goes into our Reserve account. Currently, **\$6.26** of the **\$400** annual assessment goes into Reserves. The rest stays in the Operating Account to pay for monthly common expenses. According to HPS, the Board decides this proportion. The Audit Committee could not find reference in minutes as to how this figure was calculated. Annually @ \$6.26 per 64 lots, this increases Reserves by approximately. **\$407 a year**, providing all homeowners remain current on payments.

TABLE 6

Annual Assessments According to HPS Individual Account Records 2013 to 2020*			
Year	Total Dues Assessed	Amount to Operating	Amount to Reserves
2013	\$350	\$315	\$35
2014	\$350	\$315	\$35
2015	\$200	\$180	\$20
2016	\$200	\$180	\$20
2017	\$300	\$170	\$30
2018	\$300	\$293.24	\$6.26
2019	\$400	\$393.74	\$6.26
2020	\$400	\$393.74	\$6.26

*Annual assessments do not appear to have been universally charged until 2013. Pro-rated assessments were collected for 2012 but the charges were not consistent.

3. **Interest on Reserve Bank balances:** Minimal annually amount to **<\$50**

HPS makes quarterly transfers of the capital reserves and assessments from our Operating Fund to the Reserve fund.

MAJOR CAPITAL CONTRIBUTIONS TO DATE

The Audit Committee attempted to account for the major capital contributions collected from 2011 when the first sale occurred to date. Without bank statements and general ledgers for 2011-2016, it was difficult to determine with absolute accuracy. However, HPS sent the Audit Committee historical individual account records from 2011 that allowed us to account for **61** of the **64** original lot settlements and all **8** resales to ensure that these funds were indeed collected.

We used this data along with our master list of home settlement dates to calculate a relatively accurate amount of the capital contribution funds generated by home sales. This table represents the 2x annual assessment collected at settlement.

TABLE 7

Capital Contribution Collected at Settlement based on HPS Historical Individual Account Records <i>Does not include pro-rated semi-annual assessment collected at settlement or</i> <i>The portion of annual assessments transferred to Reserves</i> 2011 to Sept 30, 2020				
Year	New Home Settlements	Capital Reserves Collected on Original Lots	Resale Settlements	Capital Reserves Collected on Resales
2011	2	\$ 0	0	\$ 0
2012	7	\$ 2,300	0	\$ 0
	3 @ \$700 each 2 @ \$100 each and 2 records unavailable			
2013	5	\$ 2,800		
	4 @ \$700 each and 1 record unavailable			
2014	0	0	1	\$ 700
2015	1	\$ 700	1	\$ 700
	@ \$700 each			
2016	5	\$ 3,000	2	\$1,200
	@ \$600 each			
2017	29	\$17,400	0	\$0
	@ \$600 each			
2018	8	\$ 4,800	0	\$0
	@ \$600 each			
2019	2	\$ 800	1	\$800
	@ \$800 each 1 is in dispute- payment mending			
2020	5	\$ 4,000	3	\$2,400
	@ \$800 each			
TOTAL: 64 Original Lots		\$35,800	TOTAL: 8 REALES	\$5,800

The Balance in Reserves as of 9/30/20 is **\$34,528.37**. This reflects the recently **-\$4,000** that was deducted to pay for tree removal this summer due to storm damage.

There has been no other transfer of funds out of the Reserve account for YR2018, YR2019, or YR2020 other than the \$4,000 payment for tree removal.

Audit Committee was unable to determine if any withdrawals/transfer from Reserves occurred prior to Nov 2017.

This table summary by no means represents a complete reconciliation of our Capital Contributions Reserves, it might provide some level of assurance that the primary portion of Reserve assessments collected from 2011 to date are *relatively* accurate and have remained untouched at least for the past 3 years, with the \$4,000 tree removal exception. This infers that we have adequate funding in the *Operating Account* to pay recurring monthly expenses.

However, the community is now 100% built out. We no longer have the steady stream of deposits from the many settlements that occurred in the past 3 years (i.e. 2017 had \$17,400 in capital contribution). We only have resales to rely on to build our Reserves and we only had 10 of those over the past 10 years.

TABLE 8

ACTUAL DEPOSITS TO RESERVE ACCOUNT			
2018 to 2020 Year-to-Date			
ACTUAL RESERVE DEPOSITS	2018 8 New Home Sales 0 Resales	2019 2 New Home Sales 1 Resale	2020 5 New Home Sales 3 Resales**
Capital Contributions	\$4,800.00	\$2,200.00*	\$6,457.40
Reserve Assessment @ \$6.26 per Lot annually	321.91	354.21	388.62
TOTAL:	\$5,121.91	\$2,554.21	\$6,846.02

*\$2,200 – This figure represents 1 new sale @ \$800; 1 resale @ \$800 and 1 new sale from 2018 @ \$600; 1 new sale (\$800) currently in dispute that has not been deposited to date.

**There are 2 additional resales pending settlement Nov/Dec this year not included in above table

Recommendation #5: ACCELERATED RESERVE FUNDING

Once the YR2021 budget is adopted by the community, the Audit Committee recommends that the Board conduct an analysis of the Operating Account to determine how much can be transferred into Reserves immediately. The Operating Account Balance should be an estimated \$30k by Jan 31, 2021, which will include the first semi-annual assessments (Est \$12k). We should be in a position to **transfer** a hefty sum (\$5,000 or more) into Reserves by Jan 31st. We recommend that a similar analysis be done July 31, 2021 after the second semi-annual assessments are received, and a second bulk transfer of funds be made to Reserves (another \$5,000 or more).

This model focuses on a bold approach to increase funding to our Reserves now that we will no longer have a steady stream of Reserve income from new home builds. With the fiscal discipline to adhere strictly within our YR2021 budget, along with two semi-annual transfers of \$5,000, we potentially can increase our current Reserve Bank Balance of **\$34,528** by an additional \$10,000, or est. **\$44,000** by July 2021.

Using this model, the \$400 annual assessments will continue to go into Operating Account; however, instead of transferring only \$6.26 per Lot (\$400 per year); we will have transferred \$10,000.

All Resale capital contributions will continue to go into Operating, and will be transferred at the next semi-annual transfer to Reserves

The key to making this model work is for the Board to commit to closely *evaluating* our spending every 6 months, and transfer as much as possible into Reserves, while leaving enough to support cash flow for the balance of expenses.

Until we conduct our 3-5-year Reserve Study, it would be prudent for our Association to save as much money as possible in anticipation of future repairs and replacements of assets.

Recommendation #6: - Conduct a **RESERVE STUDY** as required by our Bylaws

- Appoint an ad-hoc committee to conduct a comprehensive, in-depth **3-5 Year Reserve Study** specifically to identify the projected future major repairs and/or replacement costs for the common areas and assets that the Association is obligated to maintain, and determine if current Reserves are sufficient to cover such costs without having to levy a Special Assessment. Major costs could be associated with storm and/or flood-related tree removal, swale and ditch management; pier replacement; storm water drain basin maintenance, community well repair/maintenance.
- Consider following **CAI Best Practices - Reserve Studies and Management**
Link: <https://foundation.caionline.org/wp-content/uploads/2017/06/bprs.pdf>
- Obtain a determination from our insurance underwriter as to what exactly is covered through our policies with regard to tree removal, storm repair, pier damage due to catastrophic events.
- Conduct an inventory of the trees that are within the common areas so that we can imagine “worst case scenarios”.
- Our Reserve Account could be quickly exhausted if we suffered an extreme wind event similar to what occurred this summer in Dover and Middletown that resulted in uprooting of trees and damaging entrance signs. In our central open area, for example, there are approximately 19 trees. Tree removal ranges from \$500-\$2,000 per tree and represents a financial vulnerability to us.
- Review the sections of our governing documents that pertain to Reserves and the responsibilities the Association has to maintain and improve the common areas, including:
 - a) *Bylaws Article V, Sec 1(d): **RESERVES:** “The Executive Board shall build up and maintain reasonable reserves for working capital, operations, contingencies and replacements. Extraordinary expenditures not originally included in the original budget which may be-come necessary during the year shall be charged first against such reserves. If the reserves are inadequate for any reason, including non-payment of any Owner’s assessment, the Executive Board may at any time levy a further [special] assessment that may be payable in a lump sum or in installments as the Executive Board may determine....”*
 - b) *Declarations of Restrictions Section #27 (h), Pg. 11: (h) The Association shall be charged with the duty of improving and maintaining said forested buffer strip, common area and private open spaces, drainage ditches and swales, in the condition required by the Sussex County Code*, and discharging all other responsibilities set forth in these restrictions, and shall be charged with the payment of taxes and similar governmental charges as set forth herein. By a 2/3 vote of its members, the Association may take such other action for the benefit of the lands governed hereby. [“Sussex County Code” was amended to read “City of Milford Code” in 1st Amendment to Declaration of Restrictions]*

REVIEW OF EXPENSES – BUDGETED AND ACTUAL

TABLE 9

FORK LANDING FARMS HOA - SUMMARY EXPENSES 2018-2021						
	2018		2019		2020	
GENERAL EXPENSES	Budget	Actual	Budget	Actual	Budget	Projected
Management Fees	\$ 2,000.00	\$ 2,538.14	\$2,100.00	\$2473.05	\$2,250.00	\$3,090.00
Tax, Acct, Audit Fees	300.00	300.00	300.00	\$300.00	\$2,300.00	\$300.00
Insurance Premiums	500.00	1,537.00	2,884.00	\$2,415.00	\$2,900.00	\$2,500.00
Meeting/Community Exp	400.00	480.30	\$468.00	\$100.00	\$150.00	\$150.00
Contingency Expense	1,200.00	0.00	1,500.00	\$0.0	\$1,000.00	\$ 0
Office Expenses	250.00	581.30	\$708.00	\$407.82	\$500.00	\$200.00
Legal	1,000.00	2,408.00	1,200.00	\$766.50	\$900.00	\$2,000.00
Taxes	350.00	184.46	350.00	\$184.46	\$380.00	185.00
State Franchise Tax	25.00	25.00	25.00	\$25.00	\$25.00	\$25.00
Social Events	0.00	0.00	798.75	\$614.95	\$1,000.00	\$ 0
State of DE Reg. Agent	50.00	0.00	\$0.00	\$0.00	\$0.00	\$0.00
UTILITIES						
Common Area Electric	\$700.00	\$246.93	\$360.00	\$356.82	\$360.00	\$400.00
*MAINTENANCE-includes entry way, paths, pier, common areas						
Landscaping-Mowing	\$ 6,000.00	\$ 7632.33	\$6,600.00	\$ 6,740.97	\$ 7,250.00	\$ 8,400.00
Snow Removal	\$ 0	\$0	1,000.00	540.00	1,100.00	0.00
Grounds Maintenance	\$ 0	850.00	1,000.00	287.93	1,000.00	0.00
Landscape Enhancements	1,500.00	927.35	\$245.14	308.09	1,400.00	300.00
Irrigation	500.00	627.50	\$450.00	(\$300.00)	100.00	100.00
*ASSET PURCHASES						
Projector/screen	\$ 0	\$597.79				
Weed Torch Dolly backpack	\$ 0	\$402.00				
Website Domain Name	\$ 0	\$410.90				
Shovels, Space, cart, gloves			\$185.33	\$185.33		
Holiday Lights, garland, décor			\$719.53	\$719.53		
Shed					\$0	\$3,900.70
Hoses/cords for power washer					\$0	\$484.37
*CAPITAL IMPROVEMENTS						
Upgrade Pier Railings, Pipe caps	\$500.00	\$1,596.06				
New sidewalk	\$0	\$3,562.50				
Replace Existing Wing Wall			\$850.00	\$850.00		
Moved Community Sign, pier benches, pier repair			\$750.00	\$509.57		
Install new sod common area					\$1,785.00	\$1,784.75
New irrigation front area					\$1,000.00	\$1,597.00
*MAJOR REPAIRS						
Tree Removal-storm damage					\$0	\$3,550.00
Budget Expense Totals:	\$15,275.00	\$24,907.56	\$22,493.75	\$17,485.02	\$25,400.00	\$28,966.82
	Over Budget -\$9,632.56		Under Budget + \$5,008.73		Over Budget by \$-3,566.82	

*The Audit Committee broke out expenses for the last 3 years in order to identify expenses related to **Asset Purchases**, **Capital Improvements** and **Major Repairs**. It is important to distinguish these occasional expenses from recurring maintenance costs. Also, "Maintenance" category represents all common ground areas.

The **yellow** and **green** highlighted expenses are further discussed in "Review of Individual Expenses" section each year beginning on page 20.

A more informative perspective is to look at the **ACTUAL OPERATING CASH INCOME** received through annual assessments each year in relationship to our **ACTUAL EXPENSES**.

Our HOA is expected to use *only* the annual assessments to pay for all basic operating expenses

Reserve funds should remain untouched except for emergencies or approved capital expenditures.

TABLE 10

ACTUAL OPERATING <u>INCOME</u> vs ACTUAL OPERATING <u>EXPENSES</u>			
Does NOT include any RESERVE Income			
ACTUAL OPERATING CASH <u>INCOME</u>	2018 @ \$300/year No. homes on Jan 1: 49	2019 @ \$400/year No. homes on Jan 1: 51	2020 @ \$400/year No. homes on Jan 1: 59
Annual Assessments	\$15,763.86	\$22,224.68	\$24,250.69
Owner & Interest Earned	58.52	81.50	\$212.18
Late Fees	0.00	240.00	\$1,230.00
Collection & Legal Income	0.00	200.00	\$734.00
TOTAL INCOME:	<u>\$15,822.38</u>	<u>\$22,746.18</u>	<u>\$26,426.87</u>
TOTAL SPENT:	- \$24,907.56	- \$17,485.02	- \$28,966.82
	<i>Exceeded Income -(\$9,085.18)</i>	\$5,261.16	<i>Projected to Exceed income -(\$2,539.95)</i>

We are simply not living within our means. We spend more money than we take in. We are not saving adequately.

This is not sustainable.

Additionally, other than the \$6.26 per lot from annual assessments and the occasional resale capital contribution (\$800), there are no funds going into Reserves in 2021 for future capital improvements and expenditures, unless the Board takes actions as suggested in Recommendation # 5 above (Accelerated Reserve Funding Concept).

REVIEW OF INDIVIDUAL EXPENSES YR2018, YR2019 and YR2020

Table 11

<u>Warning Signs to Look for When reviewing Financials:</u> <i>"Best Practices-Financial Operations"</i> Foundation for Community Association Institute (CAI)	
<ul style="list-style-type: none">• A steady decline in the amount of cash on hand.• Significant and/or unexplained differences between actual and budgeted figures for items.• An increase in the amount of owners' assessments owed to the community.• Unusually large legal expenses—unless reason is disclosed.	<ul style="list-style-type: none">• Absence of a reserve study.• The failure to resolve any differences between bank statements and the financial statements in a timely manner.• Untimely generated, or missing, financial statements.• Financial statements not prepared using GAAP

The Audit Committee focused on the above recommendations from CAI "Best Practices for Financial Operations to initiate our review, concentrating on the highlighted points, as these are areas that appear deficient.

YR2018 DETAILED EXPENSE REVIEW

Refer to Appendix III – 2018 Operating Income Statement

For **YR2018**, we budgeted \$15,275.00 in anticipated expenses. We actually spent \$24,907.56, exceeding the budget by -\$9,632.56. Our operating INCOME for FY2018 was **\$15,822.38**. Fortunately, our operating account had sufficient balance to handle the budget cost over-runs. It is important to analyze cost over-runs so that they can be avoided in the future.

For YR2018, there were **67** individual expenses/invoices paid in YR2018. The Committee reviewed and evaluated each expense according to the 6 criteria to determine: a) if the item was in the current budget; b) if it exceeded the budget projection; c) if it pertained to a contract and was properly invoiced and has proper documentation attached; d) if payment was approved by the Board before payment made; e) if there were sufficient funds in the budget at the time payment was made; and f) was the expense accurately reflected in HPS financial statements. All invoices with their determination sheets and auditor comments are in binders and will be delivered to the Board upon completion of this audit.

Of the 67 invoices; **36** are recurring monthly expenses (HPS management fee; HPS office expenses; City of Milford electric; **12** invoices were paid by a Board member's personal credit card and reimbursed; **6** expenses were paid by a homeowner's personal credit card and reimbursed. In all cases, proper receipts were attached to the credit card reimbursement request; **13** invoices were submitted by contractors/vendors, and insurance premium payments.

Major line items that exceeded budget included:

- Insurance:** The Board increased our insurance coverage in Sept 2018. **\$500** was budgeted for premiums; however, **\$1,537** was spent in premium payments
- Legal Fees:** **\$1,000** was budgeted for legal fees in YR2018. **\$2,408** was spent. A review of the legal invoices indicated that \$85.50 went toward our domain name search and \$209.50 towards delinquent assessment issues. The largest portion of these fees, **\$2,113**, went towards legal counsel regarding amendments to Bylaws, Declaration of Restrictions, advice on enacting the 10% rental restriction, review of State statute DUCOIA, review of architectural guidelines. As mentioned earlier in this report, the governing documents were never filed in

Sussex County. There were no minutes or correspondence explaining why the governing documents were not recorded. The newly formed FL Bylaws Committee will conduct a fresh review of our governing documents. For FY2021, another **\$2,500** will be added to the budget for legal fees.

- c) **Landscaping-Mowing:** For the purposes of this audit, the committee broke out the cost of MOWING from the general landscaping category. In YR2018, **\$6,000** was budgeted for landscape mowing. Actual amount spent was **\$7,632.33**. This included \$2,800 mowing fees to R. Speicher for Sep-Nov **2017** mowing (not billed until MAY 2018) and **\$4,250.00** for Apr-Sept **2018** mowing, and **\$582.33** for January **2019** installment to Sullivan's for new contract.

This expense is deceiving as it contains charges from **3** different years and 2 different contractors. Our accounting system pays invoices and applies the charge to the account when invoices are presented for payment, not necessarily when the services were rendered (In this case the contractor submitted his bill in Feb 2018 for mowing he did in Fall 2017). It is important for the Board to keep track of any unpaid invoices from the previous year that will impact expenses in the following year.

- d) **Grounds Maintenance:** **-0-** dollars was budgeted for YR2018; however, **\$950** was spent. This included **\$400** for clearing the buffer path to dock; and **\$450** to power wash fence at entry way.
- e) **Irrigation:** **\$500** was budgeted in YR2018 and **\$627.50** was spent. The expense was difficult to identify as the Dec 18, 2018 invoice (#62426) from Sullivan's did not include details as to where the work was conducted or what it entailed. Eventually, the committee determined the cost was for removing an irrigation zone in a strip of common area adjacent to the original model home, and transferring the zone to the community irrigation system at the entrance. Up until this point, the homeowner had been paying to water this strip of common area as it abuts their yard. The homeowners are using City water supply, so it was very expensive. It was logical to ask for this zone change of the common area to the community irrigation system. However, poor record-keeping and confusing sequence of events made it difficult for the Audit Committee to trace this one expense:

Executive Board Minutes from May 20, 2019 authorize obtaining a quote to move the zone; a June 2019 proposal (#81088) from Sullivan's was received for this project; the homeowner paid for half of the expense (\$300) in July 2019; and the Oct 17, 2019, the Board voted 4-0 to authorize the zone be removed (no amount mentioned), apparently for the work done 10 months prior in Dec 2018. Compounding the confusion was a Jan 11, 2019 email from the Board inferring that the \$627.50 irrigation expense was part of "\$1,500 towards lawn service". The only expense to Sullivan's in 2018 for lawn service was \$582.33 (Invoice #62416).

The difficulty in tracing this simple expense and the record-keeping discrepancies discovered are considered a *red flag* to an auditor. The Audit Committee eventually conducted a full analysis of the Sullivan's contract that is further expanded upon later in this report.

- f) **Capital Improvement-Sidewalk:** Sidewalk installation leading to common area between Lots 28-29 **\$3,562.50** by L&M Construction. Budget for this item in YR2018 **-0-**. However, residents agreed to accept a **\$3,000** capital contribution by Developer, Dave Kenton that was apparently intended to fund this sidewalk. Minutes from Aug 17, 2017 Annual Meeting indicate that residents agreed they did not want the developer to complete the amenities to the common area described in the original plan (gazebo, picnic tables; horseshoe pit, etc.). Residents preferred that a concrete walk be installed to the common area instead. Bids were obtained. L&M was chosen. Work completed May 2018. Audit Committee does not have access to all 2017 records and bank statements but did find a 2017 general ledger entry that **\$3,000** check was deposited on Aug 17, 2017 to our operating account. It appears this expense should have been re-budgeted into 2018, but was not.

- g) **Capital Improvement-Upgrade to pier railings: Cost: \$1,596.06.** \$500 was budgeted for this project resulting in a budget overrun of **\$1,096.06.** Minutes and board notes indicate that the community decided to replace the wooden railings on the pier with marine-approved galvanized steel pipe, mainly for safety reasons. A skilled resident undertook this project and installed the railings for cost of materials only.
- h) **Asset Purchases:** A projector/screen for **\$597.79** was purchased Nov 5, 2018; a Weed Torch Dolly backpack for **\$402.00** Oct 31, 2018; web domain name for website was contracted **\$410.90.** None of these items were in the budget. There is mention of purchasing these items; however, was is no record of approval of the final costs. We had already exceeded our operating expenses by more than \$5,000 by October. Even though our Operating Account had a balance of \$13,469.26, in hindsight, these expenses could have been delayed to the following year or not purchased at all.

Recommendation #7: The category to which each expense is assigned is not consistent. For example, flowers and mulch sometimes were costed to “Landscaping”, sometimes to “Landscape Enhancement” and sometimes to “Grounds Maintenance”. Asset Purchases and Capital Improvements were embedded into “Maintenance”. The Committee strongly suggests that Board establish *sub-codes descriptions* for each line-item category describing where expenses should be assigned. Example: “Grounds Maintenance will include: Mulch for entry way, stones for Pier Path; Insecticide, flowers for entry way, etc.”.

Recommendation #8: Assign separate line items for *Capital Improvements, Asset Purchases and Major Repairs*

Recommendation #9: Consider preparing a long-term operating budget covering the next 3-5 years that would help determine if our annual assessment rate is adequate.

Recommendation #10: Consider developing a written, board-approved collection policy for enforcing owners’ assessment obligations, being careful to stay within state statutes regarding enforcement of the policy. This may help reduce legal fees.

Recommendation #11: Ensure that detailed minutes are maintained with regard to fiscal matters

Recommendation #12: Establish and maintain a policy regarding archiving our HOA’s permanent financial records.

Recommendation #13: Close monthly monitoring of all financial statements and bank accounts is crucial to staying within budget. If unexpected expenses occur; delaying or eliminating future expenditures should be considered. The Audit Committee highly supports the Sept 17, 2020 “Accounting Resolution” adopted by the Executive Board, which will greatly reduce the risk of exceeding approved line-items in our budget. It encourages strict adherence to the community-approved budget, and full transparency if a line-item is expected to be exceeded.

Recommendation #14: As part of the earlier mentioned **Reserve Study** (Recommendation #6) the Board is encouraged to identify the future capital repair and replacement costs associated with all assets and common areas, and prepare a projection and recommended method of how to pay for these future expenses without the need to increase annual assessments or levy a special assessment. This may involve reducing annual operating expenditures wherever possible.

For YR2019, we budgeted **\$22,493.75** in anticipated expenses. We actually spent **\$17,485.02**, which is **\$5,008.73 LESS than anticipated**. Our operating INCOME for FY2018 was **\$27,746.18**.

Of the **92** invoices; **48** are recurring monthly expenses (HPS management fee; HPS office expenses; City of Milford electric; **13** invoices were paid by a Board member's personal credit card and reimbursed; **9** expenses were paid by a homeowner's personal credit card and reimbursed. In all cases, proper receipts were attached to the credit card reimbursement request; **22** invoices were submitted by contractors/vendors, legal and insurance premium payments.

Almost every line-item in YR2019 was at or below anticipated amount.

There is one item to point out:

- **Landscaping-mowing: \$6,740.97** did not include 2 delinquent installments. For some reason, we did not pay the Jun 2019 invoice of **\$582.33** and Dec 2019 invoice of **\$582.37**, totaling **\$1,164.70**. Had these invoices been paid on time our year-end mowing would have been **\$7,905.67** (\$1,305.67 over-budget for mowing). Moreover, pushing these invoices into YR2020 caused us to exceed our 2020 budget for mowing by **\$1,150**. Closer scrutiny to the monthly financials, especially regarding monthly installment obligations such as the Sullivan's contract requires, would have alerted us to the forgotten payments. Paying vendors late can impact our credit rating, resulting in less-than best pricing.

YR2020 DETAILED EXPENSE REVIEW

For YR2020, we budgeted **\$25,400.00** in anticipated expenses. We are actually projected to spend **\$28,996.82**, and this includes *eliminating* the \$2,000 Compilation Audit fee as previously explained. We are expected to exceed our budget by **-\$3,566.82** by year-end. Our operating INCOME for YR2018 was **\$26,426.87**

Of the **74** invoices; **44** are recurring monthly expenses (HPS management fee; HPS office expenses; City of Milford electric; **7** invoices were paid by a Board member's personal credit card and reimbursed; **5** expenses were paid by a homeowner's personal credit card and reimbursed. In all cases, proper receipts were attached to the credit card reimbursement request; **18** invoices were submitted by contractors/vendors, legal and insurance premium payments.

Major line items that exceeded YR2020 budget:

- a) **Legal fees:** Estimated legal fees for YR2020 were **\$900**. They are projected to mount to **\$2,000**, exceeding budget by **\$1,100.00**. Of the total, \$315.00 went towards counsel regarding Bylaws amendments as of Oct 2020. The majority of the legal fees in 2020 went towards assessment account and other homeowner issues.
- b) **Community Shed:** Capital Buildings Shed Outlet - Cost: **\$3,900.70**. \$-0- was budgeted for this asset purchase. The expense was charged to "Landscaping", which was intended to only support mowing charges **\$7,250**. This expense contributed greatly to the budget over-run this year. The Board announced its intention to purchase the shed in Sept 2019; approved in Jan 16, 2020 Exec Meeting by a vote of 5-0 to obtain quotes. One other bid was received from Diamond State Pole Buildings for \$12,500. However, it was not noted in minutes that HOA architectural guidelines were followed regarding notifying at least (2) adjacent neighbors regarding the proposed alteration (i.e. location of the shed) prior to construction. [See Section III-Exterior Modification Application].

Recommendation #15: Large asset purchases and capital improvements must be specifically budgeted prior to purchase.

Recommendation #16: The Audit Committee recommends that the FL Architectural Guidelines be followed when constructing any future capital improvements, repairs or asset purchases. This is not just a courtesy to the neighbors affected by the improvement, but a civic requirement of our Board.

- c) **Mowing:** Sullivan’s annual cost of lawn mowing budgeted for this year: **\$7,250**. Projected total is **\$8,400**. **This exceeds budget by \$1,150**. As previously noted, this is due to 2 lawn mowing invoices from 2019 being delinquent and paid in January 2020. (Jun 2019 invoice of **\$582.33** and Dec 2019 invoice of **\$582.37**, totaling **\$1,164.70**)
- d) **Power washer hoses, cords and hose hanger: Amount \$484.37. Budgeted \$-0-**. Again, this asset purchase was charged to the “Landscaping” budget, which has now ballooned to \$11,863.41 (Exceeded by **-\$6,224.51** to date)
- e) **Tree Removal:** David Morgan **\$3,550.00** – Removal of 6 trees and stump grinding due to storm damage in May 2020. \$4,000 was transferred out of Reserves and into Operating Account July 2, 2020.
- f) **NOTE:** As previously explained, **\$2,000** for a financial Compilation by PK&S in 2020, was removed from the budget after our attorney advised that a Compilation would not satisfy the Bylaws audit requirement. The issue of exactly what type of financial audit we need to conduct is still pending.

LANDSCAPING CONTRACT ANALYSIS:

Our largest recurring operating expense is lawn maintenance and mandated our scrutiny.

LAWN MAINTENANCE CONTRACT OVERVIEW

In 2017-2018, Misphillion Trends was our contractor for mowing. In the fall of 2018, new bids were secured. Five landscaping company bids were received. Pricing for mowing, weed/feed applications, soil analysis, spring and fall cleanup.

The Oct 25, 2018 minutes indicate bids would include “tree health” in addition to the lawn and sprinkler maintenance, but the Audit Committee found no mention of “tree health” in landscaping contracts or fees for arborist services for YR2018 to date.

Misphillion Trends only bid on the mowing portion, as they do not do fertilizer treatments and seasonal clean-ups

On Oct 25, 2018, the Board chose Emerald Landscaping for 2019 lawn services and a contract was signed. A copy of the Emerald contract is not in the corporate files to review.

On Nov 28, 2018, the Board announced the Emerald Landscaping contract was terminated “due to a serious issue”, and that Sullivan’s agreed to remove two-line items on their original bid to bring their price in line with Emerald. There is no correspondence to indicate that the Emerald contract was formally cancelled without penalty.

Note: FL HOA has a community well and irrigation sprinkler system that services the front entrance flower beds, lawn and path. The irrigation controls are located behind the wall on the right side as you enter our plan. These systems were installed previously (assume by the developer). Our HOA did not pay for installation of the original well and irrigation master control system, but are responsible for their maintenance and repair. In April 2020, the HOA added a zone to the irrigation system to water the new sod in the common area next to Lot 54. No homeowner has personal access to the well water.

SULLIVAN'S LANDSCAPING CONTRACT

Sullivan's began lawn service at Fork Landing on January 1, 2019

The current 2019 Sullivan's Lawn Maintenance and Irrigation contract includes:

- Basic irrigation startup: \$100
- Basic irrigation winterization: \$100
- Fall Clean-up: \$360
- 5 Lawn Healthcare applications: \$1,685
- 28 mowings @ \$171 each: \$4,788.00
- **TOTAL CONTRACT: \$6,988.00** – Payable in even 11 monthly installments of **\$582.33**; final installment \$582.37

In **YR2020**, the Board approved remaining with Sullivan's. The monthly installment increased to **\$602.42** per month

In **YR2021**, Sullivan's proposal includes an increase in monthly cost to **\$635.08**. The Board is in the process of reviewing bids at this time.

COMMON AREAS:

Refer to FL Map – Appendix V

Sullivan's contract indicates the total common area spaces they service is **137,738 sq ft**, which apparently includes the large open space, the entry way and entry pathways and around the Storm Water Basin #1 (between Lots 26 & 27). Audit committee asked for verification of all spaces being mowed/fertilized (Board response pending)

Fork Landing has 9 other smaller strips of common area that apparently are being maintained (mowed, fertilized and/or watered) by the individual homeowners.

- a) Next to Lot 54 at entrance where new sod and irrigation were installed
- b) Next to Lot 21, the original model home
- c) Next to Lot 28 on corner of Camberly and Drummond
- d) Next to Lot 29, along the concrete sidewalk
- e) Next to Lot 33
- f) Next to Lots 52 and 36
- g) Next to Lot 62
- h) Next to Lot 9, Swale Basin #1
- i) Next to Lot 1 Swale Basin #2 (occasionally mowed by Sullivan's)

IRRIGATION AND SOD CAPITAL IMPROVEMENT PROJECTS 2020

Irrigation controller adjustments are an additional \$50 per trip. There were 2 adjustments so far in 2020 totaling \$100.00

In addition to the monthly lawn maintenance contract, our HOA contracted with Sullivan's for two capital improvement projects in 2020. Each of these projects were budgeted in 2020. July 2019 Minutes Exec Board approved sprinkler installation, but no pricing mentioned. At Sept 21, 2019 Open Exec Board meeting (not an Annual Meeting), the board announced they approved the sod project as well as the sprinkler project. No costs were mentioned. These expenses were in the 2020 budget.

- Install sod in the common area on the left side of Camberly as you enter the plan, next to the recently constructed twin home at cost of **\$1,784.75**
- Install irrigation to this same common area and tie into the community irrigation system at entrance for cost of **\$1,597.00**

DUPLICATE PAYMENT AND OVER PAYMENTS TO SULLIVAN'S

The Audit Committee noticed that in July 2020, there was an obvious duplicate payment made for sod installation (\$1,781.75 on 7/2 and another payment of \$1,784.75 on 7/14/20).

In addition, the Audit Committee was missing 13 invoices from Sullivan's. Four irrigation invoices were unclear as to what service was provided; a few invoices appeared to be paid late; there was no supporting documentation to explain what appeared to be duplicate payment(s). A review of board minutes and previous board emails to did not provide explanation as to these discrepancies.

The HPS Invoice List and General Ledger were helpful in identifying a number of key questions; but we needed all invoices and payment history to reconcile and make certain the account is up to date and accurate and to satisfy audit requirements.

With the Board's permission, the Audit Committee contacted Sullivan's to ask for a summary of invoices and payments from Dec 2018 to date, along with copies of the missing invoices, proposals, work orders.

We were surprised to be told that FL had a **CREDIT of \$2,537.17**. After reviewing every invoice and transaction, comparing it to HPS ledger, and speaking at length with Sullivan's account manager, it was determined that:

- We were paid ahead one month on lawn installment of \$602.42
- We had 2 unpaid irrigation bills from August totaling \$100
- We overpaid **\$203** for the irrigation system
- We made a (incorrect amount) duplicate payment on the sod installation of **\$1,781.75**.
- This resulted in a REFUND from Sullivan's in amount of **\$1,984.75**

The Audit Committee alerted the Board to our findings and made the following early recommendations:

- Sullivan's invoices do not show a running balance nor do they show the last payment posted. Must pay careful attention to this internally. Request a status summary quarterly. Review HPS monthly financials closely. Vendors should not be holding \$2k of our funds for this length of time.
- Sullivan's proposals indicate 50% down at time of proposal; balance when job completed yet we paid them in full up front for both the irrigation install and sod install. Paying just half protects us better and helps ensure the job is completed, and it reduces the need for refunds and confusion.
- Monthly installment contracts require close monitoring to ensure incremental payments are paid in a timely manner, not forgotten, or duplicated. In this case, it appears that we are now paid through November, and only have a portion of the Dec installment due. Please make note not to overpay
- Jun 2019 payment was not paid until Jan 2020. Need to ensure that standing monthly payments are being generated. Review of HPS monthly financials is essential to catch oversights before they result in late fees or impact our credit rating.
- Ensure that the proper invoice number is correct; that a duplicate payment is not being made; and that we have sufficient funds in the budget to pay the expenses. Attach any email correspondence that could help explain the project. Keep copies of ALL invoices, dates paid, correspondence on board Dropbox for quick reference.
- Sullivan's account closed out Dec 2019 two months delinquent (Jun & Dec by HPS records-- although Sullivan's showed these as Nov/Dec delinquencies. Vendors apply payments as they are received to what is owed chronically). Pushing the two 2019 invoices from 2019 into January 2020 skews the landscape budget by \$1,164 and makes it difficult to stay on target.

RECORD-KEEPING DEFICIENCIES

Of the **233** individual invoices the Audit Committee reviewed, an estimated **25%** lacked sufficient documentation, including no invoice or bill; no minutes approving payment or purchase; vague, skeletal minute summaries; conflicting Board correspondence; lack of attendee lists as Annual Meetings to support vote counts on important issues.

By far, our poor record-keeping is one of our highest liabilities and would struggle to survive the scrutiny of a Review or certified audit.

Unlike most organizations, the Treasurer was not the sole point person processing incoming bills or approving invoices and other expenses for payment, which led to budget over-runs, duplicate payments, and late payments to vendors. There was no checks-or-balances in place to ensure good fiscal stewardship.

RECOMMENDATION #17: To avoid a recurrence of the Sullivan's contract mismanagement, the Audit Committee asks the Board to consider adopting these steps when processing expense payments:

Recommended steps for processing invoices and reimbursements:

1. The Board should decide at the beginning of the Treasurer's term if there are any items that do not require Board approval; for example, recurring expenses such as management fees, electric bill, approved lawn installment payments, essential office supplies.
2. Ensure that each expense is within the line item budget.
3. Accept only readable official company/store invoices/bills which include their address, phone number, invoice #, full description of services or item(s) purchased, cost, date of purchase or work.
4. Treasurer should keep a copy for the Association file and complete a HPS Management Reimbursement Request Form. All info needs to be completed including the reason for purchase and from what line-item expense account it should be charged to.
5. For capital improvements, asset purchases, major repairs and other expenses not already in the approved budget, the Treasurer will need to verify the purchase was approved in the minutes and record the date of that meeting on the copy maintained in our records.
6. The Treasurer should review HPS monthly financial statements to verify the accuracy of each invoice paid and follow-up on any discrepancies.
7. The Treasurer should also maintain a monthly balance on each expense account of the budget based on what should have been paid and what was paid, and present this for Board approval in the Treasurer's report each month. (If there is no monthly Board meeting there still needs to be a practice in place so that this is still done.)
8. The Treasurer needs to make sure that the Board is aware of any Expense Account that is approaching a zero balance before that happens. The Treasurer should be prepared at every monthly meeting and make the Board members aware of any budgetary limitations on spending which would affect the approval of spending.
9. An annual financial binder should be maintained containing the Monthly Disbursement Forms provided by HPS and behind each of these all the documentation for each expense (including receipts/invoices, contracts, and any other pertinent documentation).
10. The Treasurer will need to follow up on problems that arise with regards to over/under payments, late payments, questionable receipts or payments, etc. (If HPS is late paying a bill then they should pay any late charge. If Sullivan fails to mow any part of our common areas then reimbursement should be received for the neglected areas.)
11. The Treasurer will need to know when Insurance payments are due, contractual landscaping fees, etc. are due and check for payment advising the Board of issues.
12. The Treasurer will need to look over all financial statements and watch that Reserve Monies are transferred from the Operating Account over into the Reserve Account. Unless the Board gets approval to use them, monies should not be withdrawn from the Reserve Account.

13. The steps above should help see that all expenses are in the current budget and do not exceed the budget, pertain to a contract or an expense, were approved by the Board, have appropriate documentation and that the expenses are reflected accurately in the HPS financial statements.

INSURANCE SUMMARY

Fork Landing has two policies with The Cincinnati Insurance Company, each with different renewal and payment schedules.

- General Liability” policy – Premium **\$678** annually
- Directors and Officers” policy – Premium **\$1,552** annually

Total Premiums: \$2,230.00

Each are based on an annual fee with an option of quarterly payments.

The last renewal was due early September 2020. The Board will conduct a review of insurance requirements in the coming year and recommend any changes they deem necessary.

END OF REPORT

Appendix I	PK&S Compilation Letter of Engagement
Appendix II	Account Resolution BOD Sept 17, 2020
Appendix III	2018 Year-End Income Statement
Appendix IV	2019 Year-End Income Statement
Appendix V	FL Map
Appendix VI	Capital Asset Purchase Inventory 2018-2020

AUDIT COMMITTEE MEMBER BIOS:

Brian Baer: Brian has a Computer Science degree from California Polytechnic State University, San Luis Obispo. He served on HOA board in Cardiff, California. After moving to Anne Arundel County, MD in 2011, he served on another HOA Board in Shady Side, MD. He moved to Fork Landing in 2017 and currently serves as Ward 3 Council member for City of Milford.

Janice Imwold: Janice was a mathematics teacher and department chairman in Baltimore County Public Schools MD for 43 years. Then served as an instructor and supervisor at Towson University to secondary math and science student teachers. She has written curriculum and standardized test questions for both the county and state. Her skills in logic, attention to detail, accuracy and thoroughness were used in both her employment and as she budgeted her own finances. Lastly, Janice served on the Board of my previous homeowner’s association in multiple capacities.

Lois Mathews: Lois has 45 years administrative and managerial experience. Her five years as a Settlement Escrow Officer in Las Vegas and two years as a real estate Title Assistant in Pittsburgh allowed her to understand the importance of accurate governing documents and balanced settlement sheets; her 15 years as an Administrator at the University of Pittsburgh Medical Center taught her the process of preparing for audits to avoid discrepancies and respect regulatory statutes as she was responsible for documenting and coordinating compliance regarding FDA clinical trials and multiple NIH research grants. She and Jeff owned their own HVAC business and did their own business accounting.



PKS & Company, P.A.

**Certified Public Accountants
& Advisors to Business**

ANDREW M. HAYNIE, CPA

SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

E. LEE MCCABE, CPA

JEFFREY A. MICHALIK, CPA

ROBERT L. MOORE, CPA

DANIEL M. O'CONNELL II, CPA

JOHN M. STERN, JR., CPA

December 19, 2019

Board of Directors
Fork Landing Farms Homeowners Association, Inc.

We are pleased to confirm our understanding of the services we are to provide to Fork Landing Farms Homeowners Association, Inc. for the year ended December 31, 2019.

We will prepare the financial statements of Fork Landing Farms Homeowners Association, Inc., which comprise the balance sheet and related statements of revenues, expenses, and changes in fund balance and cash flows, for the year ended December 31, 2019, and perform a compilation engagement with respect to those financial statements.

We will assist your bookkeeper in adjusting the books of accounts with the objective that he (she) will be able to prepare a working trial balance from which financial statements can be prepared. Your bookkeeper will provide us with a detailed trial balance and any supporting schedules we require.

Our Responsibilities

The objective of our engagement is to –

1. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and
2. apply accounting and financial reporting expertise to assist you in the presentation of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our compilation engagement in accordance with the Statements on Standards for Accounting and Review Services (SSARS) promulgated by the Accounting and Review Services Committee of the AICPA and comply with applicable professional standards, including the AICPA's Code of Professional Conduct, and its ethical principles of integrity, objectivity, professional competence, and due care, when performing the bookkeeping services, preparing the financial statements, and performing the compilation engagement.

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MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLIANCE GLOBAL

We are not required to, and will not, verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors and any evidence or information that comes to our attention during the performance of our procedures that fraud may have occurred. In addition, we will inform you of any evidence or information that comes to our attention during the performance of our compilation procedures regarding any wrongdoing within the entity or noncompliance with laws and regulations that may have occurred, unless they are clearly inconsequential. We have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Other Services

We will prepare the Association's federal income tax return for the year ended December 31, 2019, based on information provided by you.

We will perform the services in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants. The other services are limited to the financial statement and tax services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities. We will advise management with regard to tax positions taken in the preparation of the tax return, but management must make all decisions with regard to those matters.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARS:

1. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements.
2. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America, if applicable.

3. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements.
4. The prevention and detection of fraud.
5. To ensure that the Association complies with the laws and regulations applicable to its activities.
6. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement.
7. To provide us with –
 - access to all information of which you are aware is relevant to the preparation and fair presentation of financial statements, such as records, documentation, and other matters.
 - additional information that we may request from you for the purpose of the compilation engagement.
 - unrestricted access to persons within the Association of whom we determine it necessary to make inquiries.

You are also responsible for all management decisions and responsibilities and for designating an individual with suitable skills, knowledge, and experience to oversee our bookkeeping services and the preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them. If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

You agree to include our accountants' compilation report in any document containing financial statements that indicates that we have performed a compilation engagement on such financial statements and, prior to the inclusion of the report, to ask permission to do so.

Other Relevant Information

E. Lee McCabe, CPA, CVA, is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fees for these services are estimated to be \$2,000 for the compilation and tax return for the year ended December 31, 2019. You will also be billed for out of pocket costs such as report production, word processing, postage, travel etc. If significant additional time is necessary, we will discuss it with you before we incur the additional costs. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. Invoices unpaid over sixty days will be charged interest at 1% per month.

In accordance with firm policies, work may be suspended if your account becomes sixty days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not issued our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

In connection with this engagement, we may communicate with you or others via email transmission. We take reasonable measures to secure your confidential information in our email transmissions, including password protecting confidential documents. However, as email can be intercepted and read, disclosed or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom it is directed and only to such parties, we cannot guarantee or warrant that email from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure or communication of email transmissions, or for the unauthorized use or failed delivery of email transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmission, including any consequential, incidental, direct, indirect, or special damages, such as loss of sales or anticipated profits, or disclosure or communication of confidential or proprietary information.

If any dispute arises among the parties hereto, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Rules for Professional Accounting and Related Services Disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties.

Client and accountant both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final, in agreeing to arbitration, we both acknowledge that, in the event of a dispute over fees charged by the accountant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

It is our policy to keep records related to this engagement for seven years. However, PKS & Company, P.A. does not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies.

December 19, 2019

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Acknowledged:

FORK LANDING FARMS HOMEOWNERS ASSOCIATION, INC.

Accepted by: *Matthew G. Amigo*

Title: *President*

Date: *Dec 24, 2019*

APPENDIX II

Fork Landing Farms HOA Executive Board

Accounting Resolution 9/17/2020

Budget Process

The Executive Board will be responsible for proposing the 2021 Budget (draft to be adopted at the October 15, 2020 Board Meeting. A separate budget will be proposed for normal "Operating Expenses" and for "Capital Repairs or Improvements"

The Executive Board's Budget Proposal will be distributed to the Homeowners 2 weeks prior to the next Association of Homeowners meeting to be scheduled in November.

The Homeowners will discuss, amend if necessary, and adopt the 2021 Budget at the next Association of Homeowners meeting in November.

Accounting Practices

No one on the Executive Board has access to the bank accounts. HPS, our management company, collects and distributes all funds by check or electronic bank transfers and maintains and reconciles the check register, and General Ledger. The Association does not maintain a petty cash account nor are any funds collected or distributed in cash payments.

All bills, invoices, or request for reimbursements are submitted to the Treasurer with receipts or other supporting documentation. The Treasurer will check to confirm the expense is authorized and within budget and then forward to HPS for processing. Reimbursements to any Board member or Homeowner requires approval of the Executive Board before payment. If the expense is not within the approved budget, the Treasurer will first obtain approval and authorization from the Executive Board before submitting the expense for processing.

If any expense exceeds or is (expected to exceed) any line item in the budget by more than 10%, the Executive Board will propose an amendment to the budget which must be approved by the Homeowners by electronic vote, unless the expense is specifically needed to cover an emergency situation and funded by the "Capital/Reserve Funds".

Each month, The Executive Board will review the Monthly Financial Report by HPS, including verifying the bank reconciliation, reviewing all entries in general ledger, and reviewing the year-to-date budget report. After approving the HPS financial report, the Balance Sheet, Operating Accounts statement, and the list of cash disbursements report will be posted on the Fork Landing webpage.

Income Statement - Operating

Fork Landing Farms Homeowners Association

12/31/2018

APPENDIX III 2018

Date: 1/4/2019

Time: 3:50 pm

Page: 1

Description	Current Period			Year-to-date			Annual Budget
	Actual	Budget	Variance	Actual	Budget	Variance	
OPERATING INCOME							
Income							
6310-00 Assessments	\$-	\$1,272.88	(\$1,272.88)	\$15,763.86	\$15,275.00	\$488.86	\$15,275.00
6313-00 Reserve Assessment	-	185.38	(185.38)	321.91	2,225.00	(1,903.09)	2,225.00
6335-00 Capital Contributions	-	-	-	4,800.00	-	4,800.00	-
6443-00 Owner Interest	-	-	-	15.75	-	15.75	-
6480-00 Interest Earned	4.15	-	4.15	42.75	-	42.75	-
6481-00 Operating Interest	-	-	-	0.02	-	0.02	-
Total Income	\$4.15	\$1,458.26	(\$1,454.11)	\$20,944.29	\$17,500.00	\$3,444.29	\$17,500.00
Total OPERATING INCOME	\$4.15	\$1,458.26	(\$1,454.11)	\$20,944.29	\$17,500.00	\$3,444.29	\$17,500.00
OPERATING EXPENSE							
Expense							
7010-00 Management Fees	156.00	166.63	10.63	1,872.00	2,000.00	128.00	2,000.00
7015-00 Other Management Fees	-	-	-	227.50	-	(227.50)	-
7020-00 Tax, Accounting & Audit Fees	-	25.00	25.00	300.00	300.00	-	300.00
7280-00 Insurance Premium	806.00	41.63	(764.37)	1,537.00	500.00	(1,037.00)	500.00
7300-00 Meeting / Community Expense	145.97	33.37	(112.60)	1,078.09	400.00	(678.09)	400.00
7330-00 Contingency Expense	-	100.00	100.00	-	1,200.00	1,200.00	1,200.00
7400-00 Office Expenses	243.14	20.87	(222.27)	1,430.84	250.00	(1,180.84)	250.00
7440-00 Legal	1,673.00	83.37	(1,589.63)	2,408.00	1,000.00	(1,408.00)	1,000.00
7450-00 Taxes	-	29.13	29.13	184.46	350.00	165.54	350.00
7460-00 SDAT / Registered Agent	-	4.13	4.13	-	50.00	50.00	50.00
7495-00 State Franchise Tax	-	2.12	2.12	25.00	25.00	-	25.00
Total Expense	\$3,024.11	\$506.25	(\$2,517.86)	\$9,062.89	\$6,075.00	(\$2,987.89)	\$6,075.00
Marina and Dock							
8310-00 Maintenance	-	41.63	41.63	1,596.06	500.00	(1,096.06)	500.00
Total Marina and Dock	\$-	\$41.63	\$41.63	\$1,596.06	\$500.00	(\$1,096.06)	\$500.00
Utilities							
8935-00 Common Area Electric	29.49	58.37	28.88	246.93	700.00	453.07	700.00
Total Utilities	\$29.49	\$58.37	\$28.88	\$246.93	\$700.00	\$453.07	\$700.00
Maintenance							
9001-00 Landscaping	582.33	500.00	(82.33)	8,882.18	6,000.00	(2,882.18)	6,000.00
9020-00 Grounds Maintenance	-	-	-	3,964.50	-	(3,964.50)	-
9026-00 Landscaping Enhancement	-	125.00	125.00	527.50	1,500.00	972.50	1,500.00
9540-00 Irrigation	627.50	41.63	(585.87)	627.50	500.00	(127.50)	500.00
Total Maintenance	\$1,209.83	\$666.63	(\$543.20)	\$14,001.68	\$8,000.00	(\$6,001.68)	\$8,000.00
Total OPERATING EXPENSE	\$4,263.43	\$1,272.88	(\$2,990.55)	\$24,907.56	\$15,275.00	(\$9,632.56)	\$15,275.00
Net Income:	(\$4,259.28)	\$185.38	(\$4,444.66)	(\$3,963.27)	\$2,225.00	(\$6,188.27)	\$2,225.00

APPENDIX IV 2019

Description	Current Period			Year-to-date			Annual Budget
	Actual	Budget	Variance	Actual	Budget	Variance	
OPERATING INCOME							
Income							
6310-00 Assessments	\$196.87	\$-	\$196.87	\$22,224.68	\$22,443.75	(\$219.07)	\$22,443.75
6313-00 Reserve Assessment	3.13	-	3.13	354.21	356.25	(2.04)	356.25
6335-00 Capital Contributions	1,600.00	-	1,600.00	2,200.00	-	2,200.00	-
6439-00 Late Fees	100.00	-	100.00	240.00	-	240.00	-
6441-00 Collection & Legal Income	200.00	-	200.00	200.00	-	200.00	-
6443-00 Owner Interest	15.00	-	15.00	38.25	-	38.25	-
6480-00 Interest Earned	1.43	-	1.43	39.50	-	39.50	-
6940-00 Violation Fine	-	-	-	-	50.00	(50.00)	50.00
Total Income	\$2,116.43	\$-	\$2,116.43	\$25,296.64	\$22,850.00	\$2,446.64	\$22,850.00
Total OPERATING INCOME	\$2,116.43	\$-	\$2,116.43	\$25,296.64	\$22,850.00	\$2,446.64	\$22,850.00
OPERATING EXPENSE							
Expense							
7010-00 Management Fees	175.00	175.00	-	2,116.00	2,100.00	(16.00)	2,100.00
7020-00 Tax, Accounting & Audit Fees	-	-	-	300.00	300.00	-	300.00
7280-00 Insurance Premium	377.00	721.00	344.00	2,415.00	2,884.00	469.00	2,884.00
7300-00 Meeting / Community Expense	168.00	14.00	(154.00)	1,159.39	468.00	(691.39)	468.00
7330-00 Contingency Expense	-	125.00	125.00	-	1,500.00	1,500.00	1,500.00
7400-00 Office Expenses	109.50	59.00	(50.50)	764.87	708.00	(56.87)	708.00
7440-00 Legal	-	100.00	100.00	766.50	1,200.00	433.50	1,200.00
7450-00 Taxes	-	-	-	184.46	350.00	165.54	350.00
7495-00 State Franchise Tax	-	-	-	25.00	25.00	-	25.00
7650-00 Social Events	-	-	-	-	798.75	798.75	798.75
Total Expense	\$829.50	\$1,194.00	\$364.50	\$7,731.22	\$10,333.75	\$2,602.53	\$10,333.75
Marina and Dock							
8310-00 Maintenance	501.07	-	(501.07)	509.57	750.00	240.43	750.00
Total Marina and Dock	\$501.07	\$-	(\$501.07)	\$509.57	\$750.00	\$240.43	\$750.00
Utilities							
8935-00 Common Area Electric	26.95	30.00	3.05	356.82	360.00	3.18	360.00
Total Utilities	\$26.95	\$30.00	\$3.05	\$356.82	\$360.00	\$3.18	\$360.00
Maintenance							
9001-00 Landscaping	-	-	-	7,034.09	6,600.00	(434.09)	6,600.00
9015-00 Snow Removal	-	250.00	250.00	540.00	1,000.00	460.00	1,000.00
9020-00 Grounds Maintenance	-	-	-	180.14	1,000.00	819.86	1,000.00
9026-00 Landscaping Enhancement	93.97	-	(93.97)	1,433.18	2,000.00	566.82	2,000.00
9540-00 Irrigation	-	-	-	(300.00)	450.00	750.00	450.00
Total Maintenance	\$93.97	\$250.00	\$156.03	\$8,887.41	\$11,050.00	\$2,162.59	\$11,050.00
Total OPERATING EXPENSE	\$1,451.49	\$1,474.00	\$22.51	\$17,485.02	\$22,493.75	\$5,008.73	\$22,493.75
Net Income:	\$664.94	(\$1,474.00)	\$2,138.94	\$7,811.62	\$356.25	\$7,455.37	\$356.25

APPENDIX VI

CAPITAL ASSET PURCHASE INVENTORY - 2018-2020

Purchased 11/01/18 from Amazon order #113-2187956-2101000 - \$597.79

- Logitech wireless Presenter **Pointer** (refurbished): \$28.88
- BenQ WXGA Wireless Meeting Room Business **Projector** (New)(MW612), DLP, 4000 Lumens: \$379.00
- Visual Apex Projector 110" **Screen** (refurbished)-stand and carry bag - \$189.99

Purchased 12/28/18 from Christmas Lights and décor:

- **Two** 24" Pre-lit commercial Sequoia fir LED **wreaths**, warm white lights (Item 21128 costing \$49.99 each) totaling @99.98
- **Seven** 70 5mm warm white LED **Christmas Lights**, 4" spacing, white wire (Item 21583 costing \$19.99 each) totaling \$139.93
- **Six** 5mm 4'x6' pure white LED **net lights**, green wire (item 72510 costing \$29.99 each) totaling \$179.94
- **Two** 24 hour six-outlet plug-in stake **timers** (item 80060 costing \$18.99 each) totaling \$37.98

Purchased 5/24/19 from Lowes:

- **One** pair of Blue Hawk performance leather **work gloves**, \$9.88
- **Two** **shovels** long-handle fiberglass digging shovel (item 11207170/model CMXMLBA0100), \$13.49
- **One** 42" L wood-handle **spading fork** (item 1120732/model CMXMLBA1700), \$23.38
- **One** 7 poly **yard cart** (item 1170175/model CGCG-7), \$125.10

Purchased on 11/23/19 from Christmas Lights totaling \$115.16:

- **Two** cool white 5mm LED **net lights** on green wire - 5mm 4'x6' yore white LED net lights, green wire (item 72510 costing \$59.98 each)
- **Two** 5mm wide angle warm white preclamped **light set**, white wire - 70 5mm warm white LED Christmas Lights, 4" spacing, white wire (item 80625 costing \$39.98 each)

Purchased 11/24/19 from Ace totaling \$23/96: **One Cord Extension** 16/2 SJTW 10'

Purchased 12/20/19 from Ace totaling \$3.99: **Twist tie w/cutter** 66'

Purchased 12/20/19 from Christmas Central totaling \$89.98: **Three** 50' x 10" commercial length Canadian Pine artificial Christmas **garland** (Unit 32614423 costing \$39.99 each)

Purchased 1/18/20 from Capitol Buildings Shed Outlet totaling \$3900.70: **One** 10x12 standard **A-frame shed** painted khaki with white trim and light brown shingles with 10x12 stone pad foundation

Purchased 4/26/20 from Ace totaling \$7.59: **one hose hanger** - metal 150'

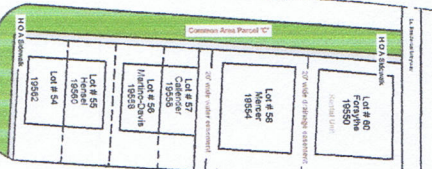
Purchased 4/29/20 from Ace totaling \$31.96: **One** Suncast **hose hangout** 150' **wall mount** brown hose holder

Purchased 4/26/20 from Home Depot totaling \$444.82: Power washer cords, hoses only (not the unit)

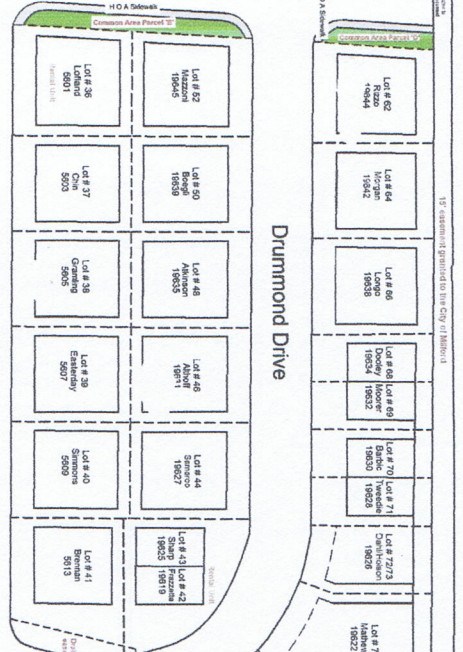
- **Three** Duromas 100' 10/3-gauge single tap **extension power cords** (SKU#1002671730 costing \$99.99 each)
- **Five** Apex 5/8" dia x 100' medium duty **water hoses** (SKU#354720 costing \$28.97 each)

Cedar Beach Road

Fork Landing Farms entry/exit



DRUMMOND DRIVE



Drummond Drive

Canberly Drive

Union Cemetery



Drummond Drive

DRUMMOND DRIVE

KNOTS COURT

Green Area - Common grounds requiring lawn maintenance
 Blue Area - Common grounds NOT requiring lawn maintenance