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Management Letter

May 12, 2025

Board of Directors and Management
Village of Fountainview Condominium Association

Dear Board of Directors and Management:

It is a customary practice to issue what is known as a management letter whenever an audit is conducted to supplement the report. Its purpose is to communicate observations made during the audit and present recommendations that can improve operations, controls, and hopefully enhance availability of resources.

The records held by the property management company were examined and nothing came to our attention that would cause us to believe that there were any material misstatements.

There were several issues that were considered in the financial statements that are described below to provide additional information:

Assessments Receivable

Assessments receivables represent the amounts owed to the Association by various homeowners and as of December 31, 2024, the amount owed is $13,393. It was not necessary to establish an allowance for doubtful accounts as the Board has determined that all accounts are 100% collectible.

Assessments Received in Advance

As of December 31, 2024, assessments received in advance were $146,104. This amount represents future homeowner assessments paid prior to December 31, 2024.

Replacement Funds

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which include $323,816 of cash equivalents and $500,000 of investments, aggregating to $823,816 at December 31, 2024, are held in separate accounts and are generally not available for operating purposes. Expenditures from the replacement fund for the year ended December 31, 2024 were $671,848, which represents engineering fees and facade replacement and improvements. Contributions and transfers to the replacement fund were $184,894 for the year ended December 31, 2024.

The Association's Board of Directors engaged an independent engineering firm to conduct a study in July 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives. Per the independent study, the study's recommended replacement reserve balance as of December 31, 2024 is $4,081,000. The Association's replacement reserve balance as of December 31, 2024 was $823,816, which is $3,257,184 below the recommended levels.

The Association must obtain an updated reserve study after competition of insurance claim activity to better reflect its current financial position. Additionally, industry practice is to update reserve studies every five years, with the last update conducted in 2020, an updated study in 2025 is strongly encouraged.

It should be noted a potential future underfunding of the replacement reserve fund could result in 3 outcomes:

1) The requirement for a special assessment if funds are not available
2) A dramatic increase in monthly assessments to catch up to recommended levels
3) Funds not available to maintain current repair and replacement needs

Operating Budget

We recommend the Association continue to use an annual operating budget in order to ensure the efficient use of its financial resources. We recommend the Association examine current and past operating expenses and adopt these amounts into an annual operating budget to ensure the efficient use of its financial resources. We would like to note future operating budgets should not reflect prior year surplus. Additionally, future operating budgets should at a minimum break even. Our office can assist you with this endeavor.

Utility Assessments

As of December 31, 2024, the financial statements reflected $65,280 in utility assessments. The quarterly utility assessment amount was reduced during the third and fourth quarters of the year.

Association Tax Election

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2024, the Association elected to be taxed as a regular corporation. Income tax expense for year ended December 31, 2024 was $13,286.

Common Real Property

The prevalent industry practice for capitalizing common real property is that condominium and homeowner associations do not capitalize common real property directly associated with the units (i.e. exterior walls, roofs, public hallways, underlying land, sidewalks, driveways, roads, some parking spaces and greenbelts).

However, in certain circumstances property that is not directly associated with the units must be capitalized (i.e. recreational facilities, swimming pools, tennis courts, club houses, manager's apartments, and properties that are primarily used for commercial operations directed at non-unit owners or at unit owners for which they pay a fee based upon usage).

The circumstances that would support capitalization would be either that the Association has title or other evidence of ownership of the property and either of the following conditions are met:

(a) The Association can dispose of the property, at the discretion of its Board of Directors, for cash or claims to cash, and the Association can retain the proceeds, or

(b) The property is used by the Association to generate significant cash flows from members on the basis of usage, or from non-members.

The operative phrase in the above criteria is "significant cash flow". In your situation, it does not appear appropriate to capitalize any of the real property for the year ended December 31, 2024.

Common Personal Property

The AICPA guide requires CIRAs to capitalize common personal property, such as furnishings, recreational and maintenance equipment, and work vehicles. CIRAs generally hold title to personal property and CIRAs Board of Directors usually is able to sell personal property at its discretion and retain the proceeds. Thus, the property qualifies for asset recognition.

Most of the personal property of the Association was transferred by the developer. This type of transaction represents a non-monetary transactions not to be capitalized but should be disclosed that "it was not practicable to determine the fair market value of the assets within reasonable limits." The disclosure approach, rather than the capitalization treatment, was deemed sufficient primarily due to the absence of any significant tax benefits regardless of option elected.

However, purchased personal property should be capitalized based upon the establishment of a capitalization policy. It is recommended that only major personal property purchases (item cost in excess of $5,000 and expected useful life that exceeds one year) be capitalized and depreciated.

Internal Control

In planning and performing our audit of the financial statements of the Association for the year ended December 31, 2024, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We did not note any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Association's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Financial Records

The Associations' records were found to be neat, orderly and easy to comprehend.

If you have any questions regarding the audit report for the year ended December 31, 2024, or this letter, please do not hesitate to contact us.

Sincerely,

Frank Hajek & Associates, P.A.

Jeffrey G. Tolley
Certified Public Accountant