

Western Winds Homeowners Association, Inc.

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January 17, 2024

2023 ANNUAL FINANCIAL REPORT

Summary of financial activities...

Western Winds Homeowners Association ("Western Winds" or "the Association") had an increase in net assets from operating activities of \$12,231.90 versus a revised budgeted increase of \$3,571.00, a favorable variance of \$8,660.90. This favorable variance increases total reserves to \$25,826.02, which is equivalent to the recommended annual contribution to reserves for 2023 in the 2021 Reserve Study. In 2024, these funds will be used as a buffer for termite treatment and insurance, and for repairs and safety improvements without increasing the regular HOA Dues. The 2024 budget falls short of the reserve contribution target of \$27,735 stated in the Reserve Study:

<https://home.85705ww.com/docs/ReserveStudy.pdf>

	Actual \$	Budget \$	Variance \$		Per unit Per month \$	Per unit Per annum \$
Net HOA Dues	86,580.00	86,580.00	0.00		195.00	2,340.00
Unbudgeted net fees	1,582.21				3.56	42.76
Total income	88,162.21	86,580.00	1,582.21	Favorable	198.56	2,382.76
Expenses:						
Doubtful HOA Dues	2,085.00				4.70	56.35
Operating:						
General and administrative	8,667.03	9,129.00	(461.97)	Favorable	19.52	234.24
Insurance	1,813.94	1,825.00	(11.06)	Favorable	4.09	49.03
Landscaping	16,725.00	18,360.00	(1,635.00)	Favorable	37.67	452.03
Property maintenance	4,702.30	8,685.00	(3,982.70)	Favorable	10.59	127.09
Utilities	28,480.66	30,300.00	(1,819.34)	Favorable	64.15	769.75
Total operating expenses	60,388.93	68,299.00	(7,910.07)	Favorable	136.01	1,632.13
Taxes	76.54	80.00	(3.46)	Favorable	0.17	2.07
Total op ex and taxes	62,550.47	68,379.00	(5,828.53)	Favorable	140.88	1,690.55
Reserves:						
Additional property mgmt	3,800.00	3,750.00	50.00	Unfavorable	8.56	102.70
Concrete repair	1,450.00	2,750.00	(1,300.00)	Favorable	3.27	39.19
Alleyway clean	8,129.84	8,130.00	(0.16)	Favorable	18.31	219.73
Total reserve expenses	13,379.84	14,630.00	(1,250.16)	Favorable	30.13	361.62
Total expenses	75,930.31	83,009.00	(7,078.69)	Favorable	171.01	2,052.17
Increase in net assets	12,231.90	3,571.00	8,660.90	Favorable	27.55	330.59

The Association's net assets increased by \$12,231.90 between 2022 and 2023 subject to a contingent liability of \$104.85:

Western Winds HOA
Statement of Financial Condition (Accrual Basis)
As of December 31, 2023

	\$
Bank of America - Operating 457038317800	7,960.89
Bank of America - Reserve 457042839662	25,826.02
PayPal	0.00
Accounts Receivable	4,435.00
Doubtful accounts allowance	(2,085.00)
Prepaid expenses	767.06
Contributed Land - 105-12-284A	500.00
Contributed Land - 105-12-2850	500.00
Total assets	37,903.97
Accounts Payable	(197.18)
Accrued HOA Administration fees	575.00
Accrued Legal fees	100.00
Prepaid homeowner dues	2,879.38
Total liabilities	3,357.20
Contributed Land	1,000.00
Operating funds	7,720.75
Reserved funds – restricted	7,572.62
Reserved funds – unrestricted	18,253.40
Total net assets	34,546.77

Western Winds HOA
Statement of Net Assets (Accrual Basis)
As of December 31, 2022

	\$
Contributed Land	1,000.00
Operating funds	6,000.00
Reserved funds – restricted	5,040.00
Reserved funds – unrestricted	10,143.37
Total net assets	22,183.37

	\$
Net assets 2023	34,546.77
Net assets 2022	22,183.37
Gross increase net assets	12,363.40
Adjustment for change in timing for City of Tucson Utility bills	(131.50)
Net increase in net assets	12,231.90

Total reserves increased by \$10,642.65 to \$25,826.02 between 2022 and 2023:

	2023	2022	Increase
	\$	\$	\$
Reserved funds – restricted	7,572.62	5,040.00	2,532.62
Reserved funds – unrestricted	18,253.40	10,143.37	8,110.03
Total reserves	25,826.02	15,183.37	10,642.65

Restricted reserves act as a buffer and are used to fund future large expenditures including termite treatment and insurance. They are increased on a pro rated monthly basis based upon estimates. Termite treatment is expected in February 2024, and the insurance is due in June 2024.

On December 22, 2023, the Association incurred a fraud on its debit card for \$104.85, which was subsequently reported to the bank. The bank issued a temporary credit pending resolution of an investigation. Should the investigation not conclude satisfactorily to the Association, the temporary credit may be reversed. Therefore, as of January 15, 2024, the Association has a *contingent liability* of \$104.85 for the reversal of the temporary credit. The contingent liability is not material to the financial condition of the Association. If necessary, the contingent liability will be expensed in 2024.

Basis for presentation...

The Association prepares its financial statements on an accrual basis, and are used by the board to manage the Association. Accrual basis accounting is more accurate than cash basis accounting (commonly used in HOAs) because it recognizes revenue when earned and expenses when incurred so as to match both in the correct year. It enables management to record expenses that have been incurred but not yet billed, and record estimated future expenses in the correct period to be adjusted as more information is available. Accrual basis accounting in HOAs is optional based upon managerial needs and discretion.

Cash basis accounting recognizes revenue when cash is received and expenses when cash is paid. This method can distort the reporting of the financial condition of an Association. One example is the treatment of prepaid HOA dues. Under accrual basis accounting, the Prepaid HOA Dues account is booked as a liability, whereas in cash basis accounting it is booked as revenue, which distorts future income. However, even on a cash basis unpaid assessments are booked as revenue with the offset as receivables. This is due to the lien that exists for each unit. In accordance with normal practice, the Association's tax returns and the accountant's compiled financial report are prepared on a cash basis with receivables.

Analysis of activity...

The Association sets a monthly balance of \$6,000 in operating funds on an accrual basis, as adjusted for immediate future payments. Hence, as of year end, the operating fund balance was \$7,720.75 to accommodate a future payment of \$1,720.75 for wall repairs – the expense being incurred in January 2024. This project was originally scheduled for 2023, in which case the increase in net assets would have been reduced to \$6,940.15, and reserves reduced to \$24,105.27.

Should the operating funds balance at month end be less than \$6,000 before adjustment for future payments, the difference is funded from unrestricted reserves. Conversely, should the operating funds balance be more than \$6,000 before adjustment, the difference is funded to unrestricted reserves. The Association pays its bills as presented, or close thereto due to ACH and bill pays. Hence, under normal circumstances, there is no accounts payable balance at month end.

The favorable variances in 2023 are attributed to less landscaping and property management expense than budgeted. In prior years, the Association has incurred significant expense with respect to its water and sewer system, which is fragile to say the least. Often there are landscaping expenses associated with water and sewer line repairs. No significant water and sewer lines issues were encountered in 2023. However, the 2024 budget makes provision for anticipated problems in the future.

In prior years, the Association accounted for the City of Tucson utility expense on a calendar year basis instead of a "billing period to billing" period basis. Thus, in 2023 the method was changed to a billing period to billing period basis. This change caused a one time charge to net assets of \$131.50 on an accrual basis. The billing period to billing period methodology is effectively cash basis accounting, with a period ranging from December 7 to December 7 of the following year. Hence, for 2023, the billing period is December 7, 2022 to December 7, 2023. The implication is the bulk of the utility expense incurred a given month is not expensed until the next month. The difference between methods is immaterial to the financial condition of the Association if the utility usage is relatively constant.

Note: the accrued financial statements do not include a provision for 2023 Arizona corporation tax of \$50, which will be paid in 2024. (The tax paid in 2023 is included.) This provision will be recorded in the compiled financial statements prepared by the Association's accounting firm.

The Additional Property Management, Alleyway Clean, and Concrete Repair are unrestricted reserve expenses in conjunction with the Association's Reserve Study.

The Association has made a provision of \$2,085.00 for a doubtful accounts allowance as a contra balance against Accounts Receivable in the matter of 4172 North Western Winds Drive owned by Judith Mires. Ms Mires passed away on February 10, 2023, and since that time the status of the property has been unresolved. On October 25, 2023, the Association filed a lawsuit against the heirs of Ms. Mires in the Superior Court of Pima County. The claims for relief include lien foreclosure and breach of contract. Nevertheless, the HOA dues should be protected by the lien, although this hasn't always been the case in the past.

Accrual basis to cash basis conversion adjustments...

The conversion from accrual basis to cash basis requires adjustments for certain transactions incurred in 2023, and reversals from 2022.

The conversion affects net income/increase in net assets and operating funds. The accrual basis to cash basis adjustments:

	\$ Charges	\$ Credits	\$ Balance
Increase in net assets – accrual basis			12,231.90
Prepaid homeowner dues – 2023		2,879.38	15,111.28
Reverse HOA Admin accrual – 2023		575.00	15,686.28
Reverse Legal accrual – 2023		100.00	15,786.28
Reverse insurance		1,813.94	17,600.22
Reverse A/P – 2023	197.18		17,403.04
Prepaid homeowner dues – 2022	2,200.38		15,202.66
Apply Legal accrual – 2022	100.00		15,102.66
Apply insurance – 2023	1,841.00		13,261.66
Difference between cash and accrual basis	4,338.56	5,368.32	1,029.76
 Increase in net assets – cash basis			 13,261.66
	Charges	Credits	Balance
Operating funds – accrual basis		7,720.75	7,720.75
Prepaid homeowner dues – 2022		2,200.38	9,921.13
Reverse insurance – 2022	1,813.94		8,107.19
Apply Prepaid insurance	767.06		7,340.13
Apply insurance – 2023		1,841.00	9,181.13
Reverse Legal accrual – 2023		100.00	9,281.13
Difference between cash and accrual basis		1,029.76	10,310.89
Operating funds – cash basis			10,310.89
			Balance
Operating funds – cash basis			10,310.89
Reserve funds – restricted			7,572.62
Reserve funds – unrestricted			18,253.40
Funds balance			36,136.91
 Retained earnings – cash basis			 22,875.25
Net income/Increase in net assets – cash basis			13,261.66
Funds balance			36,136.91

The cash basis financial statements result from these adjustments:

Western Winds HOA
Statement of Financial Condition (Cash Basis)
As of December 31, 2023

	\$
Bank of America - Operating 457038317800	7,960.89
Bank of America - Reserve 457042839662	25,826.02
PayPal	0.00
Accounts Receivable	4,435.00
Doubtful accounts allowance	(2,085.00)
Contributed Land - 105-12-284A	500.00
Contributed Land - 105-12-2850	500.00
Total assets	37,136.91
Contributed Land	1,000.00
Retained earnings	22,875.25
Net income/increase in net assets	13,261.66
Total net assets	37,136.91

Whereas on an accrual basis, the Association's net income/increase in net assets was \$12,231.90 in 2023, the equivalent on a cash basis was \$13,261.66 - an increase of \$1,029.76. This increase will be offset in the future.

Note: as stated earlier, unpaid assessments are booked as receivables with the offset as revenue due to the lien.

Whereas, on an accrual basis, the Association's operating funds balance was \$7,720.25 in 2023, the equivalent on a cash basis was \$10,310.89 – an increase of \$2,590.64.

Hence, both net income/increase in net assets and operating funds are overstated in 2023 on a cash basis compared accrual basis; the impact of which will take effect in 2024. This means that funds would have to be carefully managed if only cash basis reports are used because of the discrepancies between when revenue is earned and when expense is incurred.

In comparing the Association's net assets on a cash basis between 2023 and 2022, there is a difference of \$22.25 in addition to the increase of \$13,261.66. This is due to the timing difference regarding the City of Tucson utility bills referred to earlier.

Note: the difference in net assets on a cash basis between 2023 and 2022 does not include the provision for the 2023 Arizona corporation tax payable in 2024.

Western Winds HOA
Income statement (Cash Basis)
As of December 31, 2023

	\$
Revenue:HOA Dues:CoT Utility Recovery Fee @ \$44 per unit	19,616.20
Revenue:HOA Dues:Regular Assessment	67,642.80
Revenue:Interest - Reserves	1.62
Revenue:Late Fees	750.00
Revenue:Net Convenience Fees:Gross Convenience Fees	104.00
Revenue:New Lease fees	25.00
Revenue:Transfer Fees	800.00
Total revenue	88,939.62
Cost of Sales:Cost of PayPal Processing Fees	98.41
Doubtful HOA Dues	2,085.00
Operating Expenses:General and Administrative:Accounting and Tax Preparation	1,693.60
Operating Expenses:General and Administrative:Advertising	50.00
Operating Expenses:General and Administrative:HOA Management	2,780.00
Operating Expenses:General and Administrative:Legal	1,650.00
Operating Expenses:General and Administrative:Office Supplies	1,065.48
Operating Expenses:General and Administrative:Postage	510.57
Operating Expenses:General and Administrative:Statutory Agent	149.00
Operating Expenses:General and Administrative:UPS Store	173.21
Operating Expenses:General and Administrative:Website	20.17
Operating Expenses:Insurance:Insurance-Common Area	1,841.00
Operating Expenses:Landscaping:Contracted	16,335.00
Operating Expenses:Landscaping:Maintenance	390.00
Operating Expenses:Property Maintenance:General	692.30
Operating Expenses:Property Maintenance:Plumbing	125.00
Operating Expenses:Property Maintenance:Termites - Treat (2023)	3,885.00
Operating Expenses:Utilities:CoT	25,221.84
Operating Expenses:Utilities:TEP	3,456.00
Taxes:ACC	10.00
Taxes:Income	50.00
Taxes:Property	16.54
Additional Property Management per WW	3,800.00
Alleyway - Clean	8,129.84
Concrete - Repair	1,450.00
Total expense	75,677.96
Net income/increase in net assets	13,261.66
Fund balance	36,136.91
Total net assets 2022	23,853.00
Increase in net assets 2023	13,261.66
Total	37,114.66
Total net assets 2023	37,136.91
Timing difference on City of Tucson Utility bills	22.25

Note: cash basis City of Tucson Utility expense of \$25,221.84 differs by \$197.18 to the accrued basis expense of \$25,024.66. This was due to an extra payment that was made to the City of Tucson because of a meter defect. The City of Tucson has replaced the meter, and retroactively billed the Association for estimated usage. On an accrual basis, the Association has a negative Accounts Payable balance; on a cash basis, it has an expense. The payment will be credited to expenses incurred on a cash basis in 2024.

City of Tucson Utility recovery...

The City of Tucson Utility recovery budget includes a contingency factor to allow for excess usage and leaks. In 2023 there was a favorable budget variance of \$1,975.34 on an accrual basis.

		Rate per Unit
	\$	\$
10 - 4180, 4182	1,572.81	65.53
12 - 4185, 4187, 4189	1,529.54	42.49
14 - 4190, 4192, 4194	1,606.90	44.64
16 - 4193, 4195, 4197, 4199	2,203.13	45.90
18 - 4150, 4152	1,874.11	78.09
20 - 4160, 4162	1,410.14	58.76
22 and 26 - 4165, 4167, 4169, 4175, 4177, 4179	5,047.17	70.10
24 - 4170, 4172	1,123.75	46.82
28 - 4133, 4135, 4137, 4139	2,588.39	53.92
30 - 4145, 4147, 4149, 4155, 4157, 4159	3,545.59	49.24
32 - 4140, 4142, 4144	2,523.13	70.09
Total City of Tucson Utility - 49837-515	25,024.66	
Budgeted City of Tucson Utility recovery	27,000.00	
Favorable budget variance	1,975.34	
Average actual rate per unit	56.36	
Recovery rate per unit	44.00	
Under recovery per unit	12.36	
Recovery ratio	0.78	

The recovery rate per unit was set some years ago at \$44 per unit as a replacement to the defective water metering system, and was intended to recover 85% of the actual utility consumption, with the rest being funded from overhead. In 2023, the recovery rate was 78%.

The Association enrolled in the City of Tucson Zanjero program in 2023, and had inspections for leaks performed in many of the units, with no noticeable improvement over the year.

2024 budget...

The 2024 budget breaks even, and is in line with the 2023 budget:

<https://home.85705ww.com/docs/budget.pdf>.

However, the budget is not in line with the planned contribution to reserve funds as recommended by the Reserve Study.

The major infrastructure project for 2024 is asphaltting the parking areas to be funded from unrestricted reserves, with a source of additional funding from a special assessment based upon budget performance. (Unfunded means that the source is either reserve funds and/or special assessment.)

The anticipated reserve fund requirements (including the special assessment assumption):

Unrestricted reserves projects:	\$
Funded:	
Additional property management	3,640.00
Alley Way clean	4,000.00
Wall repair	5,000.00
Concrete repair	2,800.00
Total funded	15,440.00
Unfunded:	
Asphalt - repave	15,000.00
Total unfunded	15,000.00
Total unrestricted reserves projects	30,440.00
Restricted reserves:	
Termite treatment	3,885.00
Insurance (estimated)	1,980.00
Total restricted reserves	5,865.00
Total reserves requirements	36,305.00

Note: the minimum reserve balance policy is \$10,000.

Note: Wall repair to date in 2024 is \$1,720.75.

Use of QuickBooks...

The Association uses QuickBooks Online edition as its accounting system in accrual mode. The Association is implementing a cleaner system in 2024 that eliminates the “baggage” in the current system. When the conversion occurs, the current system will be backed up in spreadsheet form, with a full sets of statements for every homeowner (active and inactive).

Although the Association is an Arizona Non Profit Corporation, the current QuickBooks system has been set up as a “for profit” entity. For this reason, net income is closed out to operating funds every month by means of a journal entry that transfers operating income, reserve expenses, and any other miscellaneous items. The grand total of the transfer is shown as Other Income, which is a contra balance to net income. Hence, the monthly, and annual statement of net income/profit and loss statement always has a zero grand total.

The plan is to set the new system up for a non profit corporation on an accrual basis, which would eliminate the transfer journal entry.