

## Critique of Financial Statements for the Seven Months Ended July 31, 2024.

### Executive Summary

- The Treasurer's report is incomplete, contains misleading material misstatements, and is not prepared in accordance with Generally Accepted Accounting Principles.
- There is no classified balance sheet, so homeowners are unable to access the balances in the individual asset, liability, and equity accounts.
- Operating Fund and CIF revenues and expenses are comingled in a single report which is misleading.
- Operating Fund:
  - CIF Interest Earned has been erroneously reported as Operating income resulting in an overstatement of \$5,368.67.
  - Audit fees of approximately \$3,300 paid in February are missing.
  - Property taxes of \$2,708.83 on the mower leases are misclassified as CIF expenditures.
  - Two months of allocated revenue (\$4,000) in payment of the internally financed loan have not been recorded.
  - Net Operating income is overstated by \$15,377.50
- CIF Continuous Improvement Fund:
  - There is an unexplained new account, *CIF HOA Assessments*, with a balance of \$2,430 in revenue.
  - CIF Interest Earned is understated by \$5,368.67.
  - CIF Other Revenue is understated by \$19,160.42, the misclassified receipts from an insurance claim settlement.
  - CIF Current Year Projects report lacks the required disclosure of expenditures by Classification. Homeowners are unable to determine whether expenditures are made in accordance with the membership-approved 2024 CIF budget.
  - CIF Current Year Projects, Classification-Mower Leases are understated by \$19,160.41, misclassified receipts from an insurance claim, and overstated by \$2,708.83 by misclassified property taxes
  - A new account titled *Current Net Revenue* has a balance of \$74,824.53 in expenditures. Presumably, these expenditures should have been reported as CIF Current Year Projects.
  - Net CIF income is understated by at least \$8,077.50.

### Introduction

On August 20, 2024, 13 documents were posted to the *Treasurer's Reports* section of the ACC website. None of the documents is titled *Treasurer's Report 7.31.24*. Three of the documents may contain relevant information. The document titled *07 July 2024 Budget vs Actual OP.pdf* is disregarded because it is for a single month, not year-to-date.

For ease of reading this critique the document names have been shortened. The documents listed on the website are:

01 12 Jan thru Dec 2024 Budget vs Actual OP.pdf: [Jan – Dec 2024]

01 07 Jan thru July 2024 Budget vs Actual OP.pdf: [Jan – July 2024]

This table presents condensed summaries of Jan – Dec 2024 and Jan – July 2024, the two Profit & Loss Reports that might contain accurate data for 1/1/2024 – 7/31/2024.

A/C #	Account	Profit & Loss	
		1/1/24 to 12/31/24	1/1/24 to 7/31/24
<b>Operating Fund Trial Balance</b>			
<i>Revenues:</i>			
40000	Operating Revenues	\$863,219.74	\$763,468.54
<i>Expenses:</i>			
60010	Total Payroll	\$414,704.56	\$391,466.57
62000	Total Golf Shop	26,276.17	25,680.57
	Total Grounds		
63000	Maintenance	52,176.28	48,883.22
	Total Maintenance		
64000	Expense	64,612.59	54,208.14
65000	Total Office Expense	14,255.46	13,679.40
	Total Professional		
66000	Services	40,874.12	38,601.47
67000	Total Insurance & Taxes	84,784.27	84,784.27
68000	Total Utilities	59,578.36	55,378.58
68450	Total Other Expenses	37,012.20	36,738.02
	Total Operating Expenses	794,274.01	749,420.24
	Net Operating Income (Loss)	\$68,945.73	\$14,048.30
<b>CIF Trial Balance</b>			
<i>Revenues:</i>			
40600	HOA Assessment for CIF	\$2,430.00	\$2,355.00
42010	CIF Home Sale Fees	45,168.00	45,168.00
42030	CIF Interest Earned	4,051.74	4,051.74
42040	CIF Other Revenue	0.00	0.00
	Total CIF Revenues	\$51,649.74	\$51,574.74
<i>Expenditures:</i>			
69640	CIF Current Year Projects	(\$2,943.08)	(\$4,426.14)
	CIF Current Net Revenue		
75020	?	74,824.53	74,824.53
	CIF Expenditures	71,881.45	70,398.39
	Net CIF Income (Loss)	(\$20,231.71)	(\$18,823.65)

Since the two Profit & Loss Reports are supposed to present financial reports for the current period, they should have identical amounts. This is not the case, so we have chosen to critique the document identified as *Jan – July 2024*.

Financial Statements are normally published at the end of each clearly identified accounting period. For example, the current financial statements should be for the seven months ended July 31, 2024. Homeowners should not have to sort through multiple documents to obtain a copy of the Treasurer's Report for the current period. Publishing conflicting information is misleading and does not serve the homeowners.

### **Critique of Jan – July 2024:**

In the past seven months the homeowners have not received any meaningful financial information. The *Jan – July 2024* report is incomplete, contains misleading material misstatements, and is not prepared in accordance with Generally Accepted Accounting Principles.

### **Balance Sheet**

As has been the case for many months, there is no published balance sheet. The *Jan – July 2024* report lacks basic disclosures such as the balances in the individual asset, liability, and equity accounts. Of particular interest are the balances in the various cash accounts and financial instruments that comprise the restricted investment pool.

There is no disclosure about the auditors' proposed adjusting journal entry to write off approximately \$150,000 of net book value in pre-2022 assets. If this entry is made, the depreciation schedule will need to be reconstructed to calculate adjusted monthly depreciation expense.

Without a classified balance sheet, the homeowners do not have access to the balances of the equity accounts: CIF Equity and Restricted Reserve Equity. The balances in these two equity accounts dictate the required cash balances in the Restricted MMF and CDs that support the Restricted Investment Equity Funds.

### **Operating Statement of Income and Retained Earnings (Profit & Loss)**

#### **Revenues**

It appears that a new account titled *Interest* (A/C #40950) has been established in the income section of the Operating section of the general ledger with \$5,368.67 interest earned for seven months.

For the past 12 years all interest has been allocated to CIF Interest Earned in accordance with the original membership motion codified by Bylaw 02.12 "CIF" Capital Improvement Fund. If the Board wishes to make a change to this Bylaw it should be submitted as a motion at the next Annual Meeting. Operating income is overstated by \$5,368.67.

#### **Expenses**

#66105 – Audit

The audit fees paid in February are still missing from the 2024 financial statements. We examined the transactions reported in *Accounting* (A/C #66100) to determine if the audit

fees were misclassified. This was not the case; therefore, operating expenses are underreported by this amount.

#### #67700 – Property Taxes

As noted in prior critiques the property taxes on the two mower leases were misclassified in A/C #69640 CIF Current Years Projects – Classification: Mower Leases. This error has not been corrected as of July 31, 2024; therefore, operating expenses are underreported by \$2,708.83.

#### #69550 – Solar Loan Secondary Reserve Fund

This account is understated by \$4,000, the allocation of revenue to the internally financed loan for June and July.

### Statement of Changes in Retained Earnings

The following is a condensed statement of operating income and retained earnings for the seven months ended July 31, 2024, using the numbers from *Jan – July 2024*. The account categories highlighted in red indicate material errors in individual accounts as discussed above.

<u>A/C #</u>	<u>Account</u>	<u>Amount</u>
<b>40000</b>	<b>Operating Revenues</b>	<b><u>\$763,468.54</u></b>
	Total Operating Revenue	\$763,468.54
60010	Total Payroll	391,466.57
62000	Total Golf Shop	25,680.57
63000	Total Grounds Maintenance	48,883.22
64000	Total Maintenance Expense	54,208.14
65000	Total Office Expense	13,679.40
	<b>Total Professional</b>	
<b>66000</b>	<b>Services</b>	<b>38,601.47</b>
<b>67000</b>	<b>Total Insurance &amp; Taxes</b>	<b>84,784.27</b>
68000	Total Utilities	55,378.58
<b>68450</b>	<b>Total Other Expenses</b>	<b><u>36,738.02</u></b>
	Total Operating Expenses	<u>749,420.24</u>
	Net Operating Income	\$14,048.30
<b>Statement of Changes in Retained Earnings</b>		
<b>(Losses)</b>		
	Balance, January 1, 2024	<u>(49,405.33)</u>
	Balance, July 31, 2024	<u><u>(\$35,357.03)</u></u>

### CIF Statement of Income and CIF Equity (Profit & Loss)

#### Revenues

#### #40600 HOA Assessment for CIF

The balance of \$2,430.00 is a mystery. Have the homeowners been assessed during the past seven months? It is our understanding that transferring money from the Operating Fund to the CIF requires Board action. There does not appear to have been any discussion of this by the Board.

#### **#42010 CIF Home Sale Fees**

According to the Treasurer's report, fees collected in the first seven months were \$45,168. This is \$30,000 less than the \$77,772 in fees collected for the same period in 2023.

#### **#42030 CIF Interest Earned**

As discussed above, \$5,368.67 has been erroneously posted to a newly created account #40950, *Interest*, in the Operating section of the general ledger. According to the Treasurer's report, CIF Interest earned for the first seven months of the year was only \$4,051.74, understating CIF Interest Earned by \$5,368.67.

#### **#42040 CIF Other Revenue**

As reported in previous critiques \$19,160.42 in receipts from the settlement of an insurance claim was misclassified to A/C #69640 CIF Current Year Projects – Solar Panel Repairs Classification. This needs to be reported as CIF Other Revenue.

#### ***Expenditures***

CIF expenditures are controlled by the membership. The CIF budget is presented and debated at the Annual Meeting. Once the final budget is approved by a vote of the members, expenditure classifications are established in QuickBooks. Each month the CIF budget report should contain a detailed accounting of each expenditure by Classification.

#### **#69640 CIF Current Year Projects**

For several months the homeowners had received a supplemental report of CIF Current Year Project expenditures by Classification. This detailed disclosure is missing from *Jan – July 2024*. In the Classification – Mower Leases, \$19,160.42 in receipts from the insurance claim settlement should be reclassified to CIF Other Revenue A/C #42040, and \$2,708.83 in property taxes paid in March should be reclassified to Property Taxes A/C #67700.

#### **#75020 CIF Current Net Revenue**

This new account is another mystery. Although it is in the expenditures section of the general ledger, it is titled *CIF Current Net Revenue*. It currently has a balance of expenditures of \$74,824.53. If this represents CIF Current Year Projects, it should be reported in CIF Current Year Projects A/C #69640 with the appropriate expenditure Classification so that homeowners can see that these were expenditures budgeted and approved at the Annual Meeting in February. Again, there is a lack of disclosure.

#### **Statement of Changes in CIF Equity**

The following is a condensed statement of CIF income and CIF equity for the seven months ended July 31, 2024, using the numbers provided in *Jan – July 2024*. The accounts highlighted in red indicate material errors as discussed above.

<u>A/C #</u>	<u>Account</u>	<u>Amount</u>	
<b>40600</b>	<b>HOA Assessment for CIF</b>	<b>\$2,355.00</b>	
42010	CIF Home Sale Fees	<b>\$45,168.00</b>	
<b>42030</b>	<b>CIF Interest Earned</b>	<b>\$4,051.74</b>	
<b>42040</b>	<b>CIF Other Revenue</b>	<b>\$0.00</b>	
	Total CIF Revenue		\$51,574.74
<b>69640</b>	<b>CIF Current Year Projects</b>	<b>(4,426.14)</b>	
<b>75020</b>	<b>CIF Current Net Revenue</b>	<b>74,824.53</b>	
	Total CIF Expenses		<u>70,398.39</u>
	Net Income (Loss)		(\$18,823.65)
<b>Statement of Changes in CIF Equity</b>			
	Balance, January 1, 2024		<u>1,228.47</u>
	Balance, July 31, 2024		<u><u>(\$17,595.18)</u></u>

**Conclusion**

The Treasurer’s report lacks basic disclosures. Without a classified balance sheet, it is impossible to assess the financial health of the Association. Not separating Operating income from CIF income creates issues because they are driven by separate budgets and have separate equity fund balances.

A QuickBooks report was designed to produce a detailed listing of each expenditure by Classification. The 2024 budgeted CIF expenditures were entered in the system, yet this report is not available to the homeowners, so they do not know how CIF funds have been spent.

It is disappointing that we are unable to obtain basic information about the financial activities and financial health of the Association. As homeowners, we have a financial interest and should be provided with complete and accurate information on a timely basis.

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 Lot 93