

Critique of March 2024 Financial Statements

Introduction

It does not appear that these financial statements were proofread before publication. They are incomplete and contain numerous material errors.

For ease of reading, we have reproduced sections of the March 31, 2024, financial statements. that are posted on the website.

Operating Profit & Loss

#1 Total Professional Services

In the 2024 Jan Feb Financials, \$3,300 was reported as a payment on the audit. The March statements show \$0 for expenses related to the audit. Has this been reclassified and if so, why?

66000 · TOTAL PROFESSIONAL SERVICES	
#1 66100 · Accounting	6,516.00
66105 · Audit	0.00
66150 · Computer Support	1,757.43
66200 · Payroll Services	2,134.15
66300 · Legal Fees	5,344.25
66400 · Website	0.00
Total 66000 · TOTAL PROFESSIONAL SERVICES	<u>15,751.83</u>

#2 Total Other Operating Expense

There are duplicate accounts for the Solar Loan Interest Expense. We recommend consolidating these into a single account. Since Account #69118 is reported in the budget this would be the most likely choice.

68450 · TOTAL OTHER EXPENSE	
#2 69105 · Solar loan interest Expense	2,409.39
69110 · Depreciation Expense	8,703.42
#2 69118 · Solar Project Interest Expense	0.00
69510 · Yard Opt Out Expenses	1,265.00
69520 · Miscellaneous Expense	1,238.51
69550 · Solar Loan-Secondary Rsrv Fund	7,000.00
Total 68450 · TOTAL OTHER EXPENSE	<u>20,616.32</u>

There is no Statement of Changes in Retained Earnings. The most logical place to report changes in Retained Earnings is at the end of the CIF Profit & Loss or as a separate supporting schedule. This reconciliation provides the adjusted amount that should be reported on the Balance Sheet. The following is an example as to how this might be reported in the March Operating Statement.

Example: Statement of Changes in Retained Earnings (Losses)

Net Income	\$9,288
Beginning Balance, January 1, 2024	<u>(49,405)</u>
Ending Balance, March 31, 2024	<u><u>(\$40,117)</u></u>

CIF Profit & Loss

The CIF Profit & Loss seems to have been omitted from financial reports posted on the website. In 2012 the members passed a resolution creating the CIF (Continuous Improvement Fund). The sources of revenue for this fund were interest earned, fees for sale of homes and HOA assessments. Since that time there have been homeowner donations and receipts from insurance claims that have been reported as Misc. Income. It was clear from the outset that a separate fund

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was required. CIF transactions and changes in the CIF equity account have been reported at the end of each accounting period in the CIF Profit & Loss. The CIF equity balance is carried forward to the balance sheet.

The following revenues were reported in January and February 2024. As far as we can determine, the CIF Revenues for March are not included in the financial statements.

	January	February	YTD 2.29.24	March
Fees for Sale of Homes	\$11,160	\$4,464	\$15,624	?
Interest Earned	1,404	406	1,810	?
Misc. Income	3,691	15,469	19,160	?
Total CIF Revenues	\$16,255	\$20,339	\$36,594	?

On these latest (March) financial reports, we are unable to locate the \$15,624 of Fees for Sale of Homes and the \$1,810 Interest Earned during the first two months of the year. We would assume that there would be transactions in each of these accounts for the month of March as well. We were able to find the \$19,160 of revenue related to the receipt of insurance claims which appears to be misclassified in the Solar Panel Repairs account and reported in the CIF Fund – Transaction Detail by Class, which is a supporting schedule to the CIF Profit & Loss.

Since the CIF Profit & Loss was omitted, we assumed we would be able to find the CIF Revenues and Expenses for the three months ended March 31, 2024, somewhere else in the financial statements. This was not the case. This is important since the change in CIF Fund Equity as reported in the balance sheet is determined using the net revenues (expenses) for the period.

Statement of Changes in CIF Equity

After the missing CIF Profit & Loss is available, a reconciliation of CIF Equity should be inserted in a similar manner as the Statement of Changes in Retained Earnings in the Operating Profit & Loss. The following provides an example of the appropriate format of the Statement of Changes in CIF Fund Equity.

Example: Statement of Changes in CIF Equity

Net Income	?	
Beginning Balance, January 1, 2024	1,228	
Ending Balance, March 31, 2024	?	

CIF Fund – Transaction Detail by Class

This is a supporting schedule to the CIF Profit & Loss. It provides the details for each expense account reported. It does not replace the CIF Profit & Loss.

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#3 Mower Leases

There are two transactions misclassified as mower lease payments when in fact, they are the payment of property taxes. These should be reclassified from the CIF Fund to Account #67700 Property Taxes in the Operating Profit and Loss.

Mower Leases							
Check	01/28/2024	EFT	First Citizens Bank (...)	Lease Fairwa...	2024 CIF ...	10025 · Analyz...	1,227.60
Check	01/28/2024	EFT	First Citizens Bank (...)	Lease Green ...	2024 CIF ...	10025 · Analyz...	1,483.06
Check	02/28/2024	EFT	First Citizens Bank (...)	Lease Fairwa...	2024 CIF ...	10025 · Analyz...	1,227.60
Check	02/28/2024	EFT	First Citizens Bank (...)	Lease Green ...	2024 CIF ...	10025 · Analyz...	1,483.06
Bill	03/10/2024	44349...	First Citizens Bank (...)	2023 Property...	2024 CIF ...	20000 · Accou...	1,524.04
Bill	03/10/2024	44349...	First Citizens Bank (...)	2023 Property...	2024 CIF ...	20000 · Accou...	1,184.28
Check	03/28/2024	EFT	First Citizens Bank (...)	Lease Fairwa...	2024 CIF ...	10025 · Analyz...	1,227.60
Check	03/28/2024	EFT	First Citizens Bank (...)	Lease Green ...	2024 CIF ...	10025 · Analyz...	1,483.06
Total Mower Leases							10,840.30

#4 Solar Loan Repairs

The January 31, 2024, journal entry reported a credit memo issued by a vendor in late January 2024; the financial statements had already been published and the books were closed in Quick Books, so the credit memo is being reported as a reduction in CIF expenses for 2024. This may look unusual, but it is correct under the circumstances.

The deposit recorded on February 5, 2024, indicates that it was a receipt from Philadelphia Insurance. If this relates to the Solar Panel Repairs, it should be reported as Other Income rather than a reduction of an expense. If it is payment for an additional claim for the excess cost of electricity while the system was down it should be reported as Other Income in the Operating Profit & Loss. In any event it is not a reduction of an expense.

Solar Panel Repairs							
#4 General Journal	01/31/2024	JE03...		To reclass ins...	2024 CIF ...	42040 · CIF Ot...	-24,276.00
Deposit	02/05/2024	30009...		Philadelphia I...	2024 CIF ...	10025 · Analyz...	-19,160.42

Balance Sheet

#5 Cash and Cash Equivalents

There is no schedule of Cash and Cash Equivalents. There are four active accounts with balances that are material (Rio Bank Checking, Alliance Checking, Rio Bank Jumbo MMF and Alliance MMF). In the interest of full disclosure each of these account balances should be presented in a supporting schedule to the balance sheet.

#5	Checking/Savings		
	10000 · Cash and Cash Equivalents		157,842.35
	Total Checking/Savings		157,842.35

#6 Accounts Receivable

The Allowance for Doubtful Accounts is not part of Other Current Assets. It should be reported as a reduction in Accounts Receivable, resulting in Net Realizable Receivables.

	Accounts Receivable	
	12000 · Accounts Receivable	7,952.00
	Total Accounts Receivable	7,952.00
#6	Other Current Assets	
	12005 · Allowance for Doubtful Accounts	-150.00

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#7 Other Current Assets

Restricted Assets (Accounts) in the amount of \$458,692.67 are incorrectly being reported as Other Current Assets. Current assets include operating Cash and Cash Equivalents, Net Realizable Receivables, and Prepaid Insurance. The restricted assets (accounts) are investments in interest-bearing CDs and Money Market Accounts. These funds may not be used to cover current operating expenses. Restricted Assets (Accounts) should be presented in a separate section titled *Restricted Accounts-Investments* between Other Current Assets and Fixed Assets.

	12000 · Prepaid Insurance	
#7	12200 · Restricted Assets	458,692.67

#8 Restricted Accounts-Investments

These accounts are held in CDs and a Money Market Fund and represent the cash restricted by the Board. Since the amounts are material, a supporting schedule listing each CD and the MMF balance should be prepared as an integral part of the financial statements. The minimum balance required as of March 31, 2024, is \$457,000 (\$500,000 - \$43,000 remaining on the internally financed Solar Panel Project Loan).

	12200 · Restricted Assets	458,692.67
	Total Other Current Assets	552,102.93
#8	Total Current Assets	717,897.28
	Fixed Assets	

#9 Equity

The equity section needs to be separated into two classifications: Unrestricted Equity and Restricted Equity. The Unrestricted Equity comprises original Capital, Retained Earnings (Losses), and the CIF Fund Balance.

	Equity	
#9	30000 · Capital	850,505.87
#10	30100 · Retained Earnings	-52,755.34
	30200 · CIF Fund	58,921.00
	31000 · Primary Reserve Funds	250,000.00
	31500 · Secondary Reserve Fund	250,000.00
	31550 · Solar Panel Project Loan	-43,000.00
#10	Net Income	9,287.58
	Total Equity	1,322,959.11

The Restricted Equity comprises the Primary and Secondary Reserve Funds less the remaining balance on the internally financed Solar Panel Project Loan. The total balance of \$457,000 should be supported by the cash held in the Restricted Accounts-Investments.

#10 Allocation of Net Income to Each Fund

Net income should not be reported on the balance sheet. The allocation of Net Income between the Operating Fund and CIF Fund will be discussed in a later section. Normally the changes in Retained Earnings (Losses) and changes in CIF Fund Equity are reported in their respective Profit & Loss statements.

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	Equity		
#9	30000 · Capital		850,505.87
#10	30100 · Retained Earnings		-52,755.34
	30200 · CIF Fund		58,921.00
	31000 · Primary Reserve Funds		250,000.00
	31500 · Secondary Reserve Fund		250,000.00
	31550 · Solar Panel Project Loan		-43,000.00
#10	Net Income		9,287.58
	Total Equity		1,322,959.11

Based on the information provided, the adjusted balance on March 31, 2024, in the Retained Earnings (Losses) Account #30100 should be a loss of \$40,117. The earlier calculation is reprinted for your convenience. Since the CIF Profit & Loss has been omitted, we are unable to calculate the ending CIF Fund Equity.

Example: Statement of Changes in Retained Earnings (Losses)

Net Income	\$9,288
Beginning Balance, January 1, 2024	(49,405)
Ending Balance, March 31, 2024	(\$40,117)

Statement of Cash Flows

There are three sections in the Statement of Cash Flows: Operating, Investing, and Financing. Following is an explanation of which transactions belong in each section.

Operating Activities

#11 Net Income

Alamo Country Club is a multi-fund enterprise so two amounts should be reported as the current period net income. After the CIF Profit & Loss is made available, the net income for the period may be reported on the second line.

	Net Income		9,287.58
#12	Adjustments to reconcile Net Income to net cash provided by operations:		
(#69110)	12000 · Accounts Receivable		-3,963.00
DEPRECIATION EXPENSE 2023.42	12030 · Prepaid Insurance		-91,609.76
	12200 · Restricted Assets:11015 · Rio Bank Restricted Money Mkt		-7,987.92
	12200 · Restricted Assets:11040 · Alliance CD 12 months 04/04/23		-160.54
	20000 · Accounts Payable		53,818.63
	20003 · Current Portion-Alliance Bank		150.03
	20010 · Prepaid Homeowner Accounts		22,420.54
	20100 · AFLAC - Employee Insurance		-155.10
	20200 · Sales Tax Payable		503.64
	Net cash provided by Operating Activities		-17,695.90
	INVESTING ACTIVITIES		

#13

#12
AP # 31550
Principal Reduction
INTERMAY Financial
Loan + 7,000

The following is an example of the format.

Example: Consolidated Net Income

Operating Net Income	\$9,288
CIF Net Income	?
Consolidated Net Income	?

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#12 Adjustments to net income

Traditionally the first adjustment to consolidated net income is depreciation expense of \$8,703.42, Account #69110. It should not be reported as Accumulated Depreciation in the Investing Activities section.

The principal reduction of the internally financed loan of \$7,000, Account #31550, is also an adjustment to consolidated net income and should be reported in the Operating Activities section.

The changes in Restricted Assets of \$8,148.46 should not be reported as adjustments to consolidated net income but rather as Investing Activities.

#12 Ac #69110 DEPRECIATION EXPENSE 8,703.42	#11	Net Income	9,287.58
		Adjustments to reconcile Net Income to net cash provided by operations:	
		12000 · Accounts Receivable	-3,963.00
		12030 · Prepaid Insurance	-91,609.76
		12200 · Restricted Assets:11015 · Rio Bank Restricted Money Mkt	-7,987.92
		12200 · Restricted Assets:11040 · Alliance CD 12 months 04/04/23	-160.54
		20000 · Accounts Payable	53,818.63
		20003 · Current Portion-Alliance Bank	150.03
		20010 · Prepaid Homeowner Accounts	22,420.54
		20100 · AFLAC - Employee Insurance	-155.10
		20200 · Sales Tax Payable	503.64
		Net cash provided by Operating Activities	-17,695.90
#12 Ac #31550 Principal Reduction Internally Financed Loan \$7,000		INVESTING ACTIVITIES	

#13 Investing Activities

The only Investing Activities during the period is the increased balance of \$8,148.46 in Restricted Assets. See Note #12 above.

#13	12200 · Restricted Assets:11015 · Rio Bank Restricted Money Mkt	-7,987.92
	12200 · Restricted Assets:11040 · Alliance CD 12 months 04/04/23	-160.54
	20000 · Accounts Payable	53,818.63
	20003 · Current Portion-Alliance Bank	150.03
	20010 · Prepaid Homeowner Accounts	22,420.54
	20100 · AFLAC - Employee Insurance	-155.10
	20200 · Sales Tax Payable	503.64
	Net cash provided by Operating Activities	-17,695.90
	INVESTING ACTIVITIES	
	13020 -- Accumulated Depreciation	8,703.42

#14 Financing Activities

The principal payments of \$3,020.49 made on the Alliance Bank loan, Account #25000, is the only Financing Activity to be reported in this period. The \$7,000 payments on the internally financed Solar Project Loan should be reported as an adjustment to Net Consolidated Income in the Operating Activities of the statement. Once CIF Operating Income is determined it should be reported as a line item in that calculation of Net Consolidated Income. See Notes #11 and #12.

#14	FINANCING ACTIVITIES	
	25000 · Note Payable-Alliance Bank	-2,870.46
	25000.1 · Less Current Liability- Allianc	-150.03
	30200 · CIF Fund	57,692.53
	31550 · Solar Panel Project Loan	7,000.00
	Net cash provided by Financing Activities	61,672.04

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Each of the sections (Operating, Investing, and Financing) should be corrected so that the appropriate language matches the actual cash flow. For example, Investing Activities should read as *Net cash used by Investing Activities* rather than *provided by*. Likewise, Financing Activities should read *Net Cash used by Financing Activities* rather than *provided by*.

Conclusion

The process of assembling monthly financial statements starts with a thorough review of the unadjusted trial balance. All misclassifications, accruals, and deferrals need to be identified and the appropriate adjusting journal entries prepared and posted to the general ledger. Once the adjusted trial balance is finalized the statements may be prepared. After the draft financial statements are prepared a final review should be conducted to proofread the documents for typographic and presentation errors. The final statements may then be released for publication. It does not appear that this process was followed in the preparation of the financial statements for the three months ended March 31, 2024.

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