

April 21, 2014

TO: Executive Board  
Knudson Ranch Association, Inc. d/b/a Bachelor Springs

FROM: Financial Review Committee (John Henry, Tim Leveque, Jim Arbour)

The Financial Review Committee ("FRC" or "the Committee") performed an internal financial review of the financial statements of Knudson Ranch Association, Inc. d/b/a Bachelor Springs (the "Association") as of and for the year ended December 31, 2013, including the general ledger and certain supporting documents for transactions and balances recorded therein ("Financial Review"), and has prepared this report documenting the procedures performed and related findings and conclusions.

Please note that the Financial Review described herein is not an audit; it is less comprehensive than an audit. Current law does not require the Association to be audited. The annual meeting of Association's members on December 30, 2013 ratified the Board's recommendation to have an internal financial review in lieu of an audit.

**Financial Controls:**

The following describes the process for reviewing, approving and paying invoices. Maintenance invoices are reviewed and approved by Robin Wolfhard (Property Manager) and then sent to John Henry (President) and David Kellogg (Treasurer). Other invoices are sent directly to John. John reviews and approves the invoices, codes any unusual expenses and sends the Association's accountants authorization to pay the invoices, with a copy to David Kellogg. The accountants prepare checks and send these with supporting invoices to David Kellogg for check signing and mailing.

The Association's accountants prepare monthly financial statements. Monthly statements are sent to the Board members. The Treasurer reviews the financial statements at the Board meetings. The Financial statements are posted to the Association's website and are thus available to all Association members to review.

**Financial Review:**

In conducting the Financial Review, one or more members of the FRC performed the following:

1. Financial Statements and General Ledger:
  - 1.1. Obtained copies of the Association's Financial Statements as of and for the year ended December 31, 2013 and the General Ledger covering the same period.
  - 1.2. Agreed Financial Statement line items to the closing balances in the General Ledger without significant exception.
  - 1.3. Reviewed General Ledger activity for significant unusual entries with none having been noted that were not readily explainable by reference to minutes

of Board meetings or to supporting invoices, contracts, e-mails or other correspondence.

2. Income and related items - Ascertained that the Financial Statements properly reflect the total Association Dues for 26 units for operating expenses (\$112,721) and capital reserve regular assessments (\$84,928), and for Special Assessments (\$260,000), and that all were collected as of December 31, 2013.

3. Investments and related income:

3.1. Determined that investments are in accordance with the Association's investment policy and that no individual account has a balance in excess of FDIC coverage limits.

3.2. Determined that the amount of income earned on invested funds appears reasonable based on the amounts invested throughout the year and knowledge of current interest rates.

4. Disbursements - Reviewed invoices, contracts, e-mails and other correspondence, and made inquiries as appropriate for disbursements making up over 80% of 2013 expenditures for operating and capital items including:

4.1. Operating Expenses:

4.1.1. Accounting Fees	\$ 3,358
4.1.2. Administrative Expenses	\$ 1,884
4.1.3. Property Management	\$10,015
4.1.4. Insurance	\$29,934
4.1.5. Legal fees	\$ 4,557
4.1.6. General Maintenance	\$ 4,034
4.1.7. Snow Removal	\$ 4,791
4.1.8. Garden Maintenance	\$ 5,479
4.1.9. Irrigation, landscape & water feature repair and maintenance	\$18,690 out of total \$21,402

4.2. Capital Expenditures:

4.2.1. Staining Project	\$75,450
4.2.2. Log Railing Repairs	\$ 8,579

All of the above reviewed expenditures appeared to be appropriately authorized and approved.

5. Balance Sheet:

5.1. Reviewed bank account reconciliations as of December 31, 2013 and agreed amounts thereon with bank statements and cash balances in the general ledger. It was noted that the bank reconciliation revealed some checks were outstanding more than 60 days; this matter is being followed up by the Association's new accountant in 2014.

- 5.2. Agreed the \$10,967 Accounts Receivable balance on the Balance Sheet to the aged accounts receivable detail as of December 31, 2013 and noted that substantially all of the balance is the Koss receivable, which is fully reserved as Allowance For Bad Debt on the Balance Sheet.
- 5.3. Recalculated the Prepaid Insurance balance at December 31, 2013.
- 5.4. Determined that Undeposited Funds at December 31, 2013 were subsequently deposited in the Association's bank account in 2014.
- 5.5. Verified that the Accounts Payable at December 31, 2012 were paid in 2013 and that \$4,237 of the \$4,809 accounts payable at December 31, 2013 were paid in 2014; no determination has been made as to whether or not the remaining \$572 has been paid as of the date of this report.
- 5.6. Verified the Prepaid Assessments balance at December 31, 2013.
- 6. Owners' Equity and Reserves:
  - 6.1. Reviewed the roll-forward of the Association's Operating Account, Owners' Capital Account, and Reserve Account from December 31, 2012 to December 31, 2013 as shown in the 2013 Statement of Cash Flow.
  - 6.2. Agreed the summarized activity during the year shown in the 2013 Statement of Cash Flow to the account activity included in the Financial Statements reviewed above and noted that the Operating Account, Owners' Capital Account and Reserve Account balances appear to appropriately show the Association's owners' equity and reserves as of December 31, 2013.

**Recommendation:**

The FRC recommends that all contracts involving expenditures estimated to be greater than \$2,000 (either one-time service or long-term contract) be competitively bid, except in emergency situations in which case the authorization for expenditure should be agreed by more than one Board member.

Submitted by the Financial Review Committee:

John Henry \_\_\_\_\_

Tim Leveque \_\_\_\_\_

Jim Arbour \_\_\_\_\_