

June 26, 2016

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

FROM: Jim Arbour

As authorized by the homeowners at the 2015 Annual Meeting of the Knudson Ranch Association, Inc. d/b/a Bachelor Springs (the "Association"), I performed an internal financial review of the financial statements of the Association as of and for the year ended December 31, 2015, including the general ledger and certain supporting documents for transactions and balances recorded therein ("Financial Review"), and have 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 the Associations members on December 28, 2015 ratified the Board's recommendation to have an internal financial review in lieu of an audit.

As a general observation, I found the Association's accounting records to be very well maintained and the Association's operations and funds appear to be managed in a well-documented and transparent manner, and to be subject to adequate controls.

Financial Review:

In conducting the Financial Review, I 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, 2015, and the general ledger covering the same period.
 - 1.2. Agreed all financial statement line items to closing balances in general ledger without exception.
 - 1.3. Compared financial statements with approved budget and noted any significant differences.
 - 1.4. Read the minutes of Board and Annual Homeowners' Meeting and noted the following:
 - 1.4.1. Explanations of budget variances
 - 1.4.2. New or modified contracts
 - 1.4.3. Explanations of repair items
 - 1.4.4. Discussion of replacement reserve funding needs
 - 1.4.5. Bad debts/uncollectible receivables
 - 1.4.6. Commitments, contingencies, unpaid liabilities or payables existing at December 31, 2015
 - 1.5. 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:
 - 2.1. Ascertained that the financial statements properly reflect the total Association dues for 26 units for operating expenses (\$127,200) and capital reserve regular assessments (\$91,858), and for special assessments (\$260,000), and that all except as noted in the following sentence were collected as of December 31, 2015. The 2015-Q4 regular and special assessments for one unit totaling \$4,606.33 was outstanding as of December 31, 2015 had not yet been received as of the end of January 2016.
3. Cash and investments and related income:
 - 3.1. Agreed investment balances on the balance sheet with bank statements and/or correspondence from the bank.
 - 3.2. Reviewed the December 31, 2015 bank reconciliation; no unusual items noted.
 - 3.3. Checked whether or not investments as December 31, 2015 were in accordance with the Association's investment policy and that no individual account had a balance in excess of U.S. Federal Deposit Insurance Corporation (FDIC) coverage limits.
 - 3.4. 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
 - 4.1. Reviewed invoices, contracts, e-mails and other correspondence. Selected a sample of a number of general ledger expense entries and agreed amounts with approved invoices. Noted no instances of unauthorized or unapproved disbursements. Noted no disbursements that did not appear to be for legitimate Association business.
5. Balance Sheet:
 - 5.1. Reviewed bank account reconciliations as of December 31, 2015 and agreed amounts thereon with bank statements and cash balances in the general ledger. No unusual reconciling items were noted.
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, 2014 to December 31, 2015. No unusual items were noted.
7. Capital Projects:
 - 7.7. Reviewed the disbursement activity and related correspondence, investment redemptions and fund transfers in connection with the roof, decks and railings replacement capital project. No unusual items were noted.

Respectfully submitted:

Jim Arbour
