

October 10, 2019

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

FROM: Kelly Kirby

As authorized by the homeowners at the 2017 Annual Meeting of the Knudson Ranch Association, Inc. d/b/a Bachelor Springs (the "Association"), I performed for no compensation an internal audit of the financial statements of the Association as of and for the year ended December 31, 2018, including the general ledger and certain supporting documents for transactions and balances recorded therein ("Internal Audit"), and have prepared this report documenting the procedures performed and related findings and conclusions.

Please note that the Internal Audit described herein is not an external audit under Generally Accepted Auditing Standards; it is less comprehensive than such an external audit. Current law does not require the Association to have an external audit. The annual meeting of the Association's members on December 27, 2018 ratified the decision to have an internal audit in lieu of an external 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. I also made an assessment of the internal controls that exist and functioning related to checking accounts, deposits and account payable processing and I believe the controls in place are strong and adequate; separation of duties, checks and balances and proper approvals are functioning as required.

Financial Review:

In conducting the Internal Audit, I performed the following:

- 1. Minutes:
 - 1.1. Obtained copies of and read the minutes of the 2018 Annual Meeting of the Association held on December 27, 2018 and of the 2018 meetings of the Board of the Association (January 25, March 29, May 1, May 27, June 28, August 3, August 23, October 25 and November 26) and noted the following:
 - 1.1.1. Explanations of budget variances
 - 1.1.2. New or modified contracts
 - 1.1.3. Explanations of repair items
 - 1.1.4. Discussion of capital projects and related capital reserve funding
 - 1.1.5. Bad debts/uncollectible receivables
 - 1.1.6. Commitments, contingencies, unpaid liabilities or payables existing at December 31, 2018.

- 2. Financial Statements and General Ledger:

- 2.1. Obtained copies of the Association's financial statements as of and for the year ended December 31, 2018, and the general ledger covering the same period.
 - 2.2. Agreed all financial statement line items to closing balances in general ledger without exception.
 - 2.3. Compared financial statements with approved budget and noted that any significant variances were discussed at Board meetings.
 - 2.4. 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.
3. Income and related items:
- 3.1. Ascertained that the financial statements properly reflect the total Association dues for 26 units for operating expenses (\$139,360) and capital reserve regular assessments (\$109,200) and that all were collected as of December 31, 2018. There is a credit balance in the Owner Receivable account of \$14,340 due to six homeowners that paid the 1st quarter 2019 dues in late December 2018.
 - 3.2. Noted that a number of payments of quarterly assessments throughout 2018 apparently were received more than 10 days after their due dates. The Policy and Procedures for Collection of Unpaid Assessments dated January 1, 2014, states in Paragraph 3. Late Charges on Delinquent Installments, "The Association shall impose a \$100.00 late charge for each Owner who fails to timely pay his/her quarterly installment of the annual assessment, special assessment or any other charge within 10 days of the due date." One owner's late fees were recorded in the accounting records and after inquisition and investigation the Board had waived this one owner's late fees and interest and was properly noted in the Minutes.
 - 3.3. Ascertained that twelve monthly payments, including interest, were recorded related to the \$13,000 special assessment from 2016 that the Association financed for one member in accordance with the terms offered to all members at the time of the special assessment.
4. Cash and investments and related income:
- 4.1. Reviewed general ledger activity in the Association's bank and investment accounts
 - 4.2. Agreed investment balances on the balance sheet with bank statements and/or correspondence from the bank.
 - 4.3. Reviewed the December 31, 2018 bank reconciliation; no reconciling items noted that did not properly clear in January 2019.
 - 4.4. Checked whether or not investments as December 31, 2018 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.
 - 4.5. 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.
5. Disbursements:

- 5.1. Reviewed invoices, e-mails and other correspondence. Selected a sample of general ledger cash disbursement 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.
6. Balance Sheet:
 - 5.1. Reviewed activity in balance sheet accounts other than cash and investments (see 4. above) and noted no unusual transactions that were not discussed in the Association Board minutes.
 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, 2017 to 2018. No unusual items were noted except for the following:
 - In the Minutes dated June 28, 2018 Bill McKinzie informed the board that the approval of additional work for Kern Plastering and adding a second coat of stain to the shingles during the painting project would require additional, unanticipated expenditures from The Capital Reserve account. Bill noted that the extra work on the stucco and extra coats of paint totaling approximately \$56,000 would require a line of credit with a local bank at the end of the summer to cover these expenses through January of next year. The board did not feel a special assessment for these items would be necessary. The Line of Credit approved and available but was never drawn upon during 2018 and is in place only for emergencies.
 7. Capital Projects:
 - 7.7. Reviewed the disbursement activity and related correspondence in connection with replacement and repairs capital projects. Several capital projects were entered into in 2018 including Firewise Landscape Master Plan and Guidelines (Zehren and Associates) stucco repair (Kern Plastering), painting of the stucco (Primary Colors). After review of the Board Minutes, correspondence and payment activity, I noted no unusual transactions.

Respectfully submitted:

Kelly Kirby

