

# **Villa Monterey Improvement Association**

## **2015-16 Annual Audit**

**Scottsdale, Arizona**

**Performed By Rick Morine**  
**December 21, 2016**

Arizona Revised Statute (A.R.S.) §33-1810 requires the board of directors provide for an annual audit of an association's financial records within 180 days of the close of the association's fiscal year. Article V, Section 3 of the bylaws of the Villa Monterey Improvement Association (the Association) defines the fiscal year to be April 1 through March 31. The Association's bylaws do not indicate this audit be conducted by a CPA.

It is management's responsibility to prepare financial statements and to ensure internal controls. The auditor examines accounting records and internal controls on a sample basis. The job of the auditor is to verify the accurate, complete, and timely financial reporting of the treasurer's records and to recommend internal controls to further safeguard the association's financial record keeping.

In November 2016, Treasurer Mike Hamm asked Rick Morine to perform an audit of the Association's financial records for the fiscal year ending on March 31, 2016 (FY 2015-16).

Mr. Morine performed the audit in December 2016, and this report was finalized on December 21, 2016.

The audit verifies the following (recommendations are highlighted in yellow):

### **1. TREASURERS**

- a) Tom Prombo (April through October) and Mike Hamm (November through March) are treasurers for the 2015-16 fiscal year.

### **2. FINANCIAL TRANSACTIONS**

- a) Cash Transactions
  - i) There should be no checks made out to CASH. The auditor finds no checks made payable to CASH.
- b) Deposits
  - i) There are deposit slips for every deposit; bank statements match the deposit slips.

- ii) The dates on the deposit slips match the bank statements.
  - iii) Deposit slips should show date, name, and amount of deposits. Dates and amounts of deposits are included but not always the name. The auditor recommends the treasurer include the payor's name for every deposit.
- c) Paper Trail
- i) The treasurer keeps receipts for reimbursements but does not use an expense voucher system. The auditor recommends the use of expense vouchers which include:
    - (1) Payee's name
    - (2) A place for attaching receipts
    - (3) Date received
    - (4) Date paid
    - (5) Amount paid
    - (6) Method of payment (ACH, check #, etc.)
- d) Other
- i) Payments appear to be timely for the most part (see Tax Returns below) and in the correct amounts.

### 3. FINANCIAL REPORTS

- a) The minutes reflect that financial reports are provided to the board of directors at each board meeting but not every month. These reports include monthly activity (income and expenses) and account balances. There is no evidence that treasurer's reports were provided to the board every month. The auditor recommends that the treasurer prepare monthly reports and deliver these to directors every month even when the board does not meet. Delivery may be made via email.
- b) Report Format
  - i) Monthly financial reports should include:
    - (1) The Balance Sheet (Statement of Financial Position for non-profits)
    - (2) Statement of Income and Expenses (Statement of Activities for non-profits)
      - (a) Actual income and expenses for the year
      - (b) Actual income and expenses for the current month
      - (c) Budgeted income and expenses for the month
      - (d) The differences between (2b and 2c above)
- c) The end-of-year financial position reports presented to the board reflecting beginning and ending balances agree with the bank statements from all Association accounts at Wells Fargo and Chase Bank for the audit period.
- d) No material errors in the treasurers' financial reports are found.

## 5. ASSESSMENTS

- a) The treasurers maintain a journal dedicated to the payment of assessments containing all homeowners' names, contact information, amounts, dates paid, and balances due.
- b) The homeowner assessment journal indicates that all 2015-16 assessments were paid.
- c) Only one homeowner is recorded as paying late, and a fee of \$34.50 was assessed and collected in accordance with the Association's CC&Rs.
- d) The auditor finds no material errors in the assessment journal.

## 6. RESERVE FUND ACCOUNTING

- a) There is no evidence in the minutes that a bank account expressly for the use of the reserve fund has been created although it appears that any account not designated as CHECKING is earmarked RESERVES. The auditor recommends that the statements of financial position (the balance sheet) expressly designate a reserve fund account.
- b) There is no evidence that the board has formally adopted a reserve fund goal or timeline. The auditor recommends that the board adopt a budget containing a reserve fund goal and timeline and that the minutes reflect this.
- c) There are no periodic reserve fund reports. The auditor recommends that the treasurer's monthly reports include reserve fund activity and that the minutes reflect this.

## 7. BUDGET

- a) There is no evidence that the board adopted a budget for 2015-16. The board should prepare and approve a budget annually.
- b) There are no reports comparing budget to actual income and expenses. The auditor recommends that the treasurer prepare and distribute monthly financial activity reports containing actual income/expenses vs. budgeted income/expenses.

## 8. TAX RETURNS

- a) Federal Form
  - i) Federal tax returns were filed on April 16, 2016.
- b) State Forms
  - i) The Association filed Arizona Form 120 (Arizona Corporation Income Tax Return) for the 2015-16 fiscal year on April 16, 2016.
  - ii) Pursuant to A.R.S. §10-3202 (D), the Association is required to file a Nonprofit Certificate of Disclosure. This, briefly, is a disclosure stating whether or not any elected director or appointee has been convicted of a felony or has been involved as a director or appointee of any entity filing for bankruptcy.
- c) Arizona Corporation Commission
  - i) The Association's filing date with the Arizona Corporation Commission is June 21, 2016. It appears the proper form and payments were not filed until October

10, 2016. This resulted in an additional “expedite fee” of \$35. The auditor reminds the Association that the next Arizona Corporate Commission return must be filed by June 21, 2017. This form can be eFiled at <http://ecorp.azcc.gov/Entity>; the Association’s file number is 00593037. Filing was also late (October 10) in 2014.

- d) The tax preparer for this fiscal year is Howard S. Simon, and the fee is \$250. Mr. Simon is a CPA, and he specialized in HOA tax returns.

## 9. INSURANCE

- a) The Association carries insurance with State Farm for the following losses:
  - i) Property: \$62,500;
  - ii) Bodily Injury: \$5,000 per person;
  - iii) Directors and Officers Liability: \$1,000,000 per occurrence.
- b) It appears that insurance policies are renewed from year to year without seeking competitive bids for premiums. The auditor recommends that competitive bids be sought at least every three years.
- c) Insurance premiums are paid on time, and the treasurers’ records contain copies of the insurance policies.

## 10. BANK SIGNATORIES

- a) An account at Wells Fargo was opened in July 2015 and closed in September 2016; no record of this is found in the board minutes. It appears that a proper election of officers was not held after the 2015 annual meeting, resulting in confusion at Chase Bank. The auditor reminds directors that Article IV, Section 4 of the Association’s bylaws requires election of its two officers (president and vice-president) and appointment of executive secretary and treasurer at the first meeting immediately following the annual meeting, and the auditor reminds the board that this meeting is subject to Arizona’s Open Meeting Laws as found in A.R.S. §33-1804.
- b) It is not clear that bank signatories are up-to-date during the period audited. Board minutes should reflect the opening and closing of all accounts and should contain a record of all signatories added to and removed from all accounts.

## 11. OTHER

- a) This is no evidence in the minutes that bank statements are sent to anyone other than the treasurer. At a very minimum, “view only” privileges should be granted to at least one other director/homeowner for all Association equity accounts.
- b) Bank deposits are insured in accordance with Article V, Section 2 of the bylaws (a minimum of \$100,000).

- d) A.R.S. §33-1810 requires an annual audit be performed within 180 days of the close of the fiscal year. This was not done in 2014-15 or in 2015-16. The auditor recommends that the board require and the minutes reflect that the 2016-17 fiscal year audit must be completed by September 27, 2017.

**UNQUALIFIED OPINION\***

**This audit finds no material discrepancies, and it is the auditor's opinion that the reports produced by the treasurer and received by the board of directors and members accurately and completely reflect the true financial condition of the Association for the fiscal year 2015-16.**

**Rick Morine  
7527 E. Mariposa Drive  
Scottsdale, AZ 85251  
503-320-4590**

**December 21, 2016**

- An **unqualified opinion** is an independent auditor's judgment that the Association's financial records and statements are fairly and appropriately presented. An **unqualified opinion** is the most common type of auditor's report. This opinion does not indicate that the Association is in good economic health; it states only that the financial reports are transparent and thorough and do not hide important facts.

## Summary of Auditor's Recommendations

1. Include the payer's name for every deposit on every deposit slip.
2. Use expense vouchers which include:
  - a. Payee's name
  - b. A place for attaching receipts
  - c. Date received
  - d. Date paid
  - e. Amount paid
  - f. Method of payment (ACH, check #, etc.)
3. Financial Reports
  - a. Prepare monthly reports and deliver these to directors every month even when the board does not meet. Delivery may be made via email.
  - b. Report Format
    - i. Monthly financial reports should include:
      1. The Balance Sheet (Statement of Financial Position for non-profits). The balance sheet should designate a reserve fund.
      2. Statement of Income and Expenses (Statement of Activities for non-profits)
        - a. Actual income and expenses for the year
        - b. Actual income and expenses for the current month
        - c. Budgeted income and expenses for the month
        - d. The differences between (2b and 2c above)
4. The board should prepare and approve a budget annually; the budget should contain a provision for the reserve fund.
5. File Arizona Corporation Commission report on time (before 6/10/17).
6. Seek competitive bids for insurance at least every three years.
7. Article IV, Section 4 of the Association's bylaws requires election of its two officers (president and vice-president) and appointment of executive secretary and treasurer at the first meeting immediately following the annual meeting; this meeting is subject to Arizona's Open Meeting Laws as found in A.R.S. §33-1804.
8. Board minutes should reflect the opening and closing of all accounts and should contain a record of all signatories added to and removed from all accounts.
9. At a very minimum, "view only" privileges should be granted to at least one other director/homeowner for all Association equity accounts.
10. The annual audit must be completed within 180 days of the end of the fiscal year (March 31). The board should appoint an auditor as soon as possible after March 31.

Villa Monterey Improvement Association  
**Statement of Financial Position (Balance Sheet)**  
 As of March 31, 2016

Accrual Basis

	Mar 31, '16
<b>ASSETS</b>	
Current Assets	
Checking/Savings	
Chase Business Money Market	35.87
Operating Fund	18,032.00
Reserve Fund	12,284.83
WF Business Checking	7,800.92
Total Checking/Savings	38,153.62
Total Current Assets	38,153.62
<b>TOTAL ASSETS</b>	38,153.62
<b>LIABILITIES &amp; EQUITY</b>	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	300.00
Total Accounts Payable	300.00
Total Current Liabilities	300.00
Total Liabilities	300.00
Equity	
Retained Earnings	23,482.71
Net Income	14,370.91
Total Equity	37,853.62
<b>TOTAL LIABILITIES &amp; EQUITY</b>	38,153.62

**Villa Monterey Improvement Association**  
**Statement of Financial Activity**  
 April 2015 through March 2016

Accrual Basis

	<b>TOTAL</b>
<b>Income</b>	
Dues Income	62,552.50
Dues Late Fee	34.50
Interest Earned	
Chase Business MM	0.20
Chase Business Savings	4.46
WF	0.01
	4.67
Total Interest Earned	4.67
Real Estate Transaction Inc.	1,400.00
Refunds	
Bank Fees	34.00
Court Awards	2,924.30
Debit Card	24.65
Printing	14.85
	2,997.80
Total Refunds	2,997.80
Renter Fee	25.00
	67,014.47
Total Income	67,014.47
<b>Expense</b>	
Bank Fees	
Chase	34.00
Wells Fargo	26.00
	60.00
Total Bank Fees	60.00
Board Supplies	117.77
Executive Secretary's Supplies	
Office Supplies	643.51
Postage	169.88
Printing	49.00
	862.39
Total Executive Secretary's Sup...	862.39
Legal and Professional Fees	
Attorney	7,024.90
Court Fees	62.00
Arizona Corp. Commission	10.00
Process Server	50.00
Tax Preparation	250.00
	7,396.90
Total Legal and Professional Fees	7,396.90
Park Expenses	
Backflow Inspection	314.00
Insurance	1,790.00
Landscaping	11,660.00



**Villa Monterey Improvement Association**  
**Statement of Financial Activity**  
**April 2015 through March 2016**

Accrual Basis

	<b>TOTAL</b>
Maintenance and Repairs	3,120.66
Permits	495.00
Pool Services	5,776.03
Pruning	730.00
Supplies	1,115.23
Utilities	
APS	5,516.22
City of Scottsdale	6,778.12
SW Gas	6,035.46
Total Utilities	<u>18,329.80</u>
Total Park Expenses	43,330.72
Renter Fee Refund	275.00
Taxes	
Arizona	50.00
Total Taxes	<u>50.00</u>
Treasurer's Supplies	
Office Supplies	256.59
Post Office Box	294.19
Total Treasurer's Supplies	<u>550.78</u>
Total Expense	<u>52,643.56</u>
Net Income	<u><u>14,370.91</u></u>