

HINKLE + LANDERS

Certified Public Accountants + Business Consultants

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.

Financial Statements

For The Year Ended December 31, 2015

2500 9th St. NW, Albuquerque, NM 87102 · 505.883.8788 · www.hl-cpas.com

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.

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TOWNE PARK HOMEOWNERS ASSOCIATION, INC.
OFFICIAL ROSTER
As of December 31, 2015

Jim Jones	President
Paul Bowdoin	Vice-President
Wally McCorkle	Treasurer
Jacque Pennington	Secretary
Blue Shue	Director

Independent Auditor's Report

Towne Park Homeowners Association, Inc.
Board of Directors
4121 Eubank Blvd. NE
Albuquerque, NM 87111

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Towne Park Homeowners Association, Inc., (a common interest realty association (Association), which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Basis for Disclaimer of Opinion on the Financial Statements

The Association transitioned to a new property management company during the year and detailed financial information during the year was not available. Therefore, we were unable to obtain sufficient appropriate audit evidence related to beginning fund balance (equity), land lease related asses, receivables, payables, amounts due to/due from other funds, current year funding for operating budget, net of land loan interest, and revenues and expenditures for the year ended December 31, 2015. As a result, we were unable to determine whether any adjustments were necessary relating to the existence of the areas noted above.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Financial Statements" referred to in the above paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Association as of December 31, 2015.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hinkle & Landers, P.C.

Hinkle +Landers, PC
Albuquerque, NM
June 26, 2017

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
December 31, 2015

	Notes		Operating Fund	Replacement Fund	Land Lease Reserve Fund	Escrow Fund	2015
ASSETS							
Current Assets							
Cash and cash equivalents	C	$	40,927	475,696	178,781	1,600	**697,004**
Accounts receivable, net	D		47,105	-	-	-	**47,105**
Due from operating			-	20,000	300	-	**20,300**
Prepaid expenses			-	-	-	-	**-**
Other assets	11		-	-	152,069	-	**152,069**
Total current assets			88,032	495,696	331,150	1,600	**916,478**
Land, net of land lease buy out	E		-	-	6,935,000	-	**6,935,000**
Total assets		$	88,032	495,696	7,266,150	1,600	**7,851,478**
LIABILITIES AND FUND BALANCE							
Current Liabilities							
Accounts payable		$	28,675	-	-	-	**28,675**
Due to other funds			20,300	-	-	-	**20,300**
Current year funding for operating budget, net of land loan interest	F		-	-	152,790	-	**152,790**
Assessments received in advance			7,715	-	-	-	**7,715**
Refundable deposits			-	-	-	1,600	**1,600**
Accrued expenses			-	-	-	-	**-**
Total current liabilities			56,690	-	152,790	1,600	**211,080**
Notes Payable	10		-	-	6,963,612	-	**6,963,612**
Total liabilities			56,690	-	7,116,402	1,600	**7,174,692**
Fund Balance			31,342	495,696	149,748	-	**676,786**
Total liabilities and fund balance		$	88,032	495,696	7,266,150	1,600	**7,851,478**

SEE INDEPENDENT AUDITOR'S REPORT
The accompanying notes are an integral part of these financial statements

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
For The Year Ended December 31, 2015

	Notes	Operating Fund	Replacement Fund	Land Lease Reserve Fund	Escrow Fund	2015
Revenues						
Assessments		$ 820,503	-	421,230	-	**1,241,733**
Rental income		13,200	-	-	-	**13,200**
Miscellaneous fees		6,046	-	-	-	**6,046**
Late charge fees		5,408	-	-	-	**5,408**
Advertising income		3,182	-	-	-	**3,182**
Interest income		-	999	-	-	**999**
Garage sale income		329	-	-	-	**329**
Total revenues		848,668	999	421,230	-	**1,270,897**
Expenses						
Ground lease loan funding		-	-	422,961	-	**422,961**
Repairs & maintenance		248,635	32,329	-	-	**280,964**
Utilities		268,242	-	-	-	**268,242**
Management fee		51,405	-	-	-	**51,405**
Property taxes		48,871	-	-	-	**48,871**
Salaries & Wages		47,061	-	-	-	**47,061**
Insurance		29,824	-	-	-	**29,824**
Bad debt expense		28,721	-	-	-	**28,721**
Printing		8,491	-	-	-	**8,491**
Security		8,028	-	-	-	**8,028**
Professional fees		6,628	-	-	-	**6,628**
Postage		4,607	-	-	-	**4,607**
Payroll taxes		4,239	-	-	-	**4,239**
Complex owned unit		2,835	-	-	-	**2,835**
Miscellaneous		1,708	-	-	-	**1,708**
Closing fees		450	-	-	-	**450**
Permits/licenses		395	-	-	-	**395**
Income taxes		358	-	-	-	**358**
Telephone		95	-	-	-	**95**
Advertising		41	-	-	-	**41**
Bank charges		35	-	-	-	**35**
Total expenses		760,669	32,329	422,961	-	**1,215,959**
Net Income (loss)		87,999	(31,330)	(1,731)	-	**54,938**
Fund balance, beginning of year		63,343	407,026	151,479	-	**621,848**
Transfers		(120,000)	120,000	-	-	**-**
Fund balance, end of year		$ 31,342	495,696	149,748	-	**676,786**

SEE INDEPENDENT AUDITOR'S REPORT
The accompanying notes are an integral part of these financial statements

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Land Lease Reserve Fund	Escrow Fund	**Total**
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from member assessments	875,123	-	421,230	-	**1,296,353**
Cash received from rental income	13,200	-	-	-	**13,200**
Cash received from misc fees	6,375	-	-	-	**6,375**
Cash received from late charges	5,408	-	-	-	**5,408**
Cash received from advertising income	3,182	-	-	-	**3,182**
Interest income	-	999	-	-	**999**
Total cash received	903,288	999	421,230	-	**1,325,517**
Cash paid for operating expenses	(830,047)	(52,329)	(423,261)	-	**(1,305,637)**
Cash paid for income tax	(358)	-	-	-	**(358)**
Net cash provided (used) by operating activities	72,883	(51,330)	(2,031)	-	**19,522**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of land	-	-	1,040,000	-	**1,040,000**
Purchase of land	-	-	-	-	**-**
Net cash provided (used) by investing activities	-	-	1,040,000	-	**1,040,000**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from note payable	-	-	-	-	**-**
Payments on note payable	-	-	(1,010,667)	-	**(1,010,667)**
Payment for loan closing costs	-	-	-	-	**-**
Interfund transfers	(120,000)	120,000	-	-	**-**
Net cash provided (used) by investing activities	(120,000)	120,000	(1,010,667)	-	**(1,010,667)**
Net increase (decrease) in cash and cash equivalents	(47,117)	68,670	27,302	-	**48,855**
Cash and cash equivalents, beginning of year	88,044	407,026	151,479	1,600	**648,149**
Cash and cash equivalents, end of year	40,927	475,696	178,781	1,600	**697,004**

Reconciliation of Change in Excess Revenue over Expenses to Cash Used/Provided by Operating Activities

Excess revenue over expenses	87,999	(31,330)	(1,731)	-	**54,938**
Amortization	-	-	-	-	**-**
Bad debt expense	28,721	-	-	-	**28,721**
Adjustments to reconcile excess revenue over expenses to net cash provided (used) by operating activities:					
(Increase) decrease in association receivables	52,228	-	-	-	**52,228**
(Increase) decrease in due from operating	-	(20,000)	(300)	-	**(20,300)**
(Increase) decrease in prepaid expenses	-	-	-	-	**-**
(Increase) decrease in other assets	180	-	-	-	**180**
(Increase) decrease in other assets	-	-	-	-	**-**
Increase (decrease) in accounts payable/accrued liabilities	(98,457)	-	-	-	**(98,457)**
Increase (decrease) in assessments received in advance	2,212	-	-	-	**2,212**
Net cash provided (used) by operating activities	$ 72,883	(51,330)	(2,031)	-	**19,522**

SEE INDEPENDENT AUDITOR'S REPORT
The accompanying notes are an integral part of these financial statements

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2015

NOTE A—NATURE OF OPERATIONS

The Towne Park Homeowners Association, Inc. (the Association) was incorporated in the State of New Mexico as a nonprofit corporation on March 21, 1984. The Association was formed primarily for the protection, improvement, alteration, maintenance, repair, replacement, ownership, administration, and operation of the common areas at Towne Park. The development is located in Albuquerque, New Mexico and consists of 486 residential lots.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Association have been prepared on the accrual basis. The significant policies followed are described below:

1. **Accounting Method – Fund Accounting**
   The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose.

   A. **Operating Fund**
      This fund is used to account for financial resources available for the general operations of the Association.

   B. **Replacement Fund**
      This fund is used to account for financial resources designated for future major repairs and replacements.

   C. **Land Lease Reserve Fund**
      This fund was used to accumulate funds for delinquency payments on the master ground lease. The Association could disburse funds in excess of $144,000 as the Board determined is appropriate for the benefit of the Association. This fund is no longer required as the master ground lease with the Sandia Foundation ended in May of 2013; however, the Association has continued to maintain a separate account for these funds to ensure they are excluded from the operating fund.

   Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the replacement fund and the land lease reserve fund generally may be made only for designated purposes as approved by the Board of Directors.

2. **Cash and Cash Equivalents**
   For purposes of the statement of cash flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, excluding the investments held by the replacement fund. The total cash balances are insured by the FDIC up to $250,000 per bank. Periodically, the amounts may exceed the FDIC coverage.

3. **Membership Assessments**
   Association members are subject to monthly assessments to provide funds for the Association's operating expenses, land lease payments, future capital acquisitions, and major repairs and replacements.

4. **Membership Assessment Receivable**
   Assessments receivable at the balance sheet date represent outstanding fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners

whose assessments are delinquent. The Association has recorded an allowance for doubtful accounts of $28,062 at December 31, 2015. It is the Association's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

5. Income Taxes

The Internal Revenue Service designates community associations under Section 528, which allows the Association to be taxed either as a homeowner association (Form 1120-H) or as regular corporation (Form 1120). As a regular corporation, some membership income is exempt from taxation if certain elections are made; the Association is taxed on earnings at regular federal and state corporate rates. With Form 1120-H, the Association is taxed on non-exempt function income, such as interest earnings, at a flat rate of 30 percent. For the year ended December 31, 2015, the Association was taxed as a Homeowner Association (Form 1120-H).

6. Impairment of Long-Lived Assets

The Association accounts for long-lived assets in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC 360-10 and subsections. ASC 360-10 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. Management does not believe impairment indicators are present as of December 31, 2015.

7. Uncertain Tax Positions

The Association files their Federal tax return in the U.S. federal jurisdiction. The Association is generally no longer subject to examination by the Internal Revenue Service and the New Mexico Taxation and Revenue Department for fiscal years before 2012. The Association is not currently under audit nor has the organization been contacted by any of these jurisdictions. Management believes that they are operating within their purpose as a Home Owners' Association.

The Association recognizes interest accrued related to unrecognized tax benefits in interest expenses and penalties in operating expenses, when applicable. No provision for the effects of uncertain tax positions has been recorded for the years ended December 31, 2015.

8. Property and Equipment

Real and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common. During 2013, the Association capitalized the land purchased at cost, less any sales of lots.

9. Land Lease

In 1983, the Association entered into a Master Ground Lease to lease the land where Towne Park is located. The lease term was for 68 ½ years and began in September of 1983. In May of 2013, the Association purchased the land from the Sandia Foundation for $11 million, which terminated the land lease with the Sandia Foundation.

Each lot owner has the option to purchase their land lot. For those owners who do not purchase their land lot, they are required to pay a monthly lease fee. The monthly lease fee is $103.

10. Note Payable

The Association entered into a promissory note on May 31, 2013 with a bank for $11,096,000. The proceeds of the note were used to purchase the land where Towne Park is located. The note is

secured by the real property at Towne Park. The note requires 89 consecutive monthly interest payments at 4.8% beginning January 1, 2016; 240 consecutive monthly principal and interest payments at 4.8% beginning June 1, 2023 with a variable interest rate calculated at the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year, plus a margin of 3%. There is no prepayment penalty. During the term of the loan, each lot owner within the Association shall be entitled to purchase the fee title to their unit lot and receive a release from their unit lease. The purchase price of each lot was $25,000 during the first 24 months of the loan, and shall be $26,000 for lot sales during months 25 through 48, and $27,000 thereafter. The purchase price will be used as a prepayment principal reduction on the loan until the lender is paid in full. During 2015, lots were purchased, which increased the accumulated principal reduction to $4,065,000. The balance on the note payable as of December 31, 2015, was $6,963,612. A schedule of future maturities is not presented due to the changing circumstances of the loan.

11. Other Assets

The Association incurred finance costs related to the note payable in the amount of $152,249. These costs are being amortized over the term of the note, which is 30 years. Accumulated amortization was $0 as of December 31, 2015.

12. Property Management

The Association entered into an agreement with Sentry Management to manage the property. The management fee is $4,000 a month, plus gross receipts tax, or $4,280. The total management fee for 2015 was $51,405. The agreement will automatically renew for one year periods unless either party notifies the other 90 days prior to the anniversary date of the agreement.

13. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C—CASH AND CASH EQUIVALENTS

Cash consists of the following at December 31, 2015:

Type	Operating	Replacement Reserve	Land Reserve	Escrow Account	Total
Union Bank	$ 5,405	-	-	-	5,405
Los Alamos	-	-	103,878	-	103,878
NM Bank and Trust	35,522	7,142	-	1,600	44,264
Edward Jones	-	468,554	74,903	-	543,457
	$ 40,927	475,696	178,781	1,600	697,004

NOTE D—ASSOCIATION RECEIVABLES

Assessments receivable were as follows at December 31, 2015:

Type		2015
Association assessments	$	65,922
Legal fees		9,245
Total receviables		75,167
Less: allowance for uncollectibles		(28,062)
Net receivables	$	47,105

NOTE E—PROPERTY, EQUIPMENT AND DEPRECIATION

Land held by the Association is as follows as of December 31, 2015:

Description		Amount
Land	$	11,000,000
Homeowner land lease buy out		(4,065,000)
	$	6,935,000

NOTE F—CURRENT YEAR FUNDING FOR OPERATING BUDGET, NET OF LAND LOAN INTEREST

The liability account is as follows as of December 31, 2015:

Type		2015
Current year funding for operating budget	$	1,178,765
Land - loan interest expense		(1,025,975)
Total	$	152,790

NOTE G—FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately $475,696 at December 31, 2015 , are held in separate accounts and are generally not available for operating purposes. It is the Association's policy that interest earned on such funds be allocated to the reserve funds.

The Association has adopted an ongoing program to accumulate funds for estimated future major repairs and replacements. The 2015 fiscal year funding program is based on a 2012 study performed by Association Reserves, Inc. This study was performed in March 2012. Future funding programs will be based on this study. The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE H—DEFERRED TAXES

As previously noted in this report, the Association is taxed as either a homeowner's association under section 528 (Form 1120-H) or as a regular corporation (Form 1120). There is no provision for deferred

tax liabilities or assets in the accompanying financial statements because the Association has the option to alternate between types of tax forms, and therefore, the amount is unpredictable. In addition, it has been determined that these amounts, which are primarily due to differences in depreciation methods, are immaterial to the financial statements taken as a whole.

NOTE I – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Association has evaluated subsequent events through June 26, 2017 which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.
Supplementary Information on Future Major Repairs and Replacements
For The Year Ended December 31, 2015
(Unaudited)

The Association Reserves Company conducted a study on March 1, 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3 percent and interest of 1 percent, net of taxes, on amounts funded for future major repairs and replacements. The following information is based on those estimates and presents significant information about the components of common property.

Component	Estimated Remaining Useful Life (Years) as of March 2012	Estimated Replacement Cost as of March 2012	Approximate Replacement Fund Balance at December 31, 2015	Variance	Percentage Funded
Grounds	0-18	$ 1,644,824	337,480	(1,307,344)	21%
Clubhouse	0-15	238,312	48,896	(189,416)	21%
West pool	2-9	58,780	12,060	(46,720)	21%
East pool	0-14	188,435	38,663	(149,772)	21%
Recreation	0-16	285,591	58,597	(226,994)	21%
		$ 2,415,942	495,696	(1,920,246)	21%



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.

Management Advisory Letter

For The Year Ended December 31, 2015

2500 9th St. NW, Albuquerque, NM 87102 · 505.883.8788 · www.hl-cpas.com

Board of Directors
Towne Park Homeowners Association

In planning and performing our audit of the financial statements of Towne Park Homeowners Association (the Association) as of and for the year ended December 31, 2015 , in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Association's internal control to be material weaknesses: 2015-001 through 2015-006

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. There were no deficiencies in the Association's internal control that were deemed to be significant deficiencies.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

Hinkle & Landers, P.C.

Hinkle + Landers, PC
Albuquerque, NM
June 26, 2017

TOWNE PARK HOMEOWNERS ASSOCIATION, INC.
Management Advisory Letter
For The Year Ended December 31, 2015

Findings	Description	Status of Current and Prior Year Findings	Type of Finding*
Prior Years' Findings			
None			
Current Year Findings			
2015-001	Insufficient Audit Evidence	**Current**	A
2015-002	Financial Close and Reporting	**Current**	A
2015-003	Lack of Evidence of Bank Reconciliation Controls	**Current**	A
2015-004	Missing Documentation of Deposits	**Current**	A
2015-005	Missing Documentation of Disbursements	**Current**	A
2015-006	Missing Documentation of Receivables, Payables, and Deferred Revenue	**Current**	A

* Legend for Type of Finding

A. Material Weakness in Internal Control Over Financial Reporting
B. Significant Deficiency in Internal Control Over Financial Reporting
C. Other Matters Involving Internal Control Over Financial Reporting

PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

2015-001–INSUFFICIENT AUDIT EVIDENCE

Type of Finding: A

Statement of Condition

During our audit, we were unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole, are free from material misstatement. The following are key areas in which audit evidence was deemed insufficient:

- Beginning fund balance (equity)
- Accounts payable
- Due to/due from other funds
- Current year funding for operating budget, net of land loan interest
- Accounts receivables
- Land lease related assets
- Revenues and expenditures

The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor's report contains a disclaimer of opinion.

Criteria

AU-C Section 705 Modifications to the Opinion in the Independent Auditor's Report addresses the auditor's responsibility to issue an appropriate report in circumstances when, in forming an

opinion in accordance with section 700, *Forming an Opinion and Reporting on Financial Statement*.

Cause
The Association had undergone significant turnover and there was not enough appropriate and sufficient audit documentation to support an opinion from the auditors.

Effect
The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.

Recommendation
We recommend the Association provide accurate and timely information to its auditors.

2015–002 - FINANCIAL CLOSE AND REPORTING

Type of Finding: A

Statement of Condition
The Association has not implemented effective financial close and reporting process controls for the year ended December 31, 2015. The financial close should include but not be limited to:

- Identifying all sources of financial and non-financial data (routine and non-routine events and transactions) that will be needed in order to maintain and systematically adjust the Association's general ledger.

- Establishing and implementing procedures and records to initiate, authorize, record, process, correct, transfer to the general ledger, and report the Association's transactions.

- Monitoring assigned personnel are completing their task timely and accurately.

Significant areas that would require audit adjustments are member's equity, accrued liabilities, receivables, payables, and deferred revenue.

Criteria
There are several key underlying accounting standards related to an organization designing and implementing an effective financial close and reporting process. Auditors, are required to identify and communicate internal weaknesses according to AU-C 265 "Communicating Internal Control Related Matters Identified in an Audit". The following are a few concepts associated with this standard:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs auditor independence;

- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and

- A system of internal control over the financial reporting does not stop at the general ledger – it includes controls over the presentation of the financial statements.

The Financial Close is considered a significant process of internal control and should be performed by the Partnership staff.

Effect
The Association was not ready for its audit in a timely manner and it resulted in audit findings and a significant number of adjustments.

Cause
There was turnover of management companies during the fiscal year resulting in a lack of confidence in financial close.

Recommendation
We recommend the Association institute procedures to ensure there is a proper monthly/quarterly and year-end/financial close to its accounts.

2015-003—LACK OF EVIDENCE OF BANK RECONCILIATION CONTROLS

Type of Finding: A

Statement of Condition
The management company performs the bank reconciliation with their financial software. We found no evidence of the date of review.

Criteria
Bank reconciliations should be completed in a timely manner and reviewed by someone other than the preparer.

Effect
The potential exists for misappropriation of funds not be detected in a timely manner.

Cause
The Association had turnover of management companies. In addition, policies and procedures did not exist for this task.

Recommendation
It is recommended that monthly bank reconciliations be completed within 3 weeks of the end of the preceding month with documentation of review by someone other than the preparer.

2015-004—MISSING DOCUMENTATION OF DEPOSITS

Type of Finding: A

Statement of Condition
While performing the deposit testing, it was discovered that 3 out of a population of 36 deposits did not have proper documentation. It was also discovered that none of the deposit slips were retained after a deposit was made.

Criteria
All deposits should have proper supporting documents. Supporting documents should be reviewed prior to making entries in the general ledger.

Effect

The potential exists for misappropriation or abuse of the Association's cash.

Cause
The Association had turnover of management companies making it difficult to locate documentation from the previous management company.

Recommendation
It is recommended that the client maintains adequate supporting documentation.

Management Response
Please provide response

2015-005—MISSING DOCUMENTATION OF DISBURSEMENTS

Type of Finding: A

Statement of Condition
While performing the random disbursement testing, it was discovered that 11 out of a population of 25 disbursements did not have proper documentation.

Criteria
All disbursements should have proper supporting documents. Supporting documents should be reviewed prior to authorizing disbursements.

Effect
The potential exists for misappropriation or abuse of the Association's cash.

Cause
The Association had turnover of management companies making it difficult to locate documentation from the previous management company.

Recommendation
It is recommended that the client requires adequate supporting documentation prior to authorizing any disbursements.

2015-006—MISSING DOCUMENTATION OF RECEIVABLES, PAYABLES, AND DEFERRED REVENUE

Type of Finding: A

Statement of Condition
While performing the accounts payable and receivable testing, it was discovered that the provided schedules did not tie to the general ledger and supporting documentation for balances could not be provided.

Criteria
All accounts payable and receivable balances should have proper supporting documents. Accounts payable and receivable schedules should reconcile to the general ledger.

Effect
The potential exists for improper write off of payables and receivables.

Cause
The Association had turnover of management companies making it difficult to locate documentation from the previous management company.

Recommendation
It is recommended that the client retains supporting documentation for receivables and payables. It is also recommended that receivables and payables be updated when transactions are made.