

Finance Committee Review and Report

October 12, 2022

Part I.

Committee Charge:

At the July 19, 2022 General Membership Meeting a vote of the members was put forward, and passed, to have a Committee Review the Financial Records of the Association from 2018 to present and to report back to the membership within 90 days (July 2022 Meeting Minutes).

Committee Members:

Chairperson: Mike Evans

Committee Members: Josefina Garcia, Brittany Bowser, Andy Reid, and Annetta Hill.

Methodology and Committee Members Backgrounds:

The background of the members were diverse and representative of a committee qualified to address the issues of concern raised by members at the July 2022 meeting. Members of the committee have professional experiences in the fields of Accounting, Criminal Investigations, and Professional Administration over and within Not for Profit Organizations. The members collective experiences provided for a working knowledge of generally accepted business practices to include administrative and organizational procedures/structure; including record keeping and reporting requirements.

Members met in person as well as working through on-line communications / forums. Committee members created a list of business documents that would be necessary to conduct a financial review of the Association's business dealings from 2018- July 2022 and presented a request for those records to the current Board of Directors. Committee Members agreed to a three part review of the financial records.

First, identify and request all business records pertinent to provide Committee Members with information necessary to have a reasoned review of the Association's business practices and finances.

Second, upon receiving the information conduct a review of the financial records to identify issues where improvements could be made, identify deficiencies, and create a complete financial accounting as it relates to the HOA checking account for the period of review.

Lastly, to create the Committee Report itself. The goal of the committee is to report information learned in a manner that aids the Board of Directors in advancing financial transparency, accountability to the membership, and provide recommendations to foster effective communications between the Board of Directors and the membership at large.

This committee's review of the presented financial records does not constitute a complete financial review. The Board of Directors were unable to present all records responsive to our requests and we are therefore only commenting on the items provided for us. We have recommended the Board of Directors to engage professional service providers, such as a Certified Public Accountant, to address deficiencies we have observed and notated in this report.

***All source documents and committee work products are attached to this report and indexed.**

Records Requested for Review by this Committee:

The following are the records requested (request was submitted on 07/22/22):

- Contact information of tax preparer who has filed the HOA State/Federal Taxes.
- HOA formation documents including the tax year election and our HOA's Tax ID Number.
- Tax Returns for years ended 2017 through 2021, both State and Federal.
- Financial statements, budgets, and forecasts as shared with HOA members for years ended 2017 through 2021.
- Bank Statements with closing dates from December 2017 through July 2022 for all HOA accounts (operating and reserve, if applicable, including check and deposit images).
- Financial and Accounting system backups, spreadsheets, etc. (digital files that are not locked if they are so protected, i.e. excel sheets, we would need to be able to see formulas etc.).
- Vendor Contracts in effect during review term and/or entered during review term, such as but not limited to mowing, trash services, legal services, any for hire agreements to include 1099's issued for the covered tax periods notated above.
- Insurance Documents (should cover board members, general liability, property & casualty, and possibly bonding).
- Disclosure of Identities of Interest (any relation between board members and vendors, legal counsel, tax preparer, management company, etc.).
- Disclosure of existing Internal Controls for handling of HOA finances as identified below;
 - Segregation of Duties: example, how are transactions authorized, who oversees the recording of a transaction? It is not unusual to see in organizations that the Secretary handles petty cash disbursements while the Treasurer oversees issuance of all checks. This helps ensure that not one person has complete control over the cash handling process.
 - Accountability: example, how are cash transactions authorized, accounted for, and documented? Ensuring accountability helps to reduce the risk of lost or stolen cash receipts and incorrect recording of transactions. Do we have petty cash reports and or do members turn in receipts for expenses to be reimbursed and how is that handled?
 - Reconciliations: example, do we reconcile all bank accounts monthly to ensure all transactions are being recorded accurately and completely. In addition to bank reconciliations, the organization should also reconcile their accounting systems, and perform periodic counts of cash on hand. How often do reconciliations occur?

- Monitoring: example, do board members review and monitor cash handling processes regularly and investigate any unusual activity? If a control is not working properly or needs to be changed or updated what is that process or how is this addressed?
- Safeguarding of Assets: example, petty cash and/or blank checks, how are they handled/stored and who keeps these items?.

Records Responsive

The Board of Director's presented the committee with the following records in regards to our request:

- Bank statements from 2018-July 2022 (pp. 117-202)
- Copy of the Insurance Policy for the period of our review. It appears to be a General Liability as well as a Directors and Officers policy. (pp.19-23)
- Disclosure of Internal Financial Controls and Disclosure of Identities of Interest (pp.15-18)
- Committee Members were able to locate Financial reports back to 2014, all HOA documents that are of public record, and conducted a public records search of all lien filings presented by the HOA. Committee also searched for any acts of litigation and found none.

Part II. Review of Records and Issues to Address

- The Timberline Estates Property Owners Association Inc. Articles of Incorporation were filed with the Missouri Secretary of State's Office on July 17, 2001. Declaration of Restrictions, Covenants and Conditions were filed with the Greene Co. Recorder's Office On October 17, 2001 and are on file in book 2869 starting on page 0532. There have been two amendments to the original Covenants, Conditions and Restrictions, both filed by the Developer. Our Property Owners Association was created as a Mutual Benefit Corporation under Missouri Revised Statutes chapter 355.
- While the HOA Articles of Incorporation indicate it was created under the MO Not for Profit Act there are no indications or evidence of the HOA receiving a determination letter from the IRS or MO Department of Revenue deeming our organization to be a Not for Profit. This merely indicates the HOA should file taxes on a 1120H form vs. a 990 federal filing and we do not hold a 501(c) status.
- The Property Owner's Association was administratively dissolved and corporation status revoked on December 29, 2006 for failure to file annual reports with the Secretary of State.
- On October 17, 2018 reinstatement paperwork was filed, along with all past due reports to the Secretary of State's Office and the Property Owners Association was reinstated. It has remained current with annual filings to the Secretary of State's Office. Included in those 2018 reinstatement filings is a Tax Clearance letter from the Dept. of Revenue. That letter only indicates we owe no Division of Employment Security Taxes.
- Committee received copies of the Bancorp South monthly bank statements from January 1, 2018 through July 31, 2022. Banking statements show expenditures that appear consistent with the operation of the Property Owners Association. Expenditures appear to pay service providers, purchase office supplies, reimbursements to the Board of Directors for costs associated to the business operations of the HOA, and a cash withdrawal for reimbursement to a Board of Director for payment to service providers. Committee can not attest to what items may have been purchased at certain stores or validate reimbursements to office holders as there were no receipts kept or records presented to this committee beyond what was written on memo lines of the canceled checks.
- Committee requested copies of receipts for services where Board of Director member(s) had received reimbursement for claimed expenditures. There have been nine incidents since 2018 where office holders were reimbursed by the HOA with a check or by cash withdrawal from the HOA checking account. In response to the committee's request for receipts we were advised the current Board of Directors does not have any receipts to provide the Committee regarding these expenditures and reimbursements. These reimbursements totalled \$1,257.25 .
- Committee received a copy of the Insurance Policy for the Property Owners Association. It is a General Liability policy for the Retention Pond and a Directors and Officers Liability Policy with a renewal date of October 12, 2022. *canceled September 2022 and now covered by State Farm.
- There are no service provider contracts that have been retained by the Board of Directors for the committee to review. As such the committee can make no evaluation as to services provided. For example, for each year the committee can attest to the expense of the lawn service. However, we do not know how many mowings that included for that expense, etc.
- There are no tax records available for the committee to review. In 2018 the HOA paid Stone Financial to file back taxes, 2015-2017.

- Committee reached out to Stone Financial to obtain these tax records. Stone Financial does not have records indicating HOA was a client and has no records responsive to our request. Committee requested further inquiry to be made by the current Board of Directors as there are checks totaling \$1,820 for services rendered by Stone Financial between February and July of 2018. The request for the Board of Directors to follow up on the Tax issues and monies paid to Stone Financial for the filing of taxes was made on September 16, 2022. As of this report the Board of Directors has not provided follow up information regarding Stone Financial or the filing of past taxes.
- No Budgets were presented for fiscal years under Committee Review, FY2018-2022.
- Committee was able to locate Expense Reports for 2018 and 2019. Starting and ending balances are provided for and can be verified with banking records.
- Committee was able to locate two Income/Expense reports for FYE2019 with an attached Projected 2020 Income Expense Report. There are no starting balances provided for that we could coincide to a date that it matches to the checking account balances. We are unsure if the reports were meant to be projections or rough drafts. Without an attached budget or end of year expense report there was no clear understanding of the document's intent. Bank records showed a December 31, 2019 ending balance from HOA checking is \$6,241.89 and ending balance December 31, 2020 is \$2,660.73. No end of year 2020 Expense Report was provided to the committee.
- Committee was not provided a FYE2021 Expense Report for review but did receive the report titled "Cash Flow FYE2021" that was handed out at the July 19, 2022 HOA meeting. Again, the Committee found the report unclear as to how it pertains to the income/expenditures from FYE2021. Starting account balance for FY2021 was \$2,660.73 on December 31, 2020 and the FYE balance was \$9,554.52 on December 31, 2021.
- Dues increases and Special Assessments were implemented in FY2021 and 2022 by the Board of Directors. No cash flow projections were presented to this Committee to help us address the dues increases and justifications thereof. 2021 end of year balance was \$9,554.52; \$5,610 of revenue in FY2021 was from implementing a \$55 dues increase for a special assessment. The Board of Directors also implemented a 10% escalation of the annual assessment in 2021. Total expenditures for FY2021 was \$2,179.02. Revenues generated for 2021 exceeded actual expenditures by \$6,893.79.
- There were no budget or financial reports for 2022 presented to the committee for review.
- For FY2022 the starting HOA checking balance was \$9,554.52 and the Board of Directors again implemented a 10% escalation of the annual assessments and implemented a Special Assessment of \$50. There are no budgets or cash flow projections for us to review for FY2022. FY2022 has a projected income (dues & special assessment) of \$9,419.70. These increases, for 2021-22, were called for to address the retention pond fencing project. Special Assessment revenues from 2021 & 2022 for the fencing project are projected at \$10,710. The actual cost of the project after the fencing committee work was completed came in at \$2,450; a difference of \$8,260 in excess of the project's actual cost. This Committee reasonably believes the HOA will have significant checking account balances far in excess of annual operating expenditures for FY2022.

- Committee did not receive information on any outstanding liens and or dues check off lists to indicate revenues outstanding. Greene Co. Recorder's Office shows no liens filed since 2017. The current Board of Directors is not aware of any outstanding liens, balances, or expenditures that are due. Financial reviews indicate there are uncollected revenues totaling \$1,345.99.
- Current Board of Directors has indicated they will not be utilizing a method of petty cash reimbursements as they intend to pay all expenses via check. There is nothing wrong with this however, the experience of this committee is that petty cash is often a useful tool to address small expenditures needed by the organization in the absence of having an HOA checkbook on hand. Petty-cash forms and reimbursement request forms are essential to proper bookkeeping.
- The HOA has no archive of any records for the organization; business or otherwise. The committee had to rely on past HOA letters committee members had kept and or personal recollections to coincide / validate large expenditures.
- HOA Management fees for 2021 and 2022 were \$2,367.95 total between two companies, PAYHOA LLC. and HOAMS. There were no HOA Management fees for 2018-2020.

Income and Expenditures

2018: Starting Balance \$5,705.19 Ending Balance \$3,656.91

Income: \$3,113.20

Projected Income: \$3,570.00 ; 102 houses @ \$35 annual dues

Expenditures:

- | | |
|--|----------|
| ● 01/02/2018: US Liability Insurance (debit withdrawal) | \$203.00 |
| ● 02/06/2018: Check #1196 Greene Co. Recorder of Deeds | \$24.50 |
| ● 02/16/2018: Check #1197 Stone Financial (Tax Help) | \$30.00 |
| ● 03/02/2018: US Liability Insurance (debit withdrawal) | \$203.00 |
| ● 03/09/2018: Paypal (verify bank account transaction) | \$0.20 |
| ● 03/26/2018: Sam's Club | \$115.18 |
| ● 05/10/2018: Check #1199 Stone Finan ("getting HOA back") | \$515.00 |
| ● 05/16/2018: Check #1200 Pasta Express (HOA meeting) | \$112.96 |
| ● 05/18/2018: Check #1121 Stone Finan (back taxes 2015-2017) | \$975.00 |
| ● 05/24/2018: Check #1122 Lowther Johnson (HOA renewal) | \$171.00 |
| ● 06/05/2018: Check #1123 D&C Landscapes & Lawn | \$585.00 |
| ● 07/30/2018: Check #1124 Stone Finan (2006-18 HOA reinstat) | \$300.00 |
| ● 08/20/2018: Check #1126 Sec. of State (HOA back filings) | \$280.00 |
| ● 08/21/2018: Check #1125 D&C Landscapes & Lawn | \$585.00 |
| ● 10/04/2018: Check #1127 D&C Landscapes & Lawn | \$585.00 |
| ● 10/12/2018: Check #1128 Lowther Johnson (HOA reinstat) | \$77.85 |
| ● 10/15/2018: US Liability (debit withdrawal) | \$264.00 |
| ● 11/19/2018: Check #1129 Wal-Mart | \$9.99 |
| ● 11/19/2018: Check #1130 Sam's Club | \$100.00 |
| ● 11/28/2018: Customer Check Charge 112818 | \$24.80 |

▪ **2018 total expenditures:** **\$5,161.28**

2019: Starting Balance \$3,656.91 Ending Balance \$6,241.89

Income: \$3,565.00

Projected Income: \$3,570.00 ; 102 houses @ \$35 annual dues

Expenditures:

- 03/04/2019: US Liability Insurance (debit withdrawal) \$203.00
- 05/17/2019: Check #2000 Debbie Tuck (HOA Supplies reimbursed) \$30.96
- 05/31/2019: US Liability Insurance (debit withdrawal) \$203.00
- 06/03/2019: Check #2001 Clean Cut Mowing \$168.00
- 06/07/2019: Check #2002 Debbie Tuck (reimbursed for Tea) \$14.59
- 07/01/2019: Check #2003 Debbie Tuck (reimbursed for HOA signs) \$61.47
- 10/15/2019: US Liability Insurance (debit withdrawal) \$264.00
- 11/18/2019: Check #2004 Steve Brewer (reimbur for State HOA filing) \$35.00

▪ 2019 total expenditures \$980.02

2020: Starting Balance \$6,241.89 Ending Balance \$2,660.73

Income: \$3,150.00

Projected Income: \$3,570.00 ; 102 houses @ \$35 annual dues

Expenditures:

- 03/03/2020: US Liability Insurance (debit withdrawal) \$203.00
- 04/14/2020: Office Depot (debit transaction) \$85.39
- 06/01/2020: US Liability Insurance (debit withdrawal) \$203.00
- 06/09/2020: Check #2006 D&C Landscapes \$681.00
- 07/07/2020: Check #2007 Steve Brewer (reimbursed HOA Supplies) \$111.00
- 07/08/2020: Check #2008 Mailbox It (HOA mailings) \$5.54
- 07/21/2020: Check #2009 USPS (HOA letters mailed) \$55.00
- 07/28/2020: Check #2010 Jeff Asbell Excavating (sinkhole repair) \$3,800.00
- 08/17/2020: Check #2011 D&C Landscapes & Lawns \$521.00
- 09/08/2020: Check #2012 Lowther Johnson (Timberline HOA) \$150.00
- 09/23/2020: Check #2013 Steve Brewer (reimburse UPS-letters) \$117.98
- 09/25/2020: Check #2015 Price Cutter (Stamps) \$13.75
- 09/29/2020: Check #2014 Danny Sweet / DC Landscapes \$520.50
- 10/15/2020: US Liability Insurance (debit withdrawal) \$264.00

▪ total expenditures: \$6,731.16

2021: Starting Balance \$2,660.73 Ending Balance \$9,554.52

Income: \$9,072.81

Projected Income: \$9,537.00 ; 102 houses @ \$38.50 annual dues
\$55 Special Assessment

Expenditures:

● 03/02/2021: US Liability Insurance	\$203.00
● 05/17/2021: Check #2016 Groundsman Resources LLC	\$60.00
● 06/01/2021: US Liability Insurance	\$203.00
● 06/08/2021: Check #2017 Groundsman Resources LLC	\$45.00
● 07/06/2021: Check #2019 Groundsman Resources LLC	\$180.00
● 07/06/2021: PAYHOA LLC (digital account verification return)	\$0.25
● 08/02/2021: PAYHOA LLC (debit withdrawal)	\$150.00
● 08/16/2021: Check #3001 Allchecks Inc. (Inv. 6121)	\$49.57
● 08/17/2021: Check #3002 HOA Mgmt Sol (Jun/July printing-postage)	\$117.95
● 08/17/2021: Check #3003 Groundsman Resources (Inv. July 2021)	\$180.00
● 10/04/2021: PAYHOA LLC (debit withdrawal)	\$150.00
● 10/13/2021: US Liability Insurance (debit withdrawal)	\$264.00
● 10/29/2021: Check #3004 Steve Brewer (reimbur lawn care-state regist)	\$326.25
● 11/03/2021: PAYHOA LLC (debit withdrawal)	\$150.00
● 11/08/2021: Check #3005 Lowther Johnson	\$100.00
▪ <u>total expenditures:</u>	<u>\$2,179.02</u>

2022: Starting Balance \$9,554.52 July 31, 2022 Balance \$4,677.31

Income to date: \$3,864.42

Projected FYE Income: \$9,419.70; 102 houses @ \$42.35 annual dues
\$50 Special Assessment

Expenditures:

● 03/02/2022: US Liability Insurance (debit withdrawal)	\$203.00
● 03/03/2022: Check #3006 HOA Mgmt Solutions (Jun15-Jan 2022&Feb22)	\$1,800.00
● 05/31/2022: US Liability Insurance (debit withdrawal)	\$203.00
● 06/10/2022: Check #3010 Steve Brewer (reimbursed for Groundsman)	\$285.00
● 07/08/2022: Cash Withdrawal Steve Brewer (reimbursed Legal / Lawn care)	\$275.00
● 07/15/2022: Menard's (E-check for fencing supplies)	\$4,750.63
● 07/29/2022: Check #9999 Countyline Fence (sinkhole fencing 50% payment)	\$1,225.00
▪ <u>total expenditures:</u>	<u>\$8,741.63</u>

Part III. Committee Recommendations

The committee has chosen to categorize its recommendations into three tiers as follows. Tier I, these are recommendations that are critical and must be addressed. Failure to do so can bring on financial liabilities to the organization and individual Directors. Tier II, these are recommendations that make for sound business practices and encourage a sense of transparency for the members and help foster an environment that engages the members when it comes to financial issues of the organization. Tier III, these are recommendations that show an enhanced level of transparency and effective communication with members but are discretionary in nature.

A. Tier I Recommendations

- Filing of Annual Taxes: The Board of Directors does not have possession of any tax filings and there is no knowledge of who may have last filed taxes or when. The Committee recommends that the Board immediately engage the services of a Certified Public Accountant and reconcile this issue and report back to the members the status of the issue.
- Record Keeping: The Board of Directors needs to retain all copies of vendor contracts, business transactions, dues check-off lists, lien records, receipts for expenditures/reimbursements, meeting minutes/agendas, annual budgets/expense reports, legal documents, board of director's meeting minutes and all tax records. For the period of review the committee found that previous board members reimbursed themselves for expenditures equaling \$1,257.25 for which no receipts are available. Moving forward the Board of Directors should put in place a system of record keeping to ensure these are lessons learned from the past and not continuing failures. This has been an on-going issue since the creation of this HOA and must be fixed.
- Budget and Year End Expense Reports: The Board of Directors should prepare annual budgets for presentation to the members at the annual meeting. These should be accompanied by end of year expense and financial reports. Budget's should be presented in a line item fashion and all expenditures should be confined to the scope of the Conditions, Covenants, and Restrictions as are laid out in the Covenant for Assessment in Article VII of the CCR's. Budget's should be ratified by the membership.
- HOA Financial Reports; Revenues & Delinquencies: The Board of Directors should prepare and maintain annual reports indicating who has paid their assessments as well as a list of delinquencies. These transaction histories should be kept with all other business records. They should indicate the method of payment received by the member when they paid their annual assessment; such as keeping copies of checks received or printouts of electronic transactions. During the years of 2018-2021 there were nearly \$1,350 dollars of delinquencies which were not accounted for and collection efforts are unknown. The committee did not address delinquencies for FY 2022 as we only reviewed financial records to the end of July 2022.
- Fidelity Bonds / Directors & Officers Insurance: The HOA has been wise to ensure the Board of Directors are covered by Directors & Officers Insurance, which protects board members and officers if they are sued. However, the committee did not find any evidence of fidelity bonds being obtained for members on the Board who are handling HOA financial accounts. Fidelity Bonds provide a layer of protection for the HOA from fraudulent acts, theft, etc. by board members or officers.

- Address Dues/Assessments: Article VII of the Conditions, Covenants, and Restrictions controls the escalation of dues and authority of Special Assessments. Financial reviews of the HOA checking accounts for FY2021 & FY2022 show revenue generation through special assessments and dues escalations in excess of actual expenditures despite the unexpected costs associated with the retention pond. The use of line item budgets, end of year expense reports, and cash flow projections are essential. They help identify budgetary needs and deficiencies; to include capital reserves needed for emergencies. All budgetary efforts must and should be ratified by the membership to prevent similar issues in the future.

B. Tier II Recommendations

- Basic Operating Policies: In Article VII of the Bylaws we find the perfunctory descriptions of each of the assignments/roles of each Officer. It provides guidance for scope and authority. But there is no specificity in any of the job descriptions. For example, is it the Secretary or Treasurer's responsibility to file the annual taxes? Who is to issue 1099 tax documents to the vendors? Each time a new Treasurer is placed in office and the financial accounts are handed over, is there an audit to ensure the finances he/she is receiving are in order and no acts of malfeasance occurred? Creating operational policies can put safeguards in place to ensure the financial integrity of our Association. Operating policies can also offer guidance for incoming office members to ensure continuity of the organization in the event an office holder departs their position unexpectedly. New office holders need a source of documents they can refer to which may help them understand past practices.
- New Member Registration / Current Member Directory: At minimum the Board of Directors should obtain billing information for collecting annual assessments from new residents moving into the neighborhood and ensure current member directories are up to date.
- Multiple means of communication: The current Board of Directors has already begun implementation of a new members website to post financial records, meeting minutes, Covenants and the Bylaws. These are excellent platforms to open lines of communication, create an environment of transparency, and a conduit of effective communication. The committee would remind the Board that as it continues forward to consider that some of our members are not as fluent with digital formats. It will be helpful to also send out information via US mail to ensure all members are getting crucial information.

C. Tier III recommendations

- Welcome Packets: There is already a committee underway with this idea. This is an opportunity to not only obtain the information needed to start collection of annual assessments. But, it's an opportunity to meet our new neighbor and provide a warm welcome.
- Budget Committee: The board of directors should seek the input of an annual budget committee to assist in obtaining bids for service providers and creating budgets for presentation at the annual meeting in January. While membership engagement to any organization is a challenge to obtain, the opportunities to be involved in the organization should be abundantly offered, even if it is rejected. While this committee has not been presented a budget for any of the years of its reviews, we can not emphasize enough that operating budgets are essential to all businesses. It becomes the basis for justifying dues and requests for dues increases. Membership involvement in the budgeting process can only help solidify organizational needs and provide opportunity to obtain "buy in" for organizational goals.

Index of Attachments

1. Finance Committee Meeting Minutes, Agendas, and Work Products pp. 12-26
2. HOA Articles of Incorporation pp. 27-34
3. By Laws pp. 35-41
4. Conditions, Covenants, and Restrictions pp. 42-72
5. HOA Annual Letters pp. 73-85
6. HOA Financial Reports pp. 86-92
7. Secretary of State Filings pp. 93-116
8. HOA Bank records January 2018 – July 2022 pp. 117-202

Meeting Agenda

August 15, 2022– 6:00 p.m.

Finance Committee

Meeting Location: 3752 W. Wilderness

Committee Chair: Mike Evans

Committee Members: Josefina Garcia, Brittany Bowser, Andy Reid, Annetta Hill

I. Call to order

1. Roll call

II. Open issues

1. Review of Financial Documents / Bank Records
2. Outstanding documents of request
3. Review moving forward, Phases 1-3

III. New business

1. Begin Second Phase of Committee Workflow
2. Workflow Assignments
3. Next Meeting Date

IV. Adjournment

MEETING MINUTES FOR Finance Committee

I. MEETING DETAILS

Chairperson: Mike Evans
Minutes kept by Andy Reid and Mike Evans

Date: August 15, 2022
Time: 6 p.m.

Location: 3752 W. Wilderness

II. ATTENDEES.

Mike Evans, Andy Reid, Annetta Hill

III. ABSENCES.

Brittany Bowser, Josefina Garcia

IV. REPORTS.

No committee reports to present at this meeting. Bank Statements from HOA account at Bancorp have been received by committee and distributed to committee members via shared google drive for member review ahead of this meeting. Questionnaire presented to Board of Directors reference Segregation of Duties and Cash Handling practices has not been received as of yet but, Board of Directors is working on their responses.

V. UNFINISHED BUSINESS.

No unfinished business to address.

VI. NEW BUSINESS.

- 1. Review of Financial Documents / Bank Records:** Committee members addressed that the Board of Directors (BOD) has not presented, and does not possess, any receipts for expenditures, invoices, dues check off lists, delinquency reports, liens outstanding information, contracts for vendors and/or any business records of any kind. This is inconsistent with routine business practices. There are no tax records and no one on the board knows if taxes have been filed beyond FY 2018. Committee Members identified that the income/expense reports presented by the past Board of Directors are of little value as they are not representative of actual expenditures or cash on hand when compared to banking records. There are no budgets that have been created and no budget ratification processes presented to members for the committee to review. There are no Board of Director's Operating Policies in place which can be reviewed or referenced to by this committee. Committee members see that there is valid concern regarding accountability or transparency in the way in which the HOA's finances have been handled to date. There a handful of transactions where Steve Brewer was reimbursed for "mowing" or "legal expenses" and or Steve withdrew cash from the checking account identifying expenses for the same. There is no reason for these types

of activities. These transactions are suspicious and follow up should occur to obtain receipts for the expenditures; or in the absence of receipts for proof of expenditures reimbursement to the HOA should occur..

2. **Outstanding Documents of Request:** The following is a list of documents the Finance Committee now possesses:

- We have contact information for last known Tax Preparer
- We have the HOA formation documents filed with the Sec. Of State but we do not know what the HOA's elected tax year is.
- We have all the bank statements from 2018-July 2022
- We have a copy of the Insurance Policy for the period of our review. It appears to be a General Liability as well as a Director's and Officers policy.

Pres. Glenn Smith relayed that he is working on the other document requests. Chairperson advises he will send out the documents to committee members via email as he receives them.

3. **Review moving forward, Phases 1-3:** Chairperson addresses phases of workflow. Phase 1 being the information gathering process, Phase 2 the processing of the information and Phase 3 being the Report of the Committee. Committee members address method of reporting should be a fact based presentation. Ideally problem issues would be addressed via a bullet point format, an example given was the fact the committee can't attest to vendor contracts or expenditures as no contracts exist and no one knows what goods or services were obtained for the monies spent. Mowing expenses as an example, we know in 2020 it appeared that during mowing season services costed \$1,722. But, we do not know how many mowing(s) that represented so we don't know how much we were paying for each mowing and there is no evidence of bids having been completed. *All records for bids and vendors should be kept and they are not being kept.

Committee members addressed that the report should have issues/findings followed by a portion of the report for committee recommendations based on a hierarchy of importance. For example, the HOA does not keep any receipts for expenses, it has no business records and this can not be allowed to continue. The liability of failing to follow basic business principles and safeguard the HOA's assets can only incur future liabilities for the organization. So there should be maybe three tiers to the hierarchy of recommendations. Tier 1 items are things that all business must do, such as file taxes, keep receipts, keep business records, etc. Tier 2 items would be things that are best business practices. Tier 3 items would be recommendations that would be helpful but discretionary in nature. Committee noted that the HOA has suffered significant financial liabilities in 2018 due to previous Boards not filing taxes which cost the HOA over \$2,300.

Committee discussed that the goal of the report should focus on restoring Accountability, Transparency, and bettering Communication between the BOD and Members as well as ensuring the HOA stops repeating it's same mistakes, failing to file taxes, not keeping records, etc. etc.

VII. OTHER.

New Business items from this meetings agenda were postponed as the committee is still waiting on documents from the BOD to begin assigning out workflow. Andy Reid volunteered to create some spreadsheets that will help us in the Phase 2 portion of review. All committee members are asked to look at the week of Sept. 19th and report back available times to meet.

Minutes submitted by: /s/ Mike Evans

RESPONSE TO THE FINANCE COMMITTEE

15 Aug 2022

The finance committee is underway working through the bank statements provided, thanks again. We are still looking for the following documents/information from our first request as follows;

- **Vendor Contracts;** who is currently doing our mowing as the checking statements showed Steve having been reimbursed / withdrew money to reimburse for lawn services and legal services for this year. Do we have those receipts by chance, as well as any other receipts for cash transactions or board members being reimbursed for expenditures? Who are the companies the HOA is engaged with for professional services and do we have bids or contracts from those companies?

I do not know who mowed the lawn in the past - Steve did not share that information with us. Steve mentioned he paid the mower 'out of pocket'; but we (Gideon, Joyce, myself) do not have any receipts. If Steve wishes to be reimbursed, he can present the receipts for the mowing.

I am currently seeking someone to mow the retention pond area; I have 2 people scheduled to give a bid – one will look this afternoon. After getting the bids, we will engage them to mow the area. There will be no 'out of pocket' expenditures – the person will be paid by check.

As far as we are aware, no one has done any cash transactions. The only professional service we are using is the attorney - I have talked with him once, but since I have been here we have not required his services. I do not have a copy of the contract/fee list for him.

- **Any disclosures of interest** between the board of directors and service providers. Are there any relationships between board members and vendors / service providers personal or otherwise?

There are no relationships between Board members and vendors/service providers.

- **Disclosure of existing internal controls**, please provide responses back to the committee on how the Board addresses the following financial controls;

Segregation of Duties: Example: how are transactions authorized, who oversees the recording of a transaction? It is not unusual to see in organizations that the Secretary handles petty cash disbursements while the Treasurer oversees issuance of all checks. This helps ensure that not one person has complete control over the cash handling process.

Accountability: example, how are cash transactions authorized, accounted for, and documented? Ensuring accountability helps to reduce the risk of lost or stolen cash receipts and incorrect recording of transactions. Do we have petty cash reports and or do board members turn in receipts for expenses to be reimbursed and how is that handled?

Transaction are authorized by the Board. Overseeing any transactions will be done by all three Board members. Any disbursements will be by check – there is no ‘petty cash’. We currently plan to post the monthly statements on the website so all residents can review.

Reconciliations: example, do we reconcile all bank accounts monthly to ensure all transactions are being recorded accurately and completely. In addition to bank reconciliations, the organization should also reconcile their accounting systems, and perform periodic counts of cash on hand. How often do reconciliations occur?

There are no ‘accounting systems’ to reconcile. Reconciliation will occur monthly; the Board members will review the monthly bank statement. The plan is to post it each month so residents can review.

Monitoring: example, do board members review and monitor cash handling processes regularly and investigate any unusual activity? If a control is not working properly or needs to be changed or updated what is that process or how is this addressed?

There is no cash handling. Income is based on residents paying their dues by check/money order and it is deposited. Expenditures will be controlled by the Board and posted monthly for residents to review.

Safeguarding of Assets: example, petty cash and/or blank checks, how are they handled/stored and who keeps these items?

There is no petty cash. The bank account checks will be handled/stored by the Treasurer.

The committee has located contact information for the CPA firm (Stone Financial) that handled the filing of back taxes for reinstatement of the HOA in 2018 and wishes to contact them to inquire on tax filings and tax documents. Is there a point of contact that was used?

We did not know who has handled the HOA tax records.

We need the contact information for the HOAMS management company. They should be able to provide reports/ledgers for the period during which they managed the HOA as well as some of the information that would have been required for them to set up the HOA in their system.

The person that handled our account was Jenna. She can be contacted at jenna@hoams.com

- Can we get a copy of the Liability policy?

I just emailed it to you.

Who is currently responsible for the bank account/has control of the checks? How are they tracking activity (written check register?) How are they securing the checks?

I believe this has been answered above.

Are there any liens outstanding that have been filed but have not been received as well as detailed billing statements from our Attorney for services rendered? If not, can we get those. What information does the board have on liens/fines having been assessed during the period of review, 2018-present?

As far as I have been able to determine, there have been no liens filed. For 2021, there are only 2 residents who have not paid their dues. I have not requested detailed billing statements from our attorney but can do so.

Are there any outstanding liabilities the HOA has that have not been accounted for or resolved to date, excluding the fencing project which is to be balance paid upon completion?

None that we are aware of.

Enclosed you will find an admitted renewal Non Profit Package quote for TIMBERLINE ESTATES. The Expiring policy number is NPP1550367L and the expiration date is 10/12/2022.

- Section I- Details the premiums, taxes and fees associated with this account. In addition, it provides the Underwriting Notes and covers any of the additional underwriting information that might be needed prior to binding or within 21 days of the inception date.
- Section II- Summarizes the locations, building information, property coverages, warranties, and the corresponding classifications with the exposures and rates.
- Section III- Provides the Liability Limits of Insurance
- Section IV- Lists the required coverage forms, notices, endorsements and exclusions.
- Section V- Offers optional coverages that are available to the applicant but are not currently included in the quote.
- Section VI- Provides the Direct Bill Payment Description.

In addition we have included some materials that will assist in the evaluation of this offer of coverage.

- Endorsement TRIADN MO Disclosure Notice of Terrorism Insurance Coverage for your review.
- A Point of Sale piece that provides some claims scenarios this account may encounter and a coverage checklist that can be compared to the quotation of another carrier.

The carrier will send you an invoice based on the terms reflected in this quote.
Payment is due to the carrier by the expiration date in order to renew coverage.

Payment options available to you are:

1. Send the invoice remittance slip with payment to the lockbox address on their invoice
2. Pay online at www.usli.com/ezpay.
3. Pay by phone (automated system available 24/7) at 866-632-2003

Your invoice will include a unique number that will allow you to register your policy at www.usli.com/ezpay. By registering your policy, you will have access to additional information as well as the option to set-up recurring payments. Recurring payments are a great way to minimize the possibility of your policy being cancelled or not renewed because payment was not received.

Please advise your agent as soon as possible if changes are needed or optional coverages are desired.

We invite you to contact us to discuss the benefits of any coverages, the costs associated or simply to provide feedback! We welcome the opportunity to talk with you about this quote.

Thank you for the opportunity to renew this coverage with you!

American Family Brokerage, Inc.