From the Treasurer

After much consideration, the board has decided that we need to sever our relationship with Kachina Management. Kachina is the third management company in five years and each has had its own challenges.

First, I want to assure the homeowners that Leslie Hines, the previous Treasurer, and I have monitored and tracked our finances separately and spent numerous hours assuring that corrections were done. I am sure if you look at the disclosure and examples, that will be your first concern.

We have struggled with Kachina's accounting practices since they took over in January 2017. Initial set up was incorrect and then compounded by an employee that not only made several errors but comingled expenses with other management companies. They also struggled with the set up and management of our multiple reserve accounts.

At the request of the President, we have tried to resolve all the accounting issues and work with building a relationship with Kachina, but struggle with keeping it on track. As a result, we felt our only option was to again end a relationship with our management company. For that reason, and to be transparent with homeowners, I am providing a disclosure of issues we have had that have impacted our financials for the last two years. This list is not a complete disclosure of every issue, but a summary of the major issues.

As of May, 2018 Reserve Bank Accounts and Balance Sheet were, in the most part, back on track. But, every month new issues arose. Looking to the future, I feel that self-managed accounting will not only result in better record keeping and accessibility of info to the homeowners, but also result in a time and cost savings.

This decision will require the support of the homeowners and I hope you all remember that Board members are volunteers, giving up their retirement time to serve the community.

Debbie Robertson

SUMARY OF 2018 KACHINA ACCOUNTING ISSUES

September 2018

Kachina changed their banking relationship. Homeowner assessments were deposited into the new checking account that Kachina opened. The bills were paid out of the old checking account resulting in the overdraft of our account. We were assessed bank overdraft charges. In order to cover the overdrawn checks Kachina transferred funds from our reserve account. All of this was done without our knowledge or informing us until we received the financials for that month.

A vendor invoice for $550 was paid twice.

August 2018

After several inquiries back to March, Kachina provided the 2017 tax return and compilation audit. The compilation and return were based on erroneous year end numbers therefore both are incorrect . Will work with accountant for resolution to situation. The compilation was due by June 30th and the tax return was due in May. On top of the accountant fee of $750 for Tax Return and Compilation, Kachina charged us an extra $380 just to send the incorrect financials to the accountant.

June 2018

Even though the Income Expense Report reflected that the monthly RR Reserve Account assessment of $1,300 was transferred to the RR Reserve savings account, the bank statement showed that double that amount of $2,600 was actually deposited into the savings account. This overfunded the reserve and depleted the operating account by an extra $1,300. Kachina debated that they did this until October when it was finally corrected.

APS was paid late again. In 2017, as a result of non-payment, APS required us to pay a $1,980 deposit which would be refunded after a year of timely payments; therefore, it will not be refunded.

March 2018

Finally corrected in March after I brought to their attention for several months. Balance Sheet from Jan 2017 to this month not correct. Example A attached January 2018:

Assets: RR Fund RR Reserve Fund balance $137,787. Equity: RR Reserve balances total $ 125,656.

Assets: Ops Reserve Fund balance is $13,263. Equity: Ops Reserve is 20,414.

January 2018

They made entries on the financial statements to show the transfer of funds from the General Checking to the R&R Reserve Savings but did not actually make bank transfers. (Obviously not reconciling bank accounts and there were no outstanding transactions) Example B attached. Deposited a RR Reserve contribution into the Ops Reserve account. Balance Sheet shows bank account RR Reserve at $137,787. Bank statement shows RR Reserve account balance as $120,499. Same with Ops Reserve: Balance Sheet is $13,262.79 and bank statement is $19,606.79. As a result, the Operating Account also reflected incorrect balance. I had to bring the error to their attention and track. .Finally corrected to reconciled balance in March.

Financial Statements: Income/Expense Report. Last Column- Yearly Budget is($21,025) in the negative. Example C attached. Even though they know our assessments are $329/ month or $98,700 a year the budget shows our Resident Assessment Income as $78,300. There are budget line items missing. Again, not reconciled. I brought to their attention.

Misc.:

Example D: Copy of Reserve bank statements and Balance Sheet from August 2018 showing reserve accounts back on track.

Kachina charges an Admin Fee which they keep to do a past due letter. Homeowners with credit balances less that the full month assessment for current month get this admin fee and late fee assessed even if they pay the difference or another full month prior to the late date.

I have requested invoice details from Kachina for all the extra charges that we have reimbursed them for and to date have not received any detail.

Copy of 2019 budget draft from Mark at Kachina is incorrect, messy and $5,200 over budget. This budget served no purpose to the budget committee.

Exhibit A

Las Torres Homeowners Assoc

Balance Sheet
As of 01/31/18

ASSETS

1010	Biltmore Checking Account	$ 1,268.38	
1011	Biltmore Reserve Account	13,262.79	
1018	R&R Fnd Svgs Acct-Nat Bank	137,786.54	
1019	Utility Deposits	1,980.00	
	TOTAL ASSETS		$ 154,297.71

LIABILITIES & EQUITY

CURRENT LIABILITIES:			
3310	Prepaid Owner Assessments	$ 7,044.00	
	Subtotal Current Liab.		$ 7,044.00
RESERVES:			
5301	Repair/Replace Reserve Fund	$ 163,853.96	
5302	Operating Reserve Fund	25,127.02	
5303	Repair & Replace Res Interest	34.86	
5304	Operating Reserve Interest	103.30	
5305	Repair/Replace Reserve Expense	(38,233.02)	
5306	Operating Reserve Expense	(4,817.28)	
	Subtotal Reserves		$ 146,068.84
EQUITY:			
5510	Retained Earnings	$ 2,867.40	
	Current Year Net Income/(Loss)	(1,682.53)	
	Subtotal Equity		$ 1,184.87
	TOTAL LIABILITIES & EQUITY		$ 154,297.71

20,413.04

125,655.80

Exhibit B

Las Torres Homeowners Assoc

Balance Sheet
As of 01/31/18

ASSETS

1010	Biltmore Checking Account	$ 1,268.38	
1011	Biltmore Reserve Account	13,262.79	
1018	R&R Fnd Svgs Acct-Nat Bank	137,786.54	
1019	Utility Deposits	1,980.00	
	TOTAL ASSETS		$ 154,297.71

→ Doesn't match bank statement (no outstanding transactions)

See following bank statements

LIABILITIES & EQUITY

CURRENT LIABILITIES:			
3310	Prepaid Owner Assessments	$ 7,044.00	
	Subtotal Current Liab.		$ 7,044.00
RESERVES:			
5301	Repair/Replace Reserve Fund	$ 163,853.96	
5302	Operating Reserve Fund	25,127.02	
5303	Repair & Replace Res Interest	34.86	
5304	Operating Reserve Interest	103.30	
5305	Repair/Replace Reserve Expense	(38,233.02)	
5306	Operating Reserve Expense	(4,817.28)	
	Subtotal Reserves		$ 146,068.84
EQUITY:			
5510	Retained Earnings	$ 2,867.40	
	Current Year Net Income/(Loss)	(1,682.53)	
	Subtotal Equity		$ 1,184.87
	TOTAL LIABILITIES & EQUITY		$ 154,297.71

Exhibit B

THE BILTMORE BANK OF ARIZONA

A division of Grandpoint Bank

5055 North 32nd Street / Phoenix, AZ 85018

Las Torres Homeowners Assoc
OPERATING RESERVE
****
HOLD FOR KACHINA MGMT
****

Date 1/31/18
Primary Account

230001098

Checking Account

BUSINESS MONEY MARKET		Number of Enclosures	0
Account Number	230001098	Statement Dates 1/01/18 thru	1/31/18
Previous Balance	18,303.67	Days in the statement period	31
1 Deposits/Credits	1,300.00	Average Ledger	18,345.60
Checks/Debits	.00	Average Collected	18,345.60
Service Charge	.00	Interest Earned	3.12
Interest Paid	3.12	Annual Percentage Yield Earned	0.20%
Ending Balance	19,606.79	2018 Interest Paid	3.12

Doesn't match balance sheet

	Total For This Period	Total Year-to-Date
Total Overdraft Fees	$.00	$.00
Total Returned Item Fees	$.00	$.00

Deposits/Credits

Date	Description	Amount
1/31	Transfer from XX0098 to XX1098: Transfer per BOD	1,300.00 — Belong RR Reserve
1/31	Interest Deposit	3.12

Daily Balance Information

Date	Balance	Date	Balance
1/01	18,303.67	1/31	19,606.79

Interest Rate Summary

Date	Rate
12/31	0.200000%

IF YOU ARE PLANNING A TRIP OUT OF STATE OR OUT OF THE COUNTRY, CONTACT YOUR ACCOUNT OFFICER SO WE CAN PLACE A TRAVEL NOTICE ON YOUR DEBIT CARD. THIS WILL NOTIFY OUR FRAUD SPECIALISTS AND PREVENT YOUR CARD FROM BEING BLOCKED FOR SUSPICIOUS ACTIVITY.

Exhibit B

NATIONAL BANK OF ARIZONA
PO Box 30709 Salt Lake City, UT 84130-0709

Statement of Accounts

This Statement: February 28, 2018
Last Statement: January 31, 2018

Primary Account 0398000835

DIRECT INQUIRIES TO:
1 (800) 497-8168
WWW.NBARIZONA.COM
Carefree
(800) 497-8168
7202 E Carefree Dr, P.o. Box 5288
Carefree, AZ 85377-0000

0039846 1860-06-0000-NBA-PG0030-00000

LAS TORRES HOMEOWNERS ASSOCIATION
C/O PAMELA DIXON
PO BOX 5653
CAREFREE AZ 85377-5653

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Sign up for Online Banking or login today at WWW.NBARIZONA.COM

SUMMARY OF ACCOUNT BALANCE

Account Type	*Account Number*	*Checking/Savings Ending Balance*	*Outstanding Balances Owed*
Business Savings	0398000835	$124,728.62	

BUSINESS SAVINGS 0398000835

Previous Balance	*Deposits/Credits*	*Withdrawals/Charges*	*Ending Balance*
120,498.99	4,229.63	0.00	124,728.62

End 1/2018 Doesn't match Balance sheet

2 DEPOSITS/CREDITS

Date	*Amount*	*Description*
02/27	4,225.00	DEPOSIT 7878007421
02/28	4.63	INTEREST PAYMENT 0012064988

0 WITHDRAWALS/CHARGES

There were no transactions this period.

AGGREGATE OVERDRAFT AND RETURNED ITEM FEES

	Total for This Period	*Total Year-to-Date*
Total Overdraft Fees	$0.00	$0.00
Total Returned Item Fees	$0.00	$0.00

DAILY BALANCES

Date	*Balance*	*Date*	*Balance*
02/27	124,723.99	02/28	124,728.62

INTEREST

Interest Earned This Interest Period	$4.63	Number Of Days This Interest Period	28
Interest Paid Year-To-Date 2018	$10.08	Annual Percentage Yield Earned	0.05%

Current interest rate is 0.050% with no rate change this interest period

Example C

Las Torres Homeowners Assoc

Income/Expense Statement

Period: 01/01/18 to 01/31/18

Account	Description	Current Period Actual	Current Period Budget	Current Period Variance	Year-To-Date Actual	Year-To-Date Budget	Year-To-Date Variance	Yearly Budget
INCOME:								
06310	Resident Assessments	6,611.00	6,525.00	86.00	6,611.00	6,525.00	86.00	78,300.00
06350	Interest Income	3.12	2.00	1.12	3.12	2.00	1.12	24.00
06351	Interest Income - Reserves	.00	3.00	(3.00)	.00	3.00	(3.00)	36.00
	Subtotal Income	6,614.12	6,530.00	84.12	6,614.12	6,530.00	84.12	78,360.00
EXPENSES:								
Maintenance & Repair								
07001	MAINTENANCE & REPAIR	.00	458.33	458.33	.00	458.33	458.33	5,500.00
07002	Sewer Repairs	.00	100.00	100.00	.00	100.00	100.00	1,200.00
07200	Contract Service	550.00	.00	(550.00)	550.00	.00	(550.00)	.00
07205	Pool - Contract Svc	392.50	312.50	(80.00)	392.50	312.50	(80.00)	3,750.00
07210	Pest Control	.00	60.00	60.00	.00	60.00	60.00	720.00
07275	Flat Roof Maintenance	.00	41.67	41.67	.00	41.67	41.67	500.00
07300	Grounds/Fixtures Repairs	.00	50.00	50.00	.00	50.00	50.00	600.00
07400	Landscape Service	3,998.99	2,000.00	(1,998.99)	3,998.99	2,000.00	(1,998.99)	24,000.00
07425	Landscape Improvements	.00	41.67	41.67	.00	41.67	41.67	500.00
07500	Tree Maintenance	.00	62.50	62.50	.00	62.50	62.50	750.00
07600	Landscape/Other	.00	41.67	41.67	.00	41.67	41.67	500.00
	Maintenance & Repair	4,941.49	3,168.34	(1,773.15)	4,941.49	3,168.34	(1,773.15)	38,020.00
Parts & Supplies								
08001	Pool Chemicals/Supplies	.00	83.33	83.33	.00	83.33	83.33	1,000.00
08010	Pool Repairs	.00	25.00	25.00	.00	25.00	25.00	300.00
08301	Trees, Plants and Supplies	.00	41.67	41.67	.00	41.67	41.67	500.00
	Parts & Supplies	.00	150.00	150.00	.00	150.00	150.00	1,800.00
Utilities								
08600	Electric	441.32	416.67	(24.65)	441.32	416.67	(24.65)	5,000.00
08650	Water - Hum Irrigation	.00	179.17	179.17	.00	179.17	179.17	2,150.00
08655	Water - Pool Meter	.00	248.33	248.33	.00	248.33	248.33	2,980.00
08660	Water - Sun Irrigation	.00	297.50	297.50	.00	297.50	297.50	3,570.00
08680	Trash Disposal Service	235.00	250.00	15.00	235.00	250.00	15.00	3,000.00
08685	Gas/Propane	83.61	325.00	241.39	83.61	325.00	241.39	3,900.00
	Utilities	759.93	1,716.67	956.74	759.93	1,716.67	956.74	20,600.00
Administrative Expenses								
09000	ADMINISTRATIVE EXPENSES	30.00	.00	(30.00)	30.00	.00	(30.00)	.00
09100	Income Tax	.00	4.17	4.17	.00	4.17	4.17	50.00
09105	Audit/Tax Prep	.00	62.50	62.50	.00	62.50	62.50	750.00

$78,700 - 329 \times 25 \times 12$

Missing

Example C

Las Torres Homeowners Assoc

Income/Expense Statement

Period: 01/01/18 to 01/31/18

Account	Description	Current Period Actual	Current Period Budget	Current Period Variance	Year-To-Date Actual	Year-To-Date Budget	Year-To-Date Variance	Yearly Budget
09110	Permits & Licenses	495.00	49.58	(445.42)	495.00	49.58	(445.42)	595.00
09235	Annual Report	.00	.83	.83	.00	.83	.83	10.00
09275	Insurance	.00	583.33	583.33	.00	583.33	583.33	7,000.00
09300	Legal Services	.00	83.33	83.33	.00	83.33	83.33	1,000.00
09500	Management Service	760.00	700.00	(60.00)	760.00	700.00	(60.00)	8,400.00
09800	Postage / Copies	7.11	16.67	9.56	7.11	16.67	9.56	200.00
09900	Miscellaneous	.00	41.67	41.67	.00	41.67	41.67	500.00
	Administrative Expenses	1,292.11	1,542.08	249.97	1,292.11	1,542.08	249.97	18,505.00
Reserves								
09951	Repair/Replace Reserve Cont	1,300.00	1,300.00	.00	1,300.00	1,300.00	.00	15,600.00
09952	Operating Reserve Contrib	.00	400.00	400.00	.00	400.00	400.00	4,800.00
09953	Operating Reserve Interest	3.12	3.00	(.12)	3.12	3.00	(.12)	36.00
09954	Repair/Replace Reserve Int	.00	2.00	2.00	.00	2.00	2.00	24.00
	Reserves	1,303.12	1,705.00	401.88	1,303.12	1,705.00	401.88	20,460.00
	TOTAL EXPENSES	8,296.65	8,282.09	(14.56)	8,296.65	8,282.09	(14.56)	99,385.00
	Current Yr Net Income/(loss)	(1,682.53)	(1,752.09)	69.56	(1,682.53)	(1,752.09)	69.56	(21,025.00)

Should be 0

Exhibit D

Las Torres Homeowners Association

Balance Sheet
As of 08/31/18

ASSETS

1010	Biltmore Checking Account	$ 2,823.21	
1011	Ops Biltmore Reserve Account	15,180.28	
1018	R&R Fnd Svgs Acct-Nat Bank	146,351.39	
1019	Utility Deposits	1,980.00	
1020	Parkway Checking Account	50.00	
	TOTAL ASSETS		$ 166,384.88

Back on track except! Extra 1300 Deposit in June to be adjusted in Oct.

LIABILITIES & EQUITY

CURRENT LIABILITIES:			
3310	Prepaid Owner Assessments	$ 4,682.00	
	Subtotal Current Liab.		$ 4,682.00
RESERVES:			
5301	Repair/Replace Reserve Fund	$ 146,351.39	
5302	Operating Reserve Fund	15,180.28	
	Subtotal Reserves		$ 161,531.67
EQUITY:			
5510	Retained Earnings	$ (217.37)	
	Current Year Net Income/(Loss)	388.58	
	Subtotal Equity		$ 171.21
	TOTAL LIABILITIES & EQUITY		$ 166,384.88

Example D

NATIONAL BANK OF ARIZONA
PO Box 30709 Salt Lake City, UT 84130-0709

Statement of Accounts

This Statement: September 28, 2018
Last Statement: August 31, 2018

Primary Account 0398000835

DIRECT INQUIRIES TO:
1 (800) 497-8168
WWW.NBARIZONA.COM
Carefree
(800) 497-8168
7202 E Carefree Dr, P.o. Box 5288
Carefree, AZ 85377-0000

0045225 2072-06-0000-NBA-PC0030-00000

LAS TORRES HOMEOWNERS ASSOCIATION
C/O PAMELA DIXON
PO BOX 5653
CAREFREE AZ 85377-5653

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SUMMARY OF ACCOUNT BALANCE

Account Type	*Account Number*	*Checking/Savings Ending Balance*	*Outstanding Balances Owed*
Business Savings	0398000835	$146,353.64	

BUSINESS SAVINGS 0398000835

Previous Balance 8/2018	*Deposits/Credits*	*Withdrawals/Charges*	*Ending Balance*
146,351.39	2.25	0.00	146,353.64

1 DEPOSIT/CREDIT

Date	*Amount*	*Description*
09/28	2.25	INTEREST PAYMENT 0014635139

0 WITHDRAWALS/CHARGES

There were no transactions this period.

AGGREGATE OVERDRAFT AND RETURNED ITEM FEES

	Total for This Period	*Total Year-to-Date*
Total Overdraft Fees	$0.00	$0.00
Total Returned Item Fees	$0.00	$0.00

DAILY BALANCES

Date	*Balance*
09/28	146,353.64

INTEREST

Interest Earned This Interest Period	$2.25	Number Of Days This Interest Period	28
Interest Paid Year-To-Date 2018	$44.10	Annual Percentage Yield Earned	0.02%

Example D

THE BILTMORE BANK OF ARIZONA

A division of Grandpoint Bank

5055 North 32nd Street / Phoenix, AZ 85018

Las Torres Homeowners Assoc
OPERATING RESERVE
****
HOLD FOR KACHINA MGMT
****

Date 8/31/18
Primary Account

Page 1
230001098

Checking Account

BUSINESS MONEY MARKET		Number of Enclosures	0
Account Number	230001098	Statement Dates 8/01/18 thru	9/03/18
Previous Balance	14,777.77	Days in the statement period	34
1 Deposits/Credits	400.00	Average Ledger	14,824.82
Checks/Debits	.00	Average Collected	14,824.82
Service Charge	.00	Interest Earned	2.76
Interest Paid	2.51	Annual Percentage Yield Earned	0.20%
Ending Balance	15,180.28	2018 Interest Paid	20.61

	Total For This Period	Total Year-to-Date
Total Overdraft Fees	$.00	$.00
Total Returned Item Fees	$.00	$.00

Deposits/Credits

Date	Description	Amount
8/31	Transfer from XX0098 to XX1098: Funds Transfer via Onl	400.00
8/31	Interest Deposit	2.51

Daily Balance Information

Date	Balance	Date	Balance
8/01	14,777.77	8/31	15,180.28

Interest Rate Summary

Date	Rate
7/31	0.200000%

IF YOU ARE PLANNING A TRIP OUT OF STATE OR OUT OF THE COUNTRY, CONTACT YOUR ACCOUNT OFFICER SO WE CAN PLACE A TRAVEL NOTICE ON YOUR DEBIT CARD. THIS WILL NOTIFY OUR FRAUD SPECIALISTS AND PREVENT YOUR CARD FROM BEING BLOCKED FOR SUSPICIOUS ACTIVITY.

Example D

RESERVE ACCOUNT TRACKING: Balances should be

Ops Reserve	RR Reserve		
$11,959.67	$137,786.54	beginning balance	
	($3,177.00)	12/2017 correction done wrong	
$400.00	$1,300.00		18-Jan
$400.00	$1,300.00		18-Feb
$400.00	$1,300.00		18-Mar
$400.00	$1,300.00		1-Apr
$400.00	$1,300.00		1-May
$400.00	$1,300.00		Jun-18
$400.00	$1,300.00		Jul-18
$400.00	$1,300.00		Aug-18
$400.00	$1,300.00		Sep-18
			Oct-18
			Nov-18
			Dec-18
$15,559.67	**$146,309.54**	Interest not factored in these balances	

ACTUAL DEPOSITS TO RESERVES

(large deposits catching up deposits not made in 2017)

OPS Reserve	RR Reserve Deposits		
$11,597.76	$120,493.54	12/31/ bank balance	
$1,300.00		Jan-18	RR deposited to OPS; no OPS
$800.00	$4,225.00	2/1/2018 on 2/27	
$0.00	$12,491.00	Mar-18	
$3,400.00	$1,300.00	3/1/2018 on 3/29	
	$0.00	Apr-18	
$400.00	$2,600.00	5/1/2018 on 5/3	
($2,600.00)	$2,600.00	6/1/2018 on 6/27	double deposit
$800.00	$1,300.00	7/1/2018 on 7/25	
$400.00	$1,300.00	8/1/2018 on 8/29	
($4,000.00)	$1,300.00	9/1/2018 on 10/2	Kachina drew funds to cover overdraft
$12,097.76	**$147,609.54**	Total	

Messy Budget

Las Torres Homeowners Association
2019 Proposed Operating Budget
KACHINA'S DRAFT

25 lots @ $330.00 Per Month

Income	**Month**	**Year**
Resident Assessments	8,225.00	98,700
Interest Income		-
Other Income	-	-
Total Income	**8,225.00**	**98,700**
Operating Expenses		
Maintenance & Repair		
Repair and Maintenance	460	5,520
Tree Trimming	65	780
Trees, plants and supplies	45	540
Irrigation	50	600
Pest control	60	720
Pool	300	3,600
Landscape improvements	45	540
Landscape other	45	540
Landscape	1,800	21,600
Sewer Maintenance	100	1,200
Flat Roof	45	540
Tree Maintenance	65	780
Sub-Total	**3,080**	**36,960**
Parts & Supplies		
Irrigation Supplies	50	600
Pool repairs	25	300
Pool chemicals/supplies	85	1,020
T/P + Supplies (trees plants	45	540
Landscape Materials	45	540
Sub-Total	**250**	**3,000**
Utilities		
Gas/propane	370	4,440
Electric	425	5,100
Trash Service	260	3,120
Water (pool)	250	3,000
Water (Sundance) Irrigation	325	3,900
Water (hum) Irrigation	180	2,160
Sub-Total	**1,810**	**21,720**
Administrative Expenses		
Audits/Taxes	65	780
Income Tax Prep	5	60
Permits/License	50	600
Bank Charges	5	60
Insurance	642	7,704
Legal Services	85	1,020
Reserve Study	65	780
Management Service	775	9,300
BOD admin expense	45	540
Postage / Copies / Printing	60	720
Annual report	1	12
Miscellaneous	25	300
Sub-Total	**1,823**	**21,876**
TOTAL OPERATING EXPENSE	**6,963**	**83,556**
RESERVES	**1,150**	**13,800**
TOTAL OPERATING & RESERVE	**8,113**	**97,356**
NET CASH FLOW	**112**	**1,344**

Landscape - too many ...

2017 audit 500 > tax 250

? why

Not due until 2020

mark said 2-3,000 why budget so low

why so much

103,956

Over budget

RL ops

wrong 1300 400 1700

15600 4800 20,400

SUMMARY OF 2017 ACCOUNTING ISSUES

Example E: Year-end numbers not corrected. See attached treasurer report with adjustments. Accounting set up in February showed random amount in Reserves (general entry) that does not relate to any transaction in the amount of $7,354.

Both reserve accounts had only random incorrect deposits for the year to the financials and bank. Corrected in March-May 2018. See Exhibit D

Interest to reserve accounts only randomly posted. Bank reconciliations not done.

Kachina's incorrect financials were used for the Compilation. Will work with accountant for resolution.

APS gas bill was not paid and required us to pay a $1980 deposit. It took until the end of the year and about 6 journal entries to get posted to financials correctly. First it was paid as an expense without telling us about the deposit requirement. Then it was posted to an Equity account and finally done correctly. It shows on the Balance Sheet as an Asset: Deposit.

A Kachina employee comingled HOA bills resulting in us having to reimburse another HOA for a bill of ours they paid. Employee also made several other accounting errors. Kachina did an internal audit and provided revised financials for Jan thru May 2017.

9 months of pest control bills were not paid in 2017 and had to be paid in 2018.

A refund of homeowner prepaid assessments is reflected on the year end financials as a Misc. Expense instead of a refund of Income: Assessments.

Expenses to be paid out of the Ops Reserve not accounted for correctly on the Income/Expense Statement.

LAS TORRES 12/31/2017 Income Expense Report Year End Adjustments Exhibit E

ACCT	Description	Kachina	Adjustments	Treasurer Adj Total	Notes
INCOME:					
06310	Resident Assessments	87,015.41	(2,392.00)	84,623.41	Footnote 1: dues refund in misc exp -2392
06350	Interest Income	66.58		66.58	
06351	Interest Inc Reserves	24.33		24.33	
06380	Other	894.41	(330.85)	563.56	#2: Dec. $-330.85; was transfer to National from closed Biltmore; not income
	Transfer from Ops Reserve		10,443.00	10,443.00	#3: Transfer from Ops Reserve to cover expenses
	Subtotal Income	88,000.73	7,720.15	95,720.88	
EXPENSES:					
Maintenance & Repair					
07001	MAINTENANCE & REPAIR	5,750.82		5,750.82	
07200	Contract Service (Maint 2)	1,960.00		1,960.00	General Note: misc maint posted under this account
07205	Pool - Contract Svc	3,451.05		3,451.05	
07210	Pest Control	180.00		180.00	
07250	Pool ?	175.00		175.00	
07400	Landscape Service	22,398.46		22,398.46	
07500	Tree Maintenance	3,083.40		3,083.40	
	Capital Exp pd by RR Reserve		(3,177.00)	(3,177.00)	#4: Pool/Fence paid out of R&R accout
	Maintenance & Repair	36,998.73	(3,177.00)	33,821.73	
Parts & Supplies					
08001	Pool Chemicals/Supplies	332.08		332.08	
08010	Pool Repairs	1,070.18		1,070.18	
08200	Irrigation Supplies			0.00	
08300	Landscape Material			0.00	
08301	Trees, Plants and Supplies			0.00	
	Parts & Supplies	1,402.26	0.00	1,402.26	
Utilities					
	Utilities	464.62	(464.62)	0.00	Account coorrection: moved to electric and gas
08600	Electric	4,790.70		4,790.70	
08650	Water - Hum Irrigation	2,852.84		2,852.84	
08655	Water - Pool Meter	3,538.36		3,538.36	
08660	Water - Sun Irrigation	2,520.12	407.54	2,927.66	
08680	Trash Disposal Service	2,820.00		2,820.00	
08685	Gas/Propane	2,832.46	57.08	2,889.54	
	Utilities	19,819.10	0.00	19,819.10	
Administrative Expenses					
09100	Income Tax	50.00		50.00	
09105	Audit/Tax Prep	750.00		750.00	
09110	Permits & Licenses	595.00		595.00	
09235	Annual Report	10.00		10.00	
09250	Bank Charge	20.00		20.00	
09260	Coupons	141.25		141.25	
09275	Insurance	6,719.00		6,719.00	
09300	Legal Services	(42.00)		(42.00)	
09500	Management Service	9,922.88		9,922.88	
09800	Postage / Copies	224.37		224.37	
09850	Permits & Licenses			0.00	
09900	Miscellaneous	2,650.16	(2,392.00)	258.16	Footnote #1: Homeowner refund; lower recvd income(hoa assessment refund not an expense
	Administrative Expenses	21,040.66	(2,392.00)	18,648.66	

Reserves					
09950	Reserves	7,354.37	(7,354.37)	0.00	#5: ?? Open balance, not actual transfer for this year, should not be on IE
09951	Repair/Replace Reserve Cont	5,709.00	11,191.00	16,900.00	#6: Actual bank transfer not completed, actual entry not made to I&E
09952	Operating Reserve Contrib	1,376.00	3,024.00	4,400.00	#6: Actual bank transfer not completed, actual entry not made to I&E
9953.00	Operating Reserve Interest	2.77		2.77	Above 2 reserve entries posted to Balance Sheet Bank balances only
9954.00	Repair/Replace Reserve Int	0.50		0.50	
	Reserves	14,442.64	6,860.63	21,303.27	
	TOTAL EXPENSES	93,703.39	1,291.63	94,995.02	
	Current Yr Net Income/(loss)	(5,702.66)	6,428.52	725.86	
		matches Kachina			

Footnote #1: Homeowner [redacted] prepaid a year and then wanted refund. Was posted as a misc epxense instead of deducting from assessments received.

#2: This amount was transferred from closed Bliltmore RR Reserve to National Bank and is not an income item.

#3: I added this line item. To offset approved Ops Reserve expenses under Expense items: Money was previously transferred to Ops Reserve and expensed on Acct 9953.

Now we trasferred money pack to General Account to use for Expenses and should be reflected in IE to give a more accurate picture.

#4: This Captial Expense item was paid by R&R Reserve Funds and should have been posted to account #5305 RR Reserve Expense

#5: As far as I can figure this was an opening balance item and not an actual 2017 transaction

#6: All the the assement income in #6310 is not for general operations. When the Reserve contributions are deducted and moved to reserve bank accounts

that amount should be expensed under the Reserve section on the I&E | **Homeowner Reserve account assessments havenot been accounted for properly**

Journal Entries for Ops Reserve 2017 **LAS TORRES** Example E

Operating Reserve Entries by 12/31/17 **NOTES**

Entry # 1			For: $400 each month from assessments to Ops Reserve	
Deduct from General Operating Account	$3,024		Missing Deposit from Assessment to Ops Reserve	See actual money trasfer below
Add to Ops Reserve Account		$3,024	Missing Dec 2016 : $400	
			Missing Jan-Sept : $1824	
			Missing Noc-Dec (Oct done): $800	

Entry #2				
Deduct from Ops Reserve Account	$6,443		to reimburse expenses to General Account	See actual money trasfer below
Add to General Operating Account		$6,443	For:	
			$3083 for tree trimmming	
			$2480 for sewer	
			$2900 for KVM	
			$1980 for deposit	
			$(4000) already done	

Actual Money trnsfer for Entry #1 and #2	
Ops to reimburse to General Op Acct	$6,443
General to transfer to Ops for Assessment	($3,024)
Actual Transfer from Ops Reserve to General	**$3,419**

Entry #3				
Money transfer; actual bank transfer was incorrect:			Transfer from Ops Reserve to RR Reserve:	
4/3/17 entry Deduct fromOps Reserve Acct	$2,925		Committed 2017 addl RR Resere	Do actual money transfer
Deposit to RR Reserve Account		$2,925	(actual 2017 transfer was from one RR Reserve to the other	Do actual money transfer
			RR Reserve on 4/3/17)	
			Actual transfer to do from Ops Reserve to RR Reserve	

Journal Entries for R&R Reserve 2017 **LAS TORRES** Example E

Operating Reserve Entries by 12/31/17 **NOTES**

Entry # 1			For: $1300 each month from assessments to R&R Reserve	
Deduct from General Operating Account	$11,191		Missing Deposit from Assessment to R&R Reserve	See actual money trasfer below
Add to R%R Reserve Account		$11,191	Missing Dec 2016 : $1300	
			Missing Jan-Sept : $5991	
			Missing Oct-Dec: $3900	
			Over reimbursed for Coral Pool and fence painting ($429)	

Entry #2				
Deduct from R&R Reserve Account			to reimburse expenses to General Account	See actual money trasfer below
Add to General Operating Account		$439	For:	
			$1238 for Coral Pools	
			$1500 Fence painting	
			$(3177) already reimbursed to General Ops accounts	
			(Paving paid directly from R&R account)	

Actual Money trnsfer for Entry #1 and #2	
Ops to reimburse to General Op Acct	
General to transfer to Ops for Assessment	
Actual Transfer from Ops Reserve to General	**$0**

Kachina Management – Contract Issues

Besides the less that adequate accounting and the failure to response to maintenance and estimate requests in a timely manner, I believe the following terms of their contract have not been kept:

Section 2.2.1. (b) The following financial reports have not been provided per their contract: 12 month projection Income/Expense, Daily Cash Receipts, Bank Reconciliations,

The Monthly Management Reports with the following info have not been provided: actions taken by the agent, issues, homeowner complaints, resolution updates, landscape and/or maintenance requests, ARC requests, vendor documentation, ownership change records.

Section 2.2.3 I have no documentation of the when and who did and the monthly inspection or required report. Per the contract they are to notify the board 2 days prior, make and inspection and provide a report on a monthly basis.

Section 2.3(b) Agent charges a $360 fee to provide non owners disclosure statement and copies of governing documents. New homeowners have not received these documents.

Section 2.3 (d) States there will be fees for services not Agreement i.e. collections service "beyond monthly delinquent notices". I see nowhere in the agreement that Kachina can charge and keep a $15 admin fee for past due letters.

Section 6.8 Website to be included in the price of monthly fee and has not been available.