

## Annual Audit – CEDAR SPRINGS HOMEOWNERS' ASSOCIATION

- 1) A committee of at least two people appointed by the Board will review the financial records of the HOA annually. The Treasurer and President cooperate with the audit but are not members of the committee.
- 2) The committee will audit records for the entire year being audited, as the number of transactions (less than 300 for regular and lift-station accounts combined) is fairly small. If problems or questionable activity is uncovered, the committee should investigate the prior year as well.
- 3) Both regular and lift-station accounts are audited by the audit committee.
- 4) Cash basis: Cedar Springs HOA operates on a cash basis. That means that we record income and expenses as those transactions reach the bank (credit union), not when the activity occurs. For example, a check written on the 30<sup>th</sup> of the month will not be cashed until the following month. In that case, the expense is recorded for our financial reports when we see it on the bank statement, not when we wrote the check. We need to eventually reconcile all deposits and all expenses with their appearance on our bank statements.
- 5) Reconcile income from HOA dues
  - a. Reconcile that deposit spreadsheet amounts are reflected on bank statements to confirm deposits are received.
  - b. Confirm that each deposit for properties in Parts 7, 8, & 9 splits the deposit between regular and lift-station accounts. For 2020, those properties would pay \$400, with \$100 allocated to regular dues and \$300 allocated to the lift-station account.
  - c. Reconcile that deposit spreadsheet property records are reflected on the individual records of the property master to confirm receipts are credited to the correct property records. Since there are so many transactions, the audit committee may choose to spot check certain deposits instead of checking the entire history of deposits for the year.
  - d. Confirm that the sum amount to be transferred from the regular account to the lift-station account as shown on the deposit spreadsheet is shown as a transfer on the bank statements.
  - e. The sum of all deposits should match the sum of payments shown on the property master. If not, the discrepancy should be investigated.
  - f. Reconcile that all dues received are reflected on the quarterly financial reports.
  - g. Note: Dues checks returned for insufficient funds and charged back to the HOA are handled by recording a negative income on financial reports, and

the individual property record in the property master is updated to remove the original dues receipt.

2. 6) Reconcile expenses paid

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- a. The HOA Check Register on Google Drive is helpful in documenting more precisely what an expense was for. Reconcile that expenses recorded in the HOA Check Register are reflected on the bank statement.
- b. Reconcile that expenses present on the bank statement are reflected in the HOA Check Register. Some recurring expenses will not be present in the check register (e.g. utilities, monthly bank fees, charges for insufficient funds, returned checks, monthly payment to web host, other automatic monthly payments). Transactions on the bank statement should be on the HOA Check Register or explainable as to why they are absent.
- c. Reconcile that expenses present on the bank statement have invoices or receipts to support the expense and that the expense was approved by the appropriate person(s). See Purchases and Payments procedure for who approves expenses and how that is typically done. Some recurring bank charges such as monthly bank fees and charges for insufficient funds will have no documentation.

7) Reconcile quarterly financial reports

- a. Note: The regular and lift-station accounts at the bank each have a required savings account with a balance of \$5.00. The quarterly financial reports include the extra \$5.00 in the cash balances reported for each account.
- b. Reconcile that the sum of deposits and expenses on the bank statements flow to the quarterly financial reports for income (dues) and expenses.
- c. Note: Dues checks returned for insufficient funds and charged back to the HOA are handled by recording a negative income on financial reports, and the individual property record in the property master is updated to remove the original dues receipt.
- d. Reconcile that the category for expenses on the HOA Check Register are reported under the same category on the financial reports. Recurring expenses present on the bank statements but not on the HOA Check Register should also appear under the correct categories.
- e. Reconcile that the bank statement beginning balance for the current year matches the beginning account balance for the first-quarter financial reports and the beginning account balance for all year-to-date financial reports.
- f. Reconcile that the ending account balance for each quarterly report matches the ending balance for that same quarter on the bank statements.

- g. Reconcile that the ending balance for each quarterly report matches the beginning balance for the following quarter financial report.
- h. Reconcile that the sum of income and expenses for each quarterly report equals the totals reported on the year-to-date report for the fourth quarter.
- i. Verify that beginning cash balance plus all income minus all expense equals the year-ending balance on the fourth-quarter financial report and equals the ending cash balance on the bank statement.

## Summary of Audit Tasks

- Deposits on deposit sheets appear on bank statements
- Deposits on deposit sheets for properties in Parts 7, 8, & 9 of Cedar Springs are allocated to regular and lift-station accounts
- Individual deposits on deposit sheet are reflected on property records in the property master
  - Sum of transfers to lift-station accounts on deposit sheets appear on bank statements as a transfer from regular accounts to lift-station accounts
- Sum of all deposits on the deposit sheets matches the sum of payments received on the property master
- Dues received for regular and lift-station accounts are shown correctly on the appropriate financial statements
  - Checks returned for insufficient funds are reflected on the financial reports as reduction in dues received and the property record does not count the payment.
- Expenses recorded in the Check Register are properly reflected on the financial statements
- Transactions on the bank statement are reflected in the Check Register or understood why they are absent
  - Expenses are supported by invoices or receipts. Non-routine expenditures should have approvals recorded (policy as of 2021)
- Sum of deposits, transfers, and expense transactions on bank statements are reflected on the financial reports
  - Expenses recorded in the Check Register are posted to the correct categories on the financial reports. Routine expenses appearing only on the bank statements are posted to the correct categories on the financial reports.
  - Bank statement beginning balance for the current year is beginning balance on financial reports for first quarter and all year-to-date financial reports

- Ending balance on each quarter-end bank statement matches the ending balance on the financial reports
- Ending balance on each quarterly financial report matches the beginning balance for the next quarter's report
  - Sum of quarterly financial report income and expense categories for each quarter equals the fourth-quarter year-to-date financial report for each income and expense category
  - Beginning cash balance for the year plus all income less all expenses for the year equals the ending cash balance for the year on the December bank statement and on the fourth-quarter financial report.