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MEMORANDUM

Date: December 27, 2004

To: Homeowners

Subject: La Puntilla's Books

During the week of October 18, 2004, I spent a considerable amount of time becoming familiar with and reviewing the books for La Puntilla. Also, on November 22, 2004, I met with property manager Cherie Sibley at her office and reviewed some documentation with her. Our accountant was present at that meeting.

Since that meeting, I know that Cherie has attempted to implement some of my recommendations although I can not tell you to what extent as I have not had time to further review the books since our meeting. Cherie was given an earlier version of this report.

I found Cherie accommodating and eager to improve the accounting. I found no irregularities in the accounting. La Puntilla president Erin Strench, on the other hand, appeared to have the attitude that we were lucky to be getting what we were getting and should not expect more.

Please be advised that my review does not amount to an audit or a review as those words are defined in the accounting world. Please also be advised that while I have a degree in accounting and was a CPA, I no longer carry a CPA license; as I presently practice as an attorney.

We are using the accounting program Quicken to keep track of our finances. This program will work if it is done by someone who knows what they are doing or if that person is given guidance by someone who knows what they are doing. That is, it must be set up correctly and the same procedures must be used consistently. Our accounting has not been done that way. Further, Quicken is a combination program which allows an individual to combine both personal and business in one data file. This allows you to print out both business and personal reports.

It also allows you to manipulate data as is illustrated by the June 30, 2004 Budget Report posted on our web site. This report was set up to compare budget to actual by using only categories for which a budget had been set up. Since there were no budget amounts for Finance Charges, Loans, Uncategorized Income, Special Assessments, or Uncategorized Expenses these items do not show up on the report. Since we did not have an opening

balance sheet and a June 30, 2004 balance sheet, there was no way to easily see this discrepancy.

For my review I converted the file to Quick Books and because it is a true business accounting software and I find it much easier to use and to fix. You can't leave out accounts with this program. Conversion takes less than 5 minutes so it is not much of a problem but it can't fix all the problems in the data file. Please also note that Quick Books has a function called Audit Trail which allows you to see the history of an entry.

We do not have a January 1, 2004 Balance sheet which works. This is absolutely necessary. This would be a balance sheet which shows only our bank balances, accounts receivable, and any outstanding liabilities. If I can get actual bank balances as of that date I can create this balance sheet. There is nothing meaningful in this data file for the bulk of 2003.

The bank accounts were not being reconciled using the Quicken program. It is much easier to reconcile the bank accounts using the program rather than doing it manually. Further, doing it in the program allows someone reviewing the accounting to have confidence that the books have integrity. The bank accounts need to be reconciled every month and then have the statements faxed to someone along with the accounting file for review. The bank statements are the only external point of reference.

Vendors were not being set up properly. Thus, we are not able to easily track who we are paying. See Armando, for example. Many checks are being made out to "The Bearer" (Al Portador). I was told that it is at times necessary to write checks to the bearer. However, on our books it should say who is the actual payee. Also, many checks are being entered with a payee being named something like "Impuestos CPN." We need to know who was paid.

Armando Bravo Luna: He was on the books under 3 similar spellings of his name. In Quicken this is not easy to track as there is no comprehensive list of vendors. Because of the 3 names it was extremely difficult to determine what he was being paid and for what.

It appears that this is what was happening: A check was written to him (almost always for 2,000 pesos). That check is charged to "Petty Cash Temporary." Later, he submits his explanation and the entry is changed to split the expense into its various categories. His expenses almost invariably equal exactly 2,000 pesos. Of the 27 checks written to him only 3 are not for the exact amount of his expenses. (.45, 1.00, and 8.55 differences). They were keeping score off the books. I worked with Cherie on the proper procedure which is to write him the check and treat him as a bank account; i.e. "Advances to Armando." When he submits his expense report the entry is to debit the expenses to that account for the real amounts and write Armando another check. I believe that Cherie has corrected this.

Loan from Doolan on January 23, 2004 was included as income. Repayment of loan treated as an expense. This should have been accounted for as a liability.

As of September 30, we had 40,221 of uncategorized income. Some of this appears to be finance charges. In September there was an unknown deposit of 15,600 which showed up as uncategorized income. Since it was obviously a homeowner's fee it should reduce accounts receivable not increase income.

April finance charges to 2B are in interest income.

The books show special assessments of 11,172 as income. This was canceled so it should be zero. There appear to be 4 errors which are fixed when you get to the individual accounts receivable but not when you get to the P & L statement. The errors are in 4B, 6A, 8A and 7A. The first 3 go one way and the last the other. In other words $16,758 - 5,586 = 11,172$.

I can't tell what they did here exactly but 6A and 4B should have been charged to special assessments and were charge to our bank account (and I assume that the deposit was later deleted) and 8A credit was given to 7A resulting in 7A getting 2 credits.

In February there was apparently some problem with a bank transfer and it (32,016) was reported as income. It was done away with by charging 32,016 to Void Check expense.

The uncategorized expense in April was for a chainsaw purchase and should be categorized.

Taxes should be broken down by category. What taxes are we subject to?

Repair of the street lights was charged to Electricity; should be a repair.

On May 5, there is a check to Arte Verde and it indicates that it is a deposit. However, it is accounted for as an expense and not mentioned again.

We have an expense category called "Water Potable." It included the bottled water for the workers and municipal water. These should be separated.

I noted that for a long period of time last summer we had most of our money in the HSBC checking account. Cherie told me that there is a SAT problem with not depositing all our receipts in our main bank account. If that is correct, we should deposit all homeowner assessments to HSBC, immediately transfer the money to Lloyds, and make a monthly draw from Lloyds for a month's expenses. It seems to me that with a little more effort we could get our idle funds into an interest bearing account.

Our relationship with the Property Manager is not well documented. For example, Erin orally approved paying Armando 640 pesos a month for gas. Items such as this should be in writing and approved by the VC.

Cherie has indicated that she is willing to convert from Quicken to Quick Books if the VC approves. I strongly recommend that we do this. Cherie has a copy of the Quick Books program on her computer.

Major Recommendations

- Convert the Accounting system to Quick Books.
- Prepare a January 1, 2004 Balance Sheet which shows Cash, Accounts Receivable and any liabilities.
- Prepare comparative Balance Sheets for the beginning and end of 2004 which reconcile to our Income Statement for 2004.
- Document the authority of the Property Manager and the authority of the President.
- Establish an “Audit Committee” independent of the President to review the books at least semi-annually.