

Date: February 22, 2022

To: The Board of Highland Lake Property Owners Association (HLPOA) and Foundation Members of the HLPOA

From: Trisha Steele, with the assistance of Jan Katien (see her attached notes, page 4)

Re: Financial Review of the HLPOA 2018 Financial Records

The Highland Lake Property Owners Association (HLPOA) Board manages an Illinois designated not-for-profit, [the Association], and a federally designated non-profit [the Foundation]. In 2018, cash basis accounting was used for both the Association and Foundation financial reports provided. A review of the 2018 financial statements and transactions was conducted this month, February 2022 by me, Trisha Steele, with the assistance of Jan Katien who reviewed the 2018 Minutes for discussion and/or approval of financial transactions.

The purpose of the 2018 financial review was to meet the requirements of the HLPOA by-laws, establish the beginning balances of following years, and to assure the membership of sound financial management of their Association and Foundation in 2018.

In order to accomplish these purposes, the following objectives were pursued:

1. Confirm the beginning and ending balances of the 2018 financial statements. This was done by:
 - Matching them to the balances in the organization's bank statements, and the ending balance on the 2017 financial statements, as reviewed by John Hall and approved by the Board; and
 - Comparing them to other third-party reports, such as tax reports and State Not For Profit reports.
2. Establish that the financial transactions through the year were authorized and deemed appropriate by the organization management, and adequately supported by third-party documentation of the transaction. These objectives were accomplished by:
 - Comparing documentation for payments to the recorded financial transactions and to the bank-processed expenditures; and
 - Reviewing the minutes to find that each expenditure and each receipt was authorized and/or recognized by the Board.
3. Make any other observations related to the financial statements, bookkeeping and accounting practices.

The following records were or were not provided by the Board for this review:

- A 2018 Financial Transaction Register, with combined beginning and ending financial record balances, provided by Linda Kuntner, who was the HLPOA Treasurer during 2018
- A 2018 Budget to Actual Revenue and Expense Report, cash basis, with balances
- All 2018 bank statements for both organizations, (Foundation and Association)
- Bank statements documenting the 2017 ending balance
- Documentation for most of the payments made, but not all
- The 2018 HLPOA Board Meeting Minutes through November 19, 2018 except no minutes were provided or found online for the months of May and July. (The Board often does not meet in December.)
- The Financial Review narrative for 2017, written by John Hall. No financial reports were attached & 2017 HLPOA Financial Reports & balances were not provided.
- Third-party financial reports, including the tax returns and the IL State Not For Profit Annual Report were not provided
- Detailed breakdowns of memberships and contributions were not provided

FINDINGS**BEGINNING & ENDING BALANCES**

No final financial reports were provided. The 2018 Transaction Report and the 2018 End-of-Year Budget to Actual Report was provided as of January 2019. The beginning and ending balances of these reports and the bank statements all matched. They are as follows:

HLPOA 2018	Association	Foundation	Total
Beginning Balances	\$12,579.73	\$5,773.09	\$18,343.02
Ending Balances	<u>14,247.02</u>	<u>13,613.62</u>	<u>\$27,860.64</u>
Increases in the year 2018	\$1,667.29	\$7,840.53	\$9,517.62

The 2017 financial statements reviewed by John Hall were not provided so the 2018 beginning balances could not be confirmed with the prior year's ending balance on those reports.

The Treasurer's monthly financial report to the Board often included a list of the annual transactions with a total bank balance, keeping members apprised of the financial status of the Association and Foundation.

The financial review of 2017, concluded in June 2018, included a suggestion to separate the two entities. It is apparent that the Board started to implement this suggestion.

FINANCIAL TRANSACTIONS

The transactions were matched to the bank statements, third-party documentation such as invoices, and to the Board minutes.

All recorded expenditures were confirmed in the bank statements. Most of the third-party documentation could be traced to the approved and/or recorded expenditures. The exceptions were those summarized for the Carp Fest and the renovation of the raft.

The majority of the expenditures were approved by the Board. However, only notes kept with the Board minutes show that about \$11,000 of expenditures on the raft, while not officially approved in the Minutes, were discussed by the Board and members of the community.

Revenue items for memberships and contributions could not be reconciled to the bank statements or financial transactions because no detailed reports for revenues were provided.

CONCLUSION

In my opinion, the financial position stated in the 2018 Yearend Transaction Report and the 2018 Budget to Actual Report is fairly stated. These reports begin and end with substantiated balances, the financial transactions for the year of 2018 were substantially approved by the Board, and the financial records are materially accurate.

COMMENTS AND SUGGESTIONS

The following suggestions can result in financial reports that are more transparent and better documented.

1. The 2018 financial records include expenditures whose approval was not clearly documented in the Minutes.
To avoid this issue in the future, I suggest that the Board
 - Maintain and monthly review a List of Approved Expenditures for the Association and separately for the Foundation, with the date of approval, Check #, and date of disbursement.
 - Take sufficient time during each meeting for the Secretary to restate a Motion, note who made it and seconded it, before the President asks for a vote. After discussion and the vote, the Secretary should also record the vote in the Minutes.
 - Ask the Treasurer to hold the dispersal of money until she has received confirmation from the President or the Secretary that the Minutes include the approval of the disbursement.
2. The 2018 transactions for the Foundation and the Association are recorded in a single list of transactions.
 - I suggest that the Foundation and Association maintain separate transaction lists so that available balances are clearly distinguished one from the other.
3. Over time, pages from important records can become shuffled and misfiled. The 2018 financial records provided for this 2022 review suffered from this tendency.
 - I suggest that the HLPOA clearly date and label each page of minutes, financial reports, and other important Board materials.
4. The HLPOA's By-Laws state that the Secretary will maintain the HLPOA records. This is not being done.
 - I suggest that the Board address this discrepancy with its bylaws.
5. The HLPOA has a First Midwest Bank checking account that provides copies of checks with the statements. This is helpful in confirming and tracking expenditures. The HLPOA Foundation checking account does not have this feature.
 - I suggest that the Board obtain a similar bank account statement for the Foundation.
6. In 2018, the Board relied on volunteers other than the Treasurer to account for major financial activities such as the Carp Fest and the raft renovation. The individual pieces of documentation submitted for reimbursements could not be traced to the recorded HLPOA transactions in either of these activities, although the totals, which were provided in summary, could be traced.
 - I suggest that a checkbook-type template is provided to volunteer leaders that handle financial activities on behalf of the HLPOA Board; and
 - that any summarization of expenditures submitted for reimbursement or cost justification also include clearly traceable itemization of the expenditures made and receipts provided.

Attachments:

Page 4 - Jan Katien's review of the 2018 Minutes

Pages 5 through 7 - 2018 Transaction Report

Page 8 - 2018 End of Year Budget to Actual Report