

**Magnolia Lakes HOA
Audit Report
May 8, 2003**

Re: Auditing of books by Mike Baumann and Richie Engel

The auditing committee has examined the records dating back to the transfer of responsibility from the developer to the homeowners. We have looked at them relative to two aspects, the business and financial. We have separated them accordingly:

Financial:

No bottom line discrepancies have been determined. Everything seems to be in balance. Certain practices were performed that did not follow generally acceptable financial procedures. These have been corrected and are as follows:

1. Bank deposits: Deposit slips presented to the bank were made without information as to the sources from where they came, only a total amount was shown at the bottom. It was not distinguished whether the deposit monies were from assessments or from initiation fees. This has been corrected and details of the origins are made on deposit slips. Computer records of the transactions appear to be correct.

2. Checks issued: Checks when written were made against unknown balances in the account. No total of funds available and deductions made against these were registered. This originally led to overdrafts and fines. Later, overdraft protection against the savings account was introduced, but no balances were shown. If the account was overdrawn, it would simply transfer money from the savings account to the checking account. Monthly computer records showed that the accounts did balance. While the protection remains in place, use of it has been discouraged.

3. Receipts: Statements were received from vendors without details as to what they were about. Many receipts do not exist, especially for expenses submitted by the board members. Presently, no checks will be issued without adequate details and receipts.

4. Electronic payments: this is a good method of payment. However, this has been discontinued for the present time. Only checks will be issued. Abuse of it can easily take place. Too many people have the program and password for use. If its to be used in the future, only two people should have the information and password. Funds could easily disappear with no followup.

Business:

Upon completion of the audit ledger for the association of homeowners at Magnolia Lakes, it has been determined that there was no misappropriation of funds. However, we were \$11,000.00 over budget for the prior year and this led to an examination of the practices for the spending of said funds. From an operations standpoint, it can be concluded that overspending was a result of spending practices that did not represent adequate budget planning. Examples of such include overlap of landscaping contracts, improper bid collection, and a general over spending associated with the community picnic

This report is in no way intended to demean the work of the prior boards. We are hopeful it will serve to encourage the existing board and any future boards to spend more conscientiously and to be mindful to oversee any and all projects put forth for Magnolia Lakes.

Respectfully yours, The Auditing Committee
Michael F. Baumann Richie Engel