FINANCIAL REVIEW / AUDIT

Mt. Kemble Lake Association/Lakeshore Company

For the Fiscal Year Ended 2016

Committee Members –

Karen Morrison, Terry Dwyer, Charlie Priscu

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Reports

Complete financial picture provided

Approved budget included in reports

Any and all other reports requested were provided

Any questions were promptly answered

Bank Accounts

 Peapack Gladstone Checking #0328

 Peapack Gladstone High Yield LCRF #0627

 Peapack Gladstone High Yield Contingency #0619

 Peapack Gladstone Money Market #0571

 Peapack Gladstone Lakeshore Checking #0555

 Capital One LCRF Savings

 Bank accounts were balanced monthly

 Verification of beginning and ending year balance

 Exclusion:

 Peapack Gladstone Lakeshore Checking #0555

 with a balance of $2,221.21 was not listed on the balance sheet.

Investments

 Statement of CD’s at Peapack Gladstone were in order

Income

 Funds deposited in timely fashion

 Financial reports compared against deposits

 Dues checked against postings

 Other income processes verified

 Designated funds directed to restricted accounts

Disbursements

 Invoices properly approved

 Canceled checks examined to verify disbursements paid

 to the proper parties

 Interest & service charges recorded

Restricted/Contingency Funds

 Correct Balances carried forward into next year

 Restricted funds used according to policy

 *(attached report from Terry Dwyer)*

 June 15,2017

Review of MKL Reserves

4/20/17

by

Terry Dwyer

Draft 2

**Scope of Review**

I performed a review of the MKL Association Reserve accounts (the Reserves) during the week of April 16, 2017. The Reserves review was intended to be a review of the 2016 Fiscal year, but as the previous reviews of the Reserves had not provided a documented balance that could be used as a starting point, this review extended from 2012 to the end of 2016 (5 years). Thus, any future review of the Reserves can begin with the 2017 fiscal year.

The review itself consisted of a dialogue with the treasurer on how the reserves were structured, a look at overall Reserves funding and spending in the 5 years, a look at the 2017 initial bank balances of the Reserves, and a review of the expenditures for one particular reserve program.

**Reserves Accounts**

At the time of the review, the Reserves are instantiated in two accounts:

Reserve Savings account xxxxx0627 at Peapack Gladstone Bank

Reserve Savings account xxxxxx591 at Capital One Bank.

The Peapack account is used to store funds for near term Reserve projects. The Capital One account garners a higher interest rate than the Peapack account, and is used for a long term storage of unneeded Reserve funds.

Income flows quarterly into the Peapack Reserves account by a transfer from a separate Peapack checking account, which in turn receives its income primarily from member dues. This Reserve income is derived directly from member dues, new member surcharges, and indirectly from savings on property taxes (as detailed below). Funds that are considered excess for near-term Reserve spending needs are transferred from the Peapack Reserve account to the Capital One Reserve account.

Payments from the Reserve accounts for work on *Reserve Programs* flow in the opposite direction: funds are transferred from the Peapack Reserve account to the Peapack checking account to cover Reserve program expenditures, which are made via checks written from the Peapack checking account. If the Peapack Reserve account becomes “low”, funds are transferred from the Capital One reserve account to replenish it.

**Overall Reserves Income**

Yearly Reserves funding, as established at the setup of the Reserves in 2012, is from three sources:

* $400/residence/year from residence dues, totaling about $40,000/yr.
* savings from reduced property taxes, totaling approximately $35,000/yr.
* a 1 year’s dues surcharge on new residents (approximately $10,000/yr).

Thus, yearly Reserves funding amounts to approximately $85,000/yr.

During the 5 years under review, the Reserves were funded with a total of approximately $440,000, including an initial, one-time funding of $50,000 (which occurred in 2012).

**Overall Reserves Expenditures**

Each Reserve expenditure is associated with a *Reserve Program*, whose funding is community-approved at the Annual Meeting in the year of that program’s establishment. The tracking of each program-expenditure may be verified by its associated Quickbooks entries. The original paper invoices and associated stubs from payment checks are kept by the bookkeeper (in paper format). Sometimes the cost of a program is under-estimated. When this happens, the board makes up the shortfall by allocating funds to the program from operating revenues.

Expenditures from the Reserves over the years 2012 – 2016 totaled approximately $357,000.

**Reserves Balance(s)**

The sum of Reserves balance as of 1/31/17 was $83,940 ($54,051 in Capital One, plus $29,899 in Peapack), which approximately equals the five year funding of $440,000 minus the five year expenditures $357,000 ($83,000). Note that YE bank statements for all years of the Reserves were not readily available (they are in paper format in “long term storage” at the clubhouse).

**Reserves Program z2016Refurbish\_All\_Tanks = $73K**

I randomly selected a 2016 Reserves Program for review. This program’s name is “Reserves Program z2016Refurbish\_All\_Tanks = $73K”.The name encodes the year (2016) the program was initiated, the program’s purpose (Refurbishing water tanks), and the authorized amount ($73,000) for the program. The vendor doing the work was Corrosion Control Corporation (CCC). CCC presented two invoices:

* #2329 dated 7/26/16 for $35,900 (plus tax … later adjusted to a taxless $35,900)
* #2365 dated 10/14/16 for $39,400

Note that this billing totaled $75,300, which exceeded the authorized program amount of $73,000. Invoice #2329 was paid in full with check 1298. Invoice #2365 was paid in full with check #1336. The Reserves accounts were debited a total of $73,000, and the balance of $2,300 was debited from the MKL operating accounts. The amount of underestimate for this program was about 3%. This program is now completed.

**Recommendations**

I’m not an accountant but I would make the following recommendations to make a review simpler:

1. During this review a number of documents were unavailable (i.e. “offsite”). To make such documents more readily available, stop storing paper documents. Digitize all invoices and pay stubs (a simple camera picture would suffice) and store in the cloud. Likewise, store all bank statements (which can usually be obtained in digital format, otherwise photograph) in the cloud. It may take a bit more work initially, but the data becomes immediately available. If a paper copy of a document is needed, then print one out.
2. Don’t pay any part of Reserves programs from operating funds. If a program exceeds its budget, allocate more Reserves funds to it. Paying from operating funds hides the actual performance of the Reserves funding mechanism in meeting Reserves expenses.