# DBR Annual Full Audit Presentation and Recommendation to Leaseholders
# August 6, 2016

## Required by the Revised Code of Washington (RCW) 64.38.045 (3) for non-profit Homeowners Associations

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# Description of a Full Audit

- **<u>An audit is:</u>** a process for testing the accuracy and completeness of information in an organization's financial statements. This testing process enables an independent Certified Public Accountant (CPA) to issue an opinion on how fairly the organization's financial statements represent its' financial position and whether they comply with generally accepted accounting principles.
- **<u>An audit is not:</u>** expected to guarantee that 100% of the transactions are recorded correctly. Auditors are only required to express an opinion as to whether the financial statement, taken as a whole, give fair representation of the organization's financial picture. Audits are not intended to discover embezzlement or other illegal acts. Therefore, a "clean" or unqualified opinion should not be interpreted as an assurance that such problems do not exist.

# Processes currently in place to conduct DBR Books of Account

- **Office Manager –** Fully experienced in accounting and bookkeeping; manages invoices, payments, association dues, recovery payments, lease transfers, bank statements; prepares all QuickBook Reports, tracks all committee monies/provides reports.
- **BOD Treasurer –** Reviews bank statements, Transaction Account records, initials all invoices, reviews QuickBooks Profit & Loss Reports, Balance Sheets, including D A Davidson investment CD instruments; periodic review of insurance, taxes and Reserve Funds.
- **Finance Committee –** Analyzes detail accounts from QuickBooks P&L/Balance Sheets Reports, reviews Transaction Accounts and Reserve Study components, prepares recommended Operations Budgets, provides Investment Policy recommendations.
- **CPA –** Reviews Financial Statements quarterly; provides real-time assistance/advice (a special review in 2015 following changes in staff/management), annually prepares taxes and Accountant's Compilation Report.
- **Transparency** – Leaseholders can attend all committee/board meetings, and have the right to review books, records & documents in the office.

# CPA Review Following Staff Changes

- After the staff turnover in September, 2015, the DBR Board of Directors met with our CPA, Kate Glessing.
- The Board asked for insight and direction on how to best operate in the new staff environment.
- The CPA reviewed the existing processes and recommended certain protocol for improved financial checks and balances.
- The CPA's recommendations were fully implemented immediately.
- Per our CPA, there is no need for an on-site bookkeeper, since our current office manager has an accounting degree and 20 years experience.
- For more detail on any of the improved checks and balances, leaseholders may contact the Office Manager, or any Board member.

# Shall DBR Conduct a Full Audit?

- **RCW 64.38.045 (3) –** “At least annually, the association shall prepare, or cause to be prepared, a financial statement of the association. The financial statements of associations with annual assessments of fifty thousand dollars or more shall be audited at least annually by an independent certified public accountant, but the audit may be waived if sixty-seven percent of the votes cast by owners, in person or by proxy, at a meeting of the association at which a quorum is present, vote each year to waive the audit.”
- **What an Auditor does – a)** requests data from individuals & institutions to confirm bank balances, contribution amounts, conditions & restrictions, contractual obligations and monies owed to and by the organization. **b)** reviews physical assets, journals and ledgers, board minutes to ensure that all activity with significant financial implications is adequately disclosed in financial statements **c)** interviews key personnel, reads all procedures manuals, to determine whether organization’s internal accounting system is adequate **d)** spends several days at the organization’s office looking over records and checking for completeness.

# Shall DBR Conduct a Full Audit?

- **Cost Estimates (per Kate Glessing, CPA)**
  - **Full Audit -** $10,000 - $12,000 per year (not budgeted)
  - **Review -** $6,000 - $8,000 per year (not budgeted)
  - **Compilation –** current annual cost = $1,200 (budgeted)

  - **Additional Full Audit related costs –** staff hours to support audit requests, paper supplies, copy costs and mailings; postponement of normal association business, due to audit activities.

  - **Estimated Additional Full Audit Cost per lot -** $100.00 - $150.00

# Shall DBR Conduct a Full Audit?

- **DBR Board Findings:**
  - DBR currently has four levels of inspection and review of our Books of Account
  - A Full Audit will require employee time and resources to assist an auditor
  - A Full Audit is very time consuming and expensive. If there is no indication of  a need to conduct an audit, the probability of major findings is very small. High cost – low benefit.
  - An annual Accountant's Compilation Report is sufficient for a smaller association of which DBR represents

**DBR Board Recommendation:**

**Request the leaseholders vote to waive a Full Audit and continue with an annual Accountant's Compilation Report**