

**MANAGEMENT REPORT
FOR**

***TOWN AND COUNTRY VILLAGE
HOMEOWNERS ASSOCIATION, INC.***

August 31, 2003

Board of Directors
Town and Country Village Homeowners Association
Parker, Colorado

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Dear Members of the Board:

Our audit of the Town and Country Village Homeowners Association's ("Association") August 31, 2003, financial statements is complete. In addition to the audit, we completed a limited review of your accounting policies and procedures and compiled the following report based on our review. Because the review was limited, it did not detect all control weaknesses or irregularities that may exist, therefore, we do not express an opinion on your internal control structure. However, we would like to take this opportunity to share our subjective observations of the financial performance of the Association.

In this report, we analyze the performance of the Association in two sections: *Areas of Positive Performance and Suggestions for Further Enhancement*.

AREAS OF POSITIVE PERFORMANCE

In the following section, we note our positive observations of the Association's financial operations.

A. BOARD MEETING INFORMATION

We noted that the property manager provides the Board of Directors with detailed financial information for their monthly Board meetings. We commend the Board for requesting and reviewing the Association's financial information on monthly basis. This shows that the Board is dedicated to making informed financial decisions.

B. EARLY DEBT RETIREMENT

During the year, the Board paid off a promissory note early, resulting in savings to the Association of approximately \$2,500 in interest expense. We commend the Board for saving Association resources by making sound financial decisions.

C. ASSESSMENT PAYMENT OPTIONS

Beginning in January, the Association began accepting monthly assessment and special assessment payments via automatic clearinghouse (ACH) transactions, directly from the homeowners' bank accounts. This process will save

management's time and resources spent logging and depositing the assessment checks. Additionally, this process will provide the Association more timely access to its cash.

We commend the Association for serving the homeowner's by implementing a policy that makes it easier for them to pay assessments. Further, this process increases the timeliness of the Association's cash flow.

SUGGESTIONS FOR FURTHER ENHANCEMENT

The following section details our observations and ideas for enhancing the Association's financial operations in fiscal 2004.

I. POLICIES

A. Investments

The Association does not have an investment policy to direct the investment of their reserve funds. Currently, all of the Association's reserves are in money markets and Certificates of Deposit. The Board may find it beneficial to invest a portion of their reserves in other investments to obtain a greater rate of return.

We suggest the Board establish and implement an investment policy to help increase investment returns. At a minimum, the policy should include the following:

- Investing goals, including anticipated rates of returns, tolerable risk, and benchmarks for performance analysis.
- Required liquidity of investments.
- Overall composition of investments, including percentages of equities, bonds, international and domestic portfolios.

B. Fixed Assets

During our review of the Association's internal control structure, we noted that you do not have a written fixed asset policy.

We recommend the Association establish a policy to consistently account for their fixed assets. This policy should address the following: asset lives, depreciation method, and a capitalization threshold.

II. BANK RECONCILIATIONS

Currently, the Board does not review the bank reconciliations prepared by the Association's property manager on a monthly basis. Due to the small size of the Association, it is important that someone independent of the cash reconciliation process review the cash reconciliation. Cash is the largest asset on the Association's balance sheet, and is an asset susceptible to misappropriation.

We recommend that the Board request to receive cash reconciliations along with the monthly financial information they are already provided.

III. PROPERTY AND EQUIPMENT

Currently, the Association is not depreciating the pool or any of the common area buildings. In addition, these assets are not being reported in the Association's financial statements.

We recommend that the Association begin depreciating the pool and the common area buildings, and begin reporting these assets in the financial statements.

IV. CASH HANDLING PROCEDURES

Currently, an Association volunteer opens the mail, containing the assessment checks, and prepares the book deposit. The property manager then enters the deposit into the Association's accounting software and mails the deposit to the bank.

Internal controls could be enhanced by segregating duties. This would involve different individuals entering the deposit into the accounting system and making the bank deposit.

Under this scenario it may be beneficial for the property manager to return the deposit to the volunteer after it has been entered into the system to send to the bank.

We recommend that the Association establish a policy to address the segregation of duties surrounding the cash receipts process.

V. CASH BALANCES

At the end of the year, the Association had a balance of approximately \$149,000 in a cash account that did not earn interest. It may be prudent for the

Association to consider depositing their excess cash balances in an interest bearing account, or perhaps a sweep account, to earn a better rate of return.

We recommend that the Association consider the options available to them for investing excess cash.

VI. BAD DEBTS EXPENSE ESTIMATE

During the audit, we aided the Association in estimating bad debt expense and allowance for doubtful accounts relating to the Assessment Receivables balances. This estimate should be prepared by the Association during the year and reviewed and updated on a monthly basis.

We recommend that the Association estimate bad debts expense and the resulting allowance for doubtful accounts during the year and review and update these estimates on a periodic basis in order to provide a true picture of accounts receivable balances.

CONCLUDING REMARKS

Thank you for allowing *BONDI & Co. LLP* to participate as part of the Town and Country Village Homeowners Association's financial team. We would especially like to Laura

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Williams for her assistance during the audit. It was a pleasure getting to know Laura, and she was well prepared and organized for our visit.

Please contact Bert Bondi, Jim Rae, or Michael Marso with any questions you may have regarding this report, or if we may be of assistance in any other way. You can reach us by phone at 303-799-6826, or by email at bbondi@bondico.com.

January 9, 2004

BONDI & Co. LLP