

LWV
April 04, 2008
Residents Voice

04/24/08

Residents Voice

1

“Following the Money”

4/24/2008

Tonight’s Subjects !

- “Audits”
- “Shared Cost”

04/24/08

Residents Voice

2

Purpose of Presentation

- Provide Resident/Owners with the knowledge necessary to understand and question the Financial Budget Process.
 - What do we know from the Annual Audit?
 - What don't we know from the Annual Audit?
- Explain the “Shared Cost” options?
 - Everyone share in the cost.
 - Users only cover the cost.

04/24/08

Residents Voice

3

KPMG Annual Audit

C. Grundke

What is it?

- It is an “Audit of Financial Statements!”
 - It is an examination by an independent third party of the financial statements of our Corporations, resulting in the publication of an independent opinion on whether or not those **“financial statements”** are **relevant, accurate, complete, and fairly presented** !

04/24/08

Residents Voice

5

When is it Done?

- An “Engagement Letter” is written in the Fall hiring the auditor and defining scope.
- The Audit is then done yearly at the completion of our fiscal year.
- The Auditor made a presentation to the Boards on April 18, 2008 for the 2007 Financial Statements.
- The Boards passed a resolution accepting the Audited “Financial Statements” at this meeting.

04/24/08

Residents Voice

6

Which Financial Statements?

- Those statements Defined in the “Engagement Letter” that is written by the PCM Finance Officer.
- The “Engagement Letter” defines the “Scope/Detail” of the Audit.

04/24/08

Residents Voice

7

Purpose of the Audit!

- To add credibility to the implied assertion by an organization's management **(the Board)** that its financial statements fairly represent the organization's position and performance to the Corporate Members **(the Resident/Owners)**.

04/24/08

Residents Voice

8

Objective

- The audit is designed to reduce the possibility of a ***material misstatement***.
- A ***misstatement*** is defined as; false or missing information, whether caused by fraud (including deliberate misstatement) or error.

04/24/08

Residents Voice

9

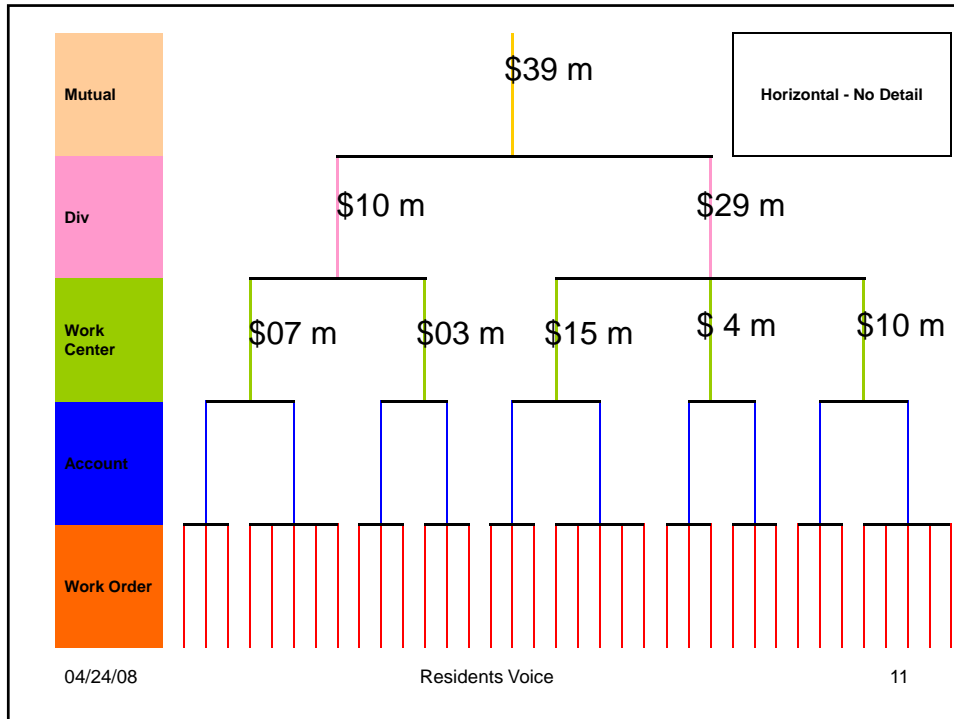
Levels of Audit

- Could be by;
 - \$ Division (Financial, Maintenance, etc.)
 - \$\$ Work Center (300, 310, etc.)
 - \$\$\$ Account Number (Wages, Travel, vehicles etc.)
 - \$\$\$\$ Detailed Audit (Work Order, Invoice, Accounts Receivable, etc.)

04/24/08

Residents Voice

10



What do we know after the Audit?

- The “numbers” (dollars) for the defined level of audit add up to the published “Financial Statements.”
- PERIOD!....

What don't we know after the Audit?

- If the “numbers” (dollars) for the defined level of audit are the **optimum** costs for the tasks defined.
 - Does not ensure that we are getting the “**most for our money**” (i.e.; minimum cost for cutting our grass).
 - Does not ensure that we have optimum management structure (i.e.; minimum administrative man hours).
- If the detail costs are reasonable?
 - i.e.; Sees Candies, Birthday Lunches, Incentives, etc.

04/24/08

Residents Voice

13

Conclusions

- We can go to sleep tonight knowing that our “Financial Statement” numbers add up to the proper “Totals!”
- However, we have **NO** idea if the “Totals” are the minimum cost!

04/24/08

Residents Voice

14

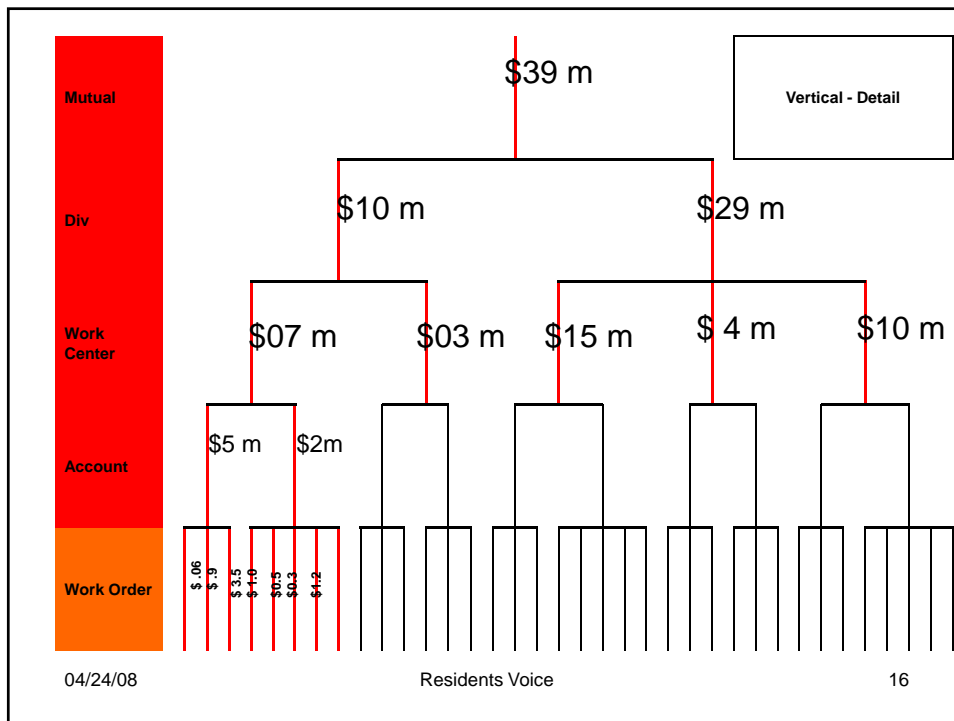
What Can We Do?

- Provide a complete ledger to anyone that wants to review it.
- Allow residents to look for anomalies (something that the Board cannot answer) in the ledger.
- Present justification for additional review of those areas to the Boards.
- Have the Boards include a detailed audit of those areas in the “Engagement Letter.”

04/24/08

Residents Voice

15



04/24/08

Residents Voice

16

Shared Cost

C. Grundke

LWV Definition of Shared Cost

- Most common area costs are allocated evenly between all residents (i.e.; Buses, Golf, Rooms, etc.)
- The remaining “minimal” costs are covered by fee charges to the user when the facility is used. (i.e.; Golf \$8, Room Rentals, Equestrian Center, etc.)

Proposals Being Considered

- Reduce Monthly Assessment for all Resident/Owners.
- Increase Fees so that “Facility Users” will pay a greater share of the costs when they use the facility.

04/24/08

Residents Voice

19

How Wise Are We?

- Can we measure the impact of increased fees on **“manor sales?”**
- What is the “tipping” point between Usage and Fee.
 - **Low Fee = High Usage**
 - **High Fee = Low Usage**
- When does increasing the fee result in reducing the usage?

04/24/08

Residents Voice

20



Users vs Fee



04/24/08

Residents Voice

21

Where does this lead to?

- Country Club environment with an increasing yearly membership fee.
- How do we track costs by facility?
 - Will golfers costs get mixed in with equestrian costs.
 - Separate tracking of costs will increase costs (per PCM).
- What incentive is there to reduce fees through improved cost controls?

04/24/08

Residents Voice

22

Conclusion

- Only two ways to cover the increasing costs:
 - Increase the Fees
 - Increase the Usage
- Increased Fees will reduce usage.
- Increasing the usage can only occur via non-LWV usage.

04/24/08

Residents Voice

23

THE END

04/24/08

Residents Voice

24