

## MINUTES

### SPECIAL BOARD MEETING

August 29, 2005

The meeting was called to order by Mr. Bud Neuhauser, President. All present were Gail Christensen, Matt Grogger, Zep Marchowski and Linda Deason. Attending via conference call were Dell Adams and Reid Potter.

#### **New Business:**

Meeting with Myers, Burkholtz and Company to discuss the results of the audit for the fiscal year ending December 31st, 2004, and a period January 1, 2005 to March 31, 2005.

**Bud:** Now this is a meeting of the Board of Directors and due to the fact that the meeting is being attended by speaker phone by two of our directors, Reed Potter and Del Adams, it is very important that only one person speak at a time so that we don't get all garbled up and they can't understand what's happening. Questions to the auditor and partner will be directed by the Board of Directors. Then the session will be open for discussion at the end of the presentation by the auditor and the partner. Debra, I'd like to turn it over to you and let you start it off.

**Debra:** I just introduced Maureen Imanuel, Auditor and Steve Brettholtz, Partner to the Board and to the membership. They'll begin their presentation now.

#### **Presentation**

Steve B.: Okay, you do have a copy of the draft of the audit and we're going to call your

attention to the page which says Auditors, Independent Auditors Report, which is the report that we actually give our opinion on. What it states is that in our opinion, the financial statements referred to above presents barely in all material respects the financial position of Punta Rassa Condominium Association as of March 31, 2005, and the results of its operations and its cash flows for the fifteen months ended, in conformity with accounting principles generally accepted in the United States of America. That is more commonly called an "Unqualified Opinion," even though people say, "Well, what's he qualified for, then?"

What that basically means is that we did not find that it was either not compared with previous accounting principles and that the numbers that show on -- and it did have some considerable adjustments -- but as they're stated here, they're stated in all material respects. Now, for those of you who are not as conversant with what that means, that does not mean technically that every single number was 100 percent correct. But what that means is that in all material respects it's enough for us to issue an opinion on. If we could not issue it, then it would have something else in there.

This year obviously the cost of all transactions that took place -- changing management, as well as the considerable amount of work that was being done, there was a considerable amount of what is called management comments which we did go over with you. But as it stands right now and based upon what these numbers looked like, we felt comfortable enough to say -- of course, the numbers themselves, the Association, on page 3, start with the Operations -- just come a little closer here. That's fine. Is this better?

*(Much better.)*

Start on page 3. The Association had cash and cash equivalents of \$645,867 as of March 31, 2005. That was in Operations. In its Reserve Account at that time had \$3,259.00.

*(That's replacing its Reserve.)*

-- replacing its Reserve, that unfortunately the correct accounting nomenclature is replaced with and everybody else knows it as Reserve Accounts.

Accounts Receivable numbers obviously, a very large amount at that time, on March 31st, had to do with the special assessment that had not yet been received. So you were looking at \$285,808 that was still due from owners at that time. I don't know what that number looks like today. Hopefully, it's considerably less.

Property and Equipment: This is the commonly owned assets that are basically owned, one piece each individually of everybody. They're not booked as an asset of the Association, and a number of years ago, prior to us actually getting involved, it was reported as a nominal value of one dollar.

Prepaid Insurance: This represents the amount of unexpired insurance that you had paid for, but it still had X amount of months to go -- of coverage -- and that's \$27,349 basically is the amount that you have prepaid, which is not an expense yet, and will be an expense through the rest of 2005.

The Liability Section: We have Accounts Payable of \$67,379.00. There is a note payable at that time of \$551-- \$520,200 (??). Members paid in advance of \$64,923, and

we have some special assessment revenue that we're not recognizing until the expenses that go along with it come into play, which will be after March 31, 2005. That revenue has been matched with those expenses which will come about -- or maybe it has come about already, after March 31, 2005. The \$25,930 is called the Due To Operating, and in this particular case, the reserves as calculated based upon funding, based upon expenditures, there should have been \$29,189 at the end of the year actually in the Reserve Account and in Reserve Cash. However, for a variety of reasons, some of them being people not paying, others may be that the money did not come in yet, as well as some other items, the Reserves had not been funded in full in accordance with statute. So at the end of the year, you're still \$25,930 that cannot be billed yet -- excuse me, not been funded, which leaves us the fund balance which is now in deficit of \$141,196. The details of the fund balance actually, if you turn to the next page, will give us the details of that.

But these are broken out by days. I'm going to go over to the Total column, and then if someone has specific questions, we can talk about that. In the Total column we have Maintenance Fees, we have a special assessment for the Lanai, special assessment for Painting, special assessment for Hurricanes, special assessment for Alarm, as well as late charges, interest and dividends and other income. All of those total \$2,270,867.

Expenses for the year and for detail of those expenses, turn to page 14. There's a breakdown there of expenses by category, Administrative Buildings, Utilities, Special Assessment, and then Common Expenses for a total of \$2,389,914. So at the end of March 31, 2005 . . . remember, it's covering a 15-month period, 12 months and then another three

months, the Association had a deficiency of \$119,047. They start off the year with a deficiency of \$22,149 and end up with a deficiency of \$141,196.

*(Where are you looking?)*

*(Yeah, I'm lost, too.)*

Okay, you need page 14 and you need page 4. Before, I said you had total revenues of \$2,270,000, and for a breakdown of the expenses of the \$2,389,000 you would go there.

Once we had that, it would be a loss for the year, on page 4, once you subtract your expenses from your revenue, there's a loss for the year of \$119,000. You started the year with a loss of \$22,000, so now we have a total fund deficit of \$141,196. That ties back to page 3 for your Fund Deficit Balance of \$141,196.

That's I guess, basically how that all works together from the statements. Obviously there are concerns because the amount of work done, the amount of expenses, and then the deficit at this time, but that was a tremendous amount of work. And still there's work going on after March 31st, 2005. So there could be more shortfall in 2005 that obviously we don't even know about at this time.

That's just a short overview of how we got to the balance sheet, the income and expenses and where you are now. We did have management comments that were involved when you were doing work. I don't know if you want to -- I'll leave that up to the Board.

*Are you going to cover all these expenses numbers arrived at, what's behind them*

--

Yes. In fact, you want to -- maybe we can go into that now, Maureen, and you can

give them a little bit more of the meat of it. She was lucky enough to be working with it for a while, so she's --

*May I ask a question, please?*

Yes, you can.

*This is Dell Adams. Two questions. They relate more to semantics than to accounting, but is the term Fund Balance or Replacement Fund the same thing as we commonly call Reserves?*

Uh, yes. Replacement Fund is what's commonly known as Reserves.

*Okay. Second question. The term Deferred Revenue, would that be the same thing that some people refer to as Accrued Expenses?*

No. Deferred Revenue in this particular case is what - the proper accounting treatment for special assessment revenue is you recognize that revenue that you have expenses to go against it. If there is additional revenue there where you haven't yet expended that money, you need to defer that revenue until such time as you spend the money, and then you recognize the revenue, which this constant mantra of revenue, matching revenue and expenses in the proper period. Otherwise, --

*That would be for a specific project --*

In this case it's special assessments because what would have happened, let's say, is if we recognized that revenue as of March 31st, knowing full well that we've got expenses still to come to deal with that revenue, you would have wound up with a surplus, and yet people would have had a false sense of security, which is not the case. So what we're trying to do

and the proper accounting treatment is to match that revenue and recognize it when we do have the expenses. Sometime, obviously, in 2005, there will be expenses and then that amount that sitting on your balance sheet will come flow over to the income statement to offset expenses.

*Does that answer your question, Bill?*

*I think so.*

*Reed, do you have any questions?*

*Not at this time.*

*Okay. Sorry, Maureen. Go ahead.*

**Maureen**

Are your questions specifically about the expenses in general such as --

*My questions is related to those numbers are derived from transactions that you found had been completed or conducted, is that \$598,680 for painting on building four?*

Yes.

*Those were -- that was accumulated from draws that had been made?*

Correct.

*Okay.*

The draws were done in such a way that the contractor identified which building he was working on for his draw, Gary then allocated the expense by building. In addition to that, there was interest expense on the loan. They allocated Interest Expense, date on which

building was -- building four because it was building four that had the most work done in this period.

*Did you determine whether those transactions were, I guess the word is valid or had been authorized or anything like that?*

I looked at every draw that was submitted, all requests that were submitted by the contractor, and I verified that the amount paid was equal to the amount of the draw request.

*Is all this interest to each specific building correct?*

I looked at some of them. I looked at each draw to be sure the amount of the invoice was the amount paid. I looked at several of them to see how the allocation was done. I do not look at each and every one to see how the allocation for each invoice was done.

*As the building four owner, because I went through each one on painting, and on building four had two assessments. It had one assessment on 8/6/03 for \$2,015 a unit, and on January 19 of 05 they had assessment for \$6,300, which totals up to \$598,680 which bang correlates right with your spread sheet here.*

Right.

*Building two, the same thing. They have two separate assessments, one for \$2,120 on August 6th of 03, and then \$5,200 per unit on 5/19 of 04. It comes up to \$263,520. It's exactly what's on your spread sheet. Building one and building three don't match us. Those figures \$9,761 in Phase One, and Phase Three of \$72,900 don't match up with what the assessment were based on the Minutes of the Board of Directors.*

Are we going for the fifteen months that we're talking about? I have a painting special assessment in 2004 for Phase One of \$37 -- a portion of that was used to pay back the fact that in 03 there was more painting done than had been assessed.

*Okay. So the other assessment of \$1,630 on 8/6/03, but even on your --*

That's okay. But what -- (two conversations at once)----

*And it's not carried.*

The deficit. There was a deficit and part of that assessment of the \$37,000 that we were billed in 04 was to -- special assessment income and we had special assessment expenses.

*Okay. But my question is based on the fact that the fact (two people speaking at once) for this time period.*

Okay. Because that money had not been expended, that's what we were talking about. Deferred, before. (dual conversations). And recognized the income when the related expenses (two conversations).

*Okay. And then on building three --*

Okay, building three we had no firm revenue on that. We had a special assessment of \$72,900 that took place in 04.

*Okay. And then you had another one, too.*

In 04? How much was that?

*Yes. \$500 per unit out of their reserves.*

Okay, out of their reserves, right. But that was a special assessment. That was the

Board voted to spend \$500 out of their reserves.

*And it was taken out of the reserves?*

I'm not saying that cash was taken out of their reserves. Actually the painting expense for building three, there was a 2004 special assessment of \$72,900. Actual amount of money paid for building three painting expenses during the period that we audited was \$96,000, roughly, plus another \$1,000 for the loan fees. There were loan fees when we took the loan out. That left \$24,000 that had to come out of reserves. At \$500 a unit times the 54 units constituted for --

*I also have another sheet here that shows a summary of Reserve Analysis. It has expenditures of \$23,414.95 out of Phase Three.*

I had given that to you -- you look at the date probably the cover sheet. That was a preliminary number and the loan fees are not included in there - 24 -- their quarterly fee. That money got deposited into the Operating Money Market account. When special assessment money came in, Gary periodically transferred money into the reserve money market account. Bills were also paid out of the reserve money market account for special assessments expenses. Bills were also paid out of the Bank of the Islands account which is the loan money, to pay for special assessment expenses. They were also paid and not necessarily made back and forth between accounts and other bank accounts as well. At that was like I said before, at the end of the year we have Due To and Due From account because if we have Due To and Due From at the end of the year, what should happen is that within 30 days of the owner paying their quarterly fees, an amount equal to the budgeted part, because

when you pay your maintenance fee, you're paying the reserve account, you're paying --

*Yeah, right.*

He tracked it in the general ledger what it was for.

*But would it be easier, let's say ongoing, if you have projects and assessments, could you set aside a separate account let's say, I know it's all going through here. And then if you have a reserve account, just transfer that.*

*Reed, are you there?*

*Del?*

*He hung up.*

*(Dialing phone) Hello.*

*Yeah, Del?*

*Yes. I inadvertently unplugged my power cord.*

*Reed's not back. But he can sign on just as soon as -- Reed?*

*Yeah. Okay. They're back.*

*To me, like for instance, the hurricane assessment. That's not a clean assessment. But it doesn't reflect the amount that we've assessed when you're looking at page 4.*

*Yeah. Like you take page 2, for instance. We assessed probably \$20,000 more for hurricanes. However, only \$3,600 of that was spent. So the difference is in that deferred revenue account.*

*Okay. So it is there?*

*It's there. With special assessments we only show as revenue the pieces that we spent because I'm sure there will be more bills that came in from the hurricane after that.*

*What makes up the current special assessments? So if you look at these page 1, page 2, page 3, page 4 --*

*Let me see if I can get this in my thick head again. Deferred is received but not expended.*

*Correct. Because the expenses have not --*

*It does not include those that haven't been paid yet, or does it? I mean if we've assessed and don't have them all yet, that wouldn't be in deferred expenses. Is that right?*

*Well, it could be. If they were due, but not collected, it would still be figured into that.*

*But we'd be shown somewhere else as --*

*It would be shown in accounts receivable.*

*Which adds up in accounts receivable. Because we're booking all of it, you know. (laughter). The whole idea though is if we said all revenues \_\_\_\_\_, then that \$390,000 wouldn't be deferred anymore. You'd actually have additional income of \$390,000 sitting on your income statement which would look like you had a \$200,000 profit for the year. Well, that's not true because we know that money is earmarked for expenses. So if we don't take that and defer it, it would make everybody --*

*It's wise that when this money comes in for these projects and the money's been bought from the line of credit, why isn't the money paid back to the line of credit? Why hasn't it been -- I mean, here we owe this --*

*That's a cash management issue which is different than accounting. Here's the numbers and it's fairly presented. Now to talk about things like consulting and management, that's for another day. I guess whether like it or not, these are really the numbers. If you ask should they have taken \$600,000 and paid some money down, yes, sure.*

*(inaudible) interest due on a monthly basis so the principal was not due until December of 2005.*

*Right. But your point's well taken that, yes, should those monies, could it have been paid down --- lose interest.*

*A big question and a lot of people have discussed this issue (inaudible).*

*Again, you're looking at our work that's different than other kinds of work.*

*Where is that?*

*On the balance sheet, page \_\_\_\_\_.*

*Okay.*

*And another \$285,000 of this was (multiple speakers) - so if everybody would have paid by March 31st, I guess technically you could have taken the bulk of that money and -- that's another question.*

*Can we still do that?*

*Do we still have the cash?*

*(multiple speakers)*

*As of March 31st, there was \$78,000 and some change sitting in that account at Bank of the Islands. When I took over (inaudible).*

*-- for the rest of that sitting here at March 31st, it's now August 30th. I mean, you realize how much cash we have for our anticipated expenses to the end of the year, what's going to be our --*

*Could you speak up, please?*

*Sure. What I said was to do a cash projection before you made any payment to make sure that there were sufficient funds to pay back. On paper, on March 31st, if those receivables were collected, it look pretty good. But that was March 31st. This is the end of August. So, you know, if for some reason there were going to be a deficit on operations for the year \_\_\_\_\_ needed some cash. So, you need to --*

*March 31st or August 31st.*

*Right.*

*So, how does it look?*

*Well, I just didn't cash --*

*The bottom line is, what are we in the hole for?*

*Well, I know you're in the hole \$146,000 as of March 31 --*

*I pay my maintenance fees. \_\_\_\_\_ the hurricane.*

*At any point in time it's -- (multiple speakers).*

*Just for when they're decent.*

*At any point in time they will detail how much --*

Consideration is accounts receivable.

*There's still quite a bit of money outstanding.*

*Two hundred and eighty-five thousand.*

As of March 31st. Because we've worked with the storm. Some of that deferred revenue went into that accounts receivable?

*Yeah.*

There's a method to it because otherwise everything gets over \_\_\_\_\_ back to cash basis.

*The money was spent on the painting project last year.*

*What about our special assessments?*

Well, we paid that back with our special assessments. (laughter)

*There's not enough.*

*How much was the painting project because there's sheets that have different prices. What is the total exact amount, because I also have figured what the painting project -- what we collected.*

All the change orders and the original contract price

*I know.*

And your original contract price. So there should be about a million forty-four thousand, but I've seen all kinds of figures.

*I have, too.*

*It's one million forty-five thousand two twenty-two.*

*I'm sorry, but the answer is where the loan money went. --*

*(inaudible)*

*This has got a fa cover sheet on it somewhere.*

*It's in the old stack.*

*(mumbling)*

*No, this.*

*Because I don't really --*

*Unless it was --*

*Maureen, what is -- it's confusing to me. I see where - I went through the minutes and I checked the minutes myself as to the assessments. Building one and building three are confusing to me, especially building three because on two different occasions, they had \$500 - and I know that - the outside of that it's an '03. The \$500 per unit reserves. And is there any way for us to know how much building three - how much was collected against building three for the painting project?*

*(Inaudible - someone whispering in the mike.)*

*\_\_\_\_\_ nine hundred dollars 2004.*

*Okay, right. Then that reserve fund on 4--*

*And then there was \_\_\_\_\_ shows you spent money on the building 3*

reserve fund \_\_\_\_\_ the old building that had significant reserve funds.

*There was a special assessment on 9/15/03 for \$500 per year reserves, you just don't -- because that's --*

*That had been spent in the previous year. There was no money - there was no - the money spent - money collected in 2003 for the painting project?*

*Right.*

*All of it was expended.*

*When I went through the minutes as I added up the total for the painting that was collected was one million one hundred eighty-five thousand, and according to this waterproofing changing order, it says the cost is one million forty-five thousand. So you know --*

*It appears to me that somebody --*

*-- number three they collect \_\_\_\_\_ so it would be - the expense was there so they (inaudible).*

*They spent more in 2003 than they collected. In building one they overspent. They spent more in 2003 than they collected. In building two they spent less in 2003. They had the special assessment at \$76,000 left over that was in deferred revenue for building two. That money was then spent in the current year. They had an additional assessment of --*

*(People continuing to whisper in the mike.)*

*(Surprise - loud music, like ice cream truck music.)*

*on building two -- yeah, you've got one \$187,200.*

Your voice has changed, Del. ---- (laughter)

*Building two spent all the money they assessed --*

*Yeah, on building two --*

*-- plus money was left over from an assessment in 2003.*

*The reason it's confusing to me is because building two and building four, they're right on on these spread sheets. Their assessments were 8-6-03 just like the other ones were. But one and three --*

Look at the deferred revenue. It should be there. And that's deferred from '03, if I understand it correctly.

*Phase one in 2003 -*

*From January 1, '03 to March 31, '05 that some of that '03 there was a loss, some of it was a surplus, so it's not -- if you look at it from the beginning of time to then, and maybe picked up old financial statements and added everything together, you'd come up with the same balance.*

Anything that happened before or after that (multiple speakers).

*The bills came in when the assessment came in ---*

(2 people talking out loud into mike while people in audience are speaking.)

(inaudible).

*-- of \$889 more expended for the painting project than there was assessed.*

*I don't either.*

*I don't either.*

*-- in '03 because their building was done first, and then they  
\_\_\_, okay? Phase two \_\_\_\_\_ \$2,000 more than they collected and Phase four  
spent \$13,000 more than they collected.*

*\$2,120 on 8/6 and \$5,200 on 5/19.*

*The bill was fairly close.*

*(inaudible)*

*For phase four would be the money left over from 2003 plus the money that was  
assessed in 2004. That amounts to \$598,000 round things off. However, the expenses  
were \$606,000. So phase four did not assess enough.*

*So where did that money come from to pay these bills?*

*It's coming out of reserves, but there actually wasn't cash there in reserves is why  
your reserves balance is also off.*

*-- because at that time \$285,000 was owed from owners.*

*There's nothing to transfer to there so obviously the --*

*Then we got to go back to reassess.*

*When you look at this change order (laughter), I mean, I would think the change  
order would be right. It shows a million forty-five thousand as the cost.*

*But that takes into consideration for both bridge because we're only going to  
show for 1-1-04. So it's not going to match. We've probably got what - \$972,000 - for  
the fifteen months you gotta go back to the '03 expenditures.*

*Have we decided how much it really cost to pay all four buildings? What the total cost was --*

*Here, you add up all the draws through the entire period of the contract, you'll --  
It should be here. Isn't this it?*

It is. Well, somewhere I saw all the draws.

*There were payments made in '03 as well. There were --*

Oh, that's right (multiple conversations).

*It wasn't shown here?*

No.

*But it brings a balance forward, doesn't it?*

The original contract price and all the change orders, that totals up to \$1,044,000 for the paint job. What it shows here is that during this 15-month period, we paid \$944,000, so there must have been \$100,000 paid in '03 that's not here.

I think it started in '08, 1908 (laughter).

*There was \$184,000 roughly paid in 2003. (dual speakers) pays the contract.*

Yeah. That wouldn't show up in the change orders.

Right. There were also amounts paid to Sy \_\_\_\_\_, and that was part of the \_\_\_\_\_, more than just the contract number that --

*That's right. That's right. All right. There were several I picked up along there. I think what we're going to have to ultimately do is to redo the painting contract and go back the beginning of the project, the first words not consisting of a painting contract,*

*Sy Lackman and add it all in if we want to do it plus the amount we took in -- the hurricane. Our expense is going to cross the expense column, what we actually expended. Now perhaps the bill will result in \_\_\_\_\_ later. I don't know. I think that figure alone would come within the order of \$60,000 not reflected in these expenses for '04.*

*Speak up!*

*He doesn't hear us.*

*I don't think -- the expenses were -- (inaudible) the bill came in but that was a substantial bill (inaudible).*

*This is Steve Reynolds. And I think part of that is going back to the deferred revenue again because we've got Hurricane Charley revenue, \$233,000, and expenses again to date that we had at the time was about seventy-five. So we know we're missing some substantial expenses that haven't been run through yet.*

*Substantial bills.*

*Yes.*

*-- those expenses. I can check several things and --*

*Answer your question , Reed?*

*I couldn't hear everything Debra said.*

*(inaudible).*

*The dock work was the riff-raf they just did.*

*I was thinking the original contract was driving the fishing pier, the dock three,*

*the water in front of building three and the underpinning of the long dock.*

Well, we spent a lot more on the long dock that we had originally budgeted for with Charlie.

*It's not reflected in these figures shown on the special assessment/deferred revenue sheet we just got.*

You looking at page 10?

*No, I'm on the --*

Of course, we expensed this to April. These expenses we're talking about now, the dock and everything, occurred after March 31st.

*Okay. Those bills came in then after.*

Yes.

*All right.*

Next.

The minutes and comments whether written by the auditors or the board of directors is available to -- mainly what it's for is to assess Comments and Recommendations on controls (inaudible) and invoices and not maintain an orderly --

\_\_\_\_\_ The main count is the funds that were borrowed for specific purposes to do things that definitely were -- but again, it wasn't done for the purpose intended. Dual entries lack sufficient detail for reviewing journal entries.

You mean my sloppy bookkeeping?

*Yeah, okay.*

We have mixed company here.

*How many adjustments are there?*

*???*

*And I have six adjustments for the 200-*

*If it happens the other way, some of our money has gone to their account.*

*I know it got paid back to them because I do follow up on that.*

*They paid it back.*

*Yep.*

*It appears to be just a mistake. This was never recorded as revenue. If it was recorded it would --*

*Go in reverse.*

*Well, the accounts receivable at the end of the year again tied out to the names by unit owners. So that --*

*It was \$97,000 at the end of July -*

*-- in which the balance was incorrect. The assessment was now wrong because it showed too much special assessment. The accounts receivable was wrong because it showed too much accounts receivable. So I took it out of both accounts. That made them both correct.*

So you found a variance somewhere, had to figure out what it was and made an adjustment.

*Yeah. Exactly. Had to figure what it was. If I know this one's wrong, something else must be wrong somewhere else.*

*And that's based on testing and so forth, testing of a variance of and expense and looking at the invoice and saying, "Oh, what happened here is this," so that takes care of the variance. Or accounts payable. We go into a test with accounts payable. This is where you come up to the difference of a financial statement audit and when you did not come across anything in their testing. But if you're asking me (inaudible) is in much more detail than your financial statement. In those two interviews it goes into looking at checks, it goes to the (inaudible), which actually I do. But it considerably wider in scope.*

Questions from the Board? Go ahead, Dell.

*Debra, do you pay all the -- have all the information that you need that given enough time to do the work, that you can bring all of our financial statements forward and make them current?*

*Yes. I may have some questions as I go through the adjusting entries.*

*All right. Do it.*

*Wait, it's just not --*

*Second question. Do you have all the information required that you can work up the special assessment for us to meet our cash obligations for the remainder of this year?*

*I will have that done by the end of the week. I've got to get the August 31st bank*

*statement --*

*Well, I do think when we do that, we should add in the amount of deficit of the bond balance breach phase so that we no longer have any negative bond balances.*

*I agree.*

*Could you repeat that last part, please?*

*Yes. As of August 31st, I mean July 31st cash flow analysis, I was using the \$54,000 that needs to be repaid to building 3 to its reserve, and I believe at that time the other three were negative balances. But I can double check with Maureen on that. But we were figuring that into what the cash flow that we'd need to the end of the year at that time, and I'll continue to do that.*

*I'm assuming that this is something that between the two of you --*

*(end of tape 2)*

*Let's say it's not the right thing to do, but I know what the attorneys for the other side figure. What they're call it is contributory negligence, and if there's contributory negligence, basically -- and the only reason they speak that is that there were cases where the manager actually just didn't reserve for it. Knowing kind of what I know, again, unless you can prove the other, I wouldn't recommend it.*

*(inaudible)*

*A hundred and forty-six is a lot of money, but I know a couple of attorneys that could eat that up in the no time. That's the truth of it. It's unfortunate. Sorry if there's*

*any attorneys here.*

Any other questions from the Board?

*Yes. I had a hard time -- I may be repeating something that's been said, to reiterate (inaudible) but sheet 5 of the Order of the report used as a basis for the auditor to come up with the revenue received, and all the expenses for painting, etc. --*

I agree with what you're saying, but you know, we've got a time constraint here with a large bank note due in three months time.

*Oh, I know. I think we've got to go ahead. I agree with you on that. We've got to do something. That's why I thought it could be a basis of--*

I agree. I suggest we authorize Debra to call the auditors when she feels she needs their assistance.

*Yeah, if they have some figures readily available that they could put together real quick, it might help out.*

Reed, I'm not sure I'm with you yet and where you're headed here. As of March 31st, the audit report right now is saying it's only \$146,000 shortfall, not 300 thou.

*Matt, this is Dale. You're exactly right, but Reed -- I don't know if you got a copy of the Facts Work Sheet that Reed had worked up. There's lot of additional expenses to be paid this year. We've got to restore the reserve in building 3, we've got the roof for building 4 that we have not paid for yet. We've got interest due on the bank note, the pool deck, the seawall, September expenses, fourth quarter expenses. It's only when you throw all those in there that I think Reed's numbers, I'm looking at it was in the ballpark*

\$346,000.

*Yeah, I saw that, but --*

*Now he's projecting --*

*The roof on building 4, have you added in the third revenue from the assessments for that?*

*The deferred revenue is not cash there. This is a cash payment, but we're going to have to pay to the roofing contractor. Deferred revenue will be a balance sheet item.*

*But I'm confused because to me the money from those assessments should be available to pay this \$248,000.*

*But it's not in the bank.*

*How do we know that?*

*Well, we got the cash balance, which I assume comes from the bank statements for \$22,000. Then you add on the accounts receivable, plus the fourth quarter billings. Matt, I agree with you. The money should be there, but it isn't.*

*He's referring to the cash flow analysis that I gave you that said 7/31.*

*But Debra's analysis that she had at the last budget - the last meeting we had, it looks as though somewhere we missed with what with what we got in the bank \_\_\_\_\_ the end of the year.*

*I thought that would go under this next season. (laughter)*

*That would help. \_\_\_\_\_. I would like the auditors to come up and give us some explanation of where this money went to, this 300 odd thousand dollars, which*

*might give us help. But I think right now we don't have the figures.*

*Reed, are you familiar enough to have any insight as to how we got into this condition?*

*This is standard. The only thing that we know for sure is that these, from our accrual accounting, you have a loss of \$141,000 as of March 31, 2005. That's the only thing that we can tell you with any certainty whatsoever. That is not a cash flow projection. You could be - at March 31st it's possible that based upon receivables, and based upon other items or other possibilities of people not paying, that you could be in a larger cash shortage than just \$140,000. There are many things that could affect cash position. Like I said, the only thing I can tell you for absolutely certain in terms of doing the items is that it's 140. Why that 350 in cash at this point, there could be a variety of reasons dealing with correct your receivables, dealing with additional expenses, dealing with \_\_\_\_\_ that occurred between April and --*

*And whether the assessments were not high enough.*

*Sure, absolutely. Expenditures bigger than assessments. Any one of those things are going to create -- I mean I do it right - basically do it. At minimum I review my interest statement. Possibly another audit. But the question is that by time that's done, you're already behind me. You're \_\_\_\_\_. Simply, if the cash isn't there and the cashflow projection that you're doing you believe is accurate, that's what you have to go with. As to why it got that way, I would suggest to do an audit as to 7/31/2005, we can encompass that. Then we can tell you. But I don't think we can tell you in sufficient time*

*with any sort of accuracy saying that here's a CPA rendering an opinion, or whatever, that's going to give you the comfort in the time frame that we have right now. But to me it's the numbers. If cashflow is X and we need 350, then that's what you need. Why you need it, that's another question, and I am sure that we can get to that, but the reality of it is you need it all. If it turns out that it's something that \_\_\_\_\_ or whatever, well that's another issue. We could still look at that. But the first question is -*

Was that your question, Reed? Do you want to know where that money went?

*Yeah. It would be nice to know and especially if there's something wrong somewhere, it's the only way you're gonna find it.*

But in the meantime, we've got a bank note we've got to pay that money back.

*I don't know. I think we've got to do it, but I think we've got to go ahead and bite the bullet and put out an assessment. I don't think there's any question about that.*

And then after that, what? Then we can do that audit. But we have no choice but to pay that money back at this point.

*Oh, I agree! The only way we can do it is by special assessment.*

(inaudible)

Do you have a question?

*You know I can see the trial balance of '04 is \$528,056.11 loss.*

*But the accumulated deficit at the year was \$22,000 deficit that you did not address, and then this year you spent \$119,000 more than you took in.*

*Based on the \$528,000 -- in the non profit. But the rest of it in any other corporation would be their -- (multiple voices).*

*I have another question, please.*

*Go ahead.*

*I understand that our most recent prior audit was conducted in the year 2000.*

*That's correct.*

*Could it be possible that some of this deficit has carried forward from prior years to the current time?*

*Well, again, short of 2004, it's only a \$22,000 deficit. So cumulatively from the beginning of time until 12/31/03, there's only a \$22,000 deficit. So it could have been up and down and up and down and up and down, but over time until 12/31/03, you were only 22 in the hole. I think it's almost irrelevant what it was in 2000.*

*I can tell you at 12/31/02, you had a positive fund balance. You had a net loss in 2002 of \$74,000. That brought you down to a \$17,000 deficit. So you've been running a deficit for several years now.*

*But that deficit to me was a very manageable 22,000, with 17 in '02, it's 22 as of 1-1-04. So a pretty manageable deficit has been staying rather constant.*

*Any other questions from the Board?*

*We're 146 in the hole and 500 \_\_\_\_\_. We also have a lot of money coming in on assessments still past due.*

*So we go back to March 31st as a point of reference. The corporation ceased to*

*exist on March 31st and you were able to collect the accounts receivable from your owners and raise \$141,000, and you could pay everything off.*

*Including the bank loan.*

*Including the bank loan. Now this is March 31st. Since that time there may have been other deficits building because of expenses being greater than revenue generated.*

*One last question, please.*

*Sure.*

*Did you compare the actual revenues received with what the revenues should have been. That should be a fairly straightforward thing. It's a combination of all the special assessments and all the annual maintenance fees that you compare the actual versus the budget, so to speak?*

*Yes. It's - basically it's one of our tests and it fell between material parameters.*

*Jerry Dehm.*

*Did you have a budget in 2004? Did you -- do that in my house. Next month I lost money. It's just that simple.*

*I have several questions of the auditors and I'm trying to make sense of them myself. I'm a person who deals with the bottom line, and you're trying to find out where the money is. (inaudible) I haven't seen Gary for a long time. Did Gary cooperate with you in this?*

*Yes. Every time I called him, he called me back within 24 hours.*

*Did Gary give you all the records that he had so you could evaluate what he*

*had?*

*Yes.*

*And so therefore you don't think there's anything further you can get from Gary that will help?*

*That's correct. The two boxes he brought in contain all the records Gary turned over to us.*

*And you made certain statements that some of the accounts \_\_\_\_\_. It's a pretty serious statement when you say that in your view, some laws may have been violated taking money out for a line of credit for purposes that --*

*I was referring to statutory stuff.*

*Should the money not be co-mingled?*

*Yes.*

*-- monies in trust. And so you shouldn't co-mingle the funds. The better way to do it is to have separate accounts that are kept for each particular project so that you can have the appearance of being correct. I will add though, however, that it wasn't spent for any other purpose than for the Association's purpose. But I'll still stand by the fact that yeah, it's a statute. (inaudible) If it was any other association and the practice was being done and the auditor will require -- you go to March 31st. I keep getting different figures being thrown out. \_\_\_\_\_. I'm happy to hear that you say it's 140,000, 46,000 as of March 31st. But when you're taking that figure, you're carrying -- correct me if I'm wrong -- all our accounts receivable as having been corrected. We are*

*anticipating at that point that they are correct.*

*Our accounts receivable are 180,000?*

*I think they're 97 as of today.*

*How about on closing on March 31st?*

*(multiple speakers)*

*Okay, but you're counting 285,000 to the good.*

*Right.*

*Again, based on my experience in condominiums you have \_\_\_\_\_ cases. In those cases - (inaudible).*

*But insofar as Punta Rassa Association having the money, we don't have the money. So we are 100 and either 97 as of today, or 200 as of March 31st. That money doesn't exist in our association for this Board to pay off the loan.*

*And that's absolutely correct, and that's why as part of that cash shortfall that is part of it.*

*Now if you take that 200,000 that the residents here owe -- I don't know what the figure is; it could be 180, and you add it to what you come up with, 140,000 and you're going to have a figure of approximately 300 and some thousand that you're out. Okay, so that's been at least a reasonable explanation as to where the money is.*

*I think that's absolutely correct and I think that it's a real number, an audited number. We have the possibility of receivables not being collected -- the reality of receivables not being collected, and then you also have the possibility of shortfall, a*

*mixture of, you know, the real income expenses and the fact that the people haven't paid our assessments.*

*You're looking for a figure where the money is, that is the explanation of where the cash is so we can pay our bills.*

*It's logical.*

*Okay.*

*Let me ask this question. You've got a loss, and you can set your \_\_\_\_\_, and I'll be honest with you, I never was a \_\_\_\_\_ fan. I want to be very plain about that. But I don't think he'd \_\_\_\_\_ us. Have you found anything other than sloppy bookkeeping in these matters and cash money out, in your judgment that would warrant the Board's spending an extra \$10,000 to find out in more detail if there was some money missing.*

*Why would you want (inaudible). (laughter)*

*He's a pretty good attorney. (laughter). Based upon our audit testing -*

*And you've done a lot of things, right? So the Board's wasting their money if they spend another ten to -- I'm just saying --*

*The only thing I would tell you is that sometimes sloppy is for a reason.*

*Yeah, but I'm just saying sloppy was in every evidence of the way things were run around here.*

*I'm just saying, you don't \_\_\_\_\_. But the reality of it is that in our audit testing we didn't come up with anything because we didn't \_\_\_\_\_.*

*I'm not being critical of anything, but let's take off \$140,000 and see where that is. We know that we overspent the landscaping budget by 47,000.*

*We know, but we haven't heard anything.*

*You know because you're assessed with that. But we spent 27,000 more, right?*

*We did.*

*Okay. So 140 times 27 is how much?*

*We know we didn't we didn't count in Sy \_\_\_\_\_ in our figures as to how much the painting contract was. I'm hearing this. How much did we pay Sy \_\_\_\_\_?*

*Nine thousand \_\_\_\_\_.*

*Okay, add 9,000. We're paying Debra 11,000 more than we pay Gary.*

*The interest on the note was 22.*

*The interest on the note was 22.*

*Wait a minute. That doesn't count because she wasn't here prior to 3/31.*

*Okay. We're 22 on the note. So we've got how much if we add it up?*

*Eighty-three more.*

*So we've got up to 83 of the \_\_\_\_\_ more.*

*No, eighty-three less, right.*

*So we're getting it down to a number that Art can swallow. (laughter)*

*Does that mean that you're gonna make up the deficit?*

*Even if you identify it, you've still got to audit it.*

*Listen, as soon as you get it down to 50,000, okay, then based on a couple of million, we should be off three percent.*

*So let me say this, it's not as bad as I came to this meeting thinking it was when we set it up.*

Charlie, will you come to the annual meeting and repeat that phrase?

*I'd do anything for \_\_\_\_\_.*

*Charlie, I'd like to say something really important. As I sit here our challenge is to get next year's budget put together correctly because if we don't put together a right budget, we're forever saying, well, we spent too much. Based on what? You know, we throw a bunch of numbers together and then something happens, and we say, oh, we're over budget. Well, I think we have to anticipate some of this stuff and do a comprehensive job of saying, listen we have a property here -- things happen.*

That's why Debra is cutting her office hours down next week to get all this stuff in a row.

*So my point would be for '06. Let's make sure we put some property and some numbers together. I think, as an owner, I want to know how much it is up front. I don't want to know that somebody threw the numbers gathered just so that it doesn't look bad and put me in shock. Then in the course of a year we'll keep getting whacked with assessments because the truth is, we never get the budget right in the beginning.*

*Exactly. When I put together the budget \_\_\_\_\_ because the audit wasn't finished yet in 2004, I prefaced it by saying I don't want to use these numbers as the*

*gospel truth because I don't want to repeat the sins of the past, and I don't know exactly what the sins of the past may have been yet. So I discussed it with Maureen and she and I agree that a very prudent thing for me to do is to go and keep that one that I did prepared, but go ahead from the actual number of 2005, just extrapolate out because I'll have eight months, four additional months from that and put together that particular budget based on actuals -- or eight months of actuals this year. And then see if there are any significant variances between the one that was based on 2004 or 2005 and the one from actuals of the first eight months, you know, taking that out.*

*I agree with what you said, except one point \_\_\_\_\_. We don't want any assessments or operating expenses for special projects. We're going to expect those and you have to expect those because we're not collecting. Our fund is fully --*

*Budget is what I just said.*

*I believe that Debra is going to do a proper budget and I think it's very unfair to even insinuate -- to hold Debra responsible for the sins of the past.*

*Oh, I didn't.*

*Steven Murray (?): I'd very much to have the Association justify management of all this money. I know how the system works. \_\_\_\_\_ So now what are we doing? We're borrowing money? We're paying interest? Plus we're tying up other money? So to go back to my original question, why are we borrowing -- what's the justification -- I mean, if there's no real justification, we shouldn't be doing that.*

*Go to the bank, get the loan, \_\_\_\_\_ special assess, pay off the loan. We've*

*got to get the work done.*

*Usually we find that you'll use the bank when collections are -- seem to be slower than normal. Probably if you could send out a \$500,000 special assessment to everybody and get that all collected in less than 30 to 60 days.*

*I think -- a variety of things.*

*But did that happen? That didn't happen. No one borrowed against \_\_\_\_\_.*

Mr. Mattingly?

Then the owner of record, you can't go back to the people that owned the unit before.  
*(inaudible)*

What is your answer, Matt? I'm not going to give you the answer.

*Unfortunately, by law you've got to treat every owner the same, if they bought it yesterday and the special assessment is today.*

The only difference, Matt, is if we knew what the special assessment -- if the special assessment had been decided before they bought the unit, it was the duty of the real estate agent to communicate that --

*Make them aware of it. Dispose of it.*

*I'm just saying, I don't think they know about it.*

We have no choice.

*Your listing agreement always states that the seller will pay all assessments due before closing.*

Yeah. That's the assessment.

*Suppose we have a new buyer coming up say the 15th of October, 15th of September, 15th of October, the present seller has to pay the assessment. We now know about it.*

You now know about it, right now.

Yes.

*Yeah, you're telling us we're going to be assessed.*

*But you didn't know about it yesterday.*

*If the Board has authorized the assessment.*

But we haven't authorized the assessment yet.

*If there's no assessment yet, then the new owner is responsible.*

*He might buy the unit and not know about it and have to pay for it.*

The assessment has to be assessed before it becomes a matter of record.

*But we're talking about it, so we should notify our buyers.*

Well, if you want to be totally honest and above board and you're selling the unit, you can tell -- you know -- the prospective buyer that we're looking at a possible assessment. The amount at this point is really unknown.

*I'm sorry. I'm not the manager. But here's the 10-point list that you have to give to the people, potential buyer, and there's a lot of information in there, financial statements, and guess what -- this audit. They can see that. And again, a lot of it is the duty of the buyer to ask those questions, look at a financial statement.*

Caveat emptor.

Yes, Bob.

*Well, on a positive side here, I think we're going to have to give the \_\_\_\_\_ the loaners we are meeting the owners we have meeting today and indicate that we talked to an auditor. We found some concerns, and so forth, and going forward, here's five items that we're going to reemphasize in the process of managing our money. (much laughter).*

*(inaudible)*

Anybody else? Any other questions?

Thank you very much.

Motion was made and seconded for adjournment.

The meeting is adjourned.