

To: Grand Harbor Transition LLC Board of Directors

From: Grand Harbor and Oak Harbor Transition LLC Finance and Accounting Committee

Date: February 2, 2020 Summary of Findings to Date

Summary of Grand Harbor & Oak Harbor Transition LLC Finance and Accounting Committee's Findings & Actions

In summary, the GH & OH Transition LLC Finance and Accounting Committee has to this point identified 5 major issues that we believe have been improperly determined and accounted for in the financial statements of GHAC over the last 8 years. These issues are highlighted below:

- 1) Bad Debt Reserves - The misclassification of annual deficits totaling \$49,594 since 2011 to the Bad Debt Reserve rather than to retained earnings of the GHCA balance sheet. These funds should be reclassified to the GHCA's retained earnings.
- 2) Due to Developer - In 2017 several entries were reflected in the Financial Statements effectively closing that years income surplus of \$68,635 (Total GHCA's assessments less operating costs and reserves) to the benefit of the developer rather than to GHCA's Retained Earnings. This needs to be corrected and restored to residents Retained Earnings.
- 3) Assessments - The overcharge of assessments levied on homeowners in the accumulative amount of at least \$460,278 between the years of 2017 and 2019. These overcharges result from a shift in assessments to cover total operating costs and reserves from the Developer to the homeowner by failing to recognize the actual developer Units existing at the time the budget assessments are determined.

4) Understatement of reserves for depreciable assets- Clear understatement of reserves (amounts to be determined by GHCA transition LLC Engineering committee) needed to provide for the renewal of depreciable assets as required by the Declaration of covenants along with annual Capitol Plans identifying annual investments needed to maintain functional assets.

(5) The developer reduced their deficit funding in lieu of base assessments by offsetting the security gate income collected by GHCA against its funding obligation as defined in the Declaration of Covenants. The funds that were misapplied from 2006 to 2018 totaled \$414,374. The security gate and other income should be refunded and credited to retained earnings of GHCA.

Based on the analysis above, we have determined the developer should reimburse GHCA \$943,287 (68,635 + 460,278 + 414,374). This figure may be adjusted once the 2019 and 2020 financial results are completed.

In response to our issues and concerns resulting from our review of the GHCA financial Statements we are proceeding to retain a Public Accounting firm to perform an operational audit of the GHCA's last 3 years financial statements. The scope of this audit will specifically include the four areas noted herein along with a compliance review of selected clauses included in the "Declaration of Covenants, Conditions and Restrictions for Grand Harbor Community Association".

Additionally, the engaged accounting firm will have the experience and capability to be an expert witness on our behalf in necessary.