

Report for Mini Audit of the Accounts of Hacienda Riquelme for the year ended 31 December 2008 conducted at Resortalia on 20 October 2009

A meeting was held between Paul Sawyers, Neil Beaven owners and acting auditors and Miguel from Resortalia. The objective of the meeting was to review the accounting systems and procedures used by Resortalia and to try and construct a balance sheet for the 2008 accounts.

The Accounting system

There are two separate systems in place for the Sub-communities and the General Community.

- **The Sub-community**

All income collected from the owners is recorded in the sub-communities trail balance. The development is divided into 78 sub-communities and a separate trail balance and basic balance sheet is kept for each sub-community. The monies for the general community is also collected and recorded in the sub-community figures.

- **The General Community**

A trial balance and cash based balance sheet is produced for the general community. No income is recorded on the trial balance. All the expenses are entered on the trial balance and any amounts outstanding to suppliers are shown as creditors in separate nominal accounts. The trial balance showed the bank balance at the year end. This system is a cash based system therefore income is only recorded when the monies are collected. It does not include a debtors balance for outstanding community fees due for 2008 but outstanding at 31 December 2008.

Reports produced as at 31 December 2008

For the Sub-community and the General community we produced a Profit and Loss account and balance sheet. Some adjustments were made to reach a final balance sheet position. Once a final balance sheet was produced for the General and Sub-communities we also produced a Consolidated Profit and Loss account and Balance Sheet. These reports are shown on pages 4 & 5.

Review of figures as at 31 December 2008

€

1/ Debtors

Community fees from owners	409,154.22
Community fees owed by Polaris	964,609.85**

	1,373,764.07

Debts are being closely monitored and any outstanding amounts are being chased by solicitors. As at the end of September, the 2008 debtors figure had been reduced from €409k down to €128k. The Polaris debtor of €964,609** has been settled as part of a settlement agreement dated March 2009. Details are shown below.

2/ Bank Account - €849,913.62

Only one bank account is run for the community to record all income and expenses for the community.

	€
3/ Creditors	
Suppliers General community	231,731.94
Suppliers sub-community	116,603.00
Polaris Garden	444,958.94**
Polaris Telecom	97,588.48**
Polaris	444,022.66**

	1,334,905.02

4/ Profit and Loss Account

Total community fees of €2,931,171.98 were due for 2008 and €1,531,200.00 was allocated to the General community. Bank interest of €7,632.49 was earned in the period. The sub-community generated a surplus of €470,445.29 where expenses for the year were less than budgeted. Of this €233,328.66 was allocated to the reserve account. The General community also had a surplus of €184,998.72 allocated to the reserve fund. The amount was originally going to be €263,383.71, however an additional cost of €78,384.99 for Polaris TV maintenance was incurred that was not in the original budget.

Audit Work Completed

For the 2008 accounts a balance sheet audit was conducted on the balances outstanding at the year end. This means the balances in the balance sheet for bank, debtors and creditors were agreed and reconciled to accounting records at and after the year end. For example the bank balance was agreed to the bank statement, the trade debtors were reconciled to a list of debtors at the year end. Creditors balances were agreed to supplier's invoices and payments made after the year end.

Polaris Settlement Agreement

After the year end this agreement was drawn up between Polaris World and the community of Hacienda Riquelme. Polaris owed the community for community fees and we owed Polaris for various services supplied by Polaris in 2008 but not yet paid by us. It was decided to include all these costs in one agreement and for the balance to be paid by

the party who ended up owing the amount due. The agreement was made up of the following figures:-

	€
2008	
Community fees owed by Polaris for 2008	964,609.85**
Less:-	
Polaris Garden	(444,958.94)**
Polaris Telecom	(97,588.48)**
Polaris	(444,022.66)**
2009	
1 st Quarter community fees owed by Polaris	108,574.03
Less:-	
Water Bills	(1,560.68)
Electricity Bills	(4,979.36)

Amount due to Hacienda Riquelme	80,073.76
	=====

This amount was paid to us from Polaris on 02 April 2009.

Conclusions

Having produced and audited the balance sheet for the sub-community and the General community, we can verify the accuracy of the balance sheet as at 31 December 2008. We were also impressed with the record keeping and the organization of the records by Resortalia. Miguel was very helpful throughout the audit and we would like to thank him for his help and co-operation. We did not conduct an audit of the expenses or income and therefore cannot comment on the accuracy of the allocation of expenses to the individual 78 sub-communities. The accounts to 31 December 2008 show that the community is in a very healthy financial position. As long as Debtors are kept under tight control then we can continue to grow and bank reserves for the future.

Recommendations

1. A profit and loss account and balance sheet needs to be produced for each year going forward. At the AGM for each sub-community an individual Profit and Loss account and balance sheet should be produced. This will show the debtors in your block as well as any surplus/deficit for the year. Also a Profit and Loss account and balance sheet should be shown for the sub-community as a whole (consolidated), for the General community and a consolidated one for the 'Resort'. See Below.
2. For 2009 a more detailed audit needs to be conducted. This should include a balance sheet audit, checks on internal controls and transaction testing. Allocations of income and expenses to the individual sub-communities should also be checked. A detailed audit would take 5/6 days to complete.

3. On the budget reports presented at the AGM the contribution the sub-communities make to the general community need to be shown. Actual charges need to be made within the accounts for these recharges.
4. With 20% a year being allocated to the reserve fund each year a budget needs to be prepared to allow for any future costs we will incur that will be made from these reserves. These costs would include re-painting of the blocks, new lifts, pool repairs, re-planting and possibilities could include pergolas, sun shades etc. This should be available at the AGM's.
5. As we hold a large balance in the bank account and with banks desperate for capital, this should present us with the opportunity of earning a good rate of interest on our money. On a balance of €800,000 at a rate of just 4% we could earn annual interest of €32,000. In future years we think higher rates of interest will be possible. We think this interest could be allocated to each sub-community to help bring down the cost of the community fees paid by each owner.

Balance Sheets as at 31st December 2008

	Total Sub Communities €	General Community €	Consolidated €
Assets			
Debtors			
Owners	409,154.22	0.00	409,154.22
Polaris	964,609.85	0.00	964,609.85
Sub Communities	0.00	553,387.12	553,387.12**
Bank Account	0.00	849,913.62	849,913.62
Liabilities			
Creditors			
Suppliers	(116,603.00)	(231,731.94)	(348,334.94)
Polaris Group	0.00	(986,570.08)	(986,570.08)
Gen Community	(553,387.12)	0.00	(553,387.12)**
Net Assets			
less Liabilities	<u>703,773.95</u>	<u>184,998.72</u>	<u>888,772.67</u>
Reserves			
Surplus	470,445.29	0.00	470,445.29
Reserves	233,328.66	184,998.72	418,327.38
	<u>703,773.95</u>	<u>184,998.72</u>	<u>888,772.67</u>

Profit and Loss Accounts for the year ended 31st December 2008.

	Total Sub Communities	General Community	Consolidated
	€	€	€
Income			
Community Charges	2,931,171.98	0.00	2,931,171.98
Interest	0.00	7,632.49	7,632.49
Community recharge	(1,531,200.00)	1,531,200.00	0.00
	<u>1,399,971.98</u>	<u>1,538,832.49</u>	<u>2,938,804.47</u>
Expenditure			
Lifts Maintenance	142,053.60	0.00	142,053.60
Garage Cleaning	33,899.81	0.00	33,899.81
Buildings Cleaning	319,938.09	0.00	319,938.09
Administrator	167,205.81	0.00	167,205.81
Legal Fees	32,776.38	1,373.85	34,150.23
Misc	324.34	0.00	324.34
Bank Charges	0.00	1,074.92	1,072.92
Gardening	0.00	444,958.94	444,958.94
Fumigation	0.00	5,800.00	5,800.00
Communal cleaning	0.00	294,028.79	294,028.79
Security	0.00	357,612.45	357,612.45
Inspector	0.00	13,361.05	13,361.05
Swimming pools maint.	0.00	85,411.63	85,411.63
Insurance	0.00	52,130.66	52,130.66
Resort Maintenance	0.00	493.00	493.00
TV Maintenance	0.00	97,588.48	97,588.48
Total Expenditure	<u>(696,198.03)</u>	<u>(1,353,833.77)</u>	<u>(2,050,031.80)</u>
Transfer to Reserve	(223,328.66)	(184,998.72)	(418,327.38)
Surplus	<u>470,445.29</u>	<u>0.00</u>	<u>470,445.29</u>