

MY BACKGROUND: A little background about my professional experience to establish my credibility may be in order before proceeding much further. I promise to do so quickly:

- Bachelor in Business from the University of Washington, Accounting emphasis
- Licensed CPA for 25 years
- Comptroller for division of the Howard Hughes Estate for 4 years
- 25 years in various financial/operational positions with Northrop Grumman Corp, retiring as Director of Business Mgt of \$1B unit with functional responsibility for
 - Financial Planning & Reporting
 - Resource Planning & Management
 - Program Cost & Schedule Control
 - Contracts & Subcontracts
 - Pricing & Estimating

PROBLEM BACKGROUND: As a professional familiar with evaluating financial information, the FY 2012 – 2013 financial statements presented to Co-owners prior to the November 2013 Assembly did not appear to “hang together” properly and, therefore, did not appear to provide a fair representation of the Homeowners Association’s (referred to herein as the “HOA”) financial position. For example:

- Financial Position (Assets, Liabilities and Equity)
 - Included bank accounts and Accounts Payable (referred to herein as A/P) which did not belong to the HOA
 - Some reported HOA A/P balances were not in agreement with the A/P detail provided
- General Statement (Accumulated Profit/Loss Annual Statement)
 - Some expenses differed from previous quarterly statements provided
 - No insurance expense was reported for the FY and this had always been a significant expense for the HOA
- Reserve Statement (Accumulated Profit/Loss Annual Statement)
 - No previous year’s accumulated Profit (loss) was reported although assessments were collected in FY 2011-2012
 - No Income was reported for the first quarter although assessments were collected in Q1
 - Expenses previously reported as expenses in the General Account were also reported in the Reserve Account
 - Maintenance expenses historically have been covered by regular assessments, i.e. paid out of the General Account. It is my understanding that the use of the Reserve Account is for “extraordinary” type expenses.

Numerous discussions were held with our Administrator attempting to reach an understanding before the Assembly. However, without examining the financial records of the HOA, it was impossible to understand what the issues and their corresponding solutions were.

REVIEW PROCESS: The process employed to understand the HOA’s financial position as of August 31, 2012 was simple:

- trace 100% of the transactions in each of the HOA's four (4) bank accounts to either the appropriate Profit and Loss Annual Statement (hereafter referred to as the P&L) or A/P worksheet provided by the Administrator to verify accounting
- validate income by tracing assessments from owner account (i.e. mine) to either the General or Reserve HOA accounts
- trace expenses not paid and owing to Prima Holding (eg. Doormen, administrative services, etc) or Cozumel Construction (eg maintenance) to the A/P worksheet provided
- evaluate the reasonableness of expenses by examining supporting documentation for reported expenses over \$500
- Follow up with Administration personnel with questions and/or to obtain data

Draft financial statements were prepared for review with the Admin and President of the VC in February. All beginning balances equated to the FY 2011-2012 ending balances as approved by the Assembly, and all transactions running through the bank accounts were incorporated into a P&L or A/P type account. It should be noted that FY 2011-2012 Financial statements were approximately \$12,300 out of balance. It should also be noted that a P&L for the Reserve Account was not provided with FY2011-2012 financial statements, so a beginning balance for accumulated profit/loss had to be developed.

Given the differences in my findings (see Exhibits 1, 2 & 3) and what was previously reported, the outcome of the meeting in February was to hire a local Mexican accounting firm to conduct an audit of the fiscal year.

An Audit Report was provided in June 26, 2014. Unfortunately it did not contain a Statement of Accumulated Profit/Loss for either the General or Reserve accounts though it did contain positions on Accounts Payable for both the "main activity" of the HOA and "not from the main activity" of the HOA. A follow on meeting with the Auditor was conducted in July. My objectives were to obtain his P&L statement positions and to understand how the Accounts Payable positions were derived.

The Auditor re-released the results of his findings in August, and while our respective results are closer, questions still remain. I am unaware of an Audit Report being provided to the Administrator or any subsequent changes to these findings. So if there have been any other revisions by the Auditor, they are not included in the comparisons contained in my review. See Exhibits 1, 2 & 3.

SUMMARY FINDINGS:

INCOME:

General Account income for the year appears appropriately stated. Prima Holding paid the HOA on behalf of 100% of the owners, including those they did not manage, at or before the beginning of each quarter required. These payments in full resulted in NO amounts owing from Owners to the HOA at the end of the year.

Reserve Account income for the year was understated by the omission of 1st Quarter assessments of \$20,033.01 (3 monthly reserve assessments of \$6,677.67). These amounts appear to have been collected from owners and were deposited into the Reserve bank account. Additionally, Prima Holding made an extra deposit of \$6,677.67 during the year which should be treated as Payable to them.

As mentioned before a position for accumulated profit/loss had to be developed for the Reserve Account as FY2011-2012 financial statements had not been previously provided. A review of FY2011-2012 Reserve bank account activity was provided by the HOA's Accountant. For the most part, it was consistent with my understanding of Reserve activity – assessments were collected, no expenses incurred, and a transfer of income (\$46K) to the General Account was made. However, there was a deposit and a bank transfer, resulting in a net reduction of cash of \$6,347.11 which did not appear to be related to HOA activities. For accounting purposes I have treated this position as an offset to unknown Payables.

EXPENSES:

General Account expenses in total were understated by about \$62K. Items of note include:

- No insurance was recorded and this is a major expense item for the year - ~\$39.5K.
- Based on review of bank transfers and supporting documentation, pool furniture appeared understated by ~\$10K
- The agreement with the Administrator to pay 10% of the HOA's water expense was terminated though not communicated to Accounting Staff - ~\$5K
- Miscellaneous net expenditures not reported - ~\$7K

Reserve Account expenses were overstated by \$3K for expenses which were already reported in the General Account and accrued as Accounts Payable. Of particular surprise was the use of the Reserve Account to pay for ordinary common area maintenance expenses and the Christmas bonus for Prima Holding staff approved by the Assembly. Using the Reserve Account to pay ordinary maintenance and operating expenses has a tendency to mask the ongoing cost of operations and potentially understate the assessments required.

See the following Exhibits 1 and 2 for comparisons of my review findings of Statements of Accumulated Profit/Loss for the General and Reserve Accounts, respectively, to those reported on behalf of the HOA by the Administration and the Auditor.

Of particular concern was there were NO contracts with Prima Holding, Cozumel Construction, nor any regular vendors which could substantiate agreements relative to scope and price of services to be provided.

EXHIBIT 1 – Statement of Accumulated Loss, General Account

EL CANTIL
ANNUAL STATEMENT 2012-2013
Amounts reported in US Dollars (\$)

	HOAREPORT	AUDITOR	J BRILL	Review vs	Explanation for material differences with Auditor
	ACTUAL	ACTUAL	ACTUAL	Audit Delta	
INCOMES					
CONDO FEE	320,528.20	320,528.20	320,528.20		
RESERVE	12,019.81	12,019.81	12,019.81		
	332,548.01	332,548.01	332,548.01		
EXPENSES					
<u>CONTRACT LABOR & SALARIES</u>					
Grounds Maintenance	17,013.45	17,013.45	17,013.45		
Doormen	50,332.03	50,332.03	50,332.03		
Adminstrator	25,800.00	25,800.00	25,800.00		
Pool Maintenance	8,792.57	8,792.57	8,792.57		
<u>MAINTENANCE</u>					
Engineer Part time Contract Labor	15,683.85	15,683.85	16,017.70		
Elevator Maintenance	20,512.29	20,512.29	20,512.29		
Fumigation	5,500.51	5,500.47	5,500.51		
Pool Furniture	14,602.31	14,629.17	24,807.24	10,178.07	Q2 Payments to vendor not recorded in P&L
Other Maintenance	65,504.82	49,173.65	49,921.33		
<u>OUTSIDE SERVICE FOR GARDEN MAINTENANCE</u>					
	4,259.30	4,259.30	4,259.30		
<u>POOL SUPPLIES</u>					
	2,188.30	2,188.30	2,188.30		
<u>ACCOUNTING & ADMIN - PRIMA HOLDING</u>					
	12,300.00	12,300.00	12,300.00		
<u>UTILITIES</u>					
LP Gas	14,602.31	16,151.27	16,151.28		
Electricity	20,114.34	20,114.34	20,114.34		
Cable TV	16,976.72	16,976.72	16,976.72		
Water	48,575.83	48,575.83	48,575.83		
10% Payment for Restaurant	(4,857.58)	(4,857.58)		4,857.58	Change in Agreement to Pay HOA
Telephone	327.13	327.13	1,437.28	1,204.41	Q3 Payment to vendor not recorded in P&L
Trash	4,730.98	4,730.98	4,730.98		
<u>INSURANCE</u>					
	6,156.48	39,462.96	39,462.96		
<u>PROFESSIONAL FEES</u>					
		5,638.08	6,757.28	1,119.20	Reclassified as Professional Fee
<u>TAXES & LICENSES</u>					
Federal Zone	6,905.69	10,832.70	10,447.89		
Social Security taxes	5,870.26	5,198.80	6,392.62		
ISR Retirement	7,200.00	7,200.00	7,200.00		
Bank fees	114.29	264.68	264.48		
Foreign Exchange			(354.97)	(354.97)	Foreign exchange Not recorded in P&L
Other			389.70	(74.09)	Misc rounding differences
Freight		518.40	518.40		
<u>Audit Adjustments</u>					
Diferencia HOA Empleoes		333.85			
Monica Laura		1,119.20		(1,119.20)	Reclassified as Professional Fee
Diferencia tax for social security		1,643.75			
Varios Gastos		949.78		(651.47)	Q1 Payment was Y/E A/P not expense
Manuel de Jesus Uc		1,444.00		(1,460.00)	Duplicate factura, not valid without unique factura
Juan Carlos Maldonado			**		
Esteban Leon			**		
Suma Totales	354,603.56	402,809.97	416,509.51	13,699.53	
Profit (loss) Quarter	(22,055.55)	(70,261.96)	(83,961.50)	(13,699.53)	
Previous Balance Aug 31,2012					
Accumulated Profit (loss)	(80,036.71)	(80,036.71)	(80,036.71)		
	(102,092.26)	(150,298.67)	(163,998.21)	(13,699.53)	

** Auditor worksheet identifies expenses for these items but does not include them in the expense totals

EXHIBIT 2 – Statement of Accumulated Profit, Reserve Account

EL CANTIL

ANNUAL STATEMENT 2012-2013
Amounts Reported in US Dollars (\$)

	YEAR	YEAR	JMB REVIEW	Review vs Audit Delta	Explanation for differences with Auditor
	ACTUAL	per Audit	ACTUAL	ACTUAL	
INCOMES					
RESERVE PAYMENTS	179,206.02	179,206.02	179,205.42		
ASSESSMENT		20,033.01	20,033.01		
	179,206.02	199,239.03	199,238.43	0.60	
EXPENSES					
CHRISTMAS BONUS		3,352.00	3,352.00		
MANTENIMIENTO	36,978.35	30,622.63	33,550.23		
abono a account payables	2,927.60	2,927.60			
BANK FEES	159.84	239.76	122.87		
Suma Totales	40,065.79	37,141.99	37,025.10	(116.89)	Primarily foreign exchange
Profit (loss) Quarter	139,140.23	162,097.04	162,213.33	117.49	
Cumulative Profit Prior Yrs	7,751.92	7,751.92	14,099.03	6,347.11	NON HOA Transactions
Accumulated Profit (loss)	146,892.15	169,848.96	176,312.36	6,464.60	

ASSETS:

My review verified the cash balances as reported at year end. However, a review of the bank statements revealed the following:

1. There were deposits made to the accounts that were not for assessments, i.e. they did not pertain to HOA business. In discussion with the Administrator and Accounting staff, cash received for rentals or cash from Prima Restaurant were the likely reasons for the deposits. None of these items were reported in either a P&L or on the A/P Worksheet.
2. There were transfers to Prima Holding, Prima Group & Cozumel Construction that were not recorded in the Accountant’s A/P Worksheet. Some of these transactions were explained as offsets for the deposits noted above; others were unexplained as to their purpose.
3. In the subsequent Audit, the Auditor referred to Items 1 and 2 above as “not from the main activity of the HOA ” and recommended the net result of these transactions be paid back. I have accounted for them in the draft financials as “Non HOA” A/P activity.
4. Payments for ordinary expense items of the General Fund were made out of the Reserve Fund when funds were not available in the General Account. It is my opinion that approval from the Assembly is required to do so.

ACCOUNTS PAYABLE

As far as reviewing the Accountant’s **Accounts Payable Report**, the following items were noted:

- As mentioned previously, **non** HOA transactions (deposits & transfers/withdrawals) were not reported in the Accountant's **Accounts Payable** Worksheet
- The HOA pays for 2 part-time engineers and that expense is recorded in the P&L; however, the A/P Report does NOT include the second engineer's salary. Thus the A/P was understated.
- There were a number of direct payments to vendors for expenses that were also recorded as owing to Cozumel Construction. The net effect is an overstatement of Payables to Cozumel Construction.
- There were also some withdrawals from the bank accounts for compensation to the Administrator or affiliated companies that did not get recorded as payments in the A/P

In summary, my review estimates the total Accounts Payable, net of Accounts Receivables from affiliated companies, to be overstated by approximately \$43K.

EXHIBIT 3 – Accounts Payable (including Non HOA activity) Summary

ACCOUNTS PAYABLE AS OF AUGUST 31, 2014					
Amounts Reported in US Dollars (\$)					
	Auditor Balance	Difference	Brill Review Balance	Adjustment explanation	Original Y/E Balance
HOA Employes	13,048.98	(1,406.20)	11,642.78	Auditor amount includes Admin SS Tax for Q1	15,160.34
Maintenance	(7,691.14)	15,550.00		Payments were made from Reserve Acct - see below	25,640.33
Maintenance Reserv		(1,460.00)	6,398.86	Duplicate Factura for transformer work	
Albert Salary	15,050.00	(4,300.00)	10,750.00	Auditor balance missing 2 payments in December	23,650.00
ISR RET Salary	600.00		600.00		600.00
Administration Account	1,100.00		1,100.00		1,100.00
El Cantil Condominios	8,000.00	(8,000.00)	0.00	This balance is a NON HOA Activity; moved to NON HOA Activity Summary	
Purish* El Cantil Admin	9,000.34	(9,000.34)	0.00	This balance is a NON HOA Activity; moved to NON HOA Activity Summary	
Beach Repair	11,870.00		11,870.00		11,870.00
Albert (opening acc)	80.00		80.00		
Maintenance reserve	(11,301.12)	(15,550.00)		Reserve Payments recorded against General Acct - see above	
		(5,186.55)		Unsubstantiated credit???	
		(2,928.00)		Cetina transformer work accrued to Coz Constru but paid directly to vendor out of the General Account	
		(11.55)	(34,977.22)	Unexplained difference	0.00
Prima Holding	1,185.65		1,185.65		
Pool Supplies		2,371.58	2,371.58		
Total Accounts per Audit	40,942.71		11,021.65		78,020.67
Non HOA Activity per initial Audit Report	7,639.16		19,960.90		
Subsequent adjustment to NON HOA Audit Report for Q1 Reserve Assessments	(20,033.01)				
E.V. Gallegos	6,773.16				
Trade Accounts - Net			4,289.18		
Total Accounts Payable	35,322.02		35,271.73		78,020.67

BALANCE SHEET SUMMARY:

As mentioned previously, the balance sheet is off ~\$12.3K due to the prior year's out of balance position.

Additionally, my accounting of payable balances suggest there are some taxes and trade payables owing at year end, though the Accountant's summary suggests all expenses are paid. **These differences need to be understood in detail** to accurately report financial position, to understand who is owed what and

to eliminate any payable amounts currently showing as a result of exchange rate differences between expenses and their associated payments.

EXHIBIT 4 – Consolidated Balance Sheet (both the General & Reserve Accounts)

EL CANTIL
Consolidated Balance Sheet
AS OF AUGUST 31, 2013
Amounts Reported in US Dollars (\$)

CONCEPT	Total AMOUNT	Original HOA Position	CONCEPT	Total AMOUNT	Original HOA Position	Delta to HOA Position
Dollar Account	45,516.35	59,443.29	A/P - GEN Acct			
Peso Account	13,926.94		Dannerman	10,830.00	23,650.00	
TOTAL BANK	59,443.29		Prima Holding	28,596.75	16,260.34	
Accounts Receivable			COZ Construction	18,268.86	37,510.33	
NON HOA Transactions			Unidentified	2,371.58		
Prima Holding	28,858.86		NON HOA Transactions			
Prima Group	9,051.47		Unknown	34,097.74		
COZ Construction	34,977.22		El Cantil Admin	9,000.34		
Prima Holding	14,668.32		El Cantil Condo	8,000.00		
Unidentified	638.00		E. E. V. Gallegos	6,773.16		
Trade Accounts	9,140.78		Taxes Payable IMMS/SAT	796.34	600.00	
Total Receivables	97,334.65		Trade Payables - Net	13,429.96		
ASSETS	156,777.94	59,443.29	Total A/P - GEN Acct	132,164.73	78,020.67	43,190.59
			Retained Earnings			
			PY Cumulative Profit (Loss)	(65,937.07)	(72,284.79)	(6,347.72)
			Current Year Profit (Loss)			
			General & Reserve Accounts	78,251.83	117,084.68	38,832.85
			Total Cumulative Profit (Loss)	12,314.76	44,799.89	32,485.13
			LIABILITIES + PROFIT (LOSS)	144,479.49	122,820.56	
				(12,298.45)	63,377.27	75,675.72

Out of balance condition:

RECOMMENDATIONS:

As in any financial statement review, processes and internal controls are also examined to some degree to see how they play in the development of accurate, complete and timely financial information. The lack of checks and balances in the development of financial statements and handling of financial matters is a significant weakness. Having said this, there are a number of recommendations below that are put forward as means to improve the quality of the financial information provided to Co-owners:

- First and foremost, eliminate all non HOA transactions from banking activity. HOA funds should not be comingled with non HOA funds. Not only will this reduce the number of transactions which need to be accounted for, it will also eliminate any perception of impropriety. So I recommend opening new bank accounts in the name of and under the tax ID of the Regime, El Cantil (which represents all Co-owners) and transferring all funds from the accounts currently named El Cantil HOA, A.C. which is the Administrative Company. This change should clarify ownership, add a check and balance, and eliminate any perception of impropriety.

- The Reserve Account should not be used to pay for Maintenance and Administrative expenses. This is the purpose of the General Account. To do so masks the potential understatement of assessments.
- The HOA should have contracts in place with both the Administrative Company and Cozumel Construction which outline scope, pricing, and terms and conditions. Without such written agreements differences in expectations are highly likely and differences in recollections of verbal agreements are impossible to substantiate.
- Annual Profit and Loss statements should include foreign exchange impacts.
- Monthly the Administrator and the VC should review actual performance (income & expense) vs the approved budget for both the General and Reserve accounts. The use of funds for the next month should also be reviewed with the Administrator to foresee any cash management issues which may require a vote by the Co-owners to rectify.
- Monthly financial statements should be reconciled to the bank statements.
- The following financial information should be provided to Co-owners quarterly:
 - Statement of income/expense
 - Projection of expense for the upcoming quarter
 - An Accounts Payable Report for **ALL** accounts,
 - A statement of amounts owed from Co-Owners
- Quarterly financial statements should be reviewed by an accountant other than the one preparing them before being provided to the Administrator. The Administrator and/or the VC should review the statements before release to Co-owners to ensure they reflect current operations accurately and completely.
- Quarterly financial statements provided to Co-owners should be in a file format, e.g. pdf or Excel with password protection), which does not allow for manipulation.
- Changes to previously reported financial information should be consistently highlighted in reports or reported as an adjustment to information in the current period.
- A process whereby Owners can ask questions regarding financial information and receive timely answers needs to be developed and communicated.

In conclusion, I would state that the proposed financial statements provided as attachments provide a more accurate and complete representation of the HOA's financial position as of August 31, 2013.

Respectfully submitted,

Jean Brill