

Misappropriation of Reserve Funds Cash

Restricted Reserve Funds

About eight years ago the Association sold property to the IDEA school district and set aside \$500,000 as a financial safety net. Two \$250,000 Reserve Funds were established that provided a source of cash that could be borrowed under certain circumstances with a repayment schedule of not less than two years and not more than five years.

Reserve Funds cash is invested in Certificates of Deposit and a Restricted Money Market Fund (MMF) at Rio Bank. The interest earned on these accounts are periodically transferred to the Operating account and recorded as CIF Interest Earned in the CIF Statement of Income and Retained Equity.

The cash attributed to the Reserve Funds in the Rio Bank MMF was \$102,467 on November 30, 2024. According to the **2025 Revenue and Expense Budget** the unpaid installment payments of \$22,000 appear to have been made in December 2024. If this is the case the cash balance should have been \$124,467 on December 31, 2024. According to the **2025 CIF Revenue and Expenditure Budget** the balance in the account was \$76,854 with no explanation why \$47,613 is missing. This is alarming as Reserve Funds cash may only be removed from the Restricted cash account under the terms and conditions specified in Article 09 of the Bylaws. At the very minimum this is an intentional misappropriation of Reserve Funds cash. It is the Board's responsibility to assure the homeowners that the Restricted cash is not used for Operating or CIF expenses. Unauthorized use of Reserve Funds cash puts the Association's financial safety net in jeopardy and is a violation of the ACC governing documents.

Rio Bank Restricted MMF		
11.30.24	Balance	\$102,467
12.31.24	Installment Payments in Arrears	<u>22,000</u>
12.31.24	Balance	124,467
12.31.24	2025 CIF Revenue and Expenditure Budget	<u>76,854</u>
12.31.24	Missing Cash	<u><u>\$47,613</u></u>

The Restricted Reserve Funds balance on December 31, 2024, is \$475,000. The remaining balance on the internally financed loan is \$25,000 and is scheduled to be paid in full by the end of 2025.

The total cash invested in Certificates of Deposit (CD) is \$353,162. With the exception of one CD, interest is paid monthly, the funds are transferred to the Operating account and are recorded as CIF Interest Earned. The required cash balance in the Restricted MMF at Rio Bank on December 31, 2024, is \$121,838. (See below.)

The following is a schedule of the Equity and Cash accounts on December 31, 2024.

Equity - Restricted Reserve Funds		
Primary Reserve Fund		\$250,000
Secondary Reserve Fund	\$250,000	
Less: Balance on the Internally Finance Loan	25,000	225,000
Equity - Restricted Reserve Funds		<u>\$475,000</u>
Investments - Restricted Fund Cash Accounts		
<i>Certificates of Deposit:</i>		
Certificate of Deposit 11.30.24	\$200,000	
Certificate of Deposit 11.30.24	50,000	
Certificate of Deposit 11.30.24	50,000	
Certificate of Deposit 11.30.24	53,162	
Total Certificates of Deposit		\$353,162
<i>Rio Bank Restricted MMF:</i>		
Balance per 2025 CIF Revenue and Expenditure Budget	76,854	
<i>Required transfer from the Operating account</i>	44,984	
Total Rio Bank Restricted MMF (Required Balance)		121,838
Cash - Restricted Reserve Funds		<u>\$475,000</u>

The Treasurer claims that a balance of \$76,854 in the Rio Bank Restricted MMF is available to fund 2025 CIF projects. This is not the case. Rather, the balance of \$76,854 is an integral component of the Reserve Funds cash in the Rio Bank Restricted Money Market Fund. Removing the \$76,854 from the Rio Bank Restricted MMF would be a violation of Article 09 of the Bylaws.

CIF Retained Equity

There seems to be some confusion as to how CIF Retained Equity is calculated. The following is a schedule calculating the CIF Retained Equity on December 31, 2024.

Statement of CIF Income and Retained Equity - Condensed For the Year Ended December 31, 2024

Statement of Income		
(from 2025 CIF Revenue and Expenditure Budget)		
Revenues		\$91,408
Expenses		74,326
Net Income		<u>17,082</u>
Changes in CIF Retained Equity		
(calculation of funds available)		
Balance, December 31, 2023		1,228
Balance, December 31, 2024		<u>\$18,310</u>

The balance in the CIF Retained Equity account on December 31, 2023, was \$1,228. Based on the material provided by the Treasurer, net income for 2024 was \$17,802. Therefore, the balance in the CIF Retained Equity account on December 31, 2024, is \$18,310. This amount can be used along with CIF net income in 2025 to fund CIF projects.

We are very concerned that the Association is confusing cash in the Restricted Reserve Funds with cash in the CIF Retained Equity account. The Board has a fiduciary responsibility to protect all Restricted Reserve cash from being comingled with Operating or CIF cash.

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