

TURKS AND CAICOS ISLANDS

Strata Plan 50

Comprehensive Review Report - 2014

June 25th 2015

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Strata Plan No. 50
Comprehensive Review
Financial Year Ended December 31, 2014

| Contents | Page # |
|--|---------------|
| Background & scope of work | 3 |
| Executive summary | 4 |
| Review the Strata's financial performance for FY2014 | 5 |
| Expenditure control testing | 10 |
| Staff costs allocation review | 14 |

Background & scope of work

The Regent Palms is a high end 72 suite resort located on Grace Bay Beach, Turks & Caicos Islands governed by the Strata Plan 50 (the Strata). The Strata has appointed the Palms Resort Ltd. (the Management Company) to manage the resort and financial affairs of the Strata. WB Financial Management Ltd. (WB Financial) have been engaged by the board of the Strata to perform a Comprehensive Review of the management of the Strata, limited to the procedures as detailed in the signed engagement letter as detailed below:

1. General review of the year end financials with analysis of changes from prior year, fluctuations in results, and variances from budget
2. Select a sample of transactions across categories to test, requiring the management company to provide supporting documentation for amounts and allocations
3. Analyze transaction details and obtain additional explanations where required

For this engagement our primary point of contact was Tracy McKenzie, the financial controller for the Management Company.

Management's Responsibility

Management is responsible for the preparation and fair presentation of financial information, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to document our findings through the Executive Summary.

A comprehensive review is a limited assurance engagement. We have performed procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluating the evidence obtained.

The procedures performed in a comprehensive review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we have not expressed an audit opinion on the financial statements of the Strata.

Executive summary

The procedures performed were limited to those detailed in the Scope of work and our conclusions will summarize our findings. A detailed analysis of each procedure and related conclusions can be found in the body of our full report, as provided to the Executive Committee of the Strata.

We reviewed the Management Agreement between the Strata and Management Company in the prior year and we are not aware of any changes or amendments. Therefore based on our findings the Strata continued to operate in line with the terms of the Management Agreement of April 17, 2013.

We have reviewed the Actual Operating Revenues & Expenditures for 2014, and have analyzed these against budgets and prior year results. In the prior year we noted that the Capital Budget for 2014 appeared to be underfunded based on the estimated costs and the anticipated capital reserve funding from owners. From actual results this has been the case as the payable balance owing to the Management Company has risen to \$587k as of December 31, 2014, which is a \$134k increase for the year.

The Strata's financial performance for the 2014 period was broadly in line with the budget with a small deficit recorded of \$21k. We recommend that the capital reserve of the Strata should be analyzed and additional reserves should be accumulated in the major reserve fund. We further recommend that a detailed reserve fund study be performed on a three to four year cycle, which would detail all expected capital expenditure requirements and the expected useful lives of the assets in order to make a full and proper determination of the adequacy of the reserves.

We performed a random sampling of transactions to assess the controls in place over Strata expenditures. Based on our testing we found that invoices appeared to be properly approved, allocations appeared to be reasonable, and were correctly recorded in the general ledger.

Based on the work performed it would appear that the rationale for the allocation of payroll costs appears reasonable and that the total payroll expense recorded also appears to be correctly calculated.

We recommend that guidelines be developed and documented for obtaining quotes for expenditures above certain amounts. We also recommend that quotes be filed and documented to allow for future review and testing.

Throughout the course of our engagement we gave consideration to the overall costs of the Strata operations. Based on the work performed, we feel that the operating costs of the Strata are in line with comparable properties in the Turks & Caicos Islands.



Chartered Accountants
Providenciales, Turks & Caicos Islands
Date: June 25, 2015

Procedures and findings:

1. Review of the Strata's financial performance for the year ended December 31, 2014

Income statement

We have obtained and reviewed the income statement for the Strata for the year ended December 31, 2014 (Income Statement). This is summarized below:

| SUMMARY STATEMENT | year-to-date | | | | | | variance | |
|---------------------------|------------------|-------------|------------------|-------------|------------------|-------------|-----------------|-----------------|
| | Actual | % | Budget | % | Last Year | % | to bud | to LY |
| Revenues | 2,676,421 | 100% | 2,688,206 | 100% | 2,506,157 | 100% | (11,785) | 170,264 |
| TOTAL REVENUES | 2,676,421 | 100% | 2,688,206 | 100% | 2,506,157 | 100% | (11,785) | 170,264 |
| Administration & General | 876,901 | 33% | 848,870 | 32% | 727,173 | 29% | 28,031 | 149,729 |
| Maintenance | 1,174,476 | 44% | 1,248,412 | 46% | 1,183,519 | 47% | (73,936) | (9,043) |
| Pool & Beach | 365,998 | 14% | 322,861 | 12% | 321,110 | 13% | 43,137 | 44,888 |
| Common Areas | 52,999 | 2% | 52,200 | 2% | 52,477 | 2% | 799 | 522 |
| Utilities | 227,418 | 8% | 215,779 | 8% | 221,640 | 9% | 11,639 | 5,778 |
| TOTAL EXPENSES | 2,697,792 | 101% | 2,688,122 | 100% | 2,505,919 | 100% | 9,670 | 191,873 |
| Insurance Assessment | (588,347) | -22% | (633,003) | -24% | (702,283) | -28% | 44,656 | 113,936 |
| Insurance Expenses | 588,347 | 22% | 633,003 | 24% | 600,242 | 24% | (44,656) | (11,895) |
| Management Fee | - | 0% | - | 0% | 102,041 | 4% | - | (102,041) |
| TOTAL INSURANCE | - | 0% | - | 0% | - | 0% | - | - |
| Capex Reserve Assessment | (193,608) | -7% | (193,610) | -7% | (312,983) | -12% | 2 | 119,375 |
| Major Reserve Assessment | - | 0% | - | 0% | - | 0% | - | - |
| Reserve Fund | 193,608 | 7% | 193,610 | 7% | 312,983 | 12% | (2) | (119,375) |
| TOTAL RESERVE FUND | - | 0% | - | 0% | - | 0% | - | - |
| PROFIT / (LOSS) | (21,372) | -1% | 84 | 0% | 238 | 0% | (21,456) | (21,610) |

Based on the financial results shown above, the Strata has recorded an overall deficit of \$21,372 for the year ended December 31, 2014. This deficit represents a shortfall on assessed revenues of just 1%. Therefore the budgeting process of the Strata would appear reasonably sound given the aim of the Strata is to effectively operate on a break-even basis. Further, we have reviewed the primary Income Statement figures below:

Revenues – Recorded revenue are broadly in line with the 2014 budget. Revenues increased from the prior year as budgeted due to the cancellation of the management fee on insurance. The largest variance against the 2014 budget is the actual maintenance revenues versus the budgeted amounts. Whilst these are under budget, they do fully cover the maintenance expense recorded. We have reviewed the general ledger postings for revenue with no unusual entries noted.

Mark-up on expenditures – The following expenditures were noted as being recharged to Strata unit owners with mark-ups for the year ended December 31, 2014:

- Water – 10% markup on actual cost of water consumption versus the amount rebilled to unit owners with the markup covering losses between the main meter and individual meters
- Power – 10% markup on actual cost of power consumption versus the amount rebilled to unit owners with the markup covering losses between the main meter and individual meters
- Cable – markup of \$18,232 on the actual cable cost versus the amount rebilled to unit owners

We have reviewed the general ledger posting for the actual expenses incurred and amounts rebilled to unit owners. These are accounted for as separate entries and therefore we are satisfied that the mark-ups billed are to the benefit of the Strata as the funds are received by and used in Strata operations.

Expenses – The expense general ledger has been reviewed and appears reasonable. Expenditures are broadly in line with 2014 budget. The most notable variance from actual expenditures to budget was in relation to Pool & Beach expenditures. On further review of these expenditures it was noted that Pool Chemicals were \$20,516 or 82% over the budgeted amount. Specific testing of expenses is included in section 2 of this report.

Balance sheet

We have obtained and reviewed the balance sheet of the Strata as December 31, 2014. The Balance Sheet provided by management is detailed below along with details of the review work performed.

STRATA ASSOCIATION
Balance sheet as of December 31, 2014

| Account | Description | 2014 | 2013 | Work performed |
|-----------|--|------------------|------------------|---|
| ===== | ===== | | | |
| | CASH | 897,399 | 894,617 | |
| 101030-01 | OPERATING ACCOUNT | 1,141 | 1,141 | Reasonable |
| 101036-01 | DEPOSIT ACCOUNT (1 YEAR) | 511,662 | 509,110 | In line with prior year as expected given minimal activity of the account |
| 101037-01 | DEPOSIT ACCOUNT (30 DAYS) | 384,596 | 384,366 | In line with prior year as expected given minimal activity of the account |
| | OTHER RECEIVABLES | 94,020 | 89,900 | |
| 111050-01 | RECEIVABLE SOMERSET (WWTP) | 16,896 | 13,682 | In line with prior year - reasonable |
| 111066-01 | OTHER RECEIVABLES (OWNER ITEMS) | 77,124 | 76,217 | Relates to inventory items. Balance is in line with prior year - reasonable |
| | INVENTORIES | 301,021 | 293,614 | |
| 123058-01 | ENGINEERING INVENTORY | 239,286 | 232,889 | In line with prior year - reasonable |
| 124004-01 | HURRICANE INVENTORY | 61,735 | 60,725 | In line with prior year - reasonable |
| | PREPAIDS | 21,155 | 55,348 | |
| 130001-01 | PREPAID INSURANCE | 1,173 | 772 | Reasonable |
| 130009-01 | PREPAID OTHERS | 19,983 | 54,577 | Decrease due to prior year pool towels prepayment of \$26,250 |
| | DEPOSITS | 20,000 | 20,000 | |
| 131001-01 | DEPOSITS VENDORS | 20,000 | 20,000 | Reasonable |
| | FIXED ASSETS | 17,000 | 17,000 | |
| 153058-01 | VEHICLES | 17,000 | 17,000 | Asset fully depreciated, reasonable |
| | ACCUMULATED DEPRECIATION | (17,000) | (17,000) | |
| 163058-01 | VEHICLES | (17,000) | (17,000) | Asset fully depreciated, reasonable |
| | TOTAL ASSETS | 1,333,596 | 1,353,478 | |
| | TRADE PAYABLES | 586,974 | 452,701 | |
| 111070-01 | INTERCOMPANY MANAGEMENT CO | 586,974 | 452,701 | See intercompany management/reserve fund comments below |
| | ACCRUED EXPENSES | 5,135 | 10,473 | |
| 252001-01 | ACCRUED SALARIES/WAGES | 2,035 | 1,273 | Reasonable |
| 259010-01 | ACCRUED OTHERS | 3,100 | 9,200 | Reasonable |
| | DEPOSITS/DEFERRED INCOME | - | - | |
| | OWNERS EQUITY | 741,487 | 890,304 | |
| 180053-01 | RESERVE FUND WWTP | 5,501 | 7,155 | Reasonable |
| 276004-01 | RESERVE FUNDS (CAPITAL + MAJOR) | 751,112 | 876,905 | See intercompany management/reserve fund comments below |
| 286001-01 | RETAINED EARNINGS PRIOR YEARS | 6,245 | 6,005 | Reasonable |
| | CURRENT EARNINGS | (21,371) | 239 | Reasonable |
| | TOTAL LIABILITIES & OWNERS EQUITY | 1,333,596 | 1,353,478 | |

Intercompany management account

The intercompany management balance is \$587k as at December 31, 2014. This balance increased by approximately \$134k over the prior year and by \$242k over the past two years.

Reserve funds

The purpose of the reserve fund is to set aside monies on an annual basis to provide sufficient resources for major repair and common elements on a long term-basis. Without such a fund the Strata would have to seek financing for needed repairs and replacements or raise the required funds through increased Strata fees or special assessments to the Strata members.

By way of example, if the property needs fully repainting every 5 years, funds should be set aside annually so that by year 5 there are adequate funds to cover the cost the paint and labor. Therefore the owners at the time the repainting would not bear the entire cost as the reserve fund provides a mechanism to share the cost among all owners from year 1 to year 5.

Based on the Income Statement the Strata operated on a break-even basis for 2013 and had a small deficit of \$21,372 for 2014. In addition to the expenditures detailed in the Income Statement, there were also expenditures of approximately \$127k which were allocated to the reserve fund, therefore total costs incurred in 2014 were \$148k greater than fees collected. Generally accepted practice would dictate that the Strata should aim to increase the capital reserve, in years where no major expenditures are incurred, on an annual basis to cover major capital expenditures. This however, is not the case with the reserve continuing to decreasing on an annual basis. Should future levels of reserve expenditure be in line with the past two financial years, we would anticipate that the reserve fund be fully exhausted in two to three years.

We further note that the Strata has no insurance reserve in place. A number of similar resort properties on island have built up an insurance reserve to the level of the insurance deductible. This would therefore sufficiently cover the deductible cost in the event of a serious insurance claim and prevent any funding issues that owners may experience in the result of an unexpected assessment.

It is our understanding that there is no long term capital budget in place. Therefore, we are unable to assess the sufficiency of the capital reserve on a long term basis to cover major projects by means of discounted cash flow analysis.

We have reviewed the individual postings made to the capital reserve account and note these appear to be capital items. Enquiries were made with management in respect of the smaller entries made and we were advised that these were part of a larger capital project.

Capital Reserve entries are included in the monthly maintenance reporting package which we have evidenced as being emailed to the Strata executive committee, which provides the Strata executive the opportunity to question any expenditures.

We have prepared the following cash flow analysis to summarize the movements throughout the 2014 period that have impacted the funds on hand.

**Strata Plan 50
Analysis of Cash Movements
Year Ended December 31, 2014**

| Description | Amount |
|--|---------------|
| Deficit from operations | (21,371) |
| Change in accounts receivable | (907) |
| Change in other receivables | (3,214) |
| Change in engineering and hurricane inventory | (7,408) |
| Change in prepaid expenses | 34,193 |
| Change in accounts payable | 134,273 |
| Change in accrued liabilities | (5,338) |
| Change in reserve funds | (127,446) |
| | 2,783 |
| Cash and cash equivalents at beginning of the year | 894,617 |
| Cash and cash equivalents at end of the year | 897,400 |

Conclusion

Based on our review of the financial performance of the Strata for the year ended 2014, the operations of the Strata appear reasonable and in line with the 2014 budget and the prior year.

We recommend the following:

That a detailed annual statement of capital reserve movement be prepared and presented to the Strata board.

That monthly capital reserve assessments are deposited to a specifically designated bank account and when capital expenditures are required, that these funds be utilized. Currently these amounts are grouped with the payable to the management company.

That the Strata prepare a detailed reserve fund study on a three to four year cycle which details all capital expenditure including the roof and the expected useful lives of these assets in order to make a full and proper determination of the adequacy of the capital reserve.

That the Strata give consideration to building up an insurance deductible reserve which will ensure sufficient funds are on hand to cover these costs in a hurricane event.

2. Expenditure control testing

We obtained and reviewed the detailed general ledger records for the Strata for the year ended December 31, 2014. Through this review we noted that a number of transactions entered into the financial records of the Strata are entered through batch journal entries.

The individual transactions are entered and paid through the Management Company. Supporting excel spreadsheets are then prepared which analyze all the transactions and apply the appropriate percentage allocation to be levied on the Strata and the Management Company. The overall total of the expenditures allocated to the Strata is then recorded as a manual journal entry. The monthly maintenance journal batch represents the largest of all the batches and the detailed report is included in the monthly package emailed to executive committee members for review.

As all transactions are paid and selected through the Management Company. We have selected transactions to test directly from the payable to the Management Company general ledger account, which is effectively operating like the Strata's bank account.

Testing performed:

- Obtained and reviewed all monthly maintenance batches for year. We have tested 25 individual invoices from the full years twelve monthly maintenance batches. Further we have selected a sample of 10 individual invoices which have been posted directly to the general ledger. The invoices were not tested entirely at random but were selected to cover a cross section of the following:
 1. Large invoice amounts/unusual descriptions
 2. Invoices which represent a cross-section of different percentage allocations in order to understand the rationale applied

The results of this testing is documented on the following 3 pages. Of the invoices tested no exceptions were noted.

Conclusion

Based on the testing performed invoices appear properly approved, allocations applied appear reasonable, and have been correctly recorded in the general ledger.

STRATA PLAN 50 - MAINTENANCE BATCH TESTING

| | | Maintenance | | Invoice | Strata | Agreed to | Agreed to | Correct | Allocations | Agreed |
|----|------------|--|---|-----------|------------|-----------|------------|---------|----------------|------------|
| | Batch date | category | Invoice detail | amount | allocation | PO | to invoice | GL | correct/reason | to payment |
| 1 | 1/31/2014 | Vehicle Repairs | -Ramon Aracena / nissan truck - valve body assembly, trans master kit, master kit, engine control module, remove & install transmission | 3,279.00 | 80% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 2 | 1/31/2014 | Locks & Keys Electrical & Mechanical | -Buchel Hardware / brass knob cylinder mk, astral blanks - rooms | 2,324.10 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 3 | 2/28/2014 | Equipm. | - Adner Vitalus / coral render work done - resort | 1,232.00 | 80% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4 | 2/28/2014 | Swimming Pool | -Pool & Beach Housing Credit | 1,693.85 | 100% | N/a | ✓ | ✓ | ✓ | N/a |
| | 3/31/2014 | Uniform | -Top Hat Imageware / shirt & shorts - pool & beach uniform | 2,691.50 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| | 3/31/2014 | Uniform | -Air & Sea Agency / top hat imageware / shirt & shorts - pool & beach uniform (duties) | 1,932.44 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5 | 3/31/2014 | Uniform Electrical & Mechanical | -Air & Sea Agency / top hat imageware / shirt & shorts - pool & beach uniform (freight) | 91.42 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 6 | 3/31/2014 | Equipm. Pool & Beach Supplies and furnishings | -Howard Industries / viking ice maker - rooms | 7,048.00 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 7 | 4/30/2014 | Vehicle Repairs | -Air & Sea Agency / american dawn inc - t34x68 100% cotton pool towels (duties) | 10,864.62 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 8 | 4/30/2014 | Vehicle Repairs Electrical & Mechanical | -Napa Auto Parts / bat acid, 36pc 1/4 6pt mst set, fuse kit, flex ratcht screwdriver - engineering golf cart | 134.33 | 80% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 9 | 5/31/2014 | Equipm. | -Carlisle Supplies Ltd / combo washer & dryer, dishwasher - exclusive resorts | 8,013.00 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 10 | 5/31/2014 | Waste Removal | -Blue Loos Ltd / remove 3 loads waste - wwtp | 1,950.00 | 53% | n/a | ✓ | ✓ | ✓ | ✓ |
| 11 | 6/30/2014 | Swimming Pool Pool & Beach Supplies and furnishings | -AIB / calcium hypochlorite granular 100lb, acid magic, aqua balance chlorine tablets 55lbs drum | 4,680.00 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| | 6/30/2014 | Pool & Beach Supplies and furnishings | -Air & Sea Agency / boca terry - lounge chair cover w/ elastic hood - (freight) | 609.73 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| | 6/30/2014 | Pool & Beach Supplies and furnishings | -Air & Sea Agency / boca terry - lounge chair cover w/ elastic hood - (duties) | 2,794.22 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 12 | 2/28/2014 | res fund | -Boca Terry / lounge cover w/elastic hood | 7,516.78 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 13 | 7/31/2014 | Swimming Pool | -Pioneer Cleaners Ltd / laundry services - p&b towel | 6,631.70 | 100% | N/a | ✓ | ✓ | ✓ | ✓ |
| 14 | 7/31/2014 | Swimming Pool | -Pioneer Cleaners Ltd / laundry services - p&b towel | 6,352.90 | 100% | N/a | ✓ | ✓ | ✓ | ✓ |

STRATA PLAN 50 - MAINTENANCE BATCH TESTING (CONTINUED)

| | | Maintenance | | Invoice | Strata | Agreed to | Agreed to | Correct | Allocations | Agreed |
|----|-------------------|-------------------------|--|----------------|-------------------|------------------|------------------|----------------|-----------------------|----------------|
| | Batch date | category | Invoice detail | amount | allocation | PO | invoice | GL | correct/reason | to |
| | | | | | | | | | able | payment |
| | | Electrical & Mechanical | | | | | | | | |
| 15 | 8/31/2014 | Equipm. | -Howard Industries / fan blade set for protec - cooling tower | 5,268.00 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 16 | 8/31/2014 | Waste Removal | -Howard Industries / silica sand 50lb bag - wwtp | 3,673.00 | 53% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 17 | 9/30/2014 | Travel | -Marco Travel / Hans airfare home | 3,914.40 | 67% | N/a | ✓ | ✓ | ✓ | ✓ |
| | | Grounds & Landscaping | -Sunshine Nursery / pump 2hp irrigation, pvc tubing cutter, pruning shears, brass mender | 884.00 | 67% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 18 | 9/30/2014 | Landscaping | -50% Foliage Xpress / fern macho, ficus benjamina bush, flowering | | | | | | | |
| | 10/31/2014 | Landscaping | hibiscus, cypress mulch | 2,875.63 | 67% | ✓ | ✓ | ✓ | ✓ | ✓ |
| | | | -50% Foliage Xpress / fern macho, ficus benjamina bush, flowering | | | | | | | |
| 19 | 10/31/2014 | RESERVE | hibiscus, cypress mulch | 2,875.63 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| | | Electrical & Mechanical | | | | | | | | |
| 20 | 10/31/2014 | Equipm. | -Howard Industries / clear christmas lights | 4,261.50 | 80% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 21 | 11/30/2014 | Parts Elevator | -Hayes Elevator Ltd / elevator maintenance november 2014 | 3,200.00 | 100% | N/a | ✓ | ✓ | ✓ | ✓ |
| 22 | 11/30/2014 | Major Reserve | -Hayes Elevator Ltd / install valve kits on all elevators | 7,400.00 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| | | | -Climatech Ltd / 30, 40 & 45 mfd 370 volt capacitor , 6n1 screwdriver - rooms a/c | 2,601.50 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 23 | 11/30/2014 | HVAC Parts | | | | | | | | |
| | | Grounds & Landscaping | - 12/12/13 Foliage Express | 3,930.00 | 67% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 24 | 12/31/2014 | Swimming Pool | -Air & Sea Agency / crocs - shoes (freight) | 37.67 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| | 12/31/2014 | Swimming Pool | -Air & Sea Agency / crocs - shoes (duties) | 301.79 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |
| 25 | 12/31/2014 | Swimming Pool | -TM Nov Amex - Crocs Pool & Beach | 861.12 | 100% | ✓ | ✓ | ✓ | ✓ | ✓ |

SAMPLE OF ITEMS POSTED DIRECTLY TO THE GENERAL LEDGER

| | Date | Invoice detail | Invoice amount | GL Account | Agreed to PO | Agreed to invoice | Correct GL | Allocations correct / reasonable | Agreed to payment | |
|----|------------|---|----------------|------------------|--------------|-------------------|------------|----------------------------------|-------------------|--|
| 1 | 3/31/2014 | RICHARD SANCHEZ - RC 030514 | 2,400.00 | Supplemental Pay | N/a | ✓ | ✓ | ✓ | | Paid through payroll |
| 2 | 4/30/2014 | TIBOR'S MACHINE SHOP | 3,000.00 | Capital Reserve | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 3 | 5/31/2014 | SUBARU - LANDSCAPING VEHICLE | 6,400.00 | Capital Reserve | N/a | ✓ | ✓ | ✓ | ✓ | Vehicle payment was made in 2013 however charged to strata in current FY |
| 4 | 6/30/2014 | J&R WORLD TRADING - 3987 | 2,504.70 | Capital Reserve | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 5 | 7/31/2014 | AMERICANDAWN - POOL TOWELS BALANCE | 14,250.00 | Other prepaids | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 6 | 7/31/2014 | CARLISLE SUPPLIES - 282071 | 13,148.00 | Capital Reserve | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 7 | 8/31/2014 | PROPERTY LIGHTING PROJECT ISLAND FIRE SUPPLY - 2682 INSPECTIONS | 4,935.00 | Life safety | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 8 | 10/31/2014 | MAURICE DALEY - SEALING BUILDING 5 WINDOWS/SKYLIGHT | 3,000.00 | Capital Reserve | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 9 | 11/30/2014 | ANOTHAI WICHAJ - LANDSCAPING PROJECT | 5,300.00 | Capital Reserve | ✓ | ✓ | ✓ | ✓ | ✓ | |
| 10 | 12/31/2014 | MARSHALL QUENTIN - RPSP208 | 9,110.40 | Capital Reserve | ✓ | ✓ | ✓ | ✓ | ✓ | |

3. Allocation of staff costs between the Strata and the Management Company

The following staffing department costs were noted as being charged to the Strata:

- Landscaping grounds and Maintenance
- Security
- Pool & Beach
- Gym

Testing of maintenance and landscaping payroll

Of these staff costs we tested payroll journal batch #2040, which was for maintenance and landscaping for the month of April 2014. This testing is summarized as follows:

| | Total cost | Total cost agreed to supporting documentation | Less Somerset Sewerage Allocation | Balance to be allocated between Strata & Resort | Strata Allocation | Resort Allocation | Total cost | Strata allocation agreed to GL |
|--|------------------|---|-----------------------------------|---|-------------------|-------------------|------------------|--------------------------------|
| <i>Maintenance (Resort 20% - Strata 80%)</i> | | | | | | | | |
| Manager - D Voves | 5,357.14 | ✓ | | 5,357.14 | 4,285.71 | 1,071.43 | 5,357.14 | ✓ |
| Secretarial | 1,663.88 | ✓ | | 1,663.88 | 1,331.10 | 332.78 | 1,663.88 | ✓ |
| Maintenance engineer payroll | 21,552.66 | ✓ | 1,384.61 | 20,168.05 | 16,134.44 | 4,033.61 | 20,168.05 | ✓ |
| Bonus maintenance | 1,241.66 | ✓ | | 1,241.66 | 993.33 | 248.33 | 1,241.66 | ✓ |
| Vacation maintenance | 1,888.29 | ✓ | | 1,888.29 | 1,510.63 | 377.66 | 1,888.29 | ✓ |
| Meals maintenance | 1,399.21 | ✓ | | 1,399.21 | 1,119.37 | 279.84 | 1,399.21 | ✓ |
| Maintenance housing | 3,490.59 | ✓ | | 3,490.59 | 2,792.47 | 698.12 | 3,490.59 | ✓ |
| Payroll tax maintenance | 3,210.55 | ✓ | | 3,210.55 | 2,568.44 | 642.11 | 3,210.55 | ✓ |
| <i>Grounds (Resort 33% - Strata 67%)</i> | | | | | | | | |
| Grounds payroll | 20,239.65 | ✓ | | 20,239.65 | 13,493.10 | 6,746.55 | 20,239.65 | ✓ |
| Bonus grounds | 133.33 | ✓ | | 133.33 | 88.89 | 44.44 | 133.33 | ✓ |
| Grounds vacation | 1,907.56 | ✓ | | 1,907.56 | 1,271.71 | 635.85 | 1,907.56 | ✓ |
| Meals Grounds | 1,063.03 | ✓ | | 1,063.03 | 708.69 | 354.34 | 1,063.03 | ✓ |
| Grounds housing | 1,750.00 | ✓ | | 1,750.00 | 1,166.67 | 583.33 | 1,750.00 | ✓ |
| Payroll tax grounds | 2,137.29 | ✓ | | 2,137.29 | 1,424.86 | 712.43 | 2,137.29 | ✓ |
| Total expense | 67,034.84 | | 1,384.61 | 65,650.23 | 48,889.40 | 16,760.83 | 65,650.23 | |

All payroll amounts in respect of payroll batch #2040 have been correctly calculated and recorded in the general ledger. The payroll allocation percentages were agreed to those as noted in the budget.

Allocations rationale

Maintenance – The resort/strata allocation for maintenance is 20/80 which is consistent with prior years.

Landscaping - The resort/strata allocation for landscaping is in reference to the cost sharing agreement signed in 2006 and is consistent with the prior year.

Whilst these allocations are somewhat subjective the allocations appear reasonable and have been consistently applied.

Testing of security payroll

We tested security payroll batch #2444, which related to payroll for the month of November 2014. This testing is summarized as follows:

| | Total cost | Total cost agreed to supporting documentation | Strata Allocation | Resort Allocation | Strata allocation agreed to GL |
|---|------------------|--|----------------------|----------------------|--------------------------------------|
| <i>Security expense (Resort 25% - Strata 75%)</i> | | | | | |
| Security expense | 11,615.19 | ✓ | 8,711.39 | 2,903.80 | ✓ |
| Sick pay | 1,684.33 | ✓ | 1,263.25 | 421.08 | ✓ |
| Bonus | 100.00 | ✓ | 75.00 | 25.00 | ✓ |
| Vacation | 912.42 | ✓ | 684.32 | 228.11 | ✓ |
| Meals | 585.77 | ✓ | 439.33 | 146.44 | ✓ |
| Payroll tax | 1,693.49 | ✓ | 1,270.12 | 423.37 | ✓ |
| | 16,591.20 | | 12,443.40 | 4,147.80 | |

All payroll amounts in respect of payroll batch #2444 have been correctly calculated and recorded in the general ledger and allocation percentages are consistent with the prior year.

In respect of the payroll for other months we reviewed the total payroll cost recorded in the general ledger for unusually high or low payroll entries. No such entries were identified.

Testing of pool and beach payroll

We obtained and reviewed the calculation sheet for the April pool and beach payroll which is performed in conjunction with the laundry expense. The total cost of the pool and beach payroll is allocated to the Strata. The total cost of the laundry expense is posted to the Management Company. Both the pool and beach costs and the laundry costs are split 50/50 between the Strata and the Management Company. The allocation split is in line with the prior year and the 2014 budget. A balancing entry is calculated and posted to reimburse the entity whose costs were greater.

PALMS STRATA

| SUMMARY | APR |
|-------------------------------------|------------------|
| PAYROLL EXPENSES | |
| Pool & Beach | 17,062.00 |
| Total Payroll Expenses | 17,062.00 |
| Supplemental pay | 2,572.00 |
| Employee Meals | 897.00 |
| Employee housing | 5,222.00 |
| Payroll taxes | 1,695.00 |
| Total Benefits | 10,386.00 |
| TOTAL PAYROLL & BENEFITS | 27,448.00 |
| | 13,724.00 |
| OTHER EXPENSES | |
| Pool & beach supplies | 762.00 |
| Pool & beach umbrel. & furn | - |
| Watersport supplies | 10.00 |
| Telephone | 29.00 |
| Miscellaneous | |
| Uniforms | 90.00 |
| TOTAL OTHER EXPENSES | 891.00 |
| | 445.50 |
| LAUNDRY EXPENSES | |
| Beach tow els laundry | 18,971.21 |
| Laundry equipment repairs | |
| Lease rental space | 4,375.00 |
| Insurance building | 317.88 |
| Overhead, accounting, supervision | 200.00 |
| TOTAL OTHER EXPENSES | 23,864.09 |
| | 11,932.05 |
| TOTAL POSTED STRATA | 28,339.00 |
| 50% MGT CO SHARE | 14,169.50 |
| TOTAL POSTED MGT CO. | 23,864.09 |
| 50% STRATA SHARE | 11,932.05 |
| variance / impact Mgt co. | 2,237.46 |

Conclusion

Based on the work performed it would appear that the rationale for the allocation of payroll costs appears reasonable and that the total payroll expense recorded also appears to be correctly calculated.