

LVCA AUDIT OF THE 2015 FINANCIALS – February 28, 2016

Dear Madame. President,

The 2015 LVCA year-end audit was conducted on February 28, 2016, by Dawn Gregorio, Denise Karpa and Lennard Grodzinsky. Treasurer, Connie Gentry was present.

We found that the beginning and ending reconciled bank balances tied back to the general ledger and associated profit and loss statement. We randomly selected a number of checks and deposits and found that they were all supported by the bank statements and the associated event reports provided by the event sponsor. The accrual basis accounting records were found to be in good order, and to accurately reflect the club's financial position with the exception of two items:

1. The books accrued a facility fee of \$5,508 to pay for the room in 2016, from the 2016 fees that were collected in 2015. This number should be reduced to reflect the actual cost that we will incur in 2016 (\$3,744?)
2. We show an accrued liability for \$1,800 for an event that has yet to be planned or specified. The Audit Committee understood the reasoning behind this entry but did not feel that it was a justifiable accrued expense. We recommend that the \$1,800 accrued expense be deleted from the 2015 accounts

The Audit Committee would also like to draw the Board's attention to the following:

1. Facility Fund. The accounts are set up to separately track a Facility Fund which is meant to represent the additional dues that are being collected since they were increased for 2016. Separately identifying a Facility Fund is not consistent with the way that dues are collected and unnecessarily create a lot of additional work for the Treasurer. We recommend that we just show Membership Dues Income and delete the Facility Fund.
2. Timing and Accuracy of Budgets. It was noted that there were very large discrepancies between the actual and budgeted numbers in 2015, particularly for the events. The Audit Committee urges the Board to do whatever it can to formulate an accurate budget so that we may make effective use of our funds and minimize any unintended tax consequences. As recommended last year, we would also like to see the Board adopt a practice of conducting a thorough mid-year review of actuals versus budget so that we have time to make course corrections.
3. Excessive Reserves. It is noted that the Club's reserve requirements are to be the higher of; 55% of total expenditure or \$25,000. Our cash (checking and CD's) balance at the end of 2015 was approximately \$63,700 - almost \$39,000 in excess of the reserve requirement of \$25,000. Over the past six years the club has accumulated over \$27,000 of additional cash.
4. Deficit versus Balanced Budgets. It is noted that the Board always strives for a balanced budget. Given the excessive accumulation of funds and the fact that we are always paying income tax on net earnings, it is recommended that the Board consider adopting deficit budgets for the next few years. For example, if we were to adopt a budget with a \$6,000 deficit for the next six years

we would not pay income tax for the next six years. Moreover, by the end of the sixth year period our reserve funds would be approximately \$28,000 – which is far more in line with the agreed requirement. Note that the deficit can be achieved either by reducing dues income or increasing expenses. In formulating any budget, it has to be remembered that charity donations are not always a tax deductible expense.

5. Amended Budget for 2016. In view of the foregoing concerns it is recommended that the Board give serious consideration to amending the budget for 2016. If we continue with the current budget, all of the problems discussed above will be even worse by year end. We will be paying unnecessary taxes for 2016 and will likely have even more excess cash.

We would like to thank Connie for a doing a great job with the books. Her preparation and comprehensive documentation facilitated a very smooth audit. The club is lucky to have her continuing commitment to the vital position of Treasurer.

Respectfully,



Lennard Grodzinsky