

POATRI

AUDIT COMMITTEE

HANDBOOK

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POATRI Audit Committee Handbook

I INTRODUCTION LETTER

TO: New Members of the POATRI Audit Committee

Welcome to the Audit Committee. You are being given this AUDIT COMMITTEE HANDBOOK because you have been appointed to the POATRI Audit Committee by the POATRI Board of Directors. The Directors appreciate your commitment of time and effort to serve on the Audit Committee.

This Handbook provides you with the information needed to understand your responsibilities and to perform audit projects. If you have any questions, please contact the Chair of the Audit Committee or the POATRI Treasurer. At the beginning of each audit project there shall be a written audit plan developed by the Audit Chair and provided to the Audit Committee member responsible for that audit project.

To help understand what the Audit Committee does and how it operates, the Board provides the following guidelines:

- The primary duty of the POATRI Audit Committee is to assist Management and the Board of Directors by monitoring POATRI financial operations.
- The role of the Audit Committee is to act as a discovery and reporting group to the Board of Directors.
- The approach to audit projects is to assume that the POATRI Directors, Management and employees are honest and are acting with integrity as regards their duties and the performance of their jobs for POATRI.
- The overall objectives of the Audit Committee are to:
 - Verify POATRI financial information.
 - Work with Management and the Treasurer to improve financial controls and monitoring.
 - Expose any indications of fraud or deliberate manipulation of the financial records.

The following sections in this Handbook will provide further information on Audit Committee responsibilities, operating guidelines and audit project procedures. We ask that you become very familiar with this information and utilize the audit project procedures and the report format, as this will help make your audit work more accurate and provide a significant contribution to POATRI.

Do not hesitate to discuss any issues or questions with the Audit Committee Chair, Management, or the Treasurer.

Sincerely,
POATRI Board Treasurer

Approved by Board of Directors
September 29, 2009

II AUDIT COMMITTEE RESPONSIBILITIES, GUIDELINES, PROCEDURES

Responsibilities

The Audit Committee's purpose is to assist the Board of Directors in performing its fiduciary management and oversight responsibilities of POATRI financial operations by conducting the audit projects specified in the Audit Committee Handbook. The overall responsibility is to perform complete and accurate audit projects on a timely basis, and submit written reports which represent what was accomplished to satisfy the objectives for each audit project. Most reports will be submitted to Management and the Board. However, in the event the Audit Committee believes it has found fraud or deliberate manipulation concerning the financial records then the Audit Committee reports shall go only to the Board. The Treasurer shall immediately investigate and inform the Board of the findings of that investigation.

The POATRI Audit Committee is established by the Board of Directors and provides an internal monitoring function. Members shall work in a cooperative and productive manner with Board members, the General Manager and employees.

Guidelines

The Committee, and in particular, the Chair, should have some financial experience or background to facilitate the performance of audit committee duties. Audit Committee members will not perform actual accounting and bookkeeping functions and therefore are not required to have specific accounting or bookkeeping skills. However, audit committee members should be able to review and understand General Ledger reports, Financial Reports, Membership Record Keeping Systems (i.e. TRIPOD) and Bank Statements. All members of the committee shall be charged with the responsibility of becoming familiar with all internal and external cash controls, and financial management procedures that relate to the listed audit projects.

In carrying out their duties, it is essential that the Audit Committee maintain its objectivity by focusing on the objectives and procedures provided in this Handbook, and by not allowing any other factors to influence any part of their work. In addition, Audit Committee members shall not make judgments of business practice or business decisions, as Committee members cannot have full knowledge or understanding of all the reasons for these procedures and decisions. Business decisions and practices are the province of the Board of Directors, Management, and when appropriate other committees.

The various procedures outlined for the Audit Committee are designed primarily to identify and correct the human errors that occur in any job performance. Additionally, these procedures are thorough enough, when performed diligently, to expose fraud or deliberate manipulation of the financial records should that occur. The reports to the Board when done properly and timely are sufficient to alert the Board of any need to investigate more deeply. It is the duty of the Treasurer to initiate such investigations with the concurrence of the Board of Directors and to institute revised procedures if necessary.

Procedures

The Board of Directors shall appoint the Audit Committee Chair who may recommend additional committee members which must be approved by the Board. The Audit Committee Chair will assign audit projects to one or more Committee members, and inform the Treasurer and Management as to which member(s) has been assigned to which projects. At the beginning of each audit project there shall be a written audit plan developed by the Audit Chair and provided to the Audit Committee member responsible for that audit project. On all audit projects Committee members will work with Management to understand POATRI practices and procedures, to resolve any issues in planning or executing an audit project, and to provide accurate and objective feedback to Management and the Board. Perceived errors or problems discovered during audits shall be discussed with Management and/or the Treasurer as appropriate.

Audit Committee members shall follow the processes and procedures provided in the Audit Committee Handbook for each audit project. At the conclusion of each audit the Audit Committee member(s) shall prepare an audit report, utilizing the audit report format provided in the Audit Committee Handbook, which shall present the audit project process and the findings resulting from the review. This report shall be provided on a timely basis to the Audit Committee Chair, the Board and to the General Manager if appropriate.

Members of the Audit Committee should feel free to discuss their findings on each audit project with the General Manager. During the Audit project, should interaction with any employee not provide a Committee member with what they need to accomplish the audit project, the Committee member shall discuss the issue with the General Manager who shall be responsible for resolving the situation.

If the Audit Committee believes that POATRI Policies and Procedures or the POATRI AUDIT COMMITTEE HANDBOOK are inadequate or should be changed they shall bring their recommendations to the attention of Management and the Treasurer who shall review the issues with the Board of Directors for their consideration.

The primary resource to the Audit Committee for planning and executing audit projects is the General Manager. When the General Manager is not available or there is no General Manager, the primary resource is the Treasurer or other resource designated by the Board of Directors.

The Audit Committee shall meet with the Certified Auditor at the beginning of the annual audit and at the conclusion of the annual audit (should the Certified Auditor request a meeting in order to provide, in his/her judgment, important information to the Audit Committee that resulted from the external audit).

Additional audit projects or changes to audit projects may be requested by the Board of Directors, the Board Executive Committee, Management, or recommended by the Audit Committee. Each person or group making a request shall provide a description of the audit

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project, the expected value to POATRI, and a brief outline of what is required to execute the audit project. Board of Directors approval is required to authorize each new audit project. The Audit Committee shall then prepare and submit to the Treasurer and Management an audit plan with specific objectives and procedures for the audit process. The Treasurer shall present the change to the Board of Directors for approval and incorporation into the Audit Committee Handbook.

III REQUIREMENTS FOR CONFIDENTIALITY

All members of the committee are charged with the responsibility of maintaining confidentiality. Audit Committee members may be required to review payroll records, property owner payment records and other data considered to be confidential. Committee members shall maintain the confidentiality of such information and shall sign the POATRI Confidentiality Statement upon becoming a member of the Committee. Members of the POATRI Audit Committee must exercise the same degree of confidentiality that is required of Directors who serve on the POATRI Board.

The following is an excerpt from the New Director Orientation manual:

Maintaining Confidentiality: Directors have a specific duty to protect and maintain the confidentiality of proprietary and sensitive corporate information. As stated by one recognized authority, "**a Director should not ... disclose information about the corporation's legitimate activities unless they are already known by the public or are of public record.**" This is particularly important, of course, when disclosure could jeopardize the corporation in terms of competitive or other disadvantage.

[The Law of Associations, Copyright 2007, Matthew Bender & Company, Inc., a member of the LexisNexis Group; CHAPTER 2A Responsibilities and Liabilities of Association Directors and Officers]

On the next two pages is a copy of the POATRI Confidentiality document which, as a member of the Audit Committee you are expected to understand and agree to, and you must execute prior to beginning your duties.

POATRI Audit Committee Handbook

Code of Ethics and Standards of Conduct POATRI Committee and Task Force Members

The Board of Directors for the Property Owners Association of Terlingua Ranch, Inc. (POATRI) is committed to ensuring that the role and responsibilities of any appointed committee or task member are well defined and that expectations of such members are clear regarding standards of ethical conduct.

Therefore, we ask that these members shall conduct themselves in a professional manner, commit to teamwork and cooperation, and demonstrate behaviors that uphold the values of honesty, integrity, trust and respect for all of the policies and persons involved with POATRI.

More specifically, all appointed committee and task force members shall adhere to the following Code of Ethics & Standards of Conduct.

Code of Ethics & Standards of Conduct

- Conduct themselves in a manner consistent with sound business and ethical practices to ensure and maintain owner confidence in the integrity of POATRI.
- Conduct POATRI business in a manner that ensures a) management and personnel are free from any internal or external pressures that may adversely affect the quality of their work; and b) the integrity of POATRI is maintained.
- Diligently support the Bylaws and Policies & Procedures that are constructed to ensure sound business and ethical practices and behavior.
- Avoid involvement in any activities that would diminish stakeholder confidence in the committee or task force's competence, impartiality, judgment, or integrity.
- Attempt to reconcile conflicts or differences with honesty and respect.
- Avoid activities that create undue stress which may impact decisions and actions.
- Avoid the perception of conflict of interest which may arise whenever the personal or professional interests of a member are potentially at odds with the best interest of POATRI.
- Be aware, as representatives of POATRI, that the wellbeing and interest of the membership as a whole is paramount in all POATRI actions.
- Abide by and support final decisions made by a majority of the Committee or task force.

Specifically, no individual shall engage in the following conduct:

- Discuss any confidential information (as defined below) with persons other than the POATRI Officers, Directors, General Manager, Accountant, Attorney or Auditors
- Release or allow access to confidential information (as defined below) without prior authorization from the entire Board of Directors and the corporation attorney.

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Code of Ethics and Standards of Conduct POATRI Committee and Task Force Members

CONFIDENTIAL INFORMATION:

At times Committee & Task member may engage in discussions and, in some cases, may suggest policy decisions concerning the financial position of POATRI, owner accounts, owner files, future plans for POATRI, and other confidential and sensitive information. To make prudent decisions that serve the best interest of POATRI, and to intelligently consider all options in making recommendations, the Committee & Task Force members may need to evaluate confidential, sensitive and proprietary information.

Therefore, all appointed committee and task force members agree that confidential information shall include, but is not limited to, information considered to be confidential by law, either constitutional, statutory, or by judicial decision. Examples of such confidential information include:

- Any information that could constitute an invasion of privacy, employment records, job related testing scores, disciplinary actions, wage history, employment background checks, medical records, as regards both current and former employees of POATRI
- Information that disclosure of or unauthorized use of which has the potential to harm POATRI
- Third party financial or proprietary information,
- Pending or past legal investigations or employee grievances,
- Attorney-client privileged information

Confidential information shall also include, but is not limited to, information considered to be confidential by the POATRI attorney or auditor, or POATRI policies and governing documents. Examples include, but are not limited to, minutes from executive meetings, attorney-Board and auditor-Board privileged information, confidentiality agreements, or proprietary information obtained for POATRI business.

I, the undersigned Appointed Committee or Task Force member, do hereby acknowledge my understanding and acceptance of the stated Code of Ethics and Standards of Conduct.

Date: _____

Signature

ATTEST:

Printed Name: _____

Corporation Secretary

Approved by Board of Directors
September 29, 2009

IV AUDIT PROJECT REPORTS - FORMAT AND CONTENT

The following report format shall be used by Audit Committee members upon completing each audit project. Upon completion a copy of the report shall be provided to the Board, General Manager, and the Audit Committee Chair.

POATRI Audit Committee Report
Subject Area Audited:
Date Report Submitted:

1/ Project Timeframe and Personnel Information

Period in which the review was conducted:
Audit Committee Member(s) participating:
Project Leader, Audit Committee contact:
POATRI employees involved:

2/ Objectives for this Audit (from the Audit Procedures Section)

3/ Overview of the Audit Procedures (from the Audit Procedures Section)

4/ Audit Findings - Description of the results of the audit review, including identifying any questions, discrepancies or other issues

Discussions with Management - Including the topics discussed, questions that were raised, and how issues were resolved. (If any audit review questions, issues or discrepancies were not discussed with Management, explain why.)

Was a copy of this Report Provided to Management? Yes _____ No _____

If not, explain why.

Recommendations (if any) to Improve POATRI Practices and Procedures

Audit Committee Member Signature

POATRI Employee Signature (if required)

V. AUDIT OBJECTIVES AND PROCEDURES FOR EACH AUDIT PROJECT

A Cash Procedures Audit

1. Audit Objectives and Schedule

The purpose of this procedure is to count petty cash and check cash registers for actual vs. tape cash on hand and document any discrepancies. Any questions discrepancies or problems are to be discussed with General Manager. Audits should be done without notice, and performed at least twice per calendar year.

2. Audit Procedures

Items to be audited:

- Front Desk-\$50 cash drawer
- Administrative petty cash-in General Manager's office. It is a \$200 cash drawer to make change for the cash register.

To audit a register:

- Let the employee know that you are a member of the Audit Committee and are there to audit the cash drawer.
- Turn the register key to the X function. Enter 1998, then the check key, then the total key.
- This will produce an "X" tape which totals the day's activities to the point at which you ran the tape.
- Count out the base drawer amount (e.g. \$50 for current POATRI office register) and set it aside
- Count the remaining cash, checks and credit card slips. This should equal the totals on the "X" tape

Compare the total on the register slip with the cash, complete the form for the Audit Report, have employee sign and you sign as auditor. Make a copy for the General Manager, put it in the inbox. Make a copy for the Treasurer and put it in the Treasurer's mail folder. One copy goes to the Audit Committee chair for record-keeping.

If there is a discrepancy, determine the reason why if possible. Another recount should be made to confirm a discrepancy. Make no corrections yourself. Note any probable reason for discrepancies on the Audit Report. If there are consistent errors in a drawer, discuss with the General Manager.

B Inventories and Supplies and Equipment Audit

1. Audit Objectives and Schedule

A member of the Audit Committee should participate in the monthly inventory of retail goods, fuel and propane at least once annually. End of the year inventory adjustments are particularly important.

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2. Retail Goods - Audit Procedure and Schedule:

Retail goods are physically counted monthly on the last day of the month. An Audit Committee member should make arrangements with the office to meet with the responsible employee and participate in that count as well as observe the input of the current inventory into the pricing list and subsequent adjustment to the inventory value in Quick Books.

3. Fuel Supplies - Audit Procedure and Schedule

Fuel supplies (gasoline, truck diesel and off-road diesel) are measured at the end of each month by physically “sticking” the tanks and using conversion charts to determine gallons in each tank. POATRI uses a “first in, first out” accounting method. Therefore the fuel inventory is valued based on recent purchases, going back in time until all supply is accounted for. A member of the Audit Committee should participate in this physical inventory measurement at least once annually, as well as observe the valuation and subsequent adjustment in QuickBooks.

4. Propane Supplies - Audit Procedure and Schedule

Propane supplies are measured by reading the pressure value on each of the two tanks (one 500 gallon tank for the laundry, and one 1000 gallon tank for the restaurant). Individual tanks for employee housing are not inventoried. The pressure value readings are in a percentage which is then converted to gallons. The evaluation is done based on recent purchases going back in time until all supply is accounted for. A member of the Audit Committee should participate in this physical inventory measurement at least once annually, as well as observe the valuation and subsequent adjustment in QuickBooks.

C **TRIPOD Receivables Reconciliation and Postings to Property Owner Accounts Audit**

1. Background Information

Although TRIPOD is a membership information system and not an accounting program, it is important to review the payments and adjustments made to owner accounts and to verify the adjustments and deposits that are posted to QuickBooks.

Each month a Receivables Reconciliation is run in TRIPOD for the previous month. This reconciliation summarizes all cash payments credited to owner accounts as well as all debits and credits made to owner accounts due to property transfers, amnesty adjustments, prorating of annual assessments, etc. All deposits are posted in QuickBooks to Assessment Receivables accounts. It is the duty of the General Manager each month to verify that all collections in TRIPOD are accounted for in QuickBooks as a deposit to one of the POATRI bank accounts and to post adjustments made in TRIPOD to Quick Books.

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Additionally, a monthly adjustment is made to the QuickBooks Assessment Receivables to coincide with the Adjustments made in TRIPOD so that the end of the month Receivables in TRIPOD equals the end of the month Assessment Receivables in QuickBooks.

Additionally, each deposit made to the bank through TRIPOD is backed up with a detailed list of the owner account, the account name, the payment amount and a reference number (e.g. a check number). This detail report is attached to a printed copy of the General Journal entry made in QuickBooks which corresponds to that TRIPOD deposit.

Each month's Adjustment Reports are filed with the deposit reports and should be reviewed. Each adjustment made in TRIPOD has an accompanying note as to the reason for the adjustment and can be reviewed by the Audit Committee member.

2. Audit Objectives and Schedule

The Audit Objectives are first to confirm that postings to TRIPOD reconcile to the respective Bank deposits, and second, that payments from property owners and adjustments to property owner accounts have been correctly posted to property owner accounts in TRIPOD. These audit procedures shall be performed on a quarterly basis.

3. Audit Procedures

The Adjustments made in TRIPOD and the QuickBooks adjustments should be reviewed by an Audit Committee member with the General Manager.

An Audit Committee member should spot check the detail reports from TRIPOD that support each Bank deposit to confirm and verify that the payments have been credited to the appropriate accounts as stated in the report.

A spot check of the adjustments and reasons for each adjustment should be verified in TRIPOD to confirm that the adjustments appear on the designated accounts.

Note: QuickBooks Receivables are reduced each year by the doubtful accounts write off, whereas we do not eliminate the written off receivables in TRIPOD for the purpose of continuing the collection process. Therefore it is not possible to directly compare the Receivables balance in QuickBooks to the balance in TRIPOD.

D Bank Reconciliation Audit

1. Background Information

The Monthly Bank Reconciliation will be performed by office personnel as part of normal operating procedures using the Quick Books Bank Reconciliation process.

2. Audit Objectives and Schedule

Each month the Audit Committee will examine the Quick Books Bank Reconciliation, Bank Statement and supporting Check Register reports and determine that all deposits and disbursements have been properly recorded by the Bank and by POATRI and that the Bank's ending balances are properly reconciled to the Check Register Reports ending balances.

3. Audit Procedures

The General Manager, or other designated employee, will provide the following materials to the Internal Audit Committee within one week after the Quick Books Bank Reconciliation is completed:

- The Bank Statement for each of the Bank Accounts (Deposit, Operating, Payroll, Petty Cash, and the Contingency Fund at WTNB and on quarterly basis the Capital Reserve account at Fort Davis State Bank).
- The Check Register Report for the current month for each account reconciled.
- Prior month's Bank Reconciliation Report for each account reconciled - which shows the outstanding deposits and disbursements that need to be validated as processed by the Bank in the current month.
- Current month's Bank Reconciliation Report for each account reconciled.

The Internal Audit Committee will validate that:

- All deposits on the previous month's Outstanding Deposits List and recorded in the current month's Reconciliation Report were recorded by the Bank, or are listed on the current month's Outstanding Deposits list.
- All disbursements on the previous month's Outstanding Disbursements (Checks) List and the current month's Reconciliation Report were recorded by the Bank, or are listed on the current month's Outstanding Disbursements (Checks) List.
- The Bank Statement ending balances are reconciled properly to the General Ledger balances.
- The Capital Reserve account at Fort Davis State Bank will be reconciled on a quarterly schedule following the same procedure as for the monthly reconciliation. This quarterly reconciliation should be accomplished so the Treasurer has the report prior to the quarterly board meeting.
- The Audit Committee will determine if the Board of Directors has established any directives regarding the Contingency Fund or the Capital Reserve Fund and will monitor deposits and disbursements to determine if they are in line with the directive.

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Any discrepancies will be discussed with the General Manager or other designated POATRI employee as part of the audit process prior to preparing the audit report.

Any unresolved discrepancies will be described with all supporting materials in the audit report provided to the General Manager and the Board.

E Single Signature Check Audit

1. Background Information

Current POATRI policy allows single signer checks for the Petty Cash Account and up to \$6,000 for the Operating Account. The actual cancelled checks are no longer returned with the bank statements.

2. Audit Objectives and Schedule

The purpose behind this audit project is to verify that there is an invoice addressed to POATRI for goods and services behind each check that has been signed. A second purpose is to verify that no checks exceed the limits for each account. This audit project should be done on a quarterly basis (but not two weeks before each Board meeting to allow Management time to prepare for the Board meeting), with the optimum time being during the second month of each quarter.

3. Audit Procedures and Schedule

A member of the Audit Committee should arrange to visit the office where copies of the bank statements and the photocopies of the cleared checks will be made available for review. A spot check of invoices to match checks drawn on the Operating and Petty Cash Accounts should be based on the following criteria:

- Multiple payments to the same Payee, no matter the amount
- Payments to individual Payees, no matter the amount
- Large payments to any Payees
- Payment to unusual Payees

Additionally, the Audit Committee member shall review in QuickBooks the check registers of the Operating and Petty Cash Accounts for the period and a spot check of invoices to match these payments should be based on the following criteria:

- Unusual payments to regular vendors
- Unusually large payments to regular vendors
- Payments to unusual vendors

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If the Audit Committee member questions any payment or invoice, the General Manager should be asked to discuss the disbursement, the reason for it and the goods or services received. Further, if appropriate, the Audit Committee member and the General Manager should review the banking records online and verify the endorsement information.

F Credit and Debit Card Transactions Audit

1. Background Information

POATRI management may authorize credit cards or debit cards. (POATRI currently has one credit card through West Texas National Bank which has a credit limit of \$5,000. This remains below the \$6,000 single signer check limit currently in force).

2. Audit Objectives and Schedule

The objective is to verify the existence of a charge ticket with substantiating backup that explains the goods and services received by POATRI. This audit project should be done on a quarterly basis (but not two weeks prior to a Board meeting to allow Management time to prepare for the Board meeting), with the ideal time being during the second month of the quarter. This audit project should be done in conjunction with the Single Signer Checks audit project.

3. Audit Procedures

A member of the Audit Committee should arrange to visit the office where credit card statements will be made available for review. A spot check of the supporting credit card receipts should be made based on the following criteria:

- Multiple payments to the same Payee, no matter the amount
- Payments to individual Payees, no matter the amount
- Large payments to any Payees
- Payees to unusual Payees
- All cash withdrawals on the card, if any

If the Audit Committee member questions any payment or charge, the General Manager may be asked to discuss the disbursement, the reason for it and the goods or services received.

G Payroll Records Audit

1. Background Information

POATRI pays employees every two weeks, or 26 times per calendar year. The pay periods begin on a Sunday and end on the second Saturday. POATRI employees, with the exception of salaried employees, complete weekly time cards which are signed and verified by their supervisor.

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Each payroll the total number of hours worked (Regular), sick leave, vacation time or overtime are input into the Quick Books payroll process. Hours are classed by operation (Non-resort or Resort). QuickBooks automatically calculates and deducts withholding, Social Security and Medicare as well as any regularly scheduled deductions such as insurance or wage garnishments. The Audit process should include a random check of time cards against actual hours paid.

2. Audit Objectives and Schedule

Auditing payroll records requires an Audit Committee member to review time sheets and to verify that employees are being paid only approved hours and earned sick and vacation time in accordance with the current POATRI Employee Manual. Additionally, allocation of payroll to the proper operation should be verified, i.e. motor grader operators hours should not be allocated to Resort.

An audit of payroll records should take place in the first two weeks of the month following the financial quarter (March, June, September and December), in order to report to the Board at the upcoming meeting (January, April, July and October) as required in the Audit Procedures in the Policies & Procedures Manual.

3. Audit Procedures

An Audit Committee member should make arrangements to visit the office where time cards and payroll information will be made available for review. Additionally the Audit Committee member should review the Payroll check register to ensure that all payments from that account are for authorized payroll only.

Direct Deposit of net wages to employee bank accounts is also a function performed by QuickBooks. These deposits may be verified by comparing the QuickBooks Direct Deposit report with the actual time cards and wage statements.

POATRI is required to make Federal withholding tax deposits, which include the POATRI share of Social Security and Medicare payments (Employer Taxes) following each payroll. This deposit is calculated by QuickBooks after each payroll and is deposited to WTNB. Those deposit receipts are maintained in the 941 files and can be verified. Federal Unemployment deposits are required every quarter and are calculated by QuickBooks and deposited in the same manner as the payroll taxes. Texas Unemployment taxes are calculated each quarter and submitted to TWC with the quarterly return calculated within QuickBooks.

Additionally, all employee tax reporting is done through QuickBooks, which produces the quarterly Federal Withholding returns and the Texas Unemployment return. A Federal Unemployment return is produced on an annual basis. The Audit Committee member may verify the returns as filed with the payroll records in QuickBooks.

H Financial Statements Audit

Background Information

POATRI Cost Accounting calls for all income and expense items to be designated as either Non-Resort or Resort items. An Audit Committee member may review these designations on the office QuickBooks system. By reviewing a monthly or quarterly P&L by class, an initial review will show obvious posting errors (e.g. Assessment Income should not show up in the Resort Column) and corrections can be made.

Additionally, individual income and expense item accounts may be posted incorrectly, e.g. a check to Warren CAT is posted to office supplies.

By reviewing the income and expense statement in QuickBooks it is possible to bring up the individual items and confirm class and account allocations by reviewing the detail.

As the Audit Committee member charged with this responsibility becomes more experienced it is relatively easy to see the errors and assist Management in getting the corrections made prior to preparing the audit report.

1. Audit Objectives and Schedule

The objectives for the audit project are:

- Verifying the correct allocations of income and expenses between the two POATRI operations as outlined under Cost Accounting in the Policies & Procedures Manual Section II.8
- Verifying the posting of income and expenses to the correct accounts in Quick Books

2. Audit Procedures

Some of the accounts that should be regularly reviewed are:

- Miscellaneous Income (including water and retail sales)
- Miscellaneous Expense
- Vehicle Repair
- Office Supplies
- Printing Costs
- Legal Fees
- Contract Road Work
- Collections Expense
- Other Professional Fees

The most efficient way to verify appropriate account postings is to review the account detail report in Quick Books and examine the individual postings for appropriate vendor and operation allocation.

I Depreciation Schedule Audit

1. Background Information

Currently POATRI capitalizes (puts into asset accounts rather than expense) all purchases of equipment, improvements or renovations that exceed \$1,000. Improvements and renovations must be more than mere maintenance and must extend the life of an asset or improve the performance of equipment in order to qualify. Examples are a new truck transmission, redesign of TRIPOD that creates a new performance function, renovation of a building such as a new roof.

These capital items are included on the POATRI income tax return and depreciated (expensed) by the CPA who completes the tax return. This depreciation schedule is used to render our assets as required by Brewster County for purposes of property tax each year. Even after the asset is fully depreciated for income tax purposes if the equipment remains on the depreciation schedule it is assigned a value by the Brewster County Appraisal District for purposes of property taxes. Therefore it is important that this depreciation schedule not include items that are no longer owned by POATRI.

2. Audit Objectives and Schedule

Review and verify annually the depreciation schedule attached to the latest income tax return and rendered to Brewster County for property tax purposes. This audit should be done during the last quarter of the calendar year, and early enough in the quarter to enable the Board and the General Manager to take appropriate action to dispose of any unusable equipment that would result in unnecessary property taxes.

The second objective of this audit is to verify the existence of the assets and that the invoice cost was correctly applied to fixed assets.

3. Audit Procedures and Schedule

On a quarterly basis a member of the Audit Committee should review the Fixed Asset accounts of POATRI. If additions to those accounts have been made during the quarter the Audit Committee should review the invoices to verify the value of the asset and should physically verify the existence of the asset.

The Audit Committee will obtain a copy of the depreciation schedule attached the September 15th income tax return in that year and verify that all assets listed, whether fully depreciated or not, are still in existence and owned by POATRI. If assets are not in existence they should be identified to the General Manager who has the responsibility to remove them from the depreciation schedule. If assets are present but no longer able to function, they are to be identified to the General Manager who shall follow the appropriate procedures to dispose of the assets and remove them from the depreciation schedule. This review shall be completed in time for Management to take the appropriate actions prior to the end of the calendar year as the

Approved by Board of Directors
September 29, 2009

County Property Tax on assets is based on assets owned on January 1 of each year, and the depreciation schedule from the last tax return is the document used by Brewster County to establish the list of assets owned. By completing this audit function; Management has the opportunity to provide an updated depreciation schedule to the County prior to the end of the calendar year.

In conjunction with the above, the Audit Committee shall review detail reports of fixed assets for the current year and verify the invoices in the current year file for each entry in the fixed asset accounts.

J Real Property Acquisition and Disposition Audit

1. Background Information

From time to time POATRI gains ownership of various tracts of Terlingua Ranch Property that is independent of the Lodge/Resort real estate. These tracts come to POATRI through foreclosure for non-payment of assessments, payments in lieu of foreclosure or as donations. The General Manager shall be responsible for maintaining a current list of such properties with details relating to any transactions involving the properties.

2. Audit Objectives and Schedule

On a semi-annual basis the acquisition, disposition and transactions involving these properties should be verified.....

Note: The audit procedure for this audit should be developed with knowledge about how the General Manager accounts for these properties in QuickBooks and within the TRIPOD system.

Then the procedure can refer to named reports from the two systems which can be used for auditing purposes.