

HOME OWNER QUERIES ON 2018 ACCOUNTS

OPEN CABRERA
REF: JC_0001_20200106
6 January 2020

Cabrera home owners (OPEN CABRERA) have collated a number of queries on the 2018 accounts which they would like the *asesoría* and Junta to answer in order to build confidence in the community.

We understand that some of the answers given may need to be technical, which is why we have asked for all details, including technical, to be fully presented in writing. If there are technical responses that we have any difficulty understanding, we may want to have them professionally checked by someone who does easily understand the issues involved.

We request that absolutely no action is taken on the proposed new electrical infrastructure until the answers and substantiating documentation have been received on the queries raised and we have had sufficient time to review them. There may also be a need to have time for some follow-up questions if necessary.

1. Adaptations leading to Qualified Accounts

We note that the *asesoría* has provided a qualified sign off of the 2018 accounts. We would like to obtain a full explanation of the accounts qualification in order to give confidence to home owners.

The qualification is translated as follows:

"Having examined all this documentation and analyzed the Final Balance, I can say that it truly reflects the expenses and income that occurred during the 2018 fiscal year, with the exception that some of the items have been adapted to the delegates' indications, since according to them, they have a better understanding."

- 1.1 Please could the *asesoría* provide an explanation as to why the qualification was given to the accounts for 2018 with a full explanation of the changes made to the accounts. They should state each change made and provide a specific reason for each change made.
- 1.2 We request a copy of the accounts as prepared by the *asesoría* before the "adaptations" were made.
- 1.3 Please could the *asesoría* confirm that, if the accounts were presented in this format prior to the 'adaptations', they would have been given a clean bill of health.
- 1.4 Please could you provide copies of all documentation, including correspondence that relates to any costs affected by this adaptation of the numbers or discussions on those cost adaptations.
- 1.5 Were all the adaptations agreed by the whole Junta team including the representative for Turre Ayuntamiento?
- 1.6 Did any Home-Owner Delegado's request any adaptations?

1.7 A letter from Turre Ayuntamiento Mayor, Martin Morales, dated 6 May 2016 states:

“Urbanisation law states very clearly that development and maintenance is purely the responsibility of the developers UNTIL the completion of all infrastructure.”

Would the *asesoría* be able to confirm that the 2018 accounts are compliant and that he is comfortable signing them off, noting the intention of the Junta to take out loans totalling €190,000 for electrical infrastructure on behalf of the home owners?

2. Electrical Infrastructure & Loan Arrangements

2.1 Should the proposed electrical infrastructure go ahead at a cost of €198,000 to the home owners, please could you confirm who will own the asset. Will the transformers be owned by the developer or the home owners? Or, is the intention for them to be given as a gift to Endesa?

2.2 In the 2017 Junta balance sheet, a new asset was added for €24,887 (“generator Endesa”). What is this and what is it used for? Is it owned by Endesa? Could a photograph be provided?

2.3 In terms of the Junta intention to commit the Home-Owners to €198,000 of assorted loans with individuals and banks, please could you provide a breakdown of each of the individual loan amounts, and the interest that will be incurred against each lender over the loan period.

2.4 Endesa Transformer Upgrade. It was reported by the Junta on 13 November 2017 that the Junta had concentrated mainly on maintenance, ‘apart from upgrading the transformer from 250ka to 600ka’.

What was the cost of this upgrade and was it was paid for by the home owners?

Where is this transformer situated?

2.5 Please could you confirm who owns the said 600ka transformer asset. Is it owned by Endesa, the Junta, the developer or the home owners?

3. Unrecoverable IVA

We must point out that €70k expenditure was needed to generate the €14k of unrecoverable IVA in the 2018 accounts. In 2019, it is possible that a further €70k expenditure will generate an equivalent amount of unrecoverable IVA expense. There is a concern that the forecast unrecoverable IVA of €57k in 2020 represents an additional €270k expenditure in 2020.

This is nearly half a million euros of unexplained expenditure for which no IVA is reclaimable. This figure is material and so needs to be explained in detail, with substantiating documentation, to maintain the full confidence of owners.

For all valid costs to the Junta, the recoverability of the IVA should not be in question. So home owners need to understand what costs exactly are causing this expense?

- 3.1 Please could you provide copies of all the invoices or transactions that generated the €14k Unrecoverable IVA in the 2018 accounts.
- 3.2 Please could you provide details of the expected level of Unrecoverable IVA in the 2019 accounts to be prepared in January and provide copies of the associated invoices.
- 3.3 Given the huge increase, please could you provide a detailed breakdown of the expenses that will cause the forecasted 2020 Unrecoverable IVA figure of €57k.

4. Segregation of Duties

- 4.1 Please could you detail who are the Junta bank signatories and how many signatories are required.
- 4.2 Please could you confirm whether any of the current Junta signatories are in any way related.

5. Business Separation

- 5.1 Please could you clarify whether the *asesoría* also works for any of the companies owned by the developers in addition to the Junta or whether he is totally independent.
- 5.2 We understand that the developers are obliged to maintain a separate set of accounts to the home owners. Please could copies of these accounts be provided for the past 5 years.
- 5.3 Please could the developers provide details of their forecast expenditure for 2020.
- 5.4 Please could the developers provide details of their past investment expenditure over the past 5 years.

6. Financial and Management Reporting

There are no notes to the Balance Sheet to provide details of loans, fixed assets movements and other asset and liability accounts and the Income and Expenditure account provides no explanatory notes or commentary on any of the Junta activities.

The Treasurer's report also provided no information on the health of the business. It simply advised that owners would see an uplift to their Junta charges to cover the cost of works that should normally be funded by the Developer.

In view of the above limitations, it would be helpful to get some clarity on the following items as an interim measure:

6.1 A forecast has been provided for 2020 but concerns have been raised about the way it is structured. Please could the *asesoría* and Junta confirm whether it is intended to be a representative forecast or a cashflow projection?

6.2 As presented, the forecast suggests revenues of €400k but this number should not include the €190k cash to bank received from taking out loans. This is not income or revenue. The money is a cash inflow from a loan and should be reflected in the Balance Sheet, as an increase in the bank balance with a corresponding offset to loan creditors. It should be removed from the forecast. It is not revenue.

Could the *asesoría* and Junta clarify this?

6.3 Under expenditures in the accounts, we also see the €198,000 transformer installation cost entered as an expense. The transformers and associated installation costs are a capital cost that should be held as an asset to the Junta that would be subject to depreciation charges made over the anticipated lifetime of the asset, to reserve the cost of replacing the equipment when it is finally retired. The forecast should show only a first year depreciation charge for these new assets.

Again, it must be noted that the cost of this new electrical infrastructure is not a cost that Cabrera home owners are required to bear. This is true in law. It is a cost for the developer that should appear in the developer's accounts and that cost should be covered by profits earned from the sale of properties in the development being serviced by the infrastructure investment.

Could the *asesoría* and Junta explain why the Junta is expected to bear this cost?

6.4 Forecast Note 14. Purchase of materials. On a general account with description (expenses), a figure of €6,000 has been provided presumably in relation to anticipated or planned works for which the cost will apply. The 2018 accounts show a comparative figure of around €400 which means the forecast is expecting a 1400% increase. Why has this figure increased so significantly and what is the breakdown of the anticipated costs?

6.5 Forecast Note 15. Asphalt €10k. This is a ten-fold increase on the asphalt cost shown in the 2018 accounts. Presumably, a major project is being planned. Please could you specify where this asphalt is to be laid.

6.6 Forecast Note 28. Diesel for the generator €3,800. Please could you clarify who owns the generator and what it is being used for?

6.7 Forecast Note 32. Administration contribution. €12k.

Please could you clarify who is being paid here and detail their roles and responsibilities. If this relates to work being contracted out, who is providing the administration, are they legal and do they invoice for their effort to allow IVA recovery?

Please could you confirm how many hours per month are secured under this arrangement and provide a copy of the Service Contract.

Why is this cost not incorporated in the *Plan General de Contabilidad* (PGC) “Independent professional services” account?

6.8 Forecast Note 36/37. Two employees costing €68k per annum.

Please could you provide copies of all salary slips for the past three months for the two employees (October to December 2019).

6.9 Forecast Note 38. Depreciation €9k.

Please could you provide a full list of the assets which are being depreciated and the basis used for calculating the charge.

6.10 Forecast Note 40.

A loan repayment is not an expense item. Interest on the loan is an expense item. The €37k loan repayment should therefore be removed and replaced with a reasonable estimate of loan service costs for the period.

Please could you confirm your agreement.

6.11 Balance Sheet Query 1

Water consumptions 2S 2018/Ingresos Anticipados shows as an asset at a value of €6.4k. What is this asset? Could a photograph be provided?

6.12 Balance Sheet Query 2

The asset account *Proyectos unidades de actuacion en curso*. The Asset is valued at €6307.56. What exactly is this asset? Could a photograph be provided?

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