

Sonora Homeowners Association

Treasurers Report

March 10, 2026

Accompanying this Treasurer's Report are the **Balance Sheet, Statement of Revenue and Expenditures, and Statement of Changes in Reserve Funds** for the year ending **December 31, 2025**, along with comparative financial information for the years ended **December 31, 2023**, and **December 31, 2024**. These statements were prepared using the financial records provided by **Colby Management**.

I was appointed Treasurer of the Association on **January 13, 2026**. In my capacity as Treasurer—and as a retired CPA—I have conducted a detailed review of the Association's financial statements and operational procedures. The findings, recommendations, and action plans presented in this report highlight significant internal control weaknesses, operational inefficiencies, and areas requiring improvement. In addition, for each identified issue, I have outlined corresponding corrective actions designed to strengthen financial reporting, enhance business processes, address operational and financial risks, and support sound governance practices moving forward.

Finding #1-Accuracy of Year End Financial Statements

1. Reserve Cash Account

The Sonora Homeowners Association's financial statements for the year ended **December 31, 2025**, were reviewed for accuracy and completeness. During 2025, **Colby Management** maintained two checking accounts at **First Citizens Bank**:

- **Primary Operating Account:** Used for receipt of regular membership assessments.
- **Reserve Checking Account:** Funded monthly through transfers of **\$8,347** from special assessment revenues.

The reserve checking account reported balances of **\$102,490** as of **December 31, 2024**, and **\$170,721** as of **December 31, 2025**. Although this account accrued interest, total interest earned for the year amounted to only **\$297.36**, indicating that the funds were not positioned to generate competitive investment returns.

Plan of Action: Because this account is held in the name of **Colby Management**, with Colby as the sole authorized signatory, the Board must act as soon as **Paramount Management** receives the close-out funds. At that time, the Board will need to determine an appropriate investment strategy to place these reserve resources into higher-yield instruments capable of generating an estimated **\$6,200–\$6,500** in additional annual investment income.

2. Landscaping Payments Landscaping expenses are currently disbursed through **automatic monthly payments of \$5,005**, despite the absence of supporting documentation. The underlying landscaping contract has been in continuous effect since **October 19, 2020**, with **no updated scope of work, pricing review, or renewal approval** by the Board since that date.

Plan of Action: Refer to **Finding #3**, which addresses the Association’s contracting deficiencies and outlines corrective actions for all vendor agreements.

3. Reserve Accounts – Missing Accrued Interest Receivable

The financial statements for the year ending **December 31, 2025**, do **not** reflect any **Accrued Interest Receivable** on reserve investments. The omission of accrued interest has resulted in an understatement of reserve balances estimated to exceed **\$10,000**. Under generally accepted accounting principles applicable to homeowner associations, accrued interest must be recognized to ensure reserve fund balances are accurately stated.

Plan of Action: A schedule of accrued interest calculations has been provided to **Paramount Management** for inclusion in January **31, 2026**, financial statements. In addition, **Mr. Ryan Wollard**, our Paramount accountant, has been instructed to record accrued interest monthly on all future financial statements in accordance with GAAP requirements.

4. Reserve Transfers and Allocation of Legal Fees

During 2025, the Board executed several transfers in and out of reserve accounts. However, certain transfers were posted inconsistently with the Board’s intended actions. For example:

- The Board approved a **\$4,000** transfer to the **CC&R Fund**,
- Yet a portion of related legal expenses was incorrectly charged to the **Major Replacement Fund**.
- Additional unpaid CC&R legal fees of approximately **\$10,000** remain to be allocated, and the Board must determine the appropriate fund(s) to charge.

Plan of Action: While Arizona law permits intra-reserve transfers when properly approved, all such actions must remain within the approved budget and must be supported by clear and transparent documentation. Each transfer should be authorized via:

- A **formal Board motion**,
- Identification of the **specific reserve accounts involved**,
- The **dollar amounts transferred**,
- A clear **explanation of the purpose of the transfer**, and
- Meeting minutes that detail why legal costs exceeded the originally budgeted **\$4,000** and how the Board determined the proper fund allocation.

5. Transition to Digital Accounting Records

A review of Association computer equipment revealed two HOA-owned laptops: One containing only limited Association financial documents and One containing limited secretarial documents. Most accounting, corporate, and governance files remain in paper form. Maintaining off-site storage for these paper documents costs the Association more than **\$1,000 annually**.

Plan of Action: A substantial portion of accounting and corporate records have already been scanned into digital format; however, many documents remain unconverted. The Association should:

1. Consider purchasing a dedicated high-quality document scanner.
2. Conduct a thorough review of stored files to determine which can be destroyed in accordance with Arizona record-retention laws.
3. Digitize all records that must be permanently maintained and organize them into a secure, centralized digital archive.

This transition will reduce \$1069 of storage fees, improve access to corporate records, and strengthen the Association's operational efficiency.

Finding #2: Significant Weaknesses in Independent Contracting for Services

Background:

Article VII(d) of the governing documents authorizes the Board to employ a manager, an independent contractor, or other necessary personnel for terms not exceeding one year and to prescribe their duties.

Finding:

During the review of 2025 expenditures, **over 80%** of actual spending was attributable to independent contractor services. Despite this significant reliance on contracted services, most existing service contracts fail to meet the minimum written requirements set forth under **A.R.S. § 32-1158**, which applies to any contract over \$1,000 between a contractor and a property owner. The statute requires, at least, written documentation of the following elements:

1. Contractor identification and business license information
2. Property owner and jobsite details
3. Contract execution date
4. Estimated completion date
5. Description and scope of work
6. Total contract price, including applicable taxes
7. Deposit, progress payment terms, and schedule
8. Notice regarding the owner's right to file complaints with the Arizona Registrar of Contractors
9. Contractor's responsibility for providing copies of all signed documents and receipts

In addition to statutory minimums, best practices in contracting, particularly in landscaping and maintenance services, include clear provisions for insurance requirements, permitting responsibilities, and a defined Change Order process. Change orders are especially important in landscaping contracts where plant materials, designs, and project scope may fluctuate. Arizona construction attorneys emphasize that well-defined change order procedures are critical for preventing disputes and ensuring accountability.

Contract Review Observations:

Except for the **Colby Management** and **Paramount Management** agreements, all Yard Maintenance, Tree Maintenance, Trash Removal, and Pest Control contracts on file were:

- Dated from prior years

- Set to auto-renew without updated terms
- Lacking current-year pricing, scopes of work, or formal Board approval
- Not properly executed in accordance with Board requirements (i.e., not signed by at least two Board members)

For example, the Armin & Sons Yard Maintenance Contract, totaling \$60,060, is based on a “Continuation of an Existing Maintenance Agreement” originally signed on October 19, 2020. The underlying 2020 proposed contract does not meet any of the required statutory elements identified in A.R.S. § 32-1158. This lack of standardized, statutorily compliant contracts exposes the Association to operational, financial, and legal risks—including disputes over scope of work, pricing, performance, and termination rights.

Plan of Action

1. Adoption of a Contracting Policy: The Board should adopt a formal policy requiring **all independent contractors** to provide a written contract that fully complies with the minimum requirements of **A.R.S. § 32-1158** and includes additional best-practice provisions such as:

- Insurance and licensing requirements
- Defined change order procedures
- Clear responsibility for obtaining required permits (irrigation, electrical, structural, drainage, or grading, when applicable)
- Updated annual pricing and scope of work services

Contracts must be submitted to the Board **no later than 45 days before the end of the year calendar** to allow adequate time for review, negotiation, and approval.

2. Immediate Corrective Action for Armin & Sons Contract

Because the **Armin & Sons** contract dates to 2020 and lacks statutory elements:

- The Board should exercise its **30-day termination clause** and formally cancel the existing agreement.
- The Board should attempt to negotiate a new contract that incorporates all statutory and best-practice requirements listed above.
- If the contractor is unwilling or unable to comply, the Board should solicit competitive bids from qualified vendors to ensure compliance, transparency, and fiscal responsibility.