

# ANNUAL FINANCIAL REVIEWS FOR COMMUNITY ASSOCIATIONS

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In a review engagement, a CPA performs procedures in accordance with professional standards before issuing a report on an association's financial statements. A review report expresses limited assurance that there are no material modifications that should be made to a set of financial statements in order for them to be in conformity with Generally Accepted Accounting Principles. Sometimes this is referred to as negative assurance. Review procedures, which comprise inquiry and analytical procedures, are substantially less in scope than in an audit engagement.

## Independence

An accountant/CPA who is not independent with respect to a client may not issue a review report on its financial statements.

## Engagement Letter/Proposal

Accountants are required to obtain an engagement letter (often referred to as a proposal in the community association industry). The engagement letter documents a written agreement with the client regarding the services to be performed.

## Review Procedures

CPA performance standards require accountants who are engaged to review financial statements to establish an understanding with the association regarding services to be performed (engagement letter/proposal); have strong knowledge of association accounting principles and practices; and design and perform review procedures based on the industry, knowledge of client, and awareness of risk of failing to modify the review report on financial statements that are materially misstated. In addition, accountants are required to conduct appropriate inquiry

of the client and perform analytical procedures, determine that the financial statements reconcile to the accounting records, and obtain representations from management (representation letter).

The accountant should gain an understanding of the following through inquiry or other methods: Accounting basis, unusual or complex situations, significant transactions, status of uncorrected misstatements identified in the engagement for the prior year, events subsequent to the year end, knowledge of any fraud (actual, suspected or alleged), litigation or other claims, and actions taken at board meetings.

## Expediting a Review

A significant amount of associations have financial years ending on December 31. Due to Civil Code requirements to deliver reviewed financials to owners within 120 days of the year end, expediting review reports with efficiency is important.

How can community managers assist CPAs with efficiently completing reviews? Here are some suggestions:

1. Ensure all governing documents are available to the accountant
2. Collect all information related to special assessments, loans, litigation for the accountant
3. Review the monthly financial statements for the last month of the year
  - a. Compare budget to actual variances. Identify reasons and obtain documentation for large variances
  - b. Ensure all statements are available for all bank and investment accounts
  - c. Update collectability of delinquent assessments/receivable records
4. Coordinate with accounting departments
5. Make available all signed and unsigned board meeting minutes
6. Please be available to respond to requests for information.



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