

GARY WALTRIP, CPA
6455 Almaden Expwy, Suite 213
San Jose, CA 95120-2030
(408) 927-7668/(408) 927-8863 FAX
E-mail: gwaltrip@gwaltrip.com
www.gwaltrip.com

STANDARD REVIEW PROGRAM FOR HOMEOWNERS ASSOCIATIONS

Instructions to Staff: This review program is only a guide, and is not intended to replace the accountant's judgment. The review program should be revised, if necessary, to fit the requirements of each engagement, based on a review and understanding of the client's accounting system.

Initials of accountants signing off program steps:

NAME OF ACCOUNTANT	INITIALS

Date fieldwork completed	
Date draft issued	
Date final report issued	

NOTE: OTHER CPAs USING THIS REVIEW PROGRAM DO SO AT THEIR OWN RISK. WHEN NECESSARY, THIS PROGRAM SHOULD BE AMENDED TO FIT THE CIRCUMSTANCES OF THE INDIVIDUAL CLIENT. IT IS NOT A SUBSTITUTE FOR THE ACCOUNTANT'S JUDGMENT.

Client: _____

Period Ended: _____

DETERMINATION OF MATERIALITY

NOTE: The consideration of materiality is a matter of professional judgment, and is influenced by the reviewer's perception of the needs of a reasonable person who will rely on the financial statements. If a misstatement is so great that it would change or influence the judgment of a reasonable person who is relying on the financial statements, then that misstatement is material.

There is no requirement in SSARS that materiality be formally determined and documented. However, if the CPA is to perform analytical reviews of budget variances and account fluctuations over prior years, he or she needs to determine which variances and fluctuations are material enough to analyze. This working paper provides the CPA with a quick and easy means to do that.

Compute materiality as follows, using the SMALLER of revenues or assets:

1 FINANCIAL STATEMENT CATEGORY	2 PERIOD OR DATE	3 FINANCIAL STATEMENT AMOUNT	4 %	5 MATERIALITY BASE AMOUNT
TOTAL ASSETS				
TOTAL REVENUES				

MATERIALITY BASE AMOUNT (column 5) is computed by multiplying column 3 by column 4, using the smaller of total assets or total revenues.

PERCENTAGE to use in Column 4: Although there is no specified formula to determine materiality for any given client, the author does not recommend a percentage larger than 5%. **Generally, use 2% as a starting point for calculation, and amend it upwards or downwards as it seems appropriate in the circumstances.**

The percentage may be lowered for larger clients. The determination must be made by the reviewer based on his consideration of all known facts and circumstances. After determining the materiality base amount above, the reviewer may reduce the base amount further to arrive at a *tolerable misstatement*. **Any misstatements, individual or cumulative, that exceed tolerable misstatement must be adjusted in the financial statements or the review report must be modified.**

TOLERABLE MISSTATEMENT IS SET AT: \$ _____.

PLANNING THE REVIEW ENGAGEMENT

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objectives:</u></p> <p style="padding-left: 40px;">(1) To establish understanding with the client about the scope of our services and obtain required representations of management.</p> <p style="padding-left: 40px;">(2) To obtain an understanding of the client, its accounting system, and to identify areas of concern to the engagement.</p> <p>Preliminary Planning:</p>	
A-1	Prepare an engagement letter and ask the president or treasurer to sign and return it to us.	
A-2	Review prior period working papers, memoranda, accountant's report, financial statements, management letters, tax returns, and any other documents considered relevant.	
A-3	Confer with appropriate client and review team personnel to identify staffing needs and time table for completion.	
A-4	Review the standard review program and consider the necessity of revision, as necessary, to meet the needs of the engagement.	
	<p>Preliminary Fieldwork:</p>	
A-5	Obtain and check (or prepare) classified comparative working trial balance which follows the format and classifications of the financial statements. Compute materiality using our standard materiality worksheet.	
A-6	Obtain a copy of the current period's budget for the working papers, and review significant budget variances with the property manager or treasurer. Document explanations of these variances by making written comments on the working paper copy of the budget, and note the name of person furnishing the explanations.	
A-7	Obtain a copy of the budget for the year following the period under review, and note any significant increases in the regular assessment or the levy of any special assessments. Consider disclosing any significant increases or special assessments as a subsequent event.	

PLANNING THE REVIEW ENGAGEMENT

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
A-8	Obtain a copy of the most recent replacement funding study and inquire of the property manager or treasurer the methods of measurement and computation. Obtain all needed information on replacement costs and remaining useful lives to be included in the unaudited supplementary information as required by the CIRA Audit and Accounting Guide.	
A-9	If there has been no study of the adequacy of the replacement funding program, or if the study shows the program to be inadequate, ascertain that the accountants' report and/or financial statement footnotes disclose this fact.	
A-10	Interview the property manager or treasurer about any potential financial reporting problem areas, such as pending litigation, subsequent events, and the existence of related party transactions.	
A-11	<p>Minutes of the Board of Directors:</p> <p>(a) Read all minutes of Board of Directors for the period under review, as well as the period following the balance sheet date, if available.</p> <p>(b) Prepare a work paper summarizing the important details of each Board meeting. Important details include, but are not limited to, the following:</p> <ol style="list-style-type: none"> 1. Commitments, contingencies, or subsequent events; 2. Explanations of budget variances; 3. Explanations of large repair items; 4. Discussion of replacement reserve funding needs; 5. Opening and closing of bank accounts; 6. Bad debts or uncollectible receivables; 7. Unpaid liabilities or payables existing at the balance sheet date; 8. Transactions with related parties. 	
A-12	<p>Prepare a work paper for related party transactions and do the following:</p> <p>(a) List all related parties, e.g., names of the members of the Board of Directors</p> <p>(b) Describe any related party transactions noted in the minutes, such as hiring owners or their family as outside contractors, vendors, or property managers.</p> <p>(c) Determine whether any identified related party transactions should be disclosed in the financial statements.</p>	

BANK ACCOUNTS

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objectives:</u> To inquire as to the existence, ownership, classification, and availability of cash balances.</p>	
B-1	Determine through inquiry or observation that the client prepared bank reconciliations on a timely basis, and that reconciliations agree with the general ledger.	
B-2	Inquire as to whether there are any old or unusual reconciling items that may require adjustment.	
B-3	Create a lead sheet of all cash accounts, in comparative form with the prior year, that agrees to the general ledger. Note which accounts are designated as operating fund and which are replacement or other funds.	
B-4	Verify interest income for the year by reference to the savings account passbooks or statements (this is done for tax preparation purposes).	
B-5	Ascertain whether client has more than the FDIC insured limit in any one bank; if so, summarize the amount at risk on the Cash lead sheet for footnote disclosure as a concentration of credit risk.	

INVESTMENTS

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objectives:</u> To inquire as to the existence, ownership, classification, and disclosure of investments.</p>	
C-1	Determine through inquiry or observation the types of investments owned by the Association. (Note: investments includes certificates of deposit, U.S. Treasury securities and bonds with a maturity date greater than three months on the date of purchase).	
C-2	Create a lead sheet of all investment accounts, in comparative form with the prior year, that agrees to the general ledger. Note which accounts are designated as operating fund and which are replacement or other funds.	
C-3	Verify interest and dividend income for the year by reference to account statements, 1099s or other source documents (this is done for tax preparation purposes).	
C-4	Determine through inquiry or observation of purchase documents whether any investments have purchase premiums or discounts. Determine that such premiums and discounts have been properly recognized, and propose adjustments as necessary.	
C-5	Determine through inquiry or observation the current market value of such investments (for footnote disclosure purposes).	
C-6	Determine through inquiry and observation as to whether investments are (1) held to maturity (2) available for sale or (3) trading investments. (Note: in most cases, CIRA investments are held to maturity. See FASB 115 or my paper presented to the 1995 CIRA Conference).	

ACCOUNTS RECEIVABLE AND ASSESSMENTS

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u></p> <p>(1) To inquire as to the collectibility and presentation of member and other accounts receivable</p> <p>(2) To inquire as to the rate of assessments by owner and propriety of disclosure in the financial statements.</p> <p><u>Accounts Receivable:</u></p> <p>D-1 Determine through inquiry or observation whether accounts receivable detail listings agree to the financial statements.</p> <p>D-2 Inquire if there are any seriously overdue member accounts and whether or not liens have been filed. Discuss probability of ultimate collection with client or property manager.</p> <p>D-3 Consider whether the provision for bad debts appears adequate. Reclassify credit balances, if material, as a liability (assessments received in advance).</p> <p><u>Gross Assessments Revenue:</u></p> <p>D-4 Ascertain the propriety of recorded amounts of gross assessments revenue for both regular and special assessments by reference to budgets and board resolutions, as appropriate, and by recomputing gross assessments based on the rate charged to various unit owners. (This is done mainly to gather information for footnote disclosure).</p>	

PREPAID EXPENSES AND OTHER ASSETS

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To inquire as to the reasonableness and expectation of future benefits of prepaid expenses and other assets</p>	
E-1	Obtain and check (or prepare) a schedule of prepaid insurance, taxes, and any other prepaid expenses, and reconcile with general ledger.	
E-2	Inquire as to the propriety of amounts and methods of calculation. If necessary, recalculate the prepaid amounts yourself by reference to supporting documents, related expense accounts, etc. Propose adjustments, as necessary.	
E-3	Inquire as to adequacy of insurance coverage.	
	<p>Note: Accountants are not expected to be experts on insurance. However, the accountant should inquire as to the existence of the following coverage:</p> <ul style="list-style-type: none"> (1) comprehensive liability coverage, (2) fire and flood coverage for replacement cost, (3) directors and officers liability coverage, (4) employee dishonesty coverage, (5) workers compensation coverage (6) earthquake coverage. <p>Any omitted coverages should be pointed out to the client, preferably in writing.</p>	

ACCOUNTS PAYABLE & ACCRUED EXPENSES

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To inquire as to the reasonableness of recorded accounts payable and accrued expenses</p> <p><u>Search for material unrecorded liabilities:</u> Normally a review does not include a search for unrecorded liabilities; however, homeowners associations do not usually keep full accrual books. The search for unrecorded liabilities is therefore considered a necessary review procedure for most homeowner associations.</p>	
F-1	<p>For period immediately following balance sheet date:</p> <p>(a) Scrutinize recorded payables and cash disbursements.</p> <p>(b) Scrutinize unpaid invoices.</p>	
F-2	<p>Determine the necessity of accruing utility and other periodic bills if billings for these items will not be received by the end of fieldwork. (Note: just because the client has not received a billing does not mean that a liability does not exist).</p>	
F-3	<p>Prepare a list of accounts payable as of the balance sheet date and make any necessary adjusting journal entry.</p>	
F-4	<p>If there are payrolls, inquire as to the necessity of recording accrued salaries and wages at year end. Propose adjustments, as appropriate.</p>	
F-5	<p>If there are payrolls, inquire as to the necessity of recording accrued vacation pay (and other compensated absences, if any) as well as related payroll taxes, at year end. Propose adjustments, as appropriate.</p>	

FIXED ASSETS AND DEPRECIATION

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To inquire as to the Association's policy for capitalizing and depreciating fixed assets, and to obtain information needed for footnote disclosure.</p>	
G-1	<p>Inquire as to the following:</p> <p>(1) That recorded fixed assets are owned by the Association and represent</p> <p>(2) That assets are recorded at cost (or fair market value, if donated) with adequate provision for depreciation;</p> <p>(3) Depreciation methods used are proper and consistently applied;</p> <p>(4) Appropriate differentiation between capital and expense items;</p> <p>(5) Asset dispositions have been properly recorded and applicable gain/loss has been recognized;</p> <p>(6) Leased assets have been properly accounted for.</p>	
G-2	<p>Obtain and check (or prepare) a summary schedule of fixed assets and depreciation by major asset classifications of beginning balances, additions and retirements, and ending balances.</p>	
G-3	<p>Reconcile balances with the financial statements.</p>	
G-4	<p>Indicate methods of computing depreciation, and useful lives for each asset.</p>	
G-6	<p>Compare additions to accumulated depreciation accounts with related expense accounts and analyze any significant differences.</p>	
G-7	<p>If recorded fixed assets include real property, ascertain through inquiry that such property is not directly associated with the units (CIRA Guide, Par. 2.10).</p>	
G-8	<p>Ascertain through inquiry that common personal property, if material, is capitalized and depreciated (CIRA Guide, Par. 2.11). Examples include furnishings, recreational and maintenance equipment and work vehicles.</p>	

NOTE PAYABLE & LONG TERM DEBT

Client: _____

Period Ended: _____

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Review Objectives:</u></p> <p>(1) Disclosure of the following:</p> <ul style="list-style-type: none"> (A) Discounts and premiums, if any (B) Carrying amount of assets pledged or otherwise encumbered; (C) Restrictive covenants of loan agreements; (D) Interest rates and terms of long-term debt; (E) Maturities of long-term debt over next five years; (F) Capital and operating lease disclosures. 	
H-1	Obtain or prepare an analysis of notes payable, long-term debt, capitalized lease obligations, and other financing arrangements.	
H-2	Compare recorded debt to amounts confirmed and investigate any differences.	
H-3	Review loan and debt agreements and determine if assets are pledged and if there are any restrictive covenants. Document in the working papers all disclosure items, such as loan restrictions and pledged assets.	
H-4	Determine if the Association is in compliance with any loan covenants.	
H-5	Examine lease agreements and determine if any leases should be capitalized. Prepare financial statement disclosures for both capital and operating leases.	
H-6	Test reasonableness of interest expense and accrued interest payable for the year.	
H-7	Determine note terms, interest rates, and maturities over next five years.	

ACCRUED INCOME TAXES ACCRUED INCOME TAXES

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To inquire as to the reasonableness of accrued income taxes</p> <p>I-1 Review copies of tax returns filed during the period.</p> <p>I-2 Prepare a list of payments during the period, for both taxes due at the end of the prior fiscal year as well as estimated payments for the current fiscal year.</p> <p>I-3 Summarize taxable income and deductible expenses for the period, and compute income tax expense as well as amounts payable or refundable. Propose adjustments, as necessary.</p>	

FUND BALANCES

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To inquire as to the proper classification and disclosure of changes in fund balances</p>	
J-1	Obtain and check (or prepare) a schedule of replacement fund balance, showing beginning balance, additions, deductions, and other changes, and ending balance, and reconcile with the financial statements.	
J-2	Ascertain that adjusting journal entries at close of preceding period are properly reflected or reversed in the current period.	
J-3	Reconcile ending fund balances to cash and other assets, less accounts payable and other liabilities, in the balance sheet. (Be sure that all funds balance.)	
J-4	Determine that replacement and other funds are accounted for separately from operating funds, and that significant funds are segregated in the financial statements.	
J-5	Determine whether there are any prior period adjustments, and if so, that they are properly presented and disclosed.	

COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To inquire as to the adequacy of disclosure of commitments, contingencies, and subsequent events</p>	
K-1	<p>Inquire as to whether there is any litigation in progress, and the status of such litigation; consider reading any legal complaints and discussing any litigation with the Association attorney, as necessary.</p>	
K-2	<p>Inquire whether the budget for the period subsequent to the period under review has been approved by the homeowners, and whether it provides funding for the long-term replacement program.</p>	
K-3	<p>If there has been no study of the adequacy of the replacement funding program, or if the study shows the program to be inadequate, ascertain that the accountants' report and/or financial statement footnotes disclose this fact.</p>	
K-4	<p>Ascertain whether any contingencies should be provided for in the financial statements or otherwise disclosed, taking FASB #5 into account.</p>	
K-5	<p>Inquire as to whether or not there are any material commitments under contracts or lease agreements and whether or not such commitments should be disclosed in the financial statements.</p>	
K-6	<p>Inquire as to any SUBSEQUENT EVENTS, i.e., significant events occurring after the balance sheet date that might influence the users of the financial statements. Examples would include, but are not limited to the following:</p> <ol style="list-style-type: none"> 1. The arise or conclusion of significant litigation; 2. The levy of special assessments; 3. Substantial increase in the regular assessment; 4. Cancellation of insurance coverage; 5. Natural disasters, such as fire or flood; 6. The discovery of significant structural defects in the development's construction; 7. Significant changes in the association's organization or legal form. <p>Determine whether any identified subsequent events require adjustment to, or only disclosure in, the financial statements.</p>	
K-7	<p>Determine whether any identified subsequent events require adjustment to, or only disclosure in, the financial statements.</p>	

ANALYTICAL REVIEW

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To inquire as to the causes of major fluctuations of income and expense with the prior year</p>	
L-1	<p>Compare adjusted balance sheet accounts to prior year's balances and obtain explanations for significant fluctuations from the prior year.</p> <p>NOTE: this comparison does not normally include either fund balances or cash, since these items fluctuate as a factor of income and expense.</p>	
L-2	<p>Compare all income and expense accounts to prior year's balances and obtain explanations for significant fluctuations from the prior year.</p>	
L-3	<p>Review nature of expenses and sources of other income.</p>	
L-4	<p>Inquire about any significant amounts in such accounts as "Miscellaneous," "Sundry" or "Other," and consider appropriate classification of such amounts.</p>	
L-5	<p>Document the client's explanations of the significant fluctuations, and indicate the date and name of the personnel interviewed.</p> <p>Note: significant fluctuations may be evidence of unrecorded liabilities or misclassifications of expense. Your inquiries should satisfy you that no adjustments are needed to correct a material error.</p>	

REPLACEMENT FUNDING PROGRAM

Client: _____

Period Ended: _____

ITEM NO.	AUDIT PROCEDURE	DONE BY
M-1	<p><u>Audit Objective:</u> To obtain information on the Association’s funding program for major repairs and replacements, as required by the CIRA Guide.</p> <p>Obtain a copy of the Association’s most current replacement funding study that shows:</p> <ul style="list-style-type: none"> (1) a list of common area components that the association is required to maintain, with replacement cost, total estimated life for each and total remaining life for each; (2) assumptions used, including interest earned on savings, inflation rate assumed, number of years in the window for cash flow models, etc; (3) who performed the funding study, and if the board, how they determined replacement costs and lives of the components. 	
M-2	Review the funding study for overall reasonableness of presentation and assumptions.	
M-3	Check the math by footing the replacement costs of the components and check calculations of amounts needed for current funding.	
M-4	Determine that the information in step N-1 is adequately disclosed in the unaudited supplementary information required by the CIRA Guide.	

FINAL ADMINISTRATIVE PROCEDURES

Client: _____

Period Ended: _____

ITEM NO.	REVIEW PROCEDURE	DONE BY
	<p><u>Review Objective:</u> To obtain required client representations and finish the review</p> <p>N-1 At the end of field work, ask the client for a representation letter signed by the President or Treasurer. (If client declines to sign a representation letter, withdraw from the engagement and do not issue a review report.)</p> <p>N-2 Discuss any proposed adjustments with the property manager or Treasurer, and provide them with a copy of the adjusting journal entries.</p> <p>N-3 Issue the review report and reviewed financial statements.</p>	

GARY WALTRIP, CPA
QUALITY REVIEW CHECKLIST FOR FINANCIAL STATEMENTS

QC

CLIENT _____ **A/R/C REVIEW**

YEAR ENDING _____

Item No.	Quality Control Procedure	Done By
	<u>WORKING PAPERS:</u> Check to see that --	
A-1	All working papers prepared by assistants have been reviewed and initialed by the proprietor, and all working paper balances traced to the final trial balance.	
A-2	All open point sheets have been completed and removed from the working papers.	
A-3	All work program steps have been signed off.	
A-4	Analytical reviews have been completed and documented.	
A-5	A representation letter signed by the client or his authorized representative has been obtained and is included in the working papers.	
A-6	A final copy of the review report has been included in the working papers.	
	<u>ACCOUNTANT'S REPORT:</u> - Prior to issuance, do the following:	
B-1	Read the accountant's report and footnotes for spelling and grammatical errors.	
B-2	Agree each footnote to the corresponding line of the basic financial statements and check footings & cross footings	
B-3	Review each page of the basic financial statements and supplementary data for the notation, "SEE ACCOUNTANT'S REPORT"	
B-4	Determine that a signed representation letter has been received BEFORE issuance of the final report.	