

Planning for the Association's Year End Audit

BY DAVID L. FERULLO, CPA – THE CURCHIN GROUP, LLC – RED BANK, NJ

The governing documents of most associations require an annual audit of the association's financial statements. An audit includes tests of accounting records and other procedures considered necessary to enable the auditor to express an opinion that the association's financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Audit procedures include, but are not limited to, the testing of documentary evidence supporting the transactions recorded in the accounts and testing for the existence of assets and liabilities by corresponding with third parties such as banks and other financial institutions, insurance companies and legal counsel. An audit also includes examining, *on a test basis*, evidence supporting amounts and disclosures in the financial statements. These would include paid and unpaid invoices, assessment billings, insurance policies and notes supporting any loans.

In planning for the year end audit, the auditor, board of trustees and management company or, if self managed, the association's accounting staff need to work together as a team to ensure the financial and other information required to facilitate the audit is complete, accurate and readily available. This should begin with the auditor indicating to the association's management the items will be needed to complete the audit.

Copies of the following documentation should be provided to the auditor:

- Public Offering Statement and by-laws (initial audit)
- Complete set of signed and dated minutes for period under audit
- Service contracts such as management, landscaping, maintenance, legal, etc
- Most current capital reserve study
- Budget
- Year end trial balance
- Year to date detail general ledger
- Bank reconciliations as of audit date
- Broker statements for investments as of audit date
- Year-end aging of unit owner receivables
- Schedule of insurance coverage
- Schedule of amounts due from developer
- Schedule of other assets, if any
- Year-end aging of accounts payable
- Schedule of other liabilities, if any
- Schedule of cash disbursements for 30-60 days following audit date
- Schedule of prepaid assessments if not included on receivable listing

- Listing of assessments by type of unit, if different, showing number of units and amounts
- Form 1099s for interest received
- Supporting documentation for any developer subsidies

The following documentation should be available for auditor's review:

- Year-end and subsequent month bank statements
- Year-end and subsequent month broker statements
- Insurance policies
- Paid invoices for the year being audited
- Unpaid invoices as of the audit date
- Quarterly and year-end payroll tax filings, if any

The foregoing list contains those items of information generally required by the auditor during most audits. Additional information may be required depending upon the circumstances. Although the amount of information to be provided may appear to be voluminous, most of the information is included in the monthly financial package provided to the board members. Providing a copy of the year-end monthly financial package to the auditor will provide much of this information without causing an undue burden on the association's management company or manager.