



Neighborhood Insider

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Answers from Amanda **Audit, Review, Compilation**



Q: Why do Associations have to have an audit, review or compilation and what are the differences between the three?

A: Arizona State Statute requires that Homeowner Associations and Condominium Associations have an audit, review or compilation each year as a formal review of the community's financial statements. A.R.S. § 33-1810 (for HOAs) and A.R.S. § 33-1243 (H) (for Condominium Associations) also require that the audit, review or compilation be completed no later than 180 days after the end of the Association's fiscal year end, and once completed, must be made available to the Association's homeowners upon request within 30 days.

The Board of Directors and your Community Manager should review the governing documents before arranging for the audit, review or compilation because there is an exception to the statute. If there is a provision in the governing documents (typically found in either the Bylaws under the section that covers "Treasurer's Duties" or in the CC&Rs in a section regarding "Books and Records") that requires an annual audit, the Association must have an audit and cannot choose one of the other lesser financial reviews – the review or compilation. Also, if the governing documents require a review, it is best to assume that you should not go with the less-comprehensive compilation.

This brings us to the differences between the three financial reviews. First, a compilation is the most basic of the three. The CPA compiles the community's cash

receipts and disbursements and prepares financial statements (Balance Sheet, Income Statement). The CPA does not express an opinion about the financial statements, taken as a whole, nor express any assurance about material changes that should be made to the financial statements. This is, however, the least expensive of the three financial reviews.

A review is more in-depth than a compilation, yet less comprehensive than an audit. This report gives a higher, yet limited, level of assurance than a compilation, but does not analyze internal controls. The CPA must be familiar with Associations and related accounting practices within this industry. The CPA then makes inquiries about the Association's accounting practices and procedures and analyzes them for any unusual items or trends. A review may reveal to the CPA significant matters that affect the financial statements, but it does not provide assurance that all issues will surface that could be disclosed in an audit. This level of review is more expensive than a compilation but less expensive than an audit.

An audit requires examination of the books in accordance with generally accepted accounting principles ("GAAP") that will enable the CPA to express an opinion about the financial statements. Extensive work is performed and all appropriate disclosures are made. The CPA provides written assurance that financial reports are "fairly presented in conformity with generally accepted accounting principles (GAAP)." The measure for "fairly presented" is that there is less than 5 percent

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DID YOU KNOW: AAM is Green

Did you know that AAM is an industry leader when it comes to green business practices?



In fact, the company is always on the look out for new ways to treat the environment more kindly. Here are a few examples of its green efforts so far:

- Offers communities the option of receiving monthly financial statements electronically
- Recently converted its monthly Neighborhood Insider board newsletter to electronic distribution from a paper-based, U.S. mail format. All Neighborhood Insider back issues may be accessed on AAM's website: www.aamaz.com/newsletters.php
- Uses an electronic database called Smeadlink, which allows the Records Department to store files electronically, rather than print them out
- Has appointed an in-house "Green Committee" to research going-green ideas and to find new and different ways to implement environmentally friendly practices into everyday work life



SERVICE SPOTLIGHT:

Records Department

AAM's three-person Records Department may be small, but it's mighty. According to department manager **Daniel Hernandez-Roda**, the Records Department is considered by many to be the company's go-to spot for information of just about any type.

"If any miscellaneous questions or problems arise, people usually come to the Records Department and we try to help them figure it out," he said.

The department is responsible for a variety of tasks,

including scanning and filing documents, sending out financials to board members and preparing CDs for Welcome Packets.

The department also is doing its part for the environment by utilizing a special document management software called Smeadlink that supports AAM's efforts to go paperless. The electronic filing system enables AAM to serve its clients – including homeowners – more efficiently by keeping better track of documents and providing information quickly.

NEWS YOU CAN USE:

Summer Landscaping

SUMMER LANDSCAPE PREP

Like it or not, the mercury is rising, and with warmer weather comes significant changes in your landscaped common areas. The key to a successful transition from winter to summer here in the Valley is proactive planning. It is essential for your landscape management contractor to plan ahead or your landscaped areas will suffer from the extreme summer conditions.

SHRUB MANAGEMENT

Numerous species of shrubs thrive in our desert environment. Proper shrub management is simple: renovate (to prune plant to roughly half its size) shrubs once a year based on their flowering cycle. This simple approach does not change as we move toward the warmer months. Most Sage varieties should be renovated by now, while Cassias and Brittle Bush flower in spring and should be cut back after their flowers are spent; normally in May. The key is to have a plan.

TURF TRANSITION

Early spring brings warmer nighttime temperatures, so Bermuda grass starts to wake up and grow. If your community has overseeded turf, the Rye grass and Bermuda grass compete for light, water and nutrients. Your landscape management contractor should gradually lower the decks of their mowers around the end of March or early April. Lower mowing will not hurt the Bermuda, but will serve to suppress the Rye. The key to a successful turf transition is proactive planning. Without it, your turf can potentially be an eyesore well into late July.

WATER MANAGEMENT

Your landscape management contractor does not pay the community water bill. Unfortunately, that often means that they don't pay attention to water management. Use your common sense. If you see water running after one of our recent rain showers or if you see standing water, hold your landscape contractor accountable. Ask for water consumption reports if you don't get them already.

Established desert plants require very little water in winter. A drip system can and should be turned off completely in mid November. You won't have to turn it on until late March. Proper water management in the summer months requires constant soil probing and vigilance. The irrigation system needs to be properly programmed based on the needs of the plants. It also

needs to be balanced, which means that heads are adjusted, the correct emitters are installed, etc. The goal is to provide just enough water for plants to remain healthy and no more.

Source: DLC Resources Inc. Landscape Management

HOA Board Training

Mark your calendars and plan to attend our next HOA Board Training sessions. Here are the details:

Tax Consolidation and Audits

6-8 p.m., April 8, AAM Corporate Office, 7740 N. 16th St., Ste. 300, Phoenix

New Board Member Training

6-8 p.m., April 22, East Valley, West Valley and Corporate offices.

East Valley Office: 1311 W. Chandler Blvd., Ste. 130, Chandler

West Valley Office: 14780 W Mountain View Blvd., Ste. 111, Surprise

Snacks will be served at all meetings. To reserve your seat, contact **Tanya Salerno at tsalerno@aamaz.com or (602) 288-2694.**

Answers from Amanda continued

chance (5 percent audit risk) that the financial statements are "materially misstated." This report provides the greatest level of assurance of the three financial reviews and is typically the most expensive.

One other question that we often hear is, if there is no requirement of an annual audit in the governing documents, thus allowing for the choice between a review and compilation, when might it be a good idea to have an audit performed? It may be a good idea to have an audit conducted when any of the following occur: a new Board of Directors is elected, during transition from Declarant to Homeowner control, with the start of a new management company, if the Association has never had an audit or when the past fiscal year included significant expenditures and/or special assessments.

Amanda Shaw, President of AAM, LLC