



HOA Taxes

Tom Bell, CPA

12/5/2023

HOA Taxation



Homeowners' Associations are organized as a "Not-for-Profit" entity. That is different from a "Non-Profit" like a charity.

Federal Taxation History

Code Section 501(c)(4)

Generally, IRC 501(c)(4) provides a stricter standard for a homeowners' association to qualify for exemption than does IRC 501(c)(7) or 528. Specifically, under IRC 501(c)(4) a homeowners' association must operate for the benefit of the general public, i.e., it must provide a community benefit. The position of the Internal Revenue Service regarding the exemption of homeowners' associations under IRC 501(c)(4) is set-forth in a number of revenue rulings. The principal factor barring exemption in this area is the degree of private benefit served by the operation of the particular homeowners' association.

Federal Taxation History (Continued)

Revenue Rulings

In the Mid-1960's the issue of exemption for an organization comprised of property owners was first considered for publication. Prior to Rev. Rul. 67-6, 1967-1 C.B. 135, * the Service had very little revenue ruling precedent delineating the differences between charitable purposes and civic (social welfare) purposes. This revenue ruling described a membership organization formed by owners of property, consisting of less than 50 square city blocks, to preserve the appearance of its area by group action. The organization was involved in "community" type issues.

*Rev. Rul. 67-6 was modified, by Rev. Rul. 76-147, 1976-1 C.B. 151, to remove any implication that preserving or improving a community does not benefit a sufficiently broad segment of the public to be charitable. So long as the community interests served by such activities are truly public in scope and not merely the private interests of a class of persons not themselves comprising a charitable class such activities may be regarded as "charitable."



Federal Taxation History (Continued)

Revenue Rulings (Continued)

In Rev. Rul. 74-17, the Service distinguished its treatment of homeowners' associations, as described in Rev. Rul. 72-102, from that of condominium associations. Rev. Rul. 74-17, held that while condominium associations and homeowners' associations provided similar services, a substantial distinction existed between them. Specifically, the essential nature and structure of condominium ownership, both statutory and contractual, is inextricably and compulsorily tied to the owner's acquisition and enjoyment of the property. Basic condominium ownership necessarily involves common ownership of all condominium property in the development, the care and maintenance of which would constitute the provision of private benefit to the owners to a degree that would disqualify it from exemption under IRC 501(c)(4).

In Rev. Rul. 80-63, the Service provided answers to several questions regarding whether the conduct of certain activities would affect the exempt status under IRC 501(c)(4) of otherwise qualifying homeowners' associations. This revenue ruling states that, as contemplated by Rev. Rul. 74-99 for purposes of IRC 501(c)(4), the term "community" does not embrace a minimum area or a certain number of homeowners. The answers given to questions 2 and 4 state that a homeowners' association that does not represent a community cannot, under Rev. Rul. 74-99, restrict the use of its recreational or parking facilities to its members only and qualify for exemption under IRC 501(c)(4).

Federal Taxation History (Continued)



Code Section 528

IRC 528 was enacted under the provision of the Tax Reform Act of 1976, to provide homeowners' associations with another alternative to exemption under the IRC 501(c)(4). Qualifying homeowners' associations that are under exempt under IRC 528 are taxable only to the extent provided therein. IRC 528 exempts from income tax any dues or assessments received by qualified homeowners' associations from property owner-members of the organization, where these dues and assessments are used for the maintenance and improvement of its property. All homeowners' associations described in IRC 528 may qualify for this sort of quasi-exempt status by election.

Federal Taxation History (Continued)

Code Section 528 (Continued)

IRC 528 defines a qualified “homeowners’ association” as an organization that is a condominium management association or a residential real estate management association if:

1. it is organized and operated to provide for the acquisition, construction, management, maintenance, and care of association property;
2. it elects to have the section apply for the taxable year;
3. no part of the net earnings of the association inures to any private shareholder or individual;
4. 60 percent or more of the association’s gross income consists solely of amounts received as membership dues, fees, or assessments from owners of residential units, residences or residential lots (exempt function income); and,
5. 90 percent or more of the association’s expenditures for the taxable year are expenditures for the acquisition, construction, management, maintenance, and care of association property.

Federal Taxation History (Continued)

So, what does this mean?

HOA's for federal taxation can annually elect to be taxed as a regular corporation at 21% of net accounting income by filing a Form 1120

OR

Elect under Code Section 528 to be taxed at a rate of 30% on its "Non-Function" income less direct deductions related to the "Non-Function Income" by filing Form 1120H.

Non-Function Income:

- Interest
- Dividends
- Cell Tower Rents
- Laundry Room

Expenses

- Tax Preparation
- Investment Management Fees
- Laundry Room Expenses

Form **1120-H**

Department of the Treasury
Internal Revenue Service

For calendar year 2016 or tax year beginning

**U.S. Income Tax Return
for Homeowners Associations**

► Information about Form 1120-H and its separate instructions is at www.irs.gov/form1120h.

, 2016, and ending

OMB No. 1545-0123

2016

, 20

California Taxation

California Revenue and Taxation Code §23701t

A homeowners' association organized and operated to provide for the acquisition, construction, management, maintenance, and care of residential association property if all of the following apply:

- Sixty percent or more of the gross income of the organization for the taxable year consists solely of amounts received as membership dues, fees, and assessments from either of the following:
- Tenant-stockholders or owners of residential units, residences, or lots.
- Owners of time-share rights to use, or time-share ownership interests in, association property in the case of a time-share association.
- Ninety percent or more of the expenditures of the organization for the taxable year are expenditures for the acquisition, construction, management, maintenance, and care of association property and, in the case of a time-share association, for activities provided to or on behalf of members of the association.



California Taxation (Continued)

California Revenue and Taxation Code §23701t (Continued)

No part of the net earnings inures (other than by providing management, maintenance, and care of association property or by a rebate of excess membership dues, fees, or assessments) to the benefit of any private shareholder or individual.

Amounts received as membership dues, fees, and assessments not expended for association purposes during the taxable year are transferred to and held in trust to provide for the management, maintenance, and care of association property and common areas.

The gross income for the taxable year (excluding any exempt function income), over

The deductions allowed by this part which are directly connected with the production of the gross income (excluding exempt function income).

For purposes of this section, the term “exempt function income” means any amount received as membership fees, dues, and assessments from tenant-shareholders or owners of residential units, residences, or lots, or owners of time-share rights to use, or time-share ownership interests in, association property in the of a time-share association.

Exemption ApplicationCALIFORNIA FORM
3500

California corporation number/California Secretary of State file number		FEIN	
Name of organization as shown in the organization's governing document		Mailing address	
Street Address (include room, or PMB #)			
City	State	ZIP code	
Telephone	Second telephone	Fax	

Representative Information

Name of representative		Mailing address	
Street Address (include room, or PMB #)			
City	State	ZIP code	
Telephone	Second telephone	Fax	

General Questions**Part I - Organizational Structure**

Check the box for the type of organization and provide the listed documents. If the listed documents are not provided, the organization's request for exemption will be delayed, or denied. Copies are acceptable.

- California Corporation** - Incorporated through the California Secretary of State (SOS). See General Information E, Incorporated Organizations. Provide the articles of incorporation, including any amendments stamped by the California SOS, and the corporation's bylaws or other code of regulations.
- Foreign Corporation** - See General Information F, Foreign Corporations. If the corporation is **qualified** through the California SOS: Provide the Statement and Designation by Foreign Corporation, stamped articles of incorporation including all amendments from the state of incorporation, the corporation's bylaws or other code of regulations, and the letter of exemption determination letter. If the corporation is **not qualified** through the California SOS: Provide a letter of good standing from the state of incorporation, the stamped articles of incorporation and all amendments from the state of incorporation, the corporation's bylaws or other code of regulations, and the letter of exemption determination letter.
- Unincorporated Association** - Not incorporated through the Calif via SOS. See General Information B, Unincorporated Associations. Provide the constitution, articles of association, bylaws or other code of regulations with specific language, and signed by the board of directors or other governing body.
- Trust** - See General Information H, Trusts. Provide the trust instrument, any amendments and the trust's letter of exemption determination letter.
- Limited Liability Company (LLC)** - See General Information I, Limited Liability Companies. If the LLC is registered in Calif via: Provide the articles of organization (LLC-1), and any amendments stamped by the California SOS, and the operating agreement. If the LLC is a foreign LLC registered in California: Provide the Application to Register a Foreign Limited Liability Company (Form LLC-8), letter of good standing from the state of incorporation, articles of organization from the state of incorporation including any amendments, and the operating agreement.

Be sure to include the \$25 application fee. Using black or blue ink, make the check or money order payable to the "Franchise Tax Board." Do not send cash. Make all checks or money orders payable in U.S. dollars and drawn against a U.S. financial institution. Mail form FTB 3500 to: SERFFT ORGANIZATIONS and HIS FILED, FRANCHISE TAX BOARD, PO BOX 1286, RANCHO CERRITOS, CA 92741-1286.

Under penalty of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

DATE: _____ SIGNATURE OF PREPARED REPRESENTATIVE: _____ TITLE: _____

7221153

FTB 3500 2019 506 1

California Taxation (Continued)

How do Association's elect to be a HOA under 23701t?

By filing a Form 3500, Exempt Application. This also makes the Association exempt from the California minimum tax of \$800.

Once a Form 3500 is filed and exemption granted under 23701t, it is in place until revoked. (Not an annual election like the federal)

YLOA tax return

Form 1120-H Department of the Treasury Internal Revenue Service	U.S. Income Tax Return for Homeowners Associations Go to www.irs.gov/Form1120H for instructions and the latest information.	OMB No. 1545-0123 2021
For calendar year 2021 or tax year beginning 7/01, 2021, and ending 6/30, 2022		
TYPE OR PRINT YOSEMITE LAKES OWNERS ASSOCIATION 30250 YOSEMITE SPRINGS PRKWY COARSEGOLD, CA 93614	Employer identification number 94-2367595 Date association formed 7/01/1976	
Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return		
A Check type of homeowners association: <input type="checkbox"/> Condominium management association <input checked="" type="checkbox"/> Residential real estate association <input type="checkbox"/> Timeshare association		
B Total exempt function income. Must meet 60% gross income test. See instructions		B 4,213,416
C Total expenditures made for purposes described in 90% expenditure test. See instructions		C 4,409,531
D Association's total expenditures for the tax year. See instructions		D 5,178,989
E Tax-exempt interest received or accrued during the tax year		E
Gross Income (excluding exempt function income)		
1 Dividends.....		1
2 Taxable interest.....		2 439
3 Gross rents.....		3
4 Gross royalties.....		4
5 Capital gain net income (attach Schedule D (Form 1120)).....		5
6 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797).....		6
7 Other income (excluding exempt function income) (attach statement)..... SEE STATEMENT 1		7 1,815,510
8 Gross income (excluding exempt function income). Add lines 1 through 7.....		8 1,815,949
Deductions (directly connected to the production of gross income, excluding exempt function income)		
9 Salaries and wages.....		9
10 Repairs and maintenance.....		10
11 Rents.....		11
12 Taxes and licenses.....		12
13 Interest.....		13
14 Depreciation (attach Form 4562).....		14 136,156
15 Other deductions (attach statement)..... SEE STATEMENT 2		15 1,679,354
16 Total deductions . Add lines 9 through 15.....		16 1,815,510
17 Taxable income before specific deduction of \$100. Subtract line 16 from line 8.....		17 439
18 Specific deduction of \$100.....		18 \$100
Tax and Payments		
19 Taxable income . Subtract line 18 from line 17.....		19 339
20 Enter 30% (0.30) of line 19. (Timeshare associations, enter 32% (0.32) of line 19.).....		20 102
21 Tax credits (see instructions).....		21
22 Total tax . Subtract line 21 from line 20. See instructions for recapture of certain credits.....		22 102
23 a 2020 overpayment credited to 2021... 23a		23c 0 23d 23e 23f 23g 0
b 2021 estimated tax payments..... 23b		
c Total → 23c		
d Tax deposited with Form 7004..... 23d		
e Credit for tax paid on undistributed capital gains (attach Form 2439)..... 23e		
f Credit for federal tax paid on fuels (attach Form 4136)..... 23f		
g Add lines 23c through 23f..... 23g		
24 Amount owed . Subtract line 23g from line 22. See instructions.....		24 102
25 Overpayment . Subtract line 22 from line 23g.....		25
26 Enter amount of line 25 you want: Credited to 2022 estimated tax → Refunded → 26		26
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
Sign Here Signature of officer _____ Date _____ Title _____	May the IRS discuss this return with the preparer shown below? See Instrs. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Paid Preparer Use Only Print/preparer's name: THOMAS L. BELL, C.P.A. Preparer's signature: THOMAS L. BELL, C.P.A. Date: _____ Firm's name: MOORE GRIDER & COMPANY LLP Firm's EIN: 94-2191284 Firm's address: 325 E SIERRA AVE FRESNO, CA 93710 Phone no.: (559) 440-0700	Check <input type="checkbox"/> if self-employed PTIN: P00972310	
BAA For Paperwork Reduction Act Notice, see separate instructions. CPCA300L 07/01/21 Form 1120-H (2021)		

5C-1 Summarized
Disclosure
Checklist

CR-5.2 Review
Procedures,
Review, and
Approval Form

CR-7 Inquiry and
Analytical
Procedures
Program

CR-8.2 Review
Reporting
Checklist

CR-10 Financial
Statement
Materiality
Worksheet



Checklists

For review-level financial statements, CPA firms are required to prepare 5 checklists. This is done simultaneously with the preparation of the financial statements to comply with our peer review audit.

Appendix 5C-1 Summarized Disclosure Checklist

Balance Sheet

Revenue & Expenses

Statement of Cash Flow

Note Disclosures

APPENDIX 5C-1

Summarized Disclosure Checklist

Entity: _____ Balance Sheet Date: 12/31/2021
 Prepared by: _____ Date: _____
 Reviewed by: _____ Date: _____

This checklist is a summary of the long-form checklist in Appendix 5C-2 of this *Guide*. It is designed to be used by accountants who frequently prepare financial statements and are familiar with GAAP disclosure requirements for nonpublic companies. Accountants unfamiliar with a particular disclosure requirement should refer to the long-form disclosure checklist in Appendix 5C-2 for additional guidance. It should be emphasized that this checklist is not a substitute for an accountant's exercise of professional judgment and knowledge of all authoritative pronouncements.

Except for (1) ASU 2016-02, *Leases (Topic 842)*, and related subsequent ASUs and (2) ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and related subsequent ASUs, this summarized checklist is current through ASU 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. Appendix 5C-2 includes Part III, *Disclosures Required by Significant Recently Issued ASUs with Delayed Effective Dates* that identifies disclosure requirements for ASU 2016-02, and related subsequent ASUs and ASU 2016-13, and related subsequent ASUs.

		Disclosure Made?		
		Yes	No	N/A
BALANCE SHEET				
1.	Cash—			
	a. Is restricted cash identified and reclassified as noncurrent, if applicable, and are the restrictions disclosed?	✓	—	—
	b. Are significant concentrations of credit risk arising from cash deposits in excess of federally insured limits disclosed?	—	—	✓
2.	Notes and accounts receivable—			
	a. Are significant categories of receivables, including officer and employee receivables, shown separately from normal trade receivables?	—	—	✓
	b. Are amounts due from officers, employees, affiliates, or subsidiaries properly classified as current or noncurrent?	—	—	✓
	c. Is the allowance for doubtful accounts (also referred to as the allowance for credit losses) disclosed?	✓	—	—
	d. Is an analysis presented (by class of financing receivable) of the age of the recorded investment in financing receivables at the end of the reporting period that are past due, as determined by the entity's policy? (This disclosure does not apply to certain receivables.)	—	—	✓
	e. Is the aggregate amount of gains or losses on sales of loans or trade receivables (including recorded unrealized gains and losses) presented separately in the financial statements or disclosed?	—	—	✓
	f. Are foreclosed and repossessed assets not subsequently to be used in operations presented separately in the financial statements or disclosed?	—	—	✓
	g. Is the recorded investment disclosed (by class of financing receivable) for nonaccrual and past due (90 days or more) financing receivables as of each balance sheet date presented? (This disclosure does not apply to certain receivables.)	—	—	✓

HOA-CR-5.2: Review Procedures, Review, and Approval Form

Entity: Financial Statement Date: 12/31/2021

Instructions: This checklist may be used for all reviews of fiscal year-end and interim financial statements. (This checklist does not apply to interim reviews performed under [AU-C 930](#). See the discussion in section [707](#) concerning the applicability of [AU-C 930](#).) For each step, check "Yes," "No," or "N/A." Any item checked "No" should be explained in the "Comments" column or in an attached memorandum.

In February 2020, the AICPA Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*. SSARS No. 25 is effective for engagements for periods ending on or after December 15, 2021, with early implementation permitted. The standards relating to review engagements are codified at [AR-C 60](#) and [AR-C 90](#). Pre-SSARS No. 25 standards relating to review engagements are recodified at [AR-C 60A](#) and [AR-C 90A](#). If the AR-C authoritative guidance has not changed as a result of the issuance of SSARS No. 25, then this *Guide* refers to only the AR-C reference after implementation of SSARS No. 25. This practice aid may be used both before and after the implementation of SSARS No. 25. SSARS No. 25 is discussed in section [901](#).

HOA CR-5.2 Review Procedures, Review, and Approval Form

- New or continuing engagement
- Documentation of materiality
- Inquiries of management made
- Working papers document
(Required by SSARS No.25)

	Yes	No	N/A	Comments
Review Procedures				
(To be performed by the staff in charge of the performance of the review procedures.)				
1. If this is a new engagement, engagement acceptance considerations have been documented.	—	—	✓	
2. If this is a continuing engagement:				
a. Consideration has been given to whether there are any reasons why we should reevaluate whether to continue performing this engagement.	✓	—	—	None
b. Consideration has been given to any change in independence, including changes resulting from performing nonattest services (such as financial statement preparation and/or tax return preparation services).	✓	—	—	None
3. If, after accepting the engagement, we have become concerned that the preconditions at AR-C 60.26 or AR-C 90.13 have not been met, we have discussed the matter with management (Required by SSARS No. 25).	—	—	✓	
4. If the engagement was originally intended to be an audit, the required step-down considerations have been documented.	—	—	✓	
5. An engagement letter that establishes an understanding with the client regarding the services to be performed has been obtained, signed by both the accountant or accountant's firm and management or those charged with governance, and included in the review documentation.	✓	—	—	Eng. Letter
6. If other firms have been engaged to perform an audit or review of a significant component of the entity—	—	—	—	

HOA-CR-7: Inquiry and Analytical Procedures Program—Review

Entity:
 Completed by:
 Reviewed by:

Financial Statement Date: 12/31/2021
 Date Completed:
 Date:

Instructions: Completion of this program is recommended for all GAAP review engagements since it provides a step-by-step guide of the inquiries and analytics that should normally be performed on a typical GAAP review engagement. [Appendix 9H-2](#) , "Inquiry and Analytical Procedures Program for Income Tax Basis Financial Statements," of *PPC's Guide to Cash, Tax, and Other Bases of Accounting* may be used for financial statements prepared on the income tax basis of accounting. Those programs include additional inquiries required in the review of special purpose framework financial statements.

The exact inquiries to be made and analytics to be performed are a matter of the accountant's professional judgment. Consequently, the accountant may choose to tailor this program by marking some of the procedures "N/A" as they might not be applicable or material. The accountant should initial each step or note "N/A" in the "Done by" column. Analytical procedures and certain inquiries are required by the SSARS. These have been marked as such in the program text below. For inquiries made, the accountant should note the name or initials of the client personnel who provided the information in the "Inquired of/WP ref" column. In addition, space has been provided below each inquiry to document the client's response to the inquiry. For analytical procedures performed, the accountant should reference in the "Inquired of/WP ref" column the workpaper where the expectations, procedures, and any additional procedures are documented. This program is intended to be a guide and should not be a substitute for professional judgment.

In February 2020, the AICPA Accounting and Review Services Committee issued Statement on Standards for Accounting and Review Services (SSARS) No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*. SSARS No. 25 is effective for engagements for periods ending on or after December 15, 2021, with early implementation permitted. The standards relating to review engagements are codified at [AR-C 60](#) and [AR-C 90](#) . Pre-SSARS No. 25 standards relating to review engagements are recodified at [AR-C 60A](#) and [AR-C 90A](#) . If the AR-C authoritative guidance has not changed as a result of the issuance of SSARS No. 25, then this *Guide* refers to only the AR-C reference after implementation of SSARS No. 25. Completion of this program serves to meet the documentation requirements both before and after implementation of SSARS No. 25. SSARS No. 25 is discussed in section [901](#) .

SSARS No. 25 states that the accountant should determine materiality for the financial statements as a whole and apply this materiality in designing procedures and evaluating results obtained from those procedures. [HOA-CR-10](#) can be used to determine and document planning materiality in a review engagement. [AR-C 90.19](#) indicates that materiality should be applied in designing review procedures and evaluating the results of review procedures.

TB=Tom Bell; Staff Initials=Staff Name; Property Mgr Initials = Name

PROCEDURE	Done by	Inquired of /WP Ref
<p style="text-align: center;">General</p> <p>1. Obtain or prepare a trial balance showing account balances for the current and prior year. The accounting system software provided by the major vendors typically has the capability of exporting this information into an Excel file, which helps with the application of analytical procedures.</p>	_____	WTB

HOA CR-7 Inquiry and Analytical Procedures Program

Instructions for applying analytical procedures

Documentation of inquiries with management

Inquiry of actual or suspected alleged fraud

Inquiry concerning litigation, claims, assessments, or other uncertainties that exist

HOA-CR-8.2: Review Reporting Checklist

Entity:
Completed by:
Reviewed by:

Financial Statement Date: 12/31/2021
Date Completed:
Date:

Instructions: This checklist can be used to document reporting considerations for all review engagements. It presents common reporting requirements for reviewed financial statements. It should be emphasized, however, that this checklist cannot be a substitute for an accountant's exercise of professional judgment and knowledge of SSARS.

In February 2020, the AICPA Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*. SSARS No. 25 is effective for engagements for periods ending on or after December 15, 2021, with early implementation permitted. The standards relating to review engagements are codified at [AR-C 60](#) and [AR-C 90](#). Pre-SSARS No. 25 standards relating to review engagements are recodified at [AR-C 60A](#) and [AR-C 90A](#). If the AR-C authoritative guidance has not changed as a result of the issuance of SSARS No. 25, then this *Guide* refers to only the AR-C reference after implementation of SSARS No. 25. This practice aid may be used both before and after the implementation of SSARS No. 25. SSARS No. 25 is discussed in section [901](#).

HOA CR-8.2 Review Reporting Checklist

Financial statement report includes wording required by SSARS No. 25

Is the accountant independent

Structure of financial statement and report

	YES	N/A
1. Is the report in writing and does it include a title that includes the word "Independent"?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Is the report addressed as appropriate in the circumstances of the engagement?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. Does the report contain the sections, headings, and wording required in SSARS for a review?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Are all the financial statements covered by the report?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
5. Is the degree of responsibility, if any, taken for any supplementary information indicated in an other-matter paragraph or in a separate report?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
6. Is the type of entity (for example, corporation or joint venture) apparent from the entity's name or disclosed parenthetically after the name or in a note?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7. Do the titles in the report agree with the titles in the financial statements?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8. Do the period(s) and the period-ending date(s) in the report agree with the financial statements?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
9. If required supplementary information is applicable to the financial statements, does the report include an other-matter paragraph containing the wording required in the SSARS?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10. If the financial statements are prepared using a special purpose framework and management has a choice in the financial reporting framework used, does the report make reference to management's responsibility for determining that the financial reporting framework used is acceptable in the circumstances?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
11. If the financial statements are prepared in accordance with a regulatory basis of accounting or contractual basis of accounting, does the report, under an appropriate heading, describe the reason the financial statements were prepared or refer to a note that contains that information? (After implementing SSARS No. 25, complete Step 12 instead.)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Materiality variance (review-level)

This materiality calculation is used to provide inquiries to the client.

Table 2—Other Benchmarks and Illustrative Percentages

Benchmark	Illustrative Percentage
Total revenue	0.5%–2.0%
Total assets	0.5%–2.0%
Gross profit	1.0%–2.0%
Pretax income	5.0%–10.0%
Equity	1.0%–5.0%
Cash flows from operations	3.0%–5.0%

Decisions and Calculations

1. **Basis for Materiality Amounts.** Using professional judgment and considering the needs and expectations of financial statement users, is the selection of the benchmark and percentages in step 2 appropriate (briefly explain)?

Benchmark for Materiality will be the higher of Total Revenue for the year or Total Assets at year-end.

Practical Considerations:

- An accountant may begin the process of selecting a benchmark by specifically identifying known users, or categories of users, of the entity's financial statements, based on discussions with management and those charged with governance and the accountant's experience with the entity in prior periods. The accountant then may consider which of the several possible benchmarks would influence the decision making of the users.
- Other factors that may affect the accountant's identification of the appropriate benchmark are the nature of the entity, where it is in its life cycle, and the industry and economic environment in which it operates.
- Factors to consider when selecting a benchmark are discussed further in section 607.

2. **Planning Materiality.** (Complete a. and b.)

- a. BENCHMARK and AMOUNT. (Select the benchmark you wish to use.)

- | | |
|--|-----------|
| <input checked="" type="radio"/> Total Revenue (Table 1) | \$648,819 |
| <input type="radio"/> Total Assets (Table 1) | \$234,458 |
| <input type="radio"/> Other Benchmark (identify) | |

- b. PLANNING MATERIALITY CALCULATION

Base Amount from Table 1	+	(Percentage from Table or Suitable Percentage for Chosen Benchmark	x	Benchmark Amount)	=	Planning Materiality	x	Factor	= Adjusted Materiality
\$8,500		1.00%		\$648,819		\$14,000		75%	\$10,500
Individually significant:								33%	\$3,465
Passed adjustments:								5%	\$700

Materiality variance (review-level)

The entire trial balances is examined to see which accounts meet the materiality threshold calculation.

HOA Name: ABC Homeowners Association
 Property Mgt Co.
 Analytical Review
 Year-end: 12/31/2021

KY 2/1/2022

Variance greater than \$ 10,500 and 10%
 See Expectation and Conclusion at bottom of page

Input Amounts from Financial Statements

Description	Balance 12/31/2021	Balance 12/31/2020	Variance	% of Variance
Cash and cash equivalents	21,390	28,958	(7,568)	-26.13%
Cash and cash equivalents-replacement	163,147	194,745	(31,598)	-16.23%
Association dues and assessment receivable net of ADA	8,821	11,072	(2,251)	-20.33%
Prepaid insurance	33,318	50,071	(16,753)	-33.46%
Prepaid income tax	804	804	804	100.00%
Property and Equipment net of Acc Depr	6,978	12,068	(5,090)	-42.18%
Accounts payable	8,240	18,843	(10,603)	-56.27%
Income Tax Payable		856	(856)	-100.00%
Association dues and assessments received in advance	23,402	22,327	1,075	4.81%
Contract liabilities	163,147	194,745	(31,598)	-16.23%
Association dues and assessments	417,738	413,560	4,178	1.01%
Assoc dues and assessments-replacements	172,598	117,214	55,384	47.25%
Interest	625	2,786	(2,161)	-77.57%
Special assessment	53,585		53,585	100.00%
Other	4,273	3,510	763	21.74%
Administration	2,731	5,356	(2,625)	-49.01%
Bad debts	1,491	544	947	174.08%
Depreciation	5,090	7,019	(1,929)	-27.48%
Electricity	14,639	11,042	3,597	32.58%
Income Taxes	54	856	(802)	-93.69%
Insurance	255,883	193,249	62,634	32.41%
Legal and Accounting	1,460	3,755	(2,295)	-61.12%
License and Permits	655	690	(35)	-5.07%
Management Fees	26,550	25,725	825	3.21%
Pest Control	410	955	(545)	-57.07%
Pool Maintenance	4,903	2,743	2,160	78.75%
Repairs and maintenance	22,131	17,883	4,248	23.75%
Repairs and maintenance-replacement	173,223	120,000	53,223	44.35%
Reserve Study		1,060	(1,060)	-100.00%
Snow Removal	56,720	49,500	7,220	14.59%
Tree and Ground Maintenance	77,500	89,679	(12,179)	-13.58%
Water Sewer and Trash	25,853	24,421	1,432	5.86%

Explanation from Property Manager
 MG: Decrease appears reasonable - no further explanation required
 MG: change is consistent - no further explanation required

MG: change is consistent - no further explanation required

MG: change is consistent - no further explanation required

MG: change is consistent - no further explanation required

Moore Grider to complete/revise sections below

Expectation: Asset and Liability balances will be comparable to prior year.
 Revenue will increase/decrease in relation to the change in Contract Liabilities.
 Expenses will be comparable to prior year.

Conclusion: See Analytical Review-Client Responses that need to be made to the financial statements.
 Sign off with your full name and date
 Kirsten Years 2/7/2022

Client inquiries:

The standard also requires the accountant to obtain sufficient appropriate review evidence as a basis for a conclusion on the material variance on the financial statement. (client inquiries)

HOA Name: ABC Homeowners Association

Analytical Review

Year-end: 12/31/2021

KY 2/1/2022

Variance greater than \$ 10,500 and 10%

Input Amounts from Financial Statements

Description	Balance 12/31/2021	Balance 12/31/2020	Variance	% of Variance
Prepaid insurance	33,318	50,071	(16,753)	-33.46%
Accounts payable	8,240	18,843	(10,603)	-56.27%
Special assessment	53,585		53,585	100.00%
Insurance	255,883	193,249	62,634	32.41%
Tree and Ground Maintenance	77,500	89,679	(12,179)	-13.58%

Explanation from Property Manager

Insurance premiums increased because of fires.

December 2020 insurance bill dated 12.28.20 was open at 12.31.20. December 2021 bill dated 12.31.21 was entered and paid prior to closing December 2021.

Special Assessment of \$510 was assessed to each owner to help cover insurance increases due to fires.

Insurance premiums increased because of fires.

Spring clean up 2020 required more work than 2021

P&L for YLOA Restaurant

4:23 PM
12/06/23
Accrual Basis

Yosemite Lakes Owners Association Profit & Loss for Restaurant July 2020 through June 2021

	Jul '20 - Jun 21	Jul '19 - Jun 20
Ordinary Income/Expense		
Income		
6861 - FOOD INCOME	590,964.28	577,313.03
6862 - ALCOHOL INCOME	72,281.09	188,569.73
6861 - FOOD INCOME, BANQUET	20,930.43	59,867.96
6862 - ALCOHOL INCOME, BANQUET	825.00	632.00
6863 - BANQUET ROOM RENTAL FEE	2,400.00	9,050.00
6864 - OTHER INCOME, BANQUET	0.00	716.19
6870 - BANQUET DOWN-Restaurant/Loung	-200.00	-1,900.00
Total Income	687,200.80	834,248.91
Expense		
8000 - WAGES PAID	490,136.99	517,282.83
8010 - EMPLOYEE TRAINING	725.35	474.24
8030 - EMPLOYEE SEARCH	0.00	66.04
8040 - EMPLOYEE DRUG TESTING	66.00	295.50
8070 - LABOR CREDIT	0.00	200.00
8340 - ADVERTISING	749.99	710.35
8370 - CASH (OVER)/SHORT	2,398.02	-872.35
8380 - BANK & CREDIT CARD FEES	23,615.52	21,781.88
8385 - PAYROLL SERVICE FEES	3,187.63	2,896.34
8380 - BAD DEBT EXPENSE	253.69	352.96
8700 - OFFICE SUPPLIES	429.93	307.79
8710 - SMALL TOOLS & EQUIPMENT	2,540.96	1,547.72
8740 - COMPUTER	90.00	1,694.18
8760 - R & M EQUIPMENT	5,470.61	9,871.74
8780 - R & M SMALL TOOLS	778.91	1,306.86
8780 - SAFETY EQUIPMENT	218.82	83.49
7000 - COS- FOOD	244,268.20	291,900.57
7010 - COS - ALCOHOL	57,096.82	67,595.04
7100 - LAUNDRY & LINENS	18,312.66	20,518.52
7110 - UNIFORMS	2,610.35	0.00
7400 - MEALS & ENTERTAINMENT	104.84	190.58
7600 - MUSIC & ENTERTAINMENT	4,608.35	24,410.12
7800 - OPERATING SUPPLIES	36,252.42	35,336.96
7800 - R & M VEHICLES	455.96	0.00
7840 - R & M BUILDINGS & STRUCTURES	1,803.99	2,685.46
7860 - R & M GROUNDS	163.58	0.00
7880 - WEED & PEST CONTROL	0.00	40.50
7720 - COMPLIMENTARY MEALS	92.59	3,306.34
7760 - DES BERT COMP	30.95	132.09
8000 - COMMUNICATIONS	2,554.34	5,259.45
8010 - ELECTRIC	9,271.32	10,193.06
8020 - PROPANE	9,026.70	7,940.45
8030 - WATER	1,211.07	1,577.74
8040 - WASTE DISPOSAL	2,669.76	3,683.80
8400 - MAINT CONTRACTS	1,950.00	3,373.00
8410 - CONTRACT OUTSIDE LABOR	450.00	6,640.00
8420 - SECURITY ALARM SERVICE	258.00	258.84
8600 - DEPRECIATION	26,812.00	27,960.00
8800 - PAYROLL TAXES	51,321.13	57,594.14
8810 - WORKERS' COMP	35,715.12	27,305.99
8820 - HEALTH INSURANCE	51,526.71	46,443.82
8830 - IRA FUND	6,352.12	5,109.48
8840 - PROPERTY TAX	1,153.07	1,011.51
8850 - CORP INSURANCE	12,505.26	11,369.94
8880 - LICENSES & PERMITS	4,438.62	4,471.91
9040 - DUES & SUBS	1,494.00	619.22
9070 - DONATIONS	200.00	640.00
Total Expense	1,115,412.35	1,226,357.10
Net Ordinary Income	-428,211.55	-392,108.19
Other Income/Expense		
Other Income		
8800 - GAIN/LOSS ON SALE OF ASSETS	-442.00	0.00
Total Other Income	-442.00	0.00
Net Other Income	-442.00	0.00
Net Income	-428,653.55	-392,108.19



Moore Grider & Company LLP
Certified Public Accountants

Thank you

Tom Bell, CPA

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