

CHECKLIST FOR PREPARING FORM 1120

This checklist should be used by the tax preparer to determine how safe it is to file Form 1120 for an association for any given tax year. The checklist is divided between responsibilities for the association and responsibilities for the tax preparer. While no one can say with absolute certainty that performance with each of the steps below will guarantee an audit proof tax return, the points listed are those that have been used by the IRS consistently in determining if the association has properly filed the tax return. The more "No" answers you have, the lower your chance of survival of a tax audit. Only the association and the preparer can assess how much risk they are willing to assume when filing a tax return. This checklist attempts to give you an objective means of determining that risk.

#	DESCRIPTION	YES	NO
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The Association

1.	Maintain 3 separate categories of bank accounts:		
1a.	✓ Operating accounts		
1b.	✓ Capital reserve accounts		
1c.	✓ Non capital reserve accounts		
2.	Have a reserve study supporting the specific capital purpose for which reserves are being set aside.		
3.	Have a budget <u>which agrees to your reserve study</u> .		
4.	Separately account for operating and reserve transactions in the association's financial statements and general ledger.		
5.	Have the <u>members</u> annually approve the association's election under Revenue Ruling 70-604. The Board of directors may not approve this on behalf of the membership.		
6.	The association should never have any inter fund borrowing between the operating bank accounts and the capital reserve bank accounts.		
7.	The reserves portion of dues collected may be deposited into an operating account, but should be immediately transferred to the appropriate reserve bank accounts (within two weeks).		
8.	Reserve expenditures should be made directly from the reserve bank accounts. If reserve expenditures are paid from the operating account, that account should be <u>immediately</u> reimbursed in the <u>exact</u> amount of the expenditure from the reserve accounts (at least monthly).		

The CPA

9.	Show a clear delineation of member versus non-member activities on supporting schedules to the tax return.		
10.	Show a clear delineation of operating versus capital transactions on supporting schedules to the tax return.		
11.	Prepare a proper and complete reconciliation of book to tax income on schedule M-1 of the tax return.		

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