

# AICPA ISSUES CIRA INDUSTRY DEVELOPMENTS

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In December 1999 the American Institute of CPAs (AICPA) issued a new guide entitled Common Interest Realty Associations Industry Developments-1999/2000. Every CPA performing audit services for homeowners association should be aware of this document. The guide deals specifically with matters relating to homeowners associations. I and several other CPAs involved in the homeowners association industry provided input into the creation of this document.

The guide is separated into several sections, each of which is discussed below. The items discussed will enhance the auditor's industry knowledge, assist in audit planning, and provide insight into the evolution of tax law.

- Economic Developments – This section discusses how general economic factors can influence the finances of an association. Good economic conditions generally mean that associations will not have the collection and foreclosure problems so common just a few years ago. The writers point out that interest rates are somewhat higher but still at historically low levels, there are more adjustable mortgages, housing starts are higher, the stock market has surged, and unemployment is at a 20 year low.
- Industry developments – This section discusses recent developments in funding for future major repairs and replacements, budgets, and cooperative mortgage maturities. It is emphasized that budgets are the cornerstone of association performance measurement. Many cooperative housing corporations obtained their mortgages more than 30 years ago and are facing the issue of maturity of the mortgage. Many

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CPAs are getting questions as to the options available to the co-op in paying off early, refinancing, or letting the mortgage run its course. Since many of these co-ops are underfunded on reserves, refinancing to fund upgrading and renovation of the project. Since many of the early loans were HUD guaranteed loans, there may also be regulatory issues to consider.

- Regulatory Developments – The eternal question of which tax form to file, Form 1120-H or Form 1120, just got hotter. The IRS issued a Filed Service Advice (FSA) related to Revenue Ruling 70-604 that indicates they are taking a very narrow view of this ruling, and are on the verge of reconsidering the ruling. In addition, they finalized Treasury Regulation 1.447(d)(4), which places major restrictions on the ability of an association to apply for tax exemption under IRC Section 501(c)(4) (this was the subject of a Ledger Quarterly article in the Spring 1999 issue). The IRS also issued a FSA relating to the rental pool of a condominium project, holding that the rental pool constituted a partnership of



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the members for tax purposes (see article this issue). In January 1999, the IRS finally abandoned its attempt to tax cooperative housing organizations under IRC Section 277, acquiescing to numerous Tax Court decisions holding such organizations to be cooperatives under Subchapter T of the Internal Revenue Code. Finally, the IRS issued a draft audit guide entitled Timeshare Vacation Plan Owners Associations – Audit Techniques Guide on April 28, 1999. While the Guide targets timeshare associations, page 1 also states “While the ATG (Audit Techniques Guide) is limited to the taxation of timeshare associations, it may also be useful to examiners in their examinations of other types of owners associations; for example, condominium homeowners associations.” (This guide will be the subject of an article in the next issue of the Ledger Quarterly.)

- Audit Issues and Developments – This section discusses audit planning, future major repairs and replacements, independence, fraud, internal control, and common audit engagement deficiencies. The most common deficiencies noted in peer reviews of CPAs firms auditing homeowners associations included; (1) lack of accounting policy for recognition and measurement of common property, (2) accountant’s report does not disclose departure from GAAP for failing to present required supplemental information on reserves, (3) accountant’s report does not include supplemental information which has been presented, (4) certificates of deposit reported as cash rather than investments when original maturities are over 90 days.

- Beyond the Audit – The Business Advisor Approach – This section discusses opportunities for the CPA to provide consulting services to the association.
- Auditing Standards – No new statements on auditing standards were issued during the period covered by this guide.
- On the Horizon – The guide notes three issues for proposed SAS’s (Statements on Auditing Standards) including; Audit Adjustments (which was issued as SAS No. 89 in December 1999), reporting on Consistency (which was issued as part of SAS No. 88 in December 1999), and Service organizations, (which was also issued as part of SAS No. 88 in December 1999).
- Accounting Issues and Developments – The AICPA Accounting Standards Executive Committee (AcSEC) is considering a proposed Statement of Position (SOP) addressing real estate timesharing transactions. This is expected to receive more discussion in 2000, and will likely apply primarily to developers of timeshare developments.

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