

AICPA ISSUES TIMESHARE TECHNICAL PRACTICE AID

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In March 1997, the American Institute of CPAs (AICPA) issued Technical Practice Aid number 121. This Technical Practice Aid was issued to report a Technical Information Services inquiry and reply relating to personal property of timeshares. This is incorporated into Technical Information Services Section 6990.01, and is entitled "Personal Property of Timeshares."

Inquiry - Should a Common Interest Realty Association (CIRA) that is a timeshare development report as assets personal property that it owns and uses as internal unit furnishings for timeshare units?

Reply - Yes. The AICPA Audit and Accounting Guide *Common Interest Realty Associations*, paragraph 2.01, provides that common property includes personal property that is owned by the CIRA and used on Common Real Property. Paragraph 2.11 of the guide provides that, "CIRAs should recognize common personal property, such as furnishings, recreational equipment, maintenance equipment, and work vehicles, that is used by the CIRA in operating, reserving, maintaining, repairing, and replacing common property, and providing other services, as assets." Personal property that is owned by a CIRA and is used as internal unit furnishings for timeshare units is common personal property that is used by the CIRA in providing other services.

This Technical Practice Aid clarifies an issue that has been, and still is, disputed by a number of CPAs and timeshare developments. At issue is whether or not internal unit furnishings should be recorded as assets of the timeshare association. While many timeshares do report the unit furnishings as assets on the financial statements of the association, a very significant percentage of timeshare associations do not report unit furnishings as assets of the association. Those associations that do not report the furnishings as assets fall into two categories:

- 1) **Vacations Clubs.** Vacation clubs typically do not involve deeded real estate member ownership interests, but rather represent a "right-to-use" vacation ownership interval. In fact, the vacation club member does not own anything other than a "right-to-use." The real and personal property assets are owned by the developer or company that operates the vacation club. The unit furnishings are clearly not assets of the vacation club even though the members may pay for such furnishings through their annual assessments.
- 2) **Deeded Timeshare Interest.** The position that many timeshare associations and CPAs use for not recording furnishings as assets for timeshare developments that are made up of deeded ownership interests is that the furnishings are the personal assets of the members and are not the property of the timeshare association. Therefore, such furnishings cannot be recorded as assets by the timeshare association. The individuals supporting this point of view typically point to the use factor and rely upon a principal/agent relationship between the members and the association in justifying this position.

An argument that could be made against the above position is that the deed specifically grants title to real property only and does not convey any interest in personal property of the association.

Regardless of the issuance of this Technical Practice Aid, I suspect that many timeshare associations will continue to not report interior unit furnishings, instead relying upon the theory above. It is the responsibility of the auditor to determine the ownership of the interior unit furnishings for purposes of determining if such assets should be recorded in the financial statements. Failure to record all personal property assets, particularly unit furnishings, may very easily result in a material misstatement of the financial statements, and therefore must be very carefully considered.

Note: A modified version of this article was published in CAI's "Ledger Quarterly," Summer 1997 Issue

