

Association of Condominium,  
Townhouse, and  
Homeowners Associations



11 E. Adams, Ste. 1107 • Chicago, IL 60603 • 312-987-1906 • actha@actha.org • www.actha.org

**December 2014/  
January 2105**

## **AUDIT, REVIEW AND COMPILATION COMPARISON AND TAXES**

By: Brad Schneider of Condo CPA

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### **INTRODUCTION**

Most homeowners and managers understand that Certified Public Accountants (CPAs) can perform audit services and issue an audit report on a community association's financial statements. However, some may not be familiar with the alternatives to an audit. CPAs can provide other levels of services such as a Review, Compilation or an Agreed upon procedures engagement. The purpose of these engagements is to add credibility to and enhance the reliability of the Association's financial statements. All audit and review engagements must be performed by an independent CPA. A compilation can be performed by a CPA that is not independent from the association but must state that fact in the accountant's report included with the financial statements.

### **COMPILATION ENGAGEMENT**

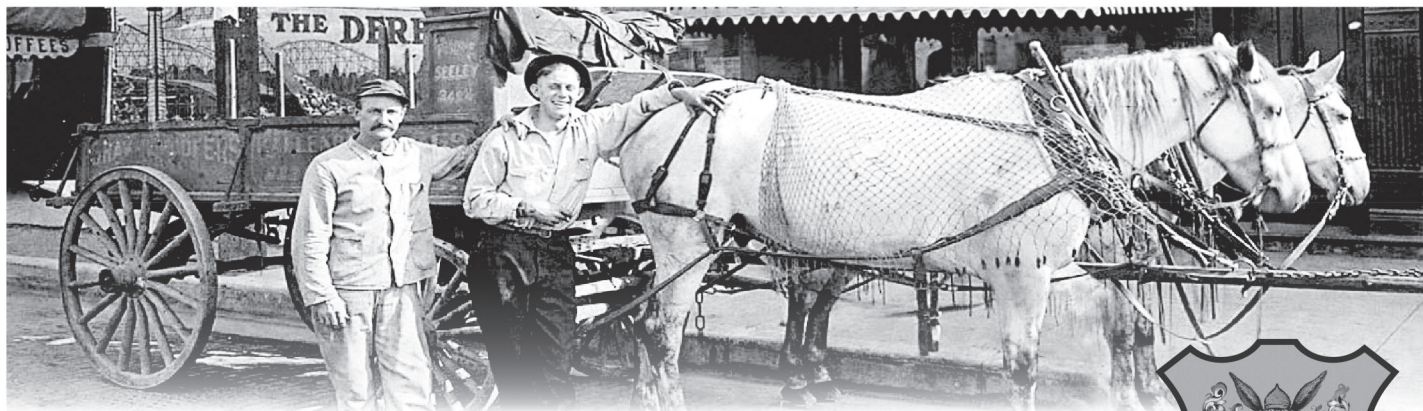
The compilation, which is the lowest level of service that a CPA can provide for a client's financial statements, requires substantially less time than a review or audit engagement because fewer procedures are required.

Various states allow a CPA to perform a compilation without having a Peer Review for their firm. Unfortunately there is a wide variance in the quality of the financial statements and accountant's work papers for compilation engagements since firms that have not followed the Peer Review quality standards generally have not developed a system of quality similar to those firms that follow the standards included in the Peer Review membership program of the American Institute of Certified Public Accountants (AICPA).

Compilation standards do not require the accountant to perform any procedures to verify or corroborate the financial statement information provided by the Association's management. However, the accountant must address significant questions that arise in the course of the compilation engagement. If the accountant has reason to believe the information

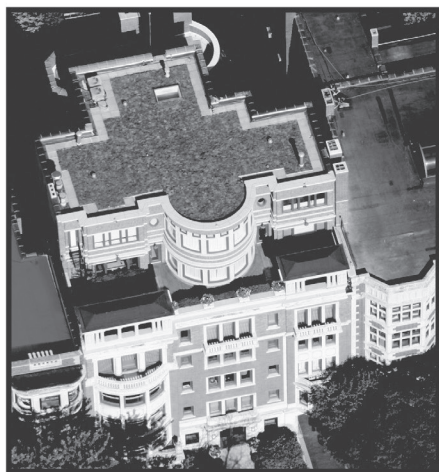
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# Tip of the Month

## “RESERVED PARKING”

By: Mike Walsh of E & R Towing / 16325 S. Crawford, Markham 60477  
708-33-7300 / mwalsh01@unitedroadtowing.com / www.ertowing.com

Parking problems are frequently the biggest cause of complaint among condo, apartment, and townhome owners and residents. Many parking areas tend to be short of extra parking space and all too often a resident or his guests will park in an area set aside for another resident. Some tenants have gone as far as moving due to parking complaints that were never resolved by the management.

If a vehicle is on someone's private property, there's not much the local police department can do about it. However, if it's on your private property, you have a good chance of having it removed.

In the most difficult cases, the illegally parked car will have no plates, leaking fluids, flat tires, broken glass or may be in a condition which will take days to render it roadworthy, and its appearance will detract significantly from the property's image. In these circumstances, landlords and property managers are usually challenged by other owners or tenants to do something to rectify the matter.

Illinois state laws allow property owners and agents to remove any vehicle parked illegally on their property. This may involve employing a towing company to remove the vehicle and storing the vehicle in the towing company's premises. This process is known as Relocation Towing or Private Property Impounding.

As the owner of private property, or as a management company, homeowner or even a condo association, you can exercise the right to remove illegally parked vehicles in your private parking lots on your property. Your parking lots are meant to solely provide parking to your residents and their visitors, or homeowners and doing this alone can be a tedious task. If people disregard your parking policies, you end up with parking problems and need to enforce the regulations that you have set forth on your property. Illegally parked or even abandoned vehicles on your private property result in a cluttered parking area, causing an inconvenience to residents and homeowners.

Winter can add an additional burden to the parking issues that the property owner already deals with. Large mounds of plowed snow can reduce parking spots, and plow trucks may need to maneuver around inoperable or unmoved vehicles in order to clear snow from the area.

Sometimes the parking issues are a result of neighbors parking on an adjacent property. Some towing companies have programs that issue window decals to residents of properties, and then patrol the lot in order to remove any vehicles that do not properly display the decal.

Before any of these parking situations arise you should inquire with a reputable towing company about the programs that they offer.

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**Insurance Broker/Advisor:** Karyl Foray, Rosenthal Bros.

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supplied by the Association's management is inaccurate, incomplete or otherwise unsatisfactory, the accountant is required to obtain revised or corrected information before reporting on the financial statements. The AICPA compilation standards require the accountant to possess an adequate level of knowledge about the accounting principles and practices of the Community Association industry and have a general knowledge about the nature of the Association's business. The accountant is required to read the compiled financial statements and consider whether they are in appropriate form and free from obvious material errors. Because of the limited scope of compilation procedures, the standard Compilation report disclaims any degree of assurance on the financial statements. The report also states that the accountant has "not audited or reviewed the financial statements and accordingly, does not express an opinion or provide any assurance about whether the financial statements are in accordance with the applicable reporting framework."

At a minimum, a compilation engagement with the accompanying accountant's report is required anytime an external CPA is associated with the financial statements of the Association.

## **REVIEW ENGAGEMENT**

A review engagement requires the limited procedures included in a compilation engagement as well as other procedures that enable the accountant to provide limited assurance on the financial statements. These additional requirements are inquiries of the association's management and analytical procedures. Inquiries are typically directed to knowledgeable persons having responsibility for financial and accounting matters. Please note the questions are being asked of the client's management and accountants without outside verification. Accountants exercise their professional judgment to determine the extent of inquiries that are needed. Although specific inquiries are tailored for each Association, the inquiries should, at a minimum, relate to: the accounting practices and principles used by the organization; the procedures for recording and accumulating financial information; and the actions taken at meetings of the Board.

Analytical procedures include:

- Comparison of current year financial statements with the budget and prior year's statements
- Study of the financial statements to identify items or relationships between items that do not conform to expectations based on earlier reports or budget or other information
- Review and consideration of adjustments made to the financial statements of prior years.

The purpose of analytical procedures is to identify account balances or relationships that appear unusual so that additional inquiries or review of financial data can be made to determine the cause of the unexpected results. Based on these inquiries adjustments to the financial statements may be necessary.

Because of the inquiry and analytical procedures included in a review engagement accountants are able to express limited assurance on the Association's financial statements. Remember in the compilation report the accountant disclaims any assurance on the association's financial statements. The standard Accountant's Review Report states that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole and that, accordingly, the accountant does not express such an opinion. However, a review report does state that "we are not aware of any materials modifications that should be made to the financial statements."

## **AUDIT ENGAGEMENT**

An audit engagement provides the highest level of assurance on the Association's financial statements, because many important audit procedures are performed. Some of the more important auditing procedures are:

- Consideration and evaluation of the internal control system of the Association, which may include testing the effectiveness of the system
- Tests of the underlying documentation to support the account balances
- Outside confirmation of bank and investment accounts, loans, insurance coverage and legal status.

In addition, the auditor is specifically

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required to obtain reasonable assurance that the financial statements are not materially misstated due to fraud. In a compilation or review engagement the accountant is not required to document any assessment of fraud risk, nor are they required to consider fraud or search for fraud in the course of the engagement. However, in a compilation or review the accountant is required to report any significant deficiencies in internal control or fraud that comes to their attention. The possibility of this happening is less likely in a review and even less in a compilation since the procedures are less comprehensive in these levels of service. The audit report reflects a higher level of assurance based on the more extensive procedures performed. The standard audit report states, "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of your association as of December 31, 20xx and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the U.S.

### **AGREED UPON PROCEDURES ENGAGEMENTS**

When special circumstances are present it is often more beneficial to have an Agreed Upon Procedures engagement performed. This type of engagement is often performed when there is either a suspected fraud or a specific issue(s) that the association is trying to address. It is a way to efficiently assist in obtaining evidence and minimize cost by focusing only on those areas of concern to the board. For example, perhaps the association wants to address a garage employee that was suspected of theft, or reconcile special assessment billing. In these cases the procedures to be performed would be designed to test the areas of concern in order to gather any relevant evidence.

### **TAXES**

For calendar year-end Associations, (December 31<sup>st</sup>), the corporate tax returns will be due on March 16<sup>th</sup> with the IRS in 2015 since the 15<sup>th</sup> falls on Sunday. The Illinois tax returns are due on the same day normally but according to the instructions it is due on the 15<sup>th</sup> day of the month. The IRS allows you to extend the filing of the tax return to September 15<sup>th</sup> and Illinois allows the extension to October 15<sup>th</sup> of 2015. The extension does NOT grant you any additional time to pay the taxes.

Fortunately with the low interest rates offered on investments it is more the rarity that an Association owes taxes. Most condominiums, townhomes and homeowner associations can decide which federal form to file each year, the regular corporate tax return, (1120) or the homeowners association tax return, (1120-H). If they are a cooperative they should be filing the 1120-C. The decision to file the 1120 versus the 1120-H is based on a number of factors. If they owe tax the 1120 begins at the 15% rate versus the 1120-H which has a flat rate of 30%. Since most Associations do not pay income taxes, we usually recommend the filing of the 1120-H. It is much safer to file this form with the IRS. Filing the 1120 has numerous issues to deal with that upon IRS audit can trigger the assessment of a large amount of tax. One Association in the Southwest was told that they had painting and other non-capital items going through the reserve fund and that the entire reserve was to be considered taxable. The IRS has attacked the Reserve accumulation in a variety of ways for various Associations across the US. The bottom line is that generally speaking the 1120-H is a better form to file if there is no tax due.

### **CONCLUSION**

There are various levels of service that may fit the needs of the various associations. Each association is unique and may have substantially different expectations of what they are trying to accomplish with the CPA firm they select. There are even different levels of CPAs and CPA firms: those that are Peer Reviewed and those that choose not to be Peer Reviewed. Some CPA firms specialize in Community Associations because they love them while others see Community Associations only as a means to supplement their revenue. Whatever your Association's circumstances, we hope you choose a CPA that is best suited for you based on your specific needs and level of service that you deem appropriate.

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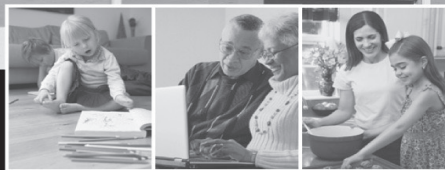


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Master associations must comply with Subsection 18.5(d) of the Illinois Condominium Property Act. Under that provision, associations have 30 days after receiving a proper written request to make various types of records available or respond to the request.

Non-condominium common interest community associations which are not subject to the Illinois Common Interest Community Association Act but are incorporated as Illinois not-for-profit corporations should refer to Section 107.75 of the Illinois General Not For Profit Corporation Act of 1986. This provision allows for the inspection of books and records of account and meeting minutes by voting members of the corporation. Section 107.75 requires that the request be submitted in writing and state a proper purpose but does not provide a specific time frame for responding to inspection requests.

Some municipalities have condominium ordinances which address unit owner record requests. For example, Section 13-72-080 of the Municipal Code of Chicago requires that Chicago condominium associations allow unit owners to inspect books and records of account for the current and 10 immediately preceding fiscal years within 30 business days of the time the written request is received. In the recent decision reached in Oviedo v. 1270 S. Blue Island Condominium Association, the Illinois Appellate Court found that a proper purpose requirement applies under the Chicago ordinance.

Applicable statutes and ordinances should be read in conjunction with an association's governing documents, which may contain additional guidelines relevant to record requests.

### **LEGISLATIVE UPDATE: H.B. 4204**

The bill to create an "Ombudsman's Office" has been sent to the Governor. Sponsored by Rep. Elaine Nekritz and Sen. Sara Feigenholtz, the bill does not go into effect until 2016 and expires in 2021.

Normally bills still in committee during the fall veto session are considered "dead" but to the surprise of many, H. B. 4204 was reported out of Senate Judiciary Committee, passed the Senate and then went to the original chamber (the House) where the body concurred in the Senate amendment. It now awaits action by Governor Quinn, who is expected to sign the bill.

One beneficial provision is creation of a website to provide information to consumers. Since education can often be a solution to disputes it is possible that a governmental website would answer or guide board members and owners in a beneficial way. Of course, a major deterrent will be the State's dire fiscal situation.

*Happy  
Holidays*

*from*

**ACTHA**

The office will be closed beginning Monday, Dec. 22 and will re-open on Monday, January 5.

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markjr@summitpm.com  
www.summitpm.com

## **Total Fire and Safety, Inc.**

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jcs@totalfireandsafety.com  
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## **Wickright, Inc.**

(General Construction)  
Bob Kelly/Diane Knight  
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11 E. Adams, Ste. 1107  
Chicago, IL 60603



## Question of the Month

By: *Scott Rosenlund of Fullett Rosenlund Anderson, P.C. / 430-440 Telscer Rd., Lake Zurich 60047  
847-259-5100 / s.rosenlund@frapc.com / www.frapc.com*

**Q.** I saw an article somewhere discussing the “now” syndrome. I’m having more and more problems with people wanting what they want, when they want it.

**A.** Board members, community managers, association attorneys and other community association volunteers and industry professionals are well accustomed to managing urgent requests. Associations often encounter these types of expectations in connection with record review requests received from homeowners. Fortunately for associations, timelines for responding to homeowner record requests are well established under Illinois law.

Under Section 19 of the Illinois Condominium Property Act, condominium associations have 30 days after receiving a proper written request to make certain types of records (e.g., governing documents) available for inspection and copying. Requests for a second category of records (e.g., association contracts) must include a proper purpose. With respect to records falling in this second category, condominium associations have 30 business days of receipt of a proper written request to make the records available. A third category of records (e.g., documents relating to the hiring or dismissal of association employees) need only be provided if directed by court order.

Associations subject to the Illinois Common Interest Community Association Act must comply with Subsection 1-30(i) of that statute. Under that provision, associations have 30 days after receiving a proper written request to make various types of records available or respond to the request. Requests for certain types of records must be accompanied by a written statement of a proper purpose.

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