

GAAP, GAAS, and the Special Assessment

Recording and documented Special Assessments to Satisfy
Auditors

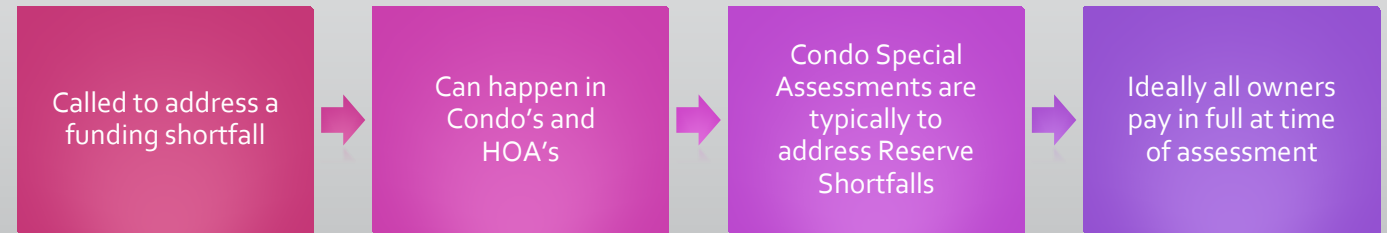
GAAP

- Accounting Principles Generally Accepted in the United States of America
- The Rules for Recording and Reporting Transactions
- Encompasses More Than Dr and Cr
 - Includes Disclosure Requirements
 - Valuation Expectations are Provided
- Financial Statement Preparation is Responsibility of Management
 - Management Makes Assertions
 - Management Controls Information
 - Auditor can Prepare Financials, but Must Have Correct Management Information

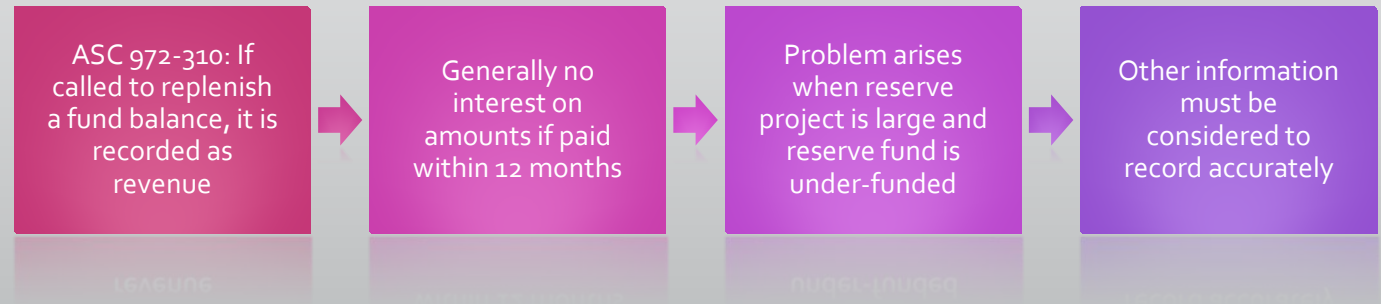
GAAS

- Auditing Standards Generally Accepted in the United States of America
- Must Obtain Sufficient Appropriate Audit Evidence Using
 - Inspection
 - Observation
 - Inquiries
 - Confirmations
- Must Plan and Perform Audit to Reduce Risk of Material Misstatement to a Low Level
- Obtain Sufficient Understanding of Entity, its Environment and Internal Controls

Special Assessments



Special Assessments



Special Assessments for Funding Shortfalls

Creates a receivable under ASC 310 at time of assessment

Typical entry is Dr Owner Receivable and Cr Fund Assessment Revenue

If term is less than 12 months, record at the face value of the assessment

Consider potential for uncollectible amounts

Special Assessments for Reserve Projects

- Condo Association has 350 units in a 12 floor building each the same size
- Faced with the following
 - Reserve calls for \$5.0 Million in spending on new siding, windows and elevator system
 - Current reserve fund balance is \$1.5 Million
 - Board calls for special assessment of \$3.5 Million
- Only 10% of owners can pay the assessment in full
- Board negotiates a bank loan with term of 10 years, interest at 5.0%
- Board offers owners the right to pay assessment over 5 years, interest at 5.0%

Special Assessments for Reserve Projects

At Assessment

Accounting for this assessment

- Dr Owner Receivable for \$3.5 Million Cr Unearned Assessments for \$3.5 Million

At Payment

Accounting for the Owner Payments of their Balance

- Dr Cash for \$350,000 Cr Owner Receivables for \$350,000

At Construction Draw

Accounting for the Payment of First Construction Draw

- Dr Reserve Project Expense \$1.5 Million Cr Reserve Cash \$1.5 Million

Special Assessments for Reserve Projects

Recurring Payment

Accounting for Month 2 Owner Payments of \$59,444

- Dr Cash Account \$59,444 CR Owner Receivable \$46,319 Cr Owner Interest \$13,125

At Borrowing

Accounting for the Construction Draw of \$1.5 Million

- Dr Cash Account \$1.5 Million Cr Bank Loan \$1.5 Million
- Dr Reserve Project Expenses \$1.5 Million Cr Cash Account \$1.5 Million
- Dr Unearned Assessments \$1.5 Million Cr Assessments Receivable \$1.5 Million

Important to Understand

If amount to be assessed is known and term for payment is provided, it is a receivable

Keep in mind that you are addressing a prior funding shortfall, receivable was always due
ASC 310, ASC 972-310, ASC 810 dictate how to record the transaction
Interest rate is either known – bank loan, or imputed
Rate does not have to be same as rate from bank
•Logic dictates that interest rate to owners should be higher to cover risks and uncertainties

Under GAAP, very few Special Assessments will not be a long-term receivable

When no money is borrowed from a bank
When the full amount is not assessed by the board for ongoing ad-hoc work

Likely Audit Procedures

- Test Existence Assertion to Ensure Appropriate Posting
 - Review Board Minutes for Authorization for Special Assessment
 - Review Owner Meeting Minutes for Approval of Special Assessment
 - Review Minutes for Authorization to Negotiate Bank Loan
 - Should see accounting entries to reflect the assessment demand



Likely Audit Procedures

- Test Completeness Assertions for the Special Assessment Receivable
 - Sample the Individual Owner Ledgers – Recalculate Owner Amount by multiplying
 - Total Special Assessment by the Declaration ownership % for Unit
 - Trace Unit Owner Payments to the Ledger
 - Document policy for posting payments – all excess payments to Special Assessment?
 - Recalculate interest charges – correct dates used? Accrued and unpaid interest at end of period?
 - Consider Sending Confirmation Letters to Unit Owners
 - Verify Payments
 - Include Amortization Schedule

Likely Audit Procedures



- Test Valuation Assertions for the Special Assessment
 - Is the Present Value of the Future Payment Stream Reasonable?
 - What if interest rate appears low?
 - What about future risk of non-payment (non-performing loans)
 - Are There Troubled Receivables With Potential Risk of Non-Collection?
 - Are liens and foreclosure rights enforceable?
 - Potential allowance for uncollectible accounts?

Typical Accounting Errors Identified in Audits

Not Recording a
Receivable for the
Special Assessment

Treating the Payments
by Unit Owners as
Revenue

Recording Lump Sum
Payments as "Unearned
(Deferred) Revenues"

Not Recording Interest
Through Date of
Payment

Not Recording Accrued
Interest for Period
Between Last Payment
and End of Period

Not Calculating Pay-off
Amounts Accruately

About C.O.R.E. Services, LLC

- Focused on Auditing Property Owner Associations
 - Washington
 - Oregon
- Over 40 Years of Combined Audit Experience
- Strong Understanding of GAAP for Common Interest Realty Associations
- Highly Effective Auditing Process to Address Specific Audit Risks
 - Outsourced Management
 - Special Assessments
 - Reserve Projects
 - Limited Internal Control Systems

More Information on the Web – www.core-acct.com