



KEOUGH
MOODY

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Newsletter

We continue to be committed to helping community associations be ready for the legislative changes that go into effect in 2018. We hope the following articles help your association with its planning. Wishing you and your family a very happy Thanksgiving!

Chuck Keough



MIND THE GAAP: 2018 LEGAL CHANGES TO ASSOCIATION ACCOUNTING

On January 1, 2018, certain changes and amendments enacted by the Illinois legislature will go into effect. Many of these changes will only impact condominiums in Illinois, but a few changes, including required accounting, will impact Associations that are governed by either the Illinois Condominium Property Act ("Act") or the Common Interest Community Association Act ("CICAA"). One such amendment to the Act and CICAA shall require associations with one hundred (100) units or more to use Generally Accepted Account Principles ("GAAP") when fulfilling its accounting obligations. See 765 ILCS 160/1-45(l) and 765 ILCS 605/18.10. Presumably, based on these additions to the Act and CICAA, as well as the other amendments enacted, the legislature is attempting to make association business more transparent for its owners. In other words, it appears the legislature is requiring GAAP for larger associations in order to better ensure the associations finances are handled properly. While at this time it is too early to understand the complete effect this change to GAAP may have on larger associations, there are a few certainties that are clear from this change.

As an initial matter, it is important to understand what GAAP means, in its simplest form. In order to assist in this summation, we reached out to Mark Cantey, a certified public account of Cantey Associates (Wheaton, IL) who specializes in association accounting. Mr. Cantey indicated that first, in order to be GAAP compliant, association financial statements must be prepared on an accrual basis. What this means is that associations must now record any income when it is earned, and not necessarily when it is received by the association. In other words, even if an owner has not paid a monthly assessment, the association must still record the assessment on the date it was due to the association, not when it is actually received by the association from the owner.

Additionally, accrual basis also means that the association will also record or document expenses when incurred, and not necessarily when paid. For example, the association enters into a contract for landscaping that is to be paid monthly over a term of several months. To be GAAP compliant, by using accrual basis, the association must record the entire cost of the landscaping contract at the time the contract is entered into, and not when each monthly payment is made to the landscaper.

In addition to the use of accrual basis, a GAAP compliant financial statement will not only provide a balance sheet and income statement, but a statement of cash flows. This statement, in accounting terms, attempts to reconcile the activity of cash flows for the year. Finally, a GAAP compliant statement should also include disclosures and footnotes as appropriate. In practical terms, the use of these three principles: accrual basis, statement of cash flows, and disclosures/footnotes, means that associations will likely pay more for their accounting each year. How much more depends on each specific association and its particular circumstances. While some associations may require full audits at the end of each year, GAAP does not necessarily require an audit to be performed in order to be GAAP compliant. The accounting may simply be a compilation or review by an accounting professional.

In order to best determine the needs of your large association, we recommend that the association reach out to an accounting professional as soon as practicable to evaluate, going forward, what practices the association must change and how much your association should reasonably budget to become GAAP compliant. If you or your association have any questions regarding the board's duties under the Act or CICAA as it relates to GAAP, please do not hesitate to contact attorneys Gabriella Comstock at grc@kmlegal.com or (630)369-2700 x 209 or Jonathan Wassell at jdww@kmlegal.com or (630)369-2700 x 254.

Avoid an Error: Create a Document Request Log

As we previously advised you, effective January 1, 2018, Section 19 of the Condominium Property Act, states a Board of Directors must respond to a member's request for documents within ten (10) business days. Therefore, now more than ever a Board of Directors must be organized with such requests and it must be ready to timely respond.

For this reason, we recommend every association adopt a document request log. The log should identify when the request was made, by whom, what was requested, how the association responded, when the association responded and how the response was communicated to the Owner. There should also be a signature line for the person who completes the information to sign. The Board should also keep a copy of the document request and response. This can be kept in a binder or in a separate folder on the Association's computer.

The adopting of a policy as to how such requests will be addressed and documented will only help the association at a later time if the Owner disputes that a response was given. To discuss any questions about a document log, please contact Gabriella R. Comstock at grc@kmlegal.com.

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