HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 4021 Financial Reporting
SPONSOR(S): Steube
TIED BILLS: None **IDEN./SIM. BILLS:** SB 796

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Business & Professions Subcommittee	11 Y, 0 N	Whittier	Luczynski
2) Civil Justice Subcommittee	10 Y, 3 N	Malcolm	Bond
3) Regulatory Affairs Committee			

SUMMARY ANALYSIS

Condominium associations, cooperative associations, and homeowners' associations are required to compile an annual financial report and provide it to unit owners and members. The type of financial statement or report required by an association is based on its total annual revenue. However, an association that operates fewer than 50 units, regardless of its annual revenues, must ("may" for homeowners' associations) prepare a report of cash receipts and expenditures in lieu of formal financial statements.

The bill repeals the provision that requires an association operating fewer than 50 units, regardless of the association's annual revenues, to prepare a report of cash receipts and expenditures in lieu of preparing formal financial statements. Thus, the form of financial reporting in all associations will depend on the level of revenue.

The bill does not appear to have a fiscal impact on state or local government.

The bill provides an effective date of July 1, 2015.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Background

A condominium is a form of ownership of real property created pursuant to ch. 718, F.S., comprised of units which may be owned by one or more persons, but have an undivided share of access to common facilities, and are governed by an association. A cooperative is a form of real property ownership created pursuant to ch. 719, F.S., whereby the real property is owned by the cooperative association, and individual units are leased to the residents, who own shares in the cooperative association. A homeowners' association is a corporation responsible for the operation of a community and is created pursuant to ch. 720, F.S.

State law requires that condominium associations, cooperative associations, and homeowners' associations prepare and complete a financial report for the preceding fiscal year.[1] The financial statement must be provided to unit owners or members.

The standard of reporting in the required financial statements[2] is based on total annual revenues of the association as follows:

Association's Total Annual Revenues	Reporting Requirement
Less than $150,000	Report of cash receipts and expenditures
$150,000 to $299,000	Compiled financial statements
$300,000 to $499,000	Reviewed financial statements
$500,000 or more	Audited financial statements

However, an association that operates fewer than 50 units, regardless of its annual revenues, must ("may" for homeowners' associations) prepare a report of cash receipts and expenditures[3] in lieu of financial statements.

An association may vote to waive the default statutory reporting requirement that the association would otherwise be required to provide and instead provide a lower level of financial reporting for that fiscal year.[4] However, for condominium and cooperative associations, such a waiver may not occur for more than three consecutive years.[5] Additionally, an association may elect to raise the level of reporting required for that fiscal year.[6]

[1] Sections 718.111(13), 719.104(4)(a), and 720.303(7), F.S.

[2] The American Institute of Certified Public Accountants explains the three types of financial statements, each designed to meet a different need: A compilation is useful to small, privately held companies that need help in preparing their financial statement. A review, on the other hand, may be adequate for entities that must report their financial position to third parties, such as creditor or regulatory agencies. Reviewed financial statements also may be useful to business owners who are not actively involved in managing their companies. An audit is the third and most extensive service. An audit is appropriate for businesses that must offer a higher level of assurance to outside parties. An unqualified audit opinion signifies that the CPA obtained reasonable assurance that the entity's financial statements fairly present its financial position and results of operations in accordance with the accounting principles used. *What Is the Difference Between a Compilation, a Review and an Audit? Comparative Overview*, The American Institute of Certified Public Accountants (March 28, 2014) *available at* http://www.aicpa.org/interestareas/privatecompaniespracticesection/qualityservicesdelivery/keepingup/downloadabledocuments/brochure%20customizable-%20difference%20between%20comp%20reviewaudit.pdf (last visited March 11, 2015).

[3] "A report of cash receipts and expenditures must disclose the amount of receipts by accounts and receipt classifications and the amount of expenses by accounts and expense classifications . . . ." Sections 718.111(13), 719.104(4)(c), and 720.303(7)(b), F.S.

[4] Sections 718.111(13)(d), 719.104(4)(e), and 720.303(7)(d), F.S.

[5] Sections 718.111(13) and 719.104(4)(b), F.S.

[6] Sections 718.111(13)(c), 719.104(4)(d), and 720.303(7)(c), F.S.

Effect of Proposed Changes

The bill repeals the provisions in ss. 718.111(13), 719.104(4)(a), and 720.303(7), F.S., that provide that an association operating fewer than 50 units ("parcels" for homeowners' associations), regardless of the association's annual revenues, must ("may" for homeowners' associations) prepare a report of cash receipts and expenditures in lieu of financial statements. Consequently, the year-end financial reports would be based solely on the level of annual revenues unless waived to a lower standard of reporting by a vote of the association.

B. SECTION DIRECTORY:

Section 1 amends s. 718.111, F.S., relating to financial reporting by condominium associations.

Section 2 amends s. 719.104, F.S., relating to financial reporting by cooperative associations.

Section 3 amends s. 720.303, F.S., relating to financial reporting by homeowners' associations.

Section 4 provides an effective date of July 1, 2015.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   The bill does not appear to have any impact on state revenues.

2. Expenditures:

   The bill does not appear to have any impact on state expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   The bill does not appear to have any impact on local government revenues.

2. Expenditures:

   The bill does not appear to have any impact on local government expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The bill does not appear to have any direct economic impact on the private sector.

D. FISCAL COMMENTS:

According to the Department of Business and Professional Regulation, there are currently 23,087 condominium associations, 15,215 of which have less than 50 units, and 809 cooperative associations, of which 465 have less than 50 units.[7] To the extent that the bill would require associations with less than 50 units to perform a higher level of financial review, the bill may have a negative fiscal impact on those associations and a corresponding positive fiscal impact on accounting professionals. However, because an association may, by a vote of its members, still elect to waive the higher level of review, the impact may be limited.

III. COMMENTS

[7] Email from Dan Olson, Director, Office of Legislative Affairs, Department of Business and Professional Regulation, RE: HB 4021 (March 9, 2015).

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

   The bill does not appear to require counties or municipalities to take an action requiring the expenditure of funds, reduce the authority that counties or municipalities have to raise revenue in the aggregate, nor reduce the percentage of state tax shared with counties or municipalities.

2. Other:

   None.

B. RULE-MAKING AUTHORITY:

The bill does not appear to create a need for rulemaking or rulemaking authority.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

None.