Financial Accounting Standards Board, Accounting Standards Codification (ASC) 606 Guidance

Frequently Asked Questions

Does the FASB ASC 606 standard apply to CICs in Nevada?

Yes, NAC 116.410 prescribes *PPC's Guide to Homeowners' Associations and Other Common Interest Realty Associations*, and the 29th edition (released July 2018) integrated this new revenue recognition standard.

What does this standard do?

This standard provides that the association may not recognize revenue in the association's financial statements until a corresponding performance obligation, i.e., common expense to provide services and upkeep, is met.

How does this impact CIC revenue reporting in the INCOME & EXPENSE STATEMENT?

This change primarily impacts *reserve* revenue reported in the association's **income and expense statement**, as reserve money is typically spent much later than it is collected. Funds are only reported as revenue when the expense for the repair, replacement, and/or restoration of a major component of the common elements is **incurred in the same reporting period**; this means reserve revenue will generally equal the expenses being incurred. Net reserve revenue will equal zero.

How does this impact the reporting of prepaid reserve assessments included in the BALANCE SHEET?

Reserve assessments prepaid by the unit owners in the reserve fund are now reported as liabilities and not as cumulative retained earnings/member's equity. When applicable, **interest** earned on the reserve account balance *would* be reported as member's equity.

SAMPLE BALANCE SHEET
(Represents a moment in time, is a snapshot of the association's finances)
XYZ HOMEOWNER'S ASSOCIATION
As of 06/30/2020 (date should coincide with the income statement)

Account #	Account Name	Operating Fund	Reserve Fund
	Assets		
1xxx	All Cash Accounts (i.e. Bank accounts) & Cash Equivalents (U.S. Treasury Notes, Certificates of Deposit, etc.)	$100,000	$2,000,000
1xxx	All Receivable Accounts (i.e. Assessments, Fines, Fees)	$50,000	-
1xxx	Prepaid Insurance Premiums (services owed to the association)	$50,000	-
	TOTAL ASSETS	$200,000	$2,000,000
	Liabilities		
Account #	**Account Name**	**Total**	
2xxx	Contract Liabilities - Prepaid Operating Assessments	$15,000	-
2xxx	Contract Liabilities - Prepaid Reserve Assessments	-	$1,970,000
2xxx	Accrued Expenses Payable - Unpaid bills (water, power, vendor contracts, etc.)	$5,000	-
	TOTAL LIABILITIES	$20,000	$1,970,000
	Equity		
Account #	**Account Name**	**Total**	
3xxx	Member's Equity	$178,000	$30,000.00
	Excess of Revenue/Expenditures (derived from the Income Statement)	$2,000	$0.00
	TOTAL EQUITY	$180,000	$30,000.00
	TOTAL LIABILITIES & EQUITY	$200,000	$2,000,000

What about the variance between the <u>budgeted</u> reserve assessment revenue and the <u>actual</u> reserve revenue that will be reported in the SCHEDULE OF REVENUE & EXPENSES?

To help unit owners understand any variance between these amounts, the interim and financial statements should include a **footnote disclosure** including information clarifying why either less or more money was reported as revenue than budgeted.

How does this standard impact the reporting of the bad debt projection?

Pursuant to the IRS, a bad debt is a debt that has become worthless because surrounding facts and circumstances indicate there is no reasonable expectation that the debt will be repaid. To show that a debt is worthless, associations must establish that they have taken reasonable steps to collect the debt. The bad debt projection is now required to be reported under operating revenue as a **negative number**, ensuring that revenue is not overstated in the financial statement.

Is there any penalty for not following this standard?

The association could be found in violation of NRS 116.31142, NAC 116.451(4), NAC 116.457(1)(a) and NAC 116.410.

Any questions about this guidance should be submitted to a reputable certified public accountant (CPA).