

Topic: REVENUE RECOGNITION WITH REGARDS TO CIRA ORGANIZATIONS

With the issuance of the new accounting standards FASB ASC 606 – *Revenue from Contracts with Customers* - arises the question, does this standard apply to CIRA Organizations? The FASB has not commented or issued any specific guidance related to the applicability of FASB ASC 606 with regard to CIRA activities.

On February 19, 2020 the AICPA's Center for Plan English Accounting issued a Report entitled "*The New Revenue Recognition Standards Industry Impacts: CIRAs*". In this report CPEA's takes the position that FASB ASC 606 does apply to CIRA organizations, although this guidance is not an official position of the AICPA. The opinion of CPEA was based on FASB 606-10-15-3, defining "Customer" to a contract. The position is that a contract exists between a CIRA and its owners via the CIRA declaration and other legal documents. This report discusses the 5 principles of ASC 606 and their applicability to the CIRA industry.

Key Issues addressed in the CPEA's report:

- Probability of Collection and bad debts, whether or not there is a price concession or the CIRA has accepted the credit risk, this will determine the recognition of income and the applicable bad debt
- Operating Assessments – meets the performance obligation of providing a series of distinct daily services over the budget period
- Replacement/Reserve and Special Assessment Funds- This area poses much diversity in the industry as to the nature of the promise in a contract between the CIRA and its owner members.

Reserve Assessments:

It's CPEA's opinion that the contract between the CIRA organization and its owners /members to provide goods and services is not met within the context of FASB 606-10-25-21 with respect to reserve assessments. The reasoning behind this is that operating assessments and reserve assessments represent multiple goods and services and are not a combined activity.

This position taken by CPEA is not recognized by some in the CIRA Industry. The alternative position is that the CIRA's promise related to the reserve assessments is not distinct from the promise related to normal operations of the CIRA. They believe that operating and reserve assessments result in a single performance obligation.

- Operating vs. Reserve Assessments/Special Assessments

Operating Funds:

The general principle is to recognize revenue when the entity satisfies a performance obligation.

Operating Assessments are considered a series of distinct goods and services therefore a CIRA would recognize revenues related to the operating assessments when the following two criteria are met:

1. Assessments have been included in the estimate of the transaction price, i.e. the budget.
2. The distinct services have been provided.

Recording of revenue for "operating funds" is expected to remain the same as in current practice with the exception of the variable considerations factor.

Reserve Funds

Because reserve fund assessments typically are billed and collected prior to the delivery of the goods and services to its customer, (i.e. owners and members) in accordance with FASB 606-10-45-2, the CIRA shall "upon receipt of a prepayment from a customer, an entity should recognize a contract liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods and services in the future. An entity should derecognize that contract liability (and recognize revenue) when it transfers those goods and services and, therefore satisfies its performance obligation"

Special Assessments

Identify the promise or performance obligation to determine the recognition of income. Therefore, special assessments may be recognized when assessed and others may result in a deferral of revenue. This must be determined on a case by case basis.

Attachments:

- AICPA Center for Plain English Accounting Report *“The New Revenue Recognition Standards Industry Impacts: CIRAs.*
- Revenue Recognition ASC 606 - Prepared by Erika A. Halluska CPA and Thomas V. Durkee, CPA of Withum - Presented at the FICPA Common Interest Realty Association Conference November 2019.
- PPC – Guide to Homeowners Associations- Appendix 4A-2- Sample Financial Statements- Fund reporting (After adoption of ASU 2014-09