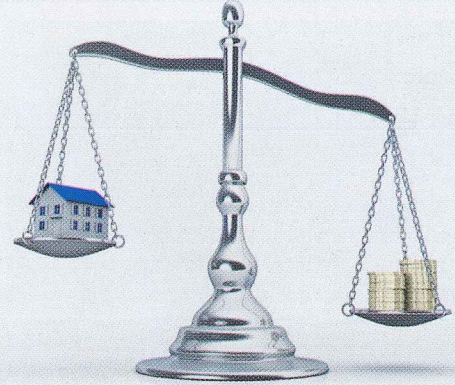


Delinquent Owner Balances, Bad Debt and Allowance for Doubtful Assessments — Their Relationship and How They Impact on the Financial Statements



It is an unfortunate reality that every Association must find a way to manage delinquent owner balances, also called assessments receivable. Implementing and following a collections policy, and working with management and the Association's attorney will help the Association to collect delinquent balances. But, what should the Association do about the impact of the delinquent balances on the financial statements?

Establish an Allowance for Potentially Uncollectible Amounts

The Association should review the delinquent balances each month, as this is an important part of the Association's internal controls. The Association and management should also periodically determine if an estimate should be recorded in the Association's financial statements to reflect bad debt expense for the delinquent balances that may not be collected. The estimate account is called an allowance for doubtful assessments. The allowance account is a contra-asset account and reduces the delinquent owner balances to a realizable (collectible) level. This tells the readers of the financial statements that there is a possibility that not all of the delinquent balances will be collected. The delinquent owner balances are not actually written off and will continue to show up on the monthly delinquency report.

Using an allowance account, the Association will recognize bad debt expense on a consistent basis rather than just when an owner's balance is written off. This will also give the Association a more realistic view of the Association's financial position and may indicate whether the Association needs to budget for bad debt.

If the Association subsequently collects a delinquent owner's balance that was in the allowance, then the Association would recognize bad debt recovery (income) in the year collected. If the Association subsequently writes-off a delinquent owner's balance that was in the allowance, then the Association would reduce the allowance and would not recognize any additional bad debt expense.

Our firm uses the following guidelines in estimating the allowance for doubtful assessments; however, the Association may develop their own guidelines based on the collection history of the Association.

Condominiums—consider establishing an allowance for any delinquent balances that are in excess of six (6) times the average monthly assessment.

Homeowners Associations—consider establishing an allowance for any delinquent balances that are in excess of 12 times the monthly fee.

Write-Off Uncollectible Amounts

What happens when the Association has exhausted all efforts to collect a delinquent balance? The Association should follow advice from management and the Association's attorney when determining when the collection efforts are exhausted and the balance should be written off. The Association should consider writing off delinquent accounts that reflect nonpayment over a number of years, such as pre-bankruptcy balances and balances uncollected from bank or mortgage company foreclosures. This would represent a more conservative presentation of the financial statements. Collection efforts may continue, and the recovery of amounts previously written off should be recognized as income in the year collected.

In summary, every Association should review the delinquent owner balances monthly. At least annually, the Association should also evaluate whether an allowance for doubtful assessments should be established.

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Attention Managers! 2014 PMDP COURSE SCHEDULE

Chesapeake Region Chapter

April 3-4	M350	Manager and the Law Baltimore, MD
June 19-21	M100	The Essentials of Community Assn Mgmt Baltimore, MD
August 7-8	M202	Association Communications Baltimore, MD
Sept. 18-20	M100	The Essential of Community Assn Mgmt Baltimore, MD
Oct 23-24	M201	Facilities Management Baltimore, MD
Nov. 13-14	M203	Community Leadership Baltimore, MD

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