



The new revenue recognition standard is likely to affect not-for-profit (NFP) entities less than other types of entities, because contributions are specifically excluded. The new standard only applies to contracts with customers, which are defined as exchange transactions where there is a reciprocal transfer – each entity receives a measurable benefit. Unconditional contributions are nonreciprocal transfers to the NFP, which are not exchange transactions and not within the scope of the new standard.

NFPs will need to look closely at the way they solicit contributions and any other sources of revenue to determine if there are benefits received by the donor which would constitute an exchange transaction. The new standard will have little impact on most NFP exchange transactions but will require a new methodology as described on the previous page. In most cases, the timing and recognition of revenue will be the same.

NFPs will also need to be aware that there will be a change in terminology related to payments received in advance of performing services or delivering goods. Deferred income will become contract liabilities and represents the payments received that exceed the NFP's performance. Less common will be when the NFP performs services prior to receiving payment, which will be recorded as contract assets and represents the NFP's performance that exceeds the billable amount.

Below are types of NFP revenue streams applicable to the new standard. This list is not all inclusive, and the NFP should review each type of revenue stream to determine whether the new standard applies.

MEMBERSHIP DUES

The NFP will need to evaluate all of the services and benefits provided by the dues agreement and allocate the transaction price over those goods or services. If the stand-alone pricing of those goods or services is less than the transaction price, a contribution will be recorded.

TUITION

Enrollment deposits will be recorded as contract liabilities as they represent payment for a performance obligation that has not yet started. The deposit is part of the total tuition amount and will be recognized ratably over the course of the school year (monthly) as services are performed. Financial aid and tuition remission will be an adjustment of the transaction price, essentially reporting a net tuition amount.

EVENTS

Most events will result in recognizing revenue the same as specified by existing guidance, which is the point in time when the event occurs. Payments received in advance will be recorded as contract liabilities.

GRANTS

The NFP will need to evaluate the source of the grant to determine whether the full amount of the grant is funded or subject to subsequent approval. This may occur on multi-year grants from government organizations where the funding is approved annually. If not, the unfunded portion will be treated as a variable consideration and evaluated on a probability-weighted or most likely amount approach, provided that a significant reversal of revenue will not occur when the approval is made.

FEE FOR SERVICES

Most services provided will result in recognizing revenue the same as specified by existing guidance, which is the point in time when the service is provided. Payments received in advance will be recorded as contract liabilities.

ADDITIONAL RESOURCES

This is by no means an exhaustive list of the new standard's effect on not-for-profit organizations. Please consult your financial partners at Ellin & Tucker or one of our Not-for-Profit Services team members to review the impact of the new standard on your entity. Visit us at ellinandtucker.com or call 410.727.5735.

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