ELLIN & TUCKER

INDUSTRY OF IMPACT:

NOT-FOR-PROFIT

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.

ELLIN & TUCKER

SUMMARY OF CHANGES TO REVENUE RECOGNITION

FASB Accounting Standards Update No. 2014-09

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, developed as part of the convergence initiatives of the FASB and International Accounting Standards Board (IASB) to align accounting standards, reduce industry specific complexities, and shift the thought process of recording revenue from a rules based process to a principles based approach. **This standard replaces nearly all existing revenue recognition guidance**.

The new standard will go into effect in calendar year 2018 for public business entities and calendar year 2019 for private companies. Implementation may also affect earlier periods.

MAIN PROVISIONS

The standard creates the following five steps for recognizing revenue:

1 IDENTIFY THE CONTRACT

A contract is an agreement between a customer and vendor for goods or services. It requires commercial substance, identification of the rights and obligations of each party, and has a high probability of fulfillment.

2 IDENTIFY THE CONTRACT'S SEPARATE PERFORMANCE OBLIGATIONS

These are the distinct goods or services to be delivered. A good or service is considered distinct if it is a separate line item in the contract and the customer can utilize it on a stand-alone basis. The goods or services should not depend on or significantly modify another deliverable.

3 DETERMINE THE TRANSACTION PRICE

The transaction price is the amount the vendor expects to be paid when the goods or services are delivered to the customer. The transaction price takes into account any discounts, financing components, variable and noncash consideration, as well as amounts payable to the customer.

4 ALLOCATE THE TRANSACTION PRICE OVER THE PERFORMANCE OBLIGATIONS

The total transaction price must be allocated to the distinct performance obligations. This is accomplished by accumulating the stand-alone prices of the deliverables and allocating the transaction price on a pro-rata basis. The normal selling price for the goods or services is used to determine stand-alone prices. If such price does not exist, a best estimate can be used.

5 RECOGNIZE REVENUE AS THE ENTITY SATISFIES PERFORMANCE OBLIGATIONS

Revenue is recognized as control of the deliverable passes from the vendor to the customer. This happens either at a point in time (buying groceries) or over time (construction project). Control is considered to have passed when the customer has the ability to use the goods or received benefit of the services. How this transfer takes place determines whether recognition occurs at a point in time or over time.

DISCLOSURES

Specifically, the new standard includes disclosure requirements for:

- Disaggregation of revenue
- Contract balance, including changes during the period
- Performance obligations
- Significant judgements
- Assets recognized to obtain or fulfill a contract, including changes during the period