Web Story Template

Revenue Recognition Overhaul Applies to Nonprofits, Too

by Cathy Clarke

Summary — The new FASB standards seem to have raised more questions than answers, but you should still be prepared to adopt the new rules when they are implemented.

New accounting standards issued by the Financial Accounting Standards Board (FASB) in May 2014 have completely rewritten the rules for revenue recognition for nonprofits. A new framework will now be applied in determining when and how an entity recognizes revenue in its customer contracts.

Although no further formal guidance is expected soon, the AICPA Revenue Recognition Implementation Committee is studying specific issues unique to nonprofit subindustries. An implementation guide is expected to be the final product, but no timeline has been given for its completion.

For nonprofits, the current effective date for these new rules (which has been pushed back one year due to implementation issues) is for years beginning after December 15, 2017 (conduit debt users) or December 15, 2018.

A new framework based on a core principle

As a part of the new rules, FASB has defined a core principle for recognizing revenue. It states that revenue should only be recorded when you transfer goods to your customer at an agreed-upon price.

FASB also included five steps to achieve this core principle before you can determine how to recognize revenue from your customers:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Implementation challenges

While contributions (a source of revenue for many organizations) are excluded from the standard, many nonprofit organizations also generate revenue from providing goods and services to customers (i.e., members, participants). A number of challenges arise when implementing these rules, including the numerous types of contractual arrangements, the variety of products and services that might be provided (performance obligations), and the countless ways that entities are paid for these products and services (the transaction price).

The biggest impact will be on transactions that straddle the end of the reporting period (typically year-end), so you should focus your efforts on the revenue recognition issues related to those transactions.

Another challenge will be those transactions that contain characteristics of both contribution and exchange (i.e., special events or corporate sponsorships). In these situations, you will need to first assess the portion that relates to the contribution and apply those accounting guidelines. The remaining portion would need to be assessed within the new revenue recognition framework.

Other transactions [may involve non-monetary assets or liabilities]() (reciprocal exchanges) that fall under the new rules.

A host of questions remain

In addition to these issues, nonprofits often have contacts with state and federal governmental agencies. It is unclear at this point whether these agencies are considered customers under the new rules.

Colleges and schools are raising questions about tuition and fee income. They want to know if classes, books, and extracurricular programs are performance obligations, and if so, whether they must be accounted for separately. There is also a question of when these performance obligations are satisfied, especially related to summer sessions.

And then there are membership organizations that collect dues. They will need to determine what services are provided in exchange for dues, but it is unclear if they need to be accounted for separately, or at what point the performance obligation is satisfied. Lifetime memberships raise other questions.

Inventory your revenue streams

You can begin your assessment of the new rules by creating a list of all revenue streams with current customers. Nonprofit revenue often includes, but is not limited to: membership dues, tuition, licenses, royalties, sponsorships, special events, agency transactions, and grants. Once revenue streams are identified, you will need to assess your performance obligations under the contract with a focus on those that are multi-year or extend over the year end.

For short-term agreements there will likely be little impact on revenue recognition. For those with potential change, consider revising contracts with customers prior to the effective date of the standard so that the revenue recognition can continue to mirror the economics of the transaction.

Disclosures

All nonprofits will see an increase in disclosures surrounding transactions. For each year presented, your organization must provide qualitative and quantitative information on contracts, the significant judgments (and changes in those judgments) made in applying the standard, and any assets or liabilities recognized related to costs to obtain or fulfill the contract.

Getting help

Due to the deferral of the effective date for these rules, some nonprofit are taking a “wait and see” attitude. But like it or not, the date for implementation will eventually arrive. Why not get ahead while there is still plenty of time? CliftonLarsonAllen has professionals who focus on nearly every type of nonprofit organization. They are studying the new revenue recognition rules and can help you evaluate how these changes will impact your organization.

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