Accounting for Nonprofit Grants and Contracts

Visit the NFP webcast archive to watch the corresponding presentation.
Today’s presenters

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Learning objectives

• Identify the impact and potential application considerations of the new revenue recognition standards for not-for-profit organizations.

• Identify practical steps for implementing the new revenue recognition standards.

• Determine the impact of the new revenue recognition standards on not-for-profit financial statement disclosures
NFP Grants and Contracts: Implementing the New ASU

ASU 2018-08
Scope

Applies to all entities (NFPs and business entities) that receive or make contributions unless otherwise indicated.

Excludes transfers of assets from the government to business entities.

Applies to both contributions received by a recipient and contributions made by a resource provider. The intent is simply that both apply the same guidance, the entities do not need to track each other’s accounting to achieve the same reporting results.

The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 958-605 is not a factor for determining whether an agreement is within the scope of that guidance.
**Issue 1**: reciprocal (exchange) vs. nonreciprocal (nonexchange/contribution) transactions

- **Current Practice**
  - **Exchange**
    - Direct Commensurate Value to Resource Provider
      - Specified Third Parties
      - General Public
  - **Clarification**
    - Direct Commensurate Value to Resource Provider
      - Specified Third Parties
      - General Public
    - Government/Resource Provider is a 3rd Party Payer on Behalf of an identified Customer
    - Continue to monitor GASB and IPSASB projects in this area

**Key** – Who receives the benefit?

Follow Topic 606 (or other, e.g. Leases)

Follow topic 958-605

AICPA Not-for-Profit Section
The ASU clarifies and refines existing guidance in Subtopic 958-605 by adding paragraphs that set the scope of the Subtopic and providing illustrative examples.

- The resource provider is **not** synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal transaction.
- If the primary beneficiary of a grant or contract is a third party, an NFP must use judgment to determine if the transaction is reciprocal or nonreciprocal.
- Furthering a resource provider's mission or “feel good” sentiment does not constitute commensurate value received.
- The type of resource provider should not override the substance of the transaction.
**Issue 2: conditional vs. unconditional contributions**

For a *Donor-Imposed Condition* to Exist:

- A right of return/release must exist* and
- The agreement must include a barrier
  - ASU includes indicators and examples to help in determination

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* The right of return/release must be contained in the agreement or in another document referenced in the agreement

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ASU

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Alternative
Rejected

- A right of return/release must exist
- Would have required a probability assessment about whether it is likely a recipient NFP will fulfill the stipulations
Scope – “symmetry”

Applies to both contributions received by a recipient and contributions made by a resource provider

The intent is for both to apply the same guidance; the entities do not need to track each other’s accounting to achieve the same reporting results

• Grantors (e.g., foundations, other NFPs) must follow same guidance in determining if grants are (1) exchange or nonexchange transactions, and (2) conditional or unconditional

• Not required to mirror judgment/accounting treatment used by the grantee organization

• Not required to obtain information from grantees relating to their overcoming of the barriers but can use judgment
The term used to label revenue in the presentation of financial statements (for example, contribution, grant, donation) is not a factor for determining whether an agreement is within the scope of Subtopic 958-605 Subtopic alone determines the accounting treatment

- There is no expectation for recipients or makers to call their grants “contributions” in their statements. They will likely continue to call them “grants and contracts,” “government grants,” or other suitable label

- Rather, recipients and makers are simply using the guidance in the contribution model in Subtopic 958-605 (-720) to determine revenue (expense) recognition for transactions that are nonexchange (nonreciprocal) transactions
Indicators that a barrier may exist

| The inclusion of a measurable performance-related barrier or other measurable barrier | The extent to which a stipulation limits discretion by the recipient on the conduct of an activity | The extent to which a stipulation is related to the purpose of the agreement | The Board decided to remove the additional actions indicator that was originally proposed |
Indicators that a barrier may exist (continued)

**Measurable Barrier**
- Specified level of service
- Specified outcome
- Matching
- Outside event or occurrence
- May be achieved in milestone (step-wise) fashion

**Limited Discretion**
- More specific than the general activity being conducted and/or restricted time-frame
- Requirement to incur only qualifying expenses based on specific criteria
- Requirement to hire specific individuals
- Requirement to adhere to specific protocol(s)

**Related to Purpose of the Agreement**
- Stipulations that relate directly to the mission purpose of the agreement
  - Report on research study findings
  - LEED certification for new building
- Excludes trivial or administrative stipulations and requirements
  - Report on grant expenditures
  - Annual audit
The trouble with ambiguous donor stipulations

Determining whether a contribution is conditional or unconditional can be difficult if the donor’s stipulations do not clearly indicate whether:

- One or more barriers exist
- The donor has a right of return or release should the NFP fail to overcome the barrier(s)

It may be difficult to determine whether stipulations are conditions vs. restrictions

An agreement containing stipulations that are not clearly unconditional shall be presumed to be conditional
What is it? Game show!
Example 1: federal award

• University of Scholastica is awarded a research grant from the U.S. Department of Energy to study hamster power as an alternative energy source

• The agreement requires University to:
  – Follow the rules and regulations established by the Office of Management and Budget (OMB)
  – Incur certain expenses (or costs) in compliance with rules and regulations established by the OMB and the federal awarding agency
  – Obtain an annual audit in accordance with OMB guidelines
  – Submit a summary of research findings to the federal government

• Any unused assets are forfeited, and any unallowed costs that have been drawn down by University are required to be refunded

• University retains the rights to the findings
Example 1: University’s assessment

- **Nonexchange**
  - Commensurate value is not being exchanged between the two parties
  - University retains all the rights to the research and findings and receives the primary benefit of the findings
  - The federal government’s benefit is considered indirect/incidental because the research and findings serve the general public

- **Conditional**
  - The agreement limits University’s discretion as a result of the specific requirements on how the assets may be spent (qualifying expenses)
  - There is a right of return and release (related to unallowable costs)
  - The audit requirement alone is not a barrier to entitlement because it is not related to the purpose of the agreement

- **Restricted**
  - Hamster power study is more narrow than University’s overall mission
Example 2: grant from local government

• Better Education Think Tank receives funding from a local government to perform a research study on the educational and economic benefits and drawbacks of a 4-day school week; the local government hopes to save money by reducing the school week by a day, with no detriment (and possibly a benefit) to educational quality.

• The agreement requires Think Tank to:
  – Plan the study
  – Perform the research
  – Analyze the research and submit analysis and conclusions of the research to the local government

• The local government retains all rights to the study

What is it?

- Exchange?
- Nonexchange?
- Conditional?
- Unconditional?
- Restricted?
- Unrestricted?
Example 2: Think Tank’s assessment

• Exchange
  – Commensurate value is exchanged between the two parties
  – The local government retains the rights to the study
Example 3: grant from private foundation

• We Heart Our Veterans (WHOV) receives a grant from a private foundation for funding in the amount of $400,000 to provide specific career training to disabled veterans
• The grant requires WHOV to provide training to at least 8,000 disabled veterans during the next fiscal year, with specific minimum targets that must be met each quarter
• There is a right of release from the obligation in the agreement in the event WHOV fails to meet the targets in any given quarter
Example 3: WHOV’s assessment

• Nonexchange
  – The foundation does not receive commensurate value in return

• Conditional
  – The agreement contains a right of release from obligation if targets are not met
  – The foundation requires NFP to achieve a specific level of service (at least 8,000 veterans trained, with minimums of 2,000 per quarter) on which entitlement depends – this is considered a measurable performance-related barrier
  – The likelihood of serving those minimums is not considered.

• Restricted
  – The specific training program is narrower than WHOV’s overall mission
Example 4: grant from a corporate foundation

- Foodies For Health studies gluten-related health concerns as a small part of its overall mission; it applies for and receives a $100,000 grant from Oat Farmers of America to perform research on gluten-related food intolerances over the next year.

- The grant agreement includes:
  - A right of return of any unspent funds
  - A statement that prior approval must be obtained from the corporate foundation for any significant deviations in spending from the budget submitted as an exhibit to the grant application
  - A requirement that at the end of the grant period a budget-to-actual report must be filed with the corporate foundation that explains how the assets were spent, including explanations for specific line items overspent by more than 15% of the budgeted amounts.
Example 4: Foodies’ assessment

• Nonexchange
  – While Oat Farmers of America could receive an incidental benefit should the study results indicate that oat consumption is superior to wheat consumption, there is no commensurate exchange of value

• Unconditional
  – The general budget included in the grant proposal is not a barrier to entitlement because adherence to a general budget allows for broad discretion
  – There are no additional requirements in the agreement that would indicate a barrier exists
  – The budget-to-actual reporting and prior approval for budget deviations requirements are administrative and not related to the purpose of the agreement

• Restricted
  – Gluten-related studies are more narrow than Foodies’ overall mission
Example 5: capital campaign contribution

- GPA Prep School receives a multi-year pledge from a grateful alumnus to build a LEED certified, green, sustainable, zero-emissions, zero-carbon-footprint building on campus; the pledge amount is $20 million payable over 3 years
  - $7 million is payable up front on July 1, 20X0 with no associated conditions
  - A second payment of $6 million is entitled and payable on July 1, 20X1 upon evidence that the land has been cleared, an architectural design has been received, and proper building permits have been obtained
  - A third payment of $7 million is entitled and payable upon receipt of the LEED certification and the certificate of occupancy for the building
Example 5: GPA’s assessment

• Nonexchange
  – The individual is not receiving commensurate value for the $20 million transferred

• Unconditional – $7 million; Conditional – $13 million
  – GPA will receive the initial $7 million payment without having to satisfy any conditions
  – GPA will not be entitled to or receive the two remaining payments ($13 million in total) unless it overcomes the respective performance barriers (this is because the individual retained a right of return should the barriers not be met)
  – The likelihood of meeting the performance barriers is not a consideration when assessing whether the contribution is conditional

• Restricted
  – Construction of the building is more narrow than GPA’s overall mission
Example 6: financial aid grant for tuition

- Student is enrolled at University of Scholastica because Student has a passion for all things hamster
- Student’s tuition for the semester is $30,000
- Student received a Pell Grant in the amount of $2,000 to use toward tuition, which is paid directly by the grantor to the University

What is it?
- Exchange?
- Nonexchange?
- Conditional?
- Unconditional?
- Restricted?
- Unrestricted?
Example 6: University’s Assessment

- Exchange
  - The University accounts for the grant as a third-party payment on behalf of an identified customer to an existing exchange transaction (contract with a customer)
  - The grant was awarded to the Student, not to the University
  - University has entered into an exchange transaction with Student and accounts for the $30,000 of tuition revenue in accordance with ASC 606
  - The $2,000 grant does not create additional revenue; it is a partial payment of the $30,000 due to the University
  - Student is an identified customer of the University, and it is the student who is receiving the benefit from the grant transaction
Example 7: grant for tennis program

- Happy Valley Community Association (Association) is a recreational organization that provides various sports programs to residents in the community. The Association receives a $40,000 cash grant from the Happy Valley Homeowners Association to be used to initiate a tennis program.
  - The grant agreement includes stipulations about how the Association should use the assets (for example, to hire 10 tennis instructors, and to provide a youth summer camp for 9 weeks)
  - The agreement does not specify that the Association’s entitlement to the $40,000 is dependent upon meeting any of the stipulations in the agreement as long as the funds are used toward the tennis program.
  - The grant contains a right of return of any funds not spent on the tennis program.
Example 7: Association’s assessment

• Nonexchange
  – The residents receive the benefits, not the Homeowners Association

• Unconditional
  – The agreement does not contain a barrier to overcome to be entitled to the transferred assets
  – While the grant agreement contains stipulations as to how the Association may spend the $40,000, it does not specify that entitlement to the transferred assets is dependent upon meeting any of the stipulations, therefore, there is no barrier to overcome

• Restricted
  – The tennis program is more narrow than the Association’s overall mission
Example 8: Medicare payment to hospital

• Good Samaritan Hospital emergency room removes a splinter from Patient’s finger
• The total amount due for treatment services received by Patient is $10,000
• Patient has Medicare, which covers $8,000 of the services and which is paid directly by the government to Good Sam
• Good Sam bills Patient for the $2,000 balance
Example 8: Good Sam’s assessment

• Exchange
  – Good Sam accounts for the Medicare payment (a form of insurance covering patient) as a third-party payment on behalf of an identified customer to an existing exchange transaction (contract with a customer)
  – Good Sam has entered into an exchange transaction with Patient and accounts for the $10,000 of patient service revenue in accordance with ASC 606*
  – The $8,000 payment does not create additional revenue but, rather, serves as a partial payment against the $10,000 due to Good Sam
  – Patient is an identified customer of Good Sam who is receiving the benefit from the Medicare payment

* While this example assumes that the entire $2,000 balance is recognized as revenue and Patient billed accordingly, under Topic 606, Good Sam would need to assess whether to adjust any of that balance for explicit contractual adjustments, other explicit discounts, or implicit price concessions
Example 9 – sponsorship

• Youth for Yodeling receives $5,000 from Earl’s Earplugs to be the lead sponsor for Youth for Yodeling’s 5k race/yodel biathlon fundraising event to be held next spring
• Earl’s Earplugs receives no direct value in return for the sponsorship
• The sponsorship agreement is silent as to what happens if Youth for Yodeling cancels the event, or if unforeseen circumstances prevent the biathlon from occurring as planned
Example 9 – Youth for Yodeling’s assessment

• Nonexchange
  – Earl’s Earplugs receives no direct value in return for the sponsorship

• Unconditional
  – The sponsorship agreement is silent as to what happens if Youth for Yodeling cancels the event, or if unforeseen circumstances prevent the biathlon from occurring as planned, therefore Youth for Yodeling concludes there is neither a barrier to overcome nor a right of return of the payment

• Unrestricted
  – Youth for Yodeling determined that the sponsorship payment was made in furtherance of the organization’s overall mission, and that no purpose or time restrictions were stipulated in the sponsorship agreement (Youth for Yodeling could have made a different determination)
Example 10 – capital campaign contribution II

• GPA Prep School conducts a separate capital campaign to build a new building to house its student center and cafeteria, and receives an upfront grant in the amount of $10,000 from Acme Food Services
• The agreement contains a right of return requiring that any portion of the $10,000 grant not used for the purposes outlined in the capital campaign solicitation materials be refunded to Acme
• Acme did not include any specifications in the agreement about how the building should be designed, constructed, or equipped
• Acme hopes to bid on the cafeteria food and supplies contract once the building is completed

What is it?

- Exchange?
- Nonexchange?
- Conditional?
- Unconditional?
- Restricted?
- Unrestricted?
Example 10 – GPA’s Assessment

• Nonexchange
  – Acme Food Services receives no direct return benefit as there is no guarantee it will be invited to bid on any food services contract

• Unconditional
  – The agreement places limits only at the level of what activity is being funded (for example, the assets can be used toward the new building).
  – The resource provider does not include any specifications about how the building should be constructed, and the agreement only indicates that NFP G use the grant for the purpose outlined in the capital campaign materials
    • This contrasts with the requirements for LEED certification on the green, sustainable, zero-emissions, zero-carbon-footprint building, on which payment to GPA is conditioned under the promise to give from the grateful alumnus as depicted in a prior example

• Restricted
  – Construction of the building is more narrow than GPA’s overall mission
Resource providers have been given an additional year for implementation, because the ASU for them concerns expense recognition, rather than revenue recognition.

Some NFPs are both grant recipients and grant makers.

Those NFPs will need to determine whether such a staggered implementation for them could lead to nonintuitive/misleading net financial results, especially to the extent that specific grants made are linked to specific grants received.

If so, it may be beneficial to accelerate the implementation of the ASU for their grants made, to coincide with implementation for their grants received.
Transition approach

Effective Date

A

B

• Modified prospective
  - Apply to all agreements:
    o Existing at the effective date (only apply to the portion of existing agreements not previously recognized)
    o Entered into after the effective date

• No restatement of prior amounts recognized

• Retrospective application permitted
Modified prospective transition – example 1

• NFP implements new ASU for calendar 2019

• 3-year grant awarded on 1/1/2018; payments are $100K/year during 2018, 2019, and 2020

• Accounting prior to ASU implementation –
  – NFP treated grant as an unconditional contribution; all revenue was recognized on 1/1/2018

• Accounting in year of implementation and future –
  – Grant is a “completed agreement” and so no changes to revenue that was previously recognized
  – 2019 & 2020 – continue releasing net assets from restriction
Modified prospective transition – example 2

• NFP implements new ASU for calendar 2019
• 5-year grant awarded on 1/1/2018; payments are $50K/year each year 2018 through 2022
• Accounting prior to ASU implementation –
  – NFP accounted for grant as an exchange transaction; revenue was recognized as billed ($50K total through end of 2018)
• Accounting in year of implementation and future –
  – Not a completed agreement (still have more revenue to recognize)
  – NFP determines grant is a conditional contribution
  – 2019 & 2020 – recognize remaining revenue as conditions are met
Modified prospective transition – example 3

• NFP implements new ASU for calendar 2019
• 3-year grant awarded on 1/1/2018; payments are $150K/year during 2018, 2019 and 2020
• Accounting prior to ASU implementation –
  – NFP accounted for grant as an conditional promise, revenue was recognized as conditions met ($150K total through end of 2018)
• Accounting in year of implementation and future –
  – Not a completed agreement (still have more revenue to recognize)
  – NFP determines grant is an unconditional contribution
  – 2019 – recognize donor-restricted revenue for remaining $300K
  – 2019 & 2020 –release donor-restricted net assets as restrictions are met
Recap of Key Elements of ASU 2014-09

Revenue from Contracts with Customers
Revenue recognition (Topic 606)

• The revenue standard aims to improve accounting for contracts with customers by:
  – Providing a robust framework for addressing revenue issues as they arise
  – Increasing comparability across industries and capital markets
  – Requiring better disclosure

Substantially converged with IFRS on major provisions
Final U.S. GAAP model – scope

• All contracts with customers, except
  ✗ Lease contracts
  ✗ Insurance contracts
  ✗ Financial instruments
  ✗ Guarantees
  ✗ Non-monetary exchanges in the same line of business to facilitate sales to customers

• Certain contracts not with customers are excluded:
  – Contributions
  – Collaborative arrangements
Final U.S. GAAP model – recognition

• Core principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

• Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when (or as) a performance obligation is satisfied
Final U.S. GAAP model – implementation guidance (illustrated in Topic 606)

- Performance obligations satisfied over time
- Methods for measuring progress
- Sale with a right of return
- Warranties
- Principal versus agent considerations
- Customer options for additional goods or services
- Customers’ unexercised rights
- Nonrefundable upfront fees
- Licensing
- Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance
- Disclosure of disaggregated revenue
Contributions (out of scope of Topic 606)

- March 30, 2015 meeting - TRG members agreed that nonreciprocal contributions are not within the scope of the new revenue standard
  - FASB will not amend ASC 606 to clarify the scope exception
  - TRG members agreed with FASB member’s suggestion that AICPA could evaluate whether to include interpretive clarification in non-authoritative industry guidance, and AICPA has done so in the Revenue Recognition Audit & Accounting Guide
Decision path for application of Topic 606

1. **Is the contract fully in the scope of other accounting guidance?**
   - Yes: Apply that other guidance
   - No: Proceed to next question.

2. **Is the contract partially in the scope of other accounting guidance?**
   - Yes: Does that Codification Topic have specific guidance that applies?
     - Yes: First apply other accounting guidance, then for the remainder ...
     - No: Proceed to next question.
   - No: Proceed to next question.

3. **Apply new revenue standard**
Step 1: Identify Contract(s) with the Customer
Identifying the contract

Has been approved by both parties

Each party’s rights and obligations regarding goods or services can be identified

Payment terms can be identified

Collectability of consideration is probable

Contract has commercial substance

Parties are committed

Contract: An agreement between two or more parties that creates enforceable rights and obligations.

A contract can be written, oral, or implied by an entity’s customary business practices.

Collectability of consideration is probable

Parties are committed

Payment terms can be identified

Contract has commercial substance

Each party’s rights and obligations regarding goods or services can be identified

Has been approved by both parties

AICPA Not-for-Profit Section
Combining contracts

• Contracts with the same customer should be combined if
  – The contracts are negotiated as a package with a single commercial objective
  – The amount of consideration paid in one contract is dependent upon the other contract
  – The goods or services promised in the contract are a single performance obligation
Contract modifications

• Both parties agree to either
  – Change in scope or
  – Change in price (or both)

• Treat as a separate contract if
  – Addition of promised goods and services that are distinct
  – Price of new obligation is consistent with the stand-alone price of the good or service transferred

• Adjust current contract if not treated as a separate contract
  – Termination of existing contract
  – Adjust current contract and revise estimates
  – Combination of both
Step 2: Identify the Performance Obligations
Performance obligations

• Definition of performance obligation:
  – A promise in a contract with a customer to transfer to the customer either:
    • A good or service (or bundle) that is distinct
    • A series of goods or services that are substantially the same and that have the same pattern of transfer to the customer
Examples of performance obligations

• Constructing, manufacturing, or developing an asset on behalf of a customer
• Granting licenses
• Granting options to purchase additional goods and services
Distinct goods and services

• Two criteria must be met
  – The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and
  – The entity’s promise to transfer the good or service is separately identifiable from other promises in the contract

If goods or services are distinct, account for them as separate performance obligations in the contract

If not, combine the goods or services with other promised goods or services until they become distinct
Step 3: Determine the Transaction Price
Determining transaction price

• Use customary business practices.

• Defined as the amount of consideration an entity expects to receive in exchange for transferring promised goods or services, excluding amounts collected on behalf of third parties

• May consist of
  – Fixed amounts
  – Variable amounts
  – Both
Transaction price considerations

- Variable consideration
- Significant financing component
- Noncash consideration
- Consideration payable to a customer
Noncash consideration

• Measure at fair value
• Secondary measure is standalone selling price
Significant financing component

• Revenue recognized is the price a customer would have paid for the goods or services if the customer had paid cash for those goods or services, that is, the cash selling price

• Practical expedient—period between delivery and payment is one year or less
Consideration payable to the customer

• Treat as a reduction of the revenue recognized unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity

• Examples
  – Cash payments to the customer
  – Coupons or other credits that can be applied against amounts owed
Step 4: Allocate the Transaction Price
Allocating the transaction price

- Allocate to each performance obligation
  - In a systematic manner
  - Standalone selling price is the most common method
  - If good or service is not sold separately, estimate the separate price using observable inputs using (refer to the standard):
    - Adjusted market assessment method
    - Cost plus margin method
    - Residual value method
Allocating discounts

• Allocate the discount proportionally to all performance obligations
• Exception
  – Entity regularly discounts just one of the performance obligations
Step 5: Recognize Revenue When (or as) the Performance Obligations are Satisfied
Satisfaction of performance obligations

• Revenue is recognized when a performance obligation is satisfied (asset or service is transferred)
• An asset is transferred when the customer obtains control of the asset
Control factors

• Control of an asset refers to
  – Ability to direct the use of, and obtain all of the remaining benefits from the asset
  – Ability to prevent other entities from directing the use of, and obtaining the benefits from an asset

• Determine if control of good or services are transferred
  – Over time
  – At a point in time
Recognition when performance is satisfied over time

• One criteria must be met:
  – Customer simultaneously receives and consumes the benefits as the entity performs
  – The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or
  – The asset created has no alternative use to the reporting entity, AND the entity has a right to payment for the performance completed to date
Measuring progress

• Performance obligations settled over time
  – Input methods
  – Output methods
  – Described in FASB ASC 606-10-55-16 through 21
Recognition when performance is satisfied at a point in time

• Indicators that control has been transferred include:
  – The entity has a present right to payment for the asset
  – The customer has legal title to the asset
  – The customer has physical possession of the asset
  – The customer has the significant risks and rewards of ownership
  – The customer has accepted the asset
Industry Examples
Example A: membership dues

**FACTS:**

A not-for-profit membership organization has annual dues of $200. The only direct benefit members receive is a monthly newsletter with a fair value of $50.
### Example A: membership dues

<table>
<thead>
<tr>
<th>Identify the Contract</th>
<th>Identify Performance Obligations</th>
<th>Determine Transaction Price</th>
<th>Allocate Price to the Obligations</th>
<th>Recognize as Obligations Are Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>The amount paid for the newsletter ($50) is a contract with a member (reciprocal transaction)</td>
<td>The performance obligation is to provide the monthly newsletter to the member</td>
<td>The fair value of the newsletter ($50) is the transaction price</td>
<td>The $50 transaction price is allocated to the performance obligation*</td>
<td>The $50 transaction price is recognized ratably over the 12-month membership period</td>
</tr>
<tr>
<td>The remainder ($150) is a contribution, as no specific identifiable benefits are to be provided</td>
<td></td>
<td></td>
<td>*Had there been multiple performance obligations, there would have been multiple transaction prices and multiple allocations</td>
<td>The $150 contribution is recognized upon receipt of the membership dues payment</td>
</tr>
</tbody>
</table>

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*Note: The $50 transaction price is recognized ratably over the 12-month membership period.*

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AICPA Not-for-Profit Section 72
Example B: student tuition and fees

FACTS:

Student applies to University, paying a nonrefundable application fee of $300. After acceptance, Student attends a new student orientation program held during the spring, paying $800 to attend. After the orientation, Student registers for the fall semester and receives a tuition statement as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student tuition – fall semester 20X1</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Books and lab supplies</td>
<td>750</td>
</tr>
<tr>
<td>Student activity fee</td>
<td>250</td>
</tr>
<tr>
<td>Total</td>
<td>$ 11,000</td>
</tr>
</tbody>
</table>

Per University policy, Student may withdraw without penalty within the first 2 weeks of the semester. However, the withdrawal policy does not apply to books and lab supplies once purchased by Student.
Example B: tuition and fees

**Identify the Contract**
- Completed contract for new student orientation
- Executory contract for tuition, activity fee and application fee because cancelable within first two weeks of class
- App fee does not transfer promised goods or services
- No contract exists for books and lab supplies until purchased

**Identify Performance Obligations**
- The performance obligations are to provide:
  1. classes to the student
  2. student activities
  3. access to books and lab supplies
- *App fee does not give rise to a performance obligation – it is, in effect, an advance payment to be recognized as revenue over the semester*

**Determine Transaction Price**
- Fair values:
  - Application fee $300
  - Tuition $10,000
  - Books and lab supplies $750
  - Student activities $250

**Allocate Price to the Obligations**
- $10,300 to PO to provide classes*
- $750 to books and lab supplies
- $250 to PO to provide student activities
- *University combines tuition and application fee, as student admission process and education are integrally related*

**Recognize as Obligation is Satisfied**
- $10,550 for tuition, application fee, and student activity fee is recognized ratably over the semester once the withdrawal period ends
- $750 for books and lab supplies is recognized at the time of purchase
Example B: what if the student prepays?

If the Student pays a nonrefundable enrollment deposit to secure admission, and/or prepays a part of the tuition and fees, a performance obligation in that amount is recorded as a contract liability.

In the example, University would begin recognizing satisfaction of the performance obligation on the first day of classes, net of refund estimate (based on typical historical patterns for the class or segment of similar students, e.g., full-time undergraduate – the “portfolio method”)

Once the withdrawal period ends, the Student is billed for the balance of tuition and fees due, and that amount is recorded as a contract liability.
Disclosures and Transition
Final U.S. GAAP model – disclosure

**Disaggregation of revenue**
- Qualitative and quantitative* disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors

**Information about contract balances**
- Opening and closing balances
- Amount of revenue recognized from contract liabilities*
- Explanation of significant changes in contract balances*

**Remaining performance obligations**
- Transaction price allocated to remaining performance obligations*
- Quantitative or qualitative explanation of when amounts will be recognized as revenue*

**Interim requirements**
- Quantitative disclosures*

* for public entities only, including conduit debt obligors
### Transition, effective date and early application

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<th>Existing* and new contracts under new standard</th>
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* contracts for which all (or substantially all) of the revenue has not been recognized under legacy revenue guidance

- **Effective dates:**
  - Public entities – fiscal years beginning after December 15, 2017
  - Nonpublic entities – fiscal years beginning after December 15, 2018
  - Earlier adoption as of original effective date (fiscal years beginning after December 15, 2016) permitted
Post-issuance activities

• Transition Resource Group (TRG): Specialists (auditors, preparers, regulators, others) and FASB members who discuss interpretations of the principles

• FASB has issued clarifications on Topic 606 in 2016
  – Licenses and Performance Obligations – ASU 2016-10
  – Narrow Scope Improvements and Practical Expedients (including contract modifications, noncash consideration, collectability, and presentation of sales taxes) – ASU 2016-12
  – Principal versus Agent (reporting revenue gross versus net) – ASU 2016-08
Current GAAP includes limited, industry specific guidance on revenue recognition for licenses. New guidance includes comprehensive model to be applied to all industries.

**Contractual provisions**

There is a distinction between contractual provisions that:

- Require transfer of control of additional goods or services to customer *(multiple performance obligations)*
- Define attributes of a *single* promised license

**Nature of license: functional or symbolic**

Operability of “right to use” vs. “right to access” assessment

- Based on *significant standalone functionality*
  - Functional: point in time recognition
  - Symbolic: over time recognition

**Sales- or usage-based royalties**

Scope and applicability of exception to variable consideration constraint guidance

- Applies when royalty completely or predominantly relates to license
- Royalties should not be split into portions to which exception does and does not apply
Considerations leading up to implementation

- Consistency of agreement language across revenue categories
- Are the performance obligations clearly defined?
- How to allocate the transaction price to each performance obligation (membership dues)
- Disclosure requirements
- How do we get this done with everything else we have going on?
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