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MINNESOTA COUNCIL OF NONPROFITS

Nonprofit Financial Success Series

Helping Nonprofits Build Financial Success

Monday, March 18th, 2019

Revenue Recognition is Here!

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Presenter

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Manager, CPA

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Topic 606: Revenue from Contracts with Customers

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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:

- Identify contract(s) with the customer
- Identify performance obligations
- Determine transaction price
- Allocate transaction price
- Recognize revenue when/as performance obligation is satisfied

Topic 606: Nonpublic Entity

Potential revenue sources for nonprofits under topic 606:

- Memberships
- Subscriptions
- Products and services
- Royalty agreements
- Conferences and seminars
- Tuition
- Advertising
- Licensing

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Topic 606: Nonpublic Entity: Disclosure Requirements

Revenue from contracts with customers

- Revenue recognized from contracts with customers, separately from other sources of revenue
- Any recognized impairment losses on receivables or contract assets from customers, separately from impairment losses from other contract
- Can either be on the face of the financial statements or a separate note

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Topic 606: Nonpublic Entity: Disclosure Requirements

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Disaggregation of revenue

- Revenue disaggregated based on the timing of the transfer of goods or services
  - For example over time versus a point in time
- Qualitative information about how economic factors impact the nature, amount, timing, and uncertainty of revenue and cash flows
  - For example: type of customer, type of contract, customer geographical location

Contract balances

- Disclose the beginning and ending balances for the following:
  - Receivables
  - Contract assets (progress payments not billed or unbilled revenues)
  - Contract liabilities (deferred revenue or unearned revenue)

Topic 606: Nonpublic Entity: Disclosure Requirements

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Performance obligations

- Disclose general information about its performance obligations including:
  - When performance obligations are typically satisfied (upon delivery, shipment, as services are rendered, completion of service)
  - Significant payment terms
  - Nature of the goods or services the organization has promised to transfer
  - Obligations for returns, refunds, and similar obligations
  - Warranty types and related obligations
- For outstanding performance obligations disclose:
  - The nature of the performance obligations
  - The remaining duration
  - The description of the variable consideration

Topic 958: Clarifying the Scope of the Accounting Guidance for Contributions Received

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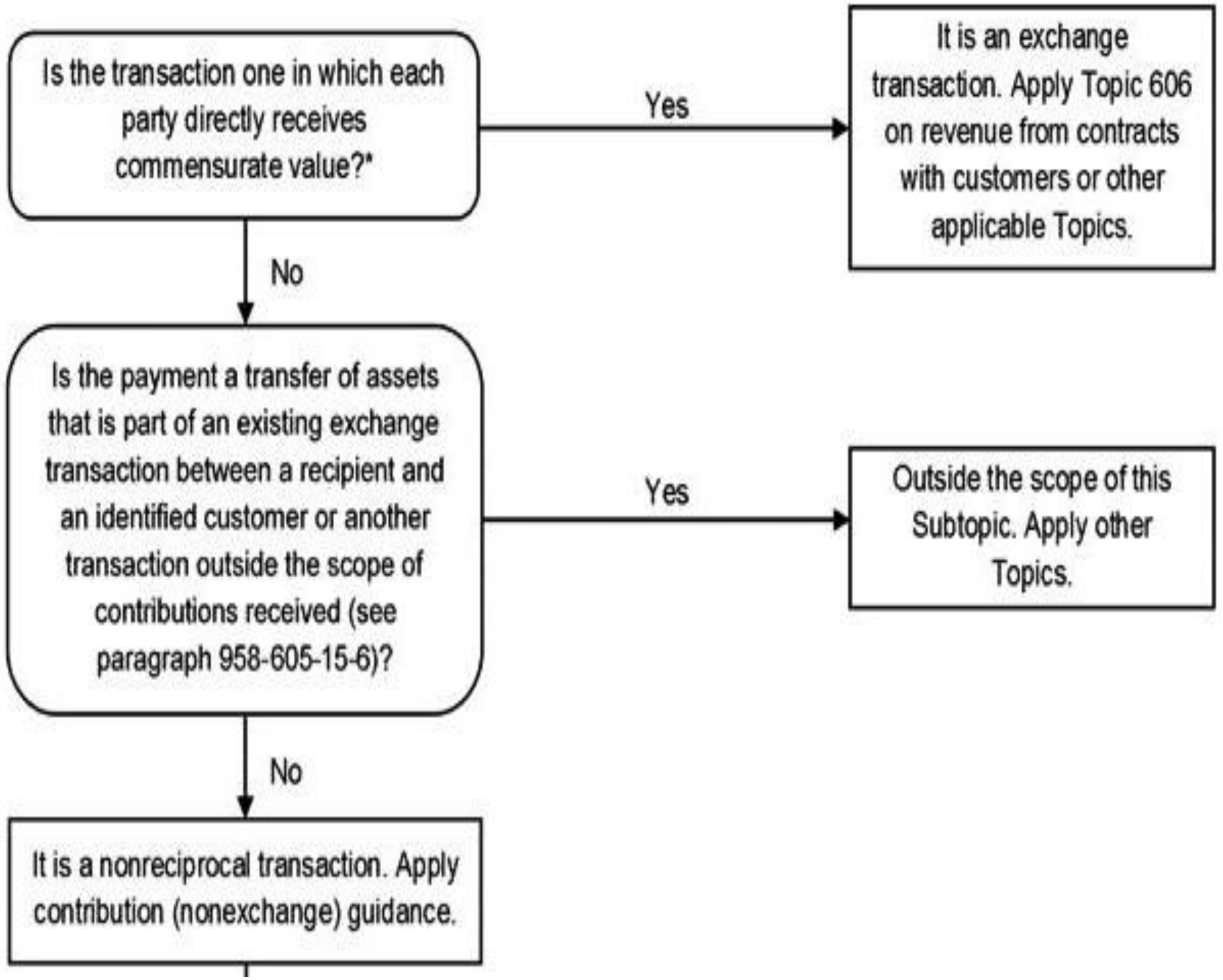
Core principle:

- Clarification for the accounting of grants and contracts in relation to Topic 606
- Minimize diversity in the classification of grants and contracts that exist under current guidance
- Change in definition of a conditional contribution and when to recognize

Contribution versus Exchange



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Step 1: Is the Transaction One in which Each Party Directly Receives Commensurate Value?

Factors that do not result in commensurate value:

- A general public benefit, even if resource provider receives indirect value incidental to the public benefit (i.e. government grants)
- Execution of resource provider's mission or positive sentiment
- Resource provider has full discretion in determining the amount
- Failure to comply with agreement results in return of unspent amount

If yes, exchange transaction and follow Topic 606 guidance

- Reciprocal transfers in which each party receives and sacrifices approximately commensurate value

If no, continue to Step 2

Step 2: Is the payment a transfer of assets that is part of an existing exchange transaction between a recipient and an identified customer or another transaction outside the scope of contributions received?

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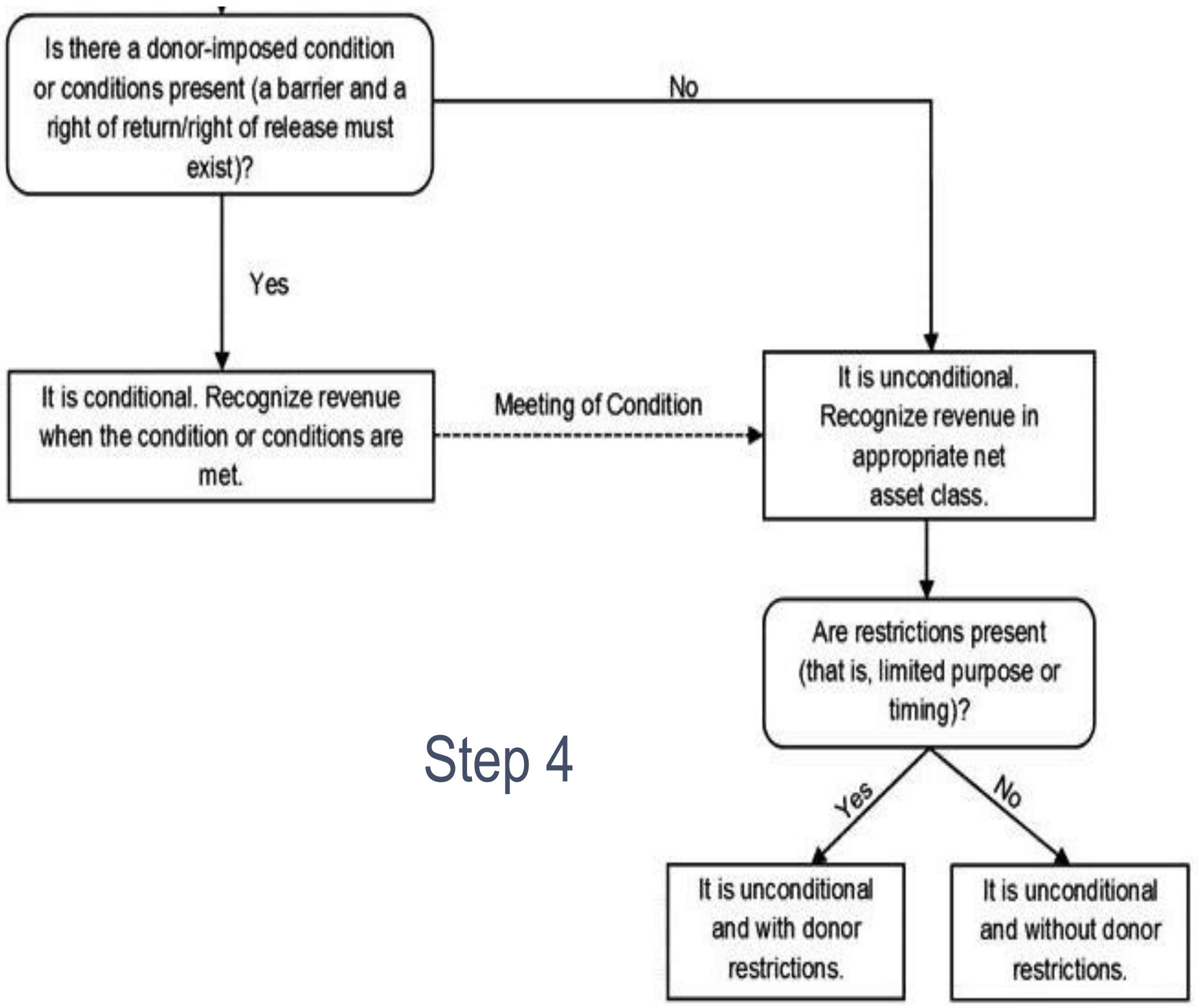
If yes, outside the scope of this Subtopic. Apply other Topics

If no, it is a nonreciprocal transaction. Apply contribution guidance

When to Recognize a Contribution

Step 3

Step 4



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Step 3: Is there a donor-imposed condition or conditions present (A barrier and a right of return/right of release must exist)?

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Donor-imposed condition must have both:

- One or more barriers that must be overcome before the recipient is entitled to the assets transferred or promised
- Failure to overcome the barrier results in a right of return of the asset or a right of release from its obligation

If yes, it is conditional. Recognize revenue when the condition or conditions are met

If no, or once conditions are met, it is unconditional. Recognize revenue in appropriate net asset class in Step 4

Step 3: Barriers

Barrier

- Evaluate the facts and circumstances of the agreement
- A barrier often places specific requirements about the use of the transferred assets
- A probability assessment regarding the likelihood of meeting the stipulations is not a factor
- Ambiguous donor stipulations are presumed to be a conditional contribution

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Step 3: Indications of a Barrier

Measurable performance-related barrier or other measurable barrier

- Specified level of service: grant requires the entity to provide 1,000 meals per week
- Specific output or outcome: students must achieve a minimum test score
- Matching: donor specifies an entity must raise $100,000 of matching funds
- Outside event: a foundation promises to contribute 5% of investment income if the foundation's net assets reaches $5,000,000

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Step 3: Indications of a Barrier (continued)

Limited discretion by the Recipient on the conduct of an activity

- More specific than a donor-imposed restriction which may restrict to an activity, but not on how the activity is performed
- For example, an agreement specifies the recipient should incur qualifying expenses in accordance with Uniform Guidance

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Step 3: Indications of a Barrier (continued)

Stipulations that are related to the purpose of the agreement

- If a stipulation is unrelated to the purpose of the agreement such as trivial or administrative stipulations, it would not indicate a barrier
- If administrative tasks required, more likely there are other requirements that would be more indicative of a barrier
- Generally providing a report to a resource provider is to provide information the transferred assets were used in accordance with the agreement, rather than impact the extent to which the recipient is entitled to the contribution

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Step 4: Are restrictions present (that is, limited purpose or timing)?

Donor-imposed restriction:

- Donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:
  - The nature of the NFP
  - The environment in which it operates
  - The purposes specified in its organizing documents
- Donor stipulation that resources are to be used after a specified date or to be maintained in perpetuity

If yes, it is unconditional with donor restrictions

If no, it is unconditional and without donor restrictions

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Step 4: Simultaneous Release Option

- Contributions whose restrictions are met in the same reporting period as the revenue is recognized as support within net asset without donor restrictions
  - NFP needs to have a similar policy for reporting investment gains and income
  - Report consistently from period to period
  - Disclose as an accounting policy

- An NFP may elect the simultaneous release option for donor-restricted contributions that were initially conditional contributions without making the election for other donor restricted contributions or investment gains and income

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Case Study 1

Facts:

- NFP A hosts youth sports camps throughout the year and has a fiscal year end of December 31. The NFP is hosting a sports camp between December 2019 and February 2020 with 4 sessions per month. The registration fee is $1,800 for the entire camp. The entire nonrefundable fee is due upon registration, with registration closing on November 30, 2019. The camp had 20 participants registered with all registrations in November 2019.

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Case Study 1

Based on the Contributions Received Diagram, what would the registration fees be considered? If exchange, identify the five steps. If conditional, why?

- Exchange
- Identify the contract with the customer
  - Contract for sports camps
- Identify the performance obligations
  - Provide 12 sessions of camps
- Determine the transaction price
  - $1,800 per registration
- Allocate the transaction price
  - $150 per session

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Case Study 1

Accounting entries at each date

- November 30, 2019
  - Debit to cash and credit to deferred revenue for $36,000
- December 31, 2019
  - Debit to deferred revenue and credit to sports camp revenue for $12,000

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Case Study 1 - Disclosures

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Balances as of December 31, 2019

- Accounts receivable
  - $0
- Deferred revenue
  - $24,000
- Sports camp revenue
  - $12,000
- Impact on net assets with donor restrictions and without donor restrictions
  - Increase in net assets without donor restrictions of $12,000
- What financial statement disclosures are required?
  - Topic 606 disclosures

Case Study 1 - Disclosures

Contract balances

	January 1, 2019	December 31, 2019
Receivables	$0	$0
Contract assets	$0	$0
Contract liabilities	$0	$24,000

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Case Study 1 - Disclosures

Disaggregation of revenue and performance obligations

The Organization recognizes revenue from sports camps over the duration of each camp based on sessions provided. All payments are due prior to the camp starting. All registration fees are nonrefundable, but may at times be transferred to another camp

For the year ended December 31, 2019, services transferred over time were $12,000. Various economic factors affect revenue and cash flow. As result of fees being due prior to a camp there is an increase to cash flow prior to the camp beginning and revenue being recognized on monthly basis based on the per session transaction price

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Case Study 2

Facts:

- NFP A hosts youth sports camps throughout the year and has a fiscal year end of December 31. On April 1, 2019, a foundation provides a grant of $100,000 to provide 10 free baseball clinics from April 1, 2019 through March 31, 2020. Each clinic must have at least 100 kids in attendance. NFP A receives all $100,000 on April 30, 2019. The grant includes a right of return if the funds are not used for the baseball clinics at the end of the grant period. At December 31, 2019, NFP A has held 8 baseball clinics with over 100 kids in attendance at each clinic. NFP A has elected the simultaneous release option.

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Case Study 2

Based on the Contributions Received Diagram, what would this grant be considered on April 1, 2019? If conditional, why?

- Conditional promise to give
- Performance related measures
  - 10 baseball clinics
  - Each clinic must have at least 100 kids in attendance
- Right of return exists

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Case Study 2

Accounting entries at each date:

- April 1, 2019
  - No entry conditional promise to give not recognized until the barriers are met

- April 30, 2019
  - Debit to cash and credit to refundable advance for $100,000

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Case Study 2

As of December 31, 2019 balances related to this grant:

- Grants receivable
  - $0
- Refundable advance
  - $20,000
- Grant revenue
  - $80,000
- Impact on net assets with donor restrictions and without donor restrictions
  - $80,000 increase in net assets without donor restrictions
- Are there any financial statement disclosures required?
  - Yes, must disclose remaining conditional grant of $20,000

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Case Study 3

Facts:

- NFP A hosts youth sports camps throughout the year and has a fiscal year end of December 31. On December 1, 2019, a foundation provides a grant of $50,000. The grant is to be used NFP A's tennis program. The grant includes a right of return if the funds are not spent. NFP A has received the advance payment on December 15, 2019. NFP A did not provide any tennis program related events in December 2019. NFP A has elected the simultaneous release option.

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Case Study 3

Based on the Contributions Received Diagram, what would this grant be considered on December 1, 2019? If conditional, why?

- Unconditional promise to give
- No barriers – only general stipulation to support the tennis programs

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Case Study 3

Accounting entries for at each date:

- December 1, 2019
  - Debit to grants receivable and credit grant revenue for $50,000
- December 15, 2019
  - Debit to cash and credit to grants receivable for $50,000

Case Study 3

As of December 31, 2019 balances related to this grant:

- Grants receivable
  - $0
- Refundable advance
  - $0
- Grant revenue
  - $50,000
- Impact on net assets with donor restrictions and without donor restrictions
  - $50,000 increase in net assets with donor restrictions
- Are there any financial statement disclosures required?
  - Yes, must disclose $50,000 net assets with donor restrictions for purpose

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Case Study 4

Facts:

- NFP B is a hospital that has a research program and has a fiscal year end of December 31. On October 1, 2019, NFP B receives a $300,000 Federal grant for cancer research. NFP B must incur expenses in compliance with Uniform Guidance. NFP B submits monthly expense reports to the Federal Agency for reimbursement. Any unused assets are forfeited and unallowable cost refunded. NFP B incurred allowable expenses related to this grant of $25,000 per month for the months of October through December and payment is received 15 days after each month end for the prior month's allowable expenses. NFP B has elected the simultaneous release option.

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Case Study 4

Based on the Contributions Received Diagram, what would this grant be considered on October 1, 2019? If conditional, why?

- Conditional promise to give
- Barrier to entitlement as a result of qualifying expenses under Uniform Guidance limits NFP B's discretion about how to use the assets
- Release of obligation for unused and refund unallowable costs

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Case Study 4

Accounting entries at each date:

- October 1, 2019
  - No entry conditional promise to give not recognized until the barriers are met
- Monthly entry for October through December
  - Debit to grants receivable and credit to grant revenue for $25,000

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Case Study 4

As of December 31, 2019 balances related to this grant:

- Grants receivable
  - $25,000
- Refundable advance
  - $0
- Grant revenue
  - $75,000
- Impact on net assets with donor restrictions and without donor restrictions
  - $75,000 increase in net assets without donor restrictions
- Are there any financial statement disclosures required?
  - Yes, must disclose remaining conditional grant balance of $225,000

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Effective Dates

Contributions received guidance

- Annual periods beginning after December 15, 2018
- If conduit debt or publicly-traded: annual periods beginning after June 15, 2018

Revenue from Contracts with Customers

- Annual periods beginning after December 15, 2018
- If conduit debt or publicly-traded: annual periods beginning after December 15, 2017

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Transition Guidance - Contributions

- Early adoption is permitted
- No restatement of prior periods
- No cumulative-effect adjustment to the opening balance of net assets
- Apply only to the portion that has not been recognized before the effective date to the following agreements:
  - Not completed as of the effective date
  - Entered into after the effective date
  - Required disclosures – year of change
    - Nature of and reason for the accounting change
    - Reason for significant change for each financial statement line item

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Transition Guidance - Exchange

Transition approaches:

- Full retrospective application
  - January 1, 2019 apply the revenue recognition standard to all contracts
  - 2017 and 2018 restate all contracts
  - Date of cumulative adjustment: January 1, 2017
  - FASB has issued optional practical expedients that can be elected

- Modified retrospective application
  - January 1, 2019 apply the revenue recognition standard to all contracts
  - 2017 and 2018 no contracts restated, continue to report on legacy accounting
  - Date of cumulative adjustment: January 1, 2019
  - Disclose the impact of the application for each financial statement line item

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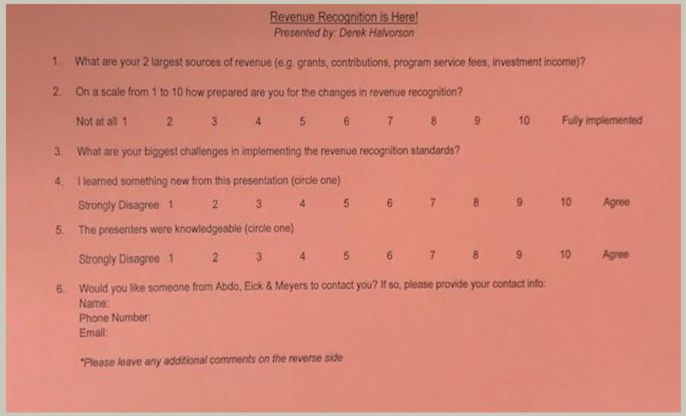
Questions and Table Recap



Revenue Recognition is Here!
Presented by: Derek Halvorson

1. What are your 2 largest sources of revenue (e.g. grants, contributions, program service fees, investment income)?
2. On a scale from 1 to 10 how prepared are you for the changes in revenue recognition?

   Not at all 1 2 3 4 5 6 7 8 9 10 Fully implemented
3. What are your biggest challenges in implementing the revenue recognition standards?
4. I learned something new from this presentation (circle one)

   Strongly Disagree 1 2 3 4 5 6 7 8 9 10 Agree
5. The presenters were knowledgeable (circle one)

   Strongly Disagree 1 2 3 4 5 6 7 8 9 10 Agree
6. Would you like someone from Abdo, Eick & Meyers to contact you? If so, please provide your contact info:

   Name:
   Phone Number:
   Email:

**Please leave any additional comments on the reverse side*

Nonprofit Financial Success Series

Join Us for Upcoming Events in the Series!

Location: Minnesota Council of Nonprofits

Dates: Thursday, May 9th, 2019
Wednesday, September 25th, 2019

Time: 8:00am - 1:00pm

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