

Nonprofit Revenue Recognition

November 30, 2023

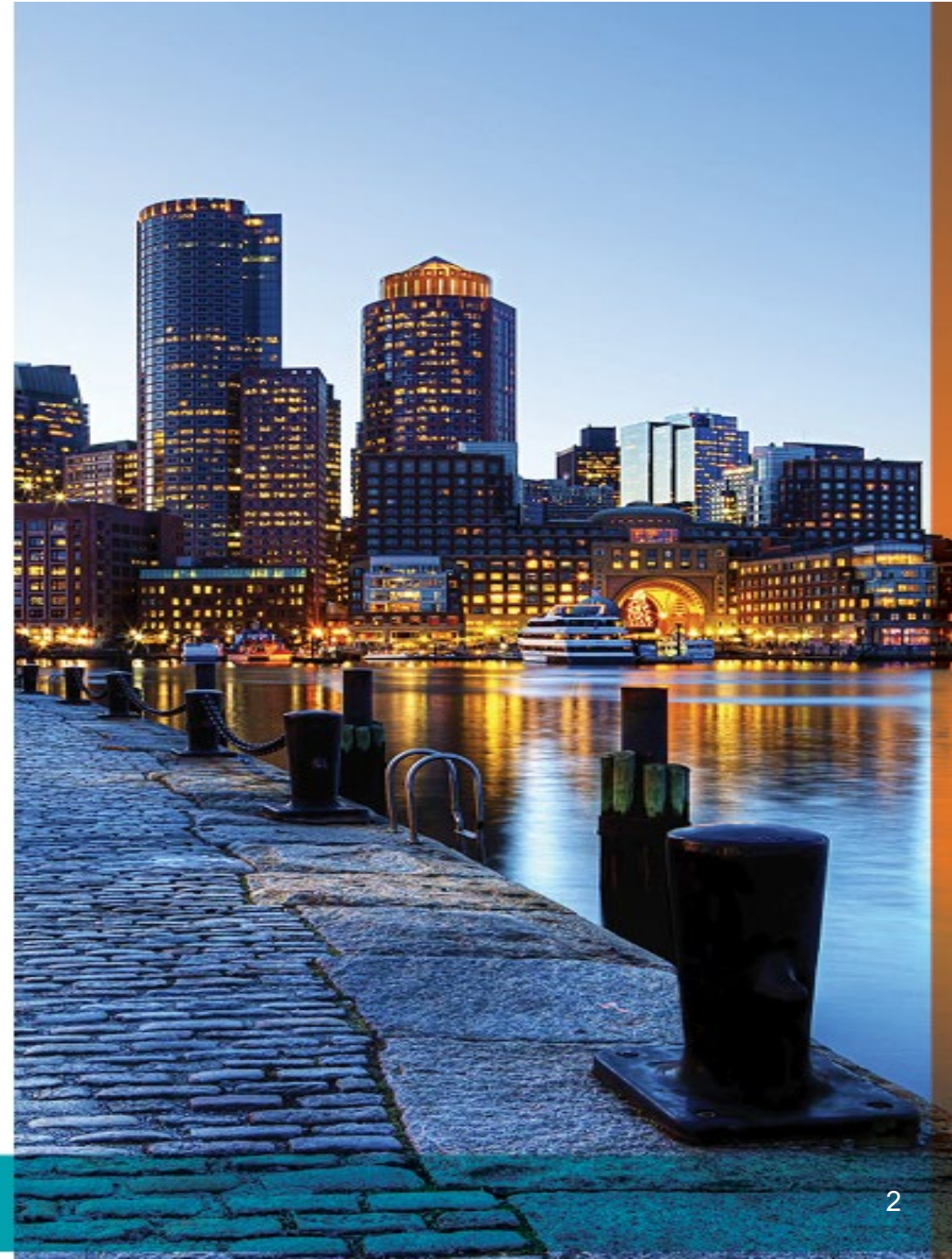


Agenda

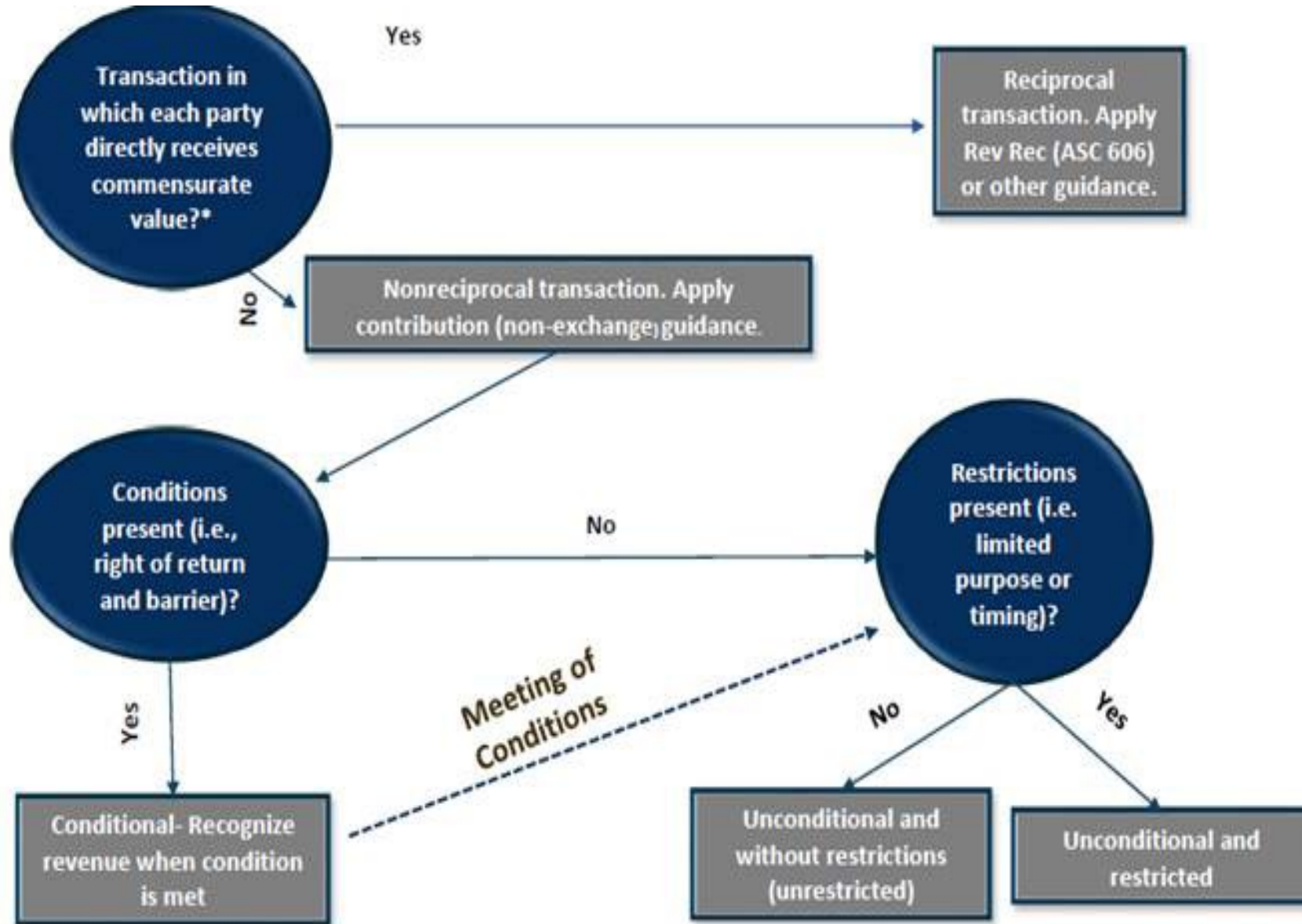
Revenue recognition

Systems and Strategies

Questions



Revenue Recognition - Decision Tree



Revenue Recognition - Scope

Applies to all entities (NFP's and Business Entities) that receive or make contributions unless otherwise indicated – so yes this applies to for profit entities as well.

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

The term used (contribution, grant or donation) by the resource provider isn't a factor in determining if said revenue is in or out of scope of this standard



Revenue Recognition - 1st Step in the Decision Tree

- An organization needs to determine if the revenue provided is an exchange transaction (reciprocal transaction) to be governed by Revenue Recognition guidance (Topic 606)
- OR
- If the revenue is a contribution (non-reciprocal transaction) to be governed by Not-for-Profit Entities guidance (Topic 958)
 - The old practice would have instances where direct commensurate value to the resource provider, specified third party and the general public were all considered exchange transactions (example a C/R or U/R contract with the Commonwealth to provide daycare services)
 - In 2018, new clarification guidance redefined the general public beneficiaries to a conditional contribution status, unless...
 - the government/resource provider is a third-party payor on behalf of an identified customer (examples include Pell Grants, Medicaid/Medicare, etc.) Agency transactions
 - Purchase of goods
 - Tax incentive & tax abatements



Revenue Recognition - 1st Step in the Decision Tree (cont.)

- Things that might indicate the revenue is an exchange transaction as opposed to a contribution:
 - Services are performed directly for the benefit of the funding source
 - The funder can disallow expenses
 - Reimbursement rights (right of return)
 - Achievement of certain results
- Things that might indicate the revenue is a contribution:
 - If its for operating support (not looking for specific outcomes to be achieved/get services back) – essentially there is betterment of the greater good
 - The resource provider is receiving value indirectly by providing a societal benefit
 - The resource provider is receiving value via the furthering of it's mission or “feel good” sentiment



Revenue Recognition - 2nd Step in the Decision Tree

If the prior process determined that the revenue is a contribution, then you need to determine if the revenue is conditional (delay recording) or unconditional (record immediately)

- For Donor Imposed Conditions to exist:
 - A right of return/release must exist **AND**
 - The agreement must include a barrier
- Indications of a Barrier
 - Whether a stipulation is related to the purpose of the agreement
 - The extent to which a stipulation limits discretion by the recipient
 - The extent to which a stipulation requires an additional action or actions



Revenue Recognition – Multi-Year Pledges

- As long as no conditions exist, multi-year pledges are recorded as donor-restricted contribution income in year one, due to their time restriction
- The portion of the long-term pledge that is due past 12 months is discounted. The discounted portion is amortized back to contribution each year until the end of the term
- Management establishes the appropriate discounted rate – the incremental borrowing rate
- If the volume and value of multi-year pledges are not largely material, then the discounts are not material, and therefore the entry is passed on
- Pledges need to be recorded in the period they are unconditionally pledged, the pledge can be verbal according to the guidance, but auditors prefer documentation

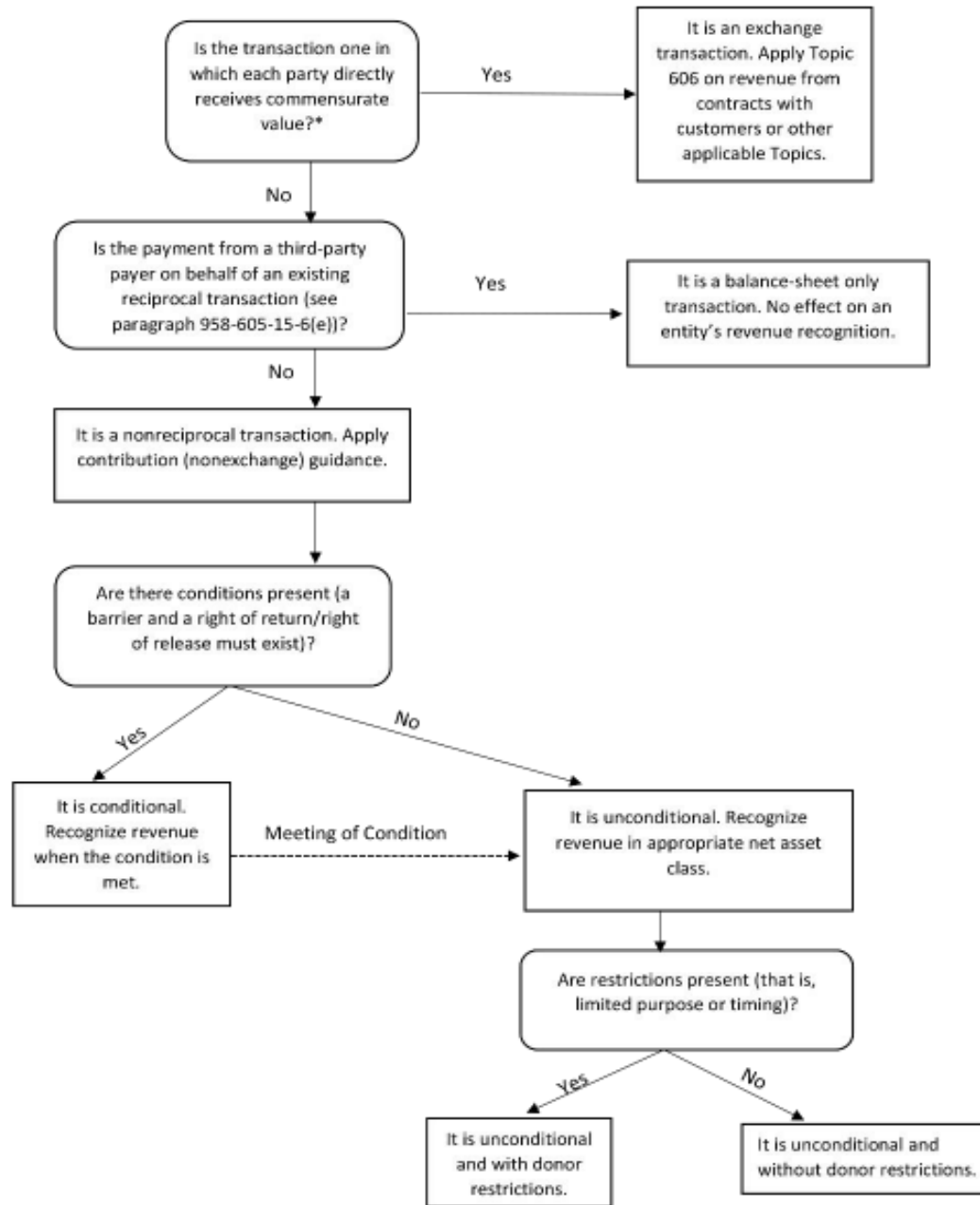


Revenue Recognition - Best Practice/Key Takeaways

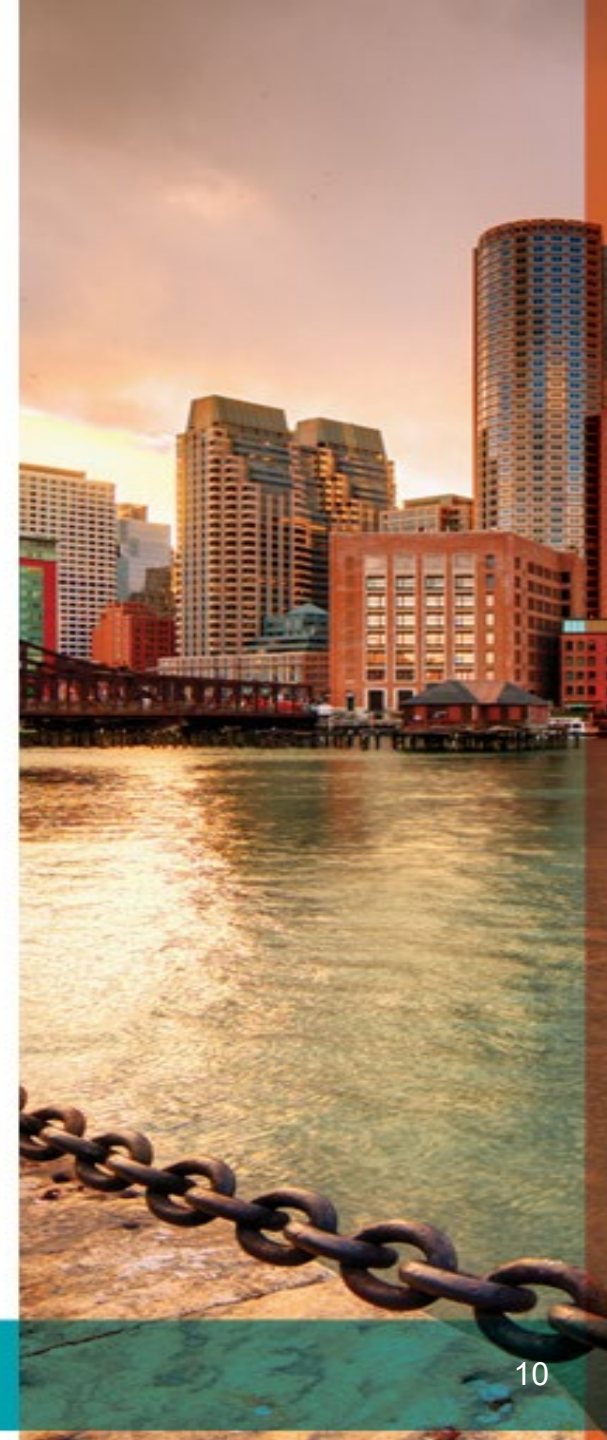
- 2018 clarification resulted in more conditional grants and contributions being recorded with expanded FN disclosure
- An audit and/or reporting requirement alone IS NOT a barrier because it is unrelated to the gift
- Income from government contracts that are conditional would not have to flow through Temp Restricted Net Assets because the act of meeting the barrier conveys an unrestricted nature to the funding when recognized
- The title of the document does not matter; you have to analyze the underlying transaction.



Revenue Recognition - Expanded Decision Tree



*See paragraph 958-605-55-6 for guidance about transactions that are in part an exchange and in part a contribution.



Systems and Strategies - Dimensional Tracking

- Break down dimensions within accounting software to identify key factors of grants and contracts
- Consider:
 - Account
 - Funder
 - Location
 - Program
 - Project
 - Restriction

```
mirror_mod = n
set mirror object to mirror
mirror_mod.mirror_object
operation == "MIRROR_X":
mirror_mod.use_x = True
mirror_mod.use_y = False
mirror_mod.use_z = False
operation == "MIRROR_Y":
mirror_mod.use_x = False
mirror_mod.use_y = True
mirror_mod.use_z = False
operation == "MIRROR_Z":
mirror_mod.use_x = False
mirror_mod.use_y = False
mirror_mod.use_z = True

(selection at the end -add
mirror_ob.select= 1
modifier_ob.select=1
context.scene.objects.active
("Selected" + str(modifier
mirror_ob.select = 0
= bpy.context.selected_obj
data.objects[one.name].sel
print("please select exactly
-- OPERATOR CLASSES
types.Operator):
on X mirror to the selected
object.mirror_mirror_x"
mirror X"
context):
context.active obj
```

Systems and Strategies - QBO

Statement of Activity Report

Report period

Last Month ▼ 10/01/2023 to 10/31/2023

Display columns by

Total Only ▼

- Total Only
- Days
- Weeks
- Months
- Calendar Quarters
- Fiscal Quarters
- Calendar Years
- Fiscal Years
- Customers
- Vendors
- Employees
- Classes

Show non-zero or active only

Active rows/active columns ▼

Compare another period

Select period ▼

Accounting method

Cash Accrual

Run report

Systems and Strategies - QBO

	Grant 1	Grant 2	Subgrant 1	Subgrant 2	Total Grant 2	TOTAL
Revenue						
4000 Funding Income					0.00	0.00
4030 University & Foundations Funding	117,184.56		18,564.80		18,564.80	135,749.36
Total 4000 Funding Income	\$ 117,184.56	\$ 0.00	\$ 18,564.80	\$ 0.00	\$ 18,564.80	\$ 135,749.36
Total Revenue	\$ 117,184.56	\$ 0.00	\$ 18,564.80	\$ 0.00	\$ 18,564.80	\$ 135,749.36
Gross Profit	\$ 117,184.56	\$ 0.00	\$ 18,564.80	\$ 0.00	\$ 18,564.80	\$ 135,749.36
Expenditures						
7000 Program Support					0.00	0.00
7005 Contractor / Temporary Help	47,500.00		5,000.00	20,000.00	25,000.00	72,500.00
7205 Web-Based Software Subscriptions	500.00				0.00	500.00
7220 Software & Technology Costs	48,537.00				0.00	48,537.00
Total 7000 Program Support	\$ 96,537.00	\$ 0.00	\$ 5,000.00	\$ 20,000.00	\$ 25,000.00	\$ 121,537.00
7010 Contractual Outside Services	9,975.00		10,000.00		10,000.00	19,975.00
Total Expenditures	\$ 106,512.00	\$ 0.00	\$ 15,000.00	\$ 20,000.00	\$ 35,000.00	\$ 141,512.00
Net Operating Revenue	\$ 10,672.56	\$ 0.00	\$ 3,564.80	-\$ 20,000.00	-\$ 16,435.20	-\$ 5,762.64
Net Revenue	\$ 10,672.56	\$ 0.00	\$ 3,564.80	-\$ 20,000.00	-\$ 16,435.20	-\$ 5,762.64

Systems and Strategies – Sage Intacct

Dimensional Tracking Structure

- Account
- Location
- Department (this could include G&A, fundraising and programs of organization)
- Project (grant or contract)
- Customer (funder or donor)
- Restriction

Other Features Available

- System can perform automatic allocations (whether it is investment income for restricted funds or cost allocations)
- System can also calculate releases and complete automatically
- Ability to run P&L reports by each dimension

Systems and Strategies – Sage Intacct

Statement of Activity by Project

ABC Company				
Statement of Activities - By Project				
Reporting Book:	ACCRUAL			
As of Date:	11/20/2023			
	Grant A 08/31/2023	Grant B 08/31/2023	Grant C 08/31/2023	All Projects Year Ending 08/31/2023
Change in Net Assets				
Operating Revenue				
Tuition and Fees, net	0.00	0.00	0.00	0.00
Contributions	45,000.00	25,000.00	10,000.00	80,000.00
Building Rental Income	0.00	0.00	0.00	0.00
Investment Income	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	0.00	0.00
Total Operating Revenue	45,000.00	25,000.00	10,000.00	80,000.00
Expenses				
Instruction	20,000.00	0.00	8,000.00	28,000.00
Academic Support	0.00	15,000.00	0.00	15,000.00
Student Services	5,000.00	0.00	0.00	5,000.00
Management and General	0.00	0.00	2,000.00	2,000.00
Fundraising	0.00	0.00	0.00	0.00
Total Expenses	25,000.00	15,000.00	10,000.00	50,000.00
Total Change in Net Assets	20,000.00	10,000.00	0.00	30,000.00
'+ Net Assets - Beginning	5,000.00	0.00	0.00	5,000.00
Net Assets - Ending	25,000.00	10,000.00	0.00	35,000.00

Statement of Activities with Releases

XYZ Company			
Statement of Activities			
Reporting Book:	ACCRUAL		
As of Date:	09/30/2023		
	Unrestricted Year To Date 09/30/2023	Temporary Restricted Year To Date 09/30/2023	Year To Date 09/30/2023
	Without Restrictions:	With Restrictions:	Total
Total Changes in Net Assets			
Revenues			
Contributions	1,038,733.41	70,000.00	2,998,733.41
Program Service Revenue	108,710.16	0.00	108,710.16
Total Investment Income all	91,595.71	0.00	91,595.71
Other Revenue			
Merchandise Sales	219.05	0.00	219.05
Realized Gain/Loss	7,732.21	0.00	7,732.21
Satisfaction of Use and Time Restriction	235,416.67	(235,416.67)	0.00
Foreign Currency Exchange Gain/Loss	416.03	0.00	416.03
Total Other Revenue	243,783.96	(235,416.67)	8,367.29
Total Revenues	1,482,823.24	(165,416.67)	3,207,406.57
Expenditures			
Total Expenditures	3,899,836.33	0.00	3,899,836.33
Total Changes in Net Assets	(2,417,013.09)	(165,416.67)	(692,429.76)
'+ Net Assets - Beginning			
Net Assets	10,368,021.03	454,304.41	10,822,325.44
Net Assets - Beginning	10,368,021.03	454,304.41	10,822,325.44
Net Assets - Ending	7,951,007.94	288,887.74	10,129,895.68

Systems and Strategies - Additional Considerations

Are you using any other add-on software for tracking?

- Bill.com
- CRM
- Donor database
- Credit card/reimbursement management
- Payroll

Do you need to maintain an Excel subsidiary record?

- It depends – need to assess mix of funding sources and reporting needs
- Consider roll-up needed for audit presentation
- If system can present necessary information can discontinue excel worksheet

Systems and Strategies - Additional Considerations

Do you have a need for indirect (overhead) allocations?

- Review dimensional tracking to see if it can be achieved within system
- Consider a dimension of “to be allocated” category
- Assess if needs to be completed month/quarterly/annually

What are you using for record retention?

- Can be in system or offline, but should be consistent for ease of finding information
- No need to duplicate data if the detail is maintained in one database versus another



Questions & Comments

Contact Information



Joyce Ripianzi
Partner
AAFCPAs

jripanzi@aafcpa.com

774.512.9042



Lauren M. Duplin
Director &
Consulting CFO
AAFCPAs

lduplin@aafcpa.com

774.512.4095



Amy Staunton
Consulting CFO
AAFCPAs

astaunton@aafcpa.com

774.512.9025