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Not-For-Profit Revenue Recognition: How Complicated Can It Be?

If you are an Executive Director, CFO, or Finance Director of a not-for-profit organization, you know how complicated recognizing the revenue can be. Organizations routinely receive funds in the form of contributions, grants, or fee for service income. The sources are varied, and so are the revenue recognition methods. So, how does an organization begin to address revenue recognition for these types of income?

The answer lies in understanding the basic tenants of not-for-profit revenue recognition. To begin, it is important to be able to **distinguish between a contribution, an exchange transaction, and an agency transaction**. Start by asking yourself a couple of basic questions:

- Is the income provided to the organization with no strings attached?
- Do I have to provide services to earn the income?

The former might imply immediate revenue recognition, while the latter might imply deferred recognition until satisfaction of a performance obligation occurs. What if we have little or no control over the use of the money as is the case in an agency transaction? Often, such arrangements or contracts can have the characteristics of both a contribution and an exchange transaction, and individual facts and circumstances play a part in making the correct decision.

With all this subjectivity, is there a more uniform approach? For not-for-profit organizations with exchange transactions, it is on the way. In May 2014, the **Financial Accounting Standards Board (FASB)** issued a comprehensive revenue recognition standard that becomes effective for non-public companies with annual reporting periods commencing **after December 15, 2017**. The new standard replaces nearly all existing U.S. generally accepted accounting principles concerning revenue recognition, along with current industry and transaction specific guidance. The standard will apply to contracts with customers and provides a five-step process for recognizing revenue:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when the organization satisfies a performance obligation

Since early adoption of the standard is not permitted for not-for-profit organizations, the prevailing standards and industry guidance will remain in effect for a while.

If you have any questions about revenue recognition, a specific situation, or the forthcoming revenue recognition standards and industry guidelines, please contact: **Crisanto Francisco**, Audit Manager, at *cfrancisco@lvhj.com* or 415-905-5446.

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