



ASC 606 CONSIDERATIONS for Not for Profit and Educational Institutions

Not for profit and educational institutions (NFPs) have unique considerations. Tuition and housing revenues as well as membership dues have been identified as areas that ASC 606 may significantly impact.

- Contributions (non-reciprocal transactions) are not included in the scope of ASC 606 as there is no “customer”. NFPs should focus on exchange transactions for ASC 606 impact.
- As you assess your organization’s impact, be sure to re-evaluate your determination of transactions as exchange (reciprocal) or non-exchange (contributions). This is especially important with the issuance of ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.
- NFPs with publicly traded conduit debt have an accelerated ASC 606 effective date of annual reporting periods beginning after December 15, 2017 (traditional private entities are required to adopt for fiscal years beginning after December 15, 2018).
- Transactions may be in part contribution and in part an exchange transaction requiring separation or “bifurcation” between ASC 606 and other applicable accounting guidance. For example, membership dues include a contribution component if the value received by the member is not commensurate with the dues paid.

STEP ONE: (IS THERE A CONTRACT?) CONSIDERATIONS

- Determine if it is probable that the NFP will collect substantially all of the consideration to which it will be entitled.
- Determine if two or more contracts entered into at or near the same time with the same customer meet the criteria to be combined.

EXAMPLE: tuition and housing contracts

- Prototype contracts with similar characteristics may be evaluated as a single portfolio.
- The criteria for contract existence generally would be met for the exchange component of memberships and subscriptions when the order is placed.

STEP TWO: (IDENTIFY THE PERFORMANCE OBLIGATIONS) CONSIDERATIONS:

- It is expected that in most instances, tuition and housing are separate performance obligations.
- Regarding membership benefits, if an NFP regularly sells the benefit on a standalone basis, that is generally indicative that a customer can benefit from the good or service on its own or together with other resources that are readily available and therefore should be accounted for as separate performance obligations.

EXAMPLE: trade publication provided as a membership benefit but also sold to the general public

STEP THREE: (DETERMINE THE TOTAL TRANSACTION PRICE) CONSIDERATIONS:

- Determine if reductions in amounts charged for tuition and housing are provided partially or fully in exchange for a distinct good or service. These reductions are reported as expenses.

EXAMPLE: tuition remission provided to employees or work-study aid provided to students

- Reductions in amounts charged for housing or tuition other than in exchange for a distinct good or service are accounted for as a reduction of the transaction price and reduce revenue (i.e. scholarship).

STEP FOUR: (ALLOCATE THE TOTAL TRANSACTION PRICE TO ALL OF THE PERFORMANCE OBLIGATIONS) CONSIDERATIONS:

- This step only applies if there is more than one performance obligation.
- There is no requirement to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract. Discounts that provide material rights cannot be deemed immaterial.

EXAMPLE: membership right to obtain discount on future educational opportunities may be a material right.

STEP FIVE: (RECOGNIZE REVENUE WHEN OR AS THE CUSTOMER ACHIEVES CONTROL OF THE GOODS) CONSIDERATIONS:

- Generally, tuition and housing revenues would be recognized over time.
- Revenue related to publications would be recognized at a point in time.

EXAMPLE: monthly trade publication for a trade association

- Generally, revenue related to discounts on future educational opportunities would be recognized when the educational opportunity is provided (if exercised) or upon expiration. The exercise may be accounted for as a contract modification or a change in the transaction price of the existing contract.
- Revenue related to members access to an online database is recognized ratably over the membership period.



**Jim Mulroy, CPA, PSA, CGFM, CGMA,
Partner, Not-For-Profit and Education**
T (732) 828-1614
jmulroy@withum.com



**Jim Decker, CPA, Partner
Not-For-Profit and Education**
T (732) 828-1614
jdecker@withum.com