

E-book

# Sage Intacct

## Nonprofit Revenue Recognition Simplified

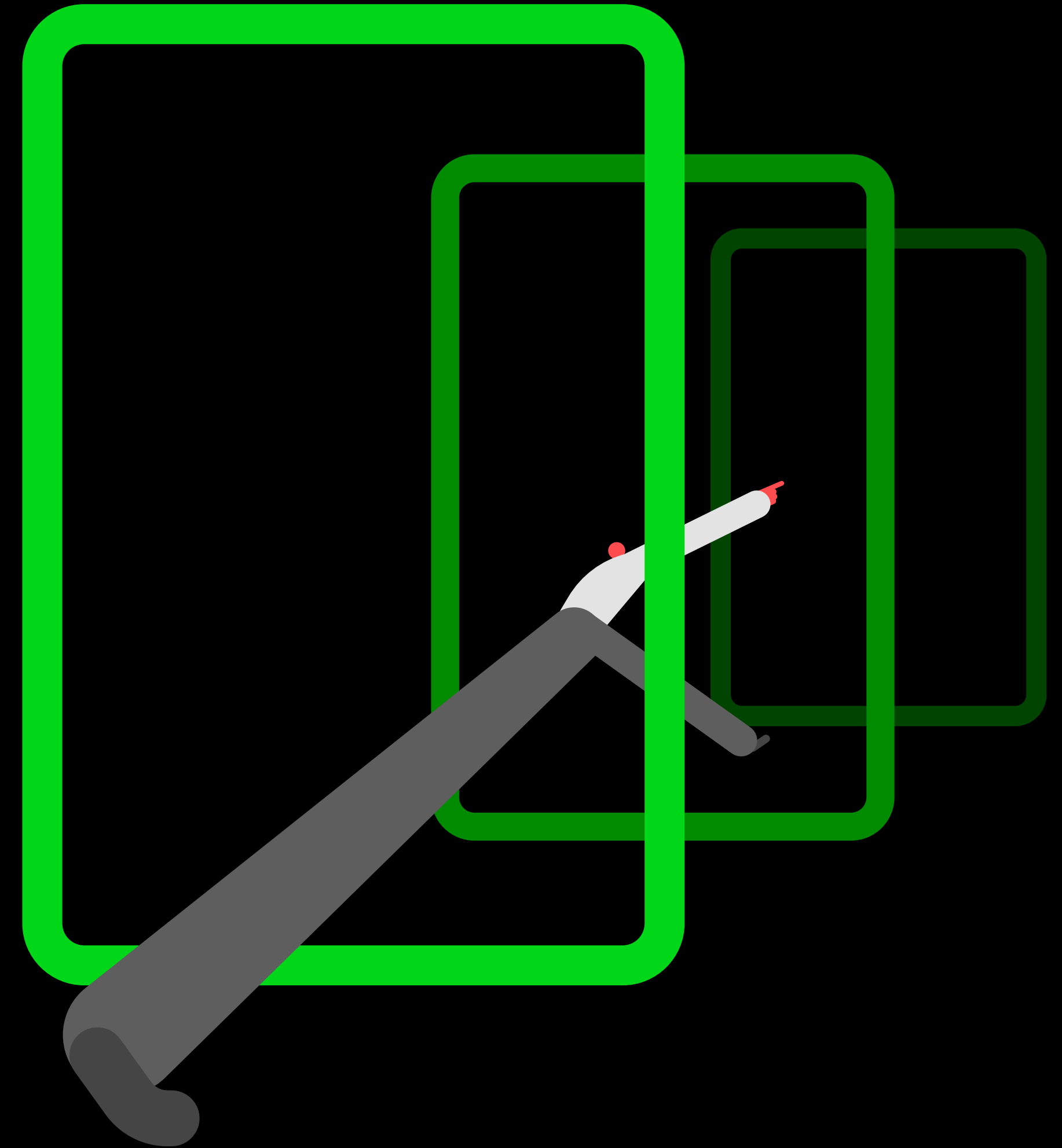
Automating revenue recognition  
for better compliance

Sage



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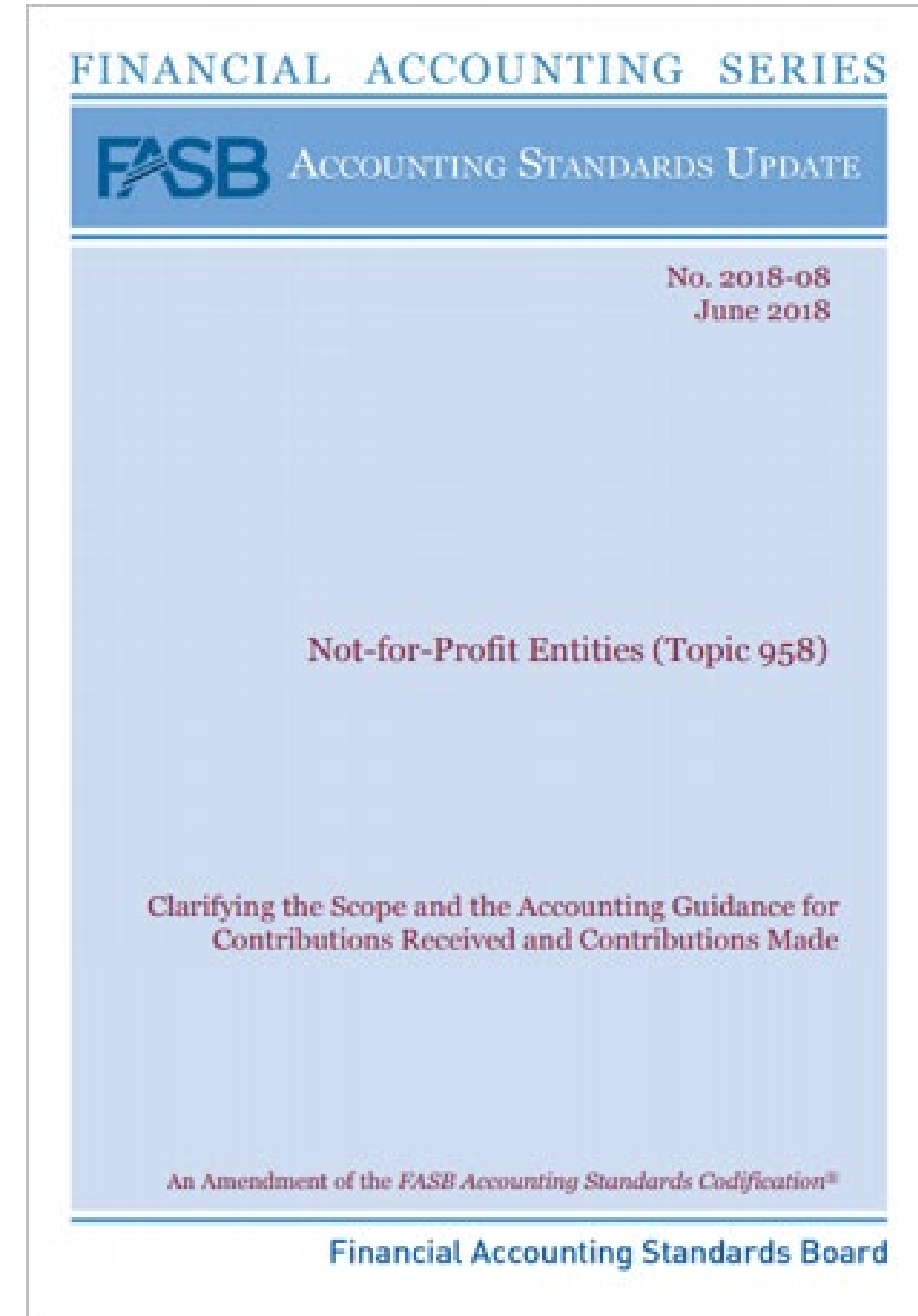


# Revenue recognition standards have changed

**Updates to revenue recognition standards represent the biggest changes in recent history in nonprofit accounting.**

Nonprofits with diverse revenue sources should reevaluate internal accounting processes considering recent changes to revenue recognition from FASB. Both ASU 2018-08 and ASC Topic 606 bring a need to assess how nonprofit finance teams account for revenue and apply compliant practices, especially when organizations have a material deferred revenue amount outstanding at year-end.

With ASC Topic 606, FASB seeks to bring US GAAP standards for revenue recognition into closer alignment with international standards (IRFS), so there is greater clarity and consistency in treatment across nations, industries, and markets. ASU 2018-08 improves and clarifies the scope and existing prior guidance (from ASU 2014-09) around revenue from contributions.



# Why are these changes so important?



**The updated nonprofit revenue recognition standards impact revenue streams and require finance teams to apply greater judgment.**

Some nonprofits will find that the new revenue recognition standards greatly impact them, while others may notice less change. For example, if you receive a lot of government grants, it's important to note that grant payments may represent exchange transactions or contributions, depending on the details.

The new guidance helps standardize grant classification across different nonprofit sectors, such as colleges and universities, research institutions, and social service organizations—all organizations that tend to rely heavily on grants and contracts.<sup>1</sup> Nonprofit finance teams really need to study and understand the updated standards so that they can apply the correct judgments about each revenue stream in their accounting and disclosures.

Refer to [FASB Clarification & Guidance](#) for more information.

1. SquarMilner, "How ASU 2018-08 Affects Not-For-Profit Accounting," November 12, 2019.

# Getting ready to comply with the new guidance

**The first step to compliance is to have conversations with leadership to make sure everyone understands how the financial statements may change as a result of applying the new standards.**



The process you should consider when implementing the new revenue recognition guidance is as follows:

1. Study the guidance in its entirety.
2. Brief your leadership team and key stakeholders on the potential impact on your organization.
3. Create a template for your analysis documentation.
4. Identify all your revenue streams and related contracts.
5. Discuss the approach you will take with your auditor.
6. Do an analysis and document your conclusions.
7. Review your analysis and conclusions with your auditor.
8. Modify and document new policies and procedures.
9. Inform your leadership team and key stakeholders of the changes that will be implemented.
10. Reevaluate the impact of the changes after the implementation.

# Steps to grading revenue streams

**There are two things to consider when grading revenue streams—materiality and timing.**

Materiality matters when it comes to grading revenue streams and being required to defer, so it should be the first thing you consider when deciding to apply the revenue recognition guidance.

When materiality is established, the second thing to consider is revenue timing. Revenue timing is relative to your year-end. If you receive and utilize the funds within the year, there is no need to worry about deferrals.

1

Identify where your revenue comes from—what are your funding streams?

2

Look at your overall revenue stream and determine which ones are material.

3

If there is material, then consider timing.

4

If it is material and crosses over year-end, apply the revenue recognition standards.

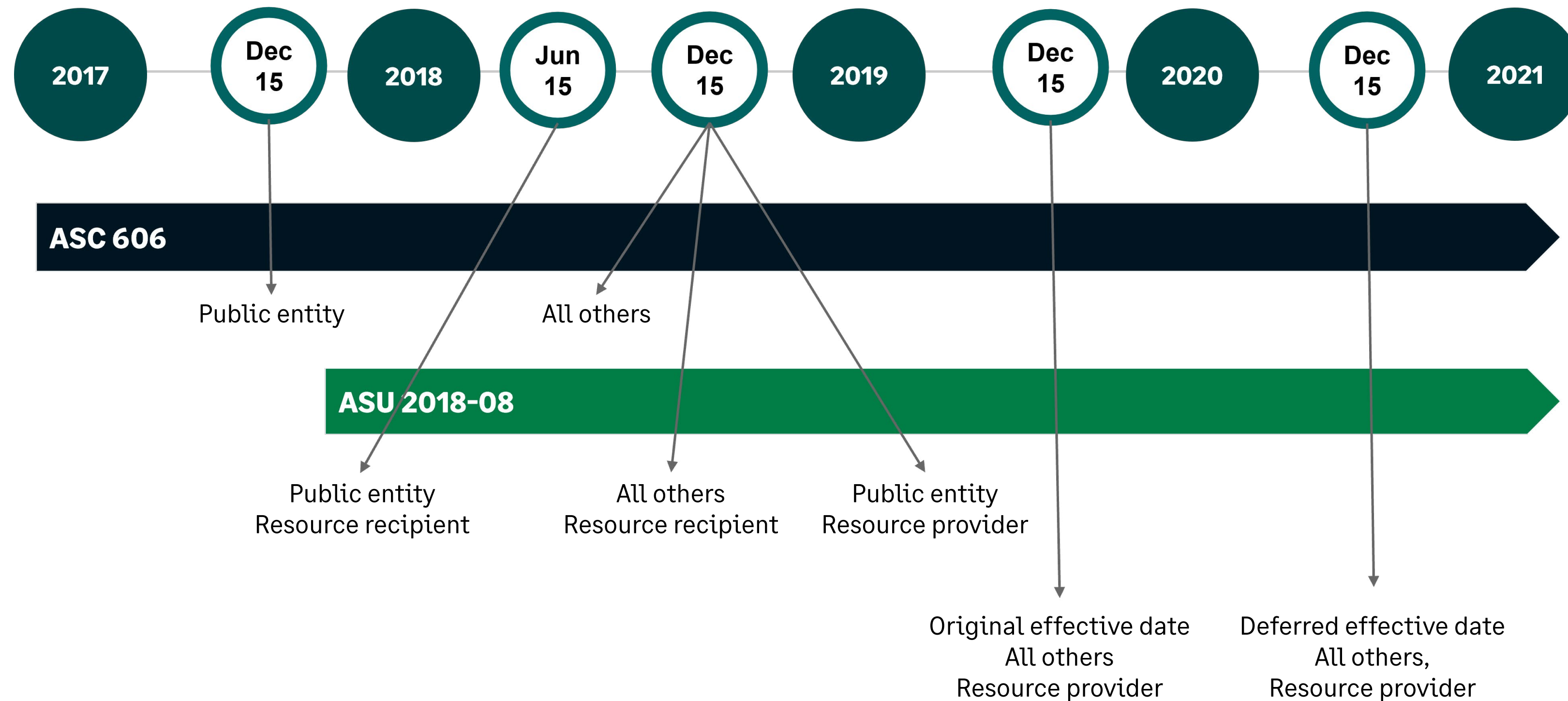
5

If it's an exchange transaction, apply ASC Topic 606. If it's not an exchange transaction, apply ASU 2018-08.

# Deadlines for adopting updated standards

Nonprofits with public debt (issued or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market) must adhere to the public entity deadline.

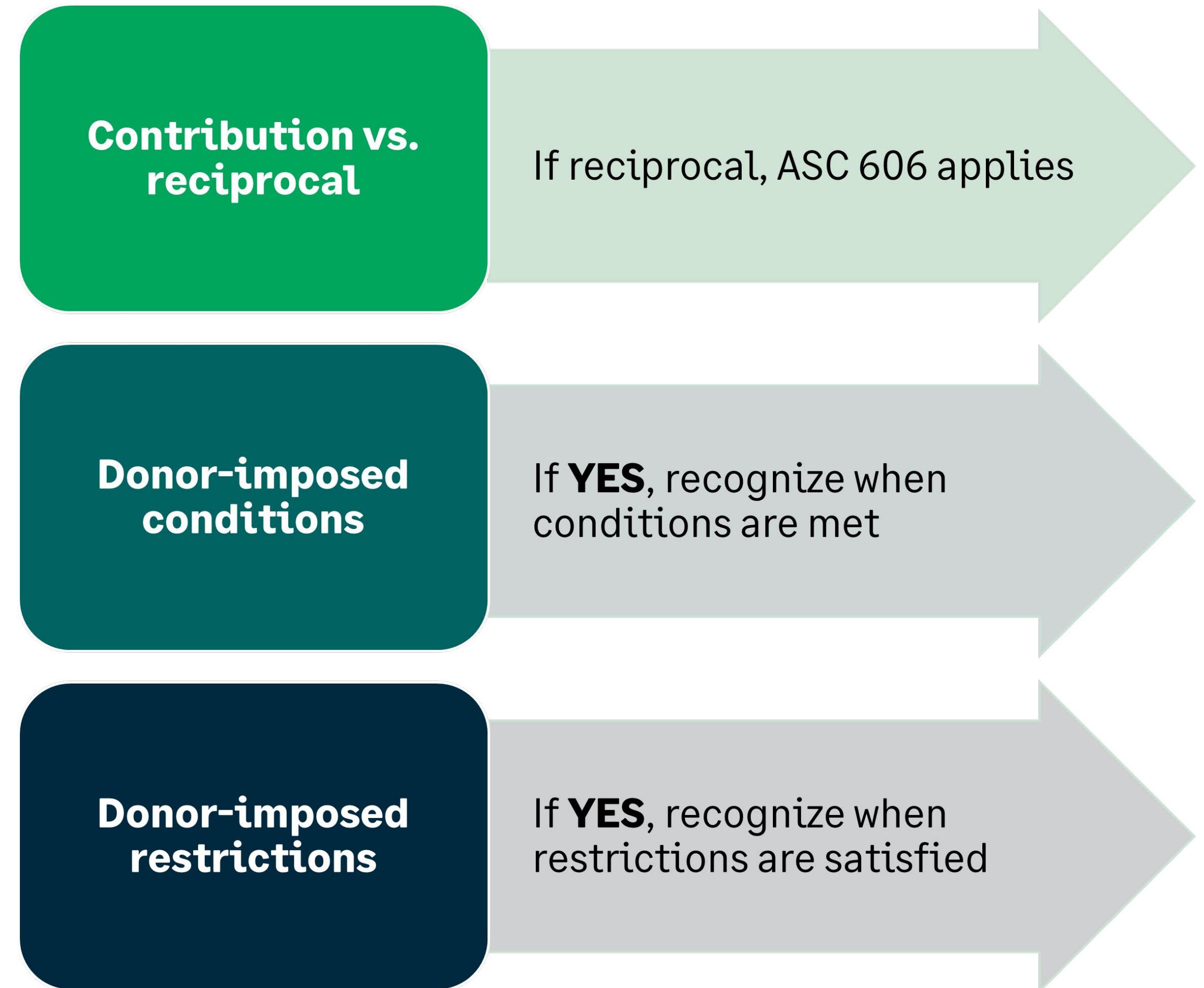
As of June 3, 2020, a deferred effective date of December 15, 2020 for “All others” was codified. The deferral of the deadline only applies to those organizations that did not already adopt or report.



# ASU 2018-08: Revenue from contributions

**Updated standards around revenue from contributions may require nonprofit organizations to determine reciprocity and identify donor-imposed conditions and restrictions.**

The updated guidance in ASU 2018-08 was written to eliminate confusion around how to record and track revenue from different types of contracts with customers. Now, the key focus centers on the *terms of the agreement* rather than the type of funder. Revenue recognition also now depends on the *point of entitlement* instead of the probability of entitlement.





# Contribution or reciprocal transaction?

## What about contributions that result in a general public benefit?

Government contracts and related funding streams that will ultimately benefit the public—and not the government agency—should be recorded and reported as contributions.

## Does the resource provider receive a benefit that is commensurate with the amount of the revenue provided to your organization?

When you are accounting for revenue received as contributions, you should first determine whether it was a reciprocal transaction. This is also commonly referred to as exchange transactions or non-exchange transactions. To determine if a transaction is reciprocal, ask yourself if there is any benefit the provider of the revenue is going to receive from your organization that is commensurate with the value of the contribution they plan to make.

If there is a commensurate benefit, it is a reciprocal (exchange) transaction. Do not record reciprocal transactions as contributions. Instead, you will apply ASC Topic 606 to your treatment of this revenue.

For contributions, the next steps for determining how and when to recognize revenue are to identify any donor-imposed conditions or restrictions attached to the funding.

# Are there donor-imposed conditions?

**Two circumstances must be present for a donor-imposed condition to exist.**

First, the contribution must have a defined right of return or release from obligation.

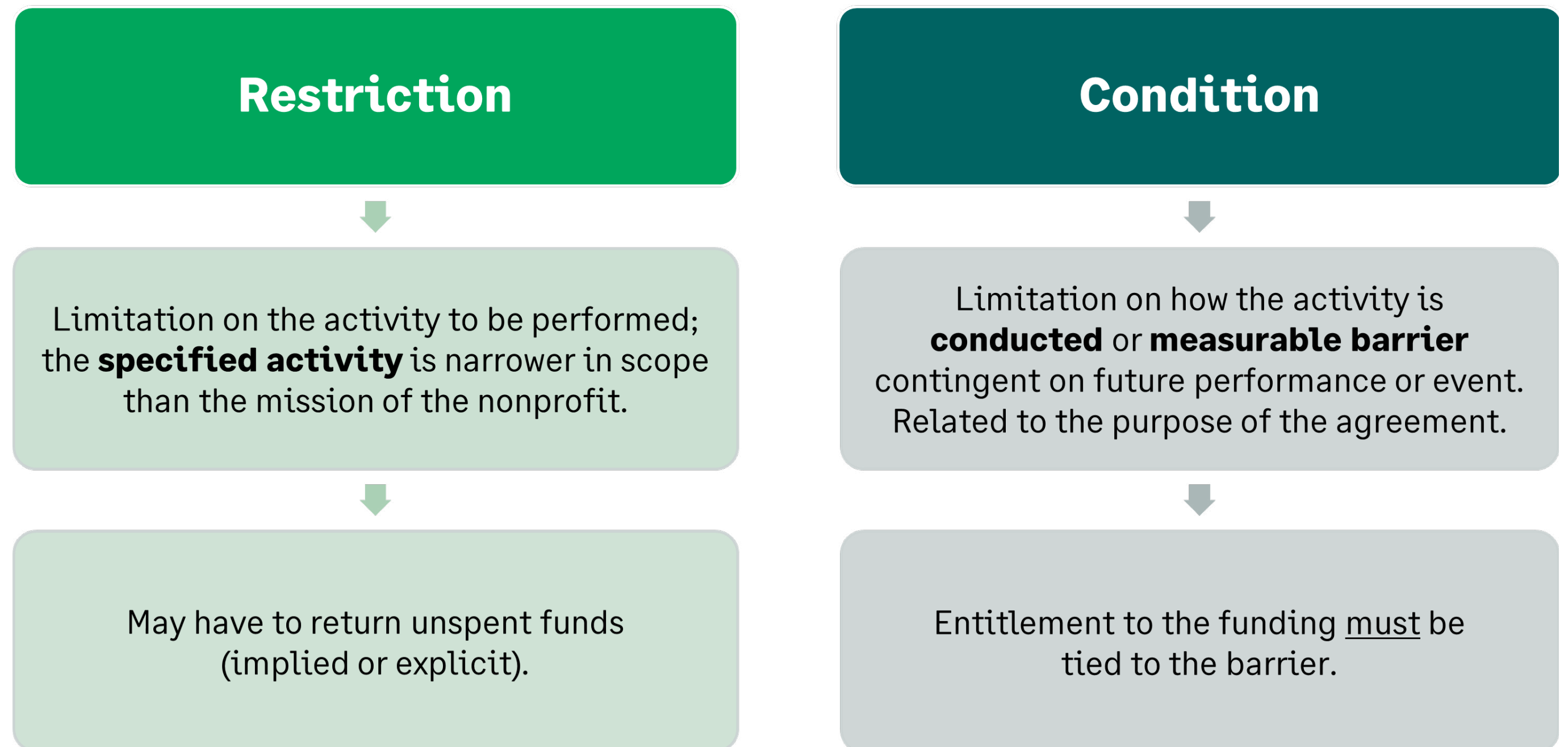
- **Right of return** means if you receive the funds in advance but fail to perform to the terms of the agreement, you are obligated to return the contribution.
- **Release from obligation** means the funder is not obligated to provide the contribution if your organization does not perform.



Second, there must be a barrier to overcome stated within the agreement. Barriers can be measurable performance requirements such as matching funds or a requirement for a specific number of people to be served. Barriers may also relate to spending discretion, such as a contribution that can be used for program operations, but not marketing.

# Differentiate donor conditions from donor restrictions

It is important to differentiate between donor conditions and donor restrictions because, under the new guidance, donor conditions are the barrier in revenue recognition, not donor restrictions.

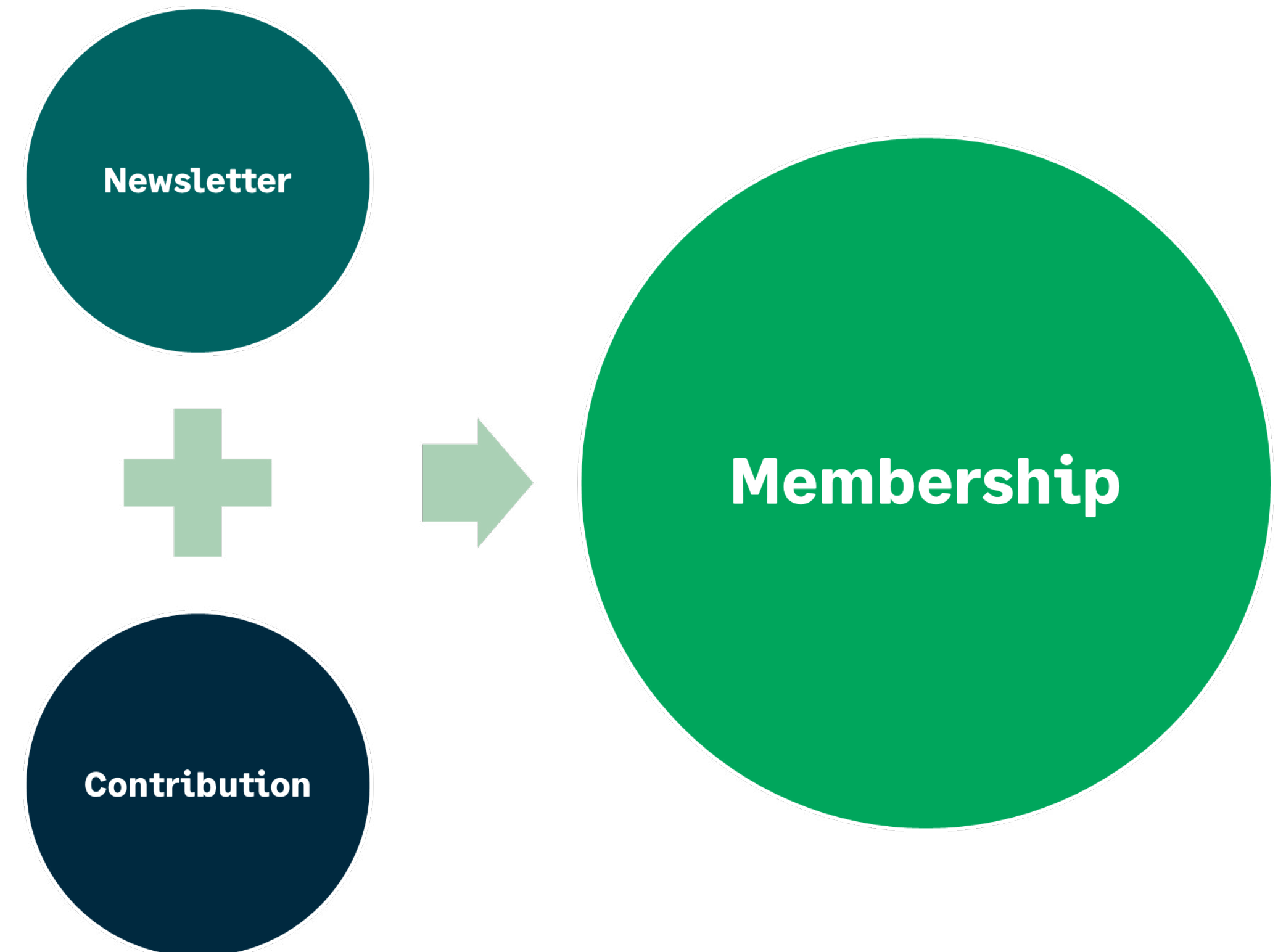


# Analyze bifurcated revenue

**Certain revenue types may include a combination of earned revenue and contribution.**

When dealing with bifurcated revenue, nonprofit finance teams need to segregate the different portions of revenue and apply the correct guidance for each portion separately. Common examples of revenue that may be part transaction and part contribution include:

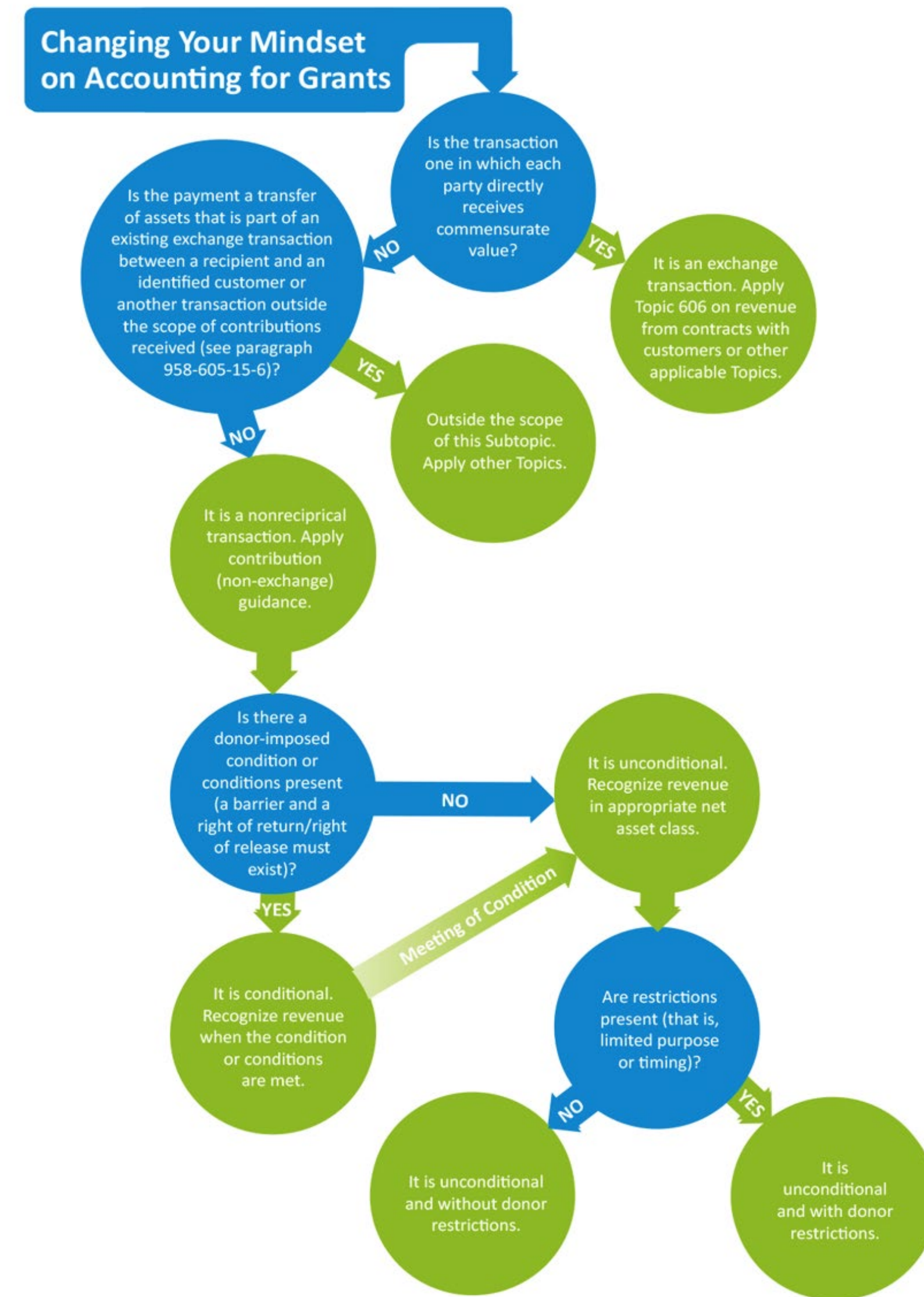
- Membership dues
- Sponsorship revenue
- Tuition
- Retail sales
- Fee for service



# A framework for revenue evaluation

**Auditors advise nonprofits to analyze their revenue streams, define conditions or restrictions, and ensure proper accounting for deferred and recognized revenue.**

Use this visual decision tree to evaluate revenue and determine when and how it should be recognized. To view an enlarged image, please see the CliftonLarsonAllen LLP (CLA) blog article: [FASB ASU 2018-08 Clarifies Revenue Accounting for Nonprofit Grants and Contracts, CLA 05-13-19](#)

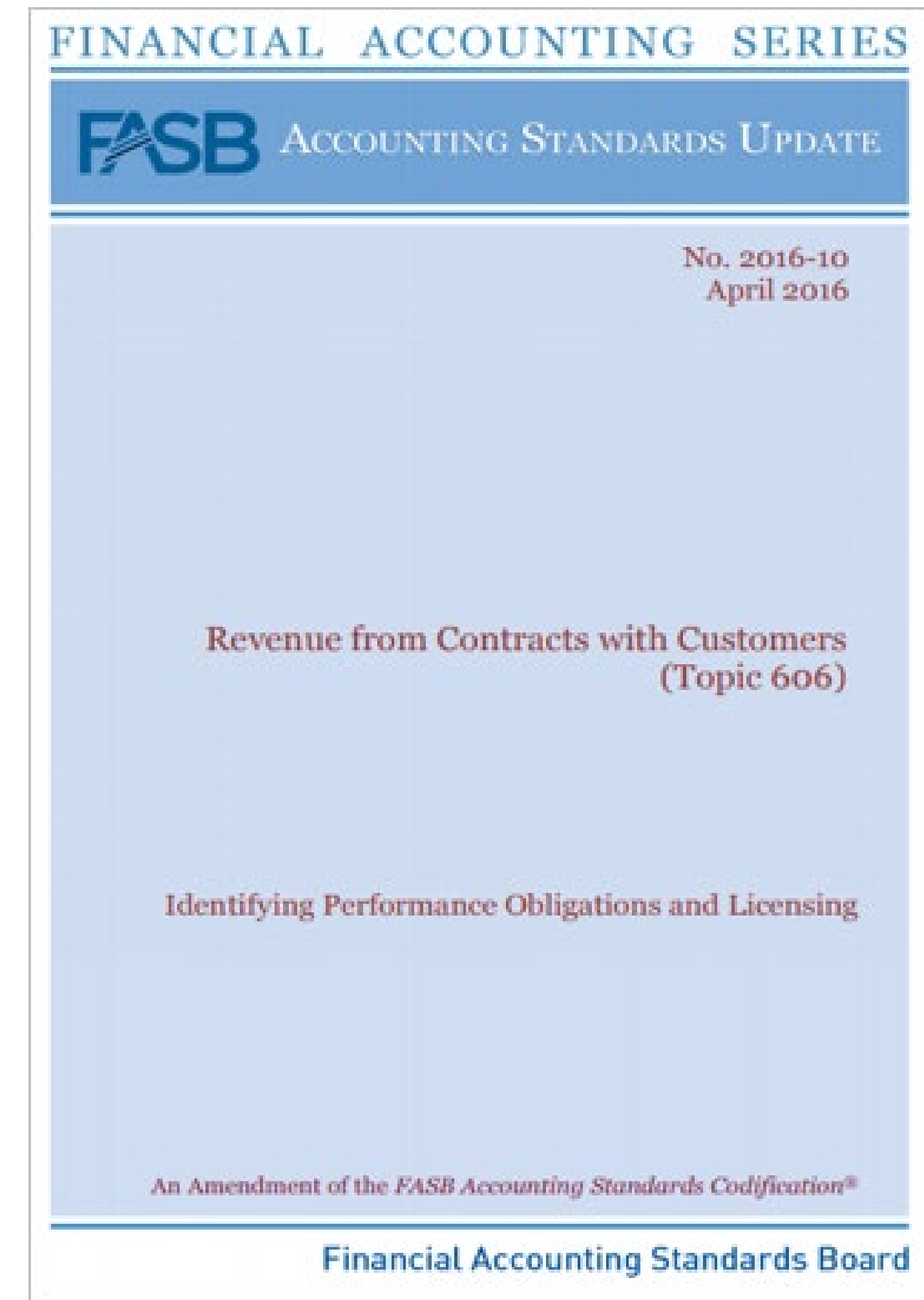


# ASC 606: Revenue from contracts

**ASC Topic 606 provides clarity and consistency in the treatment of revenue from contracts with customers.**

In the past, there had been a lack of alignment between the way US GAAP handled disclosures about revenue and the way that it was treated in other nations by the IFRS. ASC 606 seeks to align GAAP and IFRS and create a consistent treatment across nations, industries, and markets. The updated guidance applies to all contracts with customers except:

- Lease contracts
- Insurance contracts
- Financial instruments
- Guarantees
- Investment income
- Nonmonetary exchanges in the same line of business to facilitate sales to customers



# What changed about contract revenue?

**ASC 606 shifts the concept behind revenue recognition from focusing on the risk of financial loss to focusing on when a good or service gets transferred to your customer.**

When dealing with contract revenue in the past, nonprofit finance teams focused most on the timing of payments and whether they had been received. Now, the focus is on whether organizations have delivered what was promised to the customer.

There is also more focus now on the terms of the contract with changes to how nonprofit organizations record and report costs related to contractual fulfillment. The amount of revenue recognized should represent the financial consideration the nonprofit organization expects to receive for a good or service.

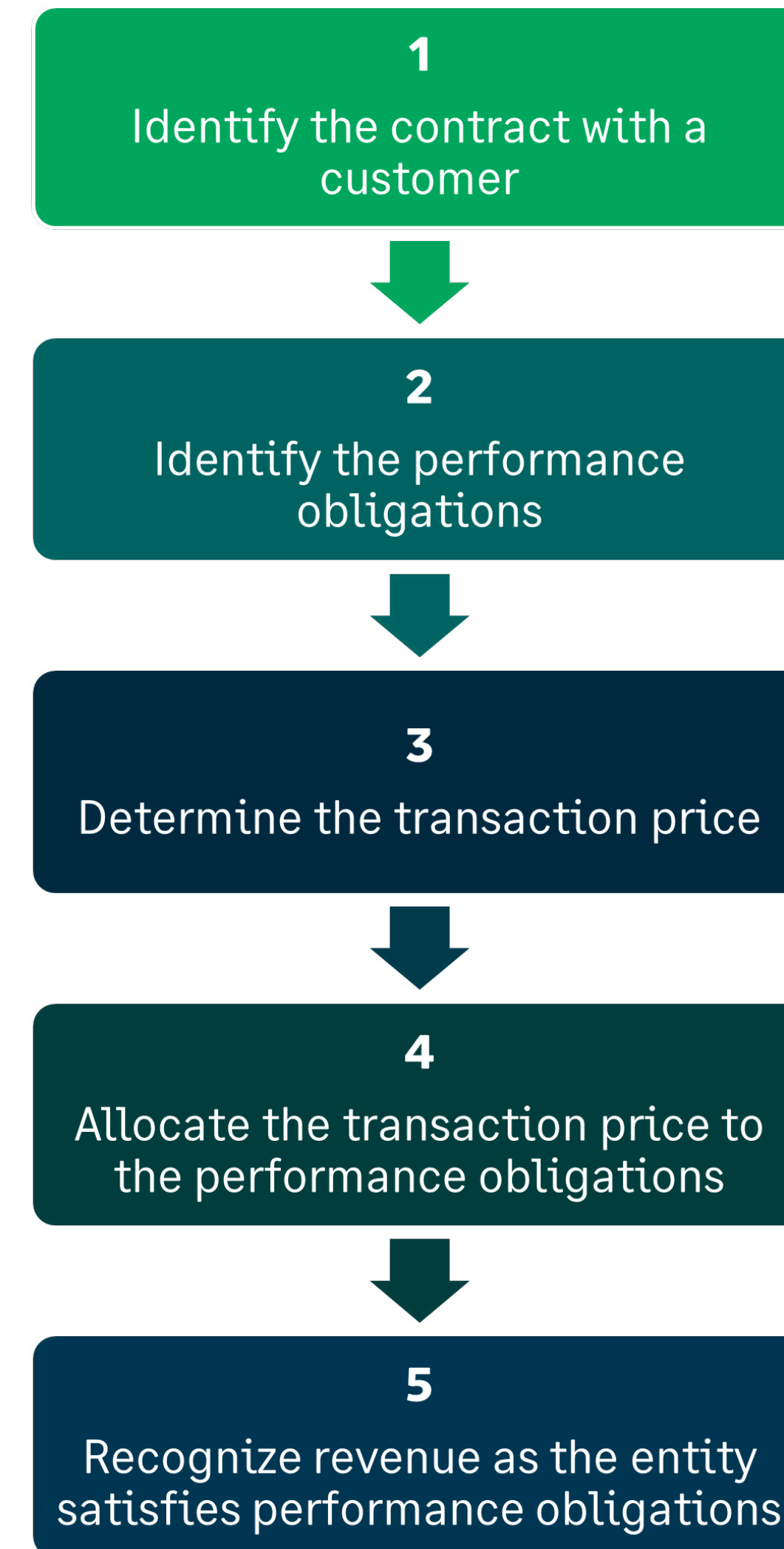


# A 5-step approach to contract revenue recognition

**Consider several factors before deciding when and how you will recognize revenue from contracts.**

The guidance for ASC 606 provides a clear five-step approach to determine whether or not a contract exists, identify performance obligations in the contract, determine the price associated with each of those obligations, and gain clarity about how to allocate and recognize contract revenue at the correct time.

Revenue recognition should follow the accomplishment of contractual performance obligations that may be defined in several ways, including milestones, resources consumed, hours worked, costs incurred, and units produced or delivered. Organizations will either recognize revenue over time based on their achievement of performance measures or all at once after transferring the good or service to the customer.





# Automating nonprofit revenue recognition with Sage Intacct

**With Sage Intacct, you have a partner in streamlining your compliance with revenue recognition standards.**

In the past, most nonprofits painstakingly tracked revenue recognition by manually updating dozens of revenue schedule spreadsheets. Sage Intacct has released a nonprofit revenue recognition tool that works within Sage Intacct to automate the revenue recognition process.

Sage



Sage Intacct Nonprofit Revenue Recognition centralizes revenue recognition inside the accounting system. You can track and account for non-exchange revenue like conditional grants and contributions, as well as exchange revenue transactions like tuition, in one central system. By combining the centralizing of information with Sage Intacct automated revenue recognition, you'll improve visibility into conditions and restrictions and gain important insights about your organization's revenue.

# Track and recognize revenue **the right way**

**Sage Intacct provides a full range of options for revenue recognition.**

Nonprofits can set up conditional contributions and grants as projects in Sage Intacct and then track milestones that automatically trigger revenue recognition upon completion. You can also use performance measurements.

Manage installment-based transactions across year-end with automated revenue recognition schedules. Because event-based recognition is native to the centralized system of record, Sage Intacct saves you time, eliminates the need for spreadsheets, and improves accuracy.

Order Entry
Favorites

### Conditional Milestone Schedule

Bill Gates Foundation (C-1001)

Transaction date	Date due	Item totals	Subtotals	Transaction total	Transaction status
07/18/18	08/17/18	1,000,000.00	0.00	1,000,000.00	Closed

**Date**  
07/18/18

**Customer Funder**  
C-1001--Bill Gates Foundation

**Grant or Program**  
800--Youth Center Grant

**Document number**  
AR\_Inv-00375

**Bill to**  
B\_C-1001

San Francisco, CA 94111

**Ship to**  
Health Initiative 1

San Francisco, CA 94111

**Payment terms**  
Net-30

**Date due**  
08/17/18

**Reference**  
--

**Message**  
--

**Ship via**  
--

**Attachments**  
--

**State**  
Closed

#### Entries

Item ID	Warehouse	Quantity	Unit	Price	Extended price	Rev rec template	Grant or Program	Task	Fund	Schedule
1	--	1	Each	400,000.00	400,000.00	Milestone recognition	800--Youth Center Grant	24--1 - Site Acquisition	401--Elev8 After School Initiative Grant	<a href="#">View Summary</a>
2	--	1	Each	100,000.00	100,000.00	Milestone recognition	800--Youth Center Grant	25--2 - Building Design	401--Elev8 After School Initiative Grant	<a href="#">View Summary</a>
3	--	1	Each	450,000.00	450,000.00	Milestone recognition	800--Youth Center Grant	26--3 - Building Complete	401--Elev8 After School Initiative Grant	<a href="#">View Summary</a>
4	--	1	Each	50,000.00	50,000.00	Milestone recognition	800--Youth Center Grant	27--4 - Opening	401--Elev8 After School Initiative Grant	<a href="#">View Summary</a>
<b>Total</b>					1,000,000.00					



# Donor conditions tracking

**Define project milestones for donor conditions and automatically recognize revenue upon task completion.**

For non-exchange transactions, organizations can set up projects with condition milestones as tasks for tracking. At the completion of a milestone (task), recognition is automatically triggered in Sage Intacct. In this example, the user is selecting a conditional milestone schedule for revenue recognition based on a conditional grant to build a new facility.

The screenshot displays the 'Grants Programs Information' page in Sage Intacct. The page includes a navigation bar with 'Grants Programs' and 'Tasks' tabs. Below the navigation, there is a section for 'Grants Programs Info' with fields for Grants Programs ID (800), Grants Programs name (Youth Center Grant-606 Requirements RR), and Parent grants programs ID (---). A table of tasks is shown below, with a green box highlighting the 'Status' column. The table has columns for Task ID, Name, Description, Billable, Planned begin date, Planned end date, Item ID, Item name, Time type, % complete, and Status. The status column contains 'Completed' for tasks 1 and 2, and 'In Progress' for tasks 3 and 4. Below the table, there is a 'Post' section with a text input field, a 'Share' button, and a 'Follow' button.

Task ID	Name	Description	Billable	Planned begin date	Planned end date	Item ID	Item name	Time type	% complete	Status
1	24	1 - Site Acquisition	--	<input type="checkbox"/>	01/01/2018	03/31/2018	--	--	--	Completed
2	25	2 - Building Design	--	<input type="checkbox"/>	04/01/2018	06/30/2018	--	--	--	Completed
3	26	3 - Building Complete	--	<input type="checkbox"/>	07/01/2018	06/30/2019	--	--	--	In Progress
4	27	4 - Opening	--	<input type="checkbox"/>	12/01/2019	12/01/2019	--	--	--	In Progress

# Restricted contributions tracking

Sage Intacct helps organizations track restricted contributions and record the release of funds.

Organizations can track transactions in an AR invoice or an order entry transaction or just put them straight into the GL with a journal entry.

There are two options to record the release of restrictions—make a periodic journal entry or leverage an advanced allocations tool to process releases automatically.

The screenshot displays two overlapping windows from the Sage Intacct system. The top window is titled "Grant Award" and shows details for a transaction from the Hawkins Foundation (C-1081) dated 04/01/20. The bottom window is titled "Restriction Release Journal - Journal Entries" and shows a list of journal entries with columns for Doc, Account, Debit, Credit, Projects and Grants, Customer or Funder, Restriction, Entity or Fund, Department, and Memo. Two "Restriction" dropdown menus are highlighted with green boxes, showing options like "2--Temporarily Restricted" and "3--Unrestricted".

Doc	Account	Debit	Credit	Projects and Grants	Customer or Funder	Restriction	Entity or Fund	Department	Memo
1	4900--Satisfaction of Restrictions	14,917.85	--	140--Centon Project	C-1016--AFB	2--Temporarily Restricted	00--Operating	120--Improved Regulation	2020-04 Purpose Restriction Releases
2	4900--Satisfaction of Restrictions	--	14,917.85	140--Centon Project	C-1016--AFB	3--Unrestricted	00--Operating	120--Improved Regulation	2020-04 Purpose Restriction Releases
3	4900--Satisfaction of Restrictions	34,819.18	--	ENFP20-200a--COVID-19 Response Mobile Healthcare Campaign	C-1081--Hawkins Foundation	2--Temporarily Restricted	01--Health 1	131--Clinical Outcome Tools	2020-04 Purpose Restriction Releases
4	4900--Satisfaction of Restrictions	--	34,819.18	ENFP20-200a--COVID-19 Response Mobile Healthcare Campaign	C-1081--Hawkins Foundation	3--Unrestricted	01--Health 1	131--Clinical Outcome Tools	2020-04 Purpose Restriction Releases
Total		49,737.03	49,737.03						

Item ID	Quantity	Unit	Price	Extended price	Customer or Funder	Projects and Grants	Restriction	Entity or Fund	Department	
1	00050--Grant Award	1	Each	350,000.00	350,000.00	C-1081--Hawkins Foundation	ENFP20-200a--COVID-19 Response Mobile Healthcare Campaign	2--Temporarily Restricted	01--Health 1	131--Clinical Outcome Tools
Total				350,000.00						

## Success story

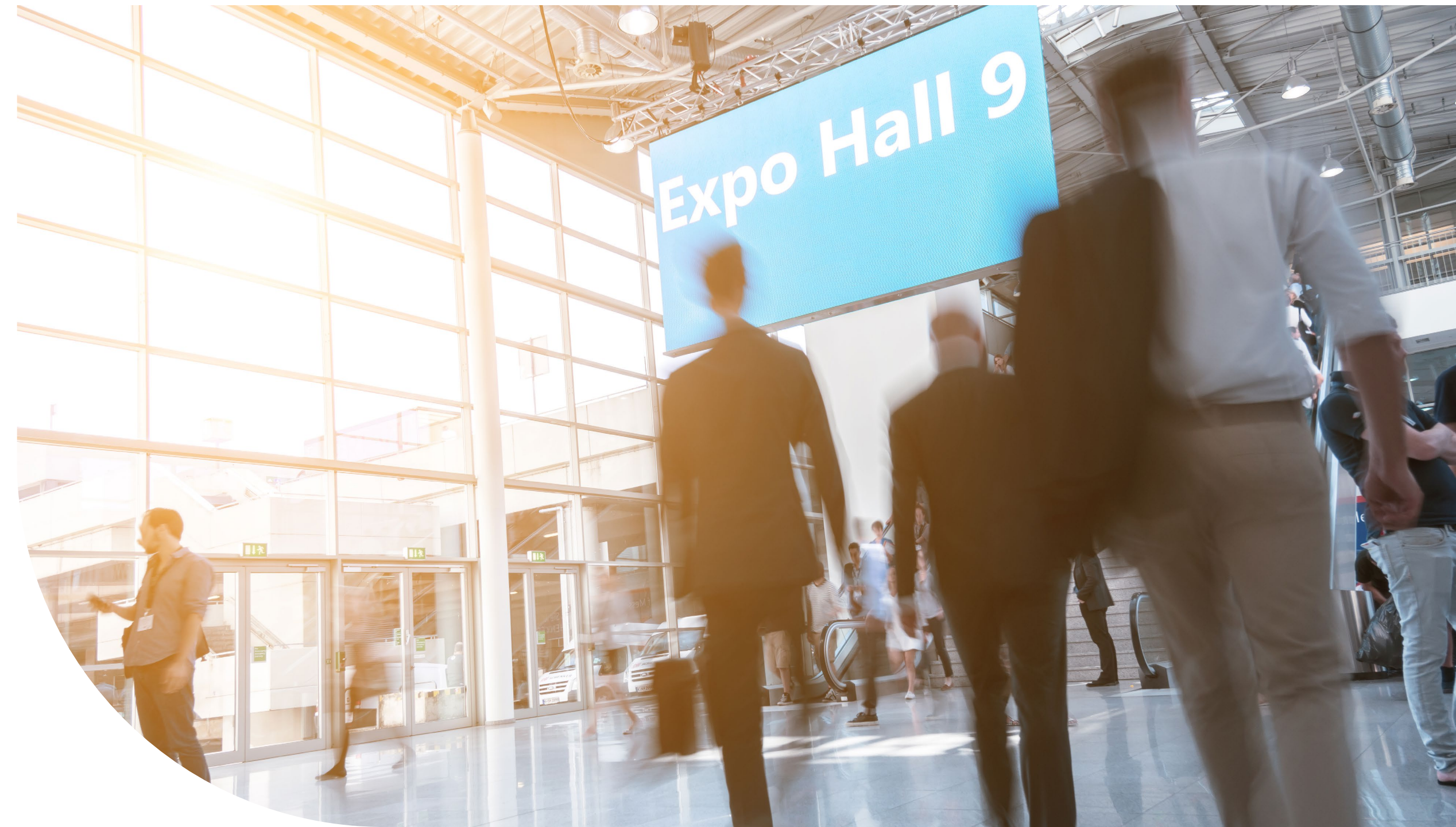
# Atlanta Convention & Visitors Bureau

**Atlanta Convention & Visitors Bureau (ACVB) has relied on Sage Intacct for automated revenue recognition since 2014.**

The liaison between meeting planners, tour operators, and more than 800 members, ACVB helps to bring over 42 million visitors to Georgia each year. In support of its mission, ACVB runs a nonprofit chamber of commerce, an arts foundation, and for-profit publications.

According to controller Braam du Plooy, by using Sage Intacct, ACVB shortened monthly close from 10 days to less than 3 days and reduced AP and payroll workloads so dramatically that the savings paid for the solution within six months.

Because the organization relies on a mixture of revenue streams, including grants and memberships, the ability of Sage Intacct to automate revenue recognition was critical.



**“We used to spend about 60 hours per year to perform revenue recognition. With Sage Intacct, on a monthly basis, it now takes just 10 minutes—or one hour and twenty minutes total each year. Just think of that in terms of time utilization for your staff where they can use that time somewhere else.”**

~Braam du Plooy, Controller, Atlanta Convention & Visitors Bureau

## Conclusion

# Automate revenue recognition for better compliance



**In the interest of full transparency and compliance, nonprofits need to get revenue recognition right.**

The updated nonprofit revenue recognition standards found in ASU 2018-08 and ASC Topic 606 provided important clarity around the processes that organizations should use to track and recognize their revenue. Centralizing revenue schedules and contracts in an automated system helps nonprofit finance teams save time and improve accuracy.

Let's be honest—no organization can achieve its mission without revenue. And contributors, grantors, and members expect the organizations they support to carefully track the conditions and restrictions they impose on their funding.

Automating revenue recognition ensures compliance and helps ensure successful nonprofit audits. Sage Intacct Nonprofit Revenue Recognition provides the tools to demonstrate good financial stewardship and transparency to funders and auditors alike.

# About Sage Intacct

**Sage Intacct is the AICPA's preferred provider of cloud financial applications.**

Specializing in helping nonprofits of all types—including health and human services, NGOs, charities, trade and membership associations, cultural institutions, and faith-based organizations—Sage Intacct streamlines grant, fund, project, and donor accounting, while delivering real-time visibility into the metrics that matter.

Our modern, true cloud solution, with open APIs, gives nonprofits the connectivity, visibility, and efficiency they need to do more with less. At Sage Intacct, we help nonprofits strengthen stewardship, build influence, grow funding, and achieve mission success.

In addition to intuitive software solutions, Sage Membership provides members with access to actionable human advice from experts and peers through exclusive content and tools to help you make even better mission-critical decisions.



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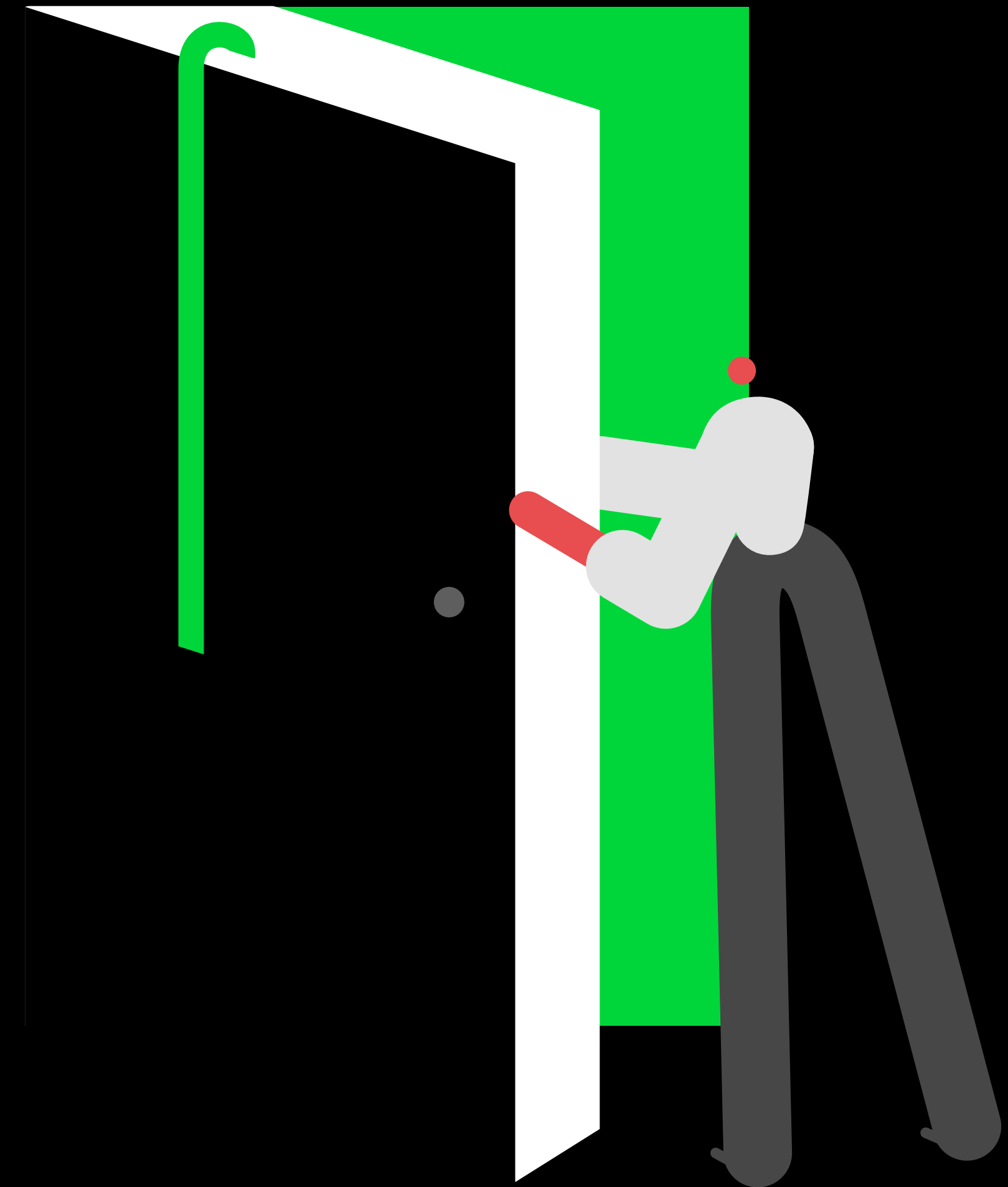
# Quick links to educational resources

Looking to move your nonprofit finance operations to a new cloud accounting system? Here are some additional resources to help you make the right decision.

Product overview video  
[Sage Intacct for Nonprofits](#)

Customer story video  
[Room to Read](#)

More resources  
[Browse all nonprofit resources](#)







This content was created in collaboration with Clark Nuber.

[Clark Nuber](#) is an award-winning CPA and consulting firm located in the Seattle Metro Area. For over 65 years, their professionals have provided sophisticated accounting and consulting services to clients in the Pacific Northwest and throughout the world.

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