

Nonprofit Navigator

Summer 2017



Revenue recognition standard affect on nonprofits By Colette Kamps, CPA

The new Revenue Recognition Standard has been issued and could result in significant changes to how and when revenue is recognized for many entities. Will it affect nonprofit organizations? And if so, how?

Contributions are specifically excluded from the revenue recognition standard, so if you are with a nonprofit organization that relies 100% on contributions, you won't have to worry about any changes from this Standard. But if your organization has any "earned" revenue (e.g., program service revenue, exchange revenue), then this Standard could affect you. It's not effective until 2019 (unless you are a conduit debt obligor), but all entities should be looking at this now to determine what the effect will be. It could even result in a need to change procedures and tracking systems for recording revenue within your accounting system.

There are five steps to follow in order to determine when to recognize revenue and in what amount. The AICPA has put together 16 task forces to address implementation issues for specific industries, including nonprofit organizations. These task forces have identified specific issues to address and are working at issuing guidance. Some of the issues identified are as follows:

Tuition and housing revenue: The task force has issued a "working draft" on potential issues facing organizations with tuition and/or housing revenue. Some topics this guidance addresses are: when to recognize revenue from nonrefundable deposits, considerations in determining collectability for these types of revenues, and how to apply a portfolio approach.

Membership dues: Membership dues can include an exchange portion as well as a contribution portion. The task force has also issued a working draft on this type of revenue. It is first necessary to bifurcate these two separate portions of the dues. Then, the components that make up the exchange portion should be analyzed in order to properly allocate the price and to determine when each piece should be recognized as revenue. For example, the member may receive several different items of value in exchange for their member dues.

Grants: This topic may be the one with the most widespread effect on nonprofit organizations. The task force has determined that they first need to issue more definitive guidance on how to determine whether a grant is a contribution versus an exchange transaction, as currently, there is a lot of judgement involved. The task force is still working on this, but the guidance could result in more grants being classified as contributions, which would take those grants out of the scope of this Standard. On the other hand, those grants may be determined to be conditional contributions which means revenue may be recognized in the same time period, whether it's a conditional contribution or exchange transaction (such as with a cost reimbursement grant that is classified as a conditional contribution). For now, we will "stand by" until the task force issues their guidance.

As the task force finalizes their guidance, it will be included in the AICPA Revenue Recognition Guide.

If you have any questions, Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

Fast Facts

- 150+ team members
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- Arizona's largest locally owned accounting firm
- Your money stays in the state
- Well-known leader in CPA services for AZ nonprofits
- Nonprofit CPAs volunteer on boards and committees for local charities
- Your team provides complimentary CPE and customized presentations for nonprofit boards and staff



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Reminder on paid sick time - effective July 1, 2017

By Kristian Haralson, MSA

Everybody's talking about the new Arizona Act (effective 7/1/17), that requires Arizona employers to accrue Paid Sick Time (PST) for their employees. Under this law, employees will accrue one hour of PST for every 30 hours worked, subject to certain limitations based on the size of the entity. Here are a few key points:

- The accrual starts on the later of the employee's hire date or the effective date.
- Employers can require employees to wait 90 days after their hire date to use any accrued PST.
- If an employee is rehired within nine months after leaving, all accrued PST must be reinstated.
- All accrued PST must be carried over to the next calendar year, up to a certain maximum.

The use of PST has to be somewhat flexible. For instance, PST can be used for any health care reason related to the employee or a family member, such as for diagnosis, care, or treatment of any mental or physical illness, injury, or health condition. Additionally, PST can also be taken for legal reasons. The employer is allowed to request documentation from an employee if they use PST for more than two days. This documentation should prove that the reason for the leave was a proper purpose. Examples of adequate documentation could include either a note from a physician or an attorney. Although there is flexibility, employees must provide advance notice, if possible, to their employers before taking foreseeable leave and estimate the amount of time needed.

A positive aspect on the employer's side is that they don't necessarily have to pay out PST upon an employee's separation from employment. So, employers may wish to review their current policies to be sure this is clearly stated, one way or the other. Entities that have existing paid time off policies (PTO) that allow employees to accrue and use general leave must have policies that have terms that are at least equivalent to the minimum requirements of this Act.

Another requirement of this Act is that employers must record certain information either directly on, or attached to, each employee's paycheck. This required information includes: the number of accumulated earned sick time hours available, the number of hours used, and the amount of pay received for sick time on each employee's paycheck (or attached to it).

The law applies to nearly all full-time, part-time, and temporary employees. However, there are a few employers excluded from the law that are not required to provide PST, including:

- Small employers (which are defined as a business) with gross annual revenues of less than \$500,000 and are not engaged in interstate commerce or the production of goods for interstate commerce.
- Federal government employees and State of Arizona employees (municipal and county employees are not exempt).

The penalties are steep for noncompliance, so all organizations should stay current on the additional provisions to Prop 206. Details of the Act can be found at the website for Industrial Commission of Arizona (www.azica.gov).

If you have any questions, Kristian can be reached at (480) 839-4900 or KristianH@hhcpa.com.



Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.