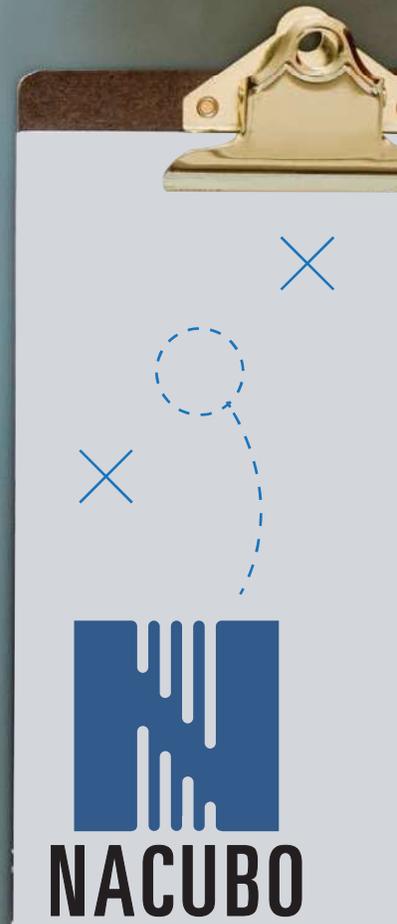
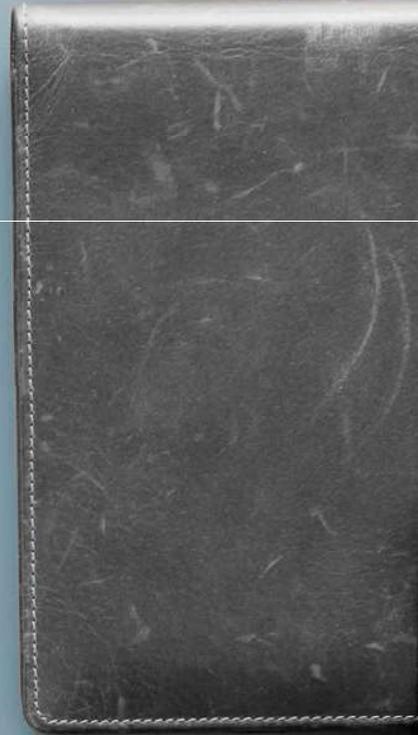


# NACUBO Advisory 19-03

## Revenue Recognition (Topic 606) Disclosures



## Table of Contents

Introduction.....	2
Summary of the Disclosures .....	2
1. General Disclosures .....	4
2. Disaggregation of Revenue .....	4
3. Contract Balances .....	5
4. Performance Obligations.....	6
5. Transaction Price Allocated to Remaining Performance Obligations .....	6
6. Determining the Timing of Satisfaction of Performance Obligations .....	7
7. Determining the Transaction Price and the Amounts Allocated to Performance Obligations.....	8
Summary of Disclosure Examples .....	9
Example: Large Research University .....	10
Example: Baccalaureate College.....	14
Example: Religiously Affiliated Baccalaureate College .....	16
Example: Transition Disclosures.....	17
Appendix: Optional Disclosures .....	19

## Introduction

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014–09, *Revenue from Contracts with Customers (Topic 606)*, which applies to all transactions involving a reciprocal transfer of good or services to a customer. Using tuition contracts as an example, NACUBO Advisory 19-01 (released in February 2019) addressed general requirements and practical operation application of Topic 606. NACUBO Advisory 19-02 (released in July 2019) interprets contract combination considerations around education and residential service contracts with students.

This advisory provides examples of the disclosures required by Topic 606.

## Summary of the Disclosures

### Ongoing Disclosures

The objective of the ongoing disclosure requirements in Topic 606 is to provide financial statement users with qualitative and quantitative information that is sufficient for them to understand the nature, amount, timing, and uncertainty of revenue, certain costs, and cash flows arising from contracts with customers. The extensiveness of Topic 606 disclosure requirements depends on the nature, complexity, materiality, and timing of expected revenue from contracts with customers.

The disclosures under Topic 606 are grouped into seven major categories:

1. General disclosures
2. Disaggregation of revenue
3. Contract balances
4. Performance obligations
5. Transaction price allocated to remaining performance obligations
6. Determining the timing of satisfaction of performance obligations
7. Determining the transaction price and the amounts allocated to performance obligations

Although the disclosures appear highly detailed and may seem onerous, much of this information is already included in the summaries of significant accounting policies. NACUBO anticipates that the new disclosure requirements will have a very limited impact for higher education institutions.

The following sections contain the requirements for each disclosure applicable to higher education institutions<sup>1</sup>, including suggestions for meeting the requirements for both public and non-public entities, (i.e., institutions that are not conduit bond obligors or that do not have other publicly traded debt).

Examples for three different types of institutions are included, referencing the various requirements. In all cases, the disclosure requirements should be considered through a lens of materiality. In other words, disclosures are not required for immaterial items.

Examples of **optional disclosures** are included in the **Appendix**.

---

<sup>1</sup> For further detail regarding disclosures required under Topic 606, refer to FASB ASC 606-10-50.

Topic 606: Disclosures

### Transition Options and Related Disclosures

ASC 606-10-65 contains two options for adopting the changes required by Topic 606:

1. Retrospectively, to each reporting period presented.
2. Modified retrospectively by applying the cumulative effect of the changes at the date of initial application. The date of initial application is the start of the reporting period in which the entity first applies the changes. For independent colleges considered public entities, it will be for the fiscal year that began in 2018. Independent institutions that are non-public would apply the cumulative effect for the fiscal year that begins in 2019.

NACUBO anticipates that most independent institutions will choose the full retrospective option because revenue recognition practices prior to Topic 606 are likely the same as those under Topic 606, resulting in no material changes to revenue in the reporting periods presented.

#### ***Full retrospective option***

When choosing the full retrospective option, the required disclosures for the period of adoption are:

- A description of the nature of and reason for the change in accounting principle.
- The method of applying the change, including all of the following:
  - A description of the prior-period information that has been retrospectively adjusted, if any.
  - The effect of the change in net assets for any prior periods retrospectively adjusted.
  - The cumulative effect of the change on net assets in the statement of financial position as of the beginning of the earliest period presented.

#### ***Modified retrospective option***

When choosing the modified retrospective option, the cumulative effect of applying the changes is shown as an adjustment to the opening balance of net assets for the annual reporting period in which the changes were applied. For independent institutions considered public entities, it will be opening net assets as of June 1, 2018 (May 31 fiscal year end), July 1, 2018 (June 30 fiscal year end), September 1, 2018 (August 31 fiscal year end), and so on.

Institutions can choose to apply the Topic 606 guidance to all contracts at the date of initial application or only to contracts not completed by the date of initial application, and the choice must be disclosed.

The required disclosures for the period of adoption are:

- A description of the nature of and reason for the change in accounting principle.
- The amount by which each financial statement line item is affected in the current reporting period by the change in accounting principle, compared with the amount that would have been reported before the change.
- Explanations of the reasons for the significant changes.

This Advisory contains an example of a disclosure for each method—full retrospective and modified retrospective.

## 1. General Disclosures

### Requirements: Public and Non-public Entities

The following amounts are required to be disclosed for each reporting period presented, unless presented separately in the statement of activities in accordance with other topics:

- Revenue recognized from contracts with customers, disclosed separately from other sources of revenue.
- Credit losses, if any, recorded on any receivables or contract assets arising from contracts with customers, disclosed separately from credit losses from other contracts.

### Meeting the Requirements

The revenue categories on most statements of activities are generally in sufficient detail to meet these requirements, without requiring additional detail in the notes.

In the first note describing the organization, an **institution can choose** to explain its business model, student populations served, programs offered, research and public service initiatives, and any other activities it conducts to deliver its mission (see Appendix).

Information about credit losses (bad debt expense), can be included in a note on receivables.

## 2. Disaggregation of Revenue

### Requirements: Public Entities

A quantitative disaggregation of revenue recognized from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

### Requirements: Non-public Entities

If a non-public entity chooses to omit the disaggregation disclosures, the entity does have to disclose the following:

- Revenue disaggregated according to the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred to customers over time).
- Any qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows.

### Meeting the Requirements

Under Topic 606, disaggregation is recommended when revenue categories combine dissimilar revenue sources, services, or products. Per 606-10-50-2: An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements.

**An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.** [emphasis added]

Topic 606: Disclosures

Discussions with FASB staff about the requirement to disaggregate revenues have reinforced NACUBO’s interpretation: The typical revenue categories in the statement of activities for independent institutions are sufficient and within the spirit of the standard.

Concerning economic factors, uncertainty from economic factors is already a required disclosure under FASB Accounting Standards Codification (ASC) 275-10-50-16, which requires disclosures of concentration risk when the entity is **vulnerable to a “near-term severe impact” caused by the high concentration** [emphasis added].

### Optional Considerations

Given the variety of independent institutions, there may be disaggregation opportunities that are useful for telling the institution’s story. Included in the Appendix are examples of optional expanded disclosures of disaggregated categories for academic, auxiliary, and sponsored revenues. Institutions that choose to expand their required disclosures and disaggregate revenue categories should discuss auditor expectations (such as additional documentation, testing, and work effort).

## 3. Contract Balances

### Requirements: Public Entities

- The opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed.
- Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period.
- Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.
- An explanation of how the institution’s contracts and typical payment terms will affect its contract asset and contract liability balances.
- Qualitative and quantitative information and an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.

### Requirements: Non-public Entities

- The opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed.

### Meeting the Requirements

When not detailed on the statement of financial position (SOFP), notes to financial statements include receivables by type—student, sponsored, loans, other—and the beginning and ending balance of each is displayed when comparative statements are shown. Given the nature of how independent institutions deliver and bill for services, it is anticipated that very few will have contract assets.<sup>2</sup>

Contract liabilities are another term for deferred revenue, which may be included within another liability category on the SOFP.

---

<sup>2</sup> Refer to NACUBO Advisory 19-01 *FASB ASC Topic 606 Revenue from Contracts with Customers: Tuition Revenue*, for a discussion of contract assets.

For independent institutions that are considered public entities, the disclosure must include the beginning and ending balances of deferred revenue, revenue that was recognized in the current period that was included in deferred revenue at the start of the period, and an explanation of any significant changes in the balance during the reporting period. The information can be described in text but is likely to be easier to present in a rollforward schedule.

For independent institutions that are considered non-public entities, if the information is not on the face of the statements, either a qualitative description of the composition of the deferred revenue balance or a quantitative schedule with the opening and ending balance of deferred revenue, by material sources of revenue (student tuition and fees, residential services, sponsored agreements, other), should be included in the notes.

## 4. Performance obligations

### Requirements: Public and Non-public Entities

Information about the entity's performance obligations in contracts with customers, including a description of all of the following:

- When the entity typically satisfies its performance obligations (e.g., upon shipment, upon delivery, as services are rendered, or upon completion of service).
- The significant payment terms (e.g., when payment typically is due, whether the contract has a significant financing component, whether the consideration amount is variable, and whether it is probable that a significant reversal of cumulative revenue recognized will occur due to an uncertainty related to the variable consideration).
- The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (that is, if the entity is acting as an agent).
- Obligations for returns, refunds, and other similar obligations.

### Meeting the Requirements

Descriptions and recognition methods for the major sources of revenue are already included in the summary of significant accounting policies. There may be some situations in which the descriptions may need to be enhanced, such as the performance obligations for different academic portfolios (campus-based versus online), or when the performance obligation spans a reporting period, such as summer terms or fall terms for institutions with fiscal years that end September 30.

## 5. Transaction price allocated to remaining performance obligations

### Requirements: Public Entities Only

For performance obligations that are part of a contract that has an original expected duration of more than one year, the following disclosures are required.

- The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.

## NACUBO Advisory 19-03

### Topic 606: Disclosures

- An explanation of when the entity expects to recognize as revenue the amount disclosed, which the entity shall disclose in either of the following ways:
  - a. On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations.
  - b. By using qualitative information.

Note: If the expected duration of the contract is one year or less, an entity may choose not to include these disclosures.

#### Meeting the Requirements

Generally, major revenue sources for most independent institutions will be from contracts that have a duration of less than one year and will be exempt from this disclosure.

Note: Per NACUBO Advisory 19-02, colleges and universities would typically not have transaction price allocations among performance obligations within a single contract (or would not combine contracts to allocate transaction price between performance obligations). In this context, the word allocation relates to performance obligations within a contract and not allocations between fiscal years for unsatisfied performance obligations. When a performance obligation spans a fiscal year end, the disclosure requirements in the following section are applicable.

## 6. Determining the timing of satisfaction of performance obligations

### Requirements: Public Entities

For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

- The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied).
- An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

For performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a customer obtains control of promised goods or services.

### Requirements: Non-public Entities

For performance obligations that an entity satisfies over time, an entity shall disclose the following:

- The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied).

#### Meeting the Requirements

The major revenue sources of most independent institutions are from contracts with customers that are satisfied over time, rather than at a point in time. Methods used will likely be output methods (i.e. ratably as the student/customer consumes the service over the academic term, or as services are delivered under research contracts). Descriptions can be included for each revenue source in the

Topic 606: Disclosures

summary of significant accounting policies. Additionally, qualitative information about deferred revenue (contract liability) balance(s) will cover timing information related to satisfying performance obligations when consideration has been received from students for service terms that span fiscal years.

For institutions that sponsor multi-year payment plans, a description of the plan and the timing methodology for revenue recognition would have to be disclosed.

## 7. Determining the transaction price and the amounts allocated to performance obligations

### Requirements: Public Entities

Information about the methods, inputs, and assumptions used for all of the following:

- Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money, and measuring noncash consideration.
- Assessing whether an estimate of variable consideration is constrained.
- Allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable).
- Measuring obligations for returns, refunds, and other similar obligations.

### Requirements: Non-public Entities

- The methods, inputs, and assumptions used to assess whether an estimate of variable consideration is constrained.

### Meeting the Requirements

For most independent institutions, the only complexities around transaction price will be associated with revenue from academic programs (tuition and fees) and the associated financial aid. A general summary of financial aid policies will likely satisfy this requirement. If withdrawals and refunds are material, an average historical refund percentage can be disclosed, with an explanation as to how refunds are recognized. (Note: Per NACUBO Advisory 19-02, colleges and universities typically do not have transaction price allocation requirements among performance obligations in a contract (step 4 when evaluating contract revenue recognition).

**[The remainder of this page intentionally left blank]**

## Summary of Disclosure Examples

Three sets of disclosures are provided for fictitious institutions, all of which are considered public entities, with the following characteristics:

	<b>Large Research University</b>	<b>Secular Baccalaureate College</b>	<b>Religiously-Affiliated Baccalaureate College</b>
Fiscal year end	May 31	June 30	August 31
Major revenues from contracts with customers	Tuition and fees Sponsored awards Auxiliary services	Tuition and fees Auxiliary services	Student revenue
Other details		Offers a multi-year tuition pre-payment plan	Campus residency is required to attain a degree

**[The remainder of this page intentionally left blank]**

## Example: Large Research University

### A. Organization

[name] University is a private not-for-profit institution of higher education based in [city, state]. The University provides education and training services, primarily for students at the undergraduate, graduate, and postdoctoral levels, and performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, including federal, state, and local sponsors. Students attending the university represent nearly all U.S. states and territories, and more than 20 countries. The University is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. [\[general disclosure\]](#)

### B. Summary of Significant Accounting Policies

#### ***Tuition and Fee Revenue (alternatively “Revenue from Academic Programs”)***

The University recognizes revenue from student tuition and fees within the fiscal year in which educational services are provided. Institutional aid, in the form of scholarships and grants-in-aid, includes amounts funded by the endowment, research funds, and gifts, and reduces the published price of tuition for students receiving such aid. As such, institutional aid is referred to as a tuition discount and represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. Financial aid provided to students was \$240,000,000 in 201Y and \$220,000,000 in 201X. Cash payments to students in excess of published prices, excluding compensation, are reported as the Scholarships and fellowships expense in the consolidated statements of activities. [\[determining the transaction price, the timing of satisfaction of performance obligations\]](#)

Three summer terms are offered: Summer A from mid-May to the end of June; Summer B from early July to mid-August; and Summer C from mid-May to mid-August. Payments of tuition and housing for all of the summer terms are recognized as performance obligations are met. Because the academic terms for Summer A and Summer C span two reporting periods, a portion of the payments for Summer A (2/3) and Summer C (5/6) are included in deferred revenue at May 31, 201Y and 201X. Deferred revenues for the summer terms are shown in Note X. [\[the timing of satisfaction of performance obligations\]](#)

#### ***Sponsored Awards***

The University receives sponsored program funding from various governmental and corporate sources. The funding may represent a reciprocal transaction in exchange for an equivalent benefit in return, or it may be a nonreciprocal transaction in which the resources provided are for the benefit of the university, the funding organization’s mission, or the public at large.

Revenues from exchange transactions are recognized as performance obligations are satisfied, which in some cases are as related costs are incurred. [\[the timing of satisfaction of performance obligations\]](#)

[Note: The following two paragraphs relate to disclosures under Topic 958 for conditional contributions, not Topic 606 disclosures. However, because we anticipate that many independent

Topic 606: Disclosures

institutions will continue to show revenue from sponsored activities (both exchange and non-exchange) on one line of the statement of activities, we are providing the following two paragraphs related to the non-exchange portion of the revenue.]

Revenues from non-exchange transactions (contributions) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied. In addition, the University has elected the simultaneous release option for conditional contributions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted contributions for which the purpose restrictions are met in the same reporting period as the revenue is recognized.

In 201Y and 2018X, sponsored programs revenue earned from governmental sources totaled \$223,950,000 and \$217,800,000, respectively. Indirect costs recovered on federally sponsored programs are generally based on predetermined reimbursement rates, which are stated as a percentage and distributed based on the modified total direct costs incurred. The University negotiates its federal indirect rate with its cognizant federal agency. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective sponsors. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the University.

***Auxiliary Services Revenue***

Auxiliary services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity.

Auxiliary services revenue includes revenues from contracts with customers to provide student housing and dining facilities, ticket sales for athletic and community events, parking services, and other miscellaneous activities. Contributions for preferred vendor agreements and grants from the NCAA are also included in auxiliary services revenue.

Approximately 70 percent of undergraduate students and 20 percent of graduate students live in university-sponsored housing. A small number of institutional aid packages are awarded to defray the costs of these services and reduce the amount of revenue recognized. Payments for these services are due approximately one week prior to the start of the academic term. Dining plans are not offered during the summer terms. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, revenue from housing and dining services is recognized ratably as services are rendered. [determining the transaction price, the timing of satisfaction of performance obligations]

For ticket sales, revenue is recognized after the event occurs. Parking service revenue is recorded ratably over the period for which the parking permits have been sold. [the timing of satisfaction of performance obligations]

NACUBO Advisory 19-03

Topic 606: Disclosures

**D. Receivables**

Student, sponsor, and other receivables, net, as of May 31, 201Y and 201X, consisted of the following (in thousands):

	<b>201Y</b>	<b>201X</b>
Student	\$ 6,300	\$ 7,000
Sponsored contracts and grants	8,900	8,900
Student loans	5,600	6,300
Other	<u>2,300</u>	<u>2,400</u>
	<u>23,100</u>	<u>24,600</u>
Less allowances for doubtful:		
Student accounts	(2,000)	(2,100)
Sponsor accounts	(600)	(600)
Student loan accounts	(1,100)	(1,150)
Other accounts	<u>(500)</u>	<u>(700)</u>
	<u>(4,200)</u>	<u>(4,550)</u>
Student, sponsor and other receivables, net	<u>\$ 18,900</u>	<u>\$ 20,050</u>

Allowances for doubtful accounts are established based on prior collection experiences and current economic factors, which, in management’s judgment, could influence the ability of students and customers to repay the amounts. Increases to the allowances for doubtful accounts recorded as reductions of tuition and fee revenue and sponsored revenues were \$150 and \$75, respectively. [\[general disclosure\]](#)

NACUBO Advisory 19-03

Topic 606: Disclosures

**X. Deferred Revenue**

The activity and balances for deposits and deferred revenue from contracts with customers are shown in the following table (in thousands). [\[contract balances, performance obligations, the timing of satisfying performance obligations\]](#)

	<b>Summer Terms (Tuition and Housing)</b>	<b>Sponsored contracts (exchange)</b>	<b>Conditional contributions and grants</b>	<b>Other deferred revenues</b>	<b>Total</b>
Balance at May 31, 201W	\$ 15,500	\$ 7,500	\$ 11,000	\$ 2,600	\$ 36,600
Revenue recognized	(15,500)	(7,500)	(11,000)	(2,600)	(36,600)
Payments received for future performance obligations	<u>16,000</u>	<u>7,000</u>	<u>13,900</u>	<u>2,700</u>	<u>39,600</u>
Balance at May 31, 201X	16,000	7,000	13,900	2,700	39,600
Revenue recognized	(16,000)	(7,000)	(13,900)	(2,700)	(39,600)
Payments received for future performance obligations	<u>17,500</u>	<u>8,100</u>	<u>12,000</u>	<u>2,800</u>	<u>40,400</u>
Balance at May 31, 201Y	<u>\$ 17,500</u>	<u>\$ 8,100</u>	<u>\$ 12,000</u>	<u>\$ 2,800</u>	<u>\$ 40,400</u>

## Example: Baccalaureate College

### A. Organization

The college is a tax-exempt organization that provides academic instruction toward baccalaureate degrees. The college serves approximately 4,000 students, of which approximately 75 percent are state residents and 25 percent are from other states. Programs are offered in four major areas: liberal arts, business, education, and performance arts; and courses are offered in both traditional campus residential settings and remotely. [\[general disclosure\]](#)

### B. Summary of Significant Accounting Policies

#### ***Tuition and Fee Revenue (alternatively “Revenue from Academic Programs”)***

For both the campus and online programs, tuition revenue is recognized in the reporting period in which the academic programs are delivered. Campus-based programs are delivered in the Fall (mid-August to mid-December) and Spring (mid-January to mid-May) academic terms, as well as two summer terms described below. Online courses are delivered in eight-week intervals, with instruction periods beginning in July, September, November, January, March, and May.

Need-based institutional scholarships are awarded to students to defray the costs of the academic programs, which reduce the amount of revenue recognized. Scholarships awarded to students were \$42,000,000 in 201Y and \$39,500,000 in 201X. Payments for tuition are due approximately one week prior to the start of the campus or online session. [\[determining the transaction price, the timing of satisfaction of performance obligations\]](#)

The college offers two summer terms: Summer A that starts mid-May and ends June 30, and Summer B that also begins in mid-May and ends in mid-August. Revenue for each is recognized ratably over the summer terms, with 100 percent and 50 percent of the revenue for Summer A and B, respectively, recognized in the current year’s financial statements, and 50 percent of the tuition and fees for Summer B recorded as deferred revenue at June 30. [\[the timing of satisfaction of performance obligations\]](#)

The college offers a multi-year prepayment plan for students enrolled in the residential campus programs. Students are offered the opportunity to lock in the tuition and fee amount from their first year by prepaying two, three, or four years prior to beginning their first academic term. Payment received for future academic terms are recorded as deferred revenue and recognized ratably over the term to which the payment applies. Fees for residential services are not eligible for prepayment. [\[contract balances, the timing of satisfaction of performance obligations\]](#)

First-year students secure their enrollment and housing in the campus-based programs by paying nonrefundable deposits by May 1 for the following Fall academic term. In limited circumstances, students can defer enrollment and housing by one year without forfeiting their deposit. The deposits are applied against the charges for the academic and residential programs. Enrollment and housing deposits for the past two years were \$500 and \$300, respectively.

Deferred revenue amounts for the multi-year prepayment plans, student deposits, and summer terms are shown in Note X.

**Auxiliary Services Revenue**

Auxiliary services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public. Fees charged for auxiliary services are priced to offset the cost of the goods or services provided. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity. Revenues and expenses from auxiliary enterprises are reported as changes in net assets without donor restrictions.

Auxiliary services revenue includes activities for student housing and dining facilities, the campus bookstore, and parking services. A small number of institutional scholarships specifically for defraying the costs of residential services are awarded, which reduce the amount of revenue recognized. Payments for housing and dining services are due approximately one week prior to the start of the academic term. Housing and dining plans are not offered during the summer terms. Performance obligations for housing and dining services are delivered over the academic terms. Consequently, associated revenues are earned and recognized over the course of each term as the services are delivered. [determining the transaction price, the timing of satisfaction of performance obligations]

**X. Deposits and Deferred Revenue**

The activity and balances for deposits and deferred revenue from contracts with customers are shown in the following table. [contract balances, the timing of satisfaction of performance obligations]

	<b>Multi-year prepayment plan</b>	<b>Enrollment and housing deposits</b>	<b>Summer Term B</b>	<b>Total</b>
Balance at June 30, 201W	\$ 1,428,000	\$ 632,500	\$ 390,000	\$ 2,450,500
Revenue recognized, deposits applied/forfeited	(450,000)	(624,500)	(390,000)	(1,464,500)
Payments received for future performance obligations	<u>196,000</u>	<u>633,000</u>	<u>401,000</u>	<u>1,230,000</u>
Balance at June 30, 201X	1,174,000	641,000	401,000	2,216,000
Revenue recognized	(425,000)	(638,600)	(401,000)	(1,464,600)
Payments received for future performance obligations	<u>175,000</u>	<u>641,000</u>	<u>391,950</u>	<u>1,207,950</u>
Balance at June 30, 201Y	<u>\$ 924,000</u>	<u>\$ 643,400</u>	<u>\$ 391,950</u>	<u>\$ 1,959,350</u>

## Example: Religiously Affiliated Baccalaureate College

### A. Organization

The college is a tax-exempt organization, operated under the auspices of the [faith] church, providing academic instruction toward baccalaureate degrees. The college serves approximately 3,000 students, primarily from the counties surrounding [geographic area]. Programs are offered in business, the humanities, ministry, nursing, and pre-law. All programs are offered in a residential campus setting, and residency is required to attain a degree. [general disclosure]

### B. Summary of Significant Accounting Policies

#### ***Student Revenue (alternatively “Revenue from Academic Programs”)***

The college recognizes student revenue within the fiscal year in which educational services are provided. Discounts in the form of scholarships and financial aid grants, including those funded by the endowment and gifts, are reported as a reduction of student revenues. A discount represents the difference between the stated charge for the academic (living/learning) program and the amount that is billed to the student and/or third parties making payments on behalf of the student. Scholarships awarded to students were \$32,000,000 in 201Y and \$31,600,000 in 201X. [determining the transaction price, the timing of satisfaction of performance obligations]

The academic programs are delivered in the Fall (mid-August to mid-December) and Spring (mid-January to mid-May) terms, as well as one summer term for eight weeks from June to July. Payments for the fall term are due by July 31 and recorded as deferred revenue until the performance obligations are met.

### X. Deferred Revenue

Deferred revenue of \$73,700,000 and 73,485,000 as of August 31, 201Y and 201X, respectively, represents performance obligations associated with payments received for each academic year’s Fall term that began in mid-August and ends in mid-December. The deferred revenue is recognized ratably as revenue over the Fall term. [contract balances, the timing of satisfaction of performance obligations]

## Example: Transition Disclosures

### Full retrospective, no material impact

#### **Accounting Pronouncements Adopted**

As of July 1, 2018, the university adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

The university implemented ASU 2014-09 and its related amendments and have accordingly adjusted the presentation of tuition and auxiliary services revenue in the financial statements. Following the adoption of the ASU, we continue to recognize revenue from students as services are provided, which corresponds to the year in which the related academic services are rendered. There was no material impact to the financial statements as a result of adoption. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

### Modified retrospective, impact on revenue and deferred revenue

#### **Accounting Pronouncements Adopted**

As of July 1, 2018, the university adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Results for reporting the 2018-19 fiscal year are presented under ASC 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those reporting periods.

The university recorded an adjustment to reduce opening net assets without donor restrictions by \$18 million due to the impact of adopting ASC 606, related to the tuition and housing revenue for the 2018 summer term performance obligations that spanned two reporting periods, and for certain sponsored research contracts, for which the performance obligations were met in the current year.

The impact of adoption on the university's statement of financial position as of May 31, 2018 and the statement of activities for the year ended May 31, 2019 was as follows (in thousands):

	<b>As of May 31, 2018</b>		
<b>Statement of Financial Position</b>	Balances without Adoption of ASC 606	Change due to ASC 606	Balances following the adoption of ASC 606
Deferred revenue	21,600	18,000	39,600
Net assets without donor restrictions	950,000	(18,000)	932,000

NACUBO Advisory 19-03

Topic 606: Disclosures

**For the year ended May 31, 2019**

---

<b>Statement of Activities</b>	Balances without Adoption of ASC 606	Change due to ASC 606	Balances following the adoption of ASC 606 (as reported)
Net tuition and fee revenue	425,000	10,000	435,000
Sponsored grants and contracts	26,250	2,000	28,250
Auxiliary enterprise revenue	140,000	6,000	146,000

## Appendix: Optional Disclosures

This appendix is included solely to assist institutions that choose to provide more detailed information.

### Disaggregation of Revenue

If revenues on the statement of activities will be disaggregated further in the notes, details can appear in one note addressing all revenues, or in the summary of significant accounting policies with headings for each major revenue source. NACUBO recommends that the information be included in the accounting policy descriptions for each major revenue category, as shown in the examples below.

#### **Academic Revenue (Tuition and Fees)**

Optional informative disaggregation for tuition and fees may include the following:

Disaggregation categories	Why the detail may be useful
Undergraduate and Graduate	<ul style="list-style-type: none"> <li>The demand for graduate programs often ebbs and flows opposite the state of the economy. When the economy is doing well, some institutions may experience a decrease in the demand for graduate programs.</li> </ul>
In-state and out-of-state	<ul style="list-style-type: none"> <li>Independent institutions with high percentages of in-state students may be vulnerable to state programs improving accessibility to the state's public institutions.</li> <li>Some private institutions receive state support for in-state residents, and such support may be declining or increasing.</li> <li>Local demographic trends have an impact on future enrollments.</li> </ul>
Academic programs delivered on campus and remotely	<ul style="list-style-type: none"> <li>Institutions that have successfully increased demand beyond traditional geographic boundaries may be better able to weather local economic downturns.</li> </ul>

In the following example, a small liberal arts college wants the readers of its financial statements to know that it has diversified the sources of its tuition revenue by offering online courses to students who are outside the geographic area that it has previously served. Therefore, in addition to the qualitative information about its tuition and fee revenues, they have also included the following table that shows sources of tuition and fee revenue by state residency and delivery method (campus-based or remote).

Tuition and fee revenues by state residency and delivery method for the fiscal years ending 201Y and 201X are shown in the following table:

<b>201Y</b>			
	<u>Campus-based</u>	<u>Remote</u>	<u>Total</u>
In-state resident	\$ 70,000,000	\$ 3,870,000	\$ 73,870,000
Out-of-state resident	<u>10,000,000</u>	<u>10,890,000</u>	<u>20,890,000</u>
Total	<u>\$ 80,000,000</u>	<u>\$ 14,760,000</u>	<u>\$ 94,760,000</u>

NACUBO Advisory 19-03

Topic 606: Disclosures

**201X**

	<u>Campus-based</u>	<u>Remote</u>	<u>Total</u>
In-state resident	\$ 68,600,000	\$ 3,500,000	\$ 72,100,000
Out-of-state resident	<u>9,800,000</u>	<u>10,500,000</u>	<u>20,300,000</u>
Total	<u>\$ 78,400,000</u>	<u>\$ 14,000,000</u>	<u>\$ 92,400,000</u>

***Auxiliary Enterprises or Auxiliary Services Revenue***

The revenue category of “auxiliary enterprises” (or auxiliary services) often includes revenues from a variety of performance obligations. Institutions can elect to better inform financial statement readers by describing and disaggregating revenue sources and differentiating between contract and non-exchange revenue, as displayed in the following example.

In the following example, a large research university generates significant revenues from its auxiliary enterprises and the sources are very diverse, including the conventional revenues from contracts with customers (housing dining, ticket sales, etc.) and other support, not associated with contracts with customers (grants and donations for athletics programs, and preferred vendor agreements). Therefore, in addition to the qualitative disclosures describing the sources of revenue and performance obligations, they include the following table in the notes to the financial statements detailing the revenues from contracts with customers and the additional auxiliary services revenue from other sources.

---

Auxiliary services revenue is comprised of the following (in thousands):

	<b>201Y</b>	<b>201X</b>
Revenue from contracts with customers:		
Housing services	\$ 38,000	\$ 37,500
Dining services	22,000	20,800
Ticket sales	22,000	21,300
Parking services and other	13,000	12,810
Sub-total revenue from contracts with customers	95,000	92,410
Other auxiliary services support	<u>18,000</u>	<u>20,000</u>
Total auxiliary services revenue	<u>113,000</u>	<u>112,410</u>

***Sponsored Activities***

Similarly, the funding sources for sponsored activities could also be detailed in either the statement of activities or the notes. Governmental funding sources can be jeopardized by budget issues, shutdowns, and changes in administrations. Being able to show that funding also comes from private sources demonstrates a strong research program and the ability to attract diverse sponsors. Also, since the line item on the statement of activities will likely include both exchange transactions (accounted for under Topic 606) and non-exchange transactions (accounted for under Topic 958), it may be useful to show the revenue amounts by category, as noted in the table below.

NACUBO Advisory 19-03

Topic 606: Disclosures

[Note: the following example includes disclosures required under Topic 958 for conditional contributions, in addition to those that are optional under Topic 606. Because we anticipate that many independent institutions will continue to show revenue from sponsored activities (both exchange and non-exchange) on one line of the statement of activities, we are providing the following example, which addresses both types of revenue.]

In the following example, a large research university wants the readers of its financial statements to know that their research program is valued by both government and non-government sponsors, and that they generate significant revenues by providing services to corporations and other non-government customers. Therefore, in addition to the qualitative disclosures describing the sources of revenue and performance obligations, they include the following table in the notes to the financial statements, detailing the revenues between exchange and non-exchange transactions, and by type of sponsor.

Sponsored revenue from exchange and non-exchange transactions by funding source, for 201Y and 201X were (in thousands):

	<b>201Y</b>		
	<b>Exchange</b>	<b>Non-Exchange</b>	<b>Total</b>
Federal and federal flow-through	\$ 7,500	\$ 175,000	\$ 182,500
State and local	1,450	40,000	41,450
Private	<u>29,450</u>	<u>28,000</u>	<u>57,450</u>
Total	<u>\$ 38,400</u>	<u>\$ 243,000</u>	<u>\$ 281,400</u>

	<b>201X</b>		
	<b>Exchange</b>	<b>Non-Exchange</b>	<b>Total</b>
Federal and federal flow-through	\$ 7,000	\$ 170,000	\$ 177,000
State and local		39,000	40,800
Private	<u>1,800</u> <u>29,750</u>	<u>25,000</u>	<u>54,750</u>
Total	<u>\$ 38,550</u>	<u>\$ 234,000</u>	<u>\$ 272,550</u>