

Changes in Accounting Practices Drive the Need for Timely Dues Payments

In the past few years, there have been some significant changes in how not-for-profits, like the AMA Alliance, are required to account for membership dues. These changes mean that it is more important than ever for affiliated state and county alliances who collect dues on behalf of the AMA Alliance to send those dues on to the AMA Alliance as quickly as possible.

A member of the AMA Alliance has an anniversary date, which is the date on which a person's membership renews. The group's management software allows it to notify members of an upcoming renewal date. Some members pay the AMA Alliance directly using our online method, some members send a check. Other members rely on their county or state alliance to collect their national dues and to send the dues on to the AMA Alliance in a timely manner.

The AMA Alliance has a process that helps to account for when and how dues are paid. Sometimes dues are received prior to a renewal date, sometime dues are received after a renewal date. Sometimes dues are received well past a renewal date, even past a three month grace period, and the membership lapses.

All of these events must be accounted for in the bookkeeping of the AMA Alliance according to the new accounting standards. The cooperation of affiliated state and county alliances is vital to help maintain good records and continued connections and communications with members.

Basically, the new accounting standards say that membership dues are a revenue stream for an organization. The revenue (dues) must be recognized as income when an organization provides goods and/or services to its members. Not-for-profits can not do this in one year increments, but must look periodically at this relationship (in our case, monthly) to account for the transaction between dues and benefits.

A driving force behind these new standards is the recognition that many not-for-profits in our country receive grants from government agencies. These agencies needed a way to compare not-for-profits to determine who were good candidates for these government grants. The comparison had to look across organizations, industries, jurisdictions, and capital markets, including not-for-profits. The agencies wanted to look at how revenue for these entities matched up with the

provision of goods and services. And since not-for-profits derive revenue from various sources, including membership dues, a new standard needed to be developed that allowed for the comparison.

This means that an organization like the AMA Alliance which derives revenue from membership dues, from contributions, and from other non-dues sources had to begin to match up the revenue with the provision of goods and/or services (including member benefits) to comply with the new standards. Complying with these standards means that the AMA Alliance must do a better job than ever with maintaining records that show when a person is a member and when they are not. So, when a member's dues for the AMA Alliance are collected by a third party (like a state or county Alliance), the AMA Alliance must wait until the dues are actually received before it can begin the process of accounting for the transaction exchange. Delays in sending on dues complicates the process for everyone involved.

The AMA Alliance is committed to complying with the new accounting standards on behalf of its members and affiliated organizations. It is also committed to providing the information, the education, and the training needed to help affiliated third party collectors understand the best way to help make this work for the benefit of all persons who are part of the process.

The Financial Accounting Standards Board (FASB) issued (1) Accounting Standards Codification Topic 606 "Revenue from Contracts with Customers" (ASC 606) and (2) Accounting Standards Update (ASU) 2018-08 Not-for-Profit Entities (Topic 958) "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made" to start the change in accounting practices. The core principle of these changes as they relate to membership dues is to recognize revenue in a way that reflects the expectation of the delivery of goods and services (member benefits).

These changes have been interpreted to allow guidance from a 5-step model to help with this new method of revenue recognition. Step 1 requires the IDENTIFICATION of the contract with the customer. Step 2 requires the IDENTIFICATION of the performance obligations, ie, the payment of dues and the provision of member benefits. Step 3 requires the DETERMINATION of the transaction price of these parts of a contract. Step 4 requires the ALLOCATION of

the transaction price to the performance obligations. Step 5 requires the RECOGNITION OF REVENUE when the entity satisfies a performance obligation.

Below are some references to help you better understand these accounting changes and why the AMA Alliance wants to inform and educate its membership about why it is important to account for dues in a timely way.

<https://www.eidebailly.com/insights/articles/2019/8/new-revenue-recognition-what-does-my-nonprofit-need-to-know>

<https://beachfleischman.com/nonprofit/2020/07/why-the-new-revenue-recognition-and-nonprofit-standards-are-significant-for-nonprofits/>

<https://www.johnsonlambert.com/wp-content/uploads/2019/10/White-Paper-Revenue-Recognition-for-Not-for-Profit-Organizations-October-2019.pdf>