



Revenue recognition considerations for member-owned private clubs

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Introduction and background

In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board issued substantially converged final standards on revenue recognition. These final standards are the culmination of a joint project between the Boards that spanned many years. The FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, provides a robust framework for addressing revenue recognition issues and, upon its effective date, will replace almost all pre-existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP) (i.e., legacy GAAP). In addition, the Securities and Exchange Commission (SEC) staff updated Staff Accounting Bulletin Topic 13, *Revenue Recognition* (also part of legacy GAAP for SEC registrants), to indicate that SAB Topic 13 is no longer applicable upon a registrant's adoption of the new guidance.

Implementation of the robust framework provided by ASU 2014-09 should result in improved comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. For the following types of entities, implementation must occur no later than their annual reporting periods beginning after December 15, 2017, and the interim periods therein: (a) most public business entities, (b) not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and (c) certain employee benefit plans. For additional information about the effective date of the new guidance, refer to our article, [Are you sure you know when the new revenue guidance is effective?](#)

The FASB has changed the new guidance originally included in ASU 2014-09 several times since its issuance. The new guidance is primarily included in:

- Topic 606, “Revenue from Contracts with Customers,” in the FASB’s Accounting Standards Codification (ASC)
- Subtopic 340-40, “Other Assets and Deferred Costs – Contracts with Customers,” in the FASB’s ASC

For the status of changes to the new guidance, refer to our summary, [Revenue recognition: In motion](#). For a detailed discussion of the new guidance (as amended), refer to our white paper, [Revenue recognition: A whole new world](#).

The new guidance applies to contracts with customers. As such, it only affects the accounting for revenue transactions entered into by member-owned private clubs (including Common Interest Realty Associations [CIRA’s] with significant private club operations) that are otherwise within the scope of the new guidance. While only the revenue transactions of member-owned private clubs will be affected by the new guidance, such organizations should not delay their implementation activities given that the effects of the new guidance could still be significant. For additional information and an overview of some of the considerations involved in applying the five steps in the new revenue recognition model to revenue transactions, including subscriptions and membership fees, refer to our white paper, [Changes to revenue recognition for not-for-profit organizations](#).

This white paper includes discussion of the following topics that a member-owned private club may encounter in its application of the new guidance:

- Scope: Customer or owner?
- Scope: Revenue transaction or ownership transaction?

These topics, as well as how a member-owned private club will address the disclosure requirements, are discussed further in the remainder of this white paper, which also includes examples to illustrate certain concepts.

Scope: Customer or owner?

As mentioned earlier, the new guidance applies to contracts with customers. As such, it only affects the accounting for revenue transactions entered into by member-owned private clubs that are otherwise within the scope of ASC 606.

Customer is defined in ASC 606-10-15-3 as “a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration.” As such, contracts with a counterparty other than a customer do not fall within the scope of ASC 606.

A key question therefore in determining the scope and applicability of ASC 606 to member-owned private clubs centers on whether the arrangements involve transactions with members in their capacity as customers or rather transactions in their capacity as owners of the club (or in the case of not-for-profit entities, rights and obligations synonymous with

owners). This is key as there are likely instances when the member may be acting as a customer (e.g., purchasing a beverage in the clubhouse), as well as instances when a member may be acting as an owner (e.g., contributing capital to obtain a voting interest in the club or to fund capital improvement projects).

Member-owned private clubs typically have more than one form of membership or more than one type of membership category, each offering different rights or benefits to the members in that category. Given this, a question arises as to how the member-owned private club determines whether members are acting in their capacity as customers or owners. The Master Glossary of the ASC offers the following definitions that clubs should consider in evaluating this question in addition to the definition of customer noted previously:

Owners: Used broadly to include holders of ownership interests (equity interests) of investor-owned entities, mutual entities, or not-for-profit entities. Owners include shareholders, partners, proprietors, or members or participants of mutual entities. Owners also include owner and member interests in the net assets of not-for-profit entities.

Equity Interests: Used broadly to mean ownership interests of investor-owned entities; owner, member, or participant interests of mutual entities; and owner or member interests in the net assets of not-for-profit entities.

An ownership interest in a member-owned private club is typically evidenced in a number of ways, including:

- The member receives a certificate or other form of evidence of membership.
- Members may receive a right to vote on club matters, including the election of board members or the decision to build new facilities or even to dissolve the club.
- In some cases, members may receive a liquidation right should the club dissolve.
- The members may be required to contribute personal capital to fund amenity improvements.
- In some cases, the member may be entitled to a refund of their initiation fee upon leaving the club, subject to certain circumstances. As such, the club issues the exiting member a Form 1099-B, evidencing the sale of *stock* to the Internal Revenue Service.

Ownership interests in a private club may be represented by the above factors to varying degrees, and clubs should evaluate to which extent their various membership categories consist of club owners. As part of this evaluation, clubs should carefully review relevant documents, such as their bylaws and membership offerings and related membership documents, to determine what has been communicated to members with regards to the nature of their membership.

Scope: Revenue transaction or ownership transaction?

Member-owned private clubs should consider whether transactions with their members are revenue transactions or ownership transactions.

Revenue is defined in the Master Glossary of the ASC as “Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.”

In the case of most member-owned clubs, the vast majority of transactions with members are expected to meet this definition of revenue. This would include the payment of membership dues, payments for food and beverage products and payments for golf and other sporting activities. Upon evaluation of such revenue transactions, clubs may find that

applying the ASC 606 five-step revenue recognition model will not significantly change how they currently recognize revenue for these types of transactions.

There are, however, significant membership transactions that member-owned private clubs will need to review further to determine whether they are revenue transactions (and subject to ASC 606) or ownership transactions or a combination of an ownership and revenue transaction. These include primarily initiation fees, which are sometimes referred to as entrance or joining fees, and capital assessments. Capital assessments typically are either ongoing assessments for general capital improvements and replacements or specific assessments for the construction or rebuilding of a significant club amenity, such as a clubhouse, golf course or fitness center.

When determining whether these transactions should be accounted for as revenue transactions or ownership transactions, clubs should review the preceding definition of revenue and determine whether the payments made for initiation fees and capital assessments are amounts received from delivering or producing goods, rendering services or other activities that constitute the club's ongoing major or central operations. Thus, it is necessary to determine whether the member receives a good or service or an enhanced right thereto (other than the member's ownership rights) in exchange for the consideration paid.

If a club has determined that initiation fees and capital assessments are being received from members in their capacity as owners rather than customers, such amounts would be considered synonymous with contributions of capital from owners and would not fall within the scope of the new revenue recognition guidance. In the absence of evidence of an ownership interest in the club, such transactions with members would likely be considered revenue transactions and subject to the provisions of ASC 606.

Examples

Example A

Club A receives a \$10,000 initiation fee from a new member. The member receives a voting interest in the club, a liquidation right and a membership certificate. The initiation fee is not used to fund current or future operations of the club and is designated for capital purposes.

Club A might determine that this is a transaction with an owner and the initiation fee is treated as a contribution of capital to the club that is recognized when received and does not fall within the scope of the new revenue recognition guidance.

Example B

Club B receives a \$5,000 initiation fee from a new member. The member does not receive any voting rights in the club. The initiation fee may be used to fund current or future operations of the club.

Club B will need to determine whether the member is paying an upfront fee for the prospective right of use of the facilities and whether the arrangement falls within the scope of the new revenue recognition guidance. If the initiation fee is determined to be a revenue transaction with a customer, Club B might determine that the revenue should be recognized over the expected length of time the person will remain a member of the club.

Example C

Club C receives a \$10,000 initiation fee from a new member. The member receives a vote, a membership certificate, but no liquidation right. The initiation fee may be used to fund current or future operations of the club.

Club C should evaluate and determine whether this arrangement is partly an ownership transaction and partly a revenue transaction with a customer. If the arrangement is determined to be a combination of an ownership and revenue transaction, Club C might recognize a portion of the initiation fee immediately as a contribution of capital from an owner and might recognize a portion as revenue over the expected length of time the person will remain a member of the club.

Example D

Club D institutes a capital assessment to pay for a major golf course renovation. The club has two types of members. Regular members are considered ownership members based on the rights they receive as members, including the right to vote on club matters. Sporting members are not considered ownership members as they do not have the right to vote on club matters.

Regular members pay \$10,000 each for this assessment. Sporting members pay \$5,000 each for this assessment.

Club D should evaluate and determine whether the amounts received from regular members for this assessment are contributions of capital from owners and recognize such amounts when received or whether the arrangement is a combination of an ownership and revenue transaction.

Club D should evaluate and determine whether the amounts received from sporting members are transactions with customers. If the arrangement is determined to be a transaction with a customer, Club D might determine that the revenue should be recognized over the expected length of time the person will remain a member of the club.

Disclosure requirements

The new guidance includes many new qualitative and quantitative disclosure requirements. The objective of the disclosure requirements is to help financial statement users understand the nature, amount, timing and uncertainty of revenue and related cash flows. In general, entities are required to disclose a variety of information about the contracts they have with customers and significant judgments used in the application of the new guidance.

While the most disclosures are required of public entities (which includes certain not-for-profit private clubs), many disclosures are also required of nonpublic entities. The disclosure requirements themselves focus on providing a variety of revenue-related information. Some of the information that must be disclosed is high level, such as the amount of revenue recognized from customer contracts and the amount of any impairment (or credit) losses recognized on receivables or contract assets related to customer contracts. But, there is also a significant amount of detailed information that must be disclosed related to customer contracts, such as disaggregated revenue and the significant judgments involved in estimating the transaction price.

A member-owned private club should review its systems, processes, procedures and controls to determine whether it is capable of providing the information necessary to satisfy the new disclosure requirements and, if not, what changes it must make to enable it to provide the necessary information.

Conclusion

This white paper discusses those aspects of the new guidance that are likely to have the most significant effects on how member-owned private clubs account for revenue transactions. For comprehensive discussion about the new guidance, including its scope, core principle and key steps, implementation guidance, presentation and disclosure requirements and effective date and transition provisions, refer to our white paper, [Revenue recognition: A whole new world](#).

All member-owned private clubs with revenue transactions whose financial statements are prepared in accordance with U.S. GAAP will be affected by the new guidance, including the disclosure requirements which substantially increase the volume of revenue-related information disclosed in the financial statements. The degree to which a particular member-owned private club's revenue will be affected depends on its own facts and circumstances. The new guidance will require member-owned private clubs to evaluate whether any changes are needed to their current revenue and financial reporting processes, systems and procedures. This will undoubtedly require involvement by more than just those involved in the accounting function.

While the FASB provided delayed effective dates for the new guidance, it was with the understanding its implementation would be a significant undertaking for many entities. With over three years having passed since initial issuance of the new guidance, member-owned private clubs should be well on their way to assessing how it will affect their accounting for revenue transactions and disclosures, developing an implementation plan and completing that implementation plan. If you have questions about the new guidance or need implementation assistance, don't hesitate to contact your RSM representative, Phil Newman (+1 239 513 6595) or Ryan McAndrew (+1 239 513 6562).

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