

Changes to recognizing revenue with Implementation of ASU 2014-09: Is your nonprofit prepared?






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Webinar Objectives

<p>Learning Objective <i>To provide attendees with a better understanding of new revenue recognition standard for contracts with customers.</i></p>	<p>Instructional Delivery Methods <i>Group Internet-based</i></p>
<p>Recommended CPE <i>1.0 CPE</i></p>	<p>Recommended Fields of Study <i>Accounting</i></p>
<p>Prerequisites <i>None required</i></p>	<p>Advance Preparation <i>None</i></p>
<p>Program Level <i>Basic</i></p>	<p>Course Registration Requirements <i>None</i></p>
<p>Refund Policy <i>No fee is required to participate in this session.</i></p>	<p>Cancellation Policy <i>In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.</i></p>
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Our Team

Meet your instructors



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Agenda

1 | Background on the New Guidance

2 | Exceptions and Notable Elements

3 | Implementation Options

4 | 5-Step Model

5 | Nonprofit Revenue Recognition Regulations

Where is the New Guidance?

- Primarily within FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*
- Amended by the following ASUs:
 - ASU 2015-14, *Deferral of the effective Dates*
 - ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*
 - ASU No. 2016-10, *Identifying Performance Obligations and Licensing*
 - ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*
 - ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*
 - ASU No. 2017-05, *Other Income-Gains and Losses from the Derecognition of Non-financial Assets (Subtopic 610-20)*

Why?

- Revenue is a key financial measure
- FASB and IASB identified weaknesses under current guidance



A hand is pointing at a financial statement displayed on a screen. The statement shows a balance sheet and income statement for three periods. The balance sheet items include Cash, Accounts Receivable, Inventory, Other Current Assets, Total Current Assets, Fixed Assets - Gross, Acc. Depreciation, Fixed Assets Net, Other Assets, Intangible Asset, Total Assets, Accounts Payable, Other Current Liabilities, Total Liabilities, Total Equity, and Total Liabilities & Equity. The income statement items include Compensation, Retained Earnings, Net Income, Total Equity, and Total Liabilities & Equity.

	2014	2013	2012
Cash	1,084,199	2,855,907	3,268,919
Accounts Receivable	287,767	217,402	334,054
Inventory	45,082	115,193	91,647
Other Current Assets	6,485,107	3,180,497	3,696,500
Total Current Assets	7,922,155	6,368,999	7,391,120
Fixed Assets - Gross	794,872	771,001	792,530
Acc. Depreciation	408,352	310,790	308,870
Fixed Assets Net	386,520	460,211	483,660
Other Assets	344,893	263,125	315,320
Intangible Asset	201,456	44,830	134,303
Total Assets	8,855,024	7,137,165	8,327,063
Accounts Payable	503,881	438,658	500,169
Other Current Liabilities	296,836	403,379	334,970
Total Liabilities	800,717	842,037	835,139
Total Equity	8,054,307	6,295,128	7,491,924
Total Liabilities & Equity	8,855,024	7,137,165	8,327,063
Compensation	8,940,798		
Retained Earnings	541		
Net Income	(6,211,332)	(4,587,771)	(5,741,852)
Total Equity	(6,211,332)	(4,587,771)	(5,741,852)
Total Liabilities & Equity	(6,211,332)	(4,587,771)	(5,741,852)

Effective Dates

Public entities: annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

All others, **including nonprofits**, annual reporting periods beginning after December 15, 2018 and any interim periods in the subsequent annual period.

Early application is permitted, with certain limitations.

Polling Question #1

What impact do you think Revenue 606 will have on your organization?

- a. It will have a major impact on my organization.*
- b. It will impact my organization a little, but not greatly.*
- c. It will not impact my organization in any noticeable way.*
- d. I do not know yet.*

New Requirements

- Principals-based versus rules-based approach
- Two key principles
 - Revenue should be recognized in a way that reflects the transfer of goods or services to customers
 - \$ Amount of revenue = the consideration to which an entity expects to be entitled for those promised goods or services



Within the Scope

- Exchange transactions are subject to the new ASU
 - An exchange transaction is “a reciprocal transfer between two entities that results in one of the entities acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations” .



Examples of Exchange Transactions

- Membership fees
- Sales of products and services
- Naming rights
- Sponsorships
- Special events
- Grants and contracts
- Other



Out of Scope of the ASU

Nonreciprocal Contributions do NOT follow the ASU.

- A contribution is an “unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

- FASB Board will not amend ASC 606

BIFURCATE: transactions as necessary :

- Exchange transactions often includes a contribution component that must be separated.
- Considerable judgement

Contracts with Customers specifically EXCLUDED:

- Lease contracts
- Insurance contract
- Financial instruments
- Other Guarantees



Implementation Options

- FASB ASC 606 requires retrospective adoption using either:
 - Full retrospective for all prior periods
 - Modified retrospective adoption



Transition: Option 1

Apply retrospectively to each prior reporting periods presented and may elect any of the following practical expedient:

- For completed contracts: do not have to restate contracts that begin and end within the same annual reporting period.
- For completed contracts having variable considerations: the entity may use the transaction price at the date the contract was completed versus estimating variable considerations amounts in the comparative reporting periods.
- For all reporting periods presented before the date of initial application: Entity does not have to disclose the amount of the transaction price allocated to remaining performance obligation and an explanation of when the entity expects to recognize that amount in revenue.

Transition: Option 2

Allows an entity to adopt the new guidance retrospectively with the cumulative effect of initially applying in the opening balance of net assets the date of initial application.

- Comparative periods presented would not have to be restated.
- Rules apply to contracts that are incomplete at the date of initial application.
- Provide additional disclosures on how each line item in the current accounting period compared.

Transition: Option 3

**Single Year financial statement versus comparative
in the year of adoption**

Required Disclosures

Section 606-10-50 requires an entity to provide information regarding:

- a. Revenue recognized from contracts with customers, including the disaggregation of revenue into appropriate categories.
- b. Contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities
- c. Performance obligation, including when the entity typically satisfies its performance obligations and the transaction price that is allocated to the remaining performance obligations in a contract.
- d. Significant judgements, and changes in judgements, made in applying the requirements to those contracts.

Additionally, **Section 340-40-50** requires an entity to provide quantitative and qualitative information about assets recognized from the costs to obtain or fulfill a contract with customers.

5 Step Model

5 Step Model	
Step 1.	Identify the contract with the customer.
Step 2.	Identify the performance obligations in the contract.
Step 3.	Determine the transaction price.
Step 4.	Allocate the transaction price to the performance obligations in the contract.
Step 5.	Recognize revenue when (or as) the entity satisfies a performance obligation.

Deeper Dive: Step 1

Identify customer contracts.

A contract is an **agreement** between at least two parties that includes **enforceable** rights and obligations. Certain criteria must be met in this step to permit revenue recognition.

Does not always need to be in writing.

Deeper Dive: Step 2

Identify performance obligation.

A performance obligation is a promise in a contract with a customer to transfer distinct goods or services to that customer.

If multiple goods or services are promised in a contract, they may need to be combined into distinct bundles.

Deeper Dive: Step 3

Determine the transaction price.

The transaction price is the amount an entity expects to be entitled to for fulfilling its obligation to transfer the promised goods or services to a customer.

This amount does NOT include amounts collected on behalf of third parties.

The effects of variable consideration, the time value of money, noncash consideration and consideration payable to the customer need to be considered when determining the transaction price.

Deeper Dive: Step 4

Allocate the transaction price

to the performance obligations based on the amount of consideration an entity expected to be entitled to in exchange for satisfying the performance obligation.

Allocation is normally based on the relative standalone selling price of each performance obligation using observable prices or estimates.

Deeper Dive: Step 5

Recognize revenue when (or as) performance obligations are satisfied.

Performance obligations are satisfied by transferring a promised good or service to a customer.

The good or service is considered transferred when (or as) the customer obtains control. A performance obligation may be satisfied over time or at a point in time.

Polling Question #2

Will you have to bifurcate revenue streams in order to be in compliance with the new regulations?

- a. Yes, we will have to bifurcate revenue streams.*
- b. No, we will not have to bifurcate revenue streams.*
- c. I do not know if we will need to or not.*

Indicators Useful for Determining the Contribution and Exchange Portions of Membership Dues

Indicator	Contribution	Exchange Transaction
Recipient not-for-profit entity's (NFP's) expressed intent concerning purpose of dues payment.	The request describes the dues as being used to provide benefits to the general public or to the NFP's service beneficiaries.	The request describes the dues as providing economic benefits to members or to other entities or individuals designated by or related to the members.
Extent of benefits to members	The benefits to members are negligible.	The substantive benefits to members (for example, publications, admissions, educational programs, and special events) may be available to nonmembers for a fee.
NFP's service efforts	The NFP provides service to members and nonmembers.	The NFP benefits are provided only to members.
Duration of benefits	The duration is not specified.	The benefits are provided for a defined period; additional payment of dues is required to extend benefits.
Expressed agreement concerning refundability of the payment	The payment is not refundable to the resource provider.	The payment is fully or partially refundable if the resource provider withdraws from membership.
Qualifications for membership	Membership is available to the general public.	Membership is available only to individuals who meet certain criteria (for example, requirements to pursue a specific career or to live in a certain area).

Example: Membership Dues

Assumption: Members pay \$ 1,200 for annual membership which includes two journals that are distributed in May and December and free admission to the annual EXPO which is held in March. John Smith became a member on June 1, 2020 and paid the annual membership in full. NFP has a calendar year end and it cost \$200 to produce each journal and they charge \$300 to non members to attend their EXPO. Other various member benefits provided only to members valued at \$240.

Journal Entries with Total \$ for FY 2020

	Current GAAP		New GAAP	
6/1/20	Cash	\$1200	Cash	\$1200
	Deferred rev – dues	\$1200	Contribution income	\$260
			Deferred Revenue – dues	\$240
			Deferred revenue – journals	\$400
			Deferred revenue – EXPO	\$300
Monthly (June-Dec)	Deferred rev – dues	\$100	Deferred revenue – dues	\$20
	Dues revenue	\$100	Dues revenue	\$20
December			Deferred revenue – journal	\$200
			Journal revenue	\$200
12/31/20	Total dues revenue	<u>\$700</u>	Total contribution income	<u>\$260</u>
			Total dues revenue	<u>\$140</u>
			Total journal revenue	<u>\$200</u>

Journal Entries with Total \$ for FY 2021

	Current GAAP		New GAAP	
Monthly (Jan-May)	Deferred rev - dues Dues revenue	\$100 \$100	Deferred revenue-dues Dues revenue	\$ 20 \$20
March			Deferred revenue-EXPO Journal revenue	\$300 \$300
May			Deferred revenue-journal Journal revenue	\$200 \$200
12/31/21	Total dues revenue	<u>\$500</u>	Total dues revenue Total journal revenue Total EXPO revenue	<u>\$100</u> <u>\$200</u> <u>\$300</u>

Polling Question #3

Have you started identifying potential revenue streams that will be impacted?

- a. Yes, we have started.*
- b. No, we have not started.*
- c. I am not sure if we have started or not.*

Develop Implementation Plan for Revenue 606

Sample Plan

1. Read the standard.
2. Assign staff member to become an expert.
3. Compile a list of all revenue streams.
4. Develop and document a position paper on each revenue stream.
5. Discuss conclusions with peer group.

Develop Implementation Plan Revenue 606, continued:

Sample Plan, continued

6. If a change, is it material? If no, document annually and discuss with your auditor. If yes, analyze the impact.
7. Communicate changes.
8. Determine transition plan.
9. Develop a plan for staff training.
10. Update policies and procedures.

FASB Exposure Draft: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made



Grants and Contracts by NFP:

- Issue 1: Characterizing grants and similar contracts with government agencies and others as (i) reciprocal transactions (exchanges) or (ii) nonreciprocal transactions (contributions)
- Issue 2: Distinguishing between conditional and unconditional contributions



Key Provisions

- Differentiator between a contribution and an exchange transaction is whether there has been an “exchange of commensurate value”
- An exchange transaction: reciprocal benefits flow directly between the parties to the arrangement
- A contribution: benefits flow to the general public, rather than to the funder



Unconditional

After a contribution has been deemed unconditional, an entity shall consider whether the contribution is restricted on the basis of the current definition of a donor-imposed restriction, which includes the consideration about how broad or narrow the purpose of the agreement is and whether the resources can be used only after a specified date.

Conditional

- 958-605-25-5 A – A donor-imposed condition must have:
 - a. A barrier
 - b. A right of return to the promisor for assets transferred or a right of release of the promisor from its obligation to transfer assets
- 958-605-25-5B: It must be determinable from the agreement (or another document)

Indicators to Determine a Barrier

- Inclusion of a measurable barrier
- Whether a stipulation is related to the purpose of the agreement
- The extent to which a stipulation limits discretion by the recipient
- The extent to which a stipulation requires as additional action or actions

NFP Revenue Recognition Decision Process



Proposed Transition Approach & Effective Date

Modified Prospective:

Apply to all agreements:

- Existing at the effective dates (only apply to the portion of existing agreements not previously recognized)
- Entered into after the effective date

No restatement of prior amounts recognized

Retrospective application permitted

Effective date:

Same as the Revenue 606 Topic

Develop Implementation of Grants and Contracts

Sample Plan

1. Read the FASB Project Update.
2. Assign staff to become experts.
3. Review all grants and contracts.
4. Document the decision process for each grant and contract.
5. Train the staff for any changes.
6. Update policies and procedures for any changes to revenue recognition.



Questions?

We'd like to hear from you!

Get In Touch



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“Top 10 IT Risks Targeting Your Nonprofit – Is Your Sensitive Data at Risk?”

January 25, 8:30 a.m. to 11:30 a.m. at The Center Club, Baltimore, MD