New Revenue Standard – ASU 2014-09
Revenue from Contracts with Customers (Topic 606)
Considerations for Nonprofits

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Overview: Revenue A Converged Standard for All Industries

The new guidance:

- Removes inconsistencies and weaknesses in existing revenue requirements
- Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets
- Provides more useful information to users of financial statements through improved disclosure requirements

New Revenue Standard: Effective Dates

- **Public Entities*** – beginning after December 15, 2017 Calendar year 2018 (FY 2018-2019)

- **Non-Public Entities** – <u>reporting periods beginning after Dec. 15, 2018,- </u>calendar year 2019 (FY 2019-2020)

- Early adoption is permitted beginning in 2017.

**Public entities include NFPs with publicly-traded conduit (or direct) debt*

Nonprofits Scope

- A **contribution** will continue to be recognized under existing guidance under existing 958-605, contributions upon receipt. Collaborative arrangements and investment income are also not effected. It is unclear as to whether grants are within the scope, FASB has a project to clarify this in an exposure draft

- An **exchange** is in the scope of the new standard. Some examples of revenue sources that are exchange transactions
  - Tuition and fees
  - Membership dues
  - Licenses and royalties
  - Health care revenues
  - Continuing care retirement communities

The term **exchange** is replaced with **"a contract with a customer" .**

- Contracts that have **both components would need to be bifurcated**

Contribution vs. Exchange: "Contracts with Customers"

Contribution	Exchange Transaction is now replaced with "Contracts with customers"
Not-for-profit (NFP) states that it is soliciting a contribution.	NFP asserts that it is seeking resources in exchange for specified benefits.
Resource provider asserts that it is making a contribution to support the NFP's programs.	Resource provider asserts that it is transferring resources in exchange for specified benefits.
Delivery method is at the discretion of the NFP.	Delivery method is specified by the resource provider.
Resource provider determines the amount of the payment.	Payment by the resource provider equals the value of the assets to be provided by the recipient NFP or the assets' costs plus markup.
NFP is not penalized for nonperformance.	NFP is penalized for nonperformance.
Assets are to be delivered to individuals or organizations other than the resource provider.	Assets are to be delivered to the resource provider or to individuals and organizations closely connected to the resource provider.

The 5-Step Model for the New Revenue Standard (ASU 2014-09)

Step 1: Identify a contact with a customer

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Step 2: Identify performance obligations

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Step 3: Determine the transaction price

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Step 4: Allocate the transaction price to the performance obligations

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Step 5: Recognize revenue when/as performance obligation(s) are satisfied

Capitalization of Costs to Obtain Contracts

- NFP should capitalize the **incremental costs** to obtain a contract with a customer (i.e., sales commissions), if the entity expects to recover those costs. However, the ASU has a **practical expedient**, which is a NFP is not required to capitalize the incremental costs to obtain a contract if the amortization **period for the asset would be one year or less. - Policy election**

- Costs that will be incurred regardless of whether the contract is obtained, including costs that are incremental to trying to obtain a contract, such as **bid costs** that are incurred even if the NFP is not awarded the contract, are **expensed** as they are incurred, unless they meet the criteria to be capitalized as fulfillment costs.

New Disclosure Requirements

- **Disaggregated revenue streams**

  At a minimum under the new standard, (1) revenues for products and services and (2) contracts for which revenue is recognized at a point in time and over time

- **Performance Obligations (Including Remaining Performance Obligations)**

  Qualitative information about the types of performance obligations, the nature of goods and services promised, and when the obligations are typically satisfied. Qualitative information about significant payment terms, warranties, and refund obligations. Quantitative and qualitative information about amounts allocated to remaining performance obligations, and when such remaining amounts will be recognized as revenue. Information about significant financing components and variable consideration. Performance obligations for which the entity acts as an agent

- **Significant judgments and estimates**

  How key estimates are determined (e.g., variable consideration)

- **Roll forward of (Contract Assets and Liabilities)**

  Narrative or tabular format

Actions You Can Take Now: Prepare for the Accounting

- Review contracts to understand how **many revenue streams** you have and how many different types of contracts you have
- Start with the **five step process in the new model- review the illustrative guidance as you go.**
- **Work with AAFCPA's** to determine next steps
- **Understand new disclosure requirements** and what data you need to gather
- Plan for **process or system changes** for new things you may need to track
- Decide on **adoption approach** – A full retrospective (recast of prior years)

Actions You Can Take Now: Operational Aspect

- Be proactive- **educate the users** of your financials aware of the expected impact
- **Standardize** agreements or contracts on how you do business if possible. Or create a portfolio of contracts with similar characteristics.
- Revisit contract or customer agreements and consider changing to ensure **clarify what your performance obligations are** (clarify vague language on obligations and timing)
- Consider changing **performance period** on membership services to consider with calendar year/ fiscal year for ease of reporting.
- **Revisit compensation plans** if they depend on financial results.
- Before you enter into a material **new contract** consult with AAFCPA's on what the impact might be.

Exposure Drafts to Watch for Nonprofits

- Exposure: Issue 1
  Revenue Recognition of Grants and Contracts by Not-for-Profit Entities

- Exposure: Issue 2
  Distinguishing Between Conditional and Unconditional Contributions

  http://www.fasb.org/jsp/FASB/Page/BridgePage&cid=1351027207987

Resources: General

- [Original standard – ASU 2014-09, Revenue from contracts with customers—(Transition resource group- meeting minutes and TRG papers that supports transition.)]
- AICPA roadmap
- AICPA 16 industry task forces to provide illustrative examples for how to apply the new standard. Includes health care and not-for-profit.
- **IRS-** issued Notice 2017-17 requesting comments on a proposed revenue procedure for taxpayers who for federal income tax purposes request consent to change

Questions & Comments

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