NONPROFIT & HUMAN SERVICES GROUP

ACCOUNTING STANDARDS UPDATE 2014-09 & 2018-08 IMPLEMENTATION GUIDE

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Prepared by:

Kyle A. Neeld, CPA, CGMA, PSA, Principal
kneeld@mercadien.com | 609-689-2360

Sherise D. Ritter, CPA, CGFM, CGMA, PSA, Principal
sritter@mercadien.com | 609-689-2325

Lovepreet K. Buttar, CPA, MBA, CGMA, PSA, Director
lbuttar@mercadien.com | 609-689-2421

ASU 2014-09 (AMENDED BY 2015-14) - *REVENUE FROM CONTRACTS WITH CUSTOMERS*

ASU 2018-08 - *CLARIFYING THE SCOPE AND THE ACCOUNTING GUIDANCE FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE*

Main provisions and examples for assistance in understanding and implementing ASU 2014-09 (amended by 2015-14) and 2018-08.

PREPARED BY:

NONPROFIT & HUMAN SERVICES GROUP

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P.O. Box 7648, Princeton, NJ 08543 | 609-689-9700 | Fax 609-689-9720

1515 Market Street, Suite 1200, Philadelphia, PA 19102 | 215-854-4059

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TABLE OF CONTENTS

Revenue Recognition (Topic 606)

In May 2014, the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. As part of the Boards' efforts to converge U.S. GAAP and IFRSs, the standard eliminates the transaction and industry-specific revenue recognition guidance under current GAAP and replaces it with a principal-based approach for revenue recognition.

The intent is to avoid inconsistencies of accounting treatment across different geographies and industries.

The standard applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (e.g., insurance or lease contracts).

Core Principle: Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Steps to Apply the Core Principle:

1. Identify contracts with the customer.
2. Identify performance obligations.
3. Determine transaction price.
4. Allocate transaction price.
5. Recognize revenue when (or as) a performance obligation is satisfied.

Step 1: Identify the Contract with a Customer

- Contract is designed as "an agreement between two or more parties that creates enforceable rights and obligations. An entity should account for a contract with a customer that is within the scope of FASB ASC 606 when all of the following criteria are met:

  a. Approval and commitment of the parties, in writing, orally, or in accordance with other customary business practices.
  b. Rights of the parties are identified regarding the goods or services to be transferred.
  c. Payment terms are identified.
  d. Contract has commercial substance.
  e. Collectability of substantially all of the consideration is probable.
  f. The entity can identify each party‘s rights regarding the goods or services to be transferred.
  g. The entity can identify the payment terms for the goods or services to be transferred.

Step 2: Identify the Performance Obligations in the Contract

- An entity should assess the goods or services promised in a contract with a customer at contract inception. Each promise to transfer one of the following to the customer is considered a performance obligation:
    a. A good or service (or bundle of goods or services) that is distinct.
    b. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

- Good or service is distinct if:
    a. Capable of being distinct. The customer can benefit from a good or service either on its own or together with other resources that are readily available to the customer.
    b. Distinct within the context of the contract. The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Step 3: Determine the Transaction Price

- Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

- Consider the following:
    - Variable consideration
    - Constraining estimates of variable consideration
    - The existence of a significant financing component
    - Noncash consideration
    - Consideration payable to the customer

Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract

- The objective when allocating the transaction price is for an entity to allocate the transaction price to each separate performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Step 5: Recognize Revenue When (or as) the Entity Satisfies a Performance Obligation

- An entity should recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

- Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

Subscriptions and Membership Dues

- The term "members" is used broadly by some NFPs to refer to their donors and by other NFPs to refer to individuals or other entities that pay dues in exchange for a defined set of benefits.
- These transfers often have elements of both a contribution and an exchange transaction.
- For example, exchange portion of member benefits may include a journal subscription, discounted or free CPE classes, conferences and seminars, discounted or free tickets for events, etc.
- When membership dues carry traits of both contributions and exchange components, they should be bifurcated.
- The following table includes indicators from FASB 958-605-55-12 that may be helpful in determining whether memberships are contributions, exchange transactions, or a combination of both.
- Indicators of a contribution tend to describe transactions in which the value, if any, returned to the resource provider is incidental to potential public benefits.
- Indicators of an exchange tend to describe transactions in which the potential public benefits are secondary to the potential proprietary benefits to the resource provider.

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).

- Membership dues, excluding any amount determined to be a contribution, generally should be considered an exchange or reciprocal transaction in which the member receives something of value and in return pays the NFP for the benefits of membership. The exchange transaction should be accounted for in accordance with FASB ASC 606 as revenue from contracts with customers.

Step 1: Identify the Contract with a Customer

- In most cases, NFPs require and receive the payments in advance for membership and subscriptions, lifetime memberships and lifetime subscriptions, which are based on pricing and terms established by the NFP. Criteria for contract existence is generally met where the order is placed.
- **What if a NFP bills a member or subscriber for a renewal in advance, prior to the beginning of service period?**
    - NFP would need to consider whether either party to the contract has performed and whether the requirements under Step 1 have been met.
    - NFP would only recognize a receivable if it has a present right to payment, even though that amount may be subject to refund in the future.
    - NFP should not recognize a receivable and contract liability in the statement of financial position if the entity does not yet have a right to consideration that is unconditional (that is, the contract is cancellable at the invoice date).
        - A receivable would not be recorded until, the earliest of satisfying the performance obligation or, under a noncancelable contract when the entity has an unconditional right to consideration.

Step 2: Identify the Performance Obligations in the Contract

- If a NFP promises to transfer more than one good or service to the customer, NFP should account for each promised good or service as a performance obligation if it meets the definition under Step 2.
- Membership dues often entitle the member to a group of benefits, such as the right to identify himself/herself/itself as a member and use the membership organization's logo, the right to access members only areas of websites, the ability to serve voluntarily on committees, the ability to participate in online forums, or the right to access job postings.
    - If the member benefit is not distinct, then the benefit should be combined with other promised goods or services until the NFP identifies a bundle of promised goods or services that is distinct (that is, general membership benefits).
- A member benefit would be considered distinct, as compared to other promised services included in the contract, if both of the following criteria in FASB ASC 606-10-25-19 are met:
    - Capable of being distinct. Can the customer benefit from the promised good or service, either on its own or together with other resources that are readily available to the customer?
    - Distinct within the context of the contract. Is the promise to transfer the good or service separately identifiable from other promises in the contract?

Step 3: Determine the Transaction Price

- In general, subscriptions, memberships, lifetime memberships and lifetime subscriptions are paid for in advance by the customer to the NFP or they are bundled with other goods or services (such as conferences and seminars) and amounts paid are generally not refundable.

Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract

- In the case in which there are multiple performance obligations, as required by FASB ASC 606-10-32- 29, the NFP should allocate the transaction price to each performance obligation identified in a contract on a relative standalone selling price basis. As required by FASB ASC 606-10-32-33, if a standalone selling price is not observable, the NFP should estimate it.

Step 5: Recognize Revenue When (or as) the Entity Satisfies a Performance Obligation

- For each performance obligation, a NFP should determine whether the performance obligation will be satisfied over time by transferring control of a good over time or if the NFP satisfies a performance obligation at a point in time. For performance obligations associated with nonrefundable lifetime memberships and lifetime subscriptions, if the obligation is satisfied over time, exchange transactions would be recognized as revenue over an appropriate time period (such as the life expectancy of the member or subscriber) using an appropriate measure of progress (such as a time-based measure). If the performance obligation is not satisfied over time, a NFP should consider at what point in time control transfers, based on the following indicators, as explained in FASB ASC 606-10-25-30:

    a. Present right to payment
    b. Legal title
    c. Physical possession
    d. Risks and rewards of ownership
    e. Customer acceptance

Examples from AICPA Revenue Recognition Guide

Example 8-6-3—Subscriptions Received as Part of a Membership

- A NFP trade association produces a quarterly journal that discusses and highlights research, issues, and trends of interest to its members and others in the respective discipline related to the NFP's mission.
- Members receive the NFP's quarterly journal as part of their annual membership dues, which are $300 per year.
- In addition to the quarterly journal, members receive other membership benefits, such as access to the members-only section of the association's website and legislative advocacy services.
- The NFP sells individual journals to others who are not members of the NFP for $25 per journal.
- The NFP has determined there is no contribution included in the payment from the customer.

Solution

Step 1 - Identify the Contract. There is a contract between the NFP and the member related to both membership and the journal subscription.

Step 2 - Identify Performance Obligations. There are six promised goods or services that are to be evaluated as to whether they are performance obligations that meet the criteria in FASB ASC 606-10- 25-19, as follows:

- The promise to the member to provide access to the website during the one-year term.
- The promise to the member to provide legislative advocacy services during the one-year term.
- The promise to the member of a subscription to provide four quarterly journals.

For the purposes of this example, the promises to deliver all of these goods and services are distinct. However, the promise to deliver access to the website and the promise to provide advocacy services are delivered concurrently and have the same measure of progress; therefore, they may be accounted for as if they were a single performance obligation (referred to as membership benefits).

Step 3 - Determine the Transaction Price. The transaction price is the contract price of $300 for a one-year membership, which includes the subscription.

Step 4 - Allocate the Transaction Price to Performance Obligations. The transaction price should be allocated between the five performance obligations based on the relative standalone selling prices of each performance obligation.

- The standalone selling price for each journal would be the observable price of $25, because that is the price at which the NFP separately sells the journals to customers.
- The NFP does not sell membership separately without including the quarterly journals. Because there is no directly observable selling price, the NFP should estimate the standalone selling price. The NFP determines that the adjusted market assessment approach is a suitable method to use to estimate the standalone selling price for the membership, as the estimate will refer to prices charged by other NFPs for similar services. In this case, the standalone selling price was determined to be $250.
- The NFP would then allocate the transaction price to the performance obligations based on the relative standalone selling price as follows:

Performance Obligation	Standalone selling price	Percentage
1 Quarterly Journal	$ 25	7%
2 Quarterly Journal	25	7%
3 Quarterly Journal	25	7%
4 Quarterly Journal	25	7%
5 Membership benefits	250	7%
Total	$ 350	100%

Performance Obligation	Allocated Transaction Price
1 Quarterly Journal	
2 Quarterly Journal	$ 21
3 Quarterly Journal	21
4 Quarterly Journal	21
5 Membership benefits	216
Total	$ 300

Step 5 - Recognize Revenue When Each Performance Obligation is Satisfied.

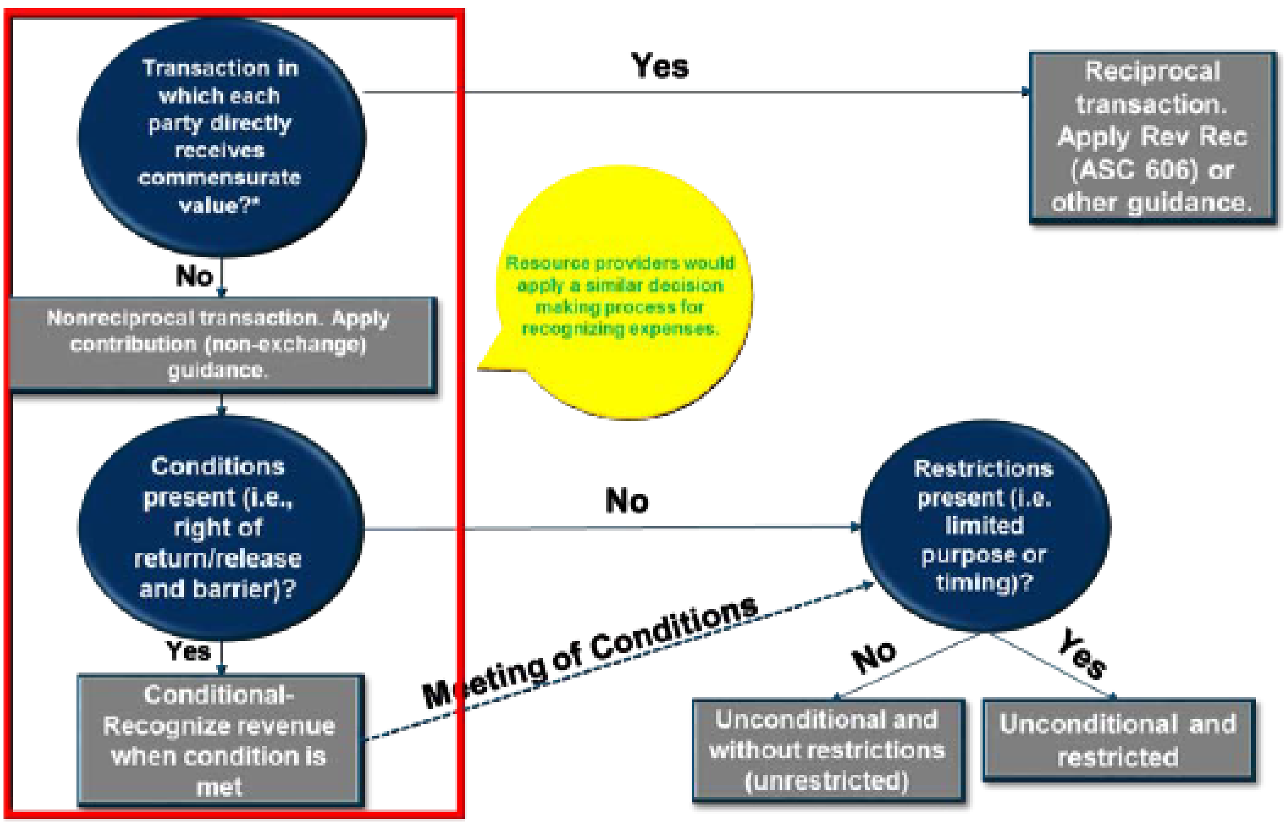
- The member simultaneously receives and consumes the benefits of membership, and the membership performance obligation is satisfied over time. The NFP also concludes that the best measure of progress toward complete satisfaction of the membership performance obligation over time is a time-based measure. Thus, $216 is recognized ratably over the one-year membership period.
- The performance obligation for each quarterly journal is satisfied at a point in time, and revenue should be recognized when control of the journal has been transferred to the customer. Assuming the NFP concludes that control of the journal transfers to the customer upon shipment, $21 is recognized when each quarterly journal is shipped.

ASU 2018-08 Grants & Contracts to NFPs (clarifying the scope and accounting guidance for contributions received and contributions made)

What is the ASU clarifying?

- If there is a condition that's considered remote, consider - at what point are you entitled to revenue? It's not that you will ultimately complete it.
- Don't focus on the resource provider. Focus on the underlying transactions and what is going back and forth between two parties.
- Position in the past has been: Government grants, because they serve the public, government is benefiting and therefore these were treated as exchange transactions, when really it may not always be the case. It's usually a contribution. End result would not change but the how and why behind revenue recognition needs to change.
- Scope: applies to all entities (NFPs and business entities) that receive or make contributions unless otherwise indicated.

NFP Revenue Recognition Decision Process



Issue # 1: Reciprocal (Exchange) vs. Nonreciprocal (Nonexchange/ Contribution) Transactions

- Question is "Who Receives the Benefit?"
- The resource provider is NOT synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal transaction.
- The type of resource provider should not override the substance of the transaction.

Issue # 2: Conditional vs. Unconditional Contributions

- Question is "When are you entitled and when can you keep/ receive the payment?"
- For a Donor-Imposed Condition to exist:
  - A right of return/ release must exist; and
  - The agreement must include a barrier.
- Indicators to determine a barrier: To determine what is a barrier, a NFP will consider indicators, which will include, but are not limited to, the following:
  - Indicator # 1: Measurable Performance-Related or Other Measurable Barrier. Examples include:
    - Measurable Performance- Related:
      - Specific Level of service (See e.g. # 3 -disabled veterans)
      - Specific output or outcome (see e.g. # 8)
    - Other Measurable
      - Matching
      - Outside Event
  - Indicator # 2: Limited Discretion on the Conduct of an Activity.
    - The extent to which a stipulation limits discretion by the recipient on the conduct of an activity.
    - More specific than the general activity being conducted or the time frame in which the contribution must be used.
    - Examples
      - Requirement to incur only qualifying expenses that are based on specific requirements.
      - Requirement to hire specific individuals as part of the workforce.
      - Specified protocol that must be adhered to.
      - See Example # 1 and Example # 4.
  - Indicator # 3: Related to the Purpose of the Agreement

- The extent to which stipulation is related to the purpose of the agreement.
- Excludes trivial or administrative stipulations.
- Examples of being related/ unrelated to the purpose:
    - YES; a report conveying the research findings on a grant for basic research.
    - NO; a report indicating how grant monies have been spent (See Example # 4).
    - NO; a requirement for an annual audit in accordance with OMB guidelines (See Example # 1).

Example # 1: Grant from Federal Government

- NFP A is awarded a grant from the federal government.
- The agreement requires NFP A to:
    - Follow rules and regulations established by OMB.
    - Incur expenses in compliance with rules and regulations established by the OMB and the federal awarding agency.
    - Obtain an annual audit in accordance with OMB guidelines.
    - Submit a summary of research findings to the federal government.
    - Any unused assets are forfeited, and any unallowed costs that have been drawn down by NFP A are required to be refunded.
    - NFP A retains the rights to the findings.

Example # 1: Conclusion

- *Is this transaction exchange or nonexchange?*
    - Nonexchange transaction, because:
        - Commensurate value is not being exchanged between the two parties.
        - NFP A retains all rights to the research and findings and received the primary benefit of the findings.
        - The federal government's benefit is considered indirect because the research and findings serve the general public.
- *If nonexchange, is it conditional or unconditional?*
    - Conditional, because:
        - The grant agreement limits NFP A's discretion as a result of the specific requirements on how the assets may be spent (qualifying expenses).
        - There is a right of return and release.

      - The audit requirement alone is not a barrier to entitlement because it is not related to the purpose of the agreement. This is considered an administrative requirement.

Example # 2: Grant from Local Government

- NFP B receives funding from the local government to perform a research study on the benefits of a longer school year.
- The agreement requires NFP B to:
  - Plan the study.
  - Perform the research.
  - Summarize and submit the research to the local government.
  - Local government retains all rights to the study.

Example # 2: Conclusion

- *Is this transaction exchange or nonexchange?*
  - Exchange transaction, because:
    - Commensurate value is exchanged between the two parties
    - The local government retains the rights to the study.
- *If nonexchange, is it conditional or unconditional?* N/A

Example # 3: Grant from a Private Foundation

- NFP C receives a grant from a private foundation for funding in the amount of $400,000 to provide specific career training to disabled veterans.
- The grant requires NFP C to provide training to at least 8,000 disabled veterans during the next fiscal year, with specific minimum targets that must be met each quarter.
- There is a right of release from the obligation in the agreement.

Example # 3: Conclusion

- *Is this transaction exchange or nonexchange?*
  - Nonexchange, because:
    - The foundation does not receive commensurate value in return.
    - The agreement contains a right of release from obligation.
- *If nonexchange, is it conditional or unconditional?*
  - Conditional because the foundation requires NFP C to achieve a specific level of service that would be considered a measurable performance-related barrier.

Example # 4: Grant from a Corporate Foundation

- NFP D is a public charity that works with gluten-related allergies as part of its overall mission.
- It applies for and receives a $100,000 grant from a corporate foundation to perform research on gluten-related allergies over the next year.
- The agreement includes
  - A right of return.
  - A statement that approval must be obtained from the corporate foundation for any significant deviations in spending from the general budget.
  - A requirement at the end of the grant a report must be filed with the corporate foundation that explains how the assets are spent.

Example # 4: Conclusion

- *Is this transaction exchange or nonexchange?*
  - Nonexchange.
- *If nonexchange, is it conditional or unconditional?* N/A
  - Unconditional, because:
    - The general budget included in the grant proposal is not a barrier to entitlement because adherence to a general budget allows for broad discretion.
    - There are no additional requirements in the agreement that would indicate a barrier exists.
    - The reporting requirement is administrative and not related to the purpose of the agreement.
- The grant is donor-restricted revenue because working on gluten-related allergies is narrower than NFP D's overall mission.

Example # 5: Pledge from an Individual

- University G receives a multi-year pledge from a wealthy individual to build a new "green" building on a college campus.
- The pledge is for $20 million payable over 3 years.
  - $7M is payable up front on July 1, 2018, with no associated conditions.
  - A second payment of $6M is entitled and payable on July 1, 2019, upon evidence that the land was cleared, an architectural design was received, and proper building permits were obtained.
  - A third payment of $7M is entitled and payable upon receipt of a certificate of occupancy.

Example # 5: Conclusion

- *Is this transaction exchange or nonexchange?*
    - Nonexchange.
    - The wealthy individual is not receiving commensurate value for the $20M transferred.
- *If nonexchange, is it conditional or unconditional?*
    - Bifurcate the total pledge.
    - $7M is unconditional because the initial $7M payment will be received without having to satisfy any conditions.
    - $13 is conditional because University G has to overcome their respective performance barriers, demonstrating the wealth individual's right of release from obligation if the barriers are not met.

Example # 6: Grant for Tuition at a University

- Student L is enrolled at University A.
- Student L's total tuition charged for the semester is $30,000.
- Student L has received a grant in the amount of $2,000 to use toward the tuition fee, which is paid directly by the grantor to University A.

Example # 6: Conclusion

- The University accounts for the grant as a third-party payment on behalf of an identified customer to an existing exchange transaction.
    - The grant was awarded to Student L, not to University A.
    - University A has entered into an **exchange transaction** with Student L and accounts for the $30,000 of tuition revenue.
    - The $2,000 grant does not create additional revenue but, rather, serves as a partial payment against the $30,000 due to University A.
    - Student L is an **identified customer** of University A who received the benefit from the grant transaction.

Example # 7: Medicare Payment to Hospital

- Patient R is a patient at Hospital B
- The total amount due for services rendered to Patient R is $10,000.
- Patient R has Medicare, and it covers $8,000 of the services, which is paid directly by the government to Hospital B. Hospital B Bills Patient R for the $2,000 balance.

Example # 7: Conclusion

- Hospital B accounts for the Medicare payment as a third-party payment on behalf of an identified customer to an existing exchange transaction.
- Medicare is a form of insurance, covering patient R.

- Hospital B has entered into an **exchange transaction** with Patient R and accounts for the $10,000 of patient service revenue.
- The $8,000 payment does not create additional revenue but, rather, serves as partial payment against the $10,000 due to Hospital B.
- Patient R is an **identified customer** of Hospital B who is receiving the benefit from the Medicare payment.

Example # 8

- NFP F receives a 2-year grant in the amount of $500,000 upfront to be used to expand its operations.
- The agreement indicates that NFP F must expand its facility by at least 5,000 square feet to accommodate additional animals by the end of the 2 years.
- The grant contains a right of return if the minimum expansion target is not met.

Example # 8: Conclusion

- Conditional grant, because:
    - The grant includes a measurable barrier (5,000 additional square feet) that must be achieved by NFP F **to be entitled** to the assets.
    - The grant includes a right of return for unused assets or unmet requirements.

Example # 9: Best Efforts Metrics

- NFP H is a recreational organization that provides various sports programs to children that live in the community. NFP H receives an upfront grant in the amount of $40,000 from a foundation to be used towards its tennis program.
- Consistent with grant proposal, grant awarded includes stipulations about how NFP H should use the assets (for example, to hire 10 tennis instructors, or to provide a summer camp for 9 weeks).
- Grant does NOT specify that NFP H's entitlement to the $40,000 is dependent upon meeting any of the stipulations in the agreement as long as the funds are used toward the tennis program.
- The grant contains a right of return for funds not spent on the tennis program.

Example # 9: Conclusion

- NFP H determines that grant is unconditional BUT restricted.
- The grant does not contain a barrier to overcome to be entitled to the transferred assets.
- While the grant agreement contains stipulations for how NFP H could spend the $40,000, the agreement does not specify that entitlement to the transferred assets depends upon meeting any of the stipulations.
- Because the stipulations in the grant agreement were not required to be met to be entitled to the funding, the agreement does not contain a barrier to overcome.

Example # 10: Milestones

- NFP I (a museum) receives a $1M multi-year promise to give to be used for a new wing on the existing museum building.
- The agreement includes specific building requirements, including square footage, and that the new wing must be environmentally friendly with LEED certification.
- The first installment of the gift will not be paid until NFP I submits architectural designs that meet the building requirements.
- Additional installments of the grant will be paid in specified increments upon meeting specific requirements of the grant agreement. If the building is not built in compliance with the grant agreement, the donor is released from its obligation to make installment payments.

Example 10: Conclusion:

- Conditional.
- NFP I is not entitled to the assets until milestones are met (for example, an architectural plan including square footage and LEED certification).
- Agreement includes a release of the resource provider's obligation to transfer assets if the stipulations are not met.
- Likelihood of meeting a milestone is **not** a consideration when assessing whether the contribution is conditional.

Simultaneous Release

- The simultaneous release option allows n NFP to recognize a restricted contribution directly in unrestricted net assets/ net assets without restrictions if the restriction is met in the same period that the revenue is recognized. This election must be applied consistently to all restricted contributions and investment returns. This is the same as previous guidance; however, the ASU creates two "buckets" for restricted:
    - Amounts that were initially conditional; and
    - Other.

More on "Symmetry"

- Guidance applies to both contributions received by a recipient and contributions made by a resource provider.
- The intent is simply that both apply the same guidance, the entities do not need to track each other's accounting to achieve the same reporting results.

Impact

- This ASU will impact funding from:
  - Government Agencies;
  - Individuals & Corporations; and
  - Foundations.
- Financial statement footnotes may need a conditional grants/ contributions footnote since this amount may be significantly higher than it's been in past years.
- Agreements that a NFP previously reported as exchange transactions may need to be reported as conditional or unconditional contributions.
- Unconditional contributions would be classified as donor restricted or without donor restrictions.
- If a NFP currently accounts for grants and contracts as exchange transactions using a cost-based reimbursements model, the timing of revenue recognition likely would be the same under the proposed ASU.
- Under existing guidance, NFPs recognize revenue as they incur the expenses (that is, perform the required service). Under the new guidance, they likely would do the same because once they meet the condition by spending the money according to the terms of the grant, the revenue would be recognized.

Transition Approach

- Apply to all agreements.
  - Existing at the effective date (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.

Implementation Plan

- Read the standard and all relevant commentary from audit firms, attend related training course, and read the FASB/IASB Joint Transition Resource Group for Revenue Recognition materials.
- Assign individual staff to become subject matter experts on specific revenue categories.
- Compile a list of all organizational revenue streams. Examples:
  - Membership Dues
  - Royalties
  - Advertising revenue
  - Sponsorship revenue
  - Federal, state, or private grants
  - Investment income
  - Contributions
  - Service fees
  - Tuition
  - Fee for service
  - Refunds
  - Miscellaneous
- Develop and document a position paper on each revenue stream.
  - Is the revenue stream within the scope of the standards?
  - Document current process.
  - Identify relevant guidance and be specific when options are presented.
  - Support any position with facts, including facts about why a specific requirement may not be applicable.
  - Document the conclusion on how to recognize revenue.
  - Review with the external auditor.
  - Finalize and approve the new recognition policy.
- Consider discussing issues with similar organizations in the same industry.
- If a change is required, is it material?
  - If no, document, discuss impact with auditors (annual passed adjustment?) and continue with prior recognition methodology.
- If a change in recognition is required, consider impact on the following:

- Any needed verbiage changes for new related contracts.
- Recognition processed within the accounting system.
- Technical changes within the accounting or supporting systems.
- Monthly and annual financial close process.
- Internal financial reporting.
- Audited financial statements.
- Forecast and budget processed.
- Dashboard goals.

- Communicate changes to CFO, Board, audit and finance committee, senior staff, auditors, banks, so forth.
- Determine requirements to retrospectively adopt the new standard.
- Develop a plan for staff training.

Effective Date

- ASU 2014-09 (amended by 2015-14) - Recipients that are public business entities and NFP that has issued, or is a conduit bond obligor for traded securities- annual periods beginning after June 15, 2018 (i.e., June 30, 2019, December 31, 2019).
- ASU 2014-09 (amended by 2015-14) - Recipients - annual periods beginning after December 15, 2018 (i.e., December 31, 2019, June 30, 2020).
- ASU 2018-08 - Resource recipients that are not conduit bond obligors - annual periods beginning after December 15, 2018 (i.e., December 31, 2019, June 30, 2020).

Resources:

- ASU 2014-09 and ASU 2015-14
  - https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176164076069&acceptedDisclaimer=true
  - https://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/DownloadableDocuments/FRC_Brief_Revenue_Recognition.pdf
- ASU 2018-08
  - https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176170810258&acceptedDisclaimer=true
- Mercadien - we're here to assist in providing guidance and assisting with implementation!