



The Road to Revenue Recognition

Navigating the Path to Implementation for Not-for-Profit Organizations

The effective date for the new revenue recognition standard, ASC 606, *Revenue from Contracts with Customers*, is fast approaching. For conduit bond obligors, the new standard is required to be implemented for annual reporting periods beginning after December 15, 2017. For all other not-for-profit organizations, the new standard is required to be implemented for annual reporting periods beginning after December 15, 2018. However, depending on the transition method selected and the number of years presented in financial reporting, its impact might already affect your financial statements.

Have you considered the following:

- ▶ Are you prepared and ready for implementation?
- ▶ Do you know how your entity's revenue recognition and disclosures will be impacted?
- ▶ Do you know how your entity's processes and controls will change?

How Can We Help?

Step 1:

Understand Your Products and Services

- ▶ General diagnostic discussion with management;
- ▶ Review a sample of your customer contracts for stated deliverables; and
- ▶ Assist you in identifying entity- and industry-specific implied deliverables.

Step 2:

Understand Your Current Policies and Processes

- ▶ Review current legacy GAAP policies and practices;
- ▶ Update our understanding of current processes and controls;
- ▶ Update our understanding of current IT systems;
- ▶ Understand reports and data that are currently available; and
- ▶ Review current financial reporting and disclosures.

Step 3:

Assist You in Analyzing Revenue Recognition Under ASC 606

- ▶ Provide and discuss authoritative guidance;
- ▶ Provide and discuss interpretive guidance including FASB and AICPA interpretations;
- ▶ Review financial statements for comparable not-for-profits;
- ▶ Brainstorm with you to assist in identifying performance obligations, variable consideration, discounts, financing components, standalone selling prices, when control is transferred and measures of progress towards completion;
- ▶ Disaggregate into inventory of ASC 606 revenue streams; and
- ▶ Review your ASC 606 GAAP policies and practices.

Step 4:

Assist Management in Identifying Potential Needs

- ▶ Compare and contrast current accounting policies and practices under legacy GAAP to ASC 606;
- ▶ Assist in identifying changes to the amount and timing of revenue recognition;
- ▶ Assist in identifying additional disclosures;
- ▶ Assist in identifying additional reports and data needed; and
- ▶ Compare and contrast the ability of the entity's current processes and controls and IT system's to meet the needs of ASC 606.

Step 5:

Assist Management in Identifying Other Potential Impacts

- ▶ Analyze potential impact on debt covenants;
- ▶ Assist management in determining the most appropriate transition method; and
- ▶ Identify those contracts which will be "open" upon transition.

Step 6:

Implementation

- ▶ Access to our referral network of professionals that can manage the implementation process.
- ▶ Access to our Firm's IT system partners (SAP, Oracle, Microsoft Dynamic, Deltek, etc.), if IT system changes are required.

Not-for-Profit Organizations

Impact of New Standard

Impact	Description
Tuition & Housing	Housing and tuition may be considered two distinct performance obligations, but this determination varies by organization depending on their particular policies. Some organizations may see no significant change if semesters begin and end within the fiscal year.
Naming Rights	If naming rights are determined to be an exchange transaction, ASC 606 applies. If they are determined to be a contribution, ASC 606 does not apply.
Grant Agreements	The accounting for grant agreements under the new standard depends on whether the benefit is received by the general public or by the granting organization (i.e. an exchange of commensurate value).
Sponsorships	If value of sponsorship is considered de minimis, a contract with the sponsor does not exist and the sponsorship is instead accounted for as a contribution.
Licenses & Royalties	The determination as to whether a license/royalty is functional or symbolic will determine whether point-in-time or over-time recognition is used under ASC 606.
Intellectual Property	The determination as to whether the use of intellectual property is functional or symbolic will determine whether point-in-time or over-time recognition is used under ASC 606.
Exclusive Food Service	Revenue is recognized over the term of the food service contract. Entities should review the terms of the contract to determine if there is any noncash consideration provided to the entity by the food service provider (usually in the form of capital assets) and if there's any variable consideration (usually in the form of a percentage of food service sales remitted back to the entity).
Membership Dues	Membership dues may carry traits of both contributions and exchange transactions. In such case, the transaction should be bifurcated.
Contributions	Contributions are outside the scope of ASC 606. The accounting for contributions does not change under the new standard. Organizations will continue to account for contributions under the current standards (ASC 958-605).
Lease Revenue	Lease revenue is outside of the scope of the new standard.
Nonrefundable Deposits	Nonrefundable deposits should be recorded as deferred revenue until such time as the right related to the nonrefundable deposit has either been exercised or expired.

Non-permissible consulting services for ALL current and prospective attestation clients:

- ▶ Making decisions on behalf of management.
- ▶ Managing or performing a new accounting standards adoption project.
- ▶ Selecting accounting policies or accounting positions.
- ▶ Drafting accounting policies and manuals.
- ▶ Calculating amounts and related journal entries.
- ▶ Designing and/or implementing manual or IT processes for the application of new or revised accounting literature.

What we CAN do for current or prospective attestation clients*:

- ▶ Hold diagnostic discussions with management.
- ▶ Provide and discuss authoritative guidance.
- ▶ Provide and discuss interpretive guidance including FASB and AICPA interpretations.
- ▶ Review financial statements for comparable not-for-profits.
- ▶ Assist in disaggregating revenue into revenue streams.
- ▶ Review a sample of customer contracts and assist management in identifying contractually stated performance obligations.
- ▶ Assist management in identifying entity- and industry-specific implied performance obligations.
- ▶ Hold brainstorming sessions with management to assist in identifying variable consideration, discounts, financing components, standalone selling prices, when control is transferred and measures of progress towards completion.
- ▶ Assist in identifying changes to the amount and timing of revenue recognition.
- ▶ Assist in identifying additional disclosures.
- ▶ Assist in identifying additional reports and data needed.
- ▶ Review management's ASC 606 GAAP policies and practices.
- ▶ Compare and contrast the ability of the entity's current processes and controls and IT system's to meet the needs of ASC 606.
- ▶ Analyze potential impact on debt covenants.
- ▶ Assist management in determining the most appropriate transition method.
- ▶ Identify those contracts which will be "open" upon transition.
- ▶ Provide access to our referral network of professionals that can manage and perform the implementation process.
- ▶ Provide access to our Firm's IT system partners (if IT system changes are necessary).

**Permissible services require Management to agree to evaluate the adequacy of all services provided and accept responsibility for the results of these services.*

Next Steps

Cherry Bekaert's dedicated team of professionals can help you navigate how the new standard affects your company's processes, data, systems and controls.

Now is the time to plan and adequately prepare for changes that will impact your business.

Let us be your guide forward



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