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NONPROFIT STANDARD

SPECIAL EDITION

A PRIMER FOR NONPROFIT ORGANIZATIONS ON THE FASB'S NEW REVENUE RECOGNITION ACCOUNTING STANDARD

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EXECUTIVE SUMMARY

Many nonprofit (NFP) financial executives are struggling with the changes posed by the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, (Topic 606) and how this will impact their organizations. Their concerns are primarily around which of their revenue streams this new standard will apply to, how to apply the standard and when the standard will take effect.

Five key takeaways that NFP organizations should understand about the new revenue recognition standard are as follows:

1. **Converges with International Accounting Standards:** The new standard is the result of a convergence effort between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), and it took the two standard setting bodies over 10 years to develop the final standard. The end result is the removal of numerous inconsistencies between the FASB and IASB revenue recognition standards, which currently make up the accounting principles that are generally accepted both in the United States and globally. However, challenges remain as the constituents of each standard setter work through implementation questions.

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How Will the New Revenue Recognition Standard Affect the Way Your Nonprofit Operates?

The following seven areas may have a significant impact on your organization:

Judgments and estimates: In some situations, management will be required to make more estimates and use more judgment than under current guidance, such as estimates related to variable consideration. Those matters will be highlighted for users through increased disclosure requirements.

Covenants: Management may need to discuss the new ASU with lenders to revise debt covenants that are impacted by revenue, such as Receivable Turnover, Liability to Net Asset ratio, and other ratios and requirements.

Contract terms: Management may consider possible changes to its standard contracts.

Internal controls: Management will likely need to revise documented processes and controls to ensure they are sufficient to prevent or detect misstatements under the new guidance.

Accounting policies: Management may need to perform a comprehensive gap analysis of its organization's accounting policies.

Technology: Management may need to consider updates and enhancements to the NFP's current accounting and financial reporting software to capture new information that may not have been necessary previously.

Income tax effects: The changes in timing of revenue recognition may result in changes in current taxable income, since many entities use U.S. GAAP to determine revenue recognition for income tax purposes. The new standard may also impact an entity's deferred taxes. Since an entity's income tax accounting depends on specific facts and circumstances, consultation with a tax advisor may be useful.

2. **Principle-Based Focus:** One of the biggest changes is the move from rules-based accounting to a principle-based focus. Most of the rules-based standards currently used will be gone once this new standard takes effect. The core principle of the new standard focuses on the contract between the NFP and its customers for the provision of goods or services, and more specifically, the rights and obligations between the two parties (a reciprocal transaction).

3. **Not All Revenue Sources Are Impacted:** The new standard will impact just about every organization—and some more than others. That said, it won't impact all revenue sources. For example, many NFP organizations receive a significant portion of their revenue from contributions and investment income. Both of these revenue sources are not impacted by the new standard.

4. **Follows a Five-Step Recognition Process:** The new standard provides for a five-step process to recognize revenue. These five steps are completed at a contract level. The analysis of the contract is the starting point for this process. The five steps are as follows:

   1. Identify the contract with a customer;
   2. Identify the performance obligations in the contract;
   3. Determine the transaction price;
   4. Allocate the transaction price to the performance obligations in the contract; and
   5. Recognize revenue when (or as) each performance obligation is satisfied.

   Each of these five steps contains concepts that can have a significant impact on the revenue recognition process. For example, the first step requires that an organization must conclude it is probable that it will collect consideration from the customer for the goods and services transferred. For healthcare organizations, this first step may not be met due to certain patients' (or customers') inability to pay. Ultimately, this may delay the recognition of revenue until cash is collected.

5. **Effective Date:** The new standard is currently effective for nonpublic entities for fiscal years beginning after December 15, 2017. NFP organizations can transition to the new standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. One reason for the additional time, relative to other new accounting standards, is to allow NFP organizations to fully assess the impact of the standard and properly prepare for adoption.

In April 2015, the FASB issued an exposure draft to receive feedback from constituents on whether to give a one-year extension on the proposed effective dates. See the sidebar, "To Delay or Not to Delay" for more information.

All NFP organizations' revenue recognition policies for exchange transactions will be affected by the new ASU. The degree to which the recognition and measurement of a NFP's revenue streams will be affected depends on its own facts and circumstances. However, one thing is certain: NFP organizations will need to evaluate whether any changes are needed to their current revenue recognition and financial reporting processes, as well as accounting and financial systems, to comply with the new ASU. This will undoubtedly require substantive involvement by more than just those involved in the NFP organization's accounting function. Even though delayed effective dates are provided in the ASU, it is not too early to start having conversations with various stakeholders in your NFP organization, your auditors and other financial advisors.

The key to the implementation of this new standard is for NFPs to become familiar with the new standard early. Asking questions and discussing the new standard with your

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accounting advisors and evaluating the impact the standard will have on all facets of your NFP's revenue streams should not be delayed.

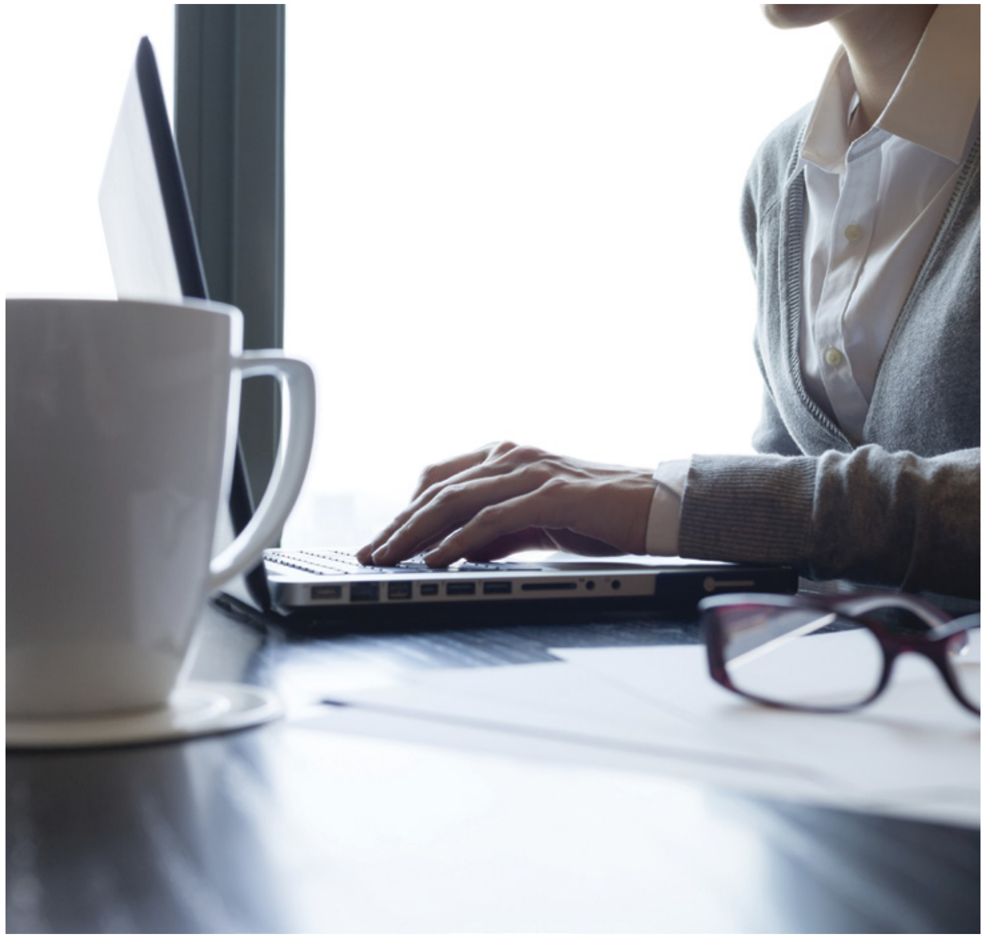
WHICH REVENUE STREAMS ARE COVERED, AND WHICH ARE EXCLUDED?

ASU 2014-09 provides a robust framework for addressing revenue recognition issues, and it replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). As a result of these wholesale changes, when the new guidance is implemented, the FASB and the IASB believe that there should be improved comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Certain types of revenue streams have been scoped out of the ASU since the financial accounting standards provide guidance for certain contracts addressed elsewhere in the Accounting Standards Codification (ASC). The ASU excludes the following contracts from the scope of the new guidelines:

- Leases
- Insurance contracts
- Receivables
- Debt and equity securities
- Liabilities and debt
- Guarantees
- Derivatives
- Financial instruments
- Transfer and servicing rights
- Nonmonetary exchanges

Contributions received from donors are not specifically scoped out of the ASU. However, the ASU defines revenue as "*inflows or other enhancement of assets of an entity or the settlement of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing and major activities*." In other words, revenue is a reciprocal transfer between parties in which the parties are expecting to exchange similar value. On the other hand, a contribution is defined as "*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*." Since a contribution is



both voluntary and nonreciprocal, it is scoped out of the ASU by definition.

Still, a significant number of nonprofit revenue streams that would be considered revenue from contracts with a customer may fall within the purview of the ASU. Initially, NFPs should evaluate their contracts to determine if they have different components of either contributions or exchange transactions. As noted above, the contribution components would be scoped out. Contracts that have both components would need to be bifurcated, as discussed later in this newsletter. NFPs should evaluate whether the following contracts are subject to the ASU:

- Memberships
- Subscriptions
- Products and services
- Royalty agreements
- Sponsorships
- Conferences and seminars
- Tuition
- Advertising
- Licensing
- Federal and state grants and contracts

At this time, products and services, tuition and advertising are considered to be fairly straightforward. However, sponsorships and licensing contracts may be more complex.

As an example of how the accounting for a NFP's exchange transactions could be affected by the ASU, consider a contract that a hypothetical "University" has with an alumnus for annual membership in an alumni association. An alumni association often provides the alumnus with a variety of benefits, such as a subscription to the university's monthly magazine, tickets to cultural events on campus, use of library facilities and various items of branded apparel. The contract should first be assessed to determine whether it includes an exchange transaction, a contribution or both. Next, the portion of the contract representing an exchange transaction must be identified and bifurcated from the contribution component. These two amounts must be separated, since only the exchange transaction is subject to the new standard.

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THE FIVE-STEP PROCESS FOR IMPLEMENTING THE ASU GUIDELINES

The ASU directs organizations to account for and present revenue in the amount and at the time that reflects the consideration expected to be received in exchange for goods and services. To accomplish this objective, the guidance establishes a five-step process for the recognition of revenue from contracts with customers:

STEP 1	STEP 2	STEP 3	STEP 4	STEP 5
Identification of Contract with Customer	Identification of the Performance Obligations	Determination of the Transaction Price	Allocation of the Transaction Price to Separate Performance Obligations	Determination of When a Performance Obligation is Satisfied and Revenue is Recognized

STEP 1 – Identification of Contract with Customer

Under the ASU, only contracts that contain certain criteria qualify for consideration of revenue recognition. In the new guidance, an arrangement that gives either party the unilateral right to terminate is not a contract for revenue recognition. A contract is defined as "an agreement between two or more parties that creates enforceable rights and obligations."

The requirements of the ASU should be applied to all contracts that meet the following criteria:

- Approval and commitment of the parties;
- Identification of the rights of the parties;
- Identification of the payment terms;
- The contract has commercial substance; and
- It is probable that the NFP will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

If multiple contracts meet certain conditions, an entity must account for the arrangement under the guidance as a single contract. Such conditions for combining contracts include the following:

- The parties negotiate multiple contracts as a single package;
- The receipt of consideration from one contract depends upon the entity's performance of another contract; and
- The goods and services in the separate contracts constitute a single performance obligation.

The guidance in the ASU for combining and segmenting contracts may provide different results than under current guidance for an exchange transaction that is deemed to be a long-term contract.

In addition, the ASU addresses how the guidelines would apply to the identification of a contract modification. Under the guidance, a contract modification is a change in the scope or price of the contract. In such cases, the entity must determine how to account for the modification under the guidance in the following situations:

- A price renegotiation;
- A new and separate contract;
- A modification of the existing contract that creates a distinct additional performance obligation; or
- A modification of the existing contract that does not create a distinct additional performance obligation.

STEP 2 – Identification of the Performance Obligations

Under the ASU, a performance obligation is a promise in a contract with a customer to transfer a good or service to the customer. If the NFP promises in a contract to transfer more than one good or service to the customer, the NFP should account for each promised good or service as a performance obligation only if it is distinct or a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

Goods and services are distinct if both of the following criteria are met:

- **Capable of being distinct –** The customer can benefit from the 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 –** The promise to transfer the good or service is separately identifiable from other promises in the contract.

STEP 3 – Determination of the Transaction Price

The ASU requires that the NFP organization determine the total consideration to which it expects to be entitled from the customer in exchange for the goods and services that the NFP organization has promised to transfer to the customer, excluding amounts collected on behalf of third parties.

To determine the transaction price, the NFP should consider the effects of:

Variable consideration

If the amount of consideration in a contract is variable, an NFP should determine the amount to include in the transaction price by estimating either the expected value or the most likely amount. The NFP should choose the method that it expects will provide the better prediction of the amount of consideration that it will be entitled to.

These two methods are defined as:

- Expected value – The sum of the probable weighted amounts that the NFP organization expects for the exchange.
- Most-likely amount – The single amount that the NFP organization expects as the most likely result for the exchange.

Constraining estimates of variable consideration

An NFP should include in the transaction price some or all of the estimate of variable consideration, but only to the extent that it is probable that a significant reversal in the

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amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The existence of a significant financing component
An NFP should adjust the promised amount of consideration for the effects of the time value of money if the period between payment by the customer and transfer of the goods or services is expected to exceed one year.

Noncash consideration
If any portion is to be received in a form other than cash, an NFP must measure the noncash consideration at fair value.

Consideration payable to the customer
Should be accounted for as a reduction in the transaction price.

STEP 4 – Allocation of the Transaction Price to Separate Performance Obligations

The new guidance would require sellers to allocate the total transaction price to each performance obligation on the basis of its relative standalone selling price at inception. The new guidance further states that the best evidence of the standalone selling price is the observable amount that the seller receives from a similar performance obligation delivered separately. In the absence of an observable standalone price, the seller may estimate the standalone price, but must do so using observable inputs to the extent that they are available.

In addition, the ASU contains specific guidelines regarding the following:

- Allocation of discounts to multiple performance obligations; and
- Allocation of consideration when a portion of the price remains contingent on future events.

The ASU provides implementation guidance and examples that illustrate the allocation of the contract price.

STEP 5 – Determination of When a Performance Obligation is Satisfied and Revenue is Recognized

The guidance states that a performance obligation is satisfied when the NFP organization transfers goods or services to the customer. The transfer is deemed to occur when the customer obtains control over the goods or services, demonstrated by the ability to direct the use of the items and receive benefits from them.

The ASU provides that an NFP organization should fulfill its performance obligations in one of the following two ways:

- Transfer of control to the customer at a *point in time*. The transfer of control may be established by various indicators, including the following:
  - The right to receive payment from the customer;
  - The customer's legal title to the asset;
  - The transfer of legal possession of the asset; and
  - The transfer of the risks and rewards of ownership.
- Transfer of control to the customer *over time*. The transfer of control over time applies if the circumstances satisfy one of the following criteria:
  - The customer simultaneously receives and consumes the benefits provided by the NFP's performance as they are performed;
  - The NFP organization's work creates or enhances an asset controlled by the customer; or
  - The NFP organization's work does not create an asset with an alternative use to the NFP, and the NFP has an enforceable right to payment for performance completed to date.

Under the guidance, many long-term contracts typically would be deemed to transfer control to the customer over time (i.e., membership dues, subscriptions, royalties and licensing). In such cases, the NFP must use an accounting method that best represents the earnings process, which may be one of the following:

- Output methods, such as meeting certain milestones or the percentage of goods or services produced and delivered to the agreed-upon total;
- Input methods, such as costs or efforts expended; or
- Time-based methods, such as straight-line.

The ASU has implementation guidance and examples regarding the fifth step of revenue recognition, as follows:

- Repurchase agreements, including obligations specified in forwards and options;
- Bill-and-hold arrangements;
- Customer acceptance;
- Shipment of a product with specified terms regarding risk of loss in transit;
- Assets with alternative uses; and
- Measurement of progress toward completion using an input method.

Under current guidance, an NFP organization may recognize revenue when it transfers the risks and rewards associated with the goods or services to the customer. The timing of revenue recognition under the new guidance is when control of the goods or services under the contract in question transfers to the customer. Under the ASU, the transfer of the risks and rewards of ownership is just one factor to consider for determining whether a customer has obtained control. Application of this new criteria may result in a significant change to current practice.

CAPITALIZATION OF COSTS TO OBTAIN CONTRACTS

Under the new guidance, a 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.

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.

If the costs incurred in fulfilling a contract with a customer are not in the scope of other guidance (i.e., inventory, intangibles, property, plant and equipment), then a NFP recognizes an asset only if the fulfillment costs meet the following criteria:

- They relate directly to an existing contract or specific anticipated contract;
- They generate or enhance resources of the entity that will be used to satisfy performance obligations in the future; and
- They are expected to be recovered.

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If the costs incurred to fulfill a contract are in the scope of other guidance, then the organization accounts for them in accordance with that other guidance.

APPLICATION AND IMPLEMENTATION

Under the ASU, a NFP should apply the amendments in this update using one of the following two methods:

1. *Retrospectively* to each prior reporting period presented, for which the entity may elect any of the following practical expedients:
   a. For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
   b. For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed, rather than estimating variable consideration amounts in the comparative reporting periods.
   c. For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.
2. *Retrospectively with the cumulative effect* of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method, it should also provide the additional disclosures in reporting periods that include the date of initial application of:
   a. The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU, as compared to the guidance that was in effect before the change; and
   b. An explanation of the reasons for significant changes.

CURRENT EFFECTIVE DATE

Upon issuance of the ASU, these were the effective dates that were stated. See the sidebar "To Delay or Not to Delay" for further discussion of a projected change to the ASU's effective dates.

7 Ways to Prepare for and Implement the New Revenue Recognition Standard

To make sure that your organization is adequately prepared for implementation of the new revenue recognition standard, you should consider taking the following seven proactive steps:

1. Become familiar with the new standard, discuss the new standard with your accounting advisors and evaluate the impact the standard will have on all facets of your organization's revenue streams.
2. Inventory all current revenue streams and evaluate whether there are differences between current practices and the new standard. Organizations should also consider the potential effect of these differences on their financial statements.
3. Evaluate whether there are differences between current practices and the new standard on how you address contract modifications.
4. Reconsider whether revenue will be recognized over time or at a point in time based on both the new criteria and specific guidance for licenses or other multi-year contracts. Systems, processes and controls may need to be updated as a result of the new criteria and any changes in the timing of revenue recognition.
5. Historically, many nonprofits have not tracked costs to acquire a contract, namely because they have been expensed as incurred. To maintain compliance with the new standard, nonprofits will need to consider necessary resources for accumulating costs incurred that need to be capitalized.
6. Identify data gaps between what is presently available and what will be needed for the required disclosures in the new standard.
7. Nonprofits may want to consider preparing mock-up financial statements to understand the impact of the new standard, as well as begin the education process of their boards and other financial committee members.

The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period for the following entities (who are considered public entities):

1. A public business entity.
2. A nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market.
3. An employee benefit plan that files or furnishes financial statements to the Securities and Exchange Commission.

Early application is not permitted.

For all other entities (who are considered nonpublic entities), the ASU is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018.

A nonpublic entity may elect to apply this guidance earlier based on the public entity adoption dates, however, only as of the following:

1. An annual reporting period beginning after December 15, 2016, including interim periods within that reporting period (public entity effective date).
2. An annual reporting period beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017.
3. An annual reporting period beginning after December 15, 2017, including interim periods within that reporting period.

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Revenue Recognition – Examples for Consideration

Included in this section are some hypothetical examples of standard nonprofit transactions with an analysis of these items under the guidance in ASU 2014-09.

EXAMPLE 1: Monthly Newsletter

An NFP has annual dues of $300. Members receive benefits from their dues, such as advocacy efforts, educational opportunities, information about industry trends and a quarterly professional journal with a fair value of $100.

STEP 1: **Identify the contract**
There would be a contract between the NFP and the member related to the dues and the subscription for the quarterly professional journal.

STEP 2: **Identify the performance obligations in the contract**
There are two performance obligations that the NFP must satisfy. First, the NFP is providing membership services to the member for one year. Second, subscription services for one year in the form of four quarterly editions of the NFP's professional journal.

STEP 3: **Determine the transaction price**
The transaction price of the total bundle for both membership services and subscription services is $300.

STEP 4: **Allocate the transaction price to the performance obligations in the contract.**
Since the NFP sells its subscription services to other parties who are not members for $100 for the four quarterly issues of the professional journal, that would substantiate a standalone selling price for the subscription services. Therefore, $100 would be allocated to subscription services, and $200 would be allocated to membership services.

STEP 5: **Recognize revenue when (or as) each performance obligation is satisfied.**
The NFP would then need to determine if the revenue should be recognized at a point in time or over time. Each of these performance obligations would be recognized over time, since membership services are provided each month over a 12-month period and the subscription service is recognized each quarter over 12 months.

EXAMPLE 2: Education & Advocacy

An NFP has annual dues of $100, and the only benefit members receive is a monthly newsletter with a fair value of $25.

STEP 1: **Identify the contract**
The amount paid for the monthly newsletter would be considered a contract with a customer, since this is a reciprocal transaction. The remaining $75 is deemed a contribution, since no specific identifiable benefits are provided, and thus, is not covered by the ASU.

STEP 2: **Identify the performance obligations in the contract**
The nonprofit has an obligation to provide the monthly newsletter to the member in return for his/her payment.

STEP 3: **Determine the transaction price**
The fair market value of the newsletter ($25) is the transaction price.

STEP 4: **Allocate the transaction price to the performance obligations in the contract.**
The $25 would be allocated to the performance obligation to provide the monthly newsletter.

STEP 5: **Recognize revenue when (or as) each performance obligation is satisfied.**
The $25 would be recognized as revenue over the 12 months as each issue was provided to the member.

The remaining $75 paid would be recognized as contribution revenue when received under FASB ASC 958-605-25-2, since there are no benefits provided in return. There is no reciprocal transfer between the member and the NFP. Therefore, this part of the transaction would not meet the definition of a contract with a customer.

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Revenue Recognition – Examples for Consideration (continued)

EXAMPLE 3: Research Milestone Payment

NFP "A" will receive a certain milestone payment upon completion of specific research performed for a fixed fee grant with the U.S. Department of Health and Human Services (HHS). Once the research is developed and provided to HHS, the asset is the property of HHS. To date, NFP A has received positive recommendation feedback from the program office of HHS, and submitted interim research reports required under the grant on time. Based on NFP A's experience with another federal agency with a similar type of research grant and the feedback to date from HHS, NFP A has determined that there is a 90 percent chance that it will be entitled to the entire milestone payment, and a 10 percent likelihood that it will be entitled to no milestone payment.

STEP 1: **Identify the contract**
This transaction represents a contract because HHS is receiving specific research work and results, and NFP A has deemed that it receives the benefit of the research. Both parties have been deemed to receive something of equal value.

STEP 2: **Identify the performance obligations in the contract**
The provision of research services represents the performance obligation under this agreement.

STEP 3: **Determine the transaction price**
The milestone payment is considered variable consideration under ASU 2014-09, so this component of the transaction price would be estimated. Since there are only two possible outcomes (they will receive the milestone payment, or they won't) in this scenario, NFP A would use the most likely amount method to estimate the transaction price.

STEP 4: **Allocate the transaction price to the performance obligations in the contract.**
In this case, there is no allocation necessary, as there is only one performance obligation, which is the delivery of specific research.

STEP 5: **Recognize revenue when (or as) each performance obligation is satisfied.**
The revenue would be recognized as the required research is delivered to HHS.

EXAMPLE 4: Event Sponsorship

A trade association gives resource providers the opportunity to sponsor a particular event for its members, and that sponsorship is publicized through logo placements at the event and in any publications or advertisements connected with the event.

STEP 1: **Identify the contract**
If the public recognition and accompanying rights and privileges result in only nominal value to the resource provider, the NFP has received a contribution. Thus, this would not meet the definition of a contract and would not be subject to the provisions of ASU 2014-09.

However, an NFP should consider the specific facts and circumstances of the naming opportunity and accompanying rights and privileges, such as the type of resource provider (individual or corporation), the length of time that the naming benefit is provided, control over name and logo use, and other contract stipulations.

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Revenue Recognition – Examples for Consideration (continued)

EXAMPLE 5: **Naming Rights**

A corporation provides resources of $20 million for the right to name a sports arena of a local college. In the contract with the college, the corporation included the following terms in its agreement: the number of years the arena will carry its name, the location of the sign in relation to the nearby highway, the font used for the sign, and the right to rename the arena if the corporation's name changes during the agreement's term.

STEP 1: **Identify the contract**	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) each performance obligation is satisfied.**
This is considered a contract with a customer because there is value to the corporation, since it included the specific terms related to the number of years the arena will carry its name, the location of the signage, the font on the sign and the right to rename the arena if the corporation's name changes in its agreement with the college. In this set of facts, there are certain rights that the corporation is getting in return for providing resources to the NFP, and therefore, the transaction is deemed reciprocal.	The performance obligation is the naming of the arena and the prominent display of the corporation's name.	The transaction price is the $20 million the corporation has agreed to pay for the rights provided.	There is only one identified performance obligation in this contract.	The transaction price should be allocated over the term of the agreement that the service is provided and recognized as revenue over the specified time period.

The examples included herein are provided for illustrative purposes only. The outcome may differ based on specific facts and circumstances.

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TO DELAY, OR NOT TO DELAY?
That is the Big Question

Okay, I have taken a few liberties with Shakespeare. But over the past several months, there has been a lot of dialogue and speculation among preparers, auditors and users of financial statements as to whether the Financial Accounting Standards Board's (FASB) *Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers* (Topic 606) will be delayed.

In April, the FASB issued a proposed ASU which would defer the effective date of the new revenue standard. The deadline for comments on the proposal is May 29, 2015. In coming to this decision, the board members and staff performed field visits to public and private companies, performed outreach with various stakeholders and conducted other research to judge whether the standard should be delayed to allow more time for all organizations (i.e., public and private companies, as well as nonprofits) to get prepared to implement the new standard.

If the FASB's proposed ASU is finalized, the revenue recognition standard would take effect in 2018 for calendar year-end public entities. For private entities, including nonprofits, it would take effect in 2019. Still, that does not mean nonprofit organizations should wait to consider the implications the standard will have, even if there is a postponement of the implementation date.

The revenue recognition standard, whether or not the implementation date is delayed, will be a major change for many nonprofit organizations. Some organizations will want to retrospectively adopt the new standard, and they will need to start gathering or preserving data for 2016. This means they will need to start looking at their organization's policies, procedures and systems now—not in 2016. By then, it might be too late.

As a nonprofit starts to approach the implementation of the new revenue recognition model, it should be considering not only its accounting policies and procedures—which is a necessary first step—but also what it will need in terms of resources. This includes systems and people resources, processes and technology, and determining how other departments beyond the finance and accounting departments, such as development and program services, will need to be involved to make sure that the organization not only becomes compliant with the new standard, but also remains compliant in the future.

As FASB officials gather feedback from stakeholders, nonprofits should start preparing to implement, regardless of whether or not a delay is approved. But keeping in mind the impact that the new standard will have on nonprofits, we would advise that instead of delaying, these organizations use every minute and resource they have available to get ready.

For more information on the new revenue recognition accounting standard and how it may affect your nonprofit organization, visit BDO's Revenue Recognition Resource Center.

For more information contact Lee Klumpp, director, at lklumpp@bdo.com.

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