

Strength Matters 2018 Annual Meeting

New Liquidity Footnote: Qualitative and Quantitative Elements Drafting Workshop

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New Disclosure Requirements for 2018

- ASU 2016-14 Presentation of Financial Statements of Not-for-Profit Entities (NPOs)
- Quantitative and Qualitative information about liquidity will be a required disclosure on all NPO financial statements for **fiscal years beginning in 2018**
- **Quantitative:** Table of financial assets available for general expenditure during the next 12 months
- **Qualitative:** Information about how the NPO manages liquidity such as investment policy, available sources of liquidity

Financial assets are cash or other assets that will be converted to cash within the next 12 months

New Disclosure Requirements for 2018

Availability Disclosure

Disclose quantitative information either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of an NPF's financial assets at the date of the statement of financial position to meet cash needs for general expenditures within one year of the date of the statement of financial position.

Availability of a financial asset may be affected by

- Its nature
- External Limits imposed by donors, laws, contracts with others
- Internal Limited imposed by governing board decisions

Table of financial assets available for general expenditure during the next 12 months

- Choose either the **gross** or **net** presentation
- Gross approach ties to the balance sheet and lists each financial asset, then subtracts items that are not available, such as donor-restricted assets or contractually-obligated assets.
- Net approach shows the amount of each financial asset that is available after offsetting the donor-restricted and contractually-obligated items

Table of financial assets available for general expenditure during the next 12 months – gross approach sample

Financial assets available for general expenditures within one year of the balance sheet date comprise the following:

	2017	2016
Financial assets at end of year::		
Cash	\$ 2,258,382	\$ 2,503,688
Grants receivable, net	2,437,650	3,513,263
Contributions receivable	-	141,100
Other receivable	102	646
Investments	234,910	232,540
	4,931,044	6,391,237
Less financial assets not available for general expenditures:		
Cash subject to expenditure for specific purpose	(392,230)	(578,626)
Contributions receivable for specific purpose	-	(141,100)
Financial assets available for general expenditures within one year	\$ 4,538,814	\$ 5,671,511

Table of financial assets available for general expenditure during the next 12 months – net approach sample

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$	4,851,231
Accounts receivable		312,216
Operating investments		723,006
Promises to give		985,846
Distributions from assets held under split-interest agreements		145,000
Distributions from beneficial interests in assets held by others		180,110
Endowment spending-rate distributions and appropriations		1,115,664
	\$	<u>8,313,073</u>

Our endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of \$15,511,186 is subject to an annual spending rate of 4.5 percent as described in Note 9. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$300,000 as of December 31, 201X.

Group Exercise – Preparing the table

- See Handout “Calculation”
 - Using the account details provided in the handout, determine which amounts are unavailable for general expenditures

Preparing the table - recommendations

- Prepare this table for your organization using Q3 amounts to prepare for year-end.
 - Will it show a positive balance available for general expenditure during the next 12 months?
 - What are the consequences to showing a negative amount? Going concern qualification?
 - Is it better to show gross or net amounts?
 - Gross amounts tie easily to the balance sheet
 - Net amounts let the reader know which lines are affected by the unavailable line items

Information about how the NPO manages liquidity such as investment policy, available sources of liquidity

- Develop a formal policy for managing the organization's liquidity needs
 - Will be articulated in the qualitative portion of the note disclosure
- Draft the note disclosure describing how the entity manages its liquid assets and liquidity needs, including conditions under which certain board-designated net assets may be undesignated, access to the lines of credit or other financing sources, and any other information useful in understanding the entity's liquidity

\$ 8,313,073

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Sample Wording #2

Example Note 1: Liquidity

NFP A has \$395,000 of financial assets available within one year of the balance sheet date consisting of cash of \$75,000, contributions receivable of \$20,000, and short-term investments of \$300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to time restrictions, but will be collected within one year. NFP A has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$275,000. As part of its liquidity management, NFP A invests cash in excess of daily requirements in various short-term investments including certificates of deposits and short term treasury instruments. As more fully described in Note X, NFP A also has committed lines of credit in the amount of \$20,000, which it could draw upon in the event of an unanticipated liquidity need.

Sample Wording #3

Example Note 3: Liquidity

As part of NFP A's liquidity management, it invests cash in excess of daily requirement in short-term investments. Occasionally, the Board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20XX. There is an established board-designated fund where the governing board has the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, NFP A also could draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.

The following reflects NFP A's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action.

Financial assets, as of June 30, 20XX	\$ 229,200
Less:	
Contractual or donor-imposed restrictions making financial assets unavailable for general expenditure	(192,413)
Quasi-endowment fund, primarily for long-term investing	(34,628)
Less amounts set aside for liquidity reserve:	<u>(1,300)</u>
 Financial assets available within one year to meet cash needs for general expenditures within one year	 <u>\$ 859</u>

Group Exercise – Drafting the Qualitative Disclosure

- What are the key elements that we saw in each sample?
- Draft a version of those elements that is specific to your organization.

Group Exercise – Drafting the Qualitative Disclosure

- Audience Poll:
 - How many of your organizations are in each of these industries?
 - Rental housing development and ownership
 - Single-family home building and sales
 - Lending activities
 - Ask a volunteer from each of these industries to read their policy disclosure aloud
 - What risks are specific to each of these industries and how would those risks impact the disclosure?

Considerations Related to Liquidity and Availability

- Management will need to determine the most desirable format to comply with the quantitative disclosure requirements.
- Management should disclose the qualitative disclosures to both comply with the disclosure requirements and to tell its story as to use of available resources to manage its cash flow.



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