Telling Your Story Through the New Liquidity Disclosures

Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* requires organizations to disclose both qualitative and quantitative information about how the entity manages its liquid resources. While the disclosure requirements may seem a bit daunting, NFPs should consider this an opportunity to share with their donors, board members, creditors and other stakeholders their strategy for managing financial resources.

The ASU provides a few example disclosures but, as with everything in the NFP sector, one size does not fit all. As a result, the examples in the ASU may resonate with some NFPs, but not with others. With that in mind, we have created a number of example disclosures for a variety of NFP types. These disclosures take many forms depending on the type of NFP, the relative liquidity of the organization's resources, donor-imposed restrictions on those resources, internal board designations on resources, and so on. These examples will help organizations consider how they want to craft their liquidity disclosures to enhance transparency and best tell their story.

College and University Example 1

Note X - Available Resources and Liquidity

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, lines of credit, and commercial paper facilities. See note C for information about the University's lines of credit and commercial paper facilities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the university considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the university operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the university's cash and shows positive cash generated by operations for fiscal years 20X1 and 20X0.

As of June 30, 20X1, the following tables show the total financial assets held by the university and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end		
Cash and cash equivalents	$	33,145
Accounts receivable, net		9,450
Contributions receivable, net		23,700
Student loan receivables, net		22,825
Investments convertible to cash in the next 12 months		149,861
Other long-term investments		107,369
Total financial assets at year-end	$	346,350

Financial assets available to meet general expenditures over the next 12 months		
Cash and equivalents	$	33,145
Accounts receivable, net		9,450
Contributions for general expenditures due in one year or less (note XX)		8,500
Payout on donor-restricted endowments for use over next 12 months		7,468
Payout on quasi-endowments for use over next 12 months		1,400
Investments not encumbered by donor or board restrictions		50,678
	$	110,641

College and University Example 2

Note X - Liquidity and Availability

The university regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the university considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

At June 30, 20X1, the university’s financial resources were earmarked as follows:

Unencumbered financial assets	$	93,273
Payout on donor-restricted endowments for use over next 12 months		7,468
Payout on quasi-endowments for use over next 12 months		1,400
Contributions for general expenditures due in one year or less (note XX)		8,500
Financial assets available for general expenditures over next 12 months		110,641
Student loan funds		22,825
Future expendable board-designated endowment		26,600

Future expendable board-designated reserves for bond repayment and capital assets		12,500
Restricted by donors for future capital projects		26,050
Restricted by donors for use in future periods		5,000
Future expendable donor-restricted endowment		45,022
Portion of donor-restricted endowment to be retained in perpetuity		96,875
Trusts held by others		837
Total financial assets	$	346,350

In addition to financial assets available to meet general expenditures over the next 12 months, the university operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the university's cash and shows positive cash generated by operations for fiscal years 20X1 and 20X0.

The university's governing board has designated a portion of its unrestricted resources for endowment and other purposes. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

The university also has lines of credit and commercial paper facilities available to meet short-term needs. See note XX for information about these arrangements.

College and University Example 3

Note X - Available Resources and Liquidity

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, lines of credit, and commercial paper facilities. See note C for information about the University's lines of credit and commercial paper facilities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the university considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, the university operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the university's cash and shows positive cash generated by operations for fiscal years 20X1 and 20X0.

As of June 30, 20X1, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	$ 33,145
Accounts receivable, net	9,450
Contributions for general expenditures due in one year or less (note A)	8,500
Payout on donor-restricted endowments for use over next 12 months	7,468
Payout on quasi-endowments for use over next 12 months	1,400
Investments not encumbered by donor or board restrictions	50,678
	$ 110,641

Additional information on liquidity that may be appropriate to add to the qualitative disclosures

At June 30, 20X1 the $96,875 of the university's endowment that must be retained in perpetuity does not exceed the $107,369 of investments that are considered illiquid. Although not expected to be needed, the spendable yet restricted portion of the university's net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use. See notes D, E and I for further information about the university's investment portfolio, net assets and endowment funds, respectively.

The University's governing board has designated a portion of its unrestricted resources for endowment and other purposes. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board. At June 30, 20X1, the following amounts were designated for specific purposes by the Board:

Quasi-endowment funds (note B)	$ 26,600
Bond sinking fund (note C)	7,500
Designated for capital assets	5,000
Total board-designated funds	$ 39,100

Liquidity of Investments

Approximately 22 percent of the university's investment portfolio consists of highly liquid investments; 36 percent of the portfolio's investments may be redeemed either at future specified redemption dates or currently by incurring a penalty. Finally, certain investments (approximately

42 percent) in real estate, private equities, and private investments are subject to constraints that limit the University's ability to withdraw capital after such investments are made or may limit the amount available for withdrawal at a given redemption date. These constraints may limit the university's ability to respond quickly to changes in market conditions.

Association Example 1

Note X - Information Regarding Liquidity and Availability

The Association strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments.

The following table reflects the Association's financial assets as of December 31, 2017 and 2016, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include certain alternative investments with redemption limitations as more fully described in note XX and a board-designated special projects fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions. There were no net assets with donor restrictions at December 31, 2017 and 2016.

	2017	2016
Cash and cash equivalents	$ 2,740,000	$ 2,690,000
Investments	11,100,000	12,250,000
Accounts receivable	325,000	650,000
Total financial assets	14,165,000	15,590,000
Investments with liquidity horizons greater than one year	(1,250,000)	(1,450,000)
Cash collateral related to letter of credit	(275,000)	(325,000)
Board-designated special projects fund	(1,000,000)	(1,000,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 11,640,000	$ 12,815,000

Association Example 2

Note X - Liquidity and Reserves

		6/30/X1		6/30/X0
Total financial assets	$	4,454,636	$	4,784,929
Donor-imposed restrictions:				
Funds subject to time restrictions		(191,567)		(132,536)
Endowments		(115,500)		(115,500)
Net financial assets after donor-imposed Restrictions		4,147,569		4,536,893
Less:				
Board-designated funds		(359,114)		(484,636)
Agency allocations payable		(4,034,689)		(4,214,789)
Financial assets needed to meet cash needs for general expenditures within one year	$	(246,234)	$	(162,532)

As a federated fundraising organization, Entity A receives significant contributions each year from donors, which are available to meet annual cash needs for general expenditures. Allocations to agencies are paid monthly over a 12-month period. During that same 12-month period, additional contributions are received from donors. Entity A has a policy to designate all net assets without donor restrictions, which results in a shortfall of financial assets to meet cash needs as shown above. All board-designated funds can be made available to meet operating needs if necessary. During the years ended June 30, 20X1 and 20X0, the organization was able to meet its cash needs utilizing designated reserves.

Foundation Example 1

The following example illustrates how a foundation that receives gifts to be invested in perpetuity (endowments), gifts that are purpose restricted and gifts without donor restrictions might comply with the liquidity and availability disclosure requirements.

Note X – Liquidity and Availability

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 65% of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation's Grant Committee (the Committee) meets semi-annually to review and approve grant requests. Due to this timing, the Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for semi-annual grant commitments approved by the Committee, which typically represents approximately 50% of the expected annual grant cash needs.

The table below presents financial assets available for general expenditures within one year at December 31, 20X1 (in thousands):

Financial assets at year end:	
Cash and cash equivalents	$ 70,000
Collateral under security lending agreements	20,000
Contributions receivable	210,000
Other receivables	10,000
Due from broker	8,000
Investments	2,200,000
Total financial assets	2,509,000
Less amounts not available to be used within one year:	
Investments in non-liquid securities	(1,023,000)
Investments held in custodial and non-custodial trusts	(65,000)
Collateral under security lending agreements	(20,000)
Contribution receivable - for restricted gifts, net	(82,000)
Contribution receivable - due after one year, net	(106,000)
Investments held for quasi-endowments	(250,000)
Financial assets not available to be used within one year	(1,546,000)
Financial assets available to meet general expenditures within one year	$ 963,000

The following example illustrates expanded disclosures for the same foundation in the previous example:

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 65% of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The Foundation's Grant Committee (the Committee) meets semi-annually to review and approve grant requests. Due to this timing, the Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative, general, and fundraising expenses plus an amount that represents the next expected payment for semi-annual grant commitments approved by the Committee, which typically represents approximately 50% of the expected annual grant cash needs.

The table below presents financial assets available for general expenditures within one year at December 31, 20X1 (in thousands):

Financial assets at year end:	
Cash and cash equivalents	$ 70,000
Collateral under security lending agreements	20,000
Contributions receivable	210,000
Other receivables	10,000
Due from broker	8,000
Investments	2,200,000
Total financial assets	2,509,000
Less amounts not available to be used within one year:	

Investments in non-liquid securities	(1,023,000)
Investments held in custodial and non-custodial trusts	(65,000)
Collateral under security lending agreements	(20,000)
Contributions receivable for restricted gifts, net	(82,000)
Contributions receivable due after one year, net	(106,000)
Investments held for quasi-endowments	(250,000)
Financial assets not available to be used within one year	(1,546,000)
Financial assets available to meet general expenditures within one year	$ 963,000

In evaluating the adequacy of financial assets available to sustain commitments under endowments with donor restrictions and quasi-endowments, the Foundation follows the policy of requiring that financial assets attributable to such commitments, defined as financial assets not available to be used within one year, be equal to or greater than the related net assets, measured annually as follows (in thousands):

Net assets with donor restrictions in total at December 31, 20X1	$	2,030,000
Less net assets with purpose restrictions to be met in less than a year		(803,000)
Plus quasi-endowments		250,000
Net assets representing endowments with donor restrictions and quasi-endowments	$	1,477,000
Financial assets not available to be used within one year, defined above	$	1,546,000

<u>Humanitarian Aid Charity Example 1</u>

Note X – Liquidity and Availability

		6/30/X1		6/30/X0
Total financial assets	$	78,600	$	94,801
Donor-imposed restrictions:				
Restricted Funds		(1,613)		(1,584)
Endowments		(8,288)		(8,616)
Net financial assets after donor-imposed restrictions		68,699		84,601
Internal designations:				
Board Advised Funds		(25,071)		(27,709)
Gift Annuities		(7,693)		(7,793)
Quasi-endowments		(329)		(309)
Financial assets available to meet cash needs for general expenditures within one year	$	35,606	$	48,790

The organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. The organization has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets to meet 15 to 30 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended June 30, 20X1 and 20X0, the level of liquidity and reserves was managed within the policy requirements.

Humanitarian Aid Charity Example 2

Note X – Liquidity and Availability

	6/30/X1	6/30/X0
Total financial assets	$ 78,600	$ 94,801
Donor-imposed restrictions:		
Designated Funds	(1,613)	(1,584)
Endowments	(8,288)	(8,616)
Net financial assets after donor-imposed restrictions	68,699	84,601
Internal designations:		
Donor Advised Funds	(25,071)	(27,709)
Gift Annuities	(7,693)	(7,793)
Split interest agreements	(25)	(5)
Quasi-endowments	(304)	(304)
Financial assets available to meet cash needs for general expenditures within one year	$ 35,606	$ 48,790

The organization receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 20X1 and 20X0, restricted contributions of $14,886 and $31,543, respectively, were included in financial assets available to meet cash needs for general expenditures within one year. The organization manages its liquidity and reserves following three guiding principles: Operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. NFP A has a policy to target a year-end balance of reserves of unrestricted, undesignated net assets at 15 to 30 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended June 30, 20X1 and 20X0, the level of liquidity and reserves was managed within the policy requirements.