

# New Liquidity Reporting Standards

Presented to: Board Members of Nonprofit and/or Government Organizations  
Presented by: Liz Fetter, Stacie Kowalczyk  
The webinar will begin in a few moments

February 6, 2019

*NOTE: Participants will receive an email within 48 hours  
with a link to the slide deck and recording.*

## To qualify for CPE, you must:

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- Use a personal computer (no smartphones) and log in with your own information and unique URL
- Be logged into our online software for at least 50 consecutive minutes within the scheduled time frame of the webinar
- Actively respond to at least 75% of the polling questions
- Complete evaluation survey at the end of the webinar

Based on the Board of Accountancy Requirements, Armanino is not a NASBA certified provider

# Learning Objectives

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- Review issues most relevant to board members
- Understand the nonprofit reporting model changes
- Analyze recent and ongoing FASB updates

# Today's Presenters



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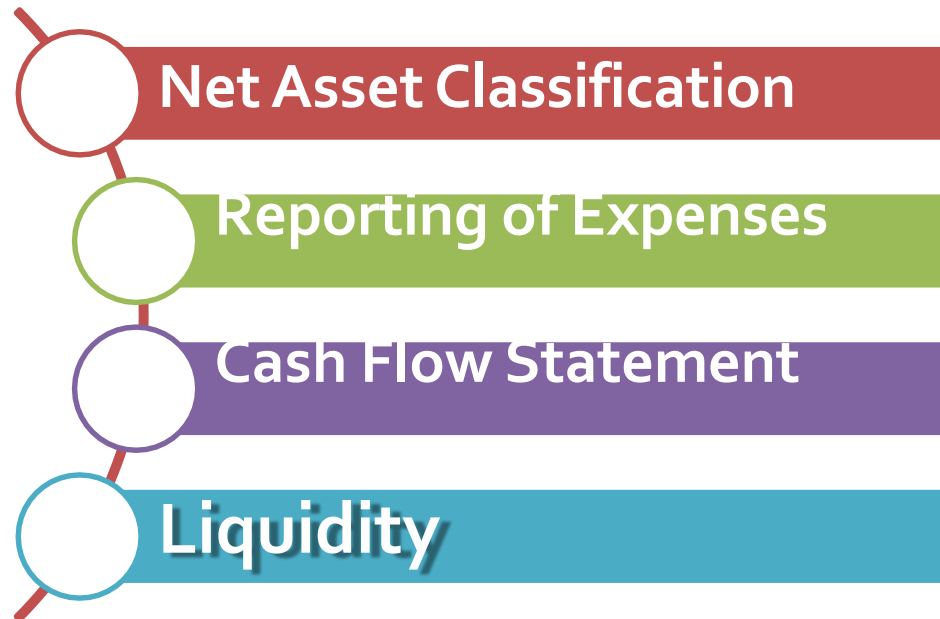


## Overview of Changes



# Overview of Changes

- Changes will affect the following financial statement reporting areas:





## Liquidity



## OBJECTIVE OF PROJECT

To improve the quality of information users have to assess liquidity and how nonprofit organizations manage their exposure to liquidity risk including limitations on the use of financial assets...





# Liquidity

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- **Financial asset**
  - Cash
  - Receivables
  - Investments
  - Deposits
  - Inventory
  - Split interest agreements (ex. Charitable remainder trust)
- **Non-Financial asset**
  - Property & equipment
  - Prepaid items
  - Other non – cash assets
- **Other Liquid Resources**
  - Lines of credit

Limitations that could make financial assets **NOT** available for general expenditures within 12 months from the organization's fiscal year end

NATURE OF FINANCIAL ASSET	Financial assets that <b>CANNOT</b> be converted to cash	<ul style="list-style-type: none"> <li>Accounts and notes receivables due in &gt; 1 year</li> <li>Contributions receivable due in &gt; 1 year</li> <li>Investments not redeemable within 1 year</li> </ul>
EXTERNAL LIMITS OF DONORS, LAWS, CONTRACTS	Donor restrictions limiting availability	<ul style="list-style-type: none"> <li>Endowment assets considered perpetually restricted</li> <li>Assets from unappropriated endowment earnings, beyond 1 year</li> <li>Restricted for programs in future years, beyond 1 year</li> <li>Trust and life income funds</li> </ul>
	Contractual and legal restrictions	<ul style="list-style-type: none"> <li>Assets set aside from Debt service or Bond sinking fund agreements</li> <li>State required annuity reserves and assets set aside under self-insurance agreements</li> </ul>
INTERNAL LIMITS IMPOSED BY GOVERNING BOARD	Financial assets designated for long-term investments	<ul style="list-style-type: none"> <li>Long-term quasi endowments</li> </ul>
	Designated for future years	<ul style="list-style-type: none"> <li>Designations for future periods beyond a year</li> </ul>

# Statement of Financial Position

	ASSETS	20X1	20X0
<b>Current assets</b>			
Cash and cash equivalents		\$ 7,545,000	\$ 7,435,000
Tuition and fees receivable, net		100,000	90,000
Contributions receivable, net		2,500,000	2,200,000
Prepaid expenses		135,000	124,000
Long-term investment appropriated for current use		500,000	450,000
Short-term investments		1,500,000	1,200,000
Total current assets		<u>12,280,000</u>	<u>11,499,000</u>
<b>Noncurrent assets</b>			
Contributions receivable, net of current portion		2,951,000	-
Property and equipment, net		47,040,000	48,067,000
Long-term investments		15,000,000	16,000,000
Certificates of deposit restricted for bond reserves		200,000	200,000
Total noncurrent assets		<u>65,191,000</u>	<u>64,267,000</u>
<b>Total assets</b>		<u>77,471,000</u>	<u>75,766,000</u>
	<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>			
Accounts payable		\$ 535,000	\$ 450,000
Accrued payroll, taxes and benefits		1,250,000	1,200,000
Other accrued expenses		500,000	475,000
Deferred tuition and fees		6,165,000	6,100,000
Other current liabilities		55,000	50,000
Note payable		600,000	600,000
Total current liabilities		<u>9,105,000</u>	<u>8,875,000</u>
<b>Noncurrent liabilities</b>			
Note payable, net of current portion		<u>16,000,000</u>	<u>16,600,000</u>
Total liabilities		25,105,000	25,475,000
<b>Net assets</b>			
Without donor restrictions		40,066,000	38,791,000
With donor restrictions		<u>12,300,000</u>	<u>11,500,000</u>
Total net assets		<u>52,366,000</u>	<u>50,291,000</u>
<b>Total liabilities and net assets</b>		<u>\$ 77,471,000</u>	<u>\$ 75,766,000</u>

# Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains, and other support</b>			
Tuition and fees	\$ 17,500,000	\$ -	\$ 17,500,000
Less scholarship and financial aid	(140,000)	-	(140,000)
Net tuition and fees	17,360,000	-	17,360,000
Contributions	1,800,000	2,200,000	4,000,000
Student support services	245,000	-	245,000
Net realized and unrealized gains on investments	450,000	280,000	730,000
Interest and dividend income	160,000	-	160,000
Other income	80,000	-	80,000
Net assets released from restrictions	1,680,000	(1,680,000)	-
Total revenues, gains, and other support	21,775,000	800,000	22,575,000
<b>Expenses</b>			
Program services	15,300,000	-	15,300,000
General and administrative	4,600,000	-	4,600,000
Fundraising	600,000	-	600,000
Total expenses	20,500,000	-	20,500,000
<b>Change in net assets</b>	1,275,000	800,000	2,075,000
<b>Net assets at beginning of year</b>	38,791,000	11,500,000	50,291,000
<b>Net assets at end of year</b>	\$ 40,066,000	\$ 12,300,000	\$ 52,366,000

## Liquidity (Qualitative) Best Practices

- Is there a strategy for addressing entity-wide risks that may affect liquidity?
- How does the nonprofit manage daily cash requirements?
- Are there liquidity reserves already established?
- Are amounts not available to meet cash needs within the time horizon?
- Are there board-designated funds that could be used if needed?
- Are there lines of credit available?

# Qualitative Liquidity Disclosure

As part of the Organization's liquidity management, it has a **policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.**

As part of this policy, the Organization holds in its **short-term investment account** a balance of securities equal to at least **three months of operating expenses** that can be readily liquidated to pay for operating needs.

Long-term investments include endowment funds consisting of donor-restricted endowments and a quasi-endowment. Income from **donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.** As described in Note 10, the quasi-endowment has a spending rate of 5 percent. **Accordingly, \$500,000 of appropriations from the quasi-endowment will be available within the next 12 months. The quasi-endowment could be made available in its entirety if needed.** No appropriations from donor-restricted endowments have been made available for operations as of June 30, 20X1. There are **certain limitations on availability of long-term investment funds totaling approximately \$2,500,000 at June 30, 20X1 and 20X0 which are subject to certain lockup restrictions** as indicated in Note 8. The Organization would be able to access these funds at the end of any calendar year with a 60 day redemption notice, but would **otherwise not be available to support general expenditures** within one-year from the statements of financial position. As of June 30, 20X1, the Organization does not intend to redeem such investments. As more fully described in Note X, the Organization also **has committed lines of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity level.**

# Quantitative Disclosure

## Availability (Quantitative)

- For quantitative disclosures the statement of financial position is the best starting point
- The disclosure is a subset of and would be reconcilable to the total assets on the statement of financial position
- Qualitative disclosures should clarify the quantitative information and add context

# Quantitative Disclosure Analysis

		20X1
<b>Financial assets</b>		
Cash and cash equivalents	\$	7,545,000
Contributions receivable, net		5,451,000
Tuition receivables, net		
100,000		
Investments		17,000,000
Certificates of deposit		200,000
<b><i>Total financial assets</i></b>		<b><i>30,196,000</i></b>
 <b>Less: amounts unavailable for general expenditure within one year:</b>		
Long-term contributions receivable		(2,951,000)
Investments not redeemable		(2,500,000)
Certificate of deposit		(200,000)
Endowment investments		(8,000,000)
 <b><i>Financial assets available to meet cash needs for general expenditures within one year</i></b>	 \$	 <b><i>13,651,000</i></b>



# Big Endowment School

	ASSETS	20X1
Assets		
Cash and cash equivalents		\$ 4,750,000
Tuition receivable		450,000
Contributions receivable, net		2,950,000
Short-term investments		5,000,000
Charitable remainder trust		635,000
Certificates of deposit - collateral for note payable		200,000
Long-term investments		55,000,000
Property and equipment, net		<u>58,250,000</u>
Total assets		<u>127,235,000</u>
	LIABILITIES AND NET ASSETS	
Liabilities		
Accounts payable		\$ 250,000
Accrued payroll and related		2,000,000
Line of credit		600,000
Note payable		<u>11,250,000</u>
Total liabilities		14,100,000
Net assets		
Without donor restrictions		
Undesignated		44,500,000
Designated for PPRSM		1,635,000
Board designated endowment		<u>2,000,000</u>
Total without donor restrictions		48,135,000
With donor restrictions		<u>65,000,000</u>
Total net assets		<u>113,135,000</u>
Total liabilities and net assets		<u>\$ 127,235,000</u>

# Disclosure 1 - Qualitative

As part of the School's liquidity management, it has a policy to manage financial assets and resources that are available to support general operations within 12 months from the reporting date.

Contributions receivable consist of unconditional promises to give. These contributions receivable net to \$2,950,000 as of June 30, 20X1. The School is also currently in the midst of a capital campaign to raise operating funds which will be available to fund general operations. **These contributions receivable for the campaign expected to be collected by June 30, 20X2 totaled to \$1,000,000.**

**Short-term investments** include amounts without donor restriction that have been internally designated by the Board for specific purposes in which the Board intends to spend on these designated purposes within 12 months from June 30, 20X1. **These amounts total \$5,000,000.** Additionally, as described in Note XX, to the financial statements, the **Board has a policy to appropriate for expenditure 5% annually of the trailing 12 quarter average of the donor restricted endowment fund investments. Therefore, \$1,500,000 of the short-term investments at June 30, 20X1 related to the appropriation that will be spent within 12 months.** Short-term investments are in funds that have no lockups or restrictions which would impact liquidity.

The School is expected to receive the proceeds from the charitable remainder trust on September 30, 20X1. **The use of the proceeds is restricted to fund new construction.** The School anticipates this new construction will be completed in 20X3.

**Certificates of deposit of approximately \$200,000 are required as collateral for the notes payable.** These funds are not available for use until the balance of the note is repaid in full.

Long-term investments include amounts without donor restrictions in the long-term. These investments also include endowment funds consisting of donor-restricted endowments and a board designated quasi-endowment. **There are certain limitations on availability of long-term investment funds totaling approximately \$47,300,000 related to donor restricted endowment funds at June 30, 20X1.** Long-term investments are subject to certain lockup restrictions as indicated in Note XX to the financial statements. The School would be able to access these funds at the end of any calendar year with a 60-day redemption notice. These restrictions could impact the School's ability to redeem the investments at the market asset value as of the reporting date. As of June 30, 20X1, the School does not intend to redeem such investments.

As stated in Note XX to the financial statements, the School has a line of credit available for use. The balance available at June 30, 20X1 is \$3,400,000.

The following is a quantitative disclosure supporting the financial assets and resources available at June 30, 20X1:

# Disclosure 2 - Quantitative

## Financial assets

Cash and cash equivalents	\$	4,750,000
Contributions receivable		2,950,000
Tuition receivable		450,000
Certificate of deposit		200,000
Investments		60,000,000
Charitable remainder trust		<u>635,000</u>
Total financial assets		68,985,000

## Less: amounts unavailable for general expenditure within one year:

### Contractual

Certificates of deposit	(200,000)
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### Donor-imposed restrictions

Long-term contributions receivable	(1,950,000)
Charitable remainder trust	(635,000)
Investments - donor endowments	(51,365,000)

### Board designations (investments):

Designated for PPRRSM	(1,635,000)
Board designated endowment	<u>(2,000,000)</u>

## Financial assets available to meet cash needs for general expenditures within one year

\$ 11,200,000

## Financial resources available - Line of Credit

\$ 3,400,000

# School With New Construction

	20X1	20X0
<b>ASSETS</b>		
Assets		
		\$
Cash and cash equivalents	\$ 1,000,000	12,000,000
Tuition and fees receivable, net	25,000	120,000
Contributions receivable, net	140,000	190,000
Investments	7,000,000	6,900,000
Prepaid expenses and deposits	180,000	200,000
Property and equipment, net	<u>32,000,000</u>	<u>18,000,000</u>
Total assets	<u>40,345,000</u>	<u>37,410,000</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 20,000	\$ 40,000
Accrued payroll and related	600,000	599,000
Other liabilities	730,000	800,000
Deferred revenue	<u>2,000,000</u>	<u>1,600,000</u>
Total liabilities	3,350,000	3,039,000
Net assets		
Without donor restrictions	28,895,000	21,371,000
With donor restrictions	<u>8,100,000</u>	<u>13,000,000</u>
Total net assets	<u>36,995,000</u>	<u>34,371,000</u>
Total liabilities and net assets	<u>\$ 40,345,000</u>	<u>\$ 37,410,000</u>

# Disclosure 1 - Qualitative

As part of the School's liquidity management, it has a policy to manage financial assets and resources that are available to support general operations within 12 months from the reporting date.

**The School completed construction and commenced operation of the new school gymnasium on July 1, 20X0. Total costs related to the gymnasium were approximately \$14,000,000.**

Future tuition and fees to be collected for the upcoming school year approximate \$9,800,000. Based on the School's historical collection experience which has approximated 95%, the School expects to collect approximately \$9,300,000 within the next twelve months. The amount of tuition receivable is also expected to be collected within 12 months.

Contributions receivable consists of unconditional promises to give with restrictions for scholarships and remaining amounts to be collected for the recently completed capital campaign. The School anticipates collecting the cash on these receivables within 12 months from the reporting date.

**Investments include amounts with donor restrictions established to provide financial aid to students. At June 30, 20X1, approximately \$5,500,000 of this amount is related to the corpus which cannot be utilized and approximately \$1,500,000 of accumulated earnings and appreciation. Additionally, as described in Note XX, to the financial statements, the board has a policy to appropriate for expenditure 5% annually of the trailing 12 quarter average of the donor restricted endowment fund investments. Therefore, \$275,000 of the investments at June 30, 20X1 related to the appropriation that will be spent within 12 months.**

The School does not have any other liquid resources, such as lines of credit, available for use.

The following is a quantitative disclosure supporting the financial assets and resources available at June 30, 20X1:

## Disclosure 2 - Quantitative

	<u>20X1</u>
<b>Financial assets</b>	
Cash and cash equivalents	\$ 1,000,000
Tuition and fees receivable, net	25,000
Contributions receivable, net	140,000
Investments	<u>7,000,000</u>
Total financial assets	8,165,000
 <b>Less: amounts unavailable for general expenditure within one year:</b>	
 <b>Donor-imposed restrictions</b>	
Investments - donor endowments	(6,725,000)
 <b>Financial assets available to meet cash needs for general expenditures within one year</b>	 <u><u>\$ 1,440,000</u></u>

# School – Liquid Balance Sheet

	<u>ASSETS</u>	
	<u>20X1</u>	<u>20X0</u>
Cash and cash equivalents	\$ 20,000,000	\$ 24,000,000
Investments	29,000,000	21,000,000
Tuition and fees receivable, net	25,000	40,000
Contributions receivable, net	200,000	100,000
Other assets	400,000	800,000
Property and equipment, net	<u>39,000,000</u>	<u>26,000,000</u>
Total assets	<u>\$ 88,625,000</u>	<u>\$ 71,940,000</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and other accrued liabilities	\$ 4,000,000	\$ 4,100,000
Student advance payments and deposits	<u>8,000,000</u>	<u>7,000,000</u>
Total liabilities	<u>12,000,000</u>	<u>11,100,000</u>
Net assets		
Without donor restrictions	71,625,000	56,140,000
With donor restrictions	<u>5,000,000</u>	<u>4,700,000</u>
Total net assets	<u>76,625,000</u>	<u>60,840,000</u>
Total liabilities and net assets	<u>\$ 88,625,000</u>	<u>\$ 71,940,000</u>
	\$ -	\$ -

# Disclosure 1 - Qualitative

As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The School's business office, by policy, attempts to maintain an adjusted operating reserve balance equal to a minimum of 20% of the School's annual operating budget of approximately \$34,000,000. Operating assets may only be invested in high quality liquid investments such as Treasury Bills, Certificates of Deposit and Money Market Funds and are intended to provide income and liquidity for operating expenditures.

Long-term investments include endowment funds consisting of donor-restricted endowments and a board designated quasi-endowment. The board designated quasi-endowment could be made available in its entirety if needed.

Future tuition and fees to be collected for the upcoming 2018-2019 school year approximate \$20,000,000. Based on the School's historical collection experience which has approximated 100%, the School expects to collect approximately \$20,000,000 within the next twelve months.

Short-term contributions receivable consists of unconditional promises to give expected to be received within one year from June 30, 20X1. Unrestricted short-term contributions receivable of approximately \$200,000 will be available to support general operations of the School.

In the event of an unanticipated liquidity need, the School could also draw upon its \$5,000,000 available line of credit. See Note 8 for further description of the line of credit.

The following is a quantitative disclosure which describes assets that are available or expected to be available within one year of June 30, 20X1 to fund general expenditures and other obligations as they become due:



# Disclosure 2 - Quantitative

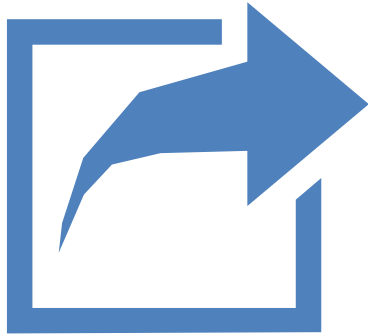
	<u>20X1</u>
<b>Financial assets</b>	
Cash and cash equivalents	\$ 20,000,000
Contributions receivable	200,000
Tuition receivable	25,000
Investments	<u>29,000,000</u>
Total financial assets	49,225,000
 <b>Less: amounts unavailable for general expenditure within one year:</b>	
 <b>Donor-imposed restrictions</b>	
Investments - donor endowments	(3,800,000)
 <b>Board designations (investments):</b>	
Designated for PPRRSM	( 3,600,000)
Board designated endowment	<u>(5,100,000)</u>
 <b>Financial assets available to meet cash needs for general expenditures within one year</b>	 \$ <u><u>36,725,000</u></u>
 <b>Financial resources available - Line of Credit</b>	 \$ 5,000,000



## **Implementation Tips & Effective Date**



# Implementation Tips



1. Determine the impact each change will have on your financial statements
2. Management and the Board and/or Finance Committee should be involved
3. Discuss and document your liquidity and reserve policies
4. Evaluate the impact the liquidity footnote will have internally/externally and how to best manage the story being told
5. Determine if changes are needed to your chart of accounts account for presentation changes (e.g., chart of accounts)
6. Consider adequacy of software

# Effective Date

- **Liquidity**
  - Functional & Natural Expenses
  - Net Assets
  - Cash Flow (Direct vs. Indirect)
  - Place in Service Approach for Reporting Expirations of Restrictions on Long-lived assets
- Effective Date & Other Key Facts
    - Fiscal years beginning after December 15, 2017
    - Retrospective application to earliest period presented
    - Change in Accounting Principle for prior period restatements due to net asset changes
    - Liquidity and functional expense presentation only required in year of adoption
    - Early adoption permitted on a full standard basis

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Contact Us: Executive Director, Lisa Spivey [lspivey@NorthernCalifornia.NACDOnline.org](mailto:lspivey@NorthernCalifornia.NACDOnline.org)





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