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Non-Profit Notes Newsletter

Planning for the New NFP Liquidity Disclosures

By Mark Piszko, CPA, CGMA, Partner

Not-for-profit organizations with calendar year-ends are required to implement the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities for the year ended December 31, 2018. Not-for-profits with fiscal year-ends must implement the requirements under the ASU for the 2019 fiscal year beginning in 2018.

In either case, time is running out to defer consideration of the changes the ASU requires and the actions necessary to implement or start planning for the implementation of those changes. In this issue, we will address the financial statement liquidity disclosures that ASU 2016-14 requires.

Liquidity Disclosures Defined

Under the ASU, not-for-profit organizations will be required to disclose both quantitative and qualitative information about the availability and liquidity of resources (assets) as follows:

- ***Quantitative*** information that communicates the availability of the not-for-profit's financial assets to meet cash needs for general expenditures within one year of the balance sheet date (the subsequent "current" period). The availability of a financial asset may be affected by its nature; external limits imposed by donors, laws and contracts with others; and, internal limits imposed by governing Boards.
- ***Qualitative*** information that communicates how the not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.

Implementation Considerations

Remember, the notes to the financial statements convey important information about your organization to various users of those financial statements, including potential donors, government agencies, and other stakeholders. Use this disclosure to best describe the message you want readers of the financial statements to know about your organization, while at the same time meeting the ASU's requirements. For instance:

- If your organization has ample resources to fund activities for the next year, you may want to make that clear in the disclosure. How does your organization account for excess revenues? You could discuss Board designation of those excess revenues (or a percentage of) for future operating uses or capital projects.

- Conversely, your organization may be challenged by the lack of available resources and could have difficulty meeting expenditure requirements for the coming year. In that situation, you should disclose your organization's plan to cover those expenditures. If your organization has access to a line of credit or other lending facility, include that information in this disclosure. If the organization is expecting a large grant that would fund future expenditures, you could state that as well in the disclosure.

The ASU has no prescribed format for the liquidity disclosure, so you can customize the information to best reflect the financial status of your organization. Consider the effect on liquid financial assets of donor restrictions and internal Board restrictions and understand the nature of your assets (current versus non-current) to weigh the potential limitations each may have on your organization's ability to fund current general expenditures.

Board-Designated Net Assets

When providing quantitative information about your organization's available liquid assets under the new ASU, remember that assets with internal restrictions, including those assets designated by the Board for future uses, should be **excluded** from liquid assets that are available for current general expenditures. In light of this, while planning for the implementation of ASU 2016-14, it is important that you review your Board's existing policies and procedures for identifying and designating net assets.

Some considerations should include:

- How does the Board make decisions regarding designations?
- Are net assets designated once they reach a certain dollar threshold?
- Do the designations include amounts restricted as quasi-endowment?
- Does management have authority from the Board to make designations? If so, is the authority to do so formally documented?

Other Policies

Consider whether your organization should formalize new policies:

- An operating reserve policy that: a) establishes a minimum operating reserve amount, b) determines how reserves will accumulate, and c) defines steps to take if the reserve amount falls below the established level.
- A formal policy to support the liquidity disclosures required by the ASU. Some organizations may want to be certain that their procedures for disclosure reporting are followed consistently by adopting a policy that provides steps to ensure a consistent approach.

Other Considerations

Organizations should review their accounting and reporting systems and software to ensure financial information is readily available to enable the organization to properly prepare the liquidity disclosure.

Furthermore, organizations should review their other note disclosures and consider making changes to those disclosures, if necessary, based on the information reported in the organization's new liquidity disclosure.

Contact Us

If you have any questions about liquidity disclosures — or not-for-profit accounting and auditing matters in general — please contact Mark Piszko, CPA, CGMA, Partner-in-Charge, Not-for-Profit Services, at mpiszko@pkfod.com or 646.449.6316 or the partner in charge of your account.

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