



## **Liquidity and Availability Disclosures Required by ASU 2016-14**

### ***Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities***

Following are examples of disclosures for availability and liquidity of resources required by ASC 958-210-45-7(c), 958-210-45-8 and 958-210-50-1A. Those requirements include the communication of how an entity manages its liquid resources and the presentation of qualitative and quantitative information about resources available to meet cash needs for general expenditures within one year of the balance sheet date, including relevant information about the liquidity or maturity of assets and liabilities, including any restrictions on use.

The examples are designed to present two sets of circumstances, one a relatively simple organization and the other a more complex organization with significant contributions, donor restrictions including endowments, board designations and a material level of investments. Each of these two examples is also presented two ways, including both a simplified and an expanded format. This format is used demonstrate that, while liquidity and availability disclosures are required by the ASU, the guidance is not prescriptive and organizations have significant flexibility when determining the needs of their financial statement users.

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## Simple Organization

### Liquidity Example 1

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 20X1, the following financial assets are available to meet annual operating needs of the 201X fiscal year:

Cash and cash equivalents	\$ 50,000
Accounts receivable, net	15,000
Contributions for unrestricted purposes due in one year or less (note X)	12,000
Investments maturing within one year available for general purposes	85,000
	<hr/>
	\$ 162,000
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The Organization 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 XX for information about the Organization's lines of credit and commercial paper facilities.

Principal and interest on (programmatic investments, program loans, etc.) are not included in the analysis as those amounts are used solely to make new loans and are, therefore, not available to meet current operating needs. Based on historical experience, only the portion of contributions receivable due within one year are considered available for use in meeting annual operating needs (liquid).



## Simple Organization

### Liquidity Example 2

#### Financial assets at year-end:

Cash and Equivalents	\$	50,000
Accounts receivable, net		15,000
Contributions receivable, net		25,000
Program loans receivable, net		32,000
Investments convertible to cash in the next 12 months		175,000
Other long term investments		95,000
Total financial assets at year-end	\$	<u>392,000</u>

#### Financial assets available to meet general expenditures over the next 12 months

Cash and equivalents	\$	50,000
Accounts receivable, net		15,000
Contributions for operations due in 1 year or less		12,000
Payout on donor restricted endowments		7,000
Payout on quasi-endowments		3,000
Investments not encumbered by donor or board restrictions		75,000
	\$	<u>162,000</u>

Note that the narrative disclosures included in Liquidity Example 1 would be included here.



## Organization with Significant Donor Restricted and Board Designated Endowments

### Liquidity Example 1

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

The Organization receives substantial donor restricted gifts to establish endowments that will exist in perpetuity and contributions with donor time and purpose restrictions. The income generated from donor restricted endowments may be donor- restricted or unrestricted as to use. In addition, the Organization receives support without donor restrictions; such support has historically represented approximately 62% of annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

Investment income without donor restrictions, earnings appropriated from endowments with donor restrictions and board designated endowments (quasi-endowments), contributions without donor restrictions and contributions with donor restrictions for use in current activities and programs are considered 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, and included in the budget for, a fiscal year.

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

- Operating within a prudent range of financial soundness and stability,
- Maintaining a sufficient level of asset liquidity, and
- Monitoring and maintaining reserves to provide reasonable assurance that long term grant commitments and obligations related to endowments with donor restrictions and quasi endowments will continue to be met.

The Organization's Grant Committee (the Committee) meets semi-annually to review and approve grant requests. As a result, the Organization has a liquidity policy to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for administrative and general expenses, as well as 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. To achieve this, the Organization forecasts its future cash flows and monitors its liquidity quarterly.



The table below represents financial assets available for general expenditures within one year of December 31, 201X:

<b>Financial assets at year end:</b>	
Cash and cash equivalents	\$ 100,000
Collateral under security lending agreements	15,000
Pledge receivables	320,000
Other Receivables	25,000
Miscellaneous	4,000
Investments	5,300,000
<b>Total financial assets</b>	<u>5,764,000</u>
<b>Less amounts not available to be used within one year:</b>	
Investments in non-liquid securities	(3,100,000)
Investments held in custodial and non-custodial trusts	(200,000)
Pledge receivables for restricted gifts, net	(115,000)
Pledge receivables due after one year, net	(70,000)
Quasi-endowments	(600,000)
<b>Financial assets not available to be used within one year</b>	<u>(4,085,000)*</u>
<b>Financial assets available to meet general expenditures within one year</b>	<u>\$ 1,679,000 **</u>

\*See optional disclosure in *Organization with Significant Donor Restricted and Board Designated Endowments, Liquidity Example 2*, item E.

\*\* An organization could consider a table presenting projected general expenditures for the following year to demonstrate this amount is sufficient to meet those needs. That table is not presented here or in Liquidity Example 2.



## Organization with Significant Donor Restricted and Board Designated Endowments

### Liquidity Example 2

The following example illustrates expanded disclosures for the same Organization in the previous example, which would be added to the above disclosures, not in place of those disclosures. The purpose of the disclosure is to demonstrate the relationship between the financial assets not available for short-term purposes (i.e. they are available for long-term purposes, such as debt and long term contracts, and to fulfill obligations under donor purpose or time restrictions and board designations) and the donor restricted and board designated net assets. An organization's goal should be to have such financial assets be in excess of the related net assets:

In evaluating the adequacy of financial assets available to sustain commitments under long term debt agreements and other long term contracts, long-term purpose or time restricted net assets, and donor restricted and quasi (board designated) endowments, the Organization 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, 201X	\$ 4,500,000 (A)
Less net assets with purpose restrictions to be met in less than a year	(1,300,000)(B)
Plus quasi-endowments	<u>600,000 (C)</u>
<b>Net assets representing endowments with donor restrictions and quasi-endowments</b>	<b>\$ 3,800,000(D)</b>
<b>Financial assets not available to be used within one year, defined above</b>	<b>\$ 4,085,000(E)</b>

- (A) This should agree to the statement of financial condition as total net assets with donor restrictions.
- (B) This represents donor purpose (or time) restrictions on net assets that are expected to be met within annual operations as defined in the accounting policy.
- (C) This represents quasi endowments included in net assets without donor restrictions.
- (D) This represents the sum of A-C.
- (E) This equals the total in the first table of the disclosure, see *Organization with Significant Donor Restricted and Board Designated Endowments, Liquidity Example 1*, as financial assets not available to be used within one year (one year is the Organization's defined period of annual operations).