

# NOT-FOR-PROFITS: LIQUIDITY DISCLOSURES

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**Not-for-Profit Organizations** are facing new challenges implementing Financial Accounting Standards Board's (FASB) financial reporting standards, ASU 2016-14, the Presentation of Financial Statements of Not-for-Profit Entities.

The update affects Organizations with a calendar year-end of December 31, 2018 or a fiscal year-end in 2019. Whether you are an executive, board member, donor, or lender, it is important to understand the results of implementation.

The new standard's main purpose is to improve financial reporting by not-for-profit entities and allow the entity to better convey their story. While the ASU focuses on five main areas requiring changes in reporting or disclosures, one of the most challenging has been the new disclosures relating to the Organization's liquidity and availability of assets.



# NOT-FOR-PROFITS LIQUIDITY DISCLOSURE

Under the new ASU, Organizations are now required to disclose:

## QUALITATIVE INFORMATION

How the Organization manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.

## QUANTITATIVE INFORMATION

How the Organization communicates the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date.

The availability of financial assets may be affected by the nature of the assets, external limits imposed by donors, laws and contracts with others, and internal limits (designations) imposed by the board.

# NOT-FOR-PROFITS LIQUIDITY DISCLOSURE

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## WHY THE CHANGE?

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FASB believes the additional disclosure on liquidity and availability will increase transparency and promote a more thorough and accurate understanding of the Organization's ability to fund its operations.

By doing so, the disclosure will assist users of the financial statements in evaluating whether the Organization has sufficient resources to meet financial obligations as they come due.



NOT-FOR-PROFITS

# QUALITATIVE DISCLOSURE

The **QUALITATIVE** disclosure may include any of the following:

- ✓ Description of how availability of financial resources are determined
- ✓ Description of how general expenditures are determined
- ✓ Description of board designations and any operating or liquidity reserves
- ✓ Policies for investing excess cash
- ✓ Policies for spending from donor restricted and board designated endowment funds
- ✓ Policies for drawing down on available lines of credit or reserves
- ✓ Goals for maintaining financial assets to be available for general expenditures

## NOT-FOR-PROFITS

# QUANTITATIVE DISCLOSURE

The **QUANTITATIVE** disclosure must report the detail of financial assets available to meet cash needs for general expenditures within the next 12 months. The disclosure may also be in the form of a table or reconciliation, which shows that the total financial assets less reconciling items equals financial assets on hand to meet one year of cash expenditures.

Reconciling items may include financial assets that are not available for general use because of:

CONTRACTUAL  
RESTRICTIONS

DONOR-IMPOSED  
RESTRICTIONS

BOARD  
DESIGNATIONS

LONG-TERM  
INVESTMENTS

## NEXT STEPS: BE PROACTIVE

Although a liquidity and availability disclosure may seem challenging, we recommend you consider these steps to make this process easier:

Determine the message your Organization wants to convey to readers of the financials.

Share the Organization's strategy for managing financial resources.

Decide which presentation approach works best for your Organization.

Review internal policies and procedures and consider any necessary revisions.

Revisit existing donor and board designations and determine accuracy and relevancy.

Evaluate any necessary internal accounting and reporting systems changes.



## NEXT STEPS: LOOK TO AICPA

The AICPA has provided several examples of the liquidity and availability disclosure. The examples take many forms depending on the type of Organization, the relative liquidity of the Organization's resources, and whether there are any donor-imposed restrictions or internal board designations on financial resources. The examples may help your Organization consider how you want to design your liquidity disclosure to enhance transparency and better tell your story.



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2018 Small Business of the Year: 21-50 Employees



NonprofitCPAs

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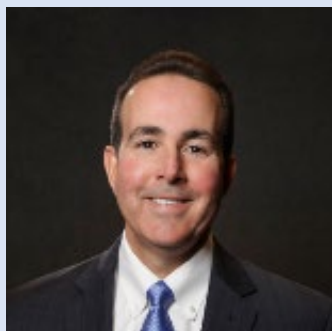


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### STRENGTH IN NUMBERS SINCE 1983



#### About the Author:

Sam A. Lazzara is a shareholder with Rivero, Gordimer & Company and has practiced accounting in the Tampa Bay area since 1986. Mr. Lazzara has considerable experience in auditing and taxation of not-for-profit organizations and serves as the shareholder in charge of many of the Firm's not-for-profit and governmental clients.

If you have any questions regarding the new liquidity and availability disclosures or any other not-for-profit industry topic, contact Sam Lazzara at [slazzara@rgcocpa.com](mailto:slazzara@rgcocpa.com)

At RGCO, our experience with not-for-profit organizations spans more than 35 years and has been a significant segment of our Firm's practice. Our commitment to this part of the industry has led to RGCO becoming a trusted name in the not-for-profit community that includes 501(c) 6 and 501(c) 3 corporations and private foundations.

