

The KLR logo is positioned in the upper left corner. It consists of the letters 'KLR' in a dark green, serif font, set within a white square. Below the letters are two horizontal brown lines.

KLR

The background of the slide is a photograph of a person in a dark suit and light blue shirt, holding a tablet computer. The person's face is partially visible on the left, looking towards the right. The background is a blurred office interior with windows.

# Implementing the New Non-Profit Reporting Standards

## Presented by



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Sandy has a passion for helping the nonprofit community and advises clients from application to dissolution, providing services such as strategic planning, audits, compliance audits, and assistance with developing and improving internal controls.



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# Agenda

**Effective Dates**

**Key Objectives**

**Net Assets**

**Investment Return**

**Statement of Cash Flows**

**Liquidity**

# Effective Dates



# Effective Dates




Effective for financial  
statements for fiscal years  
beginning after **December  
15, 2017**

\* Early adoption is permitted



# Key Objectives of ASU 2016-14

## Key Objectives of ASU 2016-14

- 
- Update, not overhaul, the current model
  - Improve net asset classification presentation
  - Improve information in financial statements and notes about: financial performance, cash flows, and liquidity
  - Better enable NFPs to “tell their financial story”

# Net Assets





# Net Assets

## Previous Guidance

### Unrestricted

- Available for current operations
- Board Designated Net Assets
- Invested in Property and Equipment

### Temporarily Restricted

- With donor restrictions that expire once a purpose is accomplished or with the passage of time

### Permanently Restricted

- Donor restrictions that do not expire
- Funds to be held in perpetuity
- Endowment Funds

# Net Assets

## New Guidance

- **Unrestricted**

***Without***  
Donor  
Restrictions

- **Temporarily Restricted**
- **Permanently Restricted**

***With*** Donor  
Restrictions

# Net Assets

## After December 17, 2017

### Net Assets

#### Without donor restrictions

|   |                  |
|---|------------------|
| Undesignated  | \$ 1,370,401     |
| Designated by the Board for operating reserve           | 250,000          |
| Designated by the Board for endowment                   | 14,912,222       |
| Invested in property and equipment, net of related debt | 20,193,878       |
|   | <hr/> 36,726,501 |

#### With donor restrictions

|                                    |                  |
|------------------------------------|------------------|
| Perpetual in nature                | \$ 22,450,146    |
| Purpose restrictions               | 10,351,233       |
| Time-restricted for future periods | 1,279,636        |
| Underwater endowments              | (42,677)         |
|                                    | <hr/> 34,038,338 |

|                                  |                     |
|----------------------------------|---------------------|
| Total net assets                 | <hr/> 70,764,839    |
| Total liabilities and net assets | <hr/> \$ 86,137,541 |

# Net Assets

## Disclosure After December 15, 2017

### Note # Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for specified purpose:

|                         |               |
|-------------------------|---------------|
| Building project        | \$ 500,000    |
| Scholarships and grants | 445,725       |
|                         | <hr/> 945,725 |

Subject to passage of time:

|   |                  |
|---|------------------|
| Contributions receivable                    | 22,450,146       |
| Assets held under split-interest agreements | 10,351,233       |
|   | <hr/> 32,801,379 |

Subject to the endowment spending policy and appropriation:

|                                 |                 |
|---------------------------------|-----------------|
| Perpetual trusts held by others | 1,279,636       |
| Annuity Funds                   | 457,216         |
|                                 | <hr/> 1,736,852 |

Subject to restriction in perpetuity:

|                                 |                 |
|---------------------------------|-----------------|
| Perpetual trusts held by others | 4,265,453       |
| Annuity Funds                   | 1,524,053       |
|                                 | <hr/> 5,789,507 |

|  |                           |
|--|---------------------------|
| Total net assets with donor restrictions | <hr/> <hr/> \$ 41,273,463 |
|--|---------------------------|



# Net Assets

## Disclosure After December 15, 2017

### Note # Endowments

Subject to appropriation and expenditure when a specified event occurs:

Restricted by donors for:

|                           |               |
|---------------------------|---------------|
| Available for general use | \$ 457,279    |
| Educational programs      | 225,756       |
|                           | <hr/> 683,035 |

Subject to organization endowment spending policy and appropriation:

|                              |                          |
|------------------------------|--------------------------|
| Operation of Training Center | 654,894                  |
| Educational programs         | 579,811                  |
| General use                  | 37,564                   |
| Underwater endowments        | (56,465)                 |
|                              | <hr/> 1,215,804          |
| Total endowments             | <hr/> <hr/> \$ 1,898,839 |

Not subject to spending policy or appropriation:

|  |                    |
|--|--------------------|
| Beneficial interest in assets held by community foundation | \$ 578,413         |
| Beneficial interest in perpetual trust                     | 1,576,789          |
|  | <hr/> \$ 2,155,202 |

# Net Assets

## Without Donor Restrictions

Board designations, appropriations, and other related **self-imposed limits**.

Those disclosures would include:

- a **description** of the purpose,
- **amounts**,
- **types** of transfers
- **qualitative** information, and
- **quantitative** information

# Net Assets

## Implied Time Restrictions on Capital Contributions

### Previous Guidance

- Release as dollars are spent
- Placed in service approach
- Imply a time restriction, release ratably over useful life of asset

### New Guidance

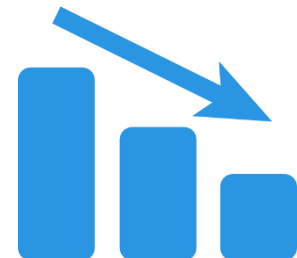
- Placed in service approach

# Net Assets

## Underwater Endowment Funds

### Include required disclosures:

- Interpretation of the NFP's ability to spend from the underwater endowment funds
- NFP's policy and any actions taken during the period, concerning appropriation from underwater endowment funds,
- the aggregate
  - fair value of such funds,
  - original gift amounts
  - amount by which funds are deficient





# Net Assets

## Underwater Endowment Funds

### Example Disclosure:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the Organization to retain as a fund of perpetual duration. **Deficiencies of this nature exist in 3 donor-restricted endowment funds, which together have an original gift value of \$3,500, a current fair value of \$3,300, and a deficiency of \$200 as of June 30, 2017.** These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. **The Organizations has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure \$75,000 from underwater endowment funds during the year, which represents 3 percent of the 12-quarter moving average, not the 5 percent it generally draws from its endowment.**

# Investment Return

# Investment Return

## Previous Guidance

- Investment income and investment expenses separately
- Investment income net of expenses (note disclosure required)

## New Guidance

- Investment return net of expenses

# Investment Return

## Investment Expenses

- Report external and direct internal investment expenses as a component of net investment return
- Exclude those expenses from the presentation of expenses by nature and function
- Establish procedures to accumulate the investment expenses to be netted against investment return





# Functional Expenses

# Functional Expenses

- All NFPs must present an analysis of expenses by function and nature in one location. Presentation options include:
  - Separate statement of functional expenses
  - Present a table in the notes to the financial statements
  - Incorporate into the statement of activities
- Include a description of the method(s) used to allocate costs among program and support function.
- **Comparative presentation is not required.**

# Functional Expenses

## Separate Statement - Comparative

|                                | Program Services |                     |                              | Supporting Activities     |             |                                   | Total<br>FY2017 | Total<br>FY2016 |
|--------------------------------|------------------|---------------------|------------------------------|---------------------------|-------------|-----------------------------------|-----------------|-----------------|
|                                | Field<br>Program | Public<br>Education | Total<br>Program<br>Services | Management<br>and General | Fundraising | Total<br>Supporting<br>Activities |                 |                 |
| Salaries and related expenses: |                  |                     |                              |                           |             |                                   |                 |                 |
| Salaries                       | \$ 949,907       | \$ 105,977          | \$ 1,055,884                 | \$ 94,846                 | \$ 150,026  | \$ 244,872                        | \$ 1,300,756    | \$ 1,479,744    |
| Payroll taxes                  | 27,253           | 2,666               | 29,919                       | 6,155                     | 11,613      | 17,768                            | 47,687          | 59,288          |
| Benefits                       | 155,761          | 18,309              | 174,070                      | 13,507                    | 23,615      | 37,122                            | 211,192         | 248,941         |
|                                | 1,132,921        | 126,952             | 1,259,873                    | 114,508                   | 185,254     | 299,762                           | 1,559,635       | 1,787,973       |
| Field program                  | 1,274,505        | -                   | 1,274,505                    | -                         | -           | -                                 | 1,274,505       | 1,186,193       |
| Contract services              | 30,020           | 6,151               | 36,171                       | 2,067                     | 108,701     | 110,768                           | 146,939         | 142,946         |
| In-kind contract services      | -                | -                   | -                            | -                         | 42,500      | 42,500                            | 42,500          | 27,500          |
| Legal and accounting services  | 77,466           | 12,184              | 89,650                       | 15,389                    | 2,795       | 18,184                            | 107,834         | 70,969          |
| Travel                         | 172,804          | 43,197              | 216,001                      | 15,111                    | 24,753      | 39,864                            | 255,865         | 278,632         |
| Office supplies                | 31,631           | 6,819               | 38,450                       | 2,713                     | 2,426       | 5,139                             | 43,589          | 68,692          |
| Telephone                      | 23,986           | 5,102               | 29,088                       | 2,176                     | 1,352       | 3,528                             | 32,616          | 33,213          |
| Postage                        | 4,926            | 800                 | 5,726                        | 800                       | 4,952       | 5,752                             | 11,478          | 10,550          |
| Rent and occupancy             | 172,015          | 42,577              | 214,592                      | 1,172                     | 2,207       | 3,379                             | 217,971         | 187,162         |
| Office equipment and software  | 21,050           | 2,921               | 23,971                       | 3,680                     | 12,901      | 16,581                            | 40,552          | 34,075          |
| In-kind advertising            | -                | -                   | -                            | -                         | 118,043     | 118,043                           | 118,043         | 118,348         |
| Printing and publications      | 17,777           | 3,980               | 21,757                       | 1,346                     | 21,252      | 22,598                            | 44,355          | 18,414          |
| Depreciation                   | 62,296           | -                   | 62,296                       | 23,772                    | 5,943       | 29,715                            | 92,011          | 77,141          |
| Dues                           | 4,646            | 1,344               | 5,990                        | 1,899                     | 3,048       | 4,947                             | 10,937          | 10,070          |
| Training and meetings          | 42,310           | 10,817              | 53,127                       | 2,470                     | 3,620       | 6,090                             | 59,217          | 64,904          |
| Financial expenses             | 59,098           | 7,756               | 66,854                       | 11,399                    | 3,689       | 15,088                            | 81,942          | 41,537          |
| Total expenses                 | \$ 3,127,451     | \$ 270,600          | \$ 3,398,051                 | \$ 198,502                | \$ 543,436  | \$ 741,938                        | \$ 4,139,989    | \$ 4,158,319    |

# Functional Expenses

## Example Disclosure:

The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.







# Statement of Cash Flow

# Statement of Cash Flow

## Previous Guidance

- Direct Method with indirect reconciliation of operating activities
- Indirect Method

## New Guidance

- Direct Method
- Indirect Method



**Other proposed changes were deferred to Phase 2**

# Statement of Cash Flow

## DIRECT METHOD

### Cash flows from operating activities:

|                                       |              |
|---------------------------------------|--------------|
| Cash received from contributors       | 10,645       |
| Cash received from service recipients | 5,020        |
| Interest and dividends received       | 8,570        |
| Miscellaneous receipts                | 150          |
| Cash paid to employees                | (13,400)     |
| Cash paid to suppliers                | (5,658)      |
| Interest paid                         | (382)        |
| Grants paid                           | (5,175)      |
| Net cash used by operating activities | <u>(230)</u> |

## INDIRECT METHOD

### Cash flows from operating activities:

|   |              |
|---|--------------|
| Change in net assets                                      | 15,450       |
| Adjustments to reconcile change in net assets to net cash |              |
| Depreciation  | 3,200        |
| Net gains on investments                                  | (15,800)     |
| Net gain on sale of equipment                             | (90)         |
| Net change in operating assets and liabilities -          |              |
| Contributions receivable                                  | (325)        |
| Accounts receivable                                       | (460)        |
| Prepaid expenses and other assets                         | 390          |
| Accounts payable and accrued expenses                     | 870          |
| Grants payable  | (425)        |
| Contributions restricted for long-term investments        | (3,040)      |
| Net cash used by operating activities                     | <u>(230)</u> |

A close-up photograph of a person's hand holding a thick stack of US dollar bills. The bills are fanned out, showing various denominations including \$100 and \$10,000. The person is wearing a dark suit jacket and a blue and white striped tie. The word "Liquidity" is overlaid in large, white, sans-serif font across the center of the image.

# Liquidity

# Liquidity

NFPs are required to provide



## Qualitative

Information on how an NFP manages its liquid available resources and its liquidity risk (note disclosures)

## # Quantitative

Information that communicate the availability of an NFP's financial assets to meet cash needs for general expenditures within one year (on the face and/or in the notes)

# Liquidity



## Implementation

- Comparative presentation not required
- Identify all financial assets and any limitations on availability for expenditure in the **next 12 months**
- Determine the format to present the required quantitative disclosure of liquidity information
  - Display gross amounts of financial assets, then adjustments to arrive at available for expenditure amounts, or
  - Display only the net amounts available for expenditure



# Liquidity






## Considerations

- Presentation of a classified statement of financial position (SOFP) to enhance or simplify the quantitative disclosure requirements (considering other effects elsewhere in the FS and notes)
- Develop a formal policy for managing the organization's liquidity needs
  - Will be articulated in the qualitative portion of the note disclosure

# Liquidity

## **Draft the note disclosure describing:**

-  How the entity manages its liquid assets and liquidity needs, including conditions under which certain board-designated net assets may be undesignated
-  Access to the lines of credit or other financing sources
-  Other information useful in understanding the entity's liquidity

# Example 1

The following reflects KLR Foundation's (KLRF's) financial assets as of the statement of financial position date reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

|   |    |              |
|---|----|--------------|
| Financial assets at year-end  | \$ | 234,410      |
| Less those unavailable for general expenditures within one year,<br>due to contractual or donor-imposed restrictions: |    |              |
| Restricted by donor with time or purpose restrictions   |    | (11,940)     |
| Subject to appropriation and satisfaction of donor restrictions   |    | (174,700)    |
| Investments held in annuity trust   |    | (4,500)      |
| Board designations:   |    |              |
| Quasi-endowment fund, primarily for long-term investing   |    | (36,600)     |
| Amounts set aside for liquidity reserve   |    | (1,300)      |
| Financial assets available to meet cash needs for general<br>expenditures within one year                             | \$ | <u>5,370</u> |

As part of KLRF'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.

In addition, KLRF invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, KLRF could also draw upon \$10,000 of available credit (as further discussed in Note XX) or its quasi-endowment fund.

# Example 1

|   |    |              |
|---|----|--------------|
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| Amounts set aside for liquidity reserve   |    | (1,300)      |
| Financial assets available to meet cash needs for general<br>expenditures within one year                             | \$ | <u>5,370</u> |

# Example 1

In addition, KLRF invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$1,300 as of June 30, 20X1. There is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, KLRF could also draw upon \$10,000 of available lines of credit (as further discussed in Note XX) or its quasi-endowment fund.



# Example 2

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.



# Example 2

The following table reflects the Association's financial assets as of December 31, 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement 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.***

# Example 2

|                               |                          |
|-------------------------------|--------------------------|
| Cash and cash equivalents     | \$ 2,740,000             |
| Investments                   | 11,100,000               |
| Accounts receivable           | 325,000                  |
| <b>Total financial assets</b> | <b><u>14,165,000</u></b> |

Less amounts not available to be used within one year:

|  |                             |
|--|-----------------------------|
| Investments in non-liquid securities   | (1,250,000)                 |
| Cash collateral related to letter of credit                                    | (275,000)                   |
| Board-designated special projects fund   | <u>(1,000,000)</u>          |
| <b>Financial assets available to meet general expenditures within one year</b> | <b><u>\$ 11,640,000</u></b> |

# Example 3

## Note #4

### Liquidity and Reserves

|   |                       |
|---|-----------------------|
| Total financial assets                                | \$ 4,454,636          |
| Donor-imposed restrictions:                           |                       |
| Funds subject to time restrictions                    | \$ (191,567)          |
| Endowments  | <u>\$ (115,500)</u>   |
| Net financial assets after donor-imposed restrictions | <u>\$ 4,147,569</u>   |
| Less:   |                       |
| Board-designated funds                                | \$ (359,114)          |
| Agency allocations payable                            | <u>\$ (4,034,689)</u> |
| Financial deficiency                                  | <u>\$ (246,234)</u>   |

# Example 3

The Organization 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. The Organization 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 year ended June 30, 20X1, the organization was able to meet its cash needs utilizing designated reserves.

# Questions? Let's Connect



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