

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 holding a tablet computer. The person's face is partially visible on the left, looking towards the right. The background is a blurred office setting with windows.

Implementing the New Non-Profit Reporting Standards



Presented by
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I work closely with clients to help them achieve their business and programmatic goals through strategic planning.



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AGENDA

- Effective Dates
- Key Objectives
- Net Asset Classes
- Investment Return
- Classification of Expenses
- Liquidity
- Statement of Cash Flows



EFFECTIVE DATES

EFFECTIVE DATES



Effective for financial
statements for fiscal years
beginning after

December 15, 2017

EFFECTIVE DATES

EARLY ADOPTION AND TRANSITION

- Early adoption is permitted
- Transition:
 - Single Year Presentation - Apply all provisions
 - Comparative presentation - Apply all provisions, except can choose not to present:
 - Analysis of expenses by nature and function*
 - Liquidity and availability of resources disclosure

* unless already required to do so under current GAAP



KEY OBJECTIVES



KEY OBJECTIVES




- 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 ASSET CLASSES



NET ASSET CLASSES

Current 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 ASSET CLASSES

New Guidance

- Unrestricted

Without
Donor
Restrictions

- Temporarily Restricted
- Permanently Restricted

With Donor
Restrictions

NET ASSET CLASSES

After December 17, 2017

Net Assets

Without donor restrictions

| | | |
|---|-------------------|-------------------|
| Undesignated | 3,057,607 | 1,370,401 |
| Designated by the Board for operating reserve | 300,000 | 250,000 |
| Designated by the Board for endowment | 15,511,186 | 14,912,222 |
| Invested in property and equipment, net of related debt | <u>21,150,885</u> | <u>20,193,878</u> |
| | 40,019,678 | 36,726,501 |

With donor restrictions

| | | |
|------------------------------------|------------|-----------------|
| Perpetual in nature | 22,864,750 | 22,450,146 |
| Purpose restrictions | 14,228,316 | 10,351,233 |
| Time-restricted for future periods | 1,391,825 | 1,279,636 |
| Underwater endowments | <u>-</u> | <u>(42,677)</u> |

| | | |
|----------------------------------|----------------------|----------------------|
| | 38,484,891 | 34,038,338 |
| Total net assets | <u>78,504,569</u> | <u>70,764,839</u> |
| Total liabilities and net assets | <u>\$ 94,314,447</u> | <u>\$ 86,137,541</u> |



NET ASSET CLASSES

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 ASSET CLASSES

After December 17, 2017

Note 10 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

| | 20X1 | 20X0 |
|--|------------------|------------------|
| Subject to expenditure for specified purpose: | | |
| Building project | \$ 500,000 | \$ - |
| Operation of the training center | 448,377 | 108,927 |
| Educational programs | 375,627 | 119,290 |
| Financial aid | 146,105 | 85,744 |
| Promises to give, the proceeds from which have been restricted by donors for | | |
| Educational programs | 57,265 | - |
| Centennial anniversary celebration | 22,847 | - |
| | <u>1,550,221</u> | <u>313,961</u> |
| Subject to the passage of time: | | |
| Beneficial interests in charitable trusts held by others | 812,850 | 804,179 |
| Assets held under split-interest agreements | 558,975 | 440,457 |
| Promises to give that are not restricted by donors, but which are unavailable for expenditure until due | 20,000 | 35,000 |
| | <u>1,391,825</u> | <u>1,279,636</u> |

NET ASSET CLASSES

After December 17, 2017

Endowments:

Subject to appropriation and expenditure when a specified event occurs:

Restricted by donors for

Available for general use

7,223,171

5,252,329

Educational programs

4,186,393

3,761,284

Financial aid

1,268,531

1,023,659

12,678,095

10,037,272

Subject to NFP endowment spending policy and appropriation:

Operation of the Training Center

6,811,531

6,726,382

Educational programs

8,279,742

8,000,578

Financial aid

1,688,411

1,686,761

General use

2,058,166

2,058,166

Unconditional promises to give, net - permanently restricted to general endowment

336,999

372,553

Underwater endowments

-

(42,677)

19,174,849

18,801,763

Total endowments

31,852,944

28,839,035

Not subject to spending policy or appropriation:

Beneficial interest in assets held by community foundation

1,094,842

1,090,505

Beneficial interests in perpetual trusts

2,595,059

2,515,201

3,689,901

3,605,706

\$ 38,484,891

\$ 34,038,338

NET ASSET CLASSES

Underwater Endowment Funds

Include required disclosures:

- 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



INVESTMENT RETURN

INVESTMENT RETURN

Current 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



CLASSIFICATION OF EXPENSES

CLASSIFICATION OF EXPENSES

| | Program Activities | | | | Supporting Activities | | | Total Expenses |
|--------------------------------|--------------------|----------------|-----------------|-------------------|------------------------|----------------|---------------------|------------------|
| | A | B | C | Programs Subtotal | Management and General | Fund-Raising | Supporting Subtotal | |
| Salaries and benefits | \$ 7,400 | \$3,900 | \$ 1,725 | \$ 13,025 | \$ 1,130 | \$ 960 | \$ 2,090 | \$ 15,115 |
| Grants to other organizations | 2,075 | 750 | 1,925 | 4,750 | | | | 4,750 |
| Supplies and travel | 890 | 1,013 | 499 | 2,402 | 213 | 540 | 753 | 3,155 |
| Services and professional fees | 160 | 1,490 | 600 | 2,250 | 200 | 390 | 590 | 2,840 |
| Office and occupancy | 1,160 | 600 | 450 | 2,210 | 218 | 100 | 318 | 2,528 |
| Depreciation | 1,440 | 800 | 570 | 2,810 | 250 | 140 | 390 | 3,200 |
| Interest | 171 | 96 | 68 | 335 | 27 | 20 | 47 | 382 |
| Total expenses | <u>\$13,296</u> | <u>\$8,649</u> | <u>\$ 5,837</u> | <u>\$ 27,782</u> | <u>\$ 2,038</u> | <u>\$2,150</u> | <u>\$ 4,188</u> | <u>\$ 31,970</u> |

CLASSIFICATION OF EXPENSES

Footnote example:

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.

BANK

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



- 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

A simple line-art icon of a lightbulb with a glowing yellow center, positioned to the right of the word '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:

Disclosure

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.*

EXAMPLE 1

| | |
|--|------------------------|
| Financial assets, at year-end | \$ 234,410 |
| Less those unavailable for general expenditures within one year, 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 | <u>(1,300)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u><u>\$ 5,370</u></u> |

EXAMPLE 1



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.

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:

Information regarding liquidity and availability

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 |
| Total financial assets | 14,165,000 |
| 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 | (1,000,000) |
| Financial assets available to meet general expenditures within one year | \$ 11,640,000 |

Example 3:

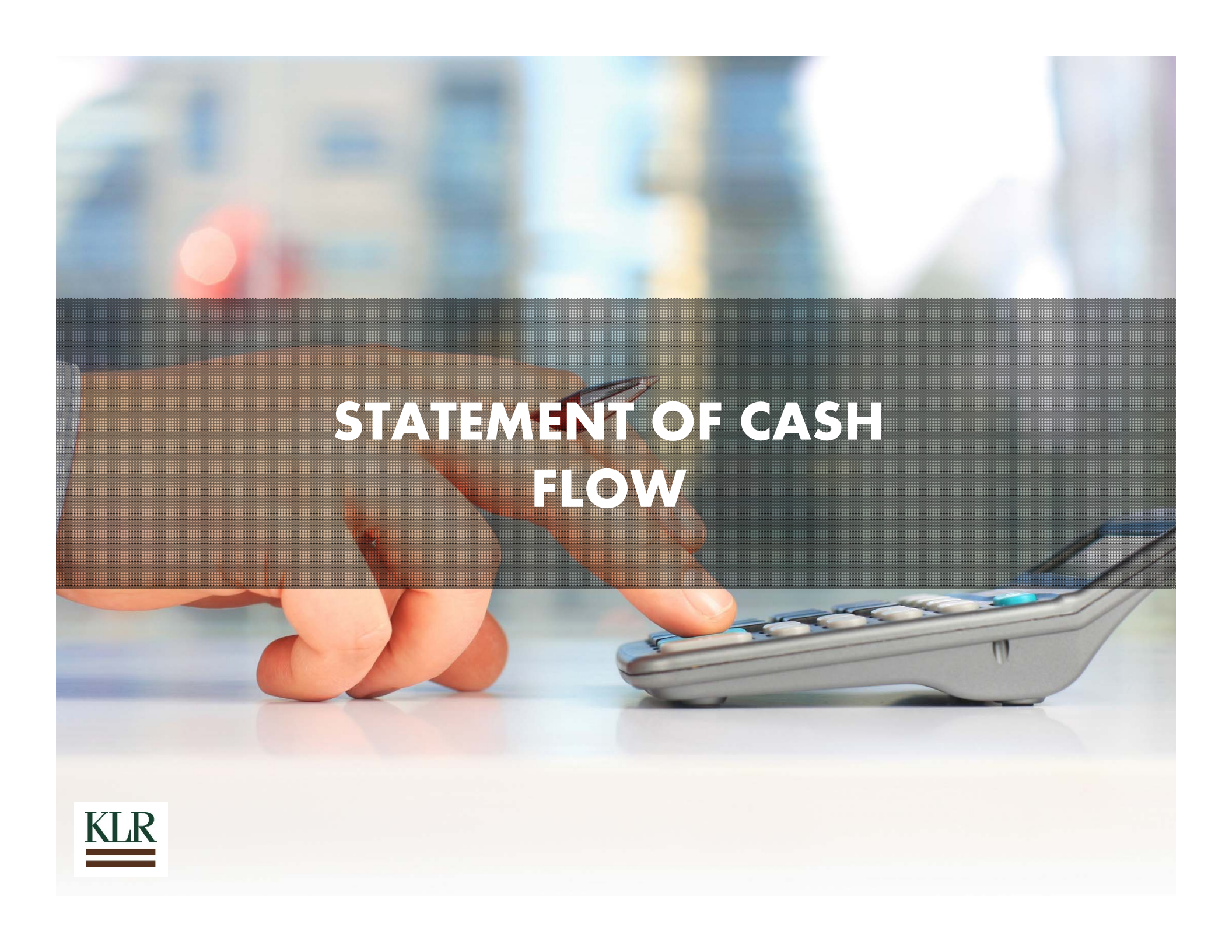
Liquidity and reserves

EXAMPLE 3

| | | |
|--|--|--------------|
| Total financial assets | | \$ 4,454,636 |
| | | |
| Donor-imposed restrictions: | | |
| Funds subject to time restrictions | | (191,567) |
| Endowments | | (115,500) |
| Net financial assets after donor-imposed restrictions | | 4,147,569 |
| Less: | | |
| Board-designated funds | | (359,114) |
| Agency allocations payable | | (4,034,689) |
| Financial assets needed to meet cash needs for general expenditures within one year | | \$ (246,234) |

EXAMPLE 3

All board-designated funds can be made available to meet operating needs if necessary. During the years ended June 30, 20X1, the organization was able to meet its cash needs utilizing designated reserves.



STATEMENT OF CASH FLOW

STATEMENT OF CASH FLOW

Current Guidance:

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

New Guidance:

- Direct Method
- Indirect Method

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> |

Questions? Let's Connect



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