



ST. LOUIS | JUNE 20-23

**OPERA CONFERENCE 2018**

LIFTING MANY VOICES

# MANAGING LIQUIDITY

11:00 a.m. – 12:15 p.m.

**GENOVESE VANDERHOOF & ASSOCIATES**

THEATRE PLANNERS / LIGHTING DESIGNERS  
**Schuler Shook**

THE NATIONAL **OPERA** CENTER  
AMERICA

**#OperaConf**

A photograph of a lighthouse on a cliff overlooking the ocean at sunset. The lighthouse is illuminated from within, and the sun is setting on the horizon, casting a warm glow over the scene. The ocean waves are visible in the foreground.

# PRACTICAL GUIDE TO IMPLEMENTING THE NEW NOT-FOR-PROFIT REPORTING MODEL

**BKD**<sup>LLP</sup>  
CPAs & Advisors

## GOALS FOR TODAY

- 1 Refresher on Changes to Financial Statements
- 2 How to Implement Changes
- 3 Examples

## ASU 2016-14 – PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES

- ▶▶ Net asset classification scheme
- ▶▶ Methods of presenting statement of cash flows
- ▶▶ Presentation of expenses by nature & function
- ▶▶ Presentation of net investment return
- ▶▶ Donor-imposed restrictions for the acquisition or construction of long-lived assets
- ▶▶ Improved disclosures about availability of resources & liquidity
- ▶▶ Disclosures about self-defined operating measures

## TRANSITION

- ▶▶ Effective for financial statements for fiscal years beginning after December 15, 2017, and for interim financial statements for periods after that date (early adoption is allowed)
- ▶▶ If comparative financial statements are issued, NFP may omit the following information in comparative financial statements for any years presented before the adoption year
  - Analysis of expense by functional & natural classification
  - Disclosures around liquidity & availability of resources

# NET ASSET CLASSIFICATION SCHEME

- ▶▶ Current GAAP
  - Unrestricted
  - Temporarily restricted
  - Permanently restricted
- ▶▶ Updated GAAP
  - Without donor restrictions
  - With donor restrictions
- ▶▶ Underwater endowments netted with donor restrictions



## REQUIRED DISCLOSURES FOR NET ASSETS CLASSIFICATION SCHEME

Without Donor Restrictions	With Donor Restrictions
Amounts & purpose of governing board designations	Composition of net assets at period's end
Can be disclosed on face or in the notes	How the restrictions affect resource use
	Can be disclosed on face or in notes

# EXAMPLE FOOTNOTE DISCLOSURES ON NET ASSETS WITH & WITHOUT RESTRICTIONS

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

	<u>2017</u>
Subject to expenditure for specified purpose:	
New opera development	\$ 4,250
Capital projects	1,235
Names opera support	2,150
Other	<u>2,815</u>
	10,450
Subject to the passage of time:	
Beneficial interest in trusts	450
Assets held under split-interest agreements	1,200
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>800</u>
	2,450
Endowments:	
Subject to appropriation and expenditure when a specified event occurs:	
Available for general use	1,000
New opera development	1,120
Other program support	-
Underwater endowments	<u>(80)</u>
	2,040
Subject to endowment spending policy and appropriation:	
General use	109,100
New opera development	33,300
Other program support	<u>32,300</u>
	174,700
Total endowments	<u>176,740</u>
Total net assets with donor restrictions	<u>\$ 189,640</u>



## EXAMPLE FOOTNOTE DISCLOSURE ON NET ASSETS WITH & WITHOUT RESTRICTIONS

### **Note D**

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

# ENDOWMENT DISCLOSURES EXAMPLE

200Y

Endowment Net Asset Composition by Type of Fund as of June 30, 200Y

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 7,084	\$ -	\$ 7,084
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	97,759	97,759
Accumulated investment gains	-	35,201	35,201
Term endowment	-	4,388	4,388
Total funds	<u>\$ 7,084</u>	<u>\$ 137,348</u>	<u>\$ 144,432</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 200Y

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 6,947	\$ 142,053	\$ 149,000
Investment return, net	10	372	382
Contributions	-	2,000	2,000
Appropriation of endowment assets for expenditure	(373)	(7,077)	(7,450)
Other changes:			
Transfers to create board-designated endowment funds	500	-	500
Endowment net assets, end of year	<u>\$ 7,084</u>	<u>\$ 137,348</u>	<u>\$ 144,432</u>

## ENDOWMENT FUNDS – ADDITIONAL DISCLOSURES



- ▶▶ Aggregate amount by which funds are underwater (currently required)
- ▶▶ Aggregate of the original gift amounts (or level required by donor or law) for such funds
- ▶▶ Any governing board policies or decisions to spend or not spend from underwater funds

# ENDOWMENT DISCLOSURES

## ▶▶ Example UPMIFA disclosure

- “From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2017, funds with original gift values of \$1,200,000, fair values of \$1,120,000, and deficiencies of \$80,000 were reported in net assets with donor restrictions.”

# UNDERWATER RECLASSIFICATION EXAMPLE

## Statement of Activities, abbreviated

	2017		
	Without Donor Restriction	With Donor Restriction	Total
Change in Net Assets	\$ 150,000	\$ 50,000	\$ 200,000
Net Assets, Beginning of Year, as Previously Stated	3,000,000	2,000,000	5,000,000
Restatement applicable to prior year underwater endowments	<u>70,000</u>	<u>(70,000)</u>	<u>-</u>
Net Assets, Beginning of Year, Restated	<u>3,070,000</u>	<u>1,930,000</u>	<u>5,000,000</u>
Net Assets, End of Year	<u>\$ 3,220,000</u>	<u>\$ 1,980,000</u>	<u>\$ 5,200,000</u>

- ▶▶ Assuming adoption as of June 30, 2017
  - Restatement amount would be equal to underwater value, as of July 1, 2015
  - Any change in underwater value attributed to 2016 activity would be reflected as a change in 2016 investment return amount

## METHOD OF PRESENTING STATEMENT OF CASH FLOWS FOR OPERATING ACTIVITIES

Can present as indirect or direct



If direct is presented, the presentation of the indirect reconciliation is no longer required

## PRESENTATION OF NET INVESTMENT RETURN

- ▶▶ Presented net of external & direct internal investment expenses (other than those from programmatic investing)
- ▶▶ No longer required to disclose expenses netted against investment return
- ▶▶ No longer required to display the investment return components in the endowment net assets rollforward

## EXPIRATIONS OF RESTRICTIONS ON GIFTS OF LONG-TERM ASSETS

- ▶▶ Use the placed-in-service approach for reporting expirations of restrictions
- ▶▶ Eliminates the option to release the donor-imposed restriction over the estimated useful life



## PRESENTATION OF EXPENSES

- ▶▶ Expenses have to be presented by natural classification & functional classification in one location
- ▶▶ Can be shown on face statements or notes
- ▶▶ Expenses on SOA can be shown by natural classification or functional
- ▶▶ Voluntary health & welfare organizations are no longer required to report a separate statement of expenses of functional expenses but would have the same flexibility as other NFPs

## EXAMPLE FOOTNOTE DISCLOSURE FOR EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, 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.

## EXPENSES – ADDITIONAL ITEMS

- ▶▶ New requirement to provide qualitative disclosure about methods used to allocate expenses attributable to more than one program
- ▶▶ ASU refines some definitions & enhanced guidance
  - Management & General – includes additional examples
  - Implementation guidance to help distinguish between direct conduct & direct supervision of program or supporting services

# EXPENSES BY NATURE & FUNCTION

2017

	Program Activities			Supporting Activities			Total Expenses
	A	B	Program Subtotal	MG&A	Fund-raising	Support Subtotal	
	Salaries/benefits	\$ -	\$ -	\$ -	\$ -	\$ -	
Orchestra							
Professional fees							
Information technology							
Promotional and development							
Rent/utilities							
Supplies							
Depreciation							
Interest							
<b>Total expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## EXAMPLE STATEMENTS OF ACTIVITIES

### Format A

Information  
presented in a  
single column

### Format B

Information  
presented in a  
multicolumn  
format

### Format C

Information  
presented in two  
statements

# EXAMPLE A

Changes in net assets without donor restrictions:	
Revenues and gains:	
Contributions	\$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	<u>20,840</u>
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	<u>19,240</u>
Total revenues, gains, and other support without donor restrictions	<u>40,080</u>
Expenses and losses:	
Salaries and benefits	15,115
Grants to other organizations	4,750
Supplies and travel	3,155
Services and professional fees	2,840
Office and occupancy	2,528
Depreciation	3,200
Interest	382
Total expenses (Note F)	<u>31,970</u>
Fire loss on building	80
Total expenses and losses	<u>32,050</u>
Increase in net assets without donor restrictions	<u>8,030</u>
Changes in net assets with donor restrictions:	
Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	<u>7,420</u>
Increase in total net assets	<u>15,450</u>
Net assets at beginning of year	270,640
Net assets at end of year	<u>\$ 286,090</u>

# EXAMPLE B

	2016		
	Without Donor Restrictions	With Donor Restriction	Total
Revenues, gains, and other support:			
Contributions	\$ 8,640	\$ 8,390	\$ 17,030
Fees	5,200	-	5,200
Investment return, net	6,650	-	6,650
Gain on sale of equipment	200	18,300	18,500
Other	150	-	150
Net assets released from restrictions (Note D):			-
Satisfaction of program restrictions	8,990	(8,990)	-
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	-
Expiration of time restrictions	1,250	(1,250)	-
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	-
Total net assets released from restrictions	19,240	(19,240)	-
Total revenues, gains, and other support	40,080	7,450	47,530
Expenses and losses:			
Program A	13,296	-	13,296
Program B	8,649	-	8,649
Program C	5,837	-	5,837
Management and general	2,038	-	2,038
Fundraising	2,150	-	2,150
Total expenses (Note F)	31,970	-	31,970
Fire loss on building	80	-	80
Actuarial loss on annuity trust obligations	-	30	30
Total expenses and losses	32,050	30	32,080
Change in net assets	8,030	7,420	15,450
Net assets at beginning of year	84,570	186,070	270,640
Net assets at end of year	92,600	193,490	286,090

## EXAMPLE C PART 1

Revenues and gains without donor restrictions:	
Contributions	\$ 8,640
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	<u>20,840</u>
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	<u>19,240</u>
Total revenues, gains, and other support without donor restrictions	<u>40,080</u>
Expenses and losses:	
Program A	13,296
Program B	8,649
Program C	5,837
Management and general	2,038
Fundraising	2,150
Total expenses (Note F)	<u>31,970</u>
Fire loss on building	80
Total expenses and losses without donor restrictions	<u>32,050</u>
Increase in net assets without donor restrictions	<u>\$ 8,030</u>



## EXAMPLE C PART 2

Net assets without donor restrictions:	
Total revenues and gains	\$ 20,840
Net assets released from restrictions (Note D)	19,240
Total expenses and losses	(32,050)
Increase in net assets without donor restrictions	<u>8,030</u>
Net assets with donor restrictions:	
Contributions	8,390
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	<u>7,420</u>
Increase in net assets	<u>15,450</u>
Net assets at beginning of year	<u>270,640</u>
Net assets at end of year	<u>\$ 286,090</u>

## INFORMATION ABOUT AVAILABLE RESOURCES & LIQUIDITY

Qualitative Disclosures	Quantitative Information
Strategy for addressing risks that may affect liquidity	Include information that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs within one year of the balance sheet date
Policy for establishing liquidity reserves	Can be on the face of the Statement of financial position or in the notes
Information that communicates how NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date	

## LIQUIDITY – EXAMPLE FOOTNOTE

Financial assets, at year-end	\$ 237,965
Less those unavailable for general expenditures within one year, due to	
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	(11,250)
Subject to appropriation & satisfaction of donor restrictions	(176,740)
Investments held in annuity trust	(1,650)
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>\$ 10,425</u></u>

## LIQUIDITY – EXAMPLE FOOTNOTE

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash & cash equivalents	\$	4,575
Accounts receivable		2,130
Operating investments		1,400
Promises to give		1,825
Distributions from assets held under split-interest agreements		75
Distributions from beneficial interests in assets held by others		120
Endowment spending-rate distributions & appropriations		300
		<hr/>
	\$	10,425
		<hr/> <hr/>

## EXAMPLE FOOTNOTE FOR LIQUIDITY DISCLOSURES

### **Note G**

The following reflects the Organization's financial assets, as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

## EXAMPLE FOOTNOTE FOR LIQUIDITY DISCLOSURES

### **Note G – Line of Credit**

The Organization has seasonal cash flow fluctuations relating to ticket sales and contribution revenue activity. To manage this seasonal activity, The Organization maintains an operating line of credit to be drawn upon as needed, as discussed in Note H. As of June 30, 2017, \$X million remained available on the line of credit.

### **Note G – Restricted Contributions**

The Organization receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2017, restricted contributions of \$\_\_\_\_\_, were included in financial assets available to meet cash needs for general expenditures within one year.

## LIQUIDITY DISCLOSURE – OTHER NARRATIVE

Our endowment funds consist of donor-restricted endowments & funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowment of \$36,600 is subject to an annual spending rate of 4.5 percent as described in Note X. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval & appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs & money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$1,300 as of June 30, 2016.

# TAKEAWAYS

- ▶▶ NFP's need to be involved in drafting financial statements
- ▶▶ Early adoption?
  - Most provisions can be adopted without adopting standard, except underwater endowments, disclosure of netted investment expenses, indirect reconciliation of SOCF
- ▶▶ Implementation considerations
  - Training for teams
  - Changes needed for tracking net assets or reports run out of system?
  - Decisions where options are available
    - || SOA presentation
    - || Disaggregation on face of statements or notes
    - || Functional expenses
  - Board designated information
  - Endowment changes
  - Liquidity Disclosures – need to develop policies



# QUESTIONS?

# THANK YOU!

Elizabeth A Knysak, CPA  
bknysak@bkd.com  
314.236.5164

**BKD**<sup>LLP</sup>  
CPAs & Advisors



ST. LOUIS | JUNE 20-23

**OPERA CONFERENCE 2018**

LIFTING MANY VOICES

# MANAGING LIQUIDITY

11:00 a.m. – 12:15 p.m.

**GENOVESE VANDERHOOF & ASSOCIATES**

THEATRE PLANNERS / LIGHTING DESIGNERS  
**Schuler Shook**

THE NATIONAL **OPERA** CENTER  
AMERICA

**#OperaConf**