

Liquidity and Reserves

Is Our Nonprofit Positioned for Success?

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Agenda

Liquidity Disclosure Requirements

Liquidity and Reserves – Key Questions



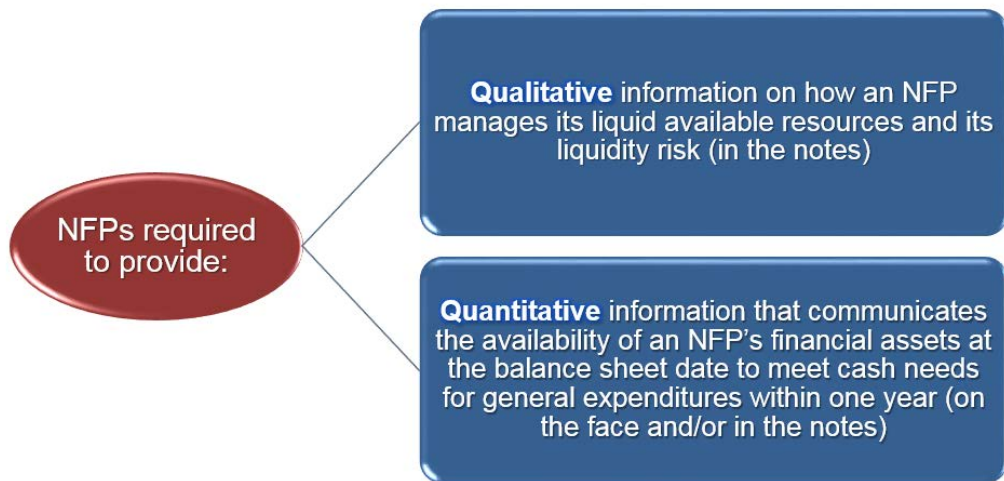
ASU 2016-14

Presentation of Financial Statements of Not-for-Profit Entities – Liquidity Disclosure Requirements

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Liquidity and Availability



Disclosure Analysis – Paragraph 1

Note X - Available Resources and Liquidity

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The University 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 C for information about the University's lines of credit and commercial paper facilities.

- Defines the objective of the organizations available funds (could insert liquidity or reserves policy)
- Discloses the diversity of their funds including other instruments available for liquidity (i.e. lines of credit)

Disclosure Analysis – Paragraph 2

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the university considers all expenditures related to its ongoing activities of teaching, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures. Student loans receivable are not included in the analysis as principal and interest on these loans are used solely to make new loans and are, therefore, not available to meet current operating needs.

- Discloses the definition of “general expenditures” and explicitly defines the measurement (12 months)

Disclosure Analysis – Paragraph 3

In addition to financial assets available to meet general expenditures over the next 12 months, the university operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the university's cash and shows positive cash generated by operations for fiscal years 20X1 and 20X0.

- Discloses the organization's operating budget goals

Disclosure Analysis – Paragraph 4

As of June 30, 20X1, the following tables show the total financial assets held by the university and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end	
Cash and cash equivalents	\$ 33,145
Accounts receivable, net	9,450
Contributions receivable, net	23,700
Student loan receivables, net	22,825
Investments convertible to cash in the next 12 months	149,861
Other long-term investments	107,369
Total financial assets at year-end	<u>\$ 346,350</u>

- Discloses all financial assets that could be used within one year of the financial statement (i.e. excludes financial assets such as long-term pledges, illiquid alternative investments, etc..)

Disclosure Analysis – Paragraph 5

Financial assets available to meet general expenditures over the next 12 months		
Cash and equivalents	\$	33,145
Accounts receivable, net		9,450
Contributions for general expenditures due in one year or less (note XX)		8,500
Payout on donor-restricted endowments for use over next 12 months		7,468
Payout on quasi-endowments for use over next 12 months		1,400
Investments not encumbered by donor or board restrictions		50,678
	\$	<u>110,641</u>

- Discloses the reconciliation of the financial assets available, how much does the organization actually intend on using in the next 12 months (i.e. spending policy, donor restricted funds budgeted for use, etc.)

Summary of Key Disclosure Elements

Quantitative

- Liquidity/reserves policy (including diversity of cash sources)
- Definition of general expenditures
- Operating budget goals

Qualitative

- Understanding what your financial assets are
- Determining approach to informing the reader which financial assets are available for use one year after the balance sheet date



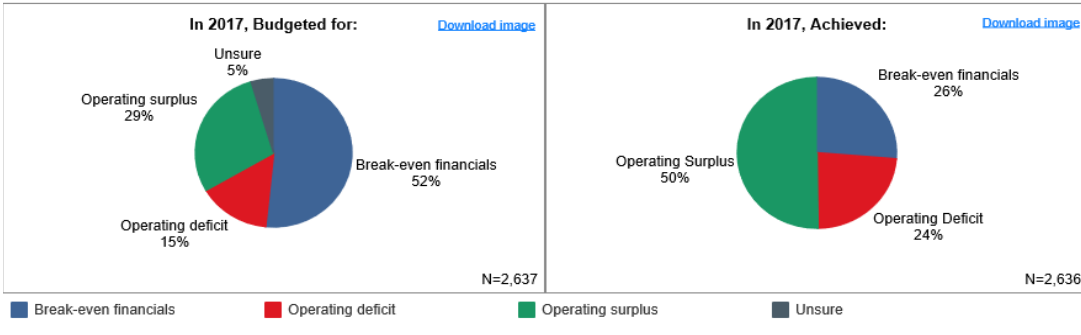
Liquidity and Reserves – Key Questions

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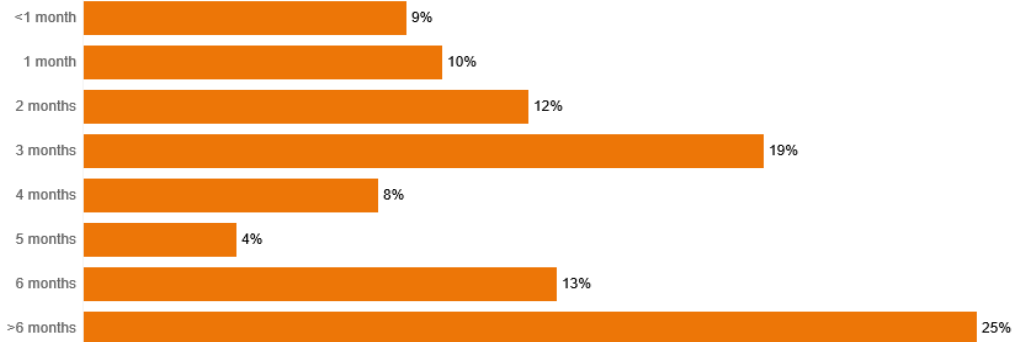
Nonprofit Finance Fund Survey

FY2017 Results



Cash on Hand

[Download image](#)



N=3,369

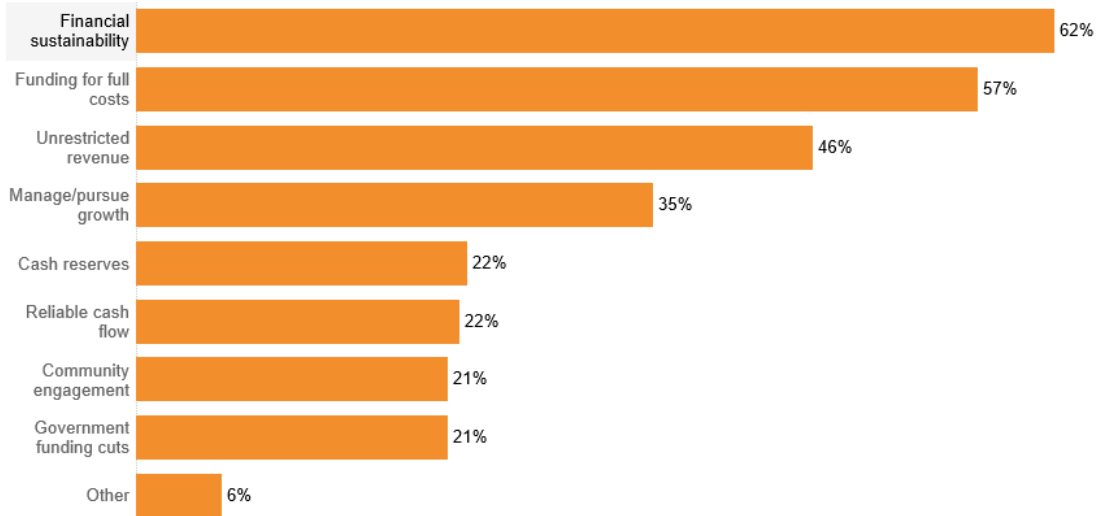
Nonprofit Finance Fund Survey



Nonprofit
Finance Fund®

Top operational/financial challenges

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N=2,694

What Is a Reserve?

- Excess cash?
- Restricted cash?
- An endowment fund?
- Unrestricted net assets?



Reserves Are:

- Liquid/available and unrestricted net assets:
 - Liquid/available: can be converted into cash quickly with minimal impact to price received (i.e. liquidation of investments at unfavorable terms)
 - Unrestricted: not restricted for use by donors or organization



Discussion

1. Do you believe the new disclosures will create more transparency as to an organizations liquidity/reserve position?
2. Do you find it difficult to have the open/transparent conversation with stakeholders about liquidity/reserves?



Reserves Are Needed

- Reserves directly relate to carrying out the mission of organization in near-term and long-term.
- How do we communicate need for reserves to board and external stakeholders?
 - Tell the story



Reserves: Communicating the Need

Board:

- Be transparent about how reserves are calculated and their future use.
- Clearly delineate between uses for reserves.
- Make link between strategic planning and reserves very evident.

Reserves: Communicating the Need

External Stakeholders:

- Be transparent about how reserves are calculated and their future use.
- Advertise need and purpose of reserves through:
 - Discussions with stakeholders
 - Website
 - Financial documents
- Benchmarking against peers.



Example – External Reserves Communication

- **Example: Water For People**
 - Added a management discussion and analysis (MD&A) explaining purpose of their reserves

DEMAND OUTPACING SUPPLY

As we gained momentum for **EF** in fiscal year 2013, demand for our services outpaced our resources. Water For People and our Board of Directors made an important decision to dip into operating reserves to maintain momentum and push our mission further than we otherwise could, resulting in a deficit of \$1.2 million in fiscal year 2013. This deficit was predicted throughout the year, contained to a level we were comfortable with, and integrated into our overall strategy and financial planning. Water For People has built and maintained operating reserves for this very reason, to allow us to make a larger investment in our mission at key strategic points in time. It allowed us to push **EF** further in the field, to build support in-country for further local investments, and to push **EF** at an international level.

Discussion

Do you see opportunities to use the new liquidity disclosure requirements to enhance communication with financial statement readers?



Conclusion

- Understand the critical quantitative and qualitative disclosure requirements for liquidity
- Use the new requirements as an opportunity to engage key stakeholders on the need for reserves
- Consider how the new disclosure requirements can be used to “tell your story” on reserves





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Questions?

Tim Warren

Principal

tim.warren@CLAconnect.com

617-984-8143

Melissa Murphy

Senior

melissa.murphy@CLAconnect.com

617-984-4443



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cliftonlarsonallen](https://www.linkedin.com/company/cliftonlarsonallen)



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