March 26, 2019

Preparing for Enhanced Disclosure: Liquidity and Availability

AUDIT, NOT-FOR-PROFIT
BY JENNIFER CLOSSER

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 represents the single biggest change to not-for-profit financial statements in over 20 years. This standard does not change any existing accounting, except in limited cases, but rather is designed to refresh the presentation of the financial statements with a focus on additional transparency surrounding restrictions and liquidity.

The enhanced liquidity disclosures require both qualitative and quantitative information. This requirement is a result of financial statement user concerns about the lack of transparency in financial statements and the ability to assess an organization's liquidity from the face of the financial statements. For example, board designations and donor restrictions could mean that certain amounts of cash and cash equivalents or investments, although liquid by nature, may not be able for general expenditure over the next 12 months.

When preparing this disclosure, not-for-profit organizations should determine the message that they want to convey to their financial statement users and decide on the best presentation approach. For example, if the organization has ample resources to meet general expenditures over the next 12 months, it may want to make that clear. On the other hand, if it is apparent from the financial statements that the organization will struggle to meet general expenditures over the next 12 months, it may want to disclose its action plan. There are also options when it comes to presenting the qualitative information. The information may either be presented on the face of the statement of financial position or in the notes to the financial statement. Overall, there is no prescribed format for this new standard. Every organization is unique, and although this is a big change, it is a great opportunity for organizations to tell their story.

To prepare for this disclosure, organizations should review significant agreements that may impact their liquidity, such as bond and loan agreements, affiliation agreements, donor agreements or contracts with state or federal agencies. It is also a good time to review any board-designated net assets to determine that they still make sense for the organization. If the organization doesn't have a policy regarding board designation in place, now is a good time to consider implementing one. As a reminder, ASU 2016-14 is effective for 12/31/18 year-ends. The liquidity and availability disclosure is not required to be comparative in the year of adoption.

You've heard our thoughts… We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.