FASB Nonprofit Financial Statement Project

An Analysis of the Impact of Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU")

By:

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In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU"). FASB's agenda was separated into two phases of which Phase 1 has been included in the ASU. Currently, the FASB does not have a projected timeline for Phase 2. The financial statement project was initiated to ensure nonprofit reporting continues to meet the dynamic needs of users.

The key objective for this ASU is to allow nonprofit entities to tell their financial story and improve the usefulness of information provided to donors, grantors and other users of the financial statements.

Since the issuance of the ASU, many clients and board members have posed the question, "How will these new statements and disclosure requirements be presented and what should we do now, prior to adoption?" While the ASU provides presentation and disclosure examples which help answer these questions, Smith & Howard offers this compilation of our previously published in-depth articles on the changes to financial statement presentation and disclosures set forth in the ASU.

This series includes the changes set in Phase 1 and covers the following topics:

Please see page 17 for final thoughts which include the effective date and impact on the nonprofit community and the financial statement users.

If you have any questions on the information contained in this series of articles, or would like to talk to Smith & Howard's nonprofit group about implementation, please call 404-874-6244 and ask for a member of our nonprofit audit team.

Series 1: FASB Nonprofit Financial Statement Project – Presentation of Net Assets

What do these changes mean for nonprofit financial statements?

Net Asset Categories

This section will focus on the significant changes to net assets and is the largest impact of the ASU to nonprofit financial statements.

The ASU replaces the current three classes of net assets (unrestricted, temporarily restricted and permanently restricted) with two new classes – net assets with donor restrictions and net assets without donor restrictions. These categories are designed to help the users of the financial statement better understand the restrictions. The two categories represent the minimum disclosure requirement.

If a nonprofit feels that more information is required for the reader to understand the financials, then it is acceptable to disaggregate the information further. Below is an example of a statement of financial position and corresponding statement of activities with the changes implemented.

Nonproft ABC, Inc.
Statement of Financial Position
Year Ended June 30, 2019

ASSETS

	2019	2018
Cash and cash equivalents	$ 4,575	$ 4,960
Grants and other receivables	2,130	1,670
Investments	219,470	204,500
Pledges receivable	3,025	2,700
Prepaid expenses and other assets	610	1,000
Property and equipment, net	66,910	68,150
Total Assets	$ 296,720	$ 282,980
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 2,570	$ 1,700
Advances under grants	875	1,300
Deferred rent liability	1,685	1,700
Note payable	5,500	7,640
Total Liabilities	10,630	12,340
Net assets		
Without donor restrictions	92,600	84,570
With donor restrictions	193,490	186,070
Total Net Assets	286,090	270,640
Total Liabilities and Net Assets	$ 296,720	$ 282,980

Nonprofit ABC, Inc.
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions and other revenues	$ 8,640	$ 8,360	$ 17,000
Fees	5,200	-	5,200
Investment return, net	6,650	18,300	24,950
Other	350	-	350
Net assets released from restrictions	19,240	(19,240)	-
Total Revenues and Other Support	40,080	7,420	47,500
Expenses:			
Program services	27,782	-	27,782
Supportive services:			
Fundraising	2,150	-	2,150
Management and general	2,118	-	2,118
Total supportive services	4,268	-	4,268
Total Expenses	32,050	-	32,050
Change in Net Assets	8,030	7,420	15,450
Net assets:			
Beginning of year	84,570	186,070	270,640
End of year	$ 92,600	$ 193,490	$ 286,090

Even though the currently defined temporarily restricted and permanently restricted net assets are now combined into "with donor restrictions" on the statement of activities and the statement of financial position, disclosures are still required to include information about the nature and amounts of donor imposed restrictions, including time, purpose and perpetuity. Below is an example of a footnote disclosure which replaces the two disclosures currently required:

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

Subject to expenditure for specified purpose:	
Program A activities:	
Purchase of equipment	$ 3,060
Research	950
Educational seminars and publications	240
Program B activities:	
Disaster relief	745
Educational seminars and publications	280
Capital campaign	5,175
	10,450
Subject to the passage of time:	
For periods after June 30, 2019	8,340
Subject to spending policy and appropriation:	
Investment in perpetuity (including amounts above original gift amount of $122,337), which, once appropriated, is expendable to support:	
Program A activities	33,300
Program B activities	15,820
Any activities of the organization	125,580
	174,700
	$ 193,490

Board Designated Funds

The ASU now requires disclosures on the amount and purpose of Board Designated Funds. This information will highlight to the user of the financial statements the board decision on the use of net assets without donor restrictions. The ASU provides the following example:

The Organization's governing board has designated, from net assets without donor restrictions of $92,600, net assets for the followings purposes as of June 30, 2019.

Quasi-endowment	$ 44,770
Liquidity reserve	1,300
	$ 46,070

Underwater Endowments

Previously, underwater endowments required a reclassification out of unrestricted net assets to temporarily restricted net assets and the amount of funds with deficiencies was required to be disclosed. With the new ASU, underwater endowments will no longer be reclassified out of donor restricted funds, but will be included in donor restricted endowment funds and additional disclosures will be required. If a nonprofit has underwater endowments, the required disclosures include:

a) Fair value of the underwater endowment funds
b) The original endowment gift amount or level required to be maintained by donor stipulations or by law that extends donor restrictions
c) The amount of the deficiencies of the underwater endowment funds

Below is an example of the endowment fund roll forward with the new net asset categories.

Endowment Composition by Type of fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 44,770	$ -	$ 44,770
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	122,337	122,337
Accumulated investment gains	-	52,363	52,363
	$ 44,770	$ 174,700	$ 219,470

Changes in Endowment for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 45,933	$ 158,567	$ 204,500
Investment return, net (1)	6,650	18,300	24,950
Contributions	-	4,000	4,000
Appropriation of endowment assets for expenditure	(8,313)	(6,167)	(14,480)
Other changes:			
Transfer to create board designated endowment funds	500	-	500
Endowment net assets, end of the year	$ 44,770	$ 174,700	$ 219,470

(1) Note the change in the investment return presentation which will be described in Series 3 - Functional Expense Reporting & Investment Return Disclosure

Potential Changes in Nonprofit Accounting – Underwater Endowment Funds and Capital Restrictions:

The ASU also requires a nonprofit to include a description of the governing board's interpretation of the law or laws that underlie the nonprofit's net asset classification of donor restricted endowment funds, including its interpretation of the ability to spend from underwater endowment funds and any actions taken during the period concerning appropriation from underwater endowment funds. Below are disclosure examples that could be used when a nonprofit has underwater funds:

Underwater Endowment Funds - 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 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 three 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, 2019. 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.

Additional wording to the spending policy:

The Organization 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 expenditures $75 from underwater endowment funds during the year, which represents 3% of the 12 quarter moving average, not the 5% it generally draws from its endowment.

Expiration of Capital Restrictions

Lastly, capital gifts that are restricted for the acquisition or construction of long-lived assets will be required to be released from restriction when the asset is placed in service rather than recognizing the expiration of donor restrictions over time, absent explicit restriction from the donor. Therefore, nonprofits will no longer be able to release capital restrictions to match the depreciation expense or release capital restrictions as the project is on-going, unless explicitly instructed by the donor.

Series 2: FASB Nonprofit Financial Statement Project – Liquidity and Available Resources

What do these changes mean for nonprofit financial statements?

This section focuses on the topic of liquidity and available resources. The ASU requires qualitative and quantitative information on the available cash flow for a nonprofit. These disclosures include the following:

Qualitative disclosures: information in the notes to the financial statements that is useful in assessing a nonprofit's liquidity and that communicates how a nonprofit manages its liquid resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position.

Quantitative disclosures: information either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a nonprofit's financial assets at the date of the statement of financial position to meet cash needs for general expenditures within one year of the date of the statement of financial position. Availability of a financial asset may be affected by:

a) its nature
b) external limits imposed by donors, laws, and contracts with others
c) internal limits imposed by governing board decisions

The liquidity and available resources disclosure requirements have raised the most questions from nonprofits as it requires a new calculation and detail disclosure. The complexity of the calculation depends on the statement of financial position and the factors affecting availability. Based on the guidance provided in the ASU, below are three example disclosures. Each one demonstrates a different way to present the required information. One method provides the qualitative and quantitative disclosure in a narrative form. The other methods combine tables and narratives as provided in examples two and three. The intent is for the nonprofit to tell their financial story, tailoring the disclosures as appropriate.

Example 1 - Quantitative and Qualitative in Narrative Form

The statement of financial position presented below is an example of a nonprofit that has limited donor restricted funds and a basic liquidity and available resources calculation.

Statement of Financial Position
Year Ended June 30, 2019

ASSETS		
Cash and cash equivalents	$	100,000
Contributions receivable		20,000
Prepaid expenses and other assets		5,000
Short-term investments		300,000
Property and equipment, net		50,000
Total Assets	$	475,000
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$	125,000
Total Liabilities		125,000
Net assets		
Without donor restrictions		330,000
With donor restrictions		20,000
Total Net Assets		350,000
Total Liabilities and Net Assets	$	475,000

Note X – Liquidity and Availability of Resources

Nonprofit ABC, Inc. has $420,000 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of substantially cash of $100,000, contributions receivable of $20,000, and short-investments of $300,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year. Nonprofit ABC, Inc. has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expense, which are, on average, approximately $300,000. Nonprofit ABC, Inc. has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, Nonprofit ABC, Inc. invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments. As described in Note Y, Nonprofit ABC, Inc. also has a line of credit in the amount of $50,000, which it could draw upon in the event of an unanticipated liquidity need.

Example 2 - Quantitative and Qualitative with Table and Narrative

Similar to example 1, this example provides the financial assets available within one year of the statement of financial position for general expenditures; however, in this example, our nonprofit has donor restricted endowments and a quasi–endowment.

Note X – Liquidity and Availability of Resources

Nonprofit ABC, Inc. financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash	$	100,000
Contribution receivable		20,000
Short-term investments		300,000
Other investments appropriated for current use		25,000
	$	445,000

Nonprofit ABC, Inc.'s endowment funds consist of donor-restricted endowments and a quasi-endowment. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditures. As described in Note 2, the quasi-endowment has a spending rate of 5 percent. $25,000 of appropriations from the quasi-endowment will be available within the next 12 months. As part of Nonprofit ABC, Inc.'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, Nonprofit ABC, Inc. invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, Nonprofit ABC, Inc. has a committed line of credit in the amount of $50,000, which it could draw upon. Additionally, Nonprofit ABC, Inc. has a quasi-endowment of $500,000. Although Nonprofit ABC, Inc. does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary. However, both the quasi-endowment and donor-restricted endowment contain investments with lock-up provisions that would reduce the total investments that could be made available.

Example 3 – Quantitative and Qualitative with Table and Narrative

The example below is another format to present the quantitative disclosures. It begins with the financial assets at year end, excluding property, plant, and equipment and prepaid assets, then deducts the assets that are not available within one year of the statement of financial position for general expenditures.

Note X – Liquidity and Availability of Resources

Financial assets, at year end	$ 200,000
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(12,000)
Subject to appropriation and satisfaction of donor restrictions	(150,000)
Board designations:	
Quasi-endowment fund, primarily for long-term investing	(10,000)
Amounts set aside for liquidity reserve	(25,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,000

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Nonprofit ABC, Inc. is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Nonprofit ABC, Inc. must maintain sufficient resources to meet those responsibilities to its donors. Thus certain financial assets may not be available for general expenditures within one year. As part of Nonprofit ABC, Inc.'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, Nonprofit ABC, Inc. invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its liquidity reserves, which was $1,500 as of June 30, 2019. 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, Nonprofit ABC, Inc. also could draw upon its $50,000 available line of credit as further discussed in Note 5 or its quasi-endowment fund.

Series 3: FASB Nonprofit Financial Statement Project – Functional Expense Reporting & Investment Return Disclosure

What do these changes mean for nonprofit financial statements?

This section focuses on the topic of functional expense reporting and the changes to the disclosure of investment returns.

Functional Expense Reporting

Currently, Generally Accepted Accounting Principles ("GAAP") requires all nonprofits to provide information about the functional classifications of expenses either on the statement of activities or in the notes, which generally include program and support services. There can be multiple programs included in program services, while supporting activities often include the following activities: management and general, fundraising and membership development activities. However, under the new ASU, all nonprofits will be required to present expenses not only by function but by also by natural classifications. Only voluntary health and welfare entities are currently required to present a statement of functional expenses. An example of functional expense reporting is as follows, noting this presentation can either be on a separate statement or in a footnote:

	Program Activities			Supporting Activities			
	A	B	Programs Subtotal	Management and General	Fund-Raising	Supporting Subtotal	Total Expenses
Salaries and benefits	$ 7,400	$ 5,625	$ 13,025	$ 1,210	$ 960	$ 2,170	$ 15,195
Grants to other organizations	2,075	2,675	4,750	-	-	-	4,750
Supplies and travel	890	1,512	2,402	213	540	753	3,155
Services and professional fees	160	2,090	2,250	200	390	590	2,840
Office and occupancy	1,160	1,050	2,210	218	100	318	2,528
Depreciation	1,440	1,370	2,810	250	140	390	3,200
Interest	171	164	335	27	20	47	382
Total expenses	$ 13,296	$ 14,486	$ 27,782	$ 2,118	$ 2,150	$ 4,268	$ 32,050

While the ASU does not require this information be presented in a matrix format, it is generally an effective way to provide functional expense reporting. The ASU also does not preclude the information from being disclosed in the statement of activities, which may be feasible for a nonprofit with few natural activities and functions. Furthermore, the ASU requires nonprofits to provide qualitative disclosures on allocations of costs among program and support functions. An example of the footnote disclosure is as follows:

> **Functional 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, 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.

Enhanced Guidance on Expense Allocation

The ASU provides enhanced guidance on allocation of expenses from management and general expenses that involve direct conduct and direct supervision of program or support activities. Illustrative examples in the ASU surround expenses relating to the Chief Executive Officer ("CEO"), Chief Financial Officer, Human Resource department and grant accounting. For example, the responsibilities of the CEO generally include administrative and programmatic oversight. The programmatic oversight would be allocated to program and part to fundraising because those activities reflect direct conduct or direct supervision. The remainder of the CEO's time is spent indirectly supervising other areas of the nonprofit, thus would not constitute direct conduct or direct supervision and are allocated to management and general.

Investment Returns

Under current GAAP, nonprofits are allowed to either present investment income and related expenses gross or net. Currently, if the income and expense is recorded net, the expenses are required to be disclosed on the face of the statement of activities or in the footnotes. Net expenses are currently reported by functional classification in the statement of functional expenses, when presented.

The ASU requires that investment returns be reported net of all external and direct internal investment expenses. The requirement to disclose the expenses which have been netted against investment returns has been removed. The net expenses are also not to be included in the statement of functional expense. These changes improve GAAP by reducing complexity and improving comparability.

Series 4: FASB Nonprofit Financial Statement Project – Cash Flow Statements

What do these changes mean for nonprofit financial statements?

In this fourth series on the impact of the ASU, we focus on the topic of cash flow presentation.

Within the statement of cash flows, it is common practice for nonprofits to present their operating cash flows using the indirect method. Under the ASU, the indirect method is still acceptable and nonprofits can continue to choose between the direct method and the indirect method in presenting operating cash flows. However, if a nonprofit determines to utilize the direct method to present operating cash flow, it will no longer present the indirect reconciliation as currently required under GAAP.

An example of using the direct method of operating cash flows is as follows:

Nonprofit ABC, Inc.
Statement of Cash Flows
Year Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from donors for operations	$ 850,050	$ 725,840
Cash received from program fees	360,000	340,000
Interest and dividends received	2,400	2,700
Miscellaneous receipts	5,600	1,000
Cash paid to employees and retirees	(620,000)	(615,500)
Cash paid to suppliers	(425,587)	(325,458)
Cash paid for interest	(58,418)	(58,715)
Cash paid for grants	(50,000)	(100,000)
Net cash provided (required) by operating activities	$ 64,045	$ (30,133)

The intent of eliminating the indirect reconciliation is to encourage nonprofits to use the direct method. An objective of this ASU is to provide nonprofits with the ability to better tell their financial story and the direct method provides better information on the operating cash activities of an organization. If a nonprofit decides not to use the direct method, cash flows will be presented on the indirect method. The indirect method which also functions as the current indirect reconciliation is as follows:

Nonprofit ABC, Inc.
Statement of Cash Flows
Year Ended June 30, 2019 and 2018

	2019	2018
Change in net assets	$382,584	$258,457
Adjustments to reconcile change in net assets		
to net cash provided (required) by operating activities:		
Depreciation and amortization	230,058	225,478
Contributions restricted for property purchases	(125,000)	-
(Gains) loses on investments	(21,000)	5,400
Changes in operating assets and liabilities		
Grants and pledges receivable	(258,478)	(227,478)
Prepaid expenses and other assets	6,854	5,689
Accounts payable and accrued expenses	(150,973)	(297,679)
Net cash provided (required) by operating activities	$ 64,045	$ (30,133)

Using either the direct or indirect method is still allowed under the ASU. If a nonprofit continues with the indirect method, then the cash flow portion of the ASU will have no impact to their current financial statement presentation. If a nonprofit currently uses the direct method, they will no longer have to provide the indirect reconciliation.

The exposure draft issued by the FASB included proposed changes to the realignment of cash flow items between operating, investing, and financing activities. These changes were not included in Phase 1 of the final ASU and could possibility be addressed by the FASB at a later time under Phase 2.

Series 5: FASB Nonprofit Financial Statement Project – Operating Measure

What do these changes mean for nonprofit financial statements?

To end our compilation on articles about the impact of the ASU, we focus here on the topic of an operating measure.

This provision of the ASU would only impact nonprofit organizations if the nonprofit elects to present a measure of operations. There are multiple presentation methods available in order to present an operating measure. The ASU includes the two examples which follow: 1) a scenario where the operating measure is apparent on the face of the statement of activities, and 2) a case in which the operating measure is not apparent, and therefore it is disclosed within the notes to the financial statements.

Example 1: Operating Measure – Disclosure on the Face of the Statement of Activities

The statement below is an example where the operating measure is apparent within the statement of activities. The example provides detail descriptions of the transfers between operating and non-operating activities. These transfers are highlighted in blue below to easily identify the activity.

Nonprofit ABC, Inc.
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains, and other support			
Contributions	$ 25,650	$ 8,360	$ 34,010
Less:			
Contributions designated by board for capital projects	(7,500)	-	(7,500)
Contributions and bequests designated by board for quasi-endowment	(2,500)	-	(2,500)
Investments returns appropriated from quasi-endowment	2,300	-	2,300
Other	1,500	-	1,500
Net assets released from restrictions			
Investment return appropriated and released for current operations from donor-restricted endowment	2,000	(2,000)	-
Other nets assets released from restriction	1,500	(1,500)	-
Total operating revenues, gains, and other support	22,950	4,860	27,810
Operating expenses:			
Program A	3,000	-	3,000
Program B	2,000	-	2,000
Program C	5,500	-	5,500
Management and general	1,500	-	1,500
Fundraising	750	-	750
Total operating expenses	12,750	-	12,750
Operating revenues and support in excess of operating expenses	10,200	4,860	15,060
Investment return, net	4,400	7,850	12,250
Other - non-operating items	350	-	350
Contributions designated by board for capital projects	7,500	-	7,500
Contributions and bequests designated by board for quasi endowment	2,500	-	2,500
Investment returns appropriated for current operations from quasi-endowment	(2,300)	-	(2,300)
Change in fair value of interest rate swap	14,000	-	14,000
Change in net assets	$ 36,650	$ 12,710	$ 49,360

Example 2: Operating Measure – Disclosure on Measure of Operations Provided in the Notes to the Financial Statements

Below is another example of how a nonprofit may present an operating measure. In this example, the operating measure is not apparent on the statement of activities as it does not present detail for the transfers between operating and non-operating activities. Therefore additional disclosures are presented in the notes to the financial statements.

Nonprofit ABC, Inc.
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues, gains, and other support			
Contributions	$ 25,650	$ 8,360	$ 34,010
Other	1,500	-	1,500
Net assets released from restrictions			
Investment return appropriated and released for current operations from donor-restricted endowment	2,000	(2,000)	-
Other nets assets released from restriction	1,500	(1,500)	-
Total operating revenues, gains, and other support	30,650	4,860	35,510
Operating expenses:			
Program A	3,000	-	3,000
Program B	2,000	-	2,000
Program C	5,500	-	5,500
Management and general	1,500	-	1,500
Fundraising	750	-	750
Total operating expenses	12,750	-	12,750
Net transfer of funds from operations	(7,700)	-	(7,700)
Operating revenues and support in excess of operating expenses and transfers	10,200	4,860	15,060
Other changes:			
Investment return, net	4,400	7,850	12,250
Other non-operating items	350	-	350
Net transfer of funds to operations	7,700	-	7,700
Change in fair value of interest rate swap	14,000	-	14,000
Change in net assets	$ 36,650	$ 12,710	$ 49,360

Measure of Operations

Nonprofit ABC, Inc. operating revenues in excess of expenses and transfers include all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions designated for long-term investment (the donor-restricted and quasi-endowment) according to Nonprofit ABC Inc.'s spending policy, which is detailed in Note Y. The measure of operations excludes investment return in excess of (less than) amounts made available for current support and changes in fair value of the interest rate swap. Included in the line items "Net transfer of funds to/from operations" is investment return appropriated from quasi-endowment to operations of $2,300, contributions designated by the Board of Trustees for capital projects from operations of ($7,500), and contributions and bequests designated by the Board of Trustees for quasi-endowment from operations of ($2,500).

Final Thoughts

These reporting changes, as highlighted in Smith & Howard's five part series, will have a significant impact on the nonprofit community and the financial statement users. Those implications include:

- IRS form 990
- Financial covenants
- Defining and understanding expendable net assets
- Educating board members, organization leadership and other constitutes
- Enhanced financial transparency
- Endowment reporting
- Consistency in financial reporting practices

Effective Dates

The ASU is effective for fiscal years beginning after December 15, 2017, requiring nonprofits with 2018 calendar year-ends and 2019 fiscal year-ends to adopt at those respective times.

Implementation

Early application is permitted and is to be applied on a retrospective basis. All provisions apply to the current year. In the year of adoption, if a nonprofit presents comparative statements, it has the option to present only the current year functional expense reporting, with the exception of health and welfare organizations, who will be required to continue to present the functional expense reporting for both years. Disclosures around liquidity and availability of resources may also be omitted for the prior year.