NONPROFIT NAVIGATOR

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Cash Flow Changes for Nonprofit Organizations

By Colette Kamps, CPA

Recently, the Financial Accounting Standards Board (FASB) issued the Exposure Draft on the nonprofit financial reporting standards update. This exposure draft includes many big changes for nonprofit entities, but it is not yet an accounting standard. The exposure draft gives those affected by the proposed guidance a chance to send in comments to the FASB, which the FASB will consider before making the guidance final. One part of this proposed standard involves changes to the Statement of Cash Flows, which will affect any nonprofit organization issuing GAAP financial statements.

All nonprofit organizations would be required to present the Statement of Cash Flows on the direct method. Currently, it is very common for organizations to present on the indirect method, so this could be a change for many. The indirect method is where you start with the change in net assets, reconcile to the net cash flows from operating activities, and also show cash inflows and outflows from investing and financing activities. The direct method requires presentation of the cash flows from operating activities in a similar presentation as those from investing and financing. There would be no required reconciliation that begins with the change in net assets.

The new proposed standard also would require a change in classification on the Statement of Cash Flows for certain types of activities. Some of these changes are as follows:

- Classify purchases of long-lived assets, contributions restricted to acquire long-lived assets, and sales of long-lived assets, as operating (instead of investing) activities.
- Classify payments of interest on debt as financing (rather than operating) activities.
- Classify receipts of interest and dividends from investments as investing (instead of operating) activities.

The motivation behind these proposed changes is to make the Statement of Cash Flows more understandable for the users of the financial statements. The proposed standard also includes a number of proposed changes to the Statement of Activities, creating a required format for that Statement. The changes above on classification for items on the Statement of Cash Flows are expected to more closely align with these proposed changes to the Statement of Activities, also with the intention of improving understandability. However, it's important to note that this would result in some fundamental differences between the Statement of Cash Flows for nonprofit organizations compared to the same statement for for-profit businesses.

The comment period for the exposure draft ends on August 20, 2015, so it will be interesting to see how any comments submitted affect the final guidance that will be issued.

If you have any questions Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

ABOUT US

Our not-for-profit niche at Henry & Horne, LLP was officially formed 30 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957. We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in non-profit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.

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Wealthy donors – those individuals making publicized donations of $1 million or more – have given over $700 million more to nonprofits in the first five months of 2015 than they did in the same period in 2014.

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What would you do if you won the lottery? Donate to charity is a very common response to that question. That's exactly what one winning couple decided to do! Gilbert and Jacki Cisneros won $266M in 2010 and started The Gilbert and Jacki Cisneros Foundation. The Foundation has made multiple contributions within the not-for-profit community, including a recent announcement to give $7M to George Washington University.

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GuideStar and BoardSource have recently teamed up to launch a new initiative to create transparency around essential board practices. Nonprofit organizations can now add the impact they have made to their profiles by addressing various goals, strategies, capabilities, indicators and progress. Participants who meet certain requirements will be recognized as GuideStar Exchange Gold participants.

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Pending IRS Regulations for Charitable Hospitals

By Kristin Cullen, CPA

In a recent audit and accounting update, an article outlined current areas of priority for the IRS, one of which is the final regulations under 501(r) and 6033 on additional requirements for charitable hospitals. Although these regulations are specifically for nonprofit hospitals, other nonprofit healthcare entities may also want to take notice.

501(r) was added to the Internal Revenue Code (Code) by the Patient Protection and Affordable Care Act, enacted in March 2010, and affects hospital organizations that are described in section 501 (c)(3) of the Code. Although the regulations haven't been finalized the IRS issued a notice (Notice 2014-2) stating that hospitals can rely on the proposed regulations. The regulation created four new general requirements for the hospitals to comply with.

Three of the requirements relate to financial assistance and emergency medical care policies, charges for emergency or medically necessary care provided to individuals eligible for financial assistance, and billings and collections. The organization is now required to have written financial assistance policies and make reasonable efforts to make the policy known to patients. The policy also needs to limit charges for emergency or other medically necessary care to patients eligible for assistance under the financial assistance policy. Lastly, the organization is required to make reasonable efforts to determine if a patient is eligible for financial assistance prior to engaging in extraordinary collections actions.

The fourth requirement states that a Community Health Needs Assessment (CHNA) be completed once every three years and an action plan be implemented based on that assessment. Failing to meet this requirement could result in an excise tax incurred by the hospital. The CHNA needs to be in written format, include a description of the community being served, the names of any experts consulted in completing the assessment, a prioritized description of the community needs identified, and a description of the existing health care facilities and resources available within the community to meet these needs. The CHNA is required to be made "widely available" to the public once completed. The IRS defines "widely available" as the report being posted to the organization's website and being available in printed version upon request. A written implementation strategy should then address how the organization intends to meet the needs of the community identified in the CHNA. Currently, the IRS intends to require the implementation strategy be attached to the Form 990.

In addition to the further regulations added to the Code, Schedule H was added to the Form 990 in the 2008 return and was updated with the 2010 and 2011 returns. The purpose of schedule H was intended to provide an opportunity for the hospital to provide explanations on their policies and activities to qualify as an exempt hospital. Certain sections of Schedule H apply just to the hospital and others apply to the entire organization. A hospital organization is required to attach a copy of its most recent audited financial statements to the return when filing.

It will be interesting to see what guidance the IRS issues in the next year on this topic or if they do in fact issue final guidance on all of these proposed regulations. Stay tuned.

If you have any questions, Kristin can be reached at (480) 839-4900 or KristinC@hhcpa.com.