

Community Benefit 101



Community Benefit 101 Accounting for Community Benefit

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Why is Standard Reporting Important?



- Consistency for IRS reporting on Schedule H
- Financial statement reporting
- Comparability across hospitals
- Reporting to boards
- Reporting to communities and local government officials

Cost Measurement Principles



- Measure actual financial cost, not opportunity cost (which is based on value or foregone revenue)
- The cost must be included in the hospital income statement
- Account for total and net community benefit expenses
 - Total community benefit expenses **less** direct offsetting revenue = Net community benefit expense
 - Direct offsetting revenue is revenue generated by the program or activity, e.g. payer reimbursement or patient fees

Total Community Benefit Expense



- Includes both “direct costs” and “indirect costs”
- Direct costs can be specifically identified with the activity, e.g. salaries and benefits, supplies, other specific program costs
- Indirect or “overhead” costs are shared by many activities, e.g. facility costs, utilities, administration
 - CHA recommends having one to three indirect cost rates – one rate for “hospital-based” programs and a second, lower rate for programs that are “community-based” and a third for research
 - *For the three different rates, the range can be variable — perhaps 35-45 percent for hospital-based, higher rates for research (depending on how research is accounted for), and 10-15 percent for community-based programs. Whatever rate is used, there should be an auditable basis for the number.*

Question 1



Our hospital leases a floor on one of our wings to a not-for-profit entity to provide programs for seniors, which are a demonstrated need in our community. The organization pays us a below market rate of \$10,000 annually. The going market rate is \$400,000. Can we report \$400,000 as the community benefit expense?

YES

NO

Cost Measurement Principles (continued)



- Use organization's most accurate accounting method
 - Cost accounting systems
 - Cost-to-charge ratio
 - Exclude bad debt
 - Exclude non-patient care activities
 - Exclude costs and charges of activities where another cost method was used
 - Medicare/Medicaid Cost Report

Other Accounting Principles



- Avoid double-counting community benefit expenses
- Follow “Generally Accepted Accounting Principles” (GAAP) unless IRS instructions override those principles
- Maintain an audit trail with supporting documentation
- What is supporting documentation?
 - Written records that provide support for each of the revenue and expense items used in calculating community benefits, as well as the other amounts reported in the IRS Form 990, Schedule H (i.e. number of persons served, number of programs, etc.)
 - The revenue and expense items must agree to, or be supported by, amounts in the general ledger

Special Accounting Considerations



- Each of the community benefit categories has some unique accounting guidelines to consider

Unpaid Cost of Medicaid and Financial Assistance



- Reported on the basis of cost, not gross charges
- Use most accurate cost method
 - Cost accounting system
 - Ratio of Cost to Charges
 - Medicare/Medicaid Cost Reports
- Direct offset revenue is reported in accordance with Generally Accepted Accounting Principles (GAAP)

Community Health Improvement Services



- Report direct and indirect costs
 - Indirect rates will vary between programs conducted in hospital, in community and for research
- Be careful not to double count

Health Professions Education - GME



- Include direct and indirect costs
- Direct offsetting revenue includes Medicare and Medicaid reimbursement for direct GME
- Do not include indirect medical education (IME) reimbursement provided by Medicaid or Medicare
- Follow Medicare Cost Reporting principles in the accounting of GME costs

Health Professions Education – Nursing Students



- Count the costs incurred for providing a clinical setting for students enrolled in an outside organization.
- Count the time staff nurses are taken away from their routine duties.
- Count the costs associated with underwriting faculty positions in schools of nursing in response to shortages of nurses and nursing faculty

Subsidized Health Services



- Report the loss after subtracting costs (not charges) and revenue associated with:
 - Bad debt
 - Medicaid and other means-tested government programs
 - Financial assistance
- If the costs of Medicaid and other means-tested government program and financial assistance are not subtracted, reported community benefit will be overstated by double counting these items

Subsidized Health Services (cont.)



- Report all expenses related to the subsidized program/service line (operational, clinical, ancillary, etc.) in the total program expenses, not just the components losing money
- Ensure revenue generated by the program/service line is reported separately as direct offset revenue
- Do not include service lines or programs that report a net gain after the effects of Medicaid, Financial Assistance, and bad debt are factored out
- Do not separately count the costs associated with ancillary services (i.e. anesthesiology, radiology and laboratory departments)

Question 2



Our hospital incurs costs for retaining on-call physicians within an emergency room. Without these physicians we wouldn't be able to operate an emergency room. Can we report the on-call costs as a community benefit expense?

YES

NO

Research



- Count the net cost of research
 - Expenses include direct and indirect
 - Include grants received in direct offset revenue
- Count the cost of the IRB related to community benefit research
- If IRB costs are attributed to both qualifying CB research and non-qualifying, prorate the costs to count only the CB portion

Contributions - In-kind



- Donated supplies and equipment should be based on Generally Accepted Accounting Principles (GAAP).
- If equipment has been fully depreciated or if the supplies have no accounting value in inventory, only transportation and handling costs for delivery would be reported.
- Do not report time spent by volunteers and staff members engaged in an activity on their own time.

In-kind...Donated Space



- Count the *cost* of space donated to health care related **not-for-profit** community groups.
- Develop an estimate of your organization's costs
 - Examples of costs include:
 - Overhead expense,
 - staff time to set up and breakdown room,
 - direct costs of the meeting.
- Report calculated cost, **not** market rate values or opportunity cost lost.
 - For example, do not count what a local hotel might charge for a conference room

In-kind...Donated Supplies/Equipment



- Count the cost that is on the current year income statement.
- The value should be based on remaining "book value", not market value.
- Example
 - Original equipment cost of **\$5,000**
 - Less accumulated depreciation of **\$1,000**
 - Equals "Book value" of **\$4,000**. This is the amount recorded as the community benefit expense

Contributions to Special Events



- Subtract the market value of benefits received, e.g. golf fees or meals.

Intercompany Grants



Related Organizations with Different EINs (and reported on different IRS Form 990s)

- Grants or transfers of funds between **related** organizations with **separate EINs** are considered **intercompany transfers**, and when they are restricted to be used for community benefit activities, they must be reported as direct offsetting revenue by the organization receiving the funds.

Related Organizations with the same EIN (and reported on the same IRS Form 990)

- If the organizations are reported under the **same EIN** and on the same IRS Form 990, the transfers of funds are considered **"intra-company" transfers** and not required to be reported as direct offset revenue by the organization receiving the funds.

Community Building



- Costs associated with activities that improve the community's health and safety by addressing the root causes of health problems (i.e. poverty, homelessness, environmental hazards)
 - Also includes cash and in-kind contributions to programs and partnerships that support community building activities
- Costs are reported on Part II of the Schedule H, rather than Part I, where other Community Benefit activities are reported.
 - The IRS also requires a narrative description of any Community Building programs reported in Part II.

Community Operations



- Costs associated with assigned staff, community health needs assessment, and community asset assessments.
- Be careful not to double-count in other categories

Question 3



Can our hospital count registration fees, travel, food, and lodging costs associated with our community benefit colleagues attending a training session on community benefit?

YES

NO

Finance and CB Relationships



- Both have important roles
- Identify roles and responsibilities in reporting
- Necessary to have effective communication

Helpful Resources



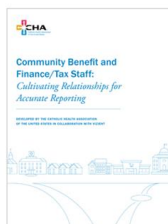
- <https://www.chausa.org/communitybenefit/resources/resources-overview/accounting-for-community-benefit>

Community Benefit and Finance/Tax Staff: Cultivating Relationships for Accurate Reporting

This 17-page booklet, developed by CHA in collaboration with Vizient, provides information to help staff in community benefit and in finance (and in some health systems, also the tax department) cultivate effective relationships important to assuring accurate community benefit reporting. The resource is organized into the following sections:

- Strategies for Effective Finance/Tax and Community Benefit Staff Relationships
- An Accounting Primer on Community Benefit
- Tips to Avoid Under- and Over-Reporting

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Next Presentation



- [Telling the Community Benefit Story](#)