

Related Organizations and Reporting Community Benefit



Who Reports What: How Related Organizations Should Report Community Benefit

Many health care organizations operate more than one corporate entity. Chapter 4 provides the following guidelines for how related organizations should report community benefit:

- **If a hospital operates a foundation under the same federal employer identification number (EIN)** (e.g., foundation activities and hospital activities are “housed” in the same nonprofit corporation), transfers of funds from the foundation to the hospital for community benefit activities will not be separately recognized or reported, as they are “intracompany” transfers (transfers within one company). When the hospital uses funds provided by the foundation for community benefit activities, it will report the associated expense on Schedule H as community benefit expense. If a third party restricted the funds received by the foundation, they will need to be reported as direct offsetting revenue when used for a community benefit purpose.
- **If the hospital and foundation activities are conducted by different related organizations, each with its own EIN** (e.g., the foundation activities and hospital activities are operated in different nonprofit corporations), transfers of funds from the foundation to the hospital for community benefit activities will be separately recognized and reported, as they are “intercompany” transfers (transfers between different companies). In this case, the foundation will report the transfer of the funds to the hospital as an expense on its core Form 990, and the hospital will report the receipt of such funds as grant revenue on its core Form 990. However, when the hospital uses such funds to support community benefit activities, it will report the associated expense in the appropriate column of the Community Benefit table - on its Form 990, Schedule H, Part I. If the foundation has placed a restriction on how the funds are to be used, the hospital will need to report the transfer as direct offsetting revenue on Schedule H.

Guideline Example

This example demonstrates how the above guidelines can be followed:

A foundation is controlled by the same system that controls the hospital. The foundation receives a restricted grant of \$1 million (intended to be transferred over two years) and then transfers \$500,000 of the grant (pursuant to the restrictions) to a hospital. The hospital then uses the transferred funds pursuant to the restrictions and spends them to support a community benefit program that costs \$600,000 during the year. As a result, the hospital is using \$100,000 of its own funds to help finance the program.

The following table demonstrates how accounting and reporting should be handled both under GAAP (generally accepted accounting principles) and in Form 990, Schedule H. Note that the results under GAAP and Form 990 are the same.

	SEPARATE EIN REPORTS				CONSOLIDATED EIN REPORT	
	FOUNDATION		HOSPITAL			
A. GAAP Accounting and Reporting						
Grant Revenue	\$1,000,000	¹	\$500,000	³	\$1,000,000	⁵
Total Community Benefit Expense	\$500,000	²	\$600,000	⁴	\$600,000	⁶
Net Community Benefit Expense	\$ 500,000		\$100,000		\$100,000	
Form 990, Schedule H, Accounting and Reporting						
1. Amounts in Core Form Grant Revenue Expense	\$1,000,000 \$500,000		\$500,000 \$600,000		\$1,000,000 \$600,000	
2. Schedule H Direct Offsetting Revenue	N/A	⁷	⁸ \$500,000	⁹	¹⁰ \$500,000	¹¹
Total Community Benefit Expense			\$600,000		\$600,000	
Net Community Benefit Expense			\$100,000		\$100,000	

→ **NOTE:** *The superscript numbers in this table are referenced in the below explanations of GAAP Accounting and Reporting and Form 990, Schedule H, Reporting.*

GAAP Accounting and Reporting

Under GAAP, the following would occur.

→ **NOTE:** *The superscript refer to the example in the above table.*

If the foundation and the hospital are publishing *separate* community benefit reports:

- ¹The \$1 million raised by the foundation would be reported as revenue for that entity.
- ²The \$500,000 transferred by the foundation to the hospital would be included in the foundation's operating expense.
- ³That same \$500,000 would be reported as revenue by the hospital.
- ⁴The hospital's community benefit program cost of \$600,000 would be reported as part of its total community benefit expense.
- Net community benefit expense for the hospital would be the difference between ³revenue and ⁴expense, or \$100,000.
- The two, separate, unconsolidated reports would have a total combined revenue of \$1.5 million^{1,3} and a total community benefit expense of \$1.1 million^{2,4}.

If the foundation and the hospital were publishing a *consolidated* (e.g., system-wide) community benefit report, the “intracompany” transfer from the foundation to the hospital (the \$500,000 amounts in *italics*^{2,3}) would not be recognized or reported (in accounting terms, it would be “eliminated”):

- ⁵Only the \$500,000 initially raised by the foundation¹ and used by the hospital during the year for the designated community benefit purpose would be reported as revenue on the Schedule H.
- ⁶Only the \$600,000 community benefit program cost⁴ incurred by the hospital would be reported as expense.

In this case, the foundation and hospital would not be considered separate entities for accounting purposes. The consolidated community benefit report would have \$500,000 in direct offsetting revenue (the original amount received from the donors or grantors and actually used for the designated community benefit purpose during the year) and \$600,000 in total community benefit expense (for the cost of the community benefit program). Net community benefit expense would be \$100,000.

The values included in revenues and expenses reported in Form 990 are the same as those reported under GAAP.

Form 990, Schedule H

In Schedule H, the following would occur.

→ **NOTE:** *The superscript refer to the example in the above table.*

If the foundation and the hospital have *separate* (unique) EINs:

- ⁷ The foundation would not file Schedule H.
- ⁸ The hospital would file Schedule H, but, pursuant to IRS instructions, would not include the grant dollars transferred from the foundation and used for a community benefit purpose in “direct offsetting revenue.”
- ⁹ The hospital’s Schedule H would include the \$600,000 cost to operate the community benefit program.
- Net community benefit expense would be \$100,000 because the restricted grant dollars are to be included in “direct offsetting revenue, upon use of the restricted funds for their designated purpose(s).”

If the foundation and the hospital share *the same* EIN:

- ¹⁰ Schedule H would not include any funds collected by the foundation from donors or grantors in direct offsetting revenue until those funds are used for their designated purpose(s).
- ¹¹ The hospital’s Schedule H would include the \$600,000 cost to operate the community benefit program.
- Net community benefit expense would be \$100,000 because the restricted grant dollars (\$500,000) are to be included in direct offsetting revenue when used pursuant to the restriction(s).

About The Catholic Health Association of the United States (CHA)

For over 35 years, CHA has been the leading source of information and tools for planning and reporting hospital community benefit. In 2008, CHA’s accounting system for reporting community benefit was used in the development of the IRS Form 990 Schedule H.

CHA represents more than 650 hospitals and 1,600 long-term care and other health facilities in all fifty states. Our hospitals were established to address health needs in their communities and that tradition continues today. Catholic hospitals are a critical source of care and services in their communities. This includes community-based services that address significant health and health-related needs reported as community benefit.

Note: The information provided in this document does not constitute legal or tax advice. The information is provided for informational/educational purposes only. Please consult with counsel regarding your organization’s particular circumstances.