Accounting for Community Benefit

Community Benefit 101
October 16, 2013 – 8:30 a.m., St. Louis

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Basic Components of the Community Benefit Framework*

- Determining What Counts Chapter 2
- Accounting For Costs Chapter 4
- Evaluating Chapter 6
- Building a Sustainable Infrastructure Chapter 3
- Planning Chapter 5
- Communicating Chapter 7

*A Guide for Planning and Reporting Community Benefit

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Overview – Reporting Principles

- Follow Generally Accepted Accounting Principles (GAAP)
- Report at cost
- Exceptions to GAAP
  - For Community Benefit
  - For IRS Form 990, Schedule H
- Offsetting revenue
- Order of calculations
- Maintain an audit trail

Why Standardize Accounting and Reporting

- Comparability across providers
- Comparability over time
  - Consider the frequency of data collection and comparisons (monthly, quarterly, annually)
- Permits the “roll up” of data
- Credibility
- Consistency for IRS reporting
Follow GAAP Reporting

GAAP* Reporting

• Offset grants and donations
• Joint Ventures proportional only if <50%
• Hospital & non-hospital entities
• Community building
• Actual cost—not opportunity cost
• Total cost and net cost
• Direct & Indirect cost
• Most accurate cost method
• Avoid double counting

*Generally Accepted Accounting Principles

Report at Cost

Actual cost – not opportunity cost

<table>
<thead>
<tr>
<th>Activity</th>
<th>Opportunity Cost (DO NOT REPORT)</th>
<th>Actual Financial Cost (REPORT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health education seminar, with low-income participants that participate without a charge</td>
<td>Fees forgiven for low-income participants in health education seminar</td>
<td>Actual cost of the seminar (salaries, supplies, space, materials) per participant</td>
</tr>
<tr>
<td>Financial Assistance</td>
<td>“Gross charges” that could have been collected if financial assistance had not been granted</td>
<td>Patient care cost minus any revenue (collections) expected from patient</td>
</tr>
<tr>
<td>Parking vouchers given by the hospital to low-income patients</td>
<td>Face value of the vouchers given to low-income patients</td>
<td>Actual carrying cost of the parking garage per space (or what the voucher would have cost with no mark-up)</td>
</tr>
</tbody>
</table>
- Total cost and net cost
  - Total cost – offsetting revenue = net cost
- Direct and indirect cost
  - Direct costs are those that can be specifically identified with the activity
    - Salaries, supplies, etc.
  - Indirect costs are shared by many activities
    - Typically thought of as “overhead” costs
  - Select appropriate indirect cost ratio based on setting
    - Hospital vs. community based

- Most accurate cost method
  - Cost accounting system
  - Ratio of Cost to Charge (RCC)
    - Exclude bad debt
    - Exclude non-patient care activities
  - Medicare/Medicaid cost reports
Report at Cost

- Avoid double counting
  - In subsidized services (financial assistance, Medicaid and bad debt)
  - In ratio of cost to charges (Costs of community benefit activities)
  - Grants from related organizations

- Cost when part of a larger event
  - **IRS Note** – From the Schedule H Instructions: Activities or programs cannot be reported if they are provided primarily for marketing purposes and the program is more beneficial to the organization than to the community; for instance, if the activity or program is designed primarily to increase referrals of patients with third-party coverage, required for licensure or accreditation, or restricted to individuals affiliated with the organization.

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**Reporting Comparison – Community Benefit reporting**

**GAAP**
- Offset grants and donations
- Joint Ventures proportional only if <50%
- Hospital & non-hospital entities
- Community building
- Actual cost—not opportunity cost
- Total cost and net cost
- Direct & Indirect cost
- Most accurate cost method
- Avoid double counting

**Community Benefit**
- All Joint Ventures proportional
- Offset benefits received by organization
Exceptions to GAAP – for Community Benefit Reporting

- Joint ventures
  - GAAP – 0-49% proportional reporting, 50+% report all
  - Community Benefit – 0-99% proportional reporting

- Grants and donations – do not offset costs
  - Suggested that organizations should track

- Offset benefits received by the organization
  - Example: If the organization purchases tickets to a fund-raising dinner, the value of the meal should be deducted from the amount reported as community benefit

Reporting Comparison – IRS Form 990 Schedule H reporting

- GAAP
  - Offset grants and donations
  - Joint Ventures proportional only if <50%
  - Only hospitals
  - Total expense from IRS 990 core form (excl bad debt)
  - Community building segregated
  - Loss/gain on Medicare
  - Bad debt

- IRS
  - Actual cost—not opportunity cost
  - Total cost and net cost
  - Direct & Indirect cost
  - Most accurate cost method
  - Avoid double counting
  - All JVs proportional
  - Offset benefits received by organization

- Community Benefit
  - Hospital & non-hospital entities
  - Community building included
Exceptions to GAAP – for IRS Form 990 Schedule H

- Same exceptions as Community Benefit reporting
- Only hospitals
  - Based on EIN (Employer Identification Number)
- Total expense from IRS 990 core form
  - Exclude bad debt (report amount in Schedule H Part VI)
- IRS 990 Schedule H includes reporting for
  - Community building activities, but separate from other community benefits (Schedule H Part II)
  - Loss/gain on Medicare (Schedule H Part III)
  - Bad debt (Schedule H Part III)

Offsetting Revenue

- Program income
  - Offsets costs for GAAP, Community Benefit and IRS reporting
  - Patient/insurance billing
  - Participation fee
- Grants and Donations
  - Offset for GAAP; do not offset for Community Benefit or IRS reporting
  - Grants and donations – not patient revenue, usually received for a specific purpose/program
    - Distinction between grants and patient revenue – A Guide for Planning and Reporting Community Benefit Appendix E
- Remember there are special reporting considerations when grants or donations are from a related organization
Order of Calculations

- Direct and indirect costs for categories:
  - Community Health Improvement
  - Health Professional Education
  - Research
  - Cash and In-kind Donations
  - Community Building
  - Community Benefit Operations
- Ratio of cost to charge (RCC)
  - Calculate after subsidized services, Medicaid and means-tested government programs if cost accounting is used
- Cost of subsidized services
- Medicaid & means-tested government programs
- Financial Assistance

Maintain an Audit Trail

- Community Need
  - Why program began
    - What need was being addressed
    - How was need determined
  - Why the program continues
- Supporting documentation
  - Need to maintain based on record retention requirements for tax documents
- Documentation needed when, not if, community benefit is audited
  - IRS required by Congress to review community benefit information on IRS Form 990
Role of Finance

• Active involvement in determining the cost of community benefit
• Ensure accurate community benefit data on Schedule H
  – Need for documentation and an audit trail – procedures that Finance is familiar with
  – CFO typically signs the tax return so he/she needs to have confidence in this publicly information reported
• Responsible for clear delineation between financial assistance and bad debt
  – Financial assistance policy development, monitoring, implementation and communication
  – Comprehensive and regular training for patient access and financial assistance staff
  – Management of bad debt/collection processes

Other Suggestions

• May want to separate community benefit reporting for persons living in poverty vs. broader community
• Build relationship: Community Benefit & Chief Financial Officer (or other Finance liaison)
• If there are differences in community benefit reported – be able to explain why
  • Reconcile differences between GAAP, Community Benefit and IRS reporting
  • Educate management and governance on differences
Community Benefit Work Plan

Step One: Building a Sustainable Infrastructure
Step Two: Planning
Step Three: Evaluating
Step Four: Determining What Counts

Step Five: Accounting for Community Benefit
- Review IRS and CHA guidelines
- Use cost as basis for reporting
- Perform calculations in suggested order
- Maintain an audit trail

Step Six: Communicating