

# The IRS Form 990, Schedule H

## Community Benefit and Catholic Health Care Governance Leaders



*New Obligation, New Opportunity*



**THE CATHOLIC HEALTH ASSOCIATION**  
OF THE UNITED STATES

VI

Part VI Supplemental Information (Optional for 2008)

- 1 Provide the description required for Part I, line 3c; Part I, line 6a; Part I, line 7g; Part I, line 7, column (f); Part I, line 7; Part III, line 4; Part III, line 8; Part III, line 9b, and Part V. See Instructions.
2 Needs assessment. Describe how the organization assesses the health care needs of the communities it serves.
3 Patient education of eligibility for assistance. Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's charity care policy.
4 Community in demographic c
5 Community by the health
6 Provide purpose
7 If the orga
8 If applicable, id

V

Part V Facility Information (Required for 2008)

Table with columns: Name and address, Licensed hospital, General medical & surgical, Children's hospital, Teaching hospital, Critical access hospital, Research facility, ER-24 hours, ER-dialer, Other (Describe)

II

Part II Community Building Activities Complete this table if the organization conducted any community building activities. (Optional for 2008)

Table with columns: (a) Number of activities or programs (optional), (b) Persons served (optional), (c) Total community building expense, (d) Direct offsetting revenue, (e) Net community building expense, (f) Percent of total expense. Rows include Physical improvements and housing, Economic development, Community support, Environmental improvements, Leadership development and training for community members, Coalition building, Community health improvement advocacy, Workforce development, Other, Total.

III

Part III Bad Debt, Medicare, and Medicaid

Section A. Bad Debt Expense

- 1 Does the organization have a bad debt expense? If "Yes," enter the amount of the bad debt expense on line 15 of the Association Statement No. 15.
2 Enter the amount of the bad debt expense on line 15 of the Association Statement No. 15.
3 Enter the estimated amount of the bad debt expense on line 15 of the Association Statement No. 15.
4 Provide in Part VI the text of the bad debt expense. In addition, describe the method used to estimate the bad debt expense.
5 Enter total revenue received from patients.
6 Enter Medicare allowable cost.
7 Enter line 5 less line 6—surplus.
8 Describe in Part VI the extent to which the organization uses the following methods to estimate the bad debt expense:
- Cost accounting system
- Other

IV

Part IV Management Committee

Table with column (a) Name of entity, rows 1-14.

SCHEDULE H (Form 990)

Hospitals

To be completed by organizations that answer "Yes" to Form 990, Part IV, line 20. Attach to Form 990.

OMB No. 1545-0047 2008 Open to Public Inspection

Name of the organization Employer identification number

Part I Charity Care and Certain Other Community Benefits at Cost (Optional for 2008)

Table with columns: Yes, No. Rows include: 1a Does the organization have a charity care policy? If "No," skip to question 6a. 1b If "Yes," is it a written policy? 2 If the organization has multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals. 3 Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients. 3a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing free care to low income individuals? 3b Does the organization use FPG to determine eligibility for providing discounted care to low income individuals? 4 Does the organization's policy provide free or discounted care to the "medically indigent"? 5a Does the organization budget amounts for free or discounted care provided under its charity care policy? 5b If "Yes," did the organization's charity care expenses exceed the budgeted amount? 5c If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? 6a Does the organization prepare an annual community benefit report? 6b If "Yes," does the organization make it available to the public? Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H.

Table with columns: (a) Number of activities or programs (optional), (b) Persons served (optional), (c) Total community benefit expense, (d) Direct offsetting revenue, (e) Net community benefit expense, (f) Percent of total expense. Rows include: 7 Charity Care and Certain Other Community Benefits at Cost. Sub-sections: Charity Care and Means-Tested Government Programs (Charity care at cost, Unreimbursed Medicaid, Unreimbursed costs—other means-tested government programs, Total Charity Care and Means-Tested Government Programs), Other Benefits (Community health improvement services, Health professions education, Subsidized health services, Research, Cash and in-kind contributions to community groups, Total Other Benefits, Total (line 7d and 7j)).

# The Information the IRS asks Hospitals to Report on the Form 990, Schedule H.

## **Part I – Charity Care and Certain other Community Benefits at Cost**

including the cost of charity care, unreimbursed Medicaid and other government means-tested programs, community health improvement services, community benefit operations, health professions education, subsidized health services, research and cash and in-kind contributions.

## **Part II – Community Building Activities**

including housing, economic development, environmental improvements and other community supports that address the root cause of community health problems.

## **Part III – Bad Debt, Medicare, and Collection Practices**

including the bad debt expense and estimated amount attributable to persons eligible for charity care, Medicare allowable costs and extent to which any shortfall should be treated as community benefit.

## **Part IV – Management Companies and Joint Ventures**

including entities of which the organization is a partner or shareholder.

## **Part V – Facility Information**

including whether the organization is a teaching, children's, and/or critical access hospital and whether it operates emergency services.

## **Part VI – Supplemental Information**

including explanations of previous answers and information about the community, needs assessment, informing patients and the public about eligibility for assistance, and other information regarding how the organization, by itself or with others, serves its community.

**T**he **Internal Revenue Service (IRS)** requires not-for-profit hospitals to report their community benefit activities and other information related to tax exemption on a new Form 990, Schedule H.

This represents a new federal reporting obligation for tax-exempt hospital organizations. It also presents an opportunity to reinforce our organizations' commitment to community benefit and to tell our community benefit story.

Community benefit has been a hallmark of Catholic health care since our ministries first began in this country. Those who founded our organizations were responding to community need — especially to persons who were poor and vulnerable — just as our community benefit programs do today.



In the US Capitol, this statue of Mother Joseph is one of the first visitors see in Statuary Hall. She founded the Sisters of Providence and brought health care and other needed services to the American northwest.

*Photo is courtesy of Providence Archives, Seattle, Washington.*

Reporting community benefit on the new IRS Form 990, Schedule H, is an important issue for trustees in Catholic health care. It presents board members an opportunity to demonstrate that the organization they represent continues its original mission of community service.

Board members are responsible for representing the community's interest in deliberations, and community benefit reporting is visible evidence that this responsibility is being met. As part of their fiduciary responsibilities, board members have oversight for maintenance of their organizations' tax-exempt status, and to ensure that resources are being used wisely.

This booklet addresses topics board leaders have asked about the IRS Form 990, Schedule H, and community benefit.

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**What this new IRS form is, and why it was developed.**

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**Why community benefit and tax exemption are priority issues for Catholic health care.**

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**What health care governance leaders need to know about the new IRS reporting requirements.**

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**What health care governance leaders should know about providing and reporting community benefit.**

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# IRS Form 990, Schedule H

Most federally tax-exempt organizations are required to file an information return, the IRS Form 990. In 2008, the IRS revised its Form 990 in substantial ways and added a new Schedule H for hospital organizations to complete.

Schedule H collects information about a hospital organization's charity care and other community benefit activities as well as additional data related to tax-exemption. Organizations must provide information about program costs, charity care and collection policies, bad debt and Medicare shortfall. The form also allows organizations to provide information about their communities, and to describe how they assess community needs and inform patients about eligibility for financial assistance.

“  
*Those of us who work on tax exemptions for the IRS realized we did not have a good understanding of the sector, which has changed so much over the last few decades, so **we felt it was time for us to take a close look and see what we could learn about nonprofit hospitals.***”

**RONALD SCHULTZ**

Senior Technical Advisor to the IRS Tax Exempt and Government Entities division.

Excerpted from *Health Progress*. “Press Conference — Explaining the New Rules for Measuring Community Benefit,”<sup>®</sup> September-October 2008, Volume 89, Number 5.

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## Why was the form developed?

The IRS released the new Form 990 stating that it wanted to provide greater transparency of tax-exempt organizations and improve tax compliance. Schedule H, according to the IRS, was developed in order to give the federal agency an accurate picture of the not-for-profit hospital sector and help the agency assess whether hospitals were complying with the current community benefit standard.

In issuing the new Schedule H, the IRS also was responding to congressional concerns about whether not-for-profit hospitals were sufficiently charitable to deserve tax exemption.

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## What is the “community benefit standard”?

IRS Revenue Ruling 69-545 contains what is known as the “community benefit standard.” It requires tax-exempt hospital organizations to provide community benefit and replaced a 1956 Revenue Ruling that required hospitals to provide charity care commensurate with the organization’s financial ability.

The 1969 revenue ruling does not give a specific definition of community benefit nor does it require a specific funding amount. However, it states that factors to be considered include:

- + Being governed by a community board.
- + Having an open medical staff.
- + Participating in Medicare and Medicaid.
- + Having an emergency room open to all, without regard to ability to pay.
- + Using surplus funds for additional services or facilities, improvement in patient care and medical training, education and research.

## What is community benefit?

Community benefit is not-for-profit health care's response to community need. CHA, working with other national organizations, developed the following community benefit definition, which has been substantially adopted by the IRS and many state agencies:

Community benefits are programs or activities that provide treatment or promote health as a *response to community needs* and meet at least one of the following community benefit objectives:

- + Improve access to health care services.
- + Enhance health of the community.
- + Advance medical or health care knowledge.
- + Relieve a government burden.

## What information does the IRS ask hospitals to report on the Form 990, Schedule H?

The form includes six parts:

**Part I – *Charity Care and Certain other Community Benefits at Cost***, including the cost of charity care, unreimbursed Medicaid and other government means-tested programs, community health improvement services, community benefit operations, health professions education, subsidized health services, research and cash and in-kind contributions.

**Part II – *Community Building Activities***, including housing, economic development, environmental improvements and other community supports that address the root cause of community health problems.

**Part III – *Bad Debt, Medicare, and Collection Practices***, including the bad debt expense and estimated amount attributable to persons eligible for charity care, Medicare allowable costs and extent to which any shortfall should be treated as community benefit.

**Part IV – *Management Companies and Joint Ventures***, including entities of which the organization is a partner or shareholder.

**Part V – *Facility Information***, including whether the organization is a teaching, children's, and/or critical access hospital and whether it operates emergency services.

**Part VI – *Supplemental Information***, including explanations of previous answers and information about the community, needs assessment, informing patients and the public about eligibility for assistance, and other information regarding how the organization, by itself or with others, serves its community.



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## When must the Schedule H be filed?

For tax year 2008, Part V of the Schedule H, Facility Information, must be filed with the IRS. The other parts of the schedule are optional for tax year 2008, but must be filed for tax year 2009.

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## What does the Schedule H ask about charity care?

The Schedule H asks:

- + Does the organization have a charity care policy and is it a written policy?
  - + What are the eligibility criteria?
  - + Is there a budget for charity care?
  - + What is the charity care expense and what is its percentage of the hospital's total expense?
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## What does the Schedule H ask about other community benefits?

Charity care is just one category of community benefit in the Form 990, Schedule H. The form also asks for information about other categories. These include: unreimbursed Medicaid and other government means-tested programs, community health improvement services, community benefit operations, health professions education, subsidized health services, research, and cash and in-kind contributions to others to conduct community benefit activities. The form asks for the number of these programs and persons served (optional), the expense of the programs, certain offsetting revenue, net expense, and the percent of the organization's total expense.

“ *In the final analysis, it is absolutely essential that one understands that community benefit is driven by our mission, driven by our values. **Community benefit is a way that we can demonstrate the value that we bring to the communities that we are privileged to serve.*** ”

**LLOYD DEAN**

President and Chief Executive Officer  
Catholic Healthcare West, and 2009-2010 Speaker  
of the Membership Assembly of CHA

## **In addition to community benefit, what other information is requested?**

The Schedule H asks for information about activities the IRS does not — at least for now — consider to be community benefit. This includes community building activities (activities and programs that get to the root causes of health problems, such as unsafe housing or poverty), Medicare shortfalls and bad debt. The IRS asks about the expense of these items and directs hospitals to describe why these activities should be considered community benefit.

The Schedule H also asks about policies and disclosures:

- + Does the organization have a written debt collection policy?
- + What are the collection policy's provisions for patients known to qualify for charity care or financial assistance?
- + How are community needs assessed and how does the organization define its community?
- + How does the organization inform patients and others about eligibility for its financial assistance/charity care policy and for government financial assistance programs?
- + Does the organization prepare an annual community benefit report, and if so, does it make it available to the public?

A final and important set of questions asks the organization what else it does, on its own or with other entities, to promote health in the community.



At Little Company of Mary Hospital in Torrance, Calif., the Mary Schneider Institute for Nursing offers a number of nursing education programs. Here, student nurses are learning clinical skills in the nursing lab.

# Catholic Health Care and the Issues of Tax Exemption and Community Benefit

The Catholic Health Association became engaged in the topics of tax exemption and community benefit in the mid 1980s when an increasingly competitive health care environment generated important and related sets of questions. Congress and other policy makers were asking if not-for-profit hospitals were sufficiently charitable to deserve tax exemption and whether the community benefit standard was adequate for determining tax exemption. At the same time, Catholic religious sponsors were asking how the health care ministry was carrying out the healing mission of the church.

“*The history of Catholic health care providing benefits to the communities goes back to the beginning of Catholic health care in this country. The congregations went from one community to the next community because there was a need to help take care of the sick and poor and to address unique needs in those communities. **From the very beginning, Catholic health care was based on providing benefits to our community.***”

**DANIEL G. HALE**  
Executive Vice President  
Trinity Institute for Health and Community Benefits

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## What has Catholic health care done to address questions about tax exemption and community benefit?

In the 1980s, the CHA Board of Trustees reaffirmed that community benefit was integral to the mission of Catholic health care. It directed a study of ministry community benefit practices which led to development of *The Social Accountability Budget*. CHA recently updated that document with publication of *A Guide for Planning and Reporting Community Benefit*.

For the past 20 years, CHA has been the national leader in community benefit, advocating for the community benefit role of not-for-profit health care and developing educational materials. CHA has led efforts to use evidence-based community health approaches and to evaluate the impact of community benefit programs.

In 2005, Catholic hospitals and health systems committed to report community benefit using standard definitions and accounting principles. In 2007, CHA announced that in the past fiscal year, Catholic-sponsored hospitals contributed more than \$5.7 billion in community benefit resources.

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## Is there a mission basis to community benefit?

It is important for board members to understand that Catholic health care organizations do not provide community benefits because of external pressures, such as challenges to tax-exempt status. Organizations provide community benefit because it arises from Catholic identity and because it ensures that they are who they say they are: mission-driven organizations.

Reaching out to persons in need and improving community health flows from Catholic health care's identity and commitment to:

- + Promote human dignity.
- + Care for persons living in poverty and other vulnerable persons.
- + Promote the common good.
- + Steward resources.

## How has Catholic health care advocated on the issues of community benefit and tax exemption?

CHA leaders have testified before numerous Congressional committees and met with other policymakers in support of the community benefit standard and the community benefit role of not-for-profit hospitals. CHA advocates community benefit as more than charity care. Community benefit also includes activities to improve community health, increase access to needed health care services and advance knowledge through professional education and research.

The IRS used CHA's framework for defining and reporting community benefit in the development of the Form 990, Schedule H, and related instructions. CHA worked closely with the IRS as it drafted and refined these materials and continues to work with the IRS as the new reporting requirement is implemented.



At St. Joseph's Hospital in Tampa, Fla., the Children's Advocacy Center is reaching nearly 50,000 area children and their families with services aimed at reducing risk factors that negatively impact kids' health. Through classes, mobile medical outreach, legislative efforts and community events, the Children's Advocacy Center is tackling problems such as childhood obesity, bicycle injury, drowning, abuse and neglect and much more.

# What Board Leaders Should Know About the New IRS Reporting Requirement

Board leaders should become familiar with the form, take a role in its completion and review the final document.

They should be aware that all tax-exempt organizations' Form 990s are public documents. This means that community members, current and prospective employees, physicians, donors and other interested persons can review how the organization reports community benefit activities and other information related to tax exemption.

“ *In my experience, **no one knows the community better than the people who serve on the local boards of our health ministries.** They should be the first stop for evaluating what we do to serve our community and they should be the champions of community benefit for the most important needs of their local community.* ”

**SISTER CAROL KEEHAN, DC**  
President and Chief Executive Officer  
Catholic Health Association of the United States

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**Does the Schedule H tell how much community benefit hospitals should provide?**

No, hospital organizations are asked to report the cost of their community benefit activities and the percentage of total hospital expense it represents. There is no minimum requirement. However, it would be prudent for hospital board leaders to ask: Are we doing enough, considering our financial capacity and expertise, the needs in our community, and what others are doing?

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**Does the Form 990 ask about governance issues?**

In recent years, congressional committees and the IRS have become increasingly interested in governance issues. In 2008, the IRS published *Governance and Related Tips – 501(c)(3) organizations* and stated “The IRS believes that a well-governed charity is most likely to obey the tax laws, safeguard charity assets, and serve charity interests than one with poor or lax governance.”

Because of this interest, the IRS Form 990 and related schedules ask for new information about executive compensation and the process used to set the compensation, relationships with other organizations, and any conflicts of interest. Part VI of Form 990 asks a number of questions regarding the governing body and management of the organization, what policies are in place at the organization that address conflicts of interest, document retention and destruction, and participation in joint venture arrangements. It also asks how the organization makes its Form 990, governing documents, conflict of interest policy and financial statements available to the public.

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**How should hospitals get ready to file the Schedule H?**

Hospital leaders should assign a team, including staff from community benefit, mission, finance, communications, legal services and other departments to inventory current community benefit activities and review and update pertinent policies and procedures. The team should review resource materials available from the IRS, CHA, the Healthcare Financial Management Association and others.

Although most of the Schedule H is optional for 2008, hospital leaders should consider completing it in full, at least as a “dry run” for internal review, and in addition, it is recommended that boards review the results.

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# What Board Members Should Know about the Organization's Community Benefit Programs

The requirement to report community benefit on the IRS 990, Schedule H presents an opportunity for board leaders to take stock of their community benefit programs, to assess whether resources are being used wisely and to ensure that their organizations are meeting community benefit responsibilities. It also is an opportunity for health care organizations to tell their community benefit story.

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## **As a board member, it is recommended that you should:**

- + Understand and approve the organization's charity care/financial assistance policies.
  - + Understand and approve the organization's debt collection policy.
  - + Contribute to and approve the organization's community benefit plan.
  - + Understand and approve the organization's community benefit report.
  - + Review the organization's IRS Form 990.
  - + Hold executive staff accountable for carrying out the organization's community benefit mission.
  - + Be a champion for the organization's community benefit program.
  - + Help tell the organization's community benefit story.
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## **What is the board's role in community benefit?**

Today's boards are taking an active role in overseeing community benefit programs or are appointing committees to oversee the programs. Some responsibilities that represent good practice but are not required by the IRS include:

- + Developing and approving a community benefit policy for the organization.
- + Reviewing and approving the community benefit plan, providing information and insight into community need and resources, and helping set priorities for what community needs to address.
- + Reviewing and approving community benefit reports, including the Schedule H.
- + Receiving regular updates on the overall community benefit strategy and specific programs to assess whether the organization is having an impact on the health of the community.

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## **What should board members know about their hospital's charity care and billing policies?**

Board members should pay particular attention to charity care and billing policies and procedures, and should ask questions such as:

- + What are our criteria for granting financial assistance?
- + How do we let the public know about our policies?
- + Are all patients treated with respect in the billing and collections process?
- + Do we help patients apply for our own and government financial assistance?
- + What methods are and are not used to collect from patients?

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## **What should board members know about their hospital's charity care and community benefit expense?**

Boards should know (and may set) the charity care and community benefit budget. Board members should ask:

- + How does this budget compare with last year?
- + What is the percent of total expense?
- + How does this compare with community need and what others are doing?

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## What else should boards ask about their community benefit programs?

Board members should ask how community needs are assessed and how priorities are made among these needs. They should ask if services are being targeted to the greatest need, whether the organization works in collaboration with others, and if each program is making a difference in the overall health of the community. They should ask if community benefit is reported in accordance with CHA guidelines.

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## What role should the board expect of executive leaders regarding community benefit?

Board members should ask executive leaders to commit to excellence in their community benefit programs as they do other key functions of the organization. To do so, executives should:

- + Appoint qualified staff to lead the community benefit program and hold key staff accountable for participation in the program.
- + Provide adequate financial and other resources.
- + Report to the board about community needs and the organization's response to those needs.
- + Be advocates for community benefit within and outside of the organization.



In northern Illinois, the Alexian Brothers Hospital Network created the Community-Based Care Program for Veterans and Military Families to address the unique physical, emotional and psychological issues confronting service men and women returning from Iraq and Afghanistan.

## What should board leaders expect of their community benefit programs?

Community benefit programs should be more than reactive. In addition to providing free and discounted care to persons who come to our doors, community benefit programs should proactively investigate health and health-related problems and examine gaps in community health services. They should include efforts that reach out to low-income and uninsured persons, prevent disease and injury, and bring attention to the root causes of community health problems.

Community benefit programs should use resources wisely by responding to the most pressing needs of the community that are within the organization's capacity to influence. Programs should be strategically planned with measurable goals and objectives so that effectiveness can be measured.

Finally, community benefit programs should:

- + Collaborate with community partners to assess community need and find solutions to community health problems.
- + Use public health tools and approaches and select evidence-based programs to address community health problems.

“*As trustees, we are totally accountable to the community we serve. Governance and oversight are the main functions of the board.*”

**RAM S. TREHAN, MD**  
Trustee, Holy Cross Hospital  
Silver Springs, MD

# Conclusion

Community benefit is how Catholic and other not-for-profit health care organizations improve community health, increase access to needed health services and prepare for the future through health profession education and research.

It is appropriate for government agencies, including the IRS, to review the community benefit role of our organizations and make certain that preferential tax status is deserved.

The new IRS reporting obligation presents Catholic health care ministry with an opportunity to ensure their organizations are meeting their community benefit responsibilities and telling their community benefit story. It is an opportunity for board members to provide tangible evidence that they are representing the community's best interests. It is an opportunity for boards to show that their organizations are transparent and accountable, as tax-exempt, community-oriented organizations should be.

For additional resources related to the IRS 990, Schedule H please go to [www.chausa.org/form990](http://www.chausa.org/form990).

# Community Benefit

A Mission of Care — A Commitment to Community



From the very beginning, congregations of religious women and men courageously responded to the needs of the communities they were called to serve. Today, that same call to provide health and hope is being heard and answered in unique and creative ways through community benefit programs that continue the mission of our founders who followed in Christ's healing ministry.

## **As Catholic Health Care Ministry, we believe...**

**Because we have special concern for vulnerable persons,** we put a priority on programs that address the most vulnerable in our communities and ensure that all programs reach out to persons most in need.

**Because we are concerned with the dignity of persons,** we are committed to improving health care access for all persons, regardless of race, culture or economic status and to eliminating disparities in treatment and outcome.

**Because we are concerned about the common good,** we design community benefit programs to improve health through prevention, health promotion, education and research.

**Because we are concerned about stewardship,** we use financial and human resources where they are most needed and most likely to be effective.

**Because we are called to justice,** we advocate for health care for all and work to improve social conditions that lead to improved health and well-being.

**Because we care for the whole person,** we engage partners in our communities so that together we improve health and quality of life through better jobs, housing and natural environment.

**Because we minister as part of a community of faith in the Catholic tradition,** we work side by side with many faith communities to serve our common purpose of compassionate care for God's people.

To help board members understand their roles and responsibilities regarding community benefit and the new IRS reporting requirements, the Catholic Health Association has developed resources which can be incorporated into general board meetings or board committee meetings. In addition to this booklet, other resources include:

- + A video describing the community benefit tradition of Catholic health care and the new IRS reporting requirement.
- + Three PowerPoint presentations on the IRS Form 990 and Schedule H, that address community benefit, executive compensation and governance practices.

For more information, go to [www.chausa.org/form990](http://www.chausa.org/form990).

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