

# MORE THAN NUMBERS

**N**onprofit health care organizations serve their communities with a mission mandate — to respond to the health needs of communities they serve and of the vulnerable individuals within those communities, and to work toward the common good. They also have a legal mandate. These two mandates are related because tax-exempt organizations must demonstrate that they are fulfilling both their charitable purpose and their mission of serving their communities.



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Over the years — historically, periodically and currently — hospitals have been asked if they are sufficiently charitable to be true to their mission and if they are fulfilling their tax-exempt purpose. Our organizations should demonstrate accountability in both cases. Our religious sponsors and governing bodies want to know that our organizations remain mission-driven and uphold their founders' traditions of responding to needs. Policy makers and community members who grant our organizations tax exemption want to know we're fulfilling our charitable purpose and providing community benefit.

Starting in 2008, the Internal Revenue Service required hospitals to report their community benefit expenses on the IRS Form 990, Schedule H. Since that time, researchers and others have used the financial information from the form to gauge the charitable nature of hospitals. A series of articles in *Modern Healthcare* in 2018 pointed to information from Schedule H as evidence that some hospitals provided insufficient benefit to their communities.<sup>1</sup> One of the articles also pointed to shortcomings in the form.<sup>2</sup>

While information contained in the IRS Form 990, Schedule H, is important, it presents an incomplete picture of a hospital organization's charitable activity and should not be used in isolation as a yardstick to measure how a hospital serves its community.

## FORM 990 SCHEDULE H — BACKGROUND

Hospital organizations that are IRS 501(c)(3) organizations complete the Schedule H to provide

information about their community benefit activities and other information related to tax exemption. Part I of the form asks for information about a hospital's financial assistance policies and expenditures on the following categories of community benefit:

- Financial assistance
- Unreimbursed costs of means-tested public programs
- Community health improvement services
- Health professions education
- Subsidized health services
- Generalizable research
- Cash and in-kind contributions for community benefit
- Community benefit operations

Part II asks for information about "Community Building Activities," to include physical improvements and housing, economic development, community support, environmental improvements, community leadership development, coalition building, advocacy for community health improvement and safety and workforce development. In recent years, the IRS has clarified that community building activities meeting the definition of community benefit (responding to a community health need and addressing a community benefit objective) can be reported as community benefit in Part I.

Parts I and II ask for information on the total expense and net expense (total expense minus direct offsetting revenue) of a hospital's activities. Part VI of the Schedule H asks for narrative information that supplements responses from elsewhere in the form. Typically, researchers and other users of the Schedule H look only at the net expense figure of Part I.

## **NUMBERS CHANGING**

Prior to passage of the Affordable Care Act which expanded health care coverage to previously uninsured persons, financial assistance was the category with the largest expense reported on Schedule H. As a result of the ACA's expansion of health coverage, the net expense reported by hospitals in Schedule H has tended to be level or lower compared with prior years.

What follows are several reasons why many hospitals' community benefit expense has leveled or decreased and why the amount spent on community benefit tells an incomplete story of how hospitals benefit their communities.

### **The Affordable Care Act Decreased the Need for Financial Assistance**

Under the ACA, many states expanded Medicaid to people who were previously uninsured. This meant that for hospitals in the Medicaid expansion states there has been less need for financial assistance, which had typically been the largest dollar amount spent for community benefit. For some hospitals, the difference is now being spent, in part, on Medicaid shortfalls and shortfalls in other means-tested public programs. More people have become insured under the ACA, but these programs do not pay full costs, so there may be more losses reported on the Form 990 in these categories. These categories include government programs for low-income people and families, such as the Child Health Insurance Program, commonly called CHIP.

### **Hospitals Are Engaging in Collaborative Activities**

In the early days of Schedule H filings, most hospitals carried out their own community health improvement activities. This is no longer typical. A provision of the ACA required hospitals to work with public health agencies and community representatives to assess community health needs and plan how to address these needs. As a result, now most community benefit activities are collaborative between hospitals, public health agencies and community groups. With hospitals contributing expertise, influence and financial resources, these collaborative activities are more likely to impact the health of communities than did hospital-only activities. However, only the hospital portion of a collaboration's cost is reported on Schedule H.

### **The Costs of Some Anchor Activities Are Not Reported**

A trend in hospital community health improvement activities has been addressing the root causes of health problems, known as social and environmental determinants of health, through "anchor strategies." These activities use the operations of the hospital to impact economic conditions by hiring, buying, contracting and investing locally. Some hospitals train and hire local people who had been disadvantaged in the job market because of education, background or bias. Some make low-interest loans to community organizations or businesses. The costs of these initiatives are considered "opportunity costs" and are not reported as community benefit because the hospital would have had expenses related to hiring and buying even if those expenses would have been more. Opportunity costs are not actual expenses of an organization, but represent the difference of what an organization might have earned. For example, an opportunity cost might be giving a low-interest loan to a community business or organization rather than investing where there is higher return. Because such low-interest loans receive a return on investment, they cannot be reported as a community benefit expense.

### **Some Collaborative Activities Are Not Reportable**

Another trend in community benefit is for hospitals to join with community partners to address serious problems related to housing, poverty or other social needs by creating a new 501 (c)(3) organization. These have shared leadership, common goals and measurement. Because the joint organization is a separate entity from the hospital's 501 (c)(3), its activities cannot be reported on the hospital's Schedule H.

### **Grant Funded Activities Are Under-Reported**

Yet another trend is for hospitals, working with community partners, to stretch their resources by applying for outside funding to invest in major community health improvement initiatives. When a hospital provides a community benefit activity with outside funds restricted to the use of that activity, the hospital must subtract the amount of the restricted funding as "offsetting revenue" from the total amount. The net expense of the activity could be zero.

### **System Funded Activities Are Not Reported**

Similarly, when a health care system provides funds for a hospital's community health improvement activities, those activities are not reported as hospital expenses on Schedule H because the activity is not an expense of the hospital. This happens frequently in Catholic health care systems that have established charitable foundations or other vehicles for awarding grants for local community activities.

### **Valuable Activities May Not be Costly**

Many community benefit activities that are valuable in terms of improving community health are not as costly as providing financial assistance for hospital care. Programs for pregnant teens, including parent training, can prevent medical complications and later child behavior and developmental issues, which can be expensive to treat. Screening for cancer, hypertension and HIV/AIDS among low-income persons can avoid costly financial assistance or Medicaid expenses at a later time. Advocacy efforts on behalf of public health, environmental improvements, access to low-income housing and other issues related to community health may be relatively inexpensive to provide, yet have a significant impact.

### **BETTER WAYS TO EVALUATE COMMUNITY BENEFIT**

A better picture of a hospital's contributions to the community it serves can be found in its Community Health Needs Assessment (CHNA). Hospitals must publish reports of these CHNAs and describe how they worked with community partners, how and what needs were identified, how priorities among needs were determined and what resources were available to address identified needs. Starting with the current cycle of CHNAs, hospitals must include in their reports

an evaluation of the impact of any actions taken since the previous assessment.

A review of hospital CHNAs can provide a fuller picture of how hospitals benefit their communities than just a review of Schedule H numbers. They can provide the context of communities' needs and show how community partners work with their hospitals to set priorities and develop strategies to address significant needs.

Taken together, the numbers in Schedule H and a close look at CHNAs can provide a fuller picture of how nonprofit hospitals are working to improve health in their communities.

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### **NOTES**

1. Alex Kacik, "In Depth: Flaws in Hospital Community Benefit Reporting Create Knowledge Vacuum," *Modern Healthcare*, Dec. 1, 2018, [www.modernhealthcare.com/article/20181201/NEWS/181119965](http://www.modernhealthcare.com/article/20181201/NEWS/181119965); Tara Bannow, "In Depth: Questions Loom Over Sutter Health's Community Benefit Spending," *Modern Healthcare*, Dec. 1, 2018, [www.modernhealthcare.com/article/20181201/NEWS/312019953](http://www.modernhealthcare.com/article/20181201/NEWS/312019953); Alex Kacik, "In Depth: 1968 Chicago Riots Left Lasting Healthcare Impact on West Side," *Modern Healthcare*, Dec. 1, 2018, [www.modernhealthcare.com/article/20181201/NEWS/312019954](http://www.modernhealthcare.com/article/20181201/NEWS/312019954); "In Depth: A Flaw in Form 990 Schedule H Can Render A Key Metric Useless," *Modern Healthcare*, Dec. 1, 2018, [www.modernhealthcare.com/article/20181201/NEWS/312019952](http://www.modernhealthcare.com/article/20181201/NEWS/312019952).
2. Alex Kacik, "In Depth: The Problem with IRS Form 990 Schedule H," *Modern Healthcare*, Dec. 1, 2018, [www.modernhealthcare.com/article/20181201/NEWS/312019951](http://www.modernhealthcare.com/article/20181201/NEWS/312019951).

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