**Section 140.537 Payments to Related Organizations**

a) Related organizations include those with overlapping ownership and organizations with any ownership interest held by relatives of the owners of the reporting facility. Relatives include spouses, children, parents, brothers, sisters, grandparents, grandchildren, parents-in-law, sister or brother-in-law, son or daughter-in-law, aunt, uncle, and cousins. Where the overlapping ownership or interest held by relatives is 5 percent or more, a related organization exists for cost reporting purposes. An organization which has any control over operating policy of the reporting facility shall also be considered a related organization.

b) The following criteria govern costs regarding payments to related organizations:

1) Where facility makes rental payments to a related organization the rental payments are not allowable. The capital costs of the related organization must be used.

2) Interest paid by a facility to a related organization is allowable to the extent it does not exceed the prime rate of interest. The funds borrowed must be directly related to patient care. Interest is not allowed on loans from related parties in order to compensate or pay dividends to related parties, or to replace working capital used to pay for non-allowable expenses. Funds provided by owners to replace operating losses are contributions to capital and not allowable.

3) The cost of supplies or services purchased from a related organization are allowable if the following conditions are met:

A) Supplying organization is a bona fide separate organization;

B) At least 95 percent of the business activity of the type carried on with the facility is conducted with unrelated organizations;

C) The charge to the facility is in line with charges to unrelated customers; and

D) The charge to the facility does not exceed fair market value.

c) If all the above criteria are not met, the cost of the related organization must be used.