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## **Hospital Corporation of America**

January 11, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. EITF090H2

RE: Proposed Accounting Standards Update, Health Care Entities (Topic 954), Presentation and Disclosure of Net Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts (a consensus of the EITF)

Dear FASB Technical Director:

HCA Holdings, Inc. (HCA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) Proposed Accounting Standards Update, Health Care Entities (Topic 954), Presentation and Disclosure of Net Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts (a consensus of the EITF).

HCA is the largest non-governmental hospital operator in the U.S. and a leading provider of health care and related services. As of September 30, 2010, we operated a portfolio of 162 hospitals (with approximately 41,000 beds) and 104 freestanding surgery centers across 20 states throughout the U.S. and in England. For the year ended December 31, 2009, we generated revenues of \$30.052 billion and net income attributable to HCA of \$1.054 billion

## **Comments on Proposed ASU of Topic 954**

**Question 1:** The amendments in this proposed Update would require a health care entity to change the presentation of its statement of operations by reclassifying the provision for bad debts from an operating expense to a reduction from revenue (net of contractual allowances and discounts). Do you agree with this conclusion? Why or why not?

Yes, HCA agrees that the proposed amendments would result in a more informative presentation for health care entity financial statement users and would help address the strong similarities underlying the provision for bad debts, uninsured discounts and charity care by accounting for all three consistently, as revenue deductions in the statement of operations. However, we believe an even better statement of operations presentation alternative would be to treat the three components of uncompensated care as direct revenue deductions, with no separate line item presentation of the provision for bad debts on the face of the statement of operations. We believe footnote disclosures regarding the three components of uncompensated care would be the best format to provide information to users of the financial statements regarding the similarities among these three components of uncompensated care and their relationship to the related revenues.

Each of the three components of uncompensated care relate primarily to uninsured amounts due from patients receiving health care services. Each of these items is recorded based upon the health care entity's gross charges, which are generally, significantly in excess of the entity's costs of providing the health care services. The current inconsistency of accounting for two of these items (charity care and uninsured discounts) as revenue deductions and the third item (provision for bad debts) as an operating expense leads to inconsistencies in the reporting of results of operations of health care entities, which leads to difficulties in comparing results of operations among health care entities and is a source of confusion to investors and users of the financial statements.

We concur that more consistent and comparable statement of operations presentations will be attained when all health care entities account for the three uncompensated care adjustments consistently, as revenue adjustments. The three uncompensated care adjustments each relate to the same general patient group (the uninsured and underinsured), they are each based upon each entity's gross charges (which significantly exceed the entity's costs) and there is little underlying differentiation among the three adjustments. The patient receiving charity care may have more financial resources than an uninsured patient who doesn't receive the qualification for charity care, simply because such patient will not provide us the financial information to determine whether they meet our guidelines to qualify for charity care.

We believe the inconsistencies among health care entities in both their setting of gross charges (gross charges can vary significantly among health care entities) and their policies for determining charity care, uninsured discounts and the provision for bad debts lead to investor and financial statement user confusion in trying to determine the inflated impact on reported revenues, the inflated impact on the provision for bad debts (this operating expense is generally recorded as a multiple of the underlying costs since it is based on gross charges) and the estimated cost of total uncompensated care. These inconsistencies present difficulties to investors and financial statement users when they attempt to compare revenues and uncompensated care from period-to-period for particular health care entities and for comparisons among health care entities.

We concur that the reclassification of the provision for bad debts from operating expense to a revenue deduction (with or without separate line item presentation of the provision for bad debts as a revenue deduction) will significantly help investors and financial statement users by eliminating inconsistencies. We believe this will be an easy change to implement both prospectively and retrospectively and

will improve the consistency of operating results from period-to-period for each health care entity and comparability of operating results among health care entities.

Question 2: The Task Force consensus described in this proposed Update was reached in the context of discussing paragraph 954-605-25-3 relating to patient fee-for-service revenue (that is, revenue earned in transactions in which services provided are billed to patients or third-party payors). This was the issue that was initially raised to the Task Force for consideration. However, the final consensus was not limited to only patient service revenue. Accordingly, please answer the following questions relating to the scope of proposed guidance:

- a. Should the requirements of the proposed amendments be applicable to all revenue that is accounted for under Topic 954 (that is, patient service revenue, premium revenue, and resident service revenue)?
- b. If the answer to 2(a) is no, what types of revenue should the proposed amendments apply to (for example, should the requirements of the proposed amendments be limited only to patient and resident service revenue)?
- c. Some diversified entities provide heath care services as well as significant non-patient related products (such as pharmaceutical products) or services (such as billing and staffing, clinical information or education services). For such entities, should the requirements of the proposed amendments apply to all activities of the entity or only apply to the health care service revenue that is accounted for under Topic 954?

We believe the primary concern being addressed by the proposed amendments relates to patient service revenues and, more specifically, uninsured patient service revenues. Under current practices, both uninsured patient service revenues and the related provision for bad debts are overstated. We believe that attempting to bifurcate the types of revenues accounted for under Topic 954 and the related provisions for bad debts in the statement of operations would overcomplicate the process and not add significant incremental value to financial statement users. Therefore, we believe the proposed amendments should be applicable to all revenues accounted for under Topic 954 and that the proposed disclosures related to sources of revenues and the related allowance for doubtful accounts will provide financial statement users with information on a bifurcated basis.

We believe that entities having both health care services and non-patient related revenues should only reclassify and present as a deduction from revenues in the statement of operations the provision for bad debts related to revenues accounted for under Topic 954. We believe that the proposed disclosures related to sources of revenues and the related allowance for doubtful accounts will provide financial statement users with information for both the health care services revenues and related provision for bad debts (presented as a reduction to revenues) and the non-patient related revenues and the related provision for bad debts (presented as an operating expense).

Overall, we believe the most practical alternative is to have the scope of the proposed amendments be applicable to all revenues that are accounted for under Topic 954.

**Question 3**: Do you anticipate the need for significant changes in the accounting systems or information gathering to implement the proposed amendments? If yes, please specify the aspect(s) of the proposal that would cause the significant change (for example, a specific disclosure or part of the disclosure requirement).

No. We believe the proposed amendments will be easy to implement and will require only minor costs and time. The reclassification of the provision for bad debts is only a reporting format change and does not require any significant information system programming changes.

Regarding the other concerns raised to the staff by a constituent subsequent to the December 1, 2010 ratification meeting; we don't expect to have to recast our budgets or forecasts, as the proposed amendments only result in the reclassification of a statement of operations line item; the proposed amendments could cause companies that provide revenue guidance to clarify whether such guidance relates to revenue amounts prior to any reduction for the provision for bad debts or is net of the provision for bad debts; the proposed amendments would not have any impact on our compensation metrics or debt covenants (I would be surprised if the proposed amendments would have an impact on compensation metrics or debt covenants for many companies); the revision of proforma financial statements related to mergers and acquisitions would not apply to many companies and, if applicable, would only require the reclassification of a line item in the statement of operation; and the proposed amendments would not have any impact on our state income tax allocations.

**Question 4:** How much time do you believe would be necessary to efficiently implement the proposed amendments?

We believe very little time will be necessary to implement the provisions of the proposed amendments. Prior to the Board's decision to reexpose the consensus reached by the EITF at its November 19, 2010 meeting, we had already made the necessary changes to implement the proposed amendments in our internal monthly financial reports for November 2010 and our draft of the 2010 Form 10-K, as we were planning to early adopt the proposed amendments.

We request the Board to permit early adoption of the proposed amendments for the companies that wish to do so, if the Board decides to delay the effective date of the proposed amendments to provide an extended transition period for certain constituents to address their implementation concerns.

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We believe the reclassification of the presentation of the provision for bad debts from an operating expense to a revenue deduction will:

- 1. Improve the period-to-period consistency of the reporting of revenues, operating expenses and overall results of operations for each health care entity.
- 2. Improve the comparability of revenues, operating expenses and results of operations among health care entities.

- 3. Eliminate a current source of confusion for investors and financial statement users and allow them to benefit from the improvements in consistent application and comparability.
- 4. Eliminate the need for health care entities to provide supplemental non-GAAP operations schedules and disclosures to address the current inconsistencies and comparability concerns related to revenues and the components of uncompensated care.
- 5. Provide a presentation of net revenues that appears to be in line with the guidelines of the joint revenue recognition project.
- 6. Be easy to implement prospectively and retrospectively; no system changes will be required and therefore minimal costs and additional time will be required.

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Thank you for the opportunity to comment. I am available to provide additional comments, or meet with you or members of your board to discuss this matter further. If I can provide additional material or perspective on this issue, please contact me at (615) 344-5900 or by email at <a href="mailto:don.street@hcahealthcare.com">don.street@hcahealthcare.com</a>.

Don Street

Vice President & Chief Accounting Officer

HCA Holdings, Inc.