



May 12, 2010

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116

File Reference No.: EITF090L

Dear FASB Technical Director:

The Healthcare Financial Management Association's Principles and Practices Board (the P&P Board) appreciates the opportunity to comment on the proposed FASB Accounting Standards Update (ASU), *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure, a Consensus of the FASB Emerging Issues Task Force*. The objective of this proposed ASU is to reduce the diversity in practice of the disclosure of a measure of charity care.

HFMA is a professional organization of more than 35,000 individuals involved in various aspects of healthcare financial management. In 1975, HFMA founded the P&P Board, a special group of experts to serve as the primary advisory group in the areas of accounting principles and financial reporting practices to meet the unique characteristics of health service organizations.

In the proposed ASU, the FASB sought comments particularly on the issues and questions listed in the ASU. Our comments herein will center on these questions, and our answers will draw from the guidance published in December 2006, in P&P Board Statement 15: *Valuation and Financial Statement Presentation of Charity Care and Bad Debts by Institutional Healthcare Providers* and from discussion by the P&P Board. Also, it will reflect the P&P Board's longstanding efforts to balance two important goals: 1. financial reporting should improve the level of understanding between those who provide financial information and those who seek and use this information, and 2. reporting requirements should be feasible in the context of the unique characteristics of the healthcare field.

## Responses to Questions

**Question 1:** Do you agree that an entity's disclosure of a measure of charity care should be based on the direct and indirect costs of providing the charity care? If not, why not? What alternative measure would you prefer and why?

**Answer:** Yes, we agree with the proposal. In P&P Board Statement 15, Section VI, Valuation of Charity Care:

6.1 Although charges are the basis for charity care recordkeeping purposes, costs, not charges, should be the primary reporting unit for valuing charity care. The P&P Board agrees with the AICPA Expert Panel that reporting based on costs is more reliably measured and will provide

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more consistency when comparing amounts of charity care from different providers. By contrast, there is great variance among providers' charges, and consequently very little comparability. Also, measures on charges provide little and potentially misleading information about the resources consumed in providing charity care.

6.3 Costs of charity care should be estimated using the most accurate method available to the facility less any related revenue on those accounts. Ideally, cost data should be retrieved from a cost accounting system. In lieu of this, costs may be estimated in various ways, using the best data and method available. The method of estimation should be clearly disclosed in the footnote.

**Question 2:** The Task Force considered requiring a measure of charity care based on the average rate collected from paying patients for similar services. Do you believe that this measure would be more meaningful for financial statement users than the cost to provide charity care and if so, why? If not, why do you believe cost is more meaningful?

**Answer:** The P&P Board believes that measuring charity care based on the average rate collected from paying patients for similar services is not an appropriate measure. Indeed, the financial circumstances of patients who are personally responsible for their health care bills vary. Most health care providers develop charity policies to provide assistance to individuals who are unable to pay—so patients pay a portion of the bill or nothing. Therefore, to use average rates collected from paying patients is somewhat circular. Also, the average rate paid by patients is not a particularly meaningful concept; a health care provider typically foregoes payment because the patient is unable to pay—it isn't as if the provider could have recognized revenue but instead decided to forego the average payment rate. In contrast, the disclosure of the cost of charity is a grounded measure—it reflects resources the health care provider consumed with no reimbursement.

**Question 3:** Do you agree that the amendments in this proposed Update should be applied retrospectively? If not, why not?

**Answer:** Yes, we agree with retrospective application. Providers already have multiple methods of estimating costs. As discussed above, the preferred method of measuring the cost of charity care is the use of data collected from a cost accounting system; however, other methods are available and acceptable. The important aspect is to disclose the costing methodology utilized and to strive to use consistent costing methods between periods.

**Question 4:** Do you anticipate that there would be significant changes in accounting systems or information gathering to implement the provisions of the proposed Update? If yes, please explain.

**Answer:** No, we do not anticipate significant changes in accounting systems or information gathering. Providers already have multiple methods of estimating costs available, the most basic one being a cost-to-charge ratio. The important aspect is to disclose the costing methodology, and to strive to use consistent costing methods between periods.

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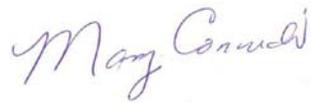
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**Question 5:** How much time do you believe would be necessary for you to efficiently implement the provisions of this proposed Update?

**Answer:** Since most healthcare entities collect this data currently, we believe implementation could take place immediately.

Thank you for the opportunity to comment. We are always ready to provide additional comments, or meet with you to discuss this matter further. If we can provide additional material or perspective on this issue, please contact Richard Gundling, Vice President of Healthcare Financial Practices, in HFMA's Washington, DC office at (202) 296-2920, extension 605.

Sincerely,



Mary Connick, CPA  
P&P Board Chair

### **About HFMA**

HFMA is the nation's leading membership organization for more than 35,000 healthcare financial management professionals. Our members are widely diverse, employed by a variety of healthcare providers, accounting and consulting firms, and insurance companies. Members' positions range from chief executive officer and chief financial officer to patient accounts manager and accountant.

HFMA is a nonpartisan professional practice organization. As part of its education, information, and professional development services, HFMA develops and promotes ethical, high-quality healthcare finance practices. HFMA works with a broad cross-section of stakeholders to improve health care by identifying and bridging gaps in knowledge, best practices, and standards.

### **About HFMA's Principles & Practices Board**

HFMA established the Principles and Practices Board in 1975 to reevaluate, clarify, and establish accounting principles and financial reporting practices to meet the unique characteristics of health service organizations.

The P&P Board consists of twelve members who have demonstrated technical competence in the industry and possess outstanding personal and professional qualities. At least six members must be employees of provider organizations; six or fewer members must work in organizations that serve the industry.