

EITF090H Comment Letter No. 4

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Technical Director
File Reference No. EITF090H
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: <u>Proposed Accounting Standards Update</u>, <u>Disclosure about Net Revenue and Allowance for Doubtful Accounts</u>

Dear Technical Director:

Ascension Health welcomes the opportunity to comment on the Financial Accounting Standard Board's (the "Board") Proposed Accounting Standards Update, "Disclosure about Net Revenue and Allowance for Doubtful Accounts," exposed for comment on October 6, 2010 (the "Draft"). We provide our comments on behalf of Ascension Health, the nation's largest not-for-profit Catholic health system, with annual operating revenues of over \$14 billion and approximately \$4.2 billion of tax-exempt debt in public markets.

Our organizational structure consists of hundreds of separate legal entities, primarily non-profit hospitals and healthcare entities (with a few for-profit entities), located in 20 states and the District of Columbia. Our legal entities are organized into approximately 30 reporting units for financial statement reporting purposes, each of which receive some level of external audit review. Furthermore, certain of these reporting units receive separate audit reports, either on a consolidated basis or on a stand-alone hospital basis based on regulatory requirements. For the most recent fiscal year, over 30 full scope and limited scope audit reports were issued within our System. Additionally, we file interim quarterly statements publicly via the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system.

Although Ascension Health recognizes the need to provide investors and other users of financial information with adequate and timely information, we believe that the Draft fails to address key concerns and will not provide investors and other users with additional meaningful information. Ascension Health recognizes the concerns raised by constituents that current practice results in an overstatement of revenue for amounts that are not ultimately expected to be collected, with a corresponding overstatement of bad debt expense. However, Ascension Health believes that the Board should address this concern directly, or wait for the completion of the joint revenue recognition project so that concerns can be addressed appropriately. The proposed disclosures required by the Draft leave significant room for interpretation and will not provide financial statement users with consistent, reliable, and meaningful information when comparing different

health care organizations. One area of particular concern and subject to significant interpretation is the definition of self-pay, which typically represents a major payor class for health care organizations. A critical question will be whether self-pay represents only those individuals who do not have insurance, or includes remaining patient balances existing after insurance payments. The current landscape of insurance models includes high deductible plans, health savings accounts, and others which result in insured patients bearing direct responsibility for a significant portion of their health care bills. The distinction of what is self-pay and/or when does an account become self-pay varies significantly among health care organizations and is dependent on their specific processes, procedures, and capabilities or limitations of their billing systems. Therefore, a more clear definition of what is considered self pay should be identified because an argument could be made that all patients are self-pay as many not-for-profit health care organizations provide services to all individuals, regardless of their ability to pay, with insurance organizations providing a basis to assist individuals in making payments for the services provided. In the event that an insurance company does not have the responsibility to pay for all or a portion of the services, the unpaid balance typically becomes the responsibility of the patient. We anticipate that disclosures for our system would indicate that a predominant percentage of all bad debt expense is considered to be "self-pay". This added disclosure would not be meaningful to users of our financial statements.

In the remainder of this letter, we will address the specific questions posed by the Board.

Question 1: Do you agree that the proposed disclosures would allow users of the financial statements to better understand and assess the net revenue recognized by a health care entity and changes in its allowance for doubtful accounts? Why or why not? If not, what changes would you suggest to the proposed amendments?

As indicated above, we do not believe that the proposed disclosures would allow users of the financial statements to better understand and assess the net revenue recognized by a health care entity and changes in its allowance for doubtful account. We believe that the current disclosures indicating major sources of revenue are adequate and provide appropriate information to users of financial statements to evaluate the existence and concentration of risk among specific payors. We also believe general disclosures regarding our assessment of collectability on the allowance for doubtful accounts, which we currently provide, are adequate and beneficial to users of financial statements. We do not believe that the proposed disclosures related to changes in allowance for doubtful accounts provide useful information due to differences in interpretation resulting in incomparability, as well as due to difficulties expected in obtaining appropriate, reliable and comparable information. As discussed above, we suggest that the Board address the key concerns regarding revenue recognition or wait for the completion of the joint revenue recognition project so that concerns can be addressed appropriately.

Question 2: The Task Force considered requiring disclosure of net revenue by type of service (that is, emergency care, elective services, and so forth). Do you believe that disclosure would be more useful than the proposal to provide disclosure by major payor type? Why?

We believe that disclosure of net revenue by type of service would not be more useful primarily due to the complexities in obtaining this information and different interpretations of "type" of service leading to information that is not comparable between health care organizations. We believe that it would be extremely difficult to obtain this information in a reliable and useful format based on the structure of not only our organization, but that of many other providers. We also believe that significant difficulties would be encountered in defining "type" of service, particularly in situations where health care organizations provide integrated services, which would result in unreliable and disparate information among different health care organizations. Additionally, certain health care organizations, depending on their size, complexity, and resources, would be unable to effectively track information based on type of service, which could result in the incurrence of significant costs in order to become compliant. Any perceived benefits to investors and other users of this information would not outweigh the costs to accumulate such data. We also have concerns with regard to how this type of disclosure would be able to be audited by external accounting firms as well as the increases in audit fees as a result of requiring these limited disclosures.

Question 3: Do you agree that the amendments in this proposed Update should be applied retrospectively?

We do not agree that the amendments should be applied retrospectively. As indicated earlier, we do not agree with the overall proposal of the Draft. However, if we were required to apply the updates as proposed, we would recommend to the Board that the disclosures be provided on a prospective basis. We feel that the proposed disclosures provide little to no useful information and also do not have any impact on the Balance Sheet or Statement of Operations. As such, we believe, if required to do so, that it is appropriate to only apply the proposed disclosures prospectively.

Question 4: Do you anticipate the need for significant changes in the accounting systems or information gathering to implement the proposed amendments?

We anticipate the need for significant changes in systems and information gathering in order to implement the proposed amendments. Extensive programming changes to our patient financial systems would be required to consistently identify coinsurance and deductible amounts as self-pay. These changes would be costly and would require a significant amount of time and management attention.

Question 5: How much time do you believe would be necessary to efficiently implement the proposed amendments?

We believe that a significant amount of time may be necessary to efficiently and effectively implement the proposed amendments due to the structure and size of our organization. We believe that Ascension Health, as well as other organizations, will have to implement new processes and procedures to gather and review the required information in a consistent and detailed format. We believe that this will take a significant amount of time as this type of information has not been subject in the past to the type of detailed accumulation and review that will now be required.

Conclusion

In summary, we believe that the primary concerns of constituents related to revenue recognition by health care entities have not been appropriately addressed by the proposed disclosures of this Draft. We believe that the Board should specifically address the issue at hand with regard to revenue recognition, or continue to leave current practices as is until they are addressed by the joint revenue recognition project currently in process. We believe that the additional disclosures will not provide users of financial statements with additional useful information due to the differences in practice and interpretation among health care entities. Finally, we believe that if we are required to go through the process of implementing additional processes and procedures necessary to present the required disclosures of the Draft, that the time and effort put forth doing so will be wasted upon the finalization of updated revenue recognition principles which would eliminate the necessity of certain required disclosures as proposed within the Draft.

Sincerely,

Barbara L. Potts

Senior Director, Financial Reporting

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