

EITF090H2
Comment Letter No. 5
CROZER-KEYSTONE
HEALTH SYSTEM

February 9, 2011

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Technical Director
Financial Accounting Standards Board
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File Reference No. EITF090H2

Re: Proposed Accounting Standards Update No. 2, 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 FASB Emerging Issues Task Force

Dear FASB Technical Director:

Crozer-Keystone Health System ("CKHS") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB") Proposed Accounting Standards Update No. 2, 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 FASB Emerging Issues Task Force.

CKHS is a Pennsylvania nonprofit corporation and is the sole corporate member of Crozer-Chester Medical Center (CCMC), Delaware County Memorial Hospital (DCMH), and Crozer-Keystone Health Network (CKHN). CCMC is the sole corporate member of Crozer-Chester Foundation (CCF). DCMH is the sole corporate member of Delco Memorial Foundation (DMF). CKHS also owns 100% of the stock of Crozer-Keystone Services, Inc. (CKS) and Pennsylvania Health Club, Inc. (PHC).

CKHS offers a wide range of health care services through its controlled affiliates to the residents of Delaware, Chester, Montgomery, and Philadelphia Counties, Pennsylvania, Southern New Jersey, and Northern Delaware. These services include: inpatient and outpatient acute care services, subacute care, emergency and trauma services, nursing and rehabilitative services, physician care services, and other health prevention/promotional services.

For the fiscal year ended June 30, 2010, CKHS generated revenues of \$821.2 million and excess of revenue over expenses of \$12.7 million.

Comments on EITF Issue No. 09-H

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?

CKHS agrees with the conclusion and the presentation requirements outlined in 954-605-45-4 requiring a health care entity to present the provision for bad debts as a reduction from revenue. CKHS believes that this presentation is consistent with how charity care and other uncompensated care discounts are treated. By including the provision for bad debts as a direct reduction of revenue, this will lead to greater comparability and consistency in reporting net revenues of health care entities. The current presentation of the provision for bad debts as a component of operating expenses results in disparity of financial reporting, since the determination of the provision for bad debts varies from entity to entity. One entity may have a broader policy for those patients that qualify for charity care than another entity, which leads to vast differences in the amount of the provision for bad debts being recognized in the financial statements. There is little differentiation in the economic substance of these items, as the underlying impact is that there is no expectation of collection and therefore no basis for recognizing revenue. Also, the majority of the provision for bad debts pertains to self-pay.

In addition, qualification for charity care is based on the patient's cooperation. If patients are unwilling to provide the requisite financial information in order for us to determine if they meet our charity care requirements, then we will not be able to qualify them for charity care. Accordingly, there could be patients that could qualify for charity care that are not receiving charity care, which overstates net revenue and the provision for bad debts.

Question 2: The Task Force consensus described in this proposed Update was reached in 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 related to the scope of the proposed guidance:

1. 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)?

CKHS believes that the requirements of the amendments in the proposed Update be applicable to all revenue that is accounted for under Topic 954. Any attempt to bifurcate the types of revenue accounted for under Topic 954, would cause unnecessary complications to the process, and would most likely not add significant value to users of the financial statements.

2. 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 to only patient and resident service revenue)?

Based on our response to the question in 2(a), this question is not applicable.



3. Some diversified entities provide health 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?

CKHS is a diversified health care organization that has both health care services and non-patient related revenue. CKHS does not believe that the requirements of the proposed Update should apply to all activities of an entity, but only those accounted for under Topic 954. Therefore, the provision for bad debts related to non-patient related revenue should be presented as an operating expense.

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 a disclosure requirement).

No. CKHS does not believe that the amendments in this proposed Update should require significant changes to the accounting systems or information gathering to implement the amendments.

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

In order to efficiently implement the amendments in the proposed Update, CKHS believes that having the proposed amendments effective for fiscal years beginning on or after December 15, 2010. As CKHS has a June 30 fiscal year end, this would provide sufficient time to gather the required information to implement the amendments.

Thank you for the opportunity to comment on the amendments in the proposed Update. If you have any questions on the comments provided in this letter, please contact me at (610) 447-6562 or by e-mail at david.griffith@crozer.org.

David Griffith Controller, CKHS