September 8, 2010

Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Subject: California Hospital Quality Assurance Fee Program

Dear Director:

The Quality Assurance Fee Act (hospital fee program) was signed into law by the governor in September 2009 and became effective on January 1, 2010. The hospital fee program must be approved by the Centers for Medicare & Medicaid Services (CMS) before it can be implemented. The program, once approved by CMS, will cover a total of 21 months from April 1, 2009 through December 31, 2010. Upon CMS approval, California hospitals will need to record the transactions for the retroactive period of more than 18 months.

The Quality Assurance Fee Act authorizes a fee on hospitals, assessed on patient days. The source of the patient days is historic and static; making the amount of the fee known for the duration of the program. The state will use the fee revenue to serve as the non-federal share to draw down $3.2 billion in new funds from the federal government. A significant amount of these funds are for the period dating back to April 1, 2009.

We understand that current generally accepted accounting principles suggest that the timing of recognition of the fee and the payments corresponds to federal approval. As the fee and payments are a matter of law, an obligation is incurred with the enactment of the law, which occurs when federal approval is obtained. As a result, the corresponding entries should be recorded at the date of implementation for all retrospective periods, and should be recorded ratably for the current approved period.

However, we believe there needs to be a reevaluation of this exceptional situation specifically related to hospitals. Revenue recognition in hospitals is unique as outlined in Accounting Standards Codification 954-605, and supported by the Accounting and Audit Guide for Health Care Organizations, which would indicate that prior period amounts could be recognized in the earliest open period. Further, TPA 6400.30 also supports recording the fee and payments in the earliest open period once federal approval is received.

We respectfully request that you review the issue above and clarify that California hospitals are able to recognize prior period fee and payment amounts in the earliest open period. If you have any questions or need more information, please contact me at (916)552-7547 or cddauner@calhospital.org.

Sincerely,

C. Duane Dauner
President and CEO