May 24, 1999

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Lucas:

As an organization representing 225 hospitals and health systems in Pennsylvania, we encourage you to reconsider your position on Exposure Draft #194-B and not implement the proposed standard, Consolidated Financial Statements: Purpose and Policy. Specifically, we are concerned with your interpretation of a parent organization’s “control” over subsidiaries as it applies to not-for-profit hospitals and health systems.

Because not-for-profit hospitals are established through charitable assets intended to care for a defined population, these assets rarely are absorbed or consolidated into a parent organization’s assets when a merger or acquisition occurs. Rather, these charitable assets generally remain with the merged or acquired entities or are retained in community foundations under the control of a community-based board, so that they may continue to be invested in the health of the individuals they were originally intended to serve. It would be entirely inappropriate for these assets to be used for the parent organization’s financial benefit.

In Pennsylvania as elsewhere in the country, the handling of these charitable assets is closely examined by the state Attorney General and by the Federal Trade Commission under antitrust laws. There also is increasing public interest in the protection of these assets as separate from the parent organization or health system. Consolidating financial statements would inappropriately add to the public scrutiny and confusion that already exists in health care merger and acquisition scenarios. Such a significant financial reporting change makes no sense when there has been no structural accounting change.

We urge that you consider the unique “parent-subsidiary” relationship in not-for-profit health systems as you contemplate Exposure Draft #194-B. We firmly believe that charitable assets should remain and be used in the community from which they came, and that representatives from that community must readily be able to understand how these assets are being used. Nonconsolidated financial statements are the best way to do that. Therefore, we do not support Exposure Draft #194-B.

Sincerely,

CAROLYN F. SCANLAN
President and Chief Executive Officer

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