October 25, 2019

Technical Director
File Reference No. 2019-780
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
Via email: director@fasb.org

Dear Technical Director:

Beacon Health System, Inc. (BHS) appreciates this opportunity to comment on the Financial Accounting Standards Board’s (FASB’s) exposure draft of the revised proposed Accounting Standards Update, Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent).

BHS is an Indiana not-for-profit corporation exempt from federal income tax under Internal Revenue Code (the Code) Section 501(a) as an organization described in Section 501(c)(3) and a public charity as described in Section 509(a)(3). The Corporation is the sole corporate member of the following entities:
- Elkhart General Hospital, Inc. (EGH)
- Memorial Hospital of South Bend, Inc. (MHSB)
- Beacon Health Foundation, Inc. (BHF), formerly Memorial Health Foundation, Inc.
- Beacon Medical Group, Inc. (BMG), formerly Memorial Health System, Inc.
- Beacon Health Ventures, Inc. (BHV)
- Community Occupational Medicine, Inc. (COM)
- CHA ACO, LLC (CHA ACO)
- Beacon Health, LLC (BH)
- Community Hospital of Bremen, Inc. (CHB)
- BCO Acquisitions, LLC
- Beacon Specialty Surgery, LLC (BSS)

EGH, MHSB, CHB, BMG, and BHF are also exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) and as public charities described in Sections 509(a)(1) and 509(a)(2). BHV and COM are Indiana for-profit corporations. EGH is a 365-licensed-bed (254 available) acute care community hospital located in Elkhart, Indiana. MHSB is a 657-licensed-bed (409 available) acute care trauma center located in South Bend,
Beacon Health System, Inc.
File Reference 2019-780
October 25, 2019
Page 2

Indiana. CHB is a 24 bed critical access hospital located in Bremen, Indiana. EGH, MHSB and CHB (collectively, the Hospitals) provide inpatient, outpatient, and 24-hour emergency care services for residents of Elkhart, South Bend, and Bremen Indiana, and the surrounding communities.

- BHF is organized primarily to promote and encourage philanthropic activities for the support of the Corporation and its affiliates.
- BHV manages the taxable operations of the Corporation, including home care and other non-acute health care services.
- COM primarily promotes population health management.
- CHA ACO coordinates high-quality care for Medicare beneficiaries participating in the Medicare Shared Savings Programs.
- BMG operates the physician enterprise of the Corporation.
- BH improves and expands delivery and quality of health care services for the Corporation.
- BCO Acquisitions, LLC, is a real estate holding company established to purchase land.
- BSS, formerly Memorial Spine and Neuroscience Center, LLC was a joint venture that is now fully owned by BMG, an outpatient surgery center specializing in neurologic, spine, and pain control procedures.

General Comments

In the exposure draft, the FASB states it is issuing this proposed update as part of its initiative to reduce complexity in accounting standards (Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to financial statement users.

Specific Issue

An example of a change in the classification would be short-term debt that has a contractually linked long-term financing arrangement. Under current GAAP, short-term debt is classified as a noncurrent liability if an entity enters into a financing arrangement and meets certain conditions, including the fact that the debt is not expected to be paid within the next period of reporting. The amendments in this proposed Update would preclude an entity from considering contractually linked long-term financing arrangements (such as letters or lines of credit) in determining the classification of the debt.
Beacon Health System, Inc.


File Reference 2019-780
October 25, 2019
Page 3

Beacon Health System, Inc response:

Variable Rate Debt Obligations (VRDOs) were developed as a viable alternative for long-term financing arrangements. The option to finance via VRDO backed by a Letter of Credit (LOC) or standby bond purchase agreement (SBPA) has been seen as interchangeable with other long-term financing options such as direct purchase, floating rate notes, or fixed rate bonds. It is clearly intended to be a long-term debt vehicle in practice.

As proposed, the accounting standards update would require short-term classification for VRDOs which would have a significant impact on financial metrics and debt covenants of healthcare organizations. This change would unduly impact and skew metrics of healthcare organizations, including BHS’s, who in the past used VRDOs backed by a LOC or SBPA as their long-term financing vehicle, causing incongruent comparisons of debt metrics among healthcare organizations. Consequently, such debt would only be considered noncurrent after a failed remarketing, which seems counter intuitive.

BHS had VRDO bonds backed by a line of credit outstanding at December 31, 2016 of approximately $78,000,000 which represented approximately 27% of total outstanding debt. BHS does not currently have VRDO arrangements, but has utilized this financing option in the past. The current proposed guidance would limit the financing arrangements available to BHS as it would impact various factors in our financial statements on a go forward basis if we choose to issue bonds via this methodology. The following were the relevant terms of the previously held bonds.

- The liquidity facility utilized in the past was a letter of credit with expiration in the future typically past 1 year.
- The liquidity facility allows certain types of investors (for example, money market funds) to be able to invest in our bonds (because they can exit within their required liquidity timeframe if necessary) not having this option could limit BHS’s options for bond issuance in the future.
- The liquidity facility could not be utilized for any other purpose. If the bonds are refinanced, the liquidity facility terminates.
- Draws on the liquidity facility can only be initiated by the bond trustee upon notification of a failed remarketing. We did not have the ability to initiate draws on the facility.
- The facility must be renewed every few years. If we do not do so, the bonds must be restructured. They could not be outstanding without a liquidity facility in place.

Limiting the bond issuance options of BHS would have various implications on the entity.
Beacon Health System, Inc.
File Reference 2019-780
October 25, 2019
Page 4

- Significant capital improvements would be hindered by limited financing options, besides the economic impact of increased costs of issuance of debt by limiting the available options there are other considerations:
  o This is an integrated financing transaction. To report the bonds based solely on the demand repayment terms of the bonds provides users with a distorted picture of the financing arrangement, because the true repayment mechanism is relegated to disclosure.
  o Displaying VRDOs as two separate financing agreements (one of which is recognized, the other of which is only disclosed) is misleading, because the financial statements will not reflect the economics of the financing arrangement. This would be a “form over substance” presentation.
  o It would be misleading to users of our financial statements to display this debt as if we would actually have to repay the entire amount of the bonds within the next year.
  o Users of our financial statements focus on our ability to generate cash flows that are sufficient to cover our operations plus our debt service during the period. It is misleading to report as if the entire long-term bond obligation will require use of our current resources, when in fact the only current resources that will be used are those associated with making the current installment of principal and interest.
  o Our financial statements are widely distributed. We would have to provide significant additional disclosures and MD&A to address why the information reported on the financial statements is not reflective of the economic substance of our debt structure. The change would not simplify the guidance; it would make it harder for us to tell our story.
  o We will be required to explain to analysts and investors that there isn’t a substantive liquidity difference between us and our GASB competitor that has VRDOs. We would be required to show any VRDOs as current obligations, while our GASB competitor is able to report current and long-term portions that reflect economic reality.
  o In the worst-case scenario that our bonds had to be called, the resulting repayment schedule would be long-term debt with a current portion. In the normal payment scenario, it is misleading to report as if these will require use of current resources.

- The impact of showing a significant portion of Long term debt as current would impact key financial ratios including ratios included in debt covenants and utilized by the industry by rating agencies.
Beacon Health System, Inc.
File Reference 2019-780
October 25, 2019
Page 5

- Our current existing debt agreements would require amendments to debt covenants as they would be in default if this debt structure was utilized in the future, Historical Debt Service Coverage ratios would be impacted even though the debt payments would not be due in the short term causing all existing debt agreements to be in default effectively making this financing option unavailable for the future.
- Impacts to key ratios and debt covenants would limit additional borrowings and could impact agency ratings further impacting financing options and costs of issuance and ongoing costs of obligations.
- Costs to issue bonds in the future could be higher as fewer options are available and would likely have more restrictive terms.

We respectfully request review and reconsideration of this provision as it will not result in a more simplified approach to debt classification and subsequently lead to additional administrative burden and expense for healthcare organizations. We support a provision to the proposed update allowing VRDOs that are contractually linked to a long-term LOC or SBPA to still be classified as current. The concept of the contractual linkage would appear to be a practical solution that would more appropriately reflect the intent and economics of the entire financing transaction. At a minimum, we suggest that existing VRDO financing arrangements in place be grandfathered from the proposed classification to avoid unnecessary additional costs and administrative burden.

Thank you for the opportunity to comment. We are always ready to provide additional comments, or meet with you or members of your board to discuss this matter further. If we can provide additional material or perspective on this issue, please contact Harley McCoige, Controller, hmccoise@beaconhealthsystem.org or at 574-647-3683.

Sincerely,

[Signature]
Controller
Beacon Health System, Inc