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:

Sharp HealthCare (Sharp) 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).

Sharp is an integrated, regional health care delivery system based in San Diego, California. The Sharp system includes four acute care hospitals; three specialty hospitals; three affiliated medical groups; 29 medical centers; six urgent care centers; three skilled nursing facilities; two inpatient rehabilitation centers; home health, hospice, and home infusion programs; numerous outpatient facilities and programs; and a variety of other community health education programs and related services. Sharp also offers individual and group Health Maintenance Organization coverage through Sharp Health Plan. Serving a population of approximately 3.3 million in San Diego County, as of September 30, 2019, Sharp was licensed to operate 2,084 beds and has more than 2,700 Sharp-affiliated physicians and 18,000 employees.

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. In general, Sharp supports the Board’s efforts. We appreciate the opportunity to provide comments on the proposed accounting standards update.

Responses to Revised Proposed ASU’s Questions for Respondents

Question 1: Proposed paragraph 470-10-45-23 would preclude an entity from considering an unused long-term financing arrangement (for example, a letter of credit) in determining the classification of a debt arrangement. Would that proposed requirement simplify the guidance without diminishing the usefulness of the financial statements? Why or why not?

No. Sharp believes that the simplification of the guidance would result in classification of debt as short-term that is long-term in nature.
Our understanding is that the debt arrangements described in Example 2 of ASC 470-10-55-7 and 55-8 would be classified as a current liability under the revised proposed ASU because proposed ASC 470-10-45-23 prohibits an entity from considering an unused long-term financing arrangement. 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) 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 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 who happen to be using VRDOs backed by an LOC as their long-term vehicle, causing incongruent comparisons of debt metrics among healthcare organizations. Additionally, the guidance proposes the debt move to noncurrent only after a failed remarketing, which seems counter intuitive to the driver of such an event.

This proposal would cause health systems to make business decisions to discontinue the use of a well-proven, and cost-effective method of long-term financing with the combination of VRDO and an LOC. This increases administrative burden and substantial incremental costs.

While the bond rating agencies and auditors will read through the entirety of the financial statements, other users may not. This may cause many users to be misinformed about an organization’s true working capital and liquidity and being able to continue as a going concern.

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 expense for healthcare organizations.

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 Jennifer Gardyne, Vice President Finance, Sharp HealthCare at jennifer.gardyne@sharp.com or 858-499-5152.

Sincerely,

Staci Dickerson, CPA
Sharp HealthCare
Senior Vice President and CFO