Advocate Health Care

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August 14, 2015

Mr. Russell G. Golden
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Proposed Accounting Standards Update (ASU), *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*

Dear Mr. Golden,

As a major not-for-profit healthcare system in Illinois, we have been following the FASB Board ("Board") deliberations on the proposed ASU, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities* and have certain concerns over the draft proposal. We believe the proposed ASU would adversely impact the industry in a number of ways, including: (1) the consistency and comparability of financial statements across the health care industry (e.g. for-profit vs. not-for-profit); (2) understanding of financial statements by various stakeholders, including, bondholders and rating agencies; (3) consolidation of entities that have both not-for-profit and for-profit subsidiaries; (4) the consistency and reliance of methodology used for performance indicators; and (5) limiting currently available cash flow reporting options to a method which would be inconsistent with that used by the majority of business organizations while requiring significant investment in IT system design and accounting architecture changes in order to accommodate the direct method of reporting cash flows.

Advocate Health Care ("Advocate") is an integrated health care system dedicated to providing health care services, including inpatient acute and non-acute care, primary and specialty physician services, and various outpatient services. Primary users of our financial statements are the Advocate Board including the finance and audit committees, bondholders, rating agencies, banks, vendors and donors. Advocate is comprised of both tax-exempt and for-profit organizations.

The health care industry is comprised of public companies, private companies, not-for-profit entities and governmental entities. All are providing health care services, regardless of sponsorship. We believe that consistency in reporting among health care counterparts is more important than consistency in reporting with other types of not-for-profit entities. Unlike most other not-for-profit entities, not-for-profit business-oriented health care organizations, such as Advocate, have limited fundraising activity and operate a single program, the provision of health care services. The current model reflects these characteristics. We are concerned that significant changes to the presentation and classification (such as the proposed definition of "operations", changes in cash flow classifications) of not-for-profit entities will result in further divergence of the not-for-profit healthcare reporting model from the model used by for-profit entities across the healthcare industry. Financial reports for not-for-profits would be less understandable and useful as the new financial reporting framework would differ significantly from the current financial reporting framework used by most U.S. business entities. We are concerned that this would have an adverse effect on how our financial reporting is understood by the primary users of our financial statements.

Mergers and acquisitions are becoming a norm in healthcare and are expected to continue under healthcare reform. Health systems are becoming a hybrid of not-for-profit and for-profit entities with acquisitions of health plans and/or physician practices. The proposed changes would drive financial reporting further apart and would act as a hindrance to these activities. We are concerned that creating a substantively different reporting model for not-for-profit entities would complicate the preparation of consolidated financial statements that currently include both not-for-profit and for-profit entities and would add to the costs of financial reporting while not adding significant benefit to the primary users of our financial statements. Therefore, we strongly believe that continuing to maintain a common framework for all entities across the health care industry is very important. In addition, it would enable us to represent ourselves fairly and on the same standards as other entities and industries.

The proposed ASU uses a conceptually different framework that inter-mingles components of net income and other comprehensive income and discontinued operations within new operating/non-operating categories in a manner not previously used in the U.S. financial reporting system. We are concerned that changing from a net income based earnings measure that is well understood by key stakeholders and consistently applied to a new measure, based on the not-for-profit entity's mission and availability of resources, which has not been previously used or defined, would be detrimental to financial statement users. We believe that a net income performance metric is relevant to our users. We believe that this metric provides the bridge to comparability between reporting by not-for-profit and for-profit entities.

We understand the Board's proposal for additional quantitative and qualitative disclosures. We would encourage the Board to ensure that the proposed changes (such as additional disclosure requirements for not-for-profit entities around investment expenses) would add value to the financial statement users and be consistent with the requirements for other type of business entities.

In addition to the foregoing, we believe that revising the not-for-profit reporting model (such as moving to direct method of reporting operating cash flows, requiring entities to disclose investment expenses, netting of internal salaries and benefit expenses against investment returns) would significantly narrow options available under the existing cash flow reporting rules and it is inconsistent with the approach used by most business organizations today. It would require significant investment in IT system design and accounting architecture for our organization with no significant additional benefit to our users.
Thank you for the opportunity to present our views with regards to the proposed ASU. We ask the Board to give thoughtful consideration to our observations as the proposed ASU would significantly and, in our opinion, adversely, change our financial statements while adding costs with, in our view, no significant benefit to our users while decreasing comparability among industry participants. Should you have any questions or wish to discuss any of our comments, please feel free to contact James W. Doheny, Vice-President Finance and Corporate Controller at 630-929-5543 or Lauren Brosius, Director of Accounting at 630-929-6060 or via email at jim.doheny@advocatehealth.com or lauren.brosius@advocatehealth.com.

Sincerely,

Dominic J. Nakis
Chief Financial Officer and Treasurer
Advocate Health Care

cc: James W. Doheny, Vice President Finance and Corporate Controller, Advocate Health Care
Lauren Brosius, Director of Accounting, Advocate Health Care