

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2010-23
August 2010

Health Care Entities (Topic 954)

Measuring Charity Care for Disclosure

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*[™]

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The objective of this Update is to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. Some entities determine their charity care disclosures on the basis of a cost measurement, while others use a revenue measurement.

Who Is Affected by the Amendments in This Update?

Any health care entity that provides charity care is affected by this Update.

What Are the Main Provisions?

The amendments in this Update require that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. As a result of the amendments in this Update, various techniques will likely be used to determine how the direct and indirect costs are identified, such as obtaining the information directly from a costing system or through reasonable estimation techniques. Therefore, the amendments in this Update also require disclosure of the method used to identify or determine such costs.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Existing guidance does not prescribe a specific measurement basis of charity care for disclosure purposes. The amendments would improve current GAAP by requiring all entities to use the same measurement basis of charity care, thus enhancing comparability. A health care entity does not recognize revenue when charity care is provided; accordingly, the amendments in this Update will have no effect on the amounts reported in the primary financial statements.

When Will the Amendments Be Effective?

The amendments in this Update are effective for fiscal years beginning after December 15, 2010. The amendments in this Update should be applied retrospectively to all prior periods presented. Early application is permitted.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not provide any specific guidance on the disclosure of charity care.

Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 954-605

2. Amend paragraph 954-605-50-3, with a link to transition paragraph 954-605-65-1, as follows:

Health Care Entities—Revenue Recognition

Disclosure

> Charity Care

954-605-50-3 Management's policy for providing **charity care**, as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure ~~generally is made in the notes to financial statements and is~~ shall be measured based on the provider's ~~rates, direct and indirect costs, units of service, or other statistical measure,~~ of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services using reasonable techniques. For example, one such estimation technique might involve calculating a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. Other reasonable techniques also are permitted. The method used to identify or estimate such costs shall be disclosed. Funds received to offset or subsidize charity services provided, for example, from gifts or grants restricted for charity care or from an uncompensated care fund, also shall be separately disclosed.

3. Add paragraph 954-605-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-XX, Health Care Entities (Topic 954): Measuring Charity Care for Disclosure

954-605-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-XX, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2010.
- b. An entity shall apply the pending content that links to this paragraph retrospectively.
- c. Early application of the pending content that links to this paragraph is permitted.
- d. The disclosures in paragraphs 250-10-50-1 through 50-3 shall be provided in the period an entity adopts the pending content that links to this paragraph.

4. Amend paragraph 954-605-00-1 by adding the following item to the table as follows:

954-605-00-1 The following table identifies the changes made to this Subtopic:

Paragraph Number	Action	Codification Accounting Standards Update	Date
954-605-50-3	Amended	2010-23	08/26/2010
954-605-65-1	Added	2010-23	08/26/2010

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

BC1. The following summarizes the Task Force's considerations in reaching the consensus in this Update. It includes the Board's basis for ratifying the Task Force consensus when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information and Conclusions

BC2. Diversity in practice currently exists about the measurement basis that health care entities use to disclose the amount of charity care that is provided by those entities. Some health care entities elect to disclose the amount of charity care provided using a cost-based measurement, while others prefer to use a revenue-based measurement.

BC3. At the March 18, 2010 EITF meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 09-L, "Health Care Entities: Measuring Charity Care for Disclosure." A proposed Accounting Standards Update (proposed Update) was issued on April 16, 2010, with a comment period that ended on May 17, 2010. Sixteen comment letters were received on the proposed Update.

BC4. The Task Force concluded that requiring a single measurement basis of charity care will improve the usefulness of the disclosure because it will enhance comparability between financial statements of health care entities. The Task Force concluded that measuring charity care at cost provides the most consistent measurement basis among health care entities.

BC5. The Task Force also considered that many health care entities are currently tracking the costs of providing charity care for various regulatory or management purposes. The Task Force concluded that the cost of providing charity care could be estimated using reasonable techniques to the extent it is not currently being tracked or estimated for regulatory or management purposes.

BC6. The Task Force considered requiring that charity care be measured on the basis of the average rate collected from paying patients for similar services. Some Task Force members and comment letter respondents said that this type of revenue-based measure would be more meaningful to users of financial statements. The Task Force decided not to use a measurement basis other than cost because those other methods may require many health care entities to

develop new systems or methods to collect the information for disclosure purposes, and because the benefits of such a disclosure will not justify the costs of such system changes.

BC7. In response to feedback provided in several comment letters, the Task Force considered whether the calculation of the cost of providing charity care should be reduced by any associated subsidy payments (such as from an uncompensated care fund). The Task Force concluded that the cost of providing charity care should not be reduced by any subsidies provided for charity care; rather, those amounts should be separately disclosed. Task Force members observed that separately disclosing the gross amount of calculated cost and the associated subsidies received would be useful to users in analyzing trends and understanding an entity's level of charity care provided during a period. Task Force members also noted that reporting charity net of subsidies may not be meaningful because such subsidies may not be recurring or may be related to prior periods.

BC8. The Task Force considered whether to eliminate the requirement to disclose the amount of charity care provided by health care entities. Task Force members decided to retain the disclosure requirement because they believe that disclosure provides useful information to users of a health care entity's financial statements, such as an indication of the entity's level of benefit provided to the community and information about the economic environment in which the entity operates.

Effective Date and Transition

BC9. The Task Force concluded that the amendments in this Update should be effective for fiscal years, beginning after December 15, 2010.

BC10. The Task Force decided that the amendments in this Update should be applied retrospectively upon adoption. The Task Force concluded that retrospective application is possible and cost effective because many health care entities already are tracking the costs of providing charity care for various regulatory or management purposes.

Benefits and Costs

BC11. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by

present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC12. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The Task Force expects that the required disclosure is based on information that already is being captured by many health care entities for various regulatory or other management purposes. Additionally, the Task Force emphasized that the cost of providing charity care may be estimated using reasonable techniques, for example, by calculating a ratio of total cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. Accordingly, the Task Force does not believe significant costs will be incurred for entities that had not previously captured this information.

Amendments to the XBRL Taxonomy

The following elements are proposed additions to the XBRL U.S. GAAP Financial Reporting Taxonomy. They reflect the amendments to the disclosure and presentation requirements of the Accounting Standards Codification and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL exhibit.

Individuals and organizations commenting on the amendments in this Update should consider the usefulness, appropriateness, and completeness of these elements for entities required to include an XBRL exhibit with their SEC filings. Respondents also should consider the context of the elements in the current XBRL U.S. GAAP Financial Reporting Taxonomy.

Standard Label*	Definition	Codification Reference
Charity Care, Direct and Indirect Cost Basis, Amount	The amount of charity care provided during the period based on the provider's direct and indirect costs of providing charity care services.	954-605-50-3
Charity Care, Methodology	Description of the method used to determine the costs of providing charity care.	954-605-50-3
Charity Care, Management Policy	Description of management's policy for providing charity care.	954-605-50-3
Charity Care, Subsidies Received	The amount of subsidies received by the entity for providing charity care, for example, from an uncompensated care fund.	954-605-50-3

* The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.