

Using HFMA's P&P Statement 15 to Improve Charity Care and Bad Debt Reporting

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Overview

Statement 15 addresses:

- Criteria for and scope of charity care policies
- Revenue recognition, valuation, recording, and disclosure of charity care and bad debt
- Classification of receipts relating to charity care

Why Is Statement 15 Important?

- Public policy demands
 - Demand for charity care is increasing
 - Providers' bad debt risk is increasing
 - Current reporting practices are inconsistent
- The need for clarity
 - Policymakers use this financial information to craft laws and regulations
 - Confusion on these measures reduces trust in your institution
 - Complex policies undermine efficient patient financial service practices and customer satisfaction

Important Charity Care Point #1: “Cookie Cutter” Policies Aren’t Realistic

- No charity care policy or eligibility criteria is universally applicable. Policies should be tailored to:
 - Community’s needs
 - Organization's mission
 - Organization’s financial capacity
 - State laws
- Policies should be:
 - Clearly documented
 - Approved by the provider’s governing body
 - Communicated to patients and the community

Important Charity Care Point #2: Charity Care Policies Must Address Gray Areas

- Examples of things your policy should address besides income and assets thresholds:
 - Eligibility determinations when the ability to pay cannot be reliably determined.
 - The extent of verification necessary for eligibility determinations.
 - The time frame within which patients are eligible for charity care.
- See complete list in Appendix A

Important Charity Care Point #3: Simplify Documentation Requirements

- Complicated policies and high documentation requirements makes determinations difficult
- Assess how much charity care gets reported as bad debt due to lack of documentation
- Patients' circumstances are infinitely variable. Rather than trying to anticipate every possible situation, strive for a sound, flexible framework for decision making.

Charity Care Determinations

- Eligibility and the timing of eligibility is based on the facility's charity care policy.
- Eligibility decisions can be made at any time during the revenue cycle as information becomes available.
- Policies should address how determinations are made in the absence of financial information provided by the patient.

Charity Care Disclosure

- Current authoritative guidance on charity care permits alternatives
- A single footnote will best meet the needs of financial statement users. Include:
 - A clear description of the charity care policy
 - The cost of charity care provided
 - The volume or quantity of charity care provided
 - Receipts relating to charity care
- See Section 7

Calculation of Charity Care Cost

- Charges are the basis for charity care *recordkeeping* purposes.
- Costs are the primary *reporting unit* for valuing charity care.
- Costs should be estimated using the most accurate method available to the facility, less any related revenue on those accounts.
 - The method of estimation should be clearly disclosed in the footnote.

Treatment of Discounts

- Charity care write-offs are reported as reductions of revenue.
- Charity care discounts are classified as charity care, with payments recognized as receipts relating to charity care.
 - Do not bifurcate!
- Discounts for patients not eligible for charity care (such as prompt payment discounts) should not be classified as charity care.
- See Paragraph 6.4

Bad Debt Background

- Before 1996—bad debt was generally reported as reduction of net revenue
- After 1996—revenue has been reported at full established rates; bad debt expense reported as an operating expense
- Bad debt often represents 90% or more of self-pay revenue at full-established rates
- Medicare customary charge regulations were often quoted as requiring undiscounted billing prior to CMS clarification of its position on the issue
- Current AICPA Healthcare Organizations guide is not clear on the issue

Revenue Recognition Guidance Outside the Healthcare Field

- Concepts are outlined in:
 - FASB Concept Statement No. 6 Element Financial Statements
 - FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations
 - SAB 104
- This literature suggests consideration of all the following criteria to recognize revenue:
 - Pervasive evidence exists of payments agreement be the provider and the patient
 - Services have been rendered
 - The price is fixed or determinable, and
 - Collection is reasonably assured

Current Status of Bad Debt GAAP Consideration

- AICPA Healthcare Expert Panel has proposed to AcSEC that revenue recognition revenue should meet the 4 tests discussed above
- AcSEC has agreed to ask FASB to consider the issue
- FASB has assigned staff to consider this and other healthcare issues
- Timing of outcome is unsure

Until We Have FASB's Clarifications...

- Revenue reporting consistent with Statement 15 would require the accounting method to be acceptable within the current AICPA Healthcare Organizations guide
- Direction is not clear in current guide
 - See paragraphs 1.25, 5.02, and 5.03 and related definitions
- The P&P Board believes Statement 15 provides the optimal approach for financial statement clarity
 - Need to discuss your method with independent auditors

Example of Recordkeeping for a Bad Debt Account

Nonemergency, nonelective service

Upon admission, Patient A does not meet charity care criteria.	Initial charges recorded at \$100
Patient A and provider agree to payment of \$10. Patient receives service.	Provider records revenue of \$10 and contra-revenue of \$90
After collection process, patient does not pay \$10.	\$10 is written off as bad debt

Medicaid Shortfall Disclosure

- Bad debt and government shortfalls are not part of charity care
- If Medicaid or similar government programs for the indigent pay less than the provider's cost of rendering the services, the shortfall should be disclosed as a community benefit
- See paragraph 11.1

Medicare Shortfall Disclosure

- Disclosure may be appropriate if losses are material to the facility's financial status, as determined by the facility
- Should be separately reported with sufficient detail and context to help readers understand the reported cost calculation
- May be included in the community benefits section
- See paragraph 11.2

Looking Forward

Statement 15 affects topics CFOs have identified as most important for the coming year, including:

- Implications of consumerism
- The growing uninsured population
- Tax-exempt status challenges for not-for-profit hospitals
- Effective revenue cycle practices
- Future access to capital

More Information

For more information on Statement 15 and related topics, visit www.hfma.org/library

- Accounting/Financial Reporting
- Compliance/Tax-Exempt Status
- Reimbursement/Uninsured
- Revenue Cycle/Patient Friendly Billing

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