For-Profit Hospital Insights

Fitch's Annual Review of Bad Debt Accounting Policies and Practices

Special Report

The Basics of Bad Debt Accounting

Economics of Healthcare: Hospitals and other healthcare service providers essentially extend credit to patients at the time of treatment. Treating uninsured and underinsured patients means these companies recognize a substantial amount of revenue that they do not ultimately expect to collect. When reviewing a healthcare provider's financial position, it is therefore important to consider whether a company's bad debt reserve methodology appropriately measures its uncollectible revenue.

Historical Experience Cause for Concern: A company with a faulty reserve methodology will systematically understate its bad debt expense while overstating revenue, net income, and accounts receivable (A/R). When levels of uncompensated care rose in the middle part of the last decade, bad debt reserve methodologies overestimated the collectibility of self-pay patient A/R. As a result, several companies had to record large one-time charges to bad debt expense to increase their balance sheet allowance for bad debt.

More Conservative Reserve Methodologies: Since then, most companies have adopted more generous charity care and discount policies and more conservative bad debt reserve methodologies. Levels of uncompensated care have ticked up following the economic recession and remain elevated. Companies' bad debt reserve methodologies have so far proven adequate to avoid large charges to increase reserves.

Recent Accounting Standards Update: Starting with fiscal years beginning after Dec. 15, 2011, all healthcare provider entities were required to adopt an Accounting Standards Update (ASU) that results in bad debt expense being recorded as a reduction to net revenue, rather than an operating expense. Fitch believes the ASU is an improvement on the prior reporting standard. It results in companies reporting a net revenue number closer to what they actually expect to collect while also enhancing the comparability of some metrics.

Unique Revenue Recognition Issues: The ASU did not fully address the problems presented by healthcare companies' diverse revenue recognition policies. The FASB could have gone further in this area by requiring enhanced disclosure of gross revenue and deductions for contractual allowances, discounts, and charity care extended to self-pay patients. Fitch believes these issues may eventually be addressed through the FASB/IASB joint project on revenue recognition, but this is not likely to be resolved for several years.

Comparability of Metrics Is Difficult: Variation in revenue recognition policies complicates comparison of companies' operating results. Differences in revenue recognition will not affect a company's operating income, but will affect other metrics, including reported revenues, operating margins, the rate of revenue growth, and revenue per admission. If a company records higher levels of discounts and charity care, it will report lower net revenue and bad debt expense, the same level of EBITDA, and a correspondingly higher EBITDA margin.

Related Research

For Profit Hospital Quarterly Diagnosis, June 6, 2012

For Profit Hospital Insights: Electronic Health Record Incentive Payments, March 7, 2012

2012 Outlook: U.S. Healthcare — Accelerating Regulatory and Fiscal Challenges, Dec. 7, 2011

U.S. Leveraged Finance Spotlight Series: HCA, Inc., Oct. 11, 2011

For-Profit Hospital Insights: Changes in Bad Debt Reporting Will Improve Disclosure, July 26, 2011

For-Profit Hospital Insights: A Review of Bad Debt Accounting Policies and Practices, June 8, 2011

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Recent Accounting Standard Updates

ASU 2011–07

- Affects the presentation and disclosure of bad debt expense.
- Reclassifies the provision for bad debt related to patient service revenue to a reduction to revenue from an operating expense.
- Improves comparability of certain metrics and reported revenue is closer to what the company actually expects to collect.
- Required adoption starting with fiscal years beginning after Dec. 15, 2011 on a retrospective basis.

ASU 2010–23

- Requires healthcare entities to report an estimate of charity care on the basis of a cost measurement.
- Improves clarity on the true cost of uncompensated care.
- Does not require companies to use a specific method to estimate the cost of providing charity care.
- Required adoption starting with fiscal years beginning after Dec. 15, 2010 on a retrospective basis.

Related Criteria

Corporate Rating Methodology, Aug. 12, 2011

Recent Accounting Standard Updates

Starting with fiscal years beginning after Dec. 15 2011, healthcare provider entities were required to adopt FASB ASU No. 2011–07, which affects the presentation and disclosure of bad debt expense related to patient-service revenues. The ASU makes one change to the presentation of the financial statements. It requires reclassification of the provision for bad debt from an operating expense to a deduction from net revenue. Companies are required to provide retroactive disclosure for all prior periods presented in a company's financial statements.

The ASU also requires enhanced disclosure of how an entity estimates collectability when determining the amount and timing of its revenue and bad debt expense, a breakdown of net revenue by payor type (self-pay versus third-party payors), and a reconciliation of the activity in the allowance for doubtful accounts by payor type. More standardization of disclosure should help users of the statements to assess whether a company is adequately reserved for its bad debt.

Fitch believes that the ASU is an improvement on the prior reporting standard in a couple of other ways. It enhances the clarity of the income statement since the reported revenue number is closer to what the company actually expects to collect. It also improves the comparability of certain metrics, including operating margins, reported revenue growth, and revenue per admission and adjusted admission.

Despite these improvements, the ASU did not fully address the problems presented by healthcare companies' diverse revenue recognition policies. The FASB could have gone further in this area by requiring enhanced disclosure of gross revenue and deductions for contractual allowances, discounts, and charity care extended to self-pay patients.

The ASU also did not improve disclosure with respect to determining the true cost to healthcare entities of providing uncompensated care. Despite large discounts from gross charges for the uninsured, most companies do not record self-pay revenue and the corresponding bad debt expense at cost, but at a level closer to gross charges. Growth in gross charges typically outpaces growth in patient care costs. As a result, the headwind of bad debt expense to revenue and income is overstated.

Another ASU, No. 2010–23, required to be adopted for fiscal years starting after Dec. 15, 2010, improves clarity on the true costs of uncompensated care by requiring healthcare entities to report an estimate of charity care on the basis of a cost measurement. This supplemental disclosure only applies to charity care. Hospitals do not recognize revenue related to charity care, and the income statement and balance sheet accounting of self-pay revenue and bad debt expense are not affected by this ASU.

While ASU No. 2010–23 does not require companies to use a specific method to estimate the cost of providing charity care, most companies have elected to use a method comparing gross patient care charges to the costs of caring for patients, and applying this ratio to the gross charges associated with charity-care patients.

Summaries of GAAP Bad Debt Accounting

To determine if a company is adequately reserved for bad debt, Fitch starts by reviewing its revenue recognition practices, bad debt reserve methodologies, and A/R write-off policies. The relative conservatism of a company's approach to these policies is then considered in the context of metrics that Fitch uses to track trends in bad debt accounting. The summaries of GAAP bad debt accounting on pages 7–14 provide company-specific presentations of these metrics.

The data in the summaries comes from companies' public filings and statements, and Fitch's calculations based on that information. Fitch finds that despite the enhanced disclosure required by recent ASUs, the amount of information disclosed by companies with respect to their policies continues to vary widely. This makes comparisons and generalizations difficult. Fitch provides whatever detail is available on each company's revenue recognition and bad debt accounting policies at the bottom of each summary.

Keys to Interpreting the Income Statement

- All hospital companies record revenue they ultimately do not expect to collect. Sources of this revenue include patients without any form of health insurance, as well as co-pays and deductibles of insured patients.
- Companies with more conservative revenue recognition policies (i.e. more generous charity care and discount policies) will record less reported revenue, less self-pay revenue, and lower bad debt expense.
- Because of variation in revenue recognition policies, comparison of many key metrics across companies is difficult.

Income Statement Items

Not all companies report gross revenues, and even fewer provide a detailed breakdown of the components of gross revenue deducted to arrive at reported revenues. Where available, Fitch provides this information at the top of the summary page. ASU No. 2011–07 does not require disclosure of gross revenue and deduction details, which Fitch believes would have been helpful for users of financial statements.

Contractual allowance reflects discounts from gross charges applied to the accounts of third-party payors, including patients with commercial insurance, Medicare, or Medicaid coverage. Discounts and charity care reflect those amounts attributable to self-pay patients for which the hospital is not recording any reported revenue. These amounts depend on company policy.

A standardized income measurement usually determines a patient's eligibility for charity care. Discounts from gross charges for self-pay patients have become more typical in recent years and are often determined at rates similar to those provided to patients with commercial health insurance coverage.

More permissive charity care and discount policies will result in higher deductions to gross revenue, and correspondingly less self-pay revenue and bad debt expense. Since the absolute level of bad debt expense is sensitive to these revenue recognition issues, Fitch does not think it is a particularly illustrative metric in isolation. In order to see the true trend in care provided for which the hospital does not receive payment, it is better to consider uncompensated care, or the sum of bad debt expense, charity care, and discounts. The trend in each company's uncompensated care as a percentage of revenue is near the bottom of the summary page.

Adjustments for ASU No. 2011–07

The second section of the summary page illustrates the effects of ASU No. 2011–07, which all healthcare provider entities were required to adopt starting with fiscal years beginning after Dec. 15, 2011. As illustrated in the summary pages, the reclassification of bad debt as a contra-revenue results in lower net revenue, the same level of EBITDA, and therefore higher EBITDA margins.

This change in reporting means that the rate of revenue growth is now sensitive to the level of bad debt expense. If growth in bad debt expense outpaces underlying revenue growth, it will be a drag on the topline. Comparing the rate of growth in revenue gross and net of bad debt expense shows that bad debt was a headwind to revenue growth for Community Health Systems (CHS), Iasis Healthcare (Iasis), LifePoint Hospitals (LifePoint) and Vanguard Health Systems (Vanguard) in 2011. HCA, Inc. (HCA), Health Management Associates (HMA), Tenet

Healthcare Corp. (Tenet), and Universal Health Services (UHS) all experienced higher growth in revenue net of bad debt expense.

Underlying trends in patient utilization certainly can contribute to growth in self-pay revenue and the corresponding bad debt expense outpacing growth in third-party payor revenue. These trends include patient mix shift (more self-pay patients) and increased acuity among the self-pay patient population (sicker self-pay patients).

Fitch also believes the current accounting methodology skews growth in reported revenue because self-pay revenues are reported at rates closer to gross charges than third-party revenue is. Although hospitals do not usually disclose increases in gross charges, Fitch believes they typically outpace growth in third-party payor reimbursement. Moving bad debt expense above reported revenue corrects for this effect and results in growth in reported revenue that is more closely aligned with underlying trends in payor reimbursement rates and acuity.

Higher margins are another obvious effect of reclassifying bad debt as a contra-revenue. On average, operating EBITDA margins would have been 112 bps higher in 2011 under the updated accounting treatment. This effect is most pronounced for LifePoint, whose operating EBITDA margin is 250 bps higher under the updated treatment. This is reflected in LifePoint's relatively higher level of bad debt expense as a percent of revenue. As noted earlier, the level of bad debt expense is directly related to a company's revenue recognition policies. LifePoint's higher bad debt expense is probably influenced by less generous charity care and discount policies.

Balance Sheet Items

On a hospital company's balance sheet, A/R is presented net of the allowance for doubtful accounts (ADA), which is essentially the company's reserve for bad debt. A/R net of the ADA is therefore the amount of the company's A/R that it expects will ultimately turn into cash.

The ADA builds as the company provisions bad debt expense on the income statement and decreases as the company writes down A/R. A/R writeoffs result in a decrease in both gross A/R and the ADA but have no impact on the net A/R recorded on the balance sheet. Likewise, A/R writeoffs do not affect income since the expense associated with writing down the account was recorded when the allowance was created.

Because companies use varying bad debt reserve methodologies and A/R writeoff policies, the absolute values of balance sheet metrics are not very useful in isolation. It is preferable to consider various metrics in relation to each other, and in general, trends are more useful than absolute numbers.

Key balance sheet metrics reviewed by Fitch include A/R writeoffs versus bad debt expense, the number and trend in days sales outstanding (DSOs), the ADA as a percentage of gross A/R, and the ADA as a percentage of self-pay A/R.

One key metric to watch is the trend in A/R writeoffs versus the amount of bad debt expense. If the company is consistently writing off more A/R than its bad debt expense, it is a sign it is drawing on its ADA. This could indicate that the company's bad debt reserve methodologies are not sufficiently conservative and collections are lagging expectations. It raises concern that the company could be in danger of having to take a one-time charge to bad debt to increase the ADA. However, this metric viewed in isolation is not enough to provide an accurate picture of a company's position.

Troubleshooting Bad Debt Reserve Methodologies

Review a company's accounting policies for the following areas of concern:

Does the company follow a conservative charity care and discount policy? A more conservative revenue recognition policy will result in the company recording less revenue it does not ultimately expect to collect.

How much of its self-pay revenue does a company reserve at the time of patient discharge? The higher the percentage reserved up front, the less likelihood the company will have to a take a one-time charge because of a sudden deterioration in the anticipated collection rate.

Does the company gradually increase its self-pay reserves as the account ages? This avoids a large bump in bad debt expense to increase reserves when the account reaches a certain age.

Two other important metrics are the trend in the ADA as a percentage of gross A/R, and a related metric, DSOs in net A/R. If the ADA as a percentage of gross A/R is consistently declining and DSOs are rising, it warrants further investigation into the background causes. In some instances, there is an innocuous explanation for seemingly worrisome trends in metrics. For example, several companies' DSOs were up at the end of 2011 due to delays in receiving state Medicaid payments, which is anticipated to be a temporary drag on cash generation.

Another particularly helpful metric is the ADA as a percentage of self-pay receivables. Not all companies disclose this metric. Having information on the trend in ADA relative to self-pay receivables makes it much easier to draw accurate conclusions about the adequacy of the ADA.

Estimated Cost of Uncompensated Care

The third section of the summary table attempts to isolate the actual cost headwind of providing uncompensated care. To do this, Fitch first calculates total patient care costs, which it defines as all operating expenses except bad debt. It then divides this number by gross revenues to determine the ratio of cost of care to gross revenue. Gross revenue associated with self-pay volumes (defined as uncompensated care or the sum of bad debt, charity care, and discounts) is multiplied by the cost of care ratio. The result is a rough estimate of the cost of caring for uninsured patients.

One can then compare the rate of growth in uncompensated care to the rate of growth in the estimated cost of uncompensated care to get a sense of the true cost headwind. In all cases where there is enough information to make this calculation, the rate of growth in the cost of providing uncompensated care has been significantly lower in recent years than the growth in gross revenue associated with uncompensated care. This indicates that looking at growth in uncompensated care in isolation greatly overstates the true headwind to a company's earnings.

Disclosure related to ASU 2010–23, which requires disclosure of charity care measured on the basis of cost, varies widely. Whatever information was provided by the company is presented at the bottom of the section on the costs of uncompensated care. HCA and HMA provide the most robust and useful presentation. Both companies report the estimated cost of all uncompensated care, not just charity care. They also provide a summary of the ratio of charges to patient care costs used to calculate the cost of charity care.

All of the other companies only report an estimate for the cost of charity care and disclose that they used a method of the ratio of charges to cost of care to calculate charity care charges, but do not provide any additional information on the specific calculation used.

Glossary of Commonly Used Terms

Term	Description
Allowance for Doubtful Accounts (ADA)	A contra-asset on the balance sheet. It reduces gross A/R by the amount that the company does not ultimately expect to collect. The ADA builds as the company provisions bad debt expense on the income statement and is reduced when the company writes off A/R. A company's policies determine the amount of bad debt provisioned, and the A/R written off. In general, companies estimate bad debt expense through a combination of hindsight analysis of collections, aging in A/R, and trends in DSO.
Bad Debt Expense	Previously an operating expense and now a contra-revenue recorded on the income statement, reflecting the amount of revenue recognized during the statement period that the company does not ultimately expect to collect.
Charity Care/Discounts	Components of gross revenue related to service provided to self-pay patients for which a company does not record any net revenue. The amount of charity care and discounts depends on a company's revenue recognition policies.
Contractual Allowances	Discounts from gross charges provided to third-party payors, including Medicare, Medicaid, and commercial health insurers.
Gross Accounts Receivable	The sum of a company's net A/R and the ADA.
Gross Charges	List prices taken from the company's charge master, which are before contractual allowances and discounts.
Gross Revenue	The amount of revenue based on gross charges, before contractual allowances, charity care, and discounts.
Net Accounts Receivable	Gross A/R less the ADA. It reflects the amount of A/R that a company anticipates will turn into cash.
Net Revenue	Gross revenue less contractual allowances, charity care, and discounts, and since the adoption of AUS 2011-07, bad debt expense. Also called reported revenue.
Self-Pay Revenue	Reported revenue related to patients without health insurance, or the portion of a third-party payor bill for which the patient is responsible, generally co-pays and deductibles.
Uncompensated Care	The sum of bad debt expense, charity care, and discounts.

Source: Fitch.

Summary of GAAP Bad Debt Accounting — Community Health Systems, Inc.

($ Mil. As of Dec. 31)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	23,966.50	37,273.10	43,607.61	49,486.50	59,033.17
Charity Care	(354.80)	(380.20)	(472.40)	(529.90)	(651.10)
Discounts to the Uninsured	(282.50)	(458.60)	(544.20)	(706.50)	(852.40)
Contractual Allowance	(16,201.70)	(25,594.20)	(30,483.40)	(35,263.60)	(43,903.50)
Net Revenue Before Bad Debt Expense	7,127.50	10,840.10	12,107.61	12,986.50	13,626.17
% Growth	—	52.1	11.7	7.3	4.9
Bad Debt Expense	827.20	1,208.70	1,460.31	1,588.52	1,719.96
Bad Debt Expense/Revenue (%)	11.6	11.2	12.1	12.2	12.6
Other Operating Expense	5,389.50	8,096.60	8,967.90	9,634.44	10,071.52
EBITDA	910.80	1,534.80	1,679.41	1,763.55	1,834.69
EBITDA Margin (%)	12.8	14.2	13.9	13.6	13.5
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Net Revenue Less Bad Debt Expense	6,300.30	9,631.40	10,647.31	11,397.98	11,906.21
% Growth	—	52.9	10.5	7.1	4.5
Other Operating Expense	5,389.50	8,096.60	8,967.90	9,634.44	10,071.52
EBITDA	910.80	1,534.80	1,679.41	1,763.55	1,834.69
EBITDA Margin (%)	14.5	15.9	15.8	15.5	15.4
Balance Sheet Items					
Gross Accounts Receivable (AR)	2,567.32	2,716.80	3,035.08	3,353.74	3,725.50
Allowance for Doubtful Accounts (ADA)[a]	1,033.52	1,102.90	1,417.18	1,639.20	1,891.33
Net Accounts Receivable	1,533.80	1,613.90	1,617.90	1,714.54	1,834.16
Allowance for Doubtful Accounts/Gross AR (%)	40.3	40.6	46.7	48.9	50.8
Allowance for Doubtful Accounts/Self-Pay AR (%)	76.0	80.0	82.0	84.0	84.0
DSOs	79	54	49	48	49
Accounts Receivable Written Off	(763.50)	(1,126.95)	(1,154.25)	(1,366.51)	(1,485.11)
Bad Debt Expense	827.20	1,208.70	1,460.31	1,588.52	1,719.96
Other Adjustments (i.e. Acquisitions, Recoveries)	491.26	(12.37)	8.22	0.01	17.29
Change in the ADA from Prior Year	554.96	69.38	314.28	222.02	252.13
Bad Debt Expense/AR Written Off (%)	108.3	107.3	126.5	116.2	115.8
Estimated Cost of Uncompensated Care					
Gross Revenue	23,966.50	37,273.10	43,607.61	49,486.50	59,033.17
Total Patient Care Costs (All Operating Expense Except Bad Debt)	5,389.50	8,096.60	8,967.90	9,634.44	10,071.52
Patient Care Costs/Gross Revenue (%)	22.5	21.7	20.6	19.5	17.1
Uncompensated Care (Bad Debt+Charity Care+Discounts)	1,464.50	2,047.50	2,476.91	2,824.92	3,223.46
Uncompensated Care/(Reported Revenue+Charity Care+Discounts) (%)	18.9	17.5	18.9	19.9	21.3
% Growth	—	39.8	21.0	14.1	14.1
Fitch Estimated Cost of Uncompensated Care	329.33	444.77	509.38	549.98	549.95
% Growth	—	35.3	14.5	7.9	0.4
Cost of Charity Care Disclosed Per ASU 2010–23	—	—	104.00	105.50	125.70

Revenue Recognition Policies

Self-Pay Discount Policy

While CHS does provide self-pay discounts, it doesn't disclose details of its discount policy.

Charity Care Policy

While CHS does provide charity care for uninsured patients, it doesn't disclose details of its charity care policy.

Reserving Methodology

Bad Debt Reserve Methodology

Due to deterioration in collections in self-pay accounts that required a $65 million increase in its ADA in third-quarter 2006, CHS changed its policy to reserve some amount of self-pay accounts immediately. CHS does not disclose its up-front reserve percentage, which is based on its collections history, nor does it disclose whether it gradually increases self-pay reserves or when self-pay accounts are fully reserved. All non-self-pay accounts are reserved 100% at 365 days from patient discharge.

Accounts Receivable Writeoff Policy

Accounts are written off when the balance is under $10.00 or when the account is placed with an outside collection agency. The company estimates it ultimately collects less than 3% of the outstanding balance of the accounts placed with collection agencies.

[a]Balance at 12/31/07 increased by $421 million due to Triad Hospitals acquisition including a one-time charge in fourth-quarter 2007 to increase the allowance by $70.1 million due to a deterioration in collection indicators. Note: Unless noted all figures are as originally reported. N.D. – Not disclosed.
Source: Company reports, Fitch calculations.

Summary of GAAP Bad Debt Accounting — HCA Inc.

($ Mil. As of Dec. 31)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	92,429.00	102,843.00	115,682.00	125,640.00	141,516.00
Charity Care	(1,530.00)	(1,747.00)	(2,151.00)	(2,337.00)	(2,683.00)
Discounts to the Uninsured	(1,474.00)	(1,853.00)	(2,935.00)	(4,641.00)	(5,707.00)
Contractual Allowance	(62,567.00)	(70,869.00)	(80,544.00)	(87,979.00)	(100,620.00)
Net Revenue Before Bad Debt Expense	26,858.00	28,374.00	30,052.00	30,683.00	32,506.00
% Growth	—	5.6	5.9	2.1	5.9
Bad Debt Expense	3,130.00	3,409.00	3,276.00	2,648.00	2,824.00
Bad Debt Expense/Revenue (%)	11.7	12.0	10.9	8.6	8.7
Other Operating Expense	19,120.00	20,359.00	21,264.00	22,135.00	23,595.00
EBITDA	4,608.00	4,606.00	5,512.00	5,900.00	6,087.00
EBITDA Margin (%)	17.2	16.2	18.3	19.2	18.7
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Net Revenue Less Bad Debt Expense	23,728.00	24,965.00	26,776.00	28,035.00	29,682.00
% Growth	—	5.2	7.3	4.7	5.9
Other Operating Expense	19,120.00	20,359.00	21,264.00	22,135.00	23,595.00
EBITDA	4,608.00	4,606.00	5,512.00	5,900.00	6,087.00
EBITDA Margin (%)	19.4	18.4	20.6	21.0	20.5
Balance Sheet Items					
Gross Accounts Receivable (AR)	8,184.00	9,215.00	8,552.00	7,771.00	8,639.00
Allowance for Doubtful Accounts (ADA)	4,289.00	5,435.00	4,860.00	3,939.00	4,106.00
Net Accounts Receivable	3,895.00	3,780.00	3,692.00	3,832.00	4,533.00
Allowance for Doubtful Accounts/Gross AR (%)	52.4	59.0	56.8	50.7	47.5
Allowance for Doubtful Accounts/Self-Pay AR (%)	N.D.	N.D.	94.0	93	92
DSOs	53	49	45	46	51
Accounts Receivable Written Off	(2,269.00)	(2,263.00)	(3,157.00)	(3,569.00)	(3,157.00)
Bad Debt Expense	3,130.00	3,409.00	3,276.00	2,648.00	2,824.00
Other Adjustments (i.e. Acquisitions, Recoveries)a	—	—	(694.00)	—	500.00
Change in the ADA from Prior Year	861.00	1,146.00	(575.00)	(921.00)	167.00
Bad Debt Expense/AR Written Off (%)	137.9	150.6	103.8	74.2	89.5
Estimated Cost of Uncompensated Care					
Gross Revenue	92,429.00	102,843.00	115,682.00	125,640.00	141,516.00
Total Patient Care Costs (All Operating Expense Except Bad Debt)	19,120.00	20,359.00	21,264.00	22,135.00	23,595.00
Patient Care Costs/Gross Revenue (%)	22.5	21.4	19.9	19.0	16.7
Uncompensated Care (Bad Debt+Charity Care+Discounts)	6,134.00	7,009.00	8,362.00	9,626.00	11,214.00
Uncompensated Care/(Reported Revenue+Charity+Discounts) (%)	20.5	21.9	23.8	25.6	27.4
% Growth	21.4	14.3	19.3	15.1	16.5
Fitch Estimated Cost of Uncompensated Care	1,378.79	1,501.40	1,660.73	1,828.82	1,869.71
% Growth	14.9	8.9	10.6	10.1	2.2
Cost of Uncompensated Care Disclosed Per ASU 2010–23	—	—	1664.0	1829.0	2030.0

Revenue Recognition Policies

Self-Pay Discount Policy

HCA provides discounts from gross charges for self-pay patients similar to those provided to managed care plans, the specific percentage of which is not disclosed. HCA first implemented a discount policy in 2005. The company increased its discount percentage in August 2009.

Charity Care Policy

Patients who have income at or below 200% of the federal poverty level qualify for charity care.

Reserving Methodology

Bad Debt Reserve Methodology

Bad debt reserves are determined using a quarterly hindsight analysis of LTM collections and writeoff data. HCA does not disclose its immediate self-pay reserve percentage. However, the company did disclose that the allowance equaled 92% of self-pay receivables at Dec. 31, 2011, indicating the company is well reserved.

Accounts Receivable Writeoff Policy

Accounts are written off when returned from the secondary collection agency.

[a]At Dec. 31, 2009 HCA started recording pending discounts and charity as a reduction to AR, rather than including these amounts in gross AR and the ADA. Note: Unless noted all figures are as originally reported. N.D. – Not disclosed.
Source: Company reports, Fitch calculations.

Summary of GAAP Bad Debt Accounting — Health Management Associates, Inc.

($ Mil., As of Dec. 31)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	15,580.90	16,699.50	18,194.54	21,642.90	25,237.45
Charity Care	(82.10)	(81.90)	(80.20)	(89.50)	(91.93)
Discounts to the Uninsured	(576.70)	(597.00)	(657.20)	(793.40)	(939.76)
Contractual Allowance	(10,530.00)	(11,569.00)	(12,840.00)	(15,645.00)	(18,401.31)
Net Revenue Before Bad Debt Expense	4,392.10	4,451.60	4,617.14	5,115.00	5,804.45
% Growth	—	1.4	3.7	10.8	13.5
Bad Debt Expense	528.71	508.20	567.04	627.70	716.86
Bad Debt Expense/Revenue (%)	12.0	11.4	12.3	12.3	12.4
Other Operating Expense	3,170.79	3,284.60	3,353.01	3,727.32	4,229.93
EBITDA	692.60	658.80	697.10	759.98	857.67
EBITDA Margin (%)	15.8	14.8	15.1	14.9	14.8
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Net Revenue Less Bad Debt Expense	3,863.39	3,943.40	4,050.11	4,487.30	5,087.60
% Growth	—	2.1	2.7	10.8	13.4
Other Operating Expense	3,170.79	3,284.60	3,353.01	3,727.32	4,229.93
EBITDA	692.60	658.80	697.10	759.98	857.67
EBITDA Margin (%)	17.9	16.7	17.2	16.9	16.9
Balance Sheet Items					
Gross Accounts Receivable	1,076.67	1,053.93	1,089.09	1,254.62	1,482.49
Allowance for Doubtful Accounts (ADA)	485.77	449.03	455.71	495.49	578.97
Net Accounts Receivable	590.90	604.90	633.38	759.13	903.52
Allowance for Doubtful Accounts/Gross AR (%)	45.1	42.6	41.8	39.5	39.1
Allowance for Doubtful Accounts/Self-Pay AR (%)	N.D.	N.D.	N.D.	N.D.	N.D.
DSOs	49	50	50	54	57
Accounts Receivable Written Off	(589.61)	(579.81)	(591.81)	(622.75)	(662.96)
Bad Debt Expense	528.71	508.20	567.04	627.70	716.86
Other Adjustments (i.e. Acquisitions, Recoveries)	19.79	34.87	31.45	34.82	29.59
Change in the ADA from Prior Year	(41.11)	(36.74)	6.68	39.78	83.49
Bad Debt Expense/AR Written Off (%)	89.7	87.6	95.8	100.8	108.1
Estimated Cost of Uncompensated Care					
Gross Revenue	15,580.90	16,699.50	18,194.54	21,642.90	25,237.45
Total Patient Care Costs (All Operating Expense Except Bad Debt)	3,170.79	3,284.60	3,353.01	3,727.32	4,229.93
Patient Care Costs/Gross Revenue (%)	22.2	21.2	19.9	18.5	16.8
Uncompensated Care (Bad Debt+Charity Care+Discounts)	1,187.51	1,187.10	1,304.44	1,510.60	1,748.55
Uncompensated Care/(Reported Revenue+Charity+Discounts) (%)	23.5	23.1	24.4	25.2	25.6
% Growth (%)	3.0	0.0	9.9	15.8	15.8
Fitch Estimated Cost of Uncompensated Care	263.35	252.15	258.95	278.99	293.07
% Growth	4.3	(4.3)	2.7	7.7	5.0
Cost of Uncompensated Care Disclosed Per ASU 2010-23	—	—	281.8	335.2	381.2

Revenue Recognition Policies

Self-Pay Discount Policy

The company discounts its gross charges for self-pay patients by 60% or more. The company initiated a discount policy in February 2007.

Charity Care Policy

Charity care is provided to patients based on income, with qualification benchmarked to a percentage of the federal poverty level. The percentage is not disclosed. HMA adopted a standard charity care policy for all of its hospitals starting in 2007.

Reserving Methodology

Bad Debt Reserve Methodology

HMA reserves 60% of self-pay accounts at discharge. The company began immediately reserving a percentage of self-pay accounts in 2006, previously it reserved self-pay accounts 100% at 120 days from discharge. All accounts, regardless of payor type, are reserved at gradually higher percentages as they age with 100% reserved at 300 days from patient discharge.

Accounts Receivable Writeoff Policy

Accounts are generally written off when returned from the primary collection agency. An account is typically sent to a primary collection agency at the end of the statement cycle. Although HMA doesn't disclose how much it ultimately collects on accounts sent to primary collection agencies it estimates it collects 50%–55% of co-pays and deductibles.

Note: Unless noted all figures are as originally reported. N.D. – Not disclosed.
Source: Company reports, Fitch calculations.

Summary of GAAP Bad Debt Accounting — Iasis Healthcare LLC

($ Mil., as of Sept. 30)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	N.D.	N.D.	N.D.	N.D.	N.D.
Charity Care	(31.30)	(37.70)	(38.60)	(37.90)	(71.60)
Discounts to the Uninsured	(53.00)	(57.90)	(69.70)	(71.60)	(76.83)
Contractual Allowance	N.D.	N.D.	N.D.	N.D.	N.D.
Net Revenue Before Bad Debt Expense	1,849.98	2,065.54	2,361.97	2,521.40	2,787.10
% Growth	—	11.7	14.4	6.7	10.5
Bad Debt Expense	142.71	161.94	192.56	197.68	244.26
Bad Debt Expense/Revenue (%)	7.7	7.8	8.2	7.8	8.8
Other Operating Expense	1,471.57	1,640.20	1,874.11	2,040.42	2,245.54
EBITDA	235.70	263.40	295.30	283.30	297.30
EBITDA Margin (%)	12.7	12.8	12.5	11.2	10.7
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Reported Net Revenue Less Bad Debt Expense	1,707.27	1,903.60	2,169.41	2,323.72	2,542.84
% Growth	—	11.5	14.0	7.1	9.4
Other Operating Expense	1,471.57	1,640.20	1,874.11	2,040.42	2,245.54
EBITDA	235.70	263.40	295.30	283.30	297.30
EBITDA Margin (%)	13.8	13.8	13.6	12.2	11.7
Balance Sheet Items					
Gross Accounts Receivable (AR)	346.08	332.64	356.33	334.58	463.41
Allowance for Doubtful Accounts (ADA)	97.80	108.50	126.13	125.41	185.48
Net Accounts Receivable	248.28	224.14	230.20	209.17	277.93
Allowance for Doubtful Accounts/Gross AR (%)	28.3	32.6	35.4	37.5	40.0
Allowance for Doubtful Accounts/Self-Pay AR (%)	77.1	76.3	77.7	78.0	76.9
DSOs[b]	65	54	51	44	50
Accounts Receivable Written Off	(167.90)	(158.09)	(175.53)	(198.41)	(184.19)
Bad Debt Expense	142.71	161.94	192.56	197.68	244.26
Other Adjustments (i.e. Acquisitions, Recoveries)	13.09	6.86	0.60	—	0.00
Change in the ADA from Prior Year	(12.10)	10.70	17.63	(0.73)	60.08
Bad Debt Expense/AR Written Off (%)	85.0	102.4	109.7	99.6	132.6
Estimated Cost of Uncompensated Care					
Uncompensated Care (Bad Debt+Charity Care+Discounts)	227.01	257.54	300.86	307.18	392.69
Uncompensated Care/(Reported Revenue+Charity+Discounts)(%)[a]	15.3	15.9	17.0	16.7	18.0
% Growth	—	13.4	16.8	2.1	27.8
Cost of Charity Care Disclosed Per ASU 2010–23[b]	—	—	—	—	—

Revenue Recognition Policies

Self-Pay Discount Policy

Iasis provides discounts from gross charges for self-pay patients with income levels between 200% and 400% of the federal poverty level.

Charity Care Policy

Uninsured patients who have income at or below 200% of the federal poverty level qualify for charity care.

Reserving Methodology

Bad Debt Reserve Methodology

Iasis reserves a portion of all self-pay receivables at the time charges are recorded. The company reviews its reserve policy monthly using a hindsight analysis.

Accounts Receivable Writeoff Policy

Iasis does not provide detail as to when it writes off accounts receivable.

[a]Uncompensated care as a percent of revenues and DSOs are calculated on the basis of patient service revenues only (excluding health plan premium revenues).
[b]ASU 2010–23 is effective for Iasis' fiscal year beginning Oct. 1, 2011. N.D. – Not disclosed. Note: Unless noted all figures are as originally reported.
Source: Company reports, Fitch calculations.

Summary of GAAP Bad Debt Accounting — LifePoint Hospitals Inc.

($ Mil., As of Dec. 31)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	N.D.	N.D.	N.D.	N.D.	N.D.
Charity Care	(51.50)	(53.70)	(58.50)	(62.30)	(74.44)
Discounts to the Uninsured	N.D.	N.D.	N.D.	N.D.	N.D.
Contractual Allowance	N.D.	N.D.	N.D.	N.D.	N.D.
Net Revenue Before Bad Debt Expense	2,630.10	2,700.80	2,962.70	3,262.40	3,544.60
% Growth	—	2.7	9.7	10.1	8.7
Bad Debt Expense	316.60	313.20	375.40	443.80	518.50
Bad Debt Expense/Revenue (%)	12.0	11.6	12.7	13.6	14.6
Other Operating Expense	1,856.60	1,914.40	2,095.70	2,298.50	2,492.60
EBITDA	456.90	473.20	491.60	520.10	533.50
EBITDA Margin (%)	17.4	17.5	16.6	15.9	15.1
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Net Revenue Less Bad Debt Expense	2,313.50	2,387.60	2,587.30	2,818.60	3,026.10
% Growth	—	3.2	8.4	8.9	7.4
Other Operating Expense	1,856.60	1,914.40	2,095.70	2,298.50	2,492.60
EBITDA	456.90	473.20	491.60	520.10	533.50
EBITDA Margin (%)	19.7	19.8	19.0	18.5	17.6
Balance Sheet Items					
Gross Accounts Receivable (AR)	680.80	690.30	758.40	847.10	968.00
Allowance for Doubtful Accounts (ADA)	376.30	374.40	433.20	459.80	537.40
Net Accounts Receivable	304.50	315.90	325.20	387.30	430.60
Allowance for Doubtful Accounts/Gross AR (%)	55.3	54.2	57.1	54.3	55.5
Allowance for Doubtful Accounts/Self-Pay AR (%)	N.D.	N.D.	87.3	84.2	82.3
DSOs	42	43	40	43	44
Accounts Receivable Written Off	(273.90)	(320.20)	(320.90)	(416.10)	(440.10)
Bad Debt Expense	316.60	313.20	375.40	443.80	518.50
Other Adjustments (i.e. Acquisitions, Recoveries)	5.50	5.10	4.30	(1.10)	(0.80)
Change in the ADA from Prior Year	48.20	(1.90)	58.80	26.60	77.60
Bad Debt Expense/AR Written Off (%)	115.6	97.8	117.0	106.7	117.8
Estimated Cost of Uncompensated Care					
Uncompensated Care (Bad Debt+Charity Care+Discounts)	368.10	366.90	433.90	506.10	592.94
Uncompensated Care/(Reported Revenue+Charity+Discounts) (%)	13.7	13.3	14.4	15.2	16.4
% Growth	17.6	(0.3)	18.3	16.6	7.6
Cost of Charity Care Disclosed Per ASU 2010–23	—	—	18.10	18.40	25.00

Revenue Recognition Policies

Self-Pay Discount Policy

LifePoint does not disclose a specific discount policy, but it does states that it reports self-pay revenue generally at gross charges, implying that discounts are minimal.

Charity Care Policy

LifePoint does not disclose a specific charity care policy, but it does provide charity care in certain circumstances based on the local policy of each hospital.

Reserving Methodology

Bad Debt Reserve Methodology

LifePoint does not disclose details of its reserving methodology for self-pay accounts, including percentage reserved upfront, whether accounts are reserved gradually and at what point accounts are fully reserved.

Accounts Receivable Writeoff Policy

LifePoint generally writes off accounts one year after patient discharge, regardless of payor type.

Note: Unless noted all figures are as originally reported. N.D. – Not disclosed.
Source: Company reports, Fitch calculations.

Summary of GAAP Bad Debt Accounting — Tenet Healthcare Corp.

($ Mil., As of Dec. 31)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	N.D.	N.D.	N.D.	N.D.	N.D.
Charity Care	N.D.	N.D.	N.D.	N.D.	N.D.
Discounts to the Uninsured	N.D.	N.D.	N.D.	N.D.	N.D.
Contractual Allowance	N.D.	N.D.	N.D.	N.D.	N.D.
Net Revenue Before Bad Debt Expense	8,852.00	8,663.00	9,014.00	9,205.00	9,584.00
% Growth	—	(2.1)	4.1	2.1	4.1
Bad Debt Expense	567.00	632.00	697.00	740.00	730.00
Bad Debt Expense/Revenue (%)	6.4	7.3	7.7	8.0	7.6
Other Operating Expense	7,550.00	7,266.00	7,312.00	7,393.00	7,685.00
EBITDA	735.00	765.00	1,005.00	1,072.00	1,169.00
EBITDA Margin (%)	8.3	8.8	11.1	11.6	12.2
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Net Revenue Less Bad Debt Expense	8,285.00	8,031.00	8,317.00	8,465.00	8,854.00
% Growth	—	(3.1)	3.6	1.8	4.6
Other Operating Expense	7,550.00	7,266.00	7,312.00	7,393.00	7,685.00
EBITDA	735.00	765.00	1,005.00	1,072.00	1,169.00
EBITDA Margin (%)	8.9	9.5	12.1	12.7	13.2
Balance Sheet Items					
Gross Accounts Receivable (AR)	1,826.00	1,733.00	1,527.00	1,495.00	1,675.00
Allowance for Doubtful Accounts (ADA)	441.00	396.00	369.00	352.00	397.00
Net Accounts Receivable	1,385.00	1,337.00	1,158.00	1,143.00	1,278.00
Allowance for Doubtful Accounts/Gross AR (%)	24.2	22.9	24.2	23.5	23.7
Allowance for Doubtful Accounts/Self-Pay AR (%)	68.1	70.5	73.6	76.0	76.3
DSOs	57	56	47	45	49
Accounts Receivable Written Off	(641.00)	(689.00)	(723.00)	(747.00)	(676.00)
Bad Debt Expense	567.00	632.00	697.00	740.00	730.00
Other Adjustments (i.e. Acquisitions, Recoveries)	17.00	12.00	(1.00)	(10.00)	(9.00)
Change in the ADA from Prior Year	(57.00)	(45.00)	(27.00)	(17.00)	45.00
Bad Debt Expense/AR Written Off (%)	88.5	91.7	96.4	99.1	108.0
Estimated Cost of Uncompensated Care					
Cost of Uncompensated Care Disclosed Per ASU 2010–23	466.00	472.00	483.00	496.00	531.00
% Growth	27.0	1.3	2.3	2.7	7.1

Revenue Recognition Policies

Self-Pay Discount Policy

Through its "compact with uninsured patients", which it implemented in 2004, Tenet offers managed care style discounts to self-pay patients. Starting shortly after full implementation of the compact, Tenet stopped disclosing its charity care and discounts. The implementation of the compact contributed to significant reduction in both self-pay revenue and bad debt expense.

Prior to implementing the compact Tenet recorded self-pay revenues at gross charges. In 2003, self-pay revenues comprised 15.7% of reported revenue and in 2006, the first full year all of Tenet's hospitals were operating under the compact, self-pay revenues comprised 12.2% of reported revenues.

Charity Care Policy

Under the compact Tenet provides charity care to uninsured patients that meet certain financial qualifications. Charity care patients are charged a per-diem amount, subject to a cap.

Reserving Methodology

Bad Debt Reserve Methodology

Tenet uses an 18-month look-back period to estimate its provision for bad debt. While a portion of self-pay accounts are reserved at billing, Tenet does not disclose a specific percentage. Self-pay accounts are fully reserved when assigned to the collection agency subsidiary, which is usually at 90 days–180 days post billing. At Dec. 31, 2011, Tenet's reported self-pay collection rate was 27.8% (Tenet is the only company that reports this metric), down 50 bp from 28.3% at Dec. 31, 2010.

The company's reported self-pay collection rate has been declining over the past several years. However, based on a trend of an increasing ADA as a percent of self-pay AR, the company appears to be following a conservative bad debt reserving policy and Fitch doesn't believe it is likely that it will have to take a charge to increase its allowance. Higher DSOs at Dec. 31, 2011 were reportedly the result of a temporary lag in collections due to a realignment of the company's revenue cycle management operation.

Accounts Receivable Writeoff Policy

Accounts assigned to the collection agency subsidiary are written off and an estimate of future recoveries from all accounts at the collection agency is determined based on historical experience and recorded as a component of accounts receivable. This amount is then written off gradually over a two-year period. At Dec. 31, 2011, this amount comprised $64 million or 5% of net AR.

Note: Unless noted all figures are as originally reported. N.D. – Not disclosed.
Source: Company reports, Fitch calculations.

Summary of GAAP Bad Debt Accounting — Universal Health Services, Inc.

($ Mil., As of Dec. 31)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	14,273.84	15,230.93	16,421.43	18,627.04	N.D.
Charity Care[a]	(548.00)	(614.00)	(671.00)	(807.00)	(956.00)
Discounts to the Uninsured	N.D.	N.D.	N.D.	N.D.	N.D.
Contractual Allowance	(8,974.84)	(9,594.53)	(10,548.05)	(12,251.86)	N.D.
Net Revenue Before Bad Debt Expense	4,751.00	5,022.40	5,202.38	5,568.19	7,500.20
% Growth	—	5.7	3.6	7.0	34.7
Bad Debt Expense	416.00	476.70	508.60	546.91	613.60
Bad Debt Expense/Revenue (%)	8.8	9.5	9.8	9.8	8.2
Other Operating Expense	3,774.80	3,929.30	3,955.44	4,221.56	5,675.40
EBITDA	560.20	616.40	738.34	799.71	1,211.20
EBITDA Margin (%)	11.8	12.3	14.2	14.4	16.1
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Reported Net Revenue Less Bad Debt Expense	4,335.00	4,545.70	4,693.78	5,021.28	6,886.60
% Growth	—	4.9	3.3	7.0	37.1
Other Operating Expense	3,774.80	3,929.30	3,955.44	4,221.56	5,675.40
EBITDA	560.20	616.40	738.34	799.71	1,211.20
EBITDA Margin (%)	12.9	13.6	15.7	15.9	17.6
Balance Sheet Items					
Gross Accounts Receivable	748.20	788.38	771.56	1,086.82	1,223.21
Allowance for Doubtful Accounts (ADA)	121.00	162.98	169.00	249.00	253.41
Net Accounts Receivable	627.20	625.40	602.56	837.82	969.80
Allowance for Doubtful Accounts/Gross AR (%)	16.2	20.7	21.9	22.9	20.7
Allowance for Doubtful Accounts/Self-Pay AR (%)	N.D.	N.D.	N.D.	N.D.	N.D.
DSOs	48	45	42	55	47
Accounts Receivable Written Off	(407.42)	(442.48)	(502.70)	(523.76)	(608.84)
Bad Debt Expense	416.00	476.70	508.60	546.91	613.60
Other Adjustments (i.e. Acquisitions, Recoveries)	2.42	7.76	0.12	56.85	(0.36)
Change in the ADA from Prior Year	11.00	41.98	6.03	80.00	4.41
Bad Debt Expense/AR Written Off (%)	102.1	107.7	101.2	104.4	100.8
Estimated Cost of Uncompensated Care					
Gross Revenue	14,273.84	15,230.93	16,421.43	18,627.04	N.D.
Total Patient Care Costs (All Op Ex except Bad Debt)	3,774.80	3,929.30	3,955.44	4,221.56	5,675.40
Patient Care Costs/Gross Revenue (%)	27.8	27.2	25.4	24.0	N.D.
Uncompensated Care (Bad Debt+Charity Care+Discounts)	964.00	1,090.70	1,179.60	1,353.91	1,569.60
Uncompensated Care/(Reported Revenue+Charity+Discounts) (%)	18.2	19.4	20.1	21.2	17.3
% Growth	21.7	13.1	8.2	14.8	15.9
Fitch Estimated Cost of Uncompensated Care	267.77	296.14	299.78	324.35	N.D.
% Growth	18.7	10.6	1.2	8.2	N.D.
Cost of Charity Care Disclosed Per ASU 2010–23	—	—	—	158.00	173.00

Revenue Recognition Policies

Self-Pay Discount Policy

UHS discounts gross charges for self-pay patients by at least 20%. A discount policy was initially established in 2006.

Charity Care Policy

UHS provides charity care to patients that meet certain financial criteria, the details of which are not disclosed by the company.

Reserving Methodology

Bad Debt Reserve Methodology

A partial reserve for self-pay accounts is established at 60 days from patient discharge, and self-pay accounts are fully reserved at 90 days. Potential charity care cases are fully reserved whenever it is determined the patient is unable to pay. Third party payor accounts are fully reserved at 180 days from discharge. In 2011, 93% of bad debt expense was attributable to the acute-care segment.

Accounts Receivable Writeoff Policy

UHS does not disclose specifics as to when it writes off accounts receivable.

[a]UHS reports charity care and discounts combined. Note: Unless noted all figures are as originally reported. N.D. – Not disclosed.
Source: Company reports, Fitch calculations.

Summary of GAAP Bad Debt Accounting — Vanguard Health Systems, Inc.

($ Mil., as of June 30)	2007	2008	2009	2010	2011
Income Statement Items — Prior Presentation					
Gross Revenue	N.D.	N.D.	N.D.	N.D.	N.D.
Charity Care[a]	(86.10)	(86.10)	(91.80)	(87.70)	(121.50)
Discounts to the Uninsured	N.D.	N.D.	(11.70)	(215.70)	(277.20)
Contractual Allowance	N.D.	N.D.	N.D.	N.D.	N.D.
Net Revenue Before Bad Debt Expense	**2,580.70**	**2,790.70**	**3,199.70**	**3,376.90**	**4,895.90**
% Growth	—	8.1	14.7	5.5	45.0
Bad Debt Expense	175.20	205.60	210.80	152.50	302.30
Bad Debt Expense/Revenue (%)	6.8	7.4	6.6	4.5	6.2
Other Operating Expense	2,162.00	2,318.70	2,634.30	2,944.90	4,170.60
EBITDA	**243.50**	**266.40**	**354.60**	**279.50**	**423.00**
EBITDA Margin (%)	9.4	9.5	11.1	8.3	8.6
Income Statement Items — Updated Presentation Under ASU No. 2011–07					
Reported Net Revenue Less Bad Debt Expense	2,405.50	2,585.10	2,988.90	3,224.40	4,593.60
% Growth	—	7.5	15.6	7.9	42.5
Other Operating Expense	2,162.00	2,318.70	2,634.30	2,944.90	4,170.60
EBITDA	**243.50**	**266.40**	**354.60**	**279.50**	**423.00**
EBITDA Margin (%)	10.1	10.3	11.9	8.7	9.2
Balance Sheet Items					
Gross Accounts Receivable	400.50	418.10	396.80	346.00	689.40
Allowance for Doubtful Accounts (ADA)	113.20	117.70	121.50	75.60	205.00
Net Accounts Receivable	**287.30**	**300.40**	**275.30**	**270.40**	**484.40**
Allowance for Doubtful Accounts/Gross AR (%)	28.3	28.2	30.6	21.8	29.7
Allowance for Doubtful Accounts/Self-Pay AR (%)	91.4	96.3	96.5	N.D.	N.D.
DSOs[a]	48	47	40	39	44
Accounts Receivable Written Off	(181.60)	(196.50)	(207.00)	(198.40)	(172.90)
Bad Debt Expense	175.20	205.60	210.80	152.50	302.30
Other Adjustments (i.e. Acquisitions, Recoveries)	16.10	(4.60)	—	—	—
Change in the ADA from Prior Year	**9.70**	**4.50**	**3.80**	**(45.90)**	**129.40**
Bad Debt Expense/AR Written Off (%)	96.5	104.6	101.8	76.9	174.8
Estimated Cost of Uncompensated Care					
Uncompensated Care (Bad Debt+Charity Care+Discounts)	261.30	291.70	314.30	455.90	701.00
Uncompensated Care/(Reported Revenue+Charity+Discounts)*a*	11.5	12.0	12.0	16.0	15.8
% Growth	—	12	8	45	54
Cost of Charity Care Disclosed Per ASU 2010–23[a]	—.	—	—	—	—

Revenue Recognition Policies

Self-Pay Discount Policy

Vanguard provides discounts from gross charges for self-pay patients with income levels between 200% and 500% of the federal poverty level. Starting in 2009 the company provides discounts to self-pay patients that do not qualify under the company's discount policy income guidelines at its Illinois, San Antonio, and Phoenix hospitals.

Charity Care Policy

Uninsured patients who have income at or below 200% of the federal poverty level qualify for charity care.

Reserving Methodology

Bad Debt Reserve Methodology

Staring in its fiscal 2007, Vanguard reserves 100% of accounts aged more than 365 days regardless of payor type. It reserves a standard percentage of self-pay accounts aged less than 365 days. Vanguard does not disclose the percentage of self-pay accounts it reserves but states that it adjusts the percentage reserved to account for pricing increases or changes in its discount policy. The company tests its reserve policy quarterly using a hindsight calculation.

Accounts Receivable Writeoff Policy

Uncollected accounts are generally written off at 120 days after patient discharge, regardless of payor type.

[a]ASU 2010–23 is effective for VHS's fiscal year beginning July 1, 2011 [b]Uncompensated care as a percent of revenues and DSOs are calculated on the basis of patient service revenues only (exclude health plan premium revenues). N.D. – Not disclosed. Note: Unless noted all figures are as originally reported.
Source: Company reports and Fitch calculations.