

Technical Director
File Reference No. EITF090H2
Financial Accounting Standards Board
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## To Whom It May Concern:

ParenteBeard LLC is an accounting firm with 27 offices within the mid-Atlantic region, as well as Texas. Our Healthcare Business Services Group provides audit and consulting services to several hundred health care entities. We appreciate the opportunity to comment on the proposed Accounting Standards Update ("Update") for health care entities (Topic 954), *Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts* issued by the Financial Accounting Standards Board ("FASB").

## **General Comment**

As the Emerging Task Issues Force ("EITF") has noted, there are different judgments made by health care entities regarding adjustments to revenue and bad debts. The differences pertain mainly to measurement. For example, some health care entities determine a provision for bad debts by applying their entire patient accounts receivable, net of revenue adjustments (ie. contractual adjustments and discounts), to a valuation model based on the receivables' age. In addition, some health care entities apply only their non third-party-payor receivables to this valuation model, under the assertion that third-party payor receivables typically do not result in bad debts. Finally, some other health care entities start by applying their entire patient accounts receivable to their bad debt valuation model, but then reclassify the third-party payor portion to revenue adjustments. These various approaches typically do not impact the overall financial results of a health care entities more difficult.

In addition to the differing judgments noted above, other differences in reporting revenue and bad debts can arise based on varying policies for the provision of charity care. Most health care entities have an internal policy for determining whether a patient will qualify for charity care. Often, the policies are based on published guidelines, such as the poverty guidelines as established by the U.S. Department of Health and Human Services, to determine whether a patient qualifies for charity care. However, the guidelines are not consistently applied between each health care entity. For example, one entity may set a threshold of 400% of the federal poverty guidelines to determine charity care qualification, while another may set a threshold of 500%. Consistent with the previous paragraph, these different judgments generally do not have a significant impact on the entity's overall financial results. However, they do result in different measurement in the entity's statement of operations.

It should be noted that some health care entities have long recognized that there could be presentation issues when valuing revenue adjustments and provisions for bad debts. Therefore, for internal financial reporting purposes, these entities report both revenue adjustments and provisions for bad debts as components of revenue in their statement of operations. This tends to help the organization focus on the revenue that has been, or is expected to be, collected. The provisions for bad debts are then reclassified to operating expenses for external financial reporting purposes.

One concern we have is that the term "major payor sources" may be vague to the constituents. The example within the proposed Update (ASC 954-605-55-4) concludes that the major payor sources for Entity A would be "Third-Party Payors" and "Self-Pay." While this was designed by FASB to be an example, it still seems to be relatively broad in nature. Further guidance could help health care entities prepare disclosures that could benefit users more. One possibility would be to distinguish revenue adjustments between contractual rates (i.e. insurance companies) and statutory rates (i.e. governmental payors) in addition to individual self-pay accounts.

Overall, we believe the changes proposed within this Update will help enhance the comparability of health care entities' financial statements. There will remain some differences in accounting measurements due to various accounting policies as noted above that may not, and perhaps should not, be resolved by FASB. However, we agree with the spirit of the proposed changes and would be more than happy to elaborate on our comments if needed.

## Specific Questions

Question 1: The amendments in this proposed Update would require a health care entity to change the presentation of its statement of operations by reclassifying the provision for bad debts from an operating expense to a reduction from revenue (net of contractual allowances and discounts). Do you agree with this conclusion? Why or why not?

We agree with the EITF's proposal to reclassify the provision for bad debts from an operating expense to a reduction from revenue. As noted in our general comments, this will provide for a more consistent reporting of net revenue and a better comparability of net revenues and operating expenses between health care entities.

Question 2: The Task Force consensus described in this proposed Update was reached in the context of discussing paragraph 954-605-25-3 relating to patient fee-for-service revenue (that is, revenue earned in transactions in which services provided are billed to patients or third-party payors). This was the issue that was initially raised to the Task Force for consideration. However, the final consensus was not limited to only patient service revenue. Accordingly, please answer the following questions relating to the scope of proposed guidance:

a. Should the requirements of the proposed amendments be applicable to all revenue that is accounted for under Topic 954 (that is, patient service revenue, premium revenue, and resident service revenue)?

Yes. These three types of revenue represent revenue from health care services provided, typically under a contractual or statutory arrangement. Therefore, they are subject to the differing judgments as described in the proposed Update and our general comments, and should be subject to the proposed amendments to assist with comparability.

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b. If the answer to 2(a) is no, what types of revenue should the proposed amendments apply to (for example, should the requirements of the proposed amendments be limited only to patient and resident service revenue)?

Due to our response to question 2(a), this question is not applicable.

c. Some diversified entities provide health care services as well as significant non-patient related products (such as pharmaceutical products) or services (such as billing and staffing, clinical information or education services). For such entities, should the requirements of the proposed amendments apply to all activities of the entity or only apply to the health care service revenue that is accounted for under Topic 954?

We believe that the proposed changes within this Update should be applied to all activities of the entity. If the authoritative guidance is amended to apply only to certain activities, we believe the time and effort spent to reasonably segregate those activities will not produce a significant benefit to the users of the financial statements. In addition, some health care entities may not have these activities, which would not lead to better comparability.

Question 3: Do you anticipate the need for significant changes in the accounting systems or information gathering to implement the proposed amendments? If yes, please specify the aspect(s) of the proposal that would cause the significant change (for example, a specific disclosure or part of a disclosure requirement).

Most health care entities already have accounting systems, automated or manual, to reasonably estimate revenue adjustments and provisions for bad debt, as well as identifying the net revenues of major payor sources necessary for disclosure in the notes to the financial statements. For some entities, the information can be readily gathered from certain revenue and revenue adjustment accounts from their trial balance. For others, this information will not be that readily available, but can still be reasonably retrieved from the system. Therefore, we do not anticipate the need for significant changes to accounting systems as a result of this proposed Update.

Question 4: How much time do you believe would be necessary to efficiently implement the proposed amendments?

As noted in Question 3, we believe most health care entities already have accounting systems in place to make the changes required in the proposed Update. Therefore, we do not believe that a substantial amount of time will be needed to implement these changes. However, we feel that before the requirements become effective, there should be sufficient time to communicate the changes in the proposed Update to FASB's constituents, including the preparers and users of a health care entity's financial statements. Accordingly, we suggest that the requirements take effect for all reporting periods beginning December 15, 2011 or thereafter.

Thank you for the opportunity to comment on the amendments in the proposed Update. If you have any questions on the matters discussed in this letter, do not hesitate to contact us for further discussion or clarification.

Philadelphia, Pennsylvania

Parente Beard LLC

January 25, 2011