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Financial Accounting Standards Board

Technical Director

File Reference No. EITF090H2

Re: Health Care Entities (Topic 954). Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts.

Dear Technical Director,

I greatly appreciate the opportunity to submit a comment letter regarding the proposed Accounting Standards Update: Health Care Entities (Topic 954). Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts. To address the issues of the proposal, I have responded to the questions presented in the exposure draft.

Question 1: The amendments in this proposed Update would require a health care entity to change the presentation of its statements 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?

I do agree with the proposed Update that would require health care entities to change the presentation of its statements of operation by reclassifying the provision for bad debts from an operating expense to a reduction from revenue (net of contractual allowances and discounts).

Billing and collection procedures vary from one health care entity to another. The main issue presented in the above proposed Update is the overstatement of revenue reported on financial statements. Under the current guidelines, health care entities recognize the revenue upon billing vs. upon collecting. Billed amount is the amount that the health care provider hopes to collect for services rendered, where as the collected amount is the actual figure paid for the bill.

It is somewhat a taboo topic in the health care industry, but medical billing can be somewhat outrageous. At times health care companies bill insurances for extra amounts or add additional procedures in hopes of getting paid more. For instance, I have received a correspondence letter from my insurance indicating that they received a claim from my doctor and have processed it for payment. The amount that the doctor billed the insurance was way more than the amount quoted to me during the visit. This so called ballooned billing procedure is done either because insurance companies continuously reduce the amount of coverable procedures and at times decline to pay for services rendered altogether or the health care entity is greedy for profits and overstates the amounts of procedures. After the insurance carrier pays portion of the bill, the remaining balance or some other adjusted amount deemed appropriate by the health care entity's billing department gets passed on to the patient. It is a

well known fact that the majority of the U.S. population can barely afford health insurance coverage and more than likely any medical health care costs put a huge strain on their budgets. In addition, during these difficult economic times, in the average household medical bills are at the bottom of the pile of bills to pay and more often get put on the back burner or simply get "lost" or "forgotten". Therefore, the health care entity has a 50/50 chance or less of receiving a payment from the patient.

To summarize the issue, the revenue figures of health care entities based on billable amounts receive a huge reduction at the insurance level, and then have a 50/50 chance of getting paid at the individual level. In the mean time, the revenue reported on the financial statement is grossly overstated and misrepresents the true economic standing of the company. Therefore, I do agree with the proposed Update that would require health care entities to report bad debts as a reduction of operating revenue (net of contractual allowances and discounts) rather than an operating expense. By definition, revenue is to be recognized when "it is probable that future economic benefits will flow to the company and a reliable measurement of the amount is possible". For health care entity, it is best to report revenue net of bad debts since it is somewhat difficult to reasonably guarantee collectability of the full amount of the bill.

Question 2: The Task Force consensus described in this proposed Update was reach 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.

- 1. 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)?
- 2. Yes, the requirement of the proposed amendments should be applicable to all revenues accounted for under Topic 954 (patients service revenue, premium revenue, and resident service revenue).
- 2. If the answer to 2(a) is no, what types of revenue should the proposed amendments apply to?

Based on the answer to the question 2(a), this is question is inapplicable.

3. 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 health care service revenue that is accounted for under Topic 954?

The requirements of the proposed amendments should apply to patient related services only of the health care entities. The non-patient related revenue should be reported separately from the patient related revenue. This is sample of statement of operations of the diversified health care entity:

Patient related revenue (net of contractual allowance & discounts)	\$XXXX
Provision for bad debts	XXXX
Net patient related revenue less provision for bad debts	xxxx
Non-patient related revenue	XXXX
Total net revenue	<u>\$XXXX</u>

Question 3: Do you anticipate the need for significant changes in the accounting systems or information gathering to implement the proposed amendments?

No, I do not anticipate any significant changes in the accounting systems or information gathering to implement the proposed amendments. The proposed changes would not require major costs or additional time for preparation.

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

It should not take more than 6 months to efficiently implement the proposed amendments.

Thank you again for the opportunity to comment on the Exposure Draft of the proposed

Accounting Standards Update: Health Care Entities (Topic 954). Presentation and Disclosure of

Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts.

Sincerely,

Elena Blekher