FASB The Director Director@Fasb.org

Regarding: Health Care Entities (954) Net Revenue and Allowance for Doubtful A/C EITF 090H

By : Dr. Joseph S. Maresca CPA, CISA

Colleagues,

Thank you for the opportunity to critique this submission. Details follow.

Background

The issuance deals specifically with the recognition of revenue when the collectibility is not reasonably assured. The purpose is to facilitate better transparency. Institutions are required to disclose how they consider collectibility in determining the amount and timing of revenues and bad debt expenses.

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## The questions presented for review are as follows:

- (1) Do you agree with the proposed disclosures as stated.
- (2) The disclosures are segmented by type i.e. emergency care, elective
- (3) Should the amendment be applied retrospectively?
- (4) Is there a concurrent need for change or major customization in the existing accounting systems?
- (5) Is the time for implementation reasonable in the circumstances? pp. 2

Disclosure is to be by major payor source of revenue including:

- (a) policies for assessing collection and the amount of bad debt expenses to be recognized
- (b) Tabular reconciliation of the activity in the allowance for doubtful accounts in the period

Major payor sources of revenue are to be identified by the entity and be consistent. The entity should be clear in demonstrating how the business is operated.

Critique

There may be significant estimates involved in recognizing revenues since this process can be utilized to provide medical providers with a way to boost revenues or earnings in any given period.

Even a slight change in estimates may impact the amount of revenue recognized in the period significantly without any change in the amounts actually billed to clients. It is this aspect of disclosure that leads the FASB and other interested parties to be concerned about how revenue is recognized.

Medical providers can boost earnings concurrent with reducing estimates for the contractual allowance reserve. By decreasing

this estimate, revenues, gross profits and net income are increased in the period of the change. Receivables may spike too.

If the new estimate is an aggressive one, the medical provider would not collect the full amount of the receivable and could write down the uncollectible receivables through special charges (reduce income on a non-recurring basis) or a future increase in the allowance for doubtful accounts.

And so, the need for the proposed disclosures is justified fully and Question 1 is answered in the affirmative. In addition, the disclosures should be segmented by type which answers Question 2 in the affirmative. Retrospective application of the guidance should be required for material transactions defined at a 5% or more threshold. This answers Question 3. There should not be a need for major changes in the existing accounting systems, although "cloud computing" may be considered for large institutions, cooperatives and mega-medical providers which answers Question 4 in the affirmative. A 6 month to 1 year framework for implementation would be fair under the circumstances. This answers Question 5.

## The better way to reduce the allowance for doubtful accounts is to refer poor patients to Hill Burton Facilities. The Hill Burton

Program provides reduced mortgage costs to medical providers in exchange for free or significantly reduced medical care prices for patients. Many hospitals, dental and medical schools have been able to expand facilities due to the benefits accorded under this program. Both patients and the institution benefit significantly. An example of instruction to patients regarding the Hill Burton Program is provided below in a pharmaceutical context.

http://www.discountrxmart.com/free/medcare fags.shtml

Another way to reduce the allowance for doubtful accounts is to refer chronically ill patients to the National Institutes of Health.