HEALTH CARE ENTITIES (Topic 954). Comment on the Exposure Draft of a Proposed Accounting Standards Update issued December 17, 2010.

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Technical Director
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FASB

Dear Sir / Madam,

Thank you for the opportunity to comment the Exposure Draft of the proposed Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts by Health Care Entities standards update that FASB is providing to all individuals and organizations.

As it is mentioned in the Summary and Questions for Respondents, the major change proposed is that the health care entity must report the provision for bad debts as a reduction from revenue (net of contractual allowances and discounts) on their statement of operation as oppose to an operating expense. Another requirement suggested is to provide enhanced disclosure about how the health care entity considers collectibility in determining the amount and timing of revenue and bad-debt expense. The amendments also would require disclosures of revenue (net of contractual allowances and discounts) as well as reconciliation of the activity in the allowance for doubtful accounts by major payor type, which I believe is more practical, and easier to implement than disclosure by type of service as originally was proposed.

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Please find below the comments on the proposed Update dated December 17, 2010:

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?

Yes, I agree with the reclassification of the provision for bad debts from an operating expense to a reduction from revenue (net of contractual allowances and discounts). The above mentioned amendments, as well as recognizing revenue only when collectibility is reasonably assured, will ensure more accurate and informative reporting for Health Care Entity financial statements users. The provision for bad debts and allowance for doubtful accounts for uncompensated services provided to self-pay patients (uninsured), uncompensated services rendered that are not covered by insurance, or amounts related to deductibles and co-pays for which payment is highly uncertain should not be presented as operating expense, otherwise the revenue from services rendered is overstated.

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:

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)?

Yes, the proposed Update should be applied to all revenue that is accounted for under Topic 954 to ensure stronger, more consistent and transparent reporting.

2. 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)?

Not applicable, since the answer to 2(a) is yes.

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

Yes, the requirements of the proposed amendments should apply to all activities to ensure the comparability with other HCEs. Comparability is the base for any presentation for potential investors.

Please note that the provision for bad debt account for each activity should be separated under each category.

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).

I do not foresee the need for significant changes in the accounting systems or information gathering to implement the proposed amendments. Currently the health care entities are using systems allowing them to collect the required information; however there will be some restructuring and upgrades of their systems to ensure proper reporting and reconciliation.

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

I would recommend the allowance of the preparation period for three to four months, starting either July 1, 2011 or January 1, 2012, depending on the final approval and effective date of the proposed Update. That would provide enough time to ensure proper transition.

I believe the implementation of the proposal will:

- Improve the comparability of revenues and operating expenses for Heath Care Entities.

- Provide more accurate and transparent financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers.
- Provide the complete information and reporting to the management with the detail reconciliation of the all aspects of uncompensated care.
- Be easy and affordable to implement prospectively and retrospectively, since no complicated system changes would be required.

I strongly support the proposed amendments; however, in order to keep consistency and transparency, the standard should require the categories of payors to be standardized.

The all above mentioned might be a useful exercise for the future updates of the accounting standards related to other industries. It also will tie into the FASB and IASB's joint projects, clarifying the principles for recognizing revenue and to develop accounting standards for U.S. GAAP and IFRSs that would:

- remove inconsistencies and weaknesses in existing standards and practices;
- improve comparability across entities, industries, jurisdictions, and capital markets;
- simplify the preparation of financial statements by reducing the number of requirements to which entities must refer.

Sincerely,

Yeva Poghosyan