

February 14, 2011

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

File Reference No. EITF090H2

Dear Technical Director:

The Healthcare Financial Management Association's (HFMA's) Principles and Practices (P&P) Board appreciates this opportunity to comment on the Financial Accounting Standards Board's (FASB's) 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. The proposed ASU would require health care entities to provide expanded disclosures for net revenue, bad debts, and the allowance for doubtful accounts, in addition to changing the presentation of bad debts within the statement of operations.

HFMA is a professional organization of more than 35,000 individuals involved in various aspects of healthcare financial management. In 1975, HFMA founded the P&P Board, a special group of experts that serves as HFMA's primary advisory group in the areas of accounting principles and financial reporting practices to meet the unique characteristics of health service organizations.

Below are the P&P Board's responses to FASB's 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 of revenue (net of contractual allowances and discounts). Do you agree with this conclusion? Why or why not?

We agree with the proposed amendments that would require healthcare entities to change the presentation of "bad debts" within its statement of operations. Due to the nature of services provided in a healthcare setting, many providers do not assess the creditworthiness of patients nor require upfront cash payment prior to providing care. Historical experience would indicate that for the uninsured population, only minimal payments will ever be received by the care provider. Reporting this portion of uncompensated care as bad debts artificially skews the provider's reported operating

HFMA
Proposed Accounting Standards Update, Health Care Entities (Topic 954)
February 14, 2011
Page 2

expenses. We feel that the proposed presentation changes would facilitate reporting by healthcare providers in a manner more in line with financial reporting practices for entities in other industries and would result in more comparable information.

However, we question the proposed requirement of presenting bad debts separately from revenue net of contractual allowances and uninsured discounts. We believe that amounts currently reported as bad debts are similar to charity care and uninsured discounts, insofar as a substantial portion of the bad debts arise from services for which collectability was never reasonably assured. Thus, we believe that charity care, uninsured discounts, and bad debts should be presented in a consistent manner within the statement of operations. We believe that Net Patient Service Revenue should be presented on one line within the statement of operations, which should reflect gross charges net of contractual allowances, charity care, uninsured discounts, and bad debts. We believe that this presentation would provide financial statement users with information that is easier to understand and that is more consistent both within the healthcare industry and as compared to other industries. We also believe that footnote disclosure of the charity care, uninsured discounts, and bad debts would be appropriate. It should be noted that certain healthcare providers receive some reimbursement from state and commercial insurance programs based upon their reported level of uncompensated care. Disclosure of charity care, uninsured discounts, and bad debts in the footnotes should facilitate reporting to those external payers that reimburse certain providers based on uncompensated care.

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 payers). 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)?
- 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)?
- 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 heath care service revenue that is accounted for under Topic 954?

We believe that the requirements of the proposed amendments should only be applicable to healthcare service revenue that is accounted for under Topic 954. We do not believe that the requirements of the proposed amendments should apply to

HFMA

Proposed Accounting Standards Update, Health Care Entities (Topic 954) February 14, 2011

Page 3

non-patient related services or product sales. We believe and would propose to the Board that bad debts related to non-patient related services or product sales be excluded from the requirements of the proposed amendments, with such bad debts continuing to be presented as a component of operating expenses.

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).

We believe that a majority of the requirements of the proposed update will not require significant changes in accounting systems or information gathering. However, we do believe that certain entities may require significant changes to accounting systems or information gathering in order to implement the proposed amendments dealing with the reconciliation of the activity in the allowance for doubtful accounts by major payer type. Healthcare entities that use varying accounting systems across their organizations may need to make significant changes in order to gather reliable and consistent information necessary for this requirement.

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

Based on the response to question 3 above, we believe that certain entities would require time to appropriately implement the proposed amendments. As a result, we would encourage the FASB to allow a minimum period of 12 months from the date of issuance of the final standard for entities to efficiently implement the proposed amendments.

Thank you for the opportunity to comment. We are always ready to provide additional comments, or meet with you or members of your Board to discuss this matter further. If we can provide additional material or perspective on this issue, please contact Richard Gundling, Vice President of HFMA's Washington DC office, at (202) 296-2920.

Sincerely,

Mary Connick, CPA P&P Board Chair

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