



Revenue Recognition

PREPARE NOW

Presented By

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Agenda

TODAY'S OBJECTIVE:

A meaningful discussion and exchange of ideas resulting in tangible steps to apply in the revenue recognition implementation process

1. AICPA task force guidance
(issued & pending)
2. Start preparing now
3. Examples

The logo for the AICPA Task Force Revenue Recognition is located on the left side of the slide. It features a dark grey background with the text 'AICPA' in a large, white, sans-serif font at the top. Below it, 'Task Force' is written in a slightly smaller, white, sans-serif font. At the bottom, 'REVENUE RECOGNITION' is written in a smaller, white, sans-serif font, with 'REVENUE' on the top line and 'RECOGNITION' on the bottom line. The background of the slide is white with a decorative header at the top consisting of five vertical bars in red, blue, light blue, orange, and green.

AICPA Task Force

REVENUE RECOGNITION

FIVE-STEP PROCESS UNDER THE NEW STANDARD

1. Identify the contract with the patient:

- Can be written, oral, or implied. Written or oral contracts could include:
 - Signed patient responsibility forms
 - Consent of service forms
 - Patient scheduled appointments (online, in-person, telephone, etc.)
- Establishment of an implied contract:
 - Required by law or regulation to treat emergency conditions (through the ED) and often provide services to uninsured or underinsured patients regardless of their ability to pay
 - Not-for-profit entities (501(c)(3)) are charitable organizations and have certain requirements to maintain their tax-exempt status, charitable mission, or both.



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REVENUE RECOGNITION

FIVE-STEP PROCESS UNDER THE NEW STANDARD

2. Identify separate performance obligations (if applicable)
3. Determine the transaction price:

For hospitals and clinics, the transaction price is ultimately the amount they will record as net patient service revenue for services provided to a patient or portfolio of patients. The transaction price includes the effects of variable consideration (explicit or implicit) and the consideration of other constraints.

Example of explicit

Example of implicit



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REVENUE RECOGNITION

FIVE-STEP PROCESS UNDER THE NEW STANDARD

3. Determine the transaction price (continued):

Even after considering variable price concessions, entities should incorporate any other constraints that may exist related to the patient's (or patients in the patient class) ability to pay that may result in a significant revenue reversal at some point in the future.

4. Allocate the transaction price to the separate performance obligations in the contract (if applicable)
5. Recognize revenue when the entity satisfies the performance obligation

What is not changing significantly under the new standard?



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APPLICATION OF THE PORTFOLIO APPROACH

APPLICATION OF THE PORTFOLIO APPROACH

- The new standard allows entities to use the portfolio approach, a practical expedient to account for patient contracts as a collective group, rather than individually, if the financial statement effects are not expected to materially differ from an individual contract approach.
- Entities will be required to use judgment when determining the size and composition of portfolios. The new standard specifies the need for similar characteristics among contracts to be grouped together; however, it does permit the application of a “reasonable approach to determine the portfolios that would be appropriate for its types of contracts.”



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APPLICATION OF THE PORTFOLIO APPROACH

APPLICATION OF THE PORTFOLIO APPROACH

- Healthcare entities may consider some of the following to determine the grouping of contracts with similar characteristics within a portfolio:
 - **TYPE OF SERVICE** – inpatient, outpatient, emergency room, physician practice, elective versus non-elective procedures, etc.
 - **TYPE OF PAYORS** – full coverage insurance contract (Anthem, Aetna, etc.), insurance contract with patient responsibility (deductible, co-pay), governmental programs (Medicare, Medicaid), uninsured self-pay, etc. Entities may also consider the size of the co-pay or deductible as a further consideration (high deductible plans)
 - **UNINSURED SELF-PAY** – may consider uninsured self-pay patients with whom the entity has no previous history, uninsured self-pay patients with a positive payment history, and uninsured self-pay patients with a history of making no payments
 - **TIMING** of when the contracts are entered into (same quarter)



Revenue Recognition

BE PREPARED

START PREPARING NOW

Consider conducting a readiness assessment of your organization:

- Review the current service offerings to determine when a contract may exist with a patient
- Review the current process for estimating the transaction price (determining net patient service revenue) and consider what changes may need to be made to record net patient service revenue under the new standard

Revenue Recognition

BE PREPARED

START PREPARING NOW

It will be important for your organization to determine what type(s) of data it has or can derive from its revenue cycle system to support the following:

- Historical collections on patients with coinsurance and deductibles compared to patients with no insurance
- Historical success rate for qualifying patients for Medicare and Medicaid benefits
- Historical rate of patients who qualify for your organization's financial assistance policy
- Other types of historical data that your organization may require based on the services it provides

WHAT IS THE EFFECTIVE DATE?

Fiscal years ending 9/30/2019 for conduit debt obligors

It will be one year before the lease implementation

Examples

IMPLICIT PRICE CONCESSION

UNINSURED SELF-PAY PATIENT (SINGLE CONTRACT)

Patient is treated through the ED, the hospital does not assess their ability to pay at the time of service. Patient is uninsured and does not qualify for any type of financial assistance (charity care or uninsured discount under the hospital's policies, or government entitlement programs).

Total gross charges for the services provided were \$10,000 which the hospital intends to pursue collection of and may engage a collection agency to do so. However, the hospital has a collection history with similar types of patients and expects to collect only \$1,000 from the patient.

The hospital has provided an “implicit” price concession to this patient because (a) the hospital is required to provide emergency services regardless of the patient's ability to pay under the Social Security Act, and (b) the hospital continues to provide services to uninsured self-pay patients even when historical experience indicates it is not probable that they will collect substantially all of the charges. Thus, \$1,000 is determined to be the transaction price and the hospital concludes that it is probable it will collect this amount and records patient revenue and accounts receivable of \$1,000.

The new standard requires the hospital to update the estimated transaction price, including the assessment of whether variable consideration is constrained at the end of each reporting period. Subsequent adjustments (positive or negative) are made to patient revenue and accounts receivable (adjustments to the contractual allowance).

Examples

IMPLICIT PRICE CONCESSION

UNINSURED SELF-PAY PATIENT WITH UNINSURED DISCOUNT (SINGLE CONTRACT)

Patient is treated through the ED. The hospital is required to provide emergency services regardless of the patient's ability to pay and based on its stated mission. In addition, based on the requirements of IRC Section 501(r), the hospital makes reasonable efforts to determine whether patients are eligible for assistance under its financial assistance policy.

During the patient's stay and before discharge, the hospital determines the patient qualifies for its financial assistance policy (uninsured discount) and grants the patient a 75% discount (this is an "explicit" price concession). Total charges for the services provided were \$40,000.

Thus, upon billing a \$30,000 discount (contractual allowance) is applied resulting in net charges of \$10,000 being billed to the patient, which the hospital intends to pursue collection of. The hospital has a collection history with similar types of patients and expects to collect only \$1,000 from the patient which is determined to be the transaction price and the hospital concludes that it is probable it will collect this amount and records patient revenue and accounts receivable of \$1,000.

The facts and circumstances indicate the hospital's intention when entering into the contract with the patient was to provide a price concession because (a) the hospital is required to provide emergency services regardless of the patient's ability to pay under the Social Security Act; (b) as per its stated mission and in accordance with IRC Section 501(r), the hospital is required to limit amounts charged for emergency services to individuals eligible for assistance under the hospital's financial assistance policy; and (c) the hospital continues to provide services to uninsured self-pay patients even when historical experience indicates that it is not probable that the entity will collect substantially all of the discounted charges.

Examples

IMPLICIT PRICE CONCESSION

INSURED PATIENT WITH HIGH DEDUCTIBLE PLAN (SINGLE CONTRACT)

Patient is treated at an urgent care clinic but, prior to providing service, does not determine whether or not the patient has a patient responsibility (for example, whether or not the patient has met his or her deductible for the period) and, if so, whether the patient has the ability to pay it.

The charges for the services provided to the patient are \$5,000. After services are provided, the patient presents proof of coverage with a commercial insurance company. Based on its contract with the commercial payor, the clinic determines there is a contractual adjustment of \$3,000 (that is, an explicit price concession). Therefore, the discounted charges for services provided to the patient are \$2,000.

The clinic has a history of providing services to insured patients with high deductible plans and collecting amounts that are substantially less than its discounted charges. The clinic considered that the services were provided early in the calendar year and, therefore, patients with high deductible plans may not have met their deductible. Based on its historical experience with patients with high deductible plans during similar time periods in prior years, the clinic estimates that it only expects to collect \$200 for the contract. The clinic intends to pursue collection of the \$2,000 and may engage the use of external collection agencies to do so. That is, the clinic does not intend to give up collecting the discounted charges.

The facts and circumstances indicate that the clinic's intention, when entering into the contract with the patient, was to provide an implicit price concession, it concludes that \$200 is the transaction price. The clinic concludes that it is probable that it will collect the \$200 and records patient service revenue and accounts receivable of \$200.

Examples

NO IMPLICIT PRICE CONCESSION

UNINSURED SELF-PAY PATIENT (SINGLE CONTRACT)

An uninsured self-pay patient schedules an elective cosmetic surgery at an outpatient surgery center that has a policy of performing a credit assessment prior to providing elective surgery to its patients. The gross charges for the procedure are \$4,000. Prior to surgery, the outpatient surgery center assesses the patient's ability to pay and grants the patient special pricing of \$3,000 (that is, an explicit price concession or discount of \$1,000), which is similar to what it would charge an insured patient.

The outpatient surgery center collects \$1,500 upfront and agrees to bill the patient the remaining \$1,500 after the surgery. Based on its credit assessment, the outpatient surgery center determines that it is probable that it will collect the remaining \$1,500 due from the patient and does not intend to provide a further price concession or discount. The outpatient surgery center records patient service revenue of \$3,000, accounts receivable of \$1,500, and cash of \$1,500.

Based on a subsequent change in facts and circumstances, the surgery center determines that it only expects to collect \$500 of the \$1,500 billed to the patient. Therefore, the remaining \$1,000 that it does not expect to collect represents an impairment loss (bad debt expense).

Examples

IMPLICIT PRICE CONCESSION

INSURED PATIENTS WITH CO-PAYMENT (PORTFOLIO APPROACH)

A hospital provides services to patients during a reporting period and determines that they are covered by insurance carrier B and that each patient has a patient responsibility (co-payment). Because of its not-for-profit mission, the hospital does not have a policy of assessing patients' intent and ability to pay their patient responsibility portion prior to providing service.

Because of the similar characteristics of the patients (that is, each patient is covered by insurance carrier B and has a similar co-payment), the hospital applies a portfolio approach. This portfolio of contracts is identified based on qualitative and quantitative factors, and the hospital concludes the expected outcome from using a portfolio approach is not expected to materially differ from an individual contract approach.

Its insurance carrier B portfolio includes both the insurance and co-payment amounts. The charges for services provided to patients in this portfolio total \$1,000,000 for the reporting period. Based on its contractual agreement with insurance carrier B, the hospital applies contractual adjustments of 50%, or \$500,000. The contractual adjustments represent explicit price concessions. The contractual adjustments are recognized as a reduction to the transaction price. The remaining charges of \$500,000 include \$475,000 in amounts due from insurance carrier B and \$25,000 in co-payment amounts due from the patients.

Examples

IMPLICIT PRICE CONCESSION

INSURED PATIENTS WITH CO-PAYMENT (PORTFOLIO APPROACH) - CONTINUED

Based on its historical experience, the hospital expects to collect all of the amounts due from insurance carrier B (\$475,000) but only expects to collect 40% or \$10,000 of the co-payment amounts due from the patients. In total, the hospital expects to collect \$485,000. Because the hospital has a business practice of providing services to patients regardless of their ability to pay, it determines that the \$15,000 it does not expect to collect of patient co-payments represents an implicit price concession. Therefore, the hospital determines that the transaction price is \$485,000 (gross charges of \$1,000,000, less contractual adjustments of \$500,000, less the implicit price concessions of \$15,000) and that collection of substantially all of the transaction price is probable.

The hospital determines the criteria in the standard have been met because it has legally enforceable contracts with the patients, the contracts have commercial substance, the services provided and payment terms can be identified, and the parties have approved the contracts.

Based on its expectation of payment from insurance carrier B, the hospital concludes that it is probable that a significant revenue reversal in the cumulative amount of revenue recognized (\$485,000) will not occur as the uncertainty is resolved (that is, as payments are received).

The hospital recognizes patient revenue and accounts receivable of \$485,000.

Examples

IMPLICIT PRICE CONCESSION

INSURED PATIENTS WITH CO-PAYMENT (PORTFOLIO APPROACH) - CONCLUDED

If the hospital subsequently determines it will only collect \$475,000, instead of \$485,000 it initially estimated, it will need to evaluate whether it has obtained any adverse information regarding the financial condition of the patients in the portfolio to determine if an impairment exists.

If no adverse information regarding the patients' financial condition has been obtained, the Task Force believes the hospital should generally account for the difference as an increase to the implicit price concession (that is, a reduction to the estimate of the transaction price through contractual allowances) because the hospital determined that it intended to provide an implicit price concession.

If the hospital experiences frequent subsequent adjustments that result in decreases to patient revenue, the hospital should re-assess whether its estimation process, including its application of the constraint, is appropriate.

Contributions

PROPOSED ASU TO CLARIFY GUIDANCE FOR CONTRIBUTIONS RECEIVED AND MADE BY NOT-FOR-PROFITS

ISSUE 1:

Reciprocal (Exchange) vs. Nonreciprocal
(nonexchange/Contribution)

Who receives the benefit

ISSUE 2:

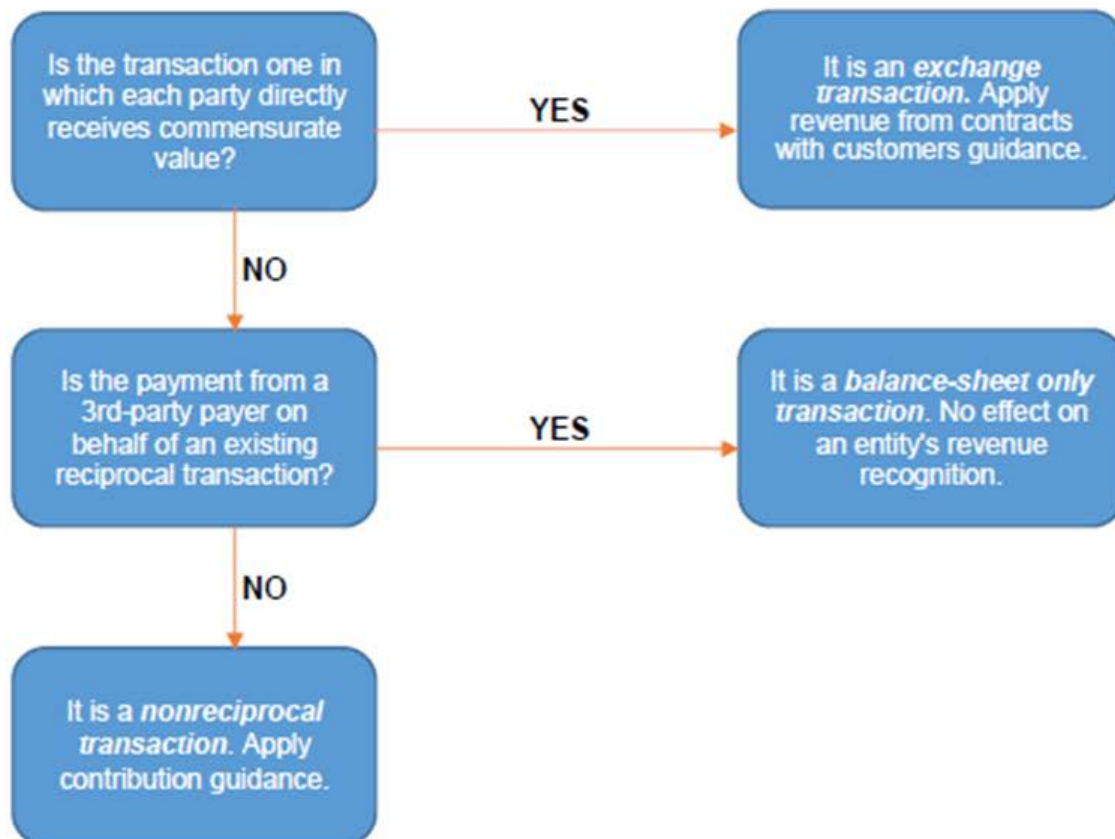
Conditional vs. Unconditional Contributions

- Right of return must exist
- Agreement must include a barrier

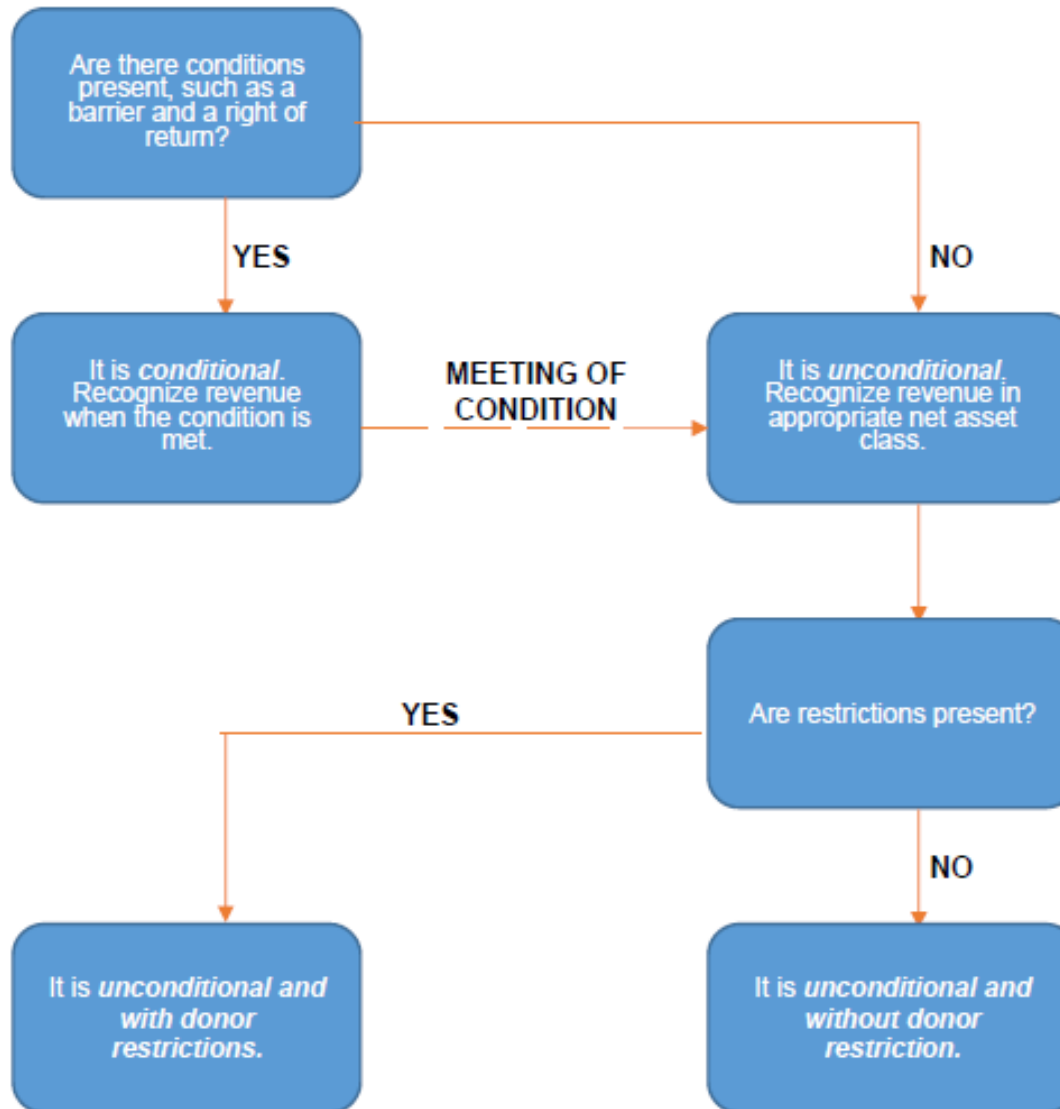
Comment period deadline November 1, 2017

FRAMEWORK FOR CLASSIFYING TRANSFERS OF ASSETS

STEP 1



STEP 2





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