



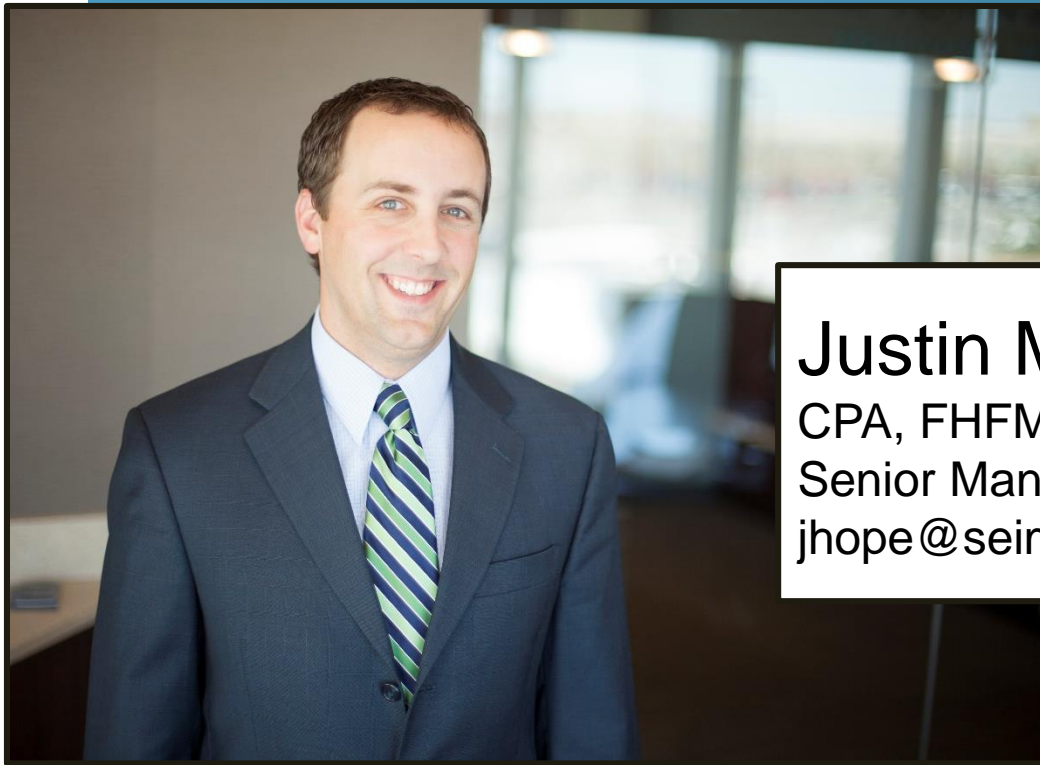
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Agenda

- Revenue Recognition Overview
- Healthcare Specific Application
- Footnote/Disclosure Changes
- Examples

Revenue Recognition Overview



- ASC 606 Revenue from Contracts with Customers
 - Replaces nearly all existing GAAP for revenue recognition
 - No effect on nonexchange transactions (contributions/grants) which remain under the scope of ASC 958-605
 - ASU 2018-08 issued June 2018 clarifies guidance regarding contributions and evaluating whether transactions are contributions or exchange transactions and whether contributions are conditional
 - Single approach to revenue recognition across all industries
 - All revenue recognition will follow the same 5 step process to evaluate timing and amounts to recognize, no more different pieces of GAAP for software, construction, real estate, etc.
 - Core concept: entities should recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods & services



- Public Business Entity and NFP conduit bond obligors
 - Annual periods beginning AFTER 12/15/17 (FYE's 12/31/18 and beyond)
 - Important distinction on conduit bonds – only NFP's whose conduit debt is traded on an exchange or is available over the counter meet the definition of Public Business Entity
 - Conduit debt that is privately placed would NOT trigger reporting in 12/31/18 FYE
- All others
 - Annual periods beginning AFTER 12/15/18 (FYE's 12/31/19 and beyond)



Five Step Revenue Recognition Model



1. Identify contract with customer
2. Identify performance obligations in contract
3. Determine transaction price
4. Allocate transaction price to the performance obligation(s)
5. Recognize revenue as performance obligation(s) satisfied



- **Contract:**
 - An agreement between two or more parties that creates enforceable rights and obligations
 - Must meet all of these criteria to be a contract:
 - Both parties have approved the contract
 - Each party's rights & obligations can be identified
 - Payment terms for the goods or services can be identified
 - Must have commercial substance
 - It is probable that the entity will collect consideration to which it is entitled



- Performance Obligation:
 - A promise to transfer to the customer a distinct good or service, or a bundle of distinct goods and services
 - Distinct – does the customer benefit from the good or service on its own, or together with other readily available resources; must be able to be separately identifiable from other goods or services in the contract





- Transaction price:
 - Amount of consideration the entity expects to be entitled to in exchange for the goods or services provided.
 - Consider:
 - Contract terms
 - Customary business practices (discounts)
 - Variable consideration & constraint (how well can you make the estimate)



- Variable Consideration:
 - Explicit:
 - Contractual adjustments
 - Discounts – self pay, prompt pay, etc.
 - Charity care & financial assistance
 - If pt. qualifies for charity care; you do not have a contract – no expectation of collection
 - No change to charity care recording/reporting process in this standard
 - Implicit:
 - Amounts uncollectible from patients – not bad debt any more!
 - Customary business practices (discounts/administrative adjustments)



Allocating Transaction Price



- Once transaction price is determined, it should be allocated to the performance obligations based on the relative standalone selling prices of the separate performance obligations in comparison with the total.
 - In practice, this will probably be no different than currently done; record standard charges, contractual adj's and discounts as always, end result is Patient Service Revenue for an encounter.



Recognizing Revenue



- Revenue is recognized when/as control of the goods/services (performance obligation/s) are transferred to the customer, in the amount of the transaction price allocated to the specific performance obligation/s
- Revenue may be recognized at a point in time, or over time
 - Rehab/therapies
 - Home Health
 - Skilled Nursing
 - Collectability issues discovered after starting a series of events would cause re-evaluation of transaction price, change in estimate





- Significant estimates required to record revenue
 - Estimates should be precise enough so that significant reversal of amounts previously recorded as revenue is not probable.
 - Changes in estimates or estimation process are increases or decreases in variable consideration, and flow through patient service revenue
 - Bad debt only occurs when specific event/s become known to the entity suggesting previously estimated transaction price is not recoverable
 - Passage of time is not necessarily cause for bad debts – need to have very scrutinizing process to determine what is collectable when recording revenue
- Third party settlements are part of variable consideration.
 - Differences from original estimate to final settlement are changes in the estimate of variable consideration, and affect patient service revenue in the period the settlement is final (consistent w/current GAAP).





- Identifying the contract – issues:
 - ER visits – patient may not be able to commit to their obligations (consent form, obligation to pay), and no information may be available about the pt. at time of service.
 - Will need additional information before revenue can be recognized (insurance status, etc., then have to go through transaction price estimation process)
 - Medicaid Pending – do you have enough info to have a contract w/Medicaid as a 3rd party payor? What if pt. never completes Mcaid paperwork?
 - Would need to discount/reserve very heavily on these until notified that accepted into Mcaid program. What is your “conversion” rate?
 - Charity care – no contract exists if you do not expect payment
 - When do you know this? Timing of revenue recognition (or not)
 - Otherwise, accounting treatment, disclosure consistent with current practice



- Determining transaction price – most complex area
- Factors affecting transaction price:
 - Variable consideration - explicit/implicit price concessions
 - Collectability/creditworthiness
 - Uninsured
 - HDHP
 - Payment plan
- Contract by contract basis, or portfolio method as practical expedient
 - Not an either or; can still assess certain patients on a contract by contract basis, and use portfolio method for others





- Allowable as a practical expedient vs. analyzing each individual contract
- Good idea to include patient accounts staff in the process of setting parameters of a portfolio, and the variable consideration estimates of the portfolios
- May need to create additional AR classes to appropriately track a portfolio
 - Uninsured Pt's vs. Pt balance post-insurance
- Needs reviewed and evaluated constantly
 - ZBA analysis





- Considerations for pooling accounts into a portfolio:
 - Sufficiency of information regarding a set of accounts
 - Homogeneity of the accounts
 - IP/OP/ER/SWB/SNF
 - Payor
 - Patient balance after insurance
 - PPO vs HDHP?
 - Self pay pools – may have different experience with different segments of self pay; if have enough similar accts, could create a portfolio
 - Age of the account





- Full retrospective application for all periods presented
- Modified retrospective
 - No restatement of PY, show cumulative effect of change in opening net assets as of date of initial application. No restatement of comparative periods.
 - Additional disclosures for comparability





- Objective is to disclose info to allow users of FS to understand nature, amount, timing and uncertainty of revenue and cash flow related to contracts with customers
 - Includes info on contracts, and the judgements and estimates used to determine revenue
- Consider the level of detail necessary to appropriately disclose above items, including aggregation/disaggregation of data





- HC Entity that is not public business entity or conduit bond obligor is exempted from some disclosure requirements
- Contract asset vs receivables
 - When one party to a contract has performed, have contract asset
 - When HCE has unconditional right to payment, subject *only* to passage of time, that right is a receivable
 - In house, DNFB/unbilled balances? Material?
 - Show contract asset separately from receivable
 - Third party settlement continue to show separate from Pt. AR





- Explain how the timing of satisfaction of its performance obligations relates to the typical timing of payment, and the effect those factors have on contract asset (liability) balances
- Disclosures re: performance obligations – disclosure that some PO's satisfied at the time of service, some over time (clinic visit vs IP services). Significant payment terms (when pmt due, variable consideration, constraints on estimate of VC).
- Much of this already addressed in footnotes





- Entity shall disclose revenue recognized in the reporting period from PO's satisfied in previous periods
 - 3rd party settlement releases – consistent w/current
 - Re-estimation/changes in transaction price
 - Change in evaluation of collectability of certain balances *might not* simply be bad debt, but rather changes in estimate that flow through NPSR.



- Disclose information about remaining performance obligations; transaction price allocated to unsatisfied PO; timing of recognition
 - In-house patients, multi visit procedures (home health), CCRC's, bundled payments
 - Exception when PO is part of contract with original expected duration of less than one year
- Not required for nonpublic entities





- Disclose judgements and changes in judgements that significantly affect determination of amount and timing of revenue from contracts.
 - Timing of satisfaction of performance obligations
 - Transaction price and amounts allocated to performance obligations
 - How explicit and implicit price concessions determined
 - When performance obligations are determined to be satisfied (inpatient vs outpatient)





- Performance obligations satisfied over time
 - Disclose methods used to recognize revenue (how is progress towards completion of performance obligation measured)
 - Explanation of why the method(s) used provide a faithful depiction of the transfer of goods or services
 - Not required for nonpublic entities





- Performance obligations satisfied at a point in time
 - Disclose significant judgements made in evaluating when a customer obtains control of goods/services
 - Not required for nonpublic entities



- Information about methods, inputs and assumptions used for:
 - Determining transaction price (variable consideration, implicit/explicit price concessions)
 - Assessing constraint variable consideration
 - Allocating transaction price, including estimation of standalone selling prices and allocations of discounts and variable consideration
 - Some of these addressed in footnotes already
 - Not required for nonpublic entities





- AICPA Financial Reporting Center
- <https://www.aicpa.org/interestareas/frc/accountingfinancialreporting/revenuerecognition.html>
- HFMA website/articles
- AICPA Audit & Accounting Guide – Health Care Entities (September 1, 2018)
- FASB website
- <https://www.fasb.org/revrec>



Examples and Discussion Items



- Example financial statements
- ZBA example

FINANCIAL STATEMENT EXAMPLE

	<u>PRE ASC 606</u>	<u>POST ASC 606</u>
<i>Gross patient service revenue</i>	\$ XXXXXXXX	XXXXXXX
<i>Less contractual allowances - gov't and commercial payors</i>	(XXXXXXX)	(XXXXXXX)
<i>Less charity care</i>	(XXXXXXX)	(XXXXXXX)
<i>Less contractual allowances - admin adj/discounts</i>	(XXXXXXX)	(XXXXXXX)
<i>Less self pay contractual allowance (implicit price concession)</i>	(XXXXXXX)	(XXXXXXX)
	<hr/>	<hr/>
REVENUE WITHOUT DONOR RESTRICTIONS:		
Net patient service revenue before provision for bad debts	\$ XXXXXXXXXX	
Provision for bad debts	(XXXXXX)	
	<hr/>	
Patient service revenue	XXXXXXXXXX	XXXXXXXXXX
Wellness center	XXX	XXX
Other	XXX	XXX
	<hr/>	<hr/>
Total revenue without donor restrictions	XXXXXXXXXX	XXXXXXXXXX
	<hr/>	<hr/>
EXPENSES:		
Salaries and wages	XXXXXXXXXX	XXXXXXXXXX
Employee benefits	XXXXXXXXXX	XXXXXXXXXX
Professional fees and purchased services	XXXXXXXXXX	XXXXXXXXXX
Supplies	XXXXXXXXXX	XXXXXXXXXX
Other	XXXXXXXXXX	XXXXXXXXXX
Interest	XXXXXXXXXX	XXXXXXXXXX
Insurance	XXXXXXXXXX	XXXXXXXXXX
Depreciation	XXXXXXXXXX	XXXXXXXXXX
Bad debt expense	XXXXXXXXXX	XXXXXXXXXX ***
	<hr/>	<hr/>
Total expenses	XXXXXXXXXXXXX	XXXXXXXXXXXXX
	<hr/>	<hr/>
OPERATING INCOME	XXXXXXXXXXXXX	XXXXXXXXXXXXX
	<hr/>	<hr/>

*** Represents amounts that were reasonably expected to be collected and were not. Items initially meeting the requirements to be recorded as revenue that were not subsequently collected. It is anticipated that this number will be significantly smaller than the amount typically recorded as provision for bad debts in arriving at NPSR under the old format.

ZBA EXAMPLE

		A	B	C	D	E
Carrier	IOE	CHARGES	INS PMTS	PT PMTS	ADJUSTMENTS	BAD DEBT
Blue Cross	I	37,207,860	(32,379,332)	(1,246,950)	(3,319,988)	(261,589)
Blue Cross	O	51,591,309	(40,283,265)	(5,250,291)	(4,865,247)	(1,192,506)
Blue Cross Total		88,799,169	(72,662,597)	(6,497,241)	(8,185,235)	(1,454,095)
Medicaid	I	10,142,228	(2,526,785)	(49,823)	(6,815,861)	(749,760)
Medicaid	O	14,068,574	(3,196,272)	(24,245)	(10,727,420)	(120,637)
Medicaid Total		24,210,802	(5,723,057)	(74,068)	(17,543,281)	(870,396)
Medicare	I	73,192,285	(29,467,150)	(75,864)	(43,592,497)	(56,774)
Medicare	O	79,744,613	(16,887,791)	(150,326)	(62,603,283)	(103,213)
Medicare Total		152,936,898	(46,354,941)	(226,190)	(106,195,779)	(159,988)
Medicare HMO's	I	6,756,134	(2,614,754)	(113,115)	(4,005,753)	(22,512)
Medicare HMO's	O	6,720,289	(1,065,620)	(140,557)	(5,496,279)	(17,833)
Medicare HMO's Total		13,476,423	(3,680,374)	(253,672)	(9,502,032)	(40,345)
Self EPC Transfer Total		2,831,048	-	(676,993)	(2,129,209)	(24,846)
Self Pay	I	1,525,535		(94,927)	(24,011)	(1,406,596)
Self Pay	O	5,152,626		(265,667)	(85,331)	(4,801,628)
Self Pay Total	0.00%	6,678,161	-	(360,594)	(109,343)	(6,208,223)
Other PPO	I	931,868	(748,560)	(44,466)	(106,772)	(32,070)
Other PPO Total	O	1,689,399	(1,121,704)	(191,745)	(279,791)	(96,159)
Other PPO Total		2,621,267	(1,870,264)	(236,211)	(386,563)	(128,228)
Other	I	1,834,462	(705,441)	(4,096)	(1,117,123)	(7,802)
Other Total	O	5,372,935	(1,614,522)	(93,078)	(3,639,537)	(25,799)
Other Total		7,207,398	(2,319,963)	(97,174)	(4,756,660)	(33,601)
WorkComp/TPL	I	1,017,978	(433,671)	(13,441)	(538,474)	(32,391)
WorkComp/TPL Total	O	3,384,261	(2,353,511)	(75,189)	(731,476)	(224,085)
WorkComp/TPL Total		4,402,239	(2,787,182)	(88,630)	(1,269,950)	(256,476)
Patient responsibility pos insurance		10,416,316		(7,473,186)		(2,943,130)
			pt pmt plus bad debt			

ZBA EXAMPLE

Carrier	(B+D)/A	(C+E)/A	D/A	E/(C+E)	add 3% cushion	Add 3% cushion
	Payor responsibility	Pt responsibility	Payor C/A	Pt bad debt	C/A	bad debt
Blue Cross	96%	4%	9%	17%	12%	20%
Blue Cross	88%	12%	9%	19%	12%	22%
Blue Cross Total	91%	9%	9%	18%	12%	21%
Medicaid	92%	8%	67%	94%	70%	97%
Medicaid	99%	1%	76%	83%	79%	86%
Medicaid Total	96%	4%	72%	92%	75%	95%
Medicare	100%	0%	60%	43%	63%	46%
Medicare	100%	0%	79%	41%	82%	44%
Medicare Total			69%	41%	72%	44%
Medicare HMO's	98%	2%	59%	17%	62%	20%
Medicare HMO's	98%	2%	82%	11%	85%	14%
Medicare HMO's Total	98%	2%	71%	14%	74%	17%
Self EPC Transfer Total	0%	100%	0%	76%		79%
Self Pay	0%	100%		94%		97%
Self Pay	0%	100%		95%		98%
Self Pay Total	2%	98%		95%		98%
Other PPO	92%	8%	11%	42%	14%	45%
	83%	17%	17%	33%	20%	36%
Other PPO Total	86%	14%	15%	35%	18%	38%
Other	99%	1%	61%	66%	64%	69%
	98%	2%	68%	22%	71%	25%
Other Total	98%	2%	66%	26%	69%	29%
WorkComp/TPL	95%	5%	53%	71%	56%	74%
	91%	9%	22%	75%	25%	78%
WorkComp/TPL Total	92%	8%	29%	74%	31%	76%
Patient responsibility pos insurance				28%		31%

		PER AR REPORT, incl unbilled	ZBA C/A plus 3%	Est reserve	
Blue Cross	I	3,586,457	12%	430,374.84	
Blue Cross	O	8,647,682	12%	1,037,721.84	
Blue Cross Total	TTL	<u>12,234,139</u>		1,468,097	Reserve for C/A
Medicaid	I	1,022,978	68%	695,625	
Medicaid	O	927,842	77%	714,438	
Medicaid Total	TTL	<u>1,950,820</u>		1,410,063	Reserve for C/A
Medicare	I	8,432,128	61%	5,143,598	
Medicare	O	7,467,706	80%	5,974,165	
Medicare Total	TTL	<u>15,899,834</u>		11,117,763	Reserve for C/A
Medicare HMO's	I	1,111,186	60%	666,712	
Medicare HMO's	O	893,436	83%	741,552	
Medicare HMO's Total	TTL	<u>2,004,622</u>		1,408,263	Reserve for C/A
Pt Responsibility Post Insurance	TTL	5,907,228	31%	1,831,241	
Self Pay Total	TTL	<u>7,218,273</u>	98%	<u>7,073,908</u>	
		13,125,501		8,905,148	Reserve for Self Pay C/A (implicit price concession)
Other PPO Total	TTL	900,694	16%	144,111	Reserve for C/A
Other Total	TTL	3,487,811	67%	2,336,833	Reserve for C/A
WorkComp/TPL Total	TTL	<u>711,097</u>	30%	213,329	Reserve for C/A
TOTAL AR		50,314,518		27,003,608	
Pt Bal after insurance >120		<u>3,580,253</u>	69%	<u>2,470,375</u>	Reserve for Self Pay C/A (implicit price concession)
				29,473,983	TOTAL AR NRV RESERVES

			ZBA	ZBA	ZBA	ZBA		
		PER AR REPORT, incl unbilled	Payor responsibility	PT Responsibility	C/A plus 3%	Pt bad debt plus 3%	Est Reserve C/A	Est Reserve Self Pay C/A
Blue Cross	I	3,586,457	3,442,999	143,458	12%	20%	413,160	28,692
Blue Cross	O	8,647,682	7,609,960	1,037,722	12%	22%	913,195	228,299
Blue Cross Total	TTL	12,234,139	11,052,959	1,181,180			1,326,355	256,990
Medicaid	I	1,022,978	941,140	81,838	70%	97%	658,798	79,383
Medicaid	O	927,842	918,564	9,278	79%	86%	725,665	7,979
Medicaid Total	TTL	1,950,820	1,859,703	91,117			1,384,463	87,363
Medicare	I	8,432,128	8,432,128	-	63%	46%	5,312,241	-
Medicare	O	7,467,706	7,467,706	-	82%	44%	6,123,519	-
Medicare Total	TTL	15,899,834	15,899,834	-			11,435,760	-
Medicare HMO's	I	1,111,186	1,088,962	22,224	62%	20%	675,157	4,445
Medicare HMO's	O	893,436	875,567	17,869	85%	14%	744,232	2,502
Medicare HMO's Total	TTL	2,004,622	1,964,530	40,092			1,419,389	6,946
Pt Responsibility Post Insurance	TTL	5,907,228	-	5,907,228	0%	31%		1,831,241
Self Pay Total	TTL	7,218,273	-	7,218,273	0%	98%		7,073,908
		13,125,501	-	13,125,501				8,905,148
Other PPO Total	TTL	900,694	774,597	126,097	18%	38%	139,427	47,917
Other Total	TTL	3,487,811	3,418,054.78	69,756	69%	29%	2,358,458	20,229
WorkComp/TPL Total	TTL	711,097	654,209	56,888	32%	77%	209,347	43,804
TOTAL AR		50,314,518	35,623,887	14,690,631			18,273,199	9,368,397
Pt Bal after insurance >120		3,580,253		3,580,253		69%		2,470,375
							18,273,199	11,838,772
							30,111,971	
							TOTAL AR NRV RESERVES	



Q AND A



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