



REVENUE RECOGNITION STANDARD AND APPLICATION UPDATE

HFMA MID-SOUTH
INSTITUTE

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REVENUE RECOGNITION UPDATE

- Agenda
 - Public/Non-public confusion
 - Standard Overview
 - Healthcare specific implementation issues

HORNE PUBLIC/NON-PUBLIC CONFUSION

Competitive bid	Negotiated sale	Private placement
<ul style="list-style-type: none"> • Security is sold to the underwriter who submits the best offer. • Underwriter then resells securities to the general public. 	<ul style="list-style-type: none"> • Price is negotiated with the underwriter. • Underwriter then resells securities to the general public. 	<ul style="list-style-type: none"> • Securities sold only to “qualified investors.”
Deemed to be public		Not public

“Municipal bonds issued in negotiated sales or competitive bids **are deemed to be traded in public markets**; thus, conduit borrowers under those arrangements are considered public entities for purposes of providing certain disclosures under accounting standards.”

PWC. (July 20, 2017). Not-for-profit entities. Current accounting and reporting developments webcast series

HORNE Revenue Standard Overview

WHAT IS THE CORE PRINCIPLE OF THE NEW STANDARD?

To meet that objective, the new guidance establishes the following core principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

A company should apply the following five steps to achieve the core principle:

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graph LR
    A[Identify the contract with a customer] --> B[Identify the performance obligations (promises) in the contract]
    B --> C[Determine the transaction price]
    C --> D[Allocate the transaction price to the performance obligations in the contract]
    D --> E[Recognize revenue when (or as) the reporting organization satisfies a performance obligation]
  
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FASB. Revenue Recognition. What is the core principle of the new standard. Retrieved from http://www.fasb.org/iso/FASB/Page/ImageBridgePage&cid=1176169257359#section_2



Revenue Standard Overview

- Fixed
- Variable
 - Some or all of an amount of estimated variable consideration should be considered in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved



Implementation Issue No. 1

- Healthcare services provided to patients, including uninsured patient balances and self-pay patient balances arising from co-payments and deductibles.
- Step 1 (determine if there is a contract)
 - Enforceable contract
 - Patient committed to perform obligations
 - Will collect substantially all of the consideration



Implementation Issue No. 1

- Step 3 (determine the transaction price)
 - Implicit price concessions
 - Subsequent changes in price estimate
 - Impairment loss or bad debt
 - Other consideration



Implementation Issue No. 1

- Urgent Care Clinic sees an existing insured patient with a high deductible plan.
 - \$5,000 in gross charges
 - \$3,000 in contractual adjustments
- \$2,000 patient responsibility
- Historical experience of 10% patient collections
- \$200 in net patient revenue



Implementation Issue No. 2

- Application of the portfolio approach to contracts with patient
 - Service provided
 - Payor
 - Plan type
 - Time of year



Implementation Issue No. 2

- Urgent Care Clinic sees Blue Cross insured patients
 - \$500,000 in gross charges
 - \$300,000 in contractual adjustments
- 50% high deductible plans with average deductibles of 50% of charges
- 50% standard plans with average deductibles of 20% of charges
- Historical experience of 50% HDP and 25% all other patient collections
- \$160,000 in net patient revenue



Implementation Issues No. 3 - 5

- Continuing Care Retirement Communities
 - Identifying and satisfying the performance obligation(s) and recognizing the monthly/periodic fees and nonrefundable entrance fees under Type A or “life care” contracts for continuing care retirement communities
 - Identifying the performance obligation(s) and recognizing the performance obligation(s) to provide future services and use of facilities
 - Significant financing component - CCRC contracts, and patient and third-party payor amounts in arrears



Implementation Issue No. 6

- Disclosure requirements of ASU No. 2014-09
 - Contracts with Customers
 - Significant judgements and changes in the judgements
 - Assets recognized from cost to obtain contracts
 - Disaggregation of disclosures
 - By payor type
 - Timing of transfer of services
- Nonpublic exemption



Implementation Issue No. 6

- For the years ended December 31, 20x2 and 20x1, additional revenue of \$xxx and \$xxx, respectively, was recognized due to changes in its estimates of implicit price concessions for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 20x2 and 20x1 was not significant.

AICPA. (n.d.) Issue 8-6- Presentation and Disclosure. Health Care Entities Revenue Recognition Task Force. Retrieved from <http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-HealthCare.aspx>



Implementation Issue No. 6

The composition of patient care service revenue by payor for the years ended December 31 is as follows:

	20x2	20x1
Medicare	\$ 16,000	\$ 15,000
Medicaid	6,000	5,000
Managed care	11,000	10,500
Other insurers	4,000	3,500
Self-pay deductibles and coinsurance	1,000	1,000
Uninsured	800	900
Other	<u>1,000</u>	<u>1,000</u>
	<u>\$ 39,800</u>	<u>\$ 36,900</u>

AICPA. (n.d.) Issue 8-6- Presentation and Disclosure. Health Care Entities Revenue Recognition Task Force. Retrieved from <http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-HealthCare.aspx>



Implementation Issue No. 6

The composition of patient care service revenue based on the regions of the country the Organization operates in, its lines of business, and timing of revenue recognition for the years ended December 31, 20x2 and 20x1 are as follows:

	20x2			Total
	Northeast	Central	Southeast	
Services lines:				
Hospital	\$ 6,000	\$ 4,000	\$ 7,000	\$ 17,000
Nursing home and senior care	4,000	-	2,000	6,000
Physician services	3,000	4,000	5,000	12,000
Home health and hospice	1,000	800	2,000	3,800
Other	400	200	400	1,000
	<u>\$14,400</u>	<u>\$ 9,000</u>	<u>\$ 16,400</u>	<u>\$ 39,800</u>
Timing of revenue and recognition:				
At time services are rendered	\$ 5,400	\$ 3,500	\$ 8,400	\$ 17,300
Services transferred over time	9,000	5,500	8,000	22,500
	<u>\$14,400</u>	<u>\$ 9,000</u>	<u>\$ 16,400</u>	<u>\$ 39,800</u>

AICPA. (n.d.) Issue 8-6- Presentation and Disclosure. Health Care Entities Revenue Recognition Task Force. Retrieved from <http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-HealthCare.aspx>



Implementation Issue No. 7

- Accounting for contract costs



Implementation Issue No. 8 Working Draft

- Third party settlement estimates
 - Contract with customer versus provider agreement
 - Variable Consideration
 - Expected value method
 - Most likely amount method
 - Constraints of variable estimate
 - Reassessment of variable consideration
 - Significant financing component
 - Recovery audit contractor program



Implementation Issue No. 8 Working Draft

- The Medicare transaction price before adjustment is \$50 million based on contracts included in the determination of the third party settlement

Possible adjustment amounts	Probability	Probability-weighted amounts	Medicare transaction price (as adjusted for variable consideration)
\$ -	20%	\$ -	
1,000,000	55%	550,000	
3,000,000	15%	450,000	
5,000,000	10%	<u>500,000</u>	
		\$ 1,500,000	\$ 48,500,000

AICPA. (n.d.) Issue 8-8- Consideration of FASB ASC 606, *Revenue from Contracts with Customers*, for third party settlements Health Care Entities Revenue Recognition Task Force. Retrieved from <http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-HealthCare.aspx>



Implementation Issue No. 8 Working Draft

Possible additional payments	Description
\$3,000,000	Hospital X has a Medicare DSH percentage equal to or in excess of 20.2%. Based on the relevant statutory formula and the amount of Medicare payments received during the year, Hospital X expects to receive \$3,000,000 in additional payments.
\$1,200,000	Hospital X has a Medicare DSH percentage between 15% and 20.1%. Based on the relevant statutory formula and the amount of Medicare payments received during the year, Hospital X expects to receive \$1,200,000 in additional payments.
\$0	Hospital X has a Medicare DSH percentage less than 15% and is therefore not eligible to receive any additional payments.

- Based on their experience, Hospital X has historically exceeded the 20.1% DSH percentage threshold. Therefore, management believes the most likely amount of consideration related to DSH is \$3,000,000.

AICPA. (n.d.) Issue 8-8- Consideration of FASB ASC 606, Revenue from Contracts with Customers, for third party settlements Health Care Entities Revenue Recognition Task Force. Retrieved from <http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-HealthCare.aspx>



Implementation Issue No. 9 Working Draft

- Risk Sharing Arrangements (i.e. Bundles, ACO incentives)
 - Contracts with outside providers
 - Future cash flows
 - Timing of services
 - Care coordination activities
 - Portfolio approach
 - Performance year grouping
 - Availability of data
 - Interim reporting considerations



Implementation Issue No. 10 Working Draft

- Performance obligations
 - Identifying
 - Determining timing
 - Measuring progress toward completion
 - Consideration of contract terms



Revenue Recognition

- Additional Resources
 - <http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition/Pages/RRTF-HealthCare.aspx>
 - <http://www.aicpastore.com/Accounting/IndustryspecificGuidance/DepositLending/revenue-recognition--audit-and-accounting-guide/PRDOVR~PC-012516/PC-012516.jsp>



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JT provides assurance services to the healthcare industry with HORNE LLP.

JT joined the firm in 2006 and has experience in the manufacturing and distribution, healthcare, not-for-profit, government contractor industries, internal audit and Sarbanes-Oxley consulting.

He graduated from The University of Southern Mississippi with a Bachelor of Science in Business Administration and a Master of Professional Accountancy.

Professional Affiliations

- American Institute of Certified Public Accountants
- Mississippi Society of Certified Public Accountants
- Healthcare Financial Management Association

Community Involvement

- University of Southern Mississippi Accounting Constituent Society
- University of Southern Mississippi School of Accounting Advisory Board
- United States Coast Guard Veteran



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