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Crowe Healthcare Virtual Symposium

Navigating Healthcare
Revenue Recognition Update

March 15, 2017

Andrew Holloway
Brian Murray

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Presenters

Today's Healthcare Industry Speakers

Andrew Holloway

Andrew is a senior manager within Crowe based in the Indianapolis office. He is a Certified Healthcare Finance Professional (CHFP), and has spent eleven years as part of the healthcare advisory services team.

Brian Murray, CPA

Brian is a director in our healthcare audit group and focuses his time auditing hospitals, health systems, and physician practice organizations. He is a member of the AICPA's Health Care Entities Task Force.

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Agenda

- Revenue Recognition Developments
- Five-Step Model to Recognize Revenue
- Transition to New Standard
- Implementation Recommendations
- Net Revenue Modeling Considerations
- Crowe Revenue Cycle Analytics (RCA) Overview

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Revenue Recognition Developments

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Revenue Recognition Task Force Update

Overall Status by Industry										
Ref.	Industry	Total Number of Identified Implementation Issues	Submitted to AICPA RRWG	Submitted to FinREC	Submitted to FASB TRG (as applicable)	Total # Tech Corrections Submitted to FASB TRG	Posted to AICPA Website for Exposure	Resubmitted to AICPA RRWG	Resubmitted to FinREC	Finalized for Guides
1	A&D	13	13	11	1		10	9	9	9
2	Airlines	15	14	6			5	4		
3	Broker Dealers	9	6	6	1		3	3	1	1
4	Engineering & Construction	9	4	3	1		3			
5	Depository	2	1	1	1		1	1		
6	Gaming	16	12	7	1		7	4	3	1
7	Healthcare	9	8	3	1		2	2	2	2
8	Hospitality	8	4		1					
9	Insurance	3	2	1	1	1	1			
10	Investment Asset Management	9	8	8	1		4	4	4	2
11	Not-for-Profit	4	4	3		1	3	3	3	3
12	Oil & Gas	3	3							
13	Power Utility	11	11	1	1					
14	Software	13	7	6	1		6	1	1	1
15	Telecomm	12	12	7	2		3	3	1	
16	Timeshare	9	6	3			1			
	TOTALS	**145**	**115**	**66**	**13**	**2**	**51**	**34**	**24**	**19**

Source: AICPA – February 1, 2017

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Revenue Recognition Task Force Update (Cont'd)

Issue #	Description of Implementation Issue	Status
1	Consideration of the following regarding self-pay balances:	
	Application of step 1 (determine if there is a contract) and step 3 (determine the transaction price) for healthcare services provided to self-pay patients, including uninsured patient balances and self-pay patient balances arising from co-payments and deductibles. This implementation issue will discuss evaluating whether a contract exists and what (including consideration of implicit price concessions) the transaction price is to arrangements for health care services provided to self-pay patients and balances arising from co-payments and deductibles.	Finalized to be included in the April 15, 2017 online edition of the AICPA Audit and Accounting Guide *Revenue Recognition*
1a.	**Implicit price concessions** This implementation issue, being submitted to the TRG, provides two views over the initial accounting for implicit price concessions for services provided to uninsured patients and two views for the subsequent accounting for these types of contracts and whether changes in the estimates of variable consideration represent changes in price concessions or impairments.	Submitted to FASB TRG
2	**Application of the portfolio approach to contracts with patient** This implementation issue will discuss how to apply the portfolio approach to revenue from self-pay patients and third party payors.	Finalized to be included in the April 15, 2017 online edition of the AICPA Audit and Accounting Guide *Revenue Recognition*
3	**CCRC: 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** This implementation issue will discuss the performance obligations under a typical Type A (life care) continuing care retirement community (CCRC) resident agreement and, given these performance obligations, how a Type A CCRC will estimate a transaction price and recognize nonrefundable entrance fees and monthly/periodic fees received from residents under the new model.	Re-submitted to AICPA RRWG
4	**CCRC: Identifying the performance obligation(s) and recognizing the performance obligation(s) to provide future services and use of facilities** This implementation issue will describe the changes to a continuing care retirement community's calculation of the obligation to provide future services and use of facilities as a result of the new model.	Re-submitted to AICPA RRWG
5	**Significant financing component - CCRC contracts, and patient and third-party payor amounts in arrears** This implementation issue will discuss how CCRCs assess whether a significant financing component exists in determining the transaction price for its resident contracts, as well as how CCRCs and other healthcare entities will assess whether a significant financing component is applicable to patient and third-party payor amounts in arrears.	Re-submitted to AICPA RRWG
6	**Disclosure requirements of ASU No. 2014-09** This implementation issue will discuss judgements related to disclosure requirements under ASC 606 for health care entities.	Re-submitted to AICPA RRWG
7	**Accounting for contract costs** This implementation issue will discuss how health care organizations will account for certain costs of acquiring and fulfilling contracts under the new model.	Submitted to FinREC - September 2015
8	**Consideration of FASB ASC 606, Revenue from Contracts with Customers, for third party settlement estimates** This implementation issue will discuss how health care organizations will account for revenue earned under arrangements with government programs (for example, Medicare or Medicaid), which typically contain a variable element that requires providers to estimate the cash flows ultimately expected to be received for services provided.	Submitted to AICPA RRWG
9	**Bundled Payments** TThis implementation issue will discuss the interplay between health care organizations and healthcare providers that receive fee for service payments from the Centers for Medicare and Medicaid Services for services provided to Medicare patients.	Submitted to FinREC - September 2015
10	**Performance Obligations** This implementation issue will discuss how health care organizations (other than CCRCs) need to identify the promised goods and services in a contract with a patient and determine which of them represent separate performance obligations in order to apply the revenue recognition guidance.	

Source: AICPA – March 7, 2017

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Revenue Recognition
Task Force Update (Cont'd)

- AICPA released an updated Revenue Recognition Guide January 2017. This did not include the two Healthcare finalized implementation issues (8-1 and 8-2).
- AICPA anticipates these two issues (and along with any others finalized) to be incorporated into the second edition of the Revenue Recognition Guide that will be published in April 2017.
- Based on implementation issue 8-6 discussions, a new sub group has been formed related to Bundled Payments (8-9) and Performance Obligation Payments (8-10).
- Issue 8-9 and 8-10 drafts are expected to be submitted to the RRWG in April 2017.

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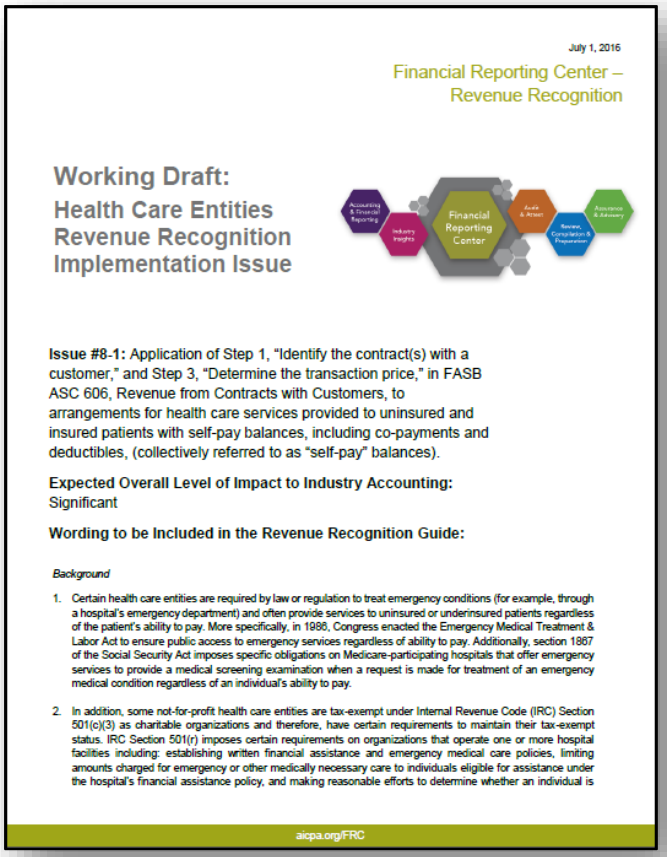
Revenue Recognition
Task Force Update (Cont'd)



July 1, 2016

Financial Reporting Center – Revenue Recognition

Working Draft:
Health Care Entities Revenue Recognition Implementation Issue

Issue #8-1: Application of Step 1, "Identify the contract(s) with a customer," and Step 3, "Determine the transaction price," in FASB ASC 606, Revenue from Contracts with Customers, to arrangements for health care services provided to uninsured and insured patients with self-pay balances, including co-payments and deductibles, (collectively referred to as "self-pay" balances).

Expected Overall Level of Impact to Industry Accounting:
Significant

Wording to be Included in the Revenue Recognition Guide:

Background

1. Certain health care entities are required by law or regulation to treat emergency conditions (for example, through a hospital's emergency department) and often provide services to uninsured or underinsured patients regardless of the patient's ability to pay. More specifically, in 1986, Congress enacted the Emergency Medical Treatment & Labor Act to ensure public access to emergency services regardless of ability to pay. Additionally, section 1867 of the Social Security Act imposes specific obligations on Medicare-participating hospitals that offer emergency services to provide a medical screening examination when a request is made for treatment of an emergency medical condition regardless of an individual's ability to pay.

2. In addition, some not-for-profit health care entities are tax-exempt under Internal Revenue Code (IRC) Section 501(c)(3) as charitable organizations and therefore, have certain requirements to maintain their tax-exempt status. IRC Section 501(r) imposes certain requirements on organizations that operate one or more hospital facilities including: establishing written financial assistance and emergency medical care policies, limiting amounts charged for emergency or other medically necessary care to individuals eligible for assistance under the hospital's financial assistance policy, and making reasonable efforts to determine whether an individual is

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- 8-1 Expected impact level: Significant
- Assessment of a patient's intent and ability to pay when due; if it is not probable, a contract may not exist.
- Entities may be able to estimate an outcome based on sufficient historical evidence
- Recognize revenue only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved

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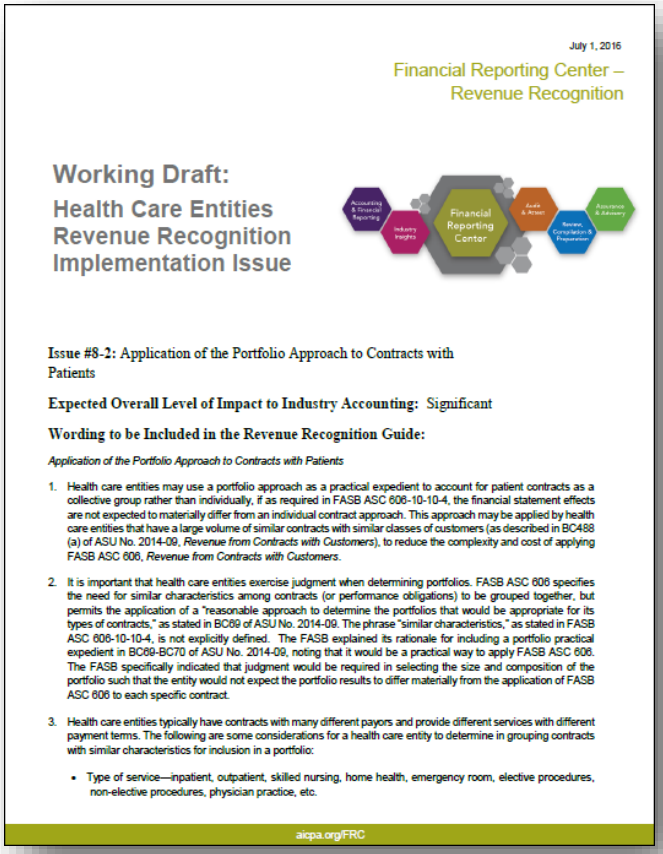
Revenue Recognition
Task Force Update (Cont'd)



July 1, 2016

Financial Reporting Center –
Revenue Recognition

Working Draft:
Health Care Entities Revenue Recognition Implementation Issue

Issue #8-2: Application of the Portfolio Approach to Contracts with Patients

Expected Overall Level of Impact to Industry Accounting: Significant

Wording to be Included in the Revenue Recognition Guide:

Application of the Portfolio Approach to Contracts with Patients

1. Health care entities may use a portfolio approach as a practical expedient to account for patient contracts as a collective group rather than individually, if as required in FASB ASC 606-10-10-4, the financial statement effects are not expected to materially differ from an individual contract approach. This approach may be applied by health care entities that have a large volume of similar contracts with similar classes of customers (as described in BC488 (a) of ASU No. 2014-09, *Revenue from Contracts with Customers*), to reduce the complexity and cost of applying FASB ASC 606, *Revenue from Contracts with Customers*.

2. It is important that health care entities exercise judgment when determining portfolios. FASB ASC 606 specifies the need for similar characteristics among contracts (or performance obligations) to be grouped together, but permits the application of a "reasonable approach to determine the portfolios that would be appropriate for its types of contracts," as stated in BC69 of ASU No. 2014-09. The phrase "similar characteristics," as stated in FASB ASC 606-10-10-4, is not explicitly defined. The FASB explained its rationale for including a portfolio practical expedient in BC69-BC70 of ASU No. 2014-09, noting that it would be a practical way to apply FASB ASC 606. The FASB specifically indicated that judgment would be required in selecting the size and composition of the portfolio such that the entity would not expect the portfolio results to differ materially from the application of FASB ASC 606 to each specific contract.

3. Health care entities typically have contracts with many different payors and provide different services with different payment terms. The following are some considerations for a health care entity to determine in grouping contracts with similar characteristics for inclusion in a portfolio:

   - Type of service—inpatient, outpatient, skilled nursing, home health, emergency room, elective procedures, non-elective procedures, physician practice, etc.

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- 8-2 Expected impact level: Significant
- Portfolio approach is a "practical expedient" to account for patient contracts as a collective group; the financial statement effects are not expected to materiality differ from an individual contact approach.
- Need to exercise judgment when determining portfolios and portfolio classes
- Contracts must be of similar size and composition - "share similar characteristics"

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Polling Question #1

What stage best summarizes your organization's current efforts to assess the impacts of the new standard?

a. Have not started

b. Initial planning stages: Task Force or Rev Rec Committee formed, Research, Assessments being performed, etc.

c. Currently evaluating our contracts and portfolio methodology: determining the potential revenue recognition impact and have begun to implement change

d. Feel we are fully ready for the impact of the new standard

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Five-Step Model to Recognize Revenue

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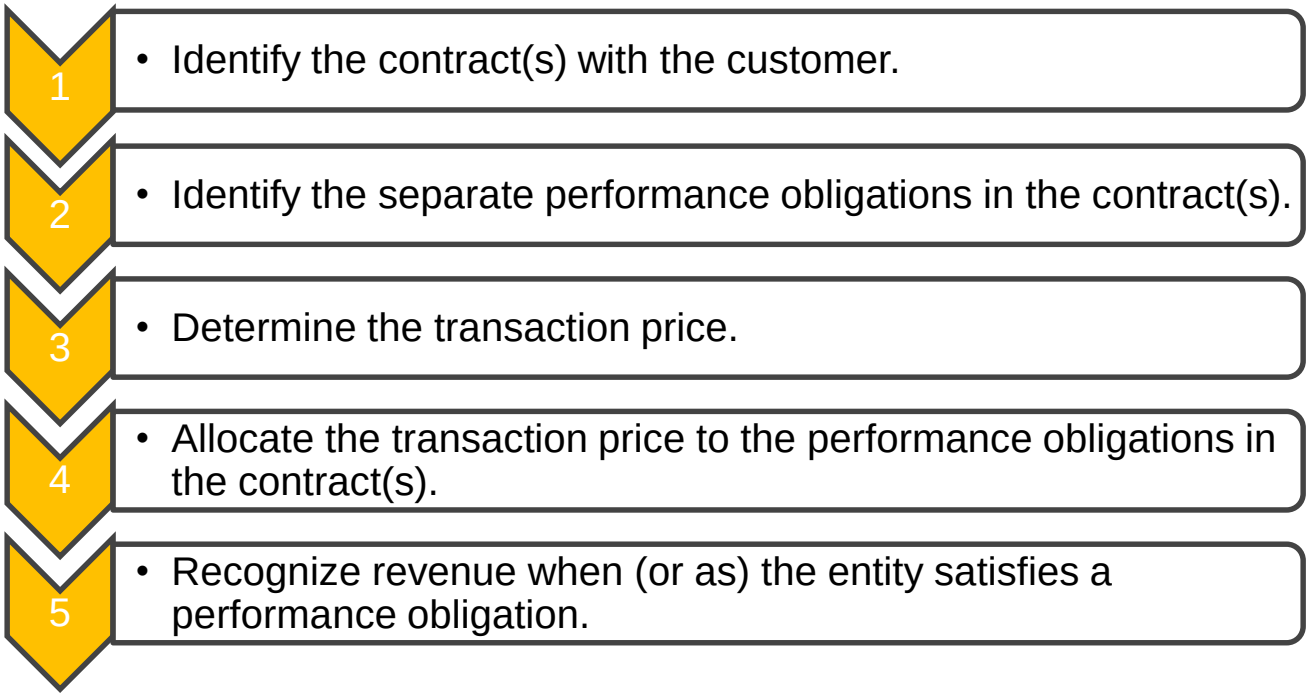
New Five-Step Model to Recognize Revenue (Cont'd)



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Five-Step Model to Recognize Revenue
Step 1: Identify the contract(s) with the customer

1

A contract:

- An agreement between two or more parties that creates enforceable rights
- May be oral or even implied by the organization's customary business practices

Under the model, a contract exists when all criteria are met:

- The contract is approved by both parties;
- Each party's rights to transfer the goods or services can be identified;
- The payment terms for the goods or services can be identified;
- The contract has commercial substance;
- It is probable the entity will collect the consideration to which it will be entitled to. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount when due. The amount of consideration may be less than the price stated in the contact if the consideration is variable because the entity may offer the customer a price concession.

If a contract does not meet the criteria, an entity would continue to reassess

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Five-Step Model to Recognize Revenue
Step 2: Identify the performance obligations in the contract

2

An entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer.

- Identify goods or services that are distinct
- Guidance specifies accounting for contracts on an individual basis
- As a practical expedient, an entity may apply this guidance to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects would not differ materiality from applying this guidance to each individual contract within the portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

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Five-Step Model to Recognize Revenue
Step 3: Determine the transaction price

3

The transaction price is the amount to which an entity expects to be “entitled.”

Variable consideration:

- If the consideration price can vary, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only to the extent that is it probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved.
- The transaction price must be estimated and updated at each reporting date
- Constraining estimates

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Five-Step Model to Recognize Revenue
Step 3: Determine the transaction price (Cont'd)

3

The transaction price is the amount to which an entity expects to be "entitled."

Constraining estimates of Variable Consideration:

- In assessing whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:
  - The amount of consideration is highly susceptible to factors outside the entity's influence (market volatility, judgment or actions of third-parties, etc.)
  - The uncertainty about the amount of consideration is not expected to be resolved for a long period of time
  - The entity's experience (or other evidence) with similar types of contracts is limited, or that experience has limited predictive value
  - The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances
  - The contract has a large number or broad range of possible consideration amounts

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Five-Step Model to Recognize Revenue
Step 4: Allocate the transaction price

4

The transaction price should be allocated to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the seller expects to be entitled in exchange for transferring the good or service to the customer

If more than one performance obligation exists, consideration should be allocated based on the relative stand-alone selling prices of the goods or services at the inception of the contract

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Five-Step Model to Recognize Revenue
Step 5: Recognize revenue

5

Revenue is recognized when (or as) performance obligations are satisfied by transferring a promised good or service (that is, an asset) to a customer.

- Performance obligations may be satisfied either at a single point in time or over a period of time
- A good or service is transferred over time and revenue is recognized over time if **one** of the following criteria is met:
  - The customer or patient simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs
  - The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced
  - The entity's performance does not create an asset with alternative use to the entity, **and** the entity has an enforceable right to payment for performance completed to date

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Polling Question #2

The FASB noted variable consideration can result from which of the following under the new standard?

a. An entity's experience with similar types of contracts having limited predictive value

b. Having a large number or broad range of possible outcomes

c. A practice of offering price concessions and / or changing payments terms and conditions for similar contracts in similar circumstances

d. All of the above

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Bad Debt Expense

Current Guidance:

The collectability assessment does not affect revenue recognition; it only affects the presentation of bad debt expense on the income statement.

- For entities that pre-qualify patients for services: an uncollectible amount would likely be recognized as bad debt expense; classified in operating expenses.
- For entities that do not pre-qualify patients for services: an uncollectible amount would likely be recognized as a reduction in net revenue.

New Standard:

Bad debt expense will be classified as an operating expense for all entities

- Recognize bad debt when a patient-specific event becomes known to the entity that suggest a patient no longer has the intent and ability to pay
- It is anticipated that the amount of bad debt expense will decrease under the new standard
- Entities that experience frequent subsequent cumulative adjustments should re-assess whether its estimation process is appropriate

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Footnote Disclosure Requirements

New qualitative and quantitative disclosure requirements:

It is anticipated health care entities will experience a significant increase in their footnote disclosures from current practices!

606-10-50-1 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

a) Its contracts with customers (see paragraphs 606-10-50-4 through 50-16)

b) The significant judgments, and changes in the judgments, made in applying the guidance in this Topic to those contracts (see paragraphs 606-105-50-17 through 50-21)

c) Any assets recognized from the costs to obtain or fulfill a contract with a customer in accordance with paragraph 340-40-25-1 or 340-40-25-5.

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Footnote Disclosure Requirements (continued)

New qualitative and quantitative disclosure requirements:

Disaggregation of revenue

- How are the nature, amount, timing and uncertainty of revenue and cash flows impacted by: geographic considerations, types of contracts (fee-for-service, per diem, per case, episodic, etc.), segments and / or lines of service (hospital, physician services, home health, SNF, etc.).
- Nonpublic entities may elect to provide alternate disclosures to comply

Enhanced information about performance obligations

Information about contract balances

- Opening and closing balances of receivables, revenue recognized and reported
- Nonpublic entities may elect to provide alternate disclosure to comply

Significant judgments and changes in judgments

- Nonpublic entities may elect not to provide certain of these disclosures

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Polling Question #3

We currently include the minimal amount of required revenue disclosure information in our financial statements. Our finance department frequently prepares other more detailed revenue analysis for internal use and external presentations. Select the best answer for the level of revenue disclosure information that may be appropriate under the new standard?

a. No real changes from current practices

b. The lowest level of revenue reporting available

c. Disaggregated revenue information into categories that depict how the nature, amount, timing, and uncertainty of revenue are affected by economic factors

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Transition

Effective Date of New Standard:

- Public entities, certain not-for-profit organizations with conduit debt, and certain employee benefit plans: annual or interim reporting periods beginning after Dec. 15, 2017. (Early adoption as of the original effective date of Dec. 15, 2016, is permitted.)

- All other entities: annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods beginning after Dec. 15, 2019. (Early adoption is permitted, but it can be no earlier than the effective date permitted for public entities.)

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Transition (continued)

Two Accounting Methods for Adoption:

Retrospectively apply the new standard to each prior reporting period presented, with the following practical expedients that may be elected:

- For completed contracts, do not have to restate if they begin and end in same year
- For completed contracts having variable consideration, may use the transaction price at the date the contract was completed (rather than estimating variable consideration)
- For all reporting periods presented before the date of initial application, do not have to disclose the amount of the transaction price allocated to remaining performance obligations and the explanation of when the entity expects to recognize that amount in revenue

Retrospectively apply the new standard with the cumulative effect recognized in the opening balance of retained earnings at the date of initial application:

- Comparative periods would not have to be restated
- New rules would apply only to contracts uncompleted at the date of initial application
- Additional disclosures required about the amount by which each financial statement line item is affected in the current period compared with the guidance that was in effect before the change, along with explanation of the reasons for significant changes under topic 606 and legacy U.S. GAAP.

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Polling Question #4

Which transition accounting method do you anticipate your organization electing?

a. Retrospectively apply the new standard to each prior reporting period presented

b. Retrospectively apply the new standard with the cumulative effect recognized in the opening balance of equity

c. Unsure

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Recommendations for HealthCare Entities

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Implementation Recommendations

What Entities Should Consider Doing Now:

1. Evaluating revenue recognition accounting policies and procedures
2. Greater analysis and documentation of significant revenue streams and types of contracts
3. Assessment of portfolio model(s) to validate size, composition and accuracy; it is anticipated most organizations will need to disaggregate their current levels and / or classes
4. Consideration of variable constraints estimates, including identifying and quantifying self-pay (ie. uninsured or underinsured) patients' intent and ability: deductibles, co-pays, co-insurance, qualifying patients for program assistance (including Federal and State programs), price concessions and discounts offered, etc.
5. Consider system or process changes; IT capabilities / Data warehouse
6. Potential for revenue recognition delays ("outside the model")

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Implementation Recommendations (continued)

What Entities Should Consider Doing Now:

7. Assess the impact on financial and business practices

- Discussions with creditors and other financial statement users
- Impact on agreements tied to revenue (for example, incentive compensation agreements)
- Determine approach of collaborative business partners

8. Evaluate future disclosure requirements

- What information will be needed? How will this information be collected?
- A significant increase in financial statement disclosures from current practices (both qualitative and quantitative)
- For nonpublic entities, there are elections to forgo certain requirements

9. Consider tax implications of changes

- For-profit: Impact on current and deferred taxes; net income
- Not-for-profit: Form 990 reporting; revenue in excess of expenses

10. Consult with your accounting firm on adopting best practices

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Implementation Recommendations (continued)

Portfolio Approach Application to Contracts with Patients:

Requires significant judgments

Can be useful to predict outcomes (estimate a transaction price)

- Recognize revenue only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved
- Update the effectiveness of the portfolio composition at the end of each reporting period for the changes in circumstances during the reporting period

Characteristics for grouping individual contracts (performance obligations) can include:

- Geography of service locations or networks
- Type of service - inpatient, outpatient, emergency room, elective procedures, non-elective procedures, physician practice, skilled nursing, home health, etc.
- Type of payor - insurance contract (Blue Cross, Aetna, Emblem Health, etc.), governmental programs (Medicare, Medicaid, etc.), uninsured self-pay, etc.
- Type of patient responsibility - uninsured self-pay, co-pay, deductible, etc. May also consider the size of co-pay or deductible (for example, high deductible)
- Whether contracts are entered into at or near the same time (same quarter)

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Polling Question #5

During the current period close and reporting process you identify significant variances when evaluating the historical accuracy of the portfolio model estimates when compared to the actual results. Select the best response for next steps:

a. Re-assess the classes included in the portfolio for similar size and characteristics

b. Identify changes in collection patterns / reimbursement rates within the classes and evaluate if changes need to be made to the portfolio

c. Determine if there are patient contracts for which the organization lacks the historical experience to accurately estimate and determine the potential impact on delaying revenue recognition

d. All of the above

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Net Revenue Modeling Considerations

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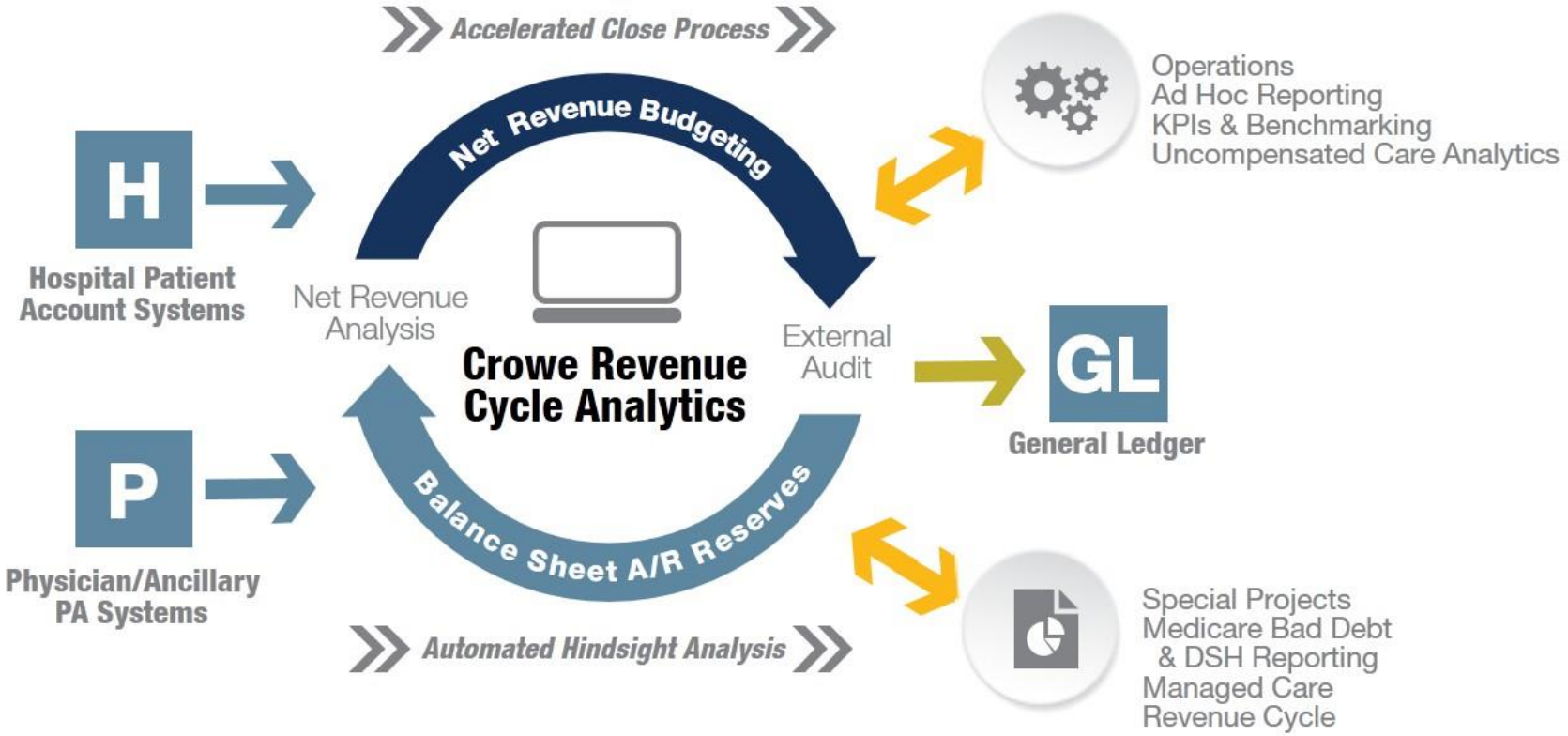
Net Revenue Modeling Considerations

Standardize the net revenue reporting and reimbursement function under common technology platform.



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Net Revenue Modeling Considerations

Delineate services into distinct models as appropriate. Examples include inpatient, outpatient, rehab, emergency departments, psychiatric, imaging, dialysis and skilled nursing facilities. RCA is also compatible with Physicians and Long Term care entities. Models should then group accounts into like payer groups for further distinction.

Underperforming Model	Optimal Model(s)

Hospital A	Hospital A
	• Acute
	  • IP
	  • OP
	• Rehab
	• Psych
	• OP ED

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Polling Question #6

Does your organization expect to further disaggregate revenue streams from current based off your interpretation of the new standard?

a. Yes

b. No

c. Undetermined

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Net Revenue Modeling Considerations

Review all contracts & related portfolios from all services lines, types of reimbursement and revenue models.

SubFacility	In Out Type	Financial Class	Insurance Provider	Total Charges
Hospital A	Inpatient	BLUE CROSS MANAGED CARE (B1)	ANTHEM FEDERAL 332	$787,070
			ANTHEM GM TRAD CARE PPO	$2,399,207
			ANTHEM ITS 332	$3,411,668
			ANTHEM PMP 332	$3,289,306
			BLUE ACCESS	$16,978,472
			BLUE PREF PRIM	$2,863,948
			BLUE PREF PRIM PLUS	$221,807
			BLUE-MAGELLAN BEHAV HLTH	$290,572
			HIGHMARK-CITYVILLE1	$3,436,877
			HM BENEFITS ADMIN	$8,785
			BLUE CROSS MANAGED CARE (B1) (B1) Total	$33,687,713

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Net Revenue Modeling Considerations

Parse secondary balances, including Patient Responsibility After Insurance, from Primary Insurance. Primary account balances versus secondary account balances should be broken out into distinct payer groups and historical rates should be applied to each based on similar adjudication history.

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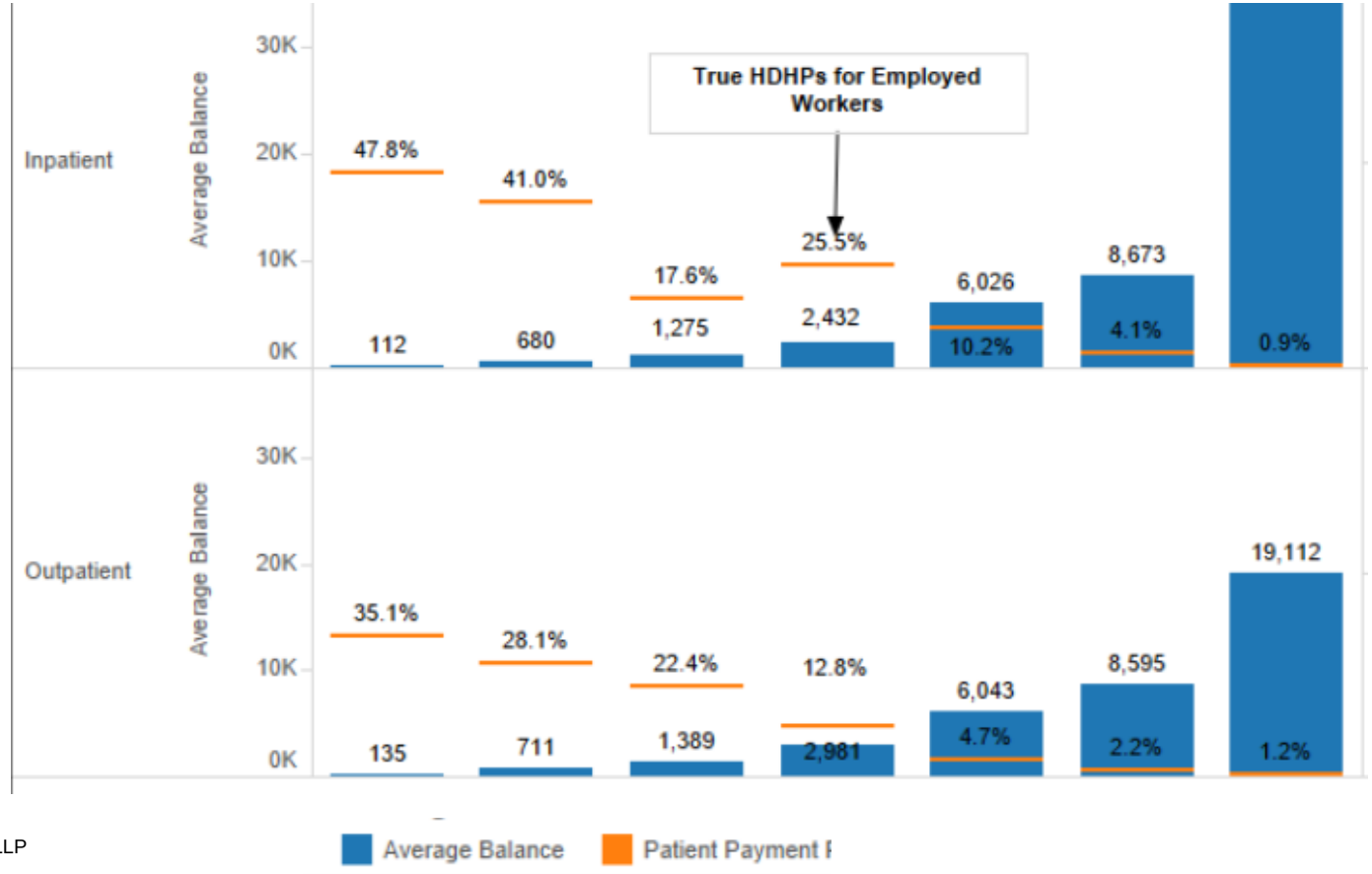
Net Revenue Modeling Considerations

Appropriately group high deductible plans into unique portfolios for aggregation on the balance sheet and experience on the hindsight analysis.



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Polling Question #7

Does your organization expect to reclassify portfolios from current based off your interpretation of the new standard?

a. Yes

b. No

c. Undetermined

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Polling Question #8

Does your organization's current reserve model parse secondary balances, including self pay after insurance, from primary insurance balances?

a. Yes – we have separate portfolios for Self Pay After Insurance (SPAI) and HDHP plans.

b. Yes – but we group SPAI and HDHP together

c. No – currently co-pay and deductibles roll up to their primary payor

d. Not Sure

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Net Revenue Modeling Considerations

Model accounts based on expected pay provided or contract modeled accounts. Layer in variable consideration at the time of billing based on historical experience. Reserves on accounts would default to a portfolio approach in the absence of Expected Pay for contractuals. Variable consideration remains throughout the model.

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Net Revenue Modeling Considerations

Identify common groups of payors without contracts. These could be grouped into payer groups that are fully reserved, thus recognizing no revenue OR in a portfolio if enough experience exists to estimate a transaction price.

- Uninsured Self Pay
- Medicaid Pending
- Charity
- Charity Pending

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Net Revenue Modeling Considerations

Zero Balance Account (ZBA) analysis is utilized for all unbilled contracts with payors from similar portfolios, all contracts which are not modeled and Billed accounts with missed or lagged contractuals.

Insurance Provider	Total Charges	Contractual Allowance	Contractual Percent
ANTHEM FEDERAL 332	$787,070	($590,938)	-75.08%
ANTHEM GM TRAD CARE PPO	$2,399,207	($1,623,589)	-67.67%
ANTHEM ITS 332	$3,411,668	($2,421,810)	-70.99%
ANTHEM PMP 332	$3,289,306	($2,213,171)	-67.28%
BLUE ACCESS	$16,978,472	($11,778,741)	-69.37%
BLUE PREF PRIM	$2,863,948	($1,951,513)	-68.14%
BLUE PREF PRIM PLUS	$221,807	($125,635)	-56.64%
BLUE-MAGELLAN BEHAV HLTH	$290,572	($179,516)	-61.78%
HIGHMARK-CITYVILLE1	$3,436,877	($2,312,234)	-67.28%
HM BENEFITS ADMIN	$8,785	($3,825)	-43.54%
BLUE CROSS MANAGED CARE (B1) (B1) Total	$33,687,713	($23,193,321)	-68.85%

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Net Revenue Modeling Considerations

Consistent Reassessment of accounts in high-risk payer groups should continue after the admissions process to determine if circumstances have changed to allow revenue to be recognized for these payer groups. Fully reserved payers convert from high-risk groups to payer groups with contracts, revenue can be recognized.

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Net Revenue Modeling Considerations

Include the estimated amount of variable consideration in the transaction price to the extent that is it probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved.

Calculate variable consideration for all payors for all aging buckets which as the consideration price can vary, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services.

The transaction price must be estimated and updated at each reporting date. Update and "roll forward" up to six hindsight ranges and as many as four ZBA ranges to consistently reflect the appropriate transaction price including pricing & realization updates to contracts.

Review large balance or outlier accounts on individual basis which fall outside portfolio. Default reserves applied but certain accounts require additional judgment.

Consistently monitor "Change in Prior Estimates" or Prior period Adjustments on accounts where actual differs from estimated by payor, adjustment type or theme.

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Polling Question #9

Which are net revenue modeling considerations under the new revenue recognition standard?

a. Separate self-pay after insurance from true patient responsibility

b. The transaction price must be estimated and updated for each reporting date

c. Consistently Reassess of accounts in high-risk payer groups

d. All of the Above

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Closing Thoughts

- Analyze.
- Document.
- Defend.

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Thank you

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