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Critical Access Hospitals
Top 10 Key Financial Indicators

Jeffrey M. Johnson, CPA

Partner, WIPFLI

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Top 10 Key Financial Indicators for Critical Access Hospitals (CAHs)

Objective of the Discussion: To gain a high-level understanding of how to interpret financial indicators for CAHs and why it is important

Discussion Agenda:

- Provide definition of key financial indicators important to CAHs
- How to use and interpret the key financial indicators
- Using external data to understand your financial position
- Provide resources for industry key financial indicator benchmarks

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Why is it Important in Health Care Organizations to Monitor Financial Performance?

- Do we view our operations and make decisions from a "hospital centric" or "care continuum" perspective?
- Can we generate the required margin to support our ongoing mission?
- Can we and/or should we maintain all our current service line offerings into the future? Are they being provided in the most efficient delivery modality?
- Do our leaders, managers and patient care givers have access to useful information to support current and future daily decision making?

Where does benchmarking fit?

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Why is it Important to Monitor Financial Performance?

Performance measurement can be defined as:

- The regular collection, reporting, discussion and analysis of data that is tied to some measure of process improvement
- It can track progress on strategy, monitor financial outcomes, monitor operational efficiency, patient quality, etc.

Without Benchmarking	With Benchmarking
Internally focused	Understand the competition
Change is evolutionary	New ideas and proven practices
Low commitment	High commitment
Catching up	Leader
Reactive	Proactive
Assessment is perceived	Assessment is real

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Top 10 CAH Key Financial Indicators Format

The following top 10 key financial indicators were agreed upon by participants during the 2012 National CAH Summit in Minneapolis, Minnesota, led by the National Rural Health Resource Center. Each of the following metrics are formatted based on the example below that:

- Describes the metric
- Defines how the metric is computed
- Provides the desired trend for each metric (i.e., up or down)
- Provides the desired position relative to the median (i.e., above or below)

Metric	Formula Defined	Desired Trend	Desired Position Relative to Median

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Days Cash on Hand

- Measures the number of days an organization could operate if no additional cash was collected or received (liquidity ratio)

Days Cash on Hand (All Sources)	Cash + Short-Term Investments + Unrestricted Long-Term Investments / (Total Expenses – Depreciation)/365	Trend: Up	Median Position: Below

- Lending organizations view this as a critical ratio in the assessment of a hospital's ability to finance new projects
- It represents the amount of dollars readily available to meet short-term obligations and make debt payments should an organization experience short-term financial difficulties
- Favorable values are above the median, and the 2013 CAH U.S. Median = 68.83 days

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Days in Net Accounts Receivable

- Measures the number of days it takes an organization to collect its payments (liquidity ratio)

Days in Net Accounts Receivable	Net Patient Accounts Receivable (Including adjustments and settlements) / Net Patient Service Revenue/365	Trend: Down	Median Position: Below

- High values reflect a long collection period and indicate problems in the organization's business office with regard to billing or collecting payments
- Improvement in days in accounts receivable can mean hundreds of thousands of dollars in improvement in cash on hand
- Favorable values are below the median, and the 2013 CAH U.S. Median = 54.20 days

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Days in Gross Accounts Receivable

- Tests the net days in accounts receivable with a goal of being the same amount of time as net days in accounts receivable

Days in Gross Accounts Receivable	Gross Patient Accounts Receivable (Excludes settlements) / Gross Patient Service Revenue/365	Trend: Down	Median Position: Below

- Days in gross accounts receivable is important to track and compare to net accounts receivable to assess the revenue cycle performance
- Gross and net days are close in value in highly functioning business offices
- Similar characteristics as "net" accounts receivable

Total Margin

- Measures the control of expenses relative to revenue (profitability ratio)

Total Margin	$\frac{\text{Excess of Revenue Over Expenses}}{\text{Total Revenue}}$	X 100	Trend: Up	Median Position: Above

- Total margin indicates the organization's overall profit
- Favorable values are above the median, and the 2013 CAH U.S. Median = 2.51%

Operating Margin

- Measures the control of operating expenses relative to operating revenue related to patient care (profitability ratio)

Operating Margin	$\frac{\text{Income from Operations}}{\text{Total Revenue}}$	X100	Trend: Up	Median Position: Above

- This measure reflects the overall performance on the CAH's core business: providing patient care
- Favorable values are above the median, and the 2013 CAH U.S. Median = 0.99%

Debt Service Coverage Ratio

- Measures the ability to pay obligations related to long-term debt (capital structure ratio)

Debt Service Coverage	Excess of Revenue Over Expenses + Depreciation + Interest Expense / Principal Payments + Interest Expense	Trend: Up	Median Position: Above

- The higher the value of the debt service coverage ratio, the greater the "cushion" to repay outstanding debt or take on additional obligations
- Favorable values are above the median, and the 2013 CAH U.S. Median = 2.73 times

Long-Term Debt to Capitalization

- Measures the percentage of net assets (or equity) that is debt (capital structure ratio)

Long-Term Debt to Capitalization	$\frac{\text{Long-Term Debt}}{\text{Long-Term Debt + Net Assets}}$	X100	Trend: Down	Median Position: Below

- Favorable values are below the median, and the 2013 CAH U.S. Median = 17.02%
- Has flattened out due to economy the last few years; however, expect this ratio to increase over the next two to three years

Average Age of Plant

- Measures the average age in years of the buildings and equipment of an organization (operations ratio)

Average Age of Plant	Accumulated Depreciation / Depreciation Expense	Trend: Down	Median Position: Below

- Average age of plant is a good indicator of distress with older hospitals having greater problems in upkeep; not to mention provider recruitment and patient retention
- Favorable values are below the median, and the 2013 CAH U.S. Median = 9.77 years

Salaries to Net Patient Revenue

- Measures labor costs relative to the generation of operating revenue from patient care (operations ratio)

Salaries to Net Patient Revenue	$\frac{\text{Salary Expense}}{\text{Net Patient Revenue}}$	X100	Trend: Down	Median Position: Below

- Salaries are a major part of the expense structure and require close management
- Reviewing the costs can help a CAH assess its staffing efficiency
- Favorable values are below the median, and the 2013 CAH U.S. Median = 45.57%

Payor Mix Percentage

- Inpatient Payor Mix:

Inpatient Payor Mix	Inpatient Days for Payor / Total Inpatient Days – Nursery Bed Days – Nursing Facility Swing Bed Days	X 100	Trend: Down	Median Position: Below

- Outpatient Payor Mix:

Outpatient Payor Mix	Outpatient Charges for Payor / Total Outpatient Charges	X 100	Trend: Down	Median Position: Below

- The 2013 CAH U.S. Median for Medicare inpatient and outpatient payor mix was 73.01% and 37.9%, respectively. Favorable values are below the median

CAH Financial Indicators and Benchmark Reporting Resources

- CAH Finance 101 Manual: Designed to be non-technical and provide answers to frequently asked questions regarding CAH finance and financial performance
- Flex Monitoring Team (Free): Compiled and distributed annually to every CAH individually using publicly available cost-report data; data 2 years old
- Optum (Not free) (formerly Ingenix/Cleverly) Survey data is at least 18 months old
- Wipfli LLP (free for participants; also have free abridged version):
  - Benchmarking service exclusively for CAHs. Survey data is 9 to 12 months old
  - A robust set of operational, productivity, utilization and financial benchmarks

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Jeffrey M. Johnson, CPA

Partner

Wipfli LLP Health Care Practice

201 West North River Drive

Suite 400

Spokane, WA 99201

(509) 232-2498

jjohnson@wipfli.com

www.wipfli.com

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http://www.ruralcenter.org

@RHRC