

Financial Performance Measures of Critical Access Hospitals

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Project Team

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Objectives

- Construct a set of financial performance measures that are relevant to Critical Access Hospitals (CAHs)
- Provide comparative information that CAH boards and managements can use to improve financial performance

Technical Advisory Group (TAG)

- Dave Berk, Rural Health Financial Services, Anacortes WA
- Brandon Durbin, Durbin & Company LLP, Lubbock TX
- Roger Thompson, Seim, Johnson, Sestak & Quist LLP, Omaha NE
- Gregory Wolf, Stroudwater Associates, Portland ME

Methods: Literature Review

- Undertook an extensive literature review in relation to measurement of the financial performance of small hospitals
- Identified dimensions of financial performance appropriate for CAHs
- Constructed a long list of potential indicators for each dimension, including definition, interpretation, and data requirements of each indicator

Methods: Indicator Selection

- Developed an instrument to evaluate the feasibility, importance, and usefulness of potential performance dimensions and indicators
- Distributed literature review, list of potential indicators, and indicator evaluation instrument to TAG
- TAG selected 4 performance dimensions and 20 indicators of financial performance



Methods: Indicator Definition

- Constructed indicator definitions using accounts from Medicare cost reports
- Produced first pass of indicators for all CAHs, including descriptive statistics and histograms.
- Identified outliers and searched for data errors and problems
- Revised indicator definitions and produced indicator reports

Information for CAHs

- In August 2004, CEOs of every CAH with post-conversion cost report data will be mailed a package that includes:
 - A letter explaining the project
 - Financial indicators for their CAH
 - Median values for CAHs in their region, and CAHs in the U.S.
 - An evaluation form

Information for State Flex Coordinators

- In August 2004, each State Flex Coordinator will be mailed a package that includes:
 - A letter explaining the project
 - Financial indicators for the CAHs in their state, region, and the U.S.
 - An evaluation form

Indicator Format

- One page per indicator
- Simple graph and small table of several years of comparative data
- Indicator definition and Medicare Cost Report Account codes
- Interpretation, results and data quality

Indicators

- Profitability
 - Total margin, cash flow margin, ROE
- Liquidity
 - Current ratio, days cash on hand, net days revenue in accounts receivable
- Capital structure
 - Equity financing, debt service coverage, long-term debt to capitalization
- Other
 - Average age of plant, outpatient charges to total charges, patient deductions, FTEs per adjusted occupied bed, Medicare inpatient payer mix, Medicare outpatient payer mix, Medicare outpatient cost to charge ratio, Medicare revenue/Medicare days, ADC SNF swing beds, ADC acute care beds

Next Steps

- Receive feedback from CEOs and State Flex Coordinators
- Evaluate feedback and review with TAG
- Revise and issue second report in 2005
- Investigate cost / quality relationships when quality data become available