CAH Metrics and Financial Measures

Presented by
Ann King White, CPA
BKD, LLP

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Financial Indicators and Comparison Benchmarks

1. Profitability
2. Revenue
3. Liquidity
4. Capital Structure
5. Operational Measures
Profitability
“Just exactly how bad is our cash flow problem?”
Goals for Profitability

Hospitals need to look for ways to be
- More Efficient
- Cost Effective

In the delivery of Services
Financial Pressures

Reduce Costs

Quality of Care and Compliance Issues

experience
AZ CAHs Profitability

- AZ Flex Program Monitoring Team Survey 2013
  - 6 CAHs were profitable (Range $200,000 to $3.9M)
  - 7 CAHs had Net Profit Losses (Range $300,000 to $2.4M)

  - 7 CAHs were profitable (Range $800,000 to $4M)
  - 4 CAHs had Net Profit Losses (Range $500,000 to $6M)
Total Margin % (Median)

- AZ: 2.8
- Western: 2.3
- Top: 17.3
- AA: 9.7
- A: 5
- BBB: 2.6
EBIDA Margin % (Median)
Revenue
“And here’s the post-BBA picture.”
I AM BILLING, THEREFORE I AM.
Improve Revenue Realization

- Analyze charge payer %’s by procedure
- Restructure charges to take advantage of procedures with higher % of charge payers
- Update the hospital’s Charge Description Master (CDM)
Take a closer look at Medicare Payments

- Re-examine that all Medicare payments are correct
- Verify the relationship between coding and payments
How Do Your Third Party Payers pay...

- Depends on the payer and services provided to the patient
  - Fee for service
  - Fixed payments
  - Payments based on Medicare methodology
  - Contracts with payer
- AUDIT these payments
AZ CAHs Revenue

- AZ Flex Program Monitoring Team Survey 2012
  - Outpatient revenue to Total Revenue Range from 70.9% to 93.3%
  - Major source of outpatient revenue was from RHC Clinics

  - Outpatient revenue to Total Revenue Range from 56% to 98%
  - Median for AZ hospitals was 78%
Outpatient Revenue to Total %

- Low: 56%
- Median: 78%
- High: 98%

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Acute Medicare Utilization

<table>
<thead>
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<th></th>
<th>AZ Low</th>
<th>AZ Mid</th>
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agility  
acumen  
insight  
ideas  
attention  
reach  
expertise  
dept"
Acute Medicaid Utilization

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Outpatient Medicare Utilization

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<td>AZ High</td>
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Medicare Bad Debts

- CAH bad debt reimbursement reduced to:
  - 88% for periods beginning on or after 10/1/12
  - 76% for periods beginning on or after 10/1/13
  - 65% for all periods beginning on or after 10/1/14
Medicare Bad Debts (Extra Cash?)

- AZ CAH Averages for Inpatient
  - Deductibles & Co-Insurance $117,000
  - Average Bad Debts $8,000 or 7%
  - 2 out of 12 had NO Inpatient Bad Debts

- AZ CAH Averages for Outpatient
  - Deductibles & Co-Insurance $925,000
  - Average Bad Debts $48,000 or 5%
  - 6 out of 12 had NO Outpatient Bad Debts (Grouped with Inpatient)
Liquidity

Cash is still King
AZ CAHs Liquidity

- AZ Flex Program Monitoring Team Survey 2012
  - Current Ratio range from 0.8% to 6.8%
  - Days Cash on Hand range from .01 to 210.2 Days
  - Net Days in Accounts Receivable range from 9.7 to 64.1 Days
Current Ratio (Median)

- AZ Low: 0.72
- AZ Mid: 2.66
- AZ High: 7.24
- Western: 3.42
- Top: 2.34
Net Days in Accounts Receivable

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(experience BKD LLP CPAs & Advisors)
Capital Structure
Debt to Capitalization (%)

- AZ Mid: 6.7%
- AZ: 31.4%
- Western: 33.9%
- Top: 16.1%
- AA: 21.4%
- A: 27.6%
- BBB: 37.9%

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Debt Financing

- A word of caution

- Typical financing structures (i.e. long-term revenue bonds) for major facility improvements can generate strong cash flow in early years but could have insufficient cash flow to make the payments in later years.

- CHA cost reimbursement higher in early years from Depreciation and Interest.

- Important to understand your forecast model.
Total Liabilities & Debt to Total Assets

- AZ Low: 14%
- AZ Mid: 29%
- AZ High: 64%
Net Assets (Equity) to Total Assets

- AZ Low: 36%
- AZ Mid: 71%
- AZ High: 86%

Net Assets (Equity) to Total Assets
Operational Measures
Average Daily Census
Acute Beds & Swing Beds

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Department Opportunities
Outpatient Medicare Utilization
Top Departments (Median)

- Department, Median Charges & Cost/Charge Ratio
  - Radiology -- $1.9M -- 21%
  - Emergency -- $1.2M -- 37%
  - Laboratory -- $1.2M -- 27%
  - Drugs -- $560,000 -- 38%
  - PT -- $330,000 -- 55%
  - OR -- $300,000 -- 22%
Prepare for the Future

- Fine tune operations
  - Revenue Cycle
  - Medicare Cash Flow
  - Staffing Levels
  - Adequate Medical Staff
  - Evaluate & consider eliminating unprofitable services, carefully evaluate new services
Thank You

Contact Information

Ann King White, CPA
Denver, CO
303.861.4545
aking@bkd.com