
Financial Stewardship: Rural Hospitals Trustee Institute

July 2019

Financial Stewardship

- Trustees oversee the hospitals financial well-being
- Understand and ensure that the hospital is best using their resources
- Review and approve budgets, monitor actual results on a timely basis
- Review required filings including tax returns, filings with the state
- Review and meet with the external financial auditor

Financial Stewardship Continued

- Actively pursue financial education
 - **Hospital reimbursement is very complex!**
- Ask questions if you don't quite understand



What Should You Look For?

- Monthly financial statements should include:
- Income statement for the month and year to date
- Comparative budget and prior year figures
- Balance sheet
- Comparative prior year balances
- Key statistics: patient days, Admissions, ED visits, surgeries and related trends
- Ratio Analysis



CAH Hospitals are Vital Part of Their Communities

Little Colorado Medical Center

Winslow, AZ

Navajo Co. Population: **110,413** | Winslow: **9,789**



Healthy Communities. Healthy Economy.

POWERFUL ECONOMIC ENGINE

412 Total Jobs

226 full-time jobs

186 induced/indirect jobs

\$49 million Total Economic Impact

\$24 million direct

\$25 million indirect/induced

(Sources: AZ Commerce Authority, ADHS 2015 UAR, Rounds Consulting Group, Inc.)

PROVIDING CARE FOR THOUSANDS OF NAVAJO COUNTY RESIDENTS



4,002

Inpatient Days



1,187

Surgeries



9,638

ER/Urgent Care Visits



221

Births

(Sources: ADHS 2015 UAR)

CONTRIBUTING TO THE COMMUNITY

\$1.4 million

Annual Uncompensated Care

\$595,320

Annual State Hospital Assessment

Budgets

- Budgets are typically prepared on an annual basis and should support the mission and vision of the organization
- At a minimum should include a one year forecast and often an additional 3 – 5 years
- Besides an income statement they should include some key statistics
- They should include a narrative describing the key assumptions behind the budget

Tax Returns

- Even non-profit organizations must file a tax return – 990
- Assorted financial information from the income statement and balance sheet
- Questions about business practices, how ceo pay is set, how the board operates
- Compensation for five highest compensated employees, five highest compensated contractors
- **Board members are encouraged to review submissions!**



Non-Profit Organizations

- Special category under the IRS – 501 (c) (3), charitable organization
- Organized and operated exclusively for exempt purposes
- No earnings may inure to a private individual
- Prohibited from directly or indirectly participating in or intervening in a political campaign
- Do not pay federal, state, or sales taxes
- However do have to pay taxes on unrelated business income taxes – rent, parking etc.

Protecting Tax Exempt Status

- 501 (r) regulations:
- Community needs assessment every 3 years
- Written financial assistance policy
- Cannot charge eligible patients for financial assistance more than amounts generally billed to insured patients



Audited Balance Sheet Example

Balance Sheet	<u>2018</u>	<u>2017</u>
Current Assets		
Cash & Cash Equivalents	\$ 10,575,879	\$ 5,465,262
Short Term CD's	6,280,144	3,139,109
Patient accounts receivable, net of allowance	6,281,890	6,818,289
Supplies	874,857	824,254
Other	342,475	184,527
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	24,355,245	16,431,441
Property, Plant & Equipment	25,452,447	25,863,074
Other Assets	918,611	4,028,237
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Total Assets	\$ 50,726,303	\$ 46,322,752
 Liabilities and Net Asset		
Current Liabilities	\$ 5,195,190	\$ 5,082,958
Long-term debt	8,860,898	9,653,540
Other Debt	191,262	125,000
Net Assets	36,479,034	31,423,028
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Total Liabilities and net assets	\$ 50,726,384	\$ 46,284,526

Audited Income Statement Example

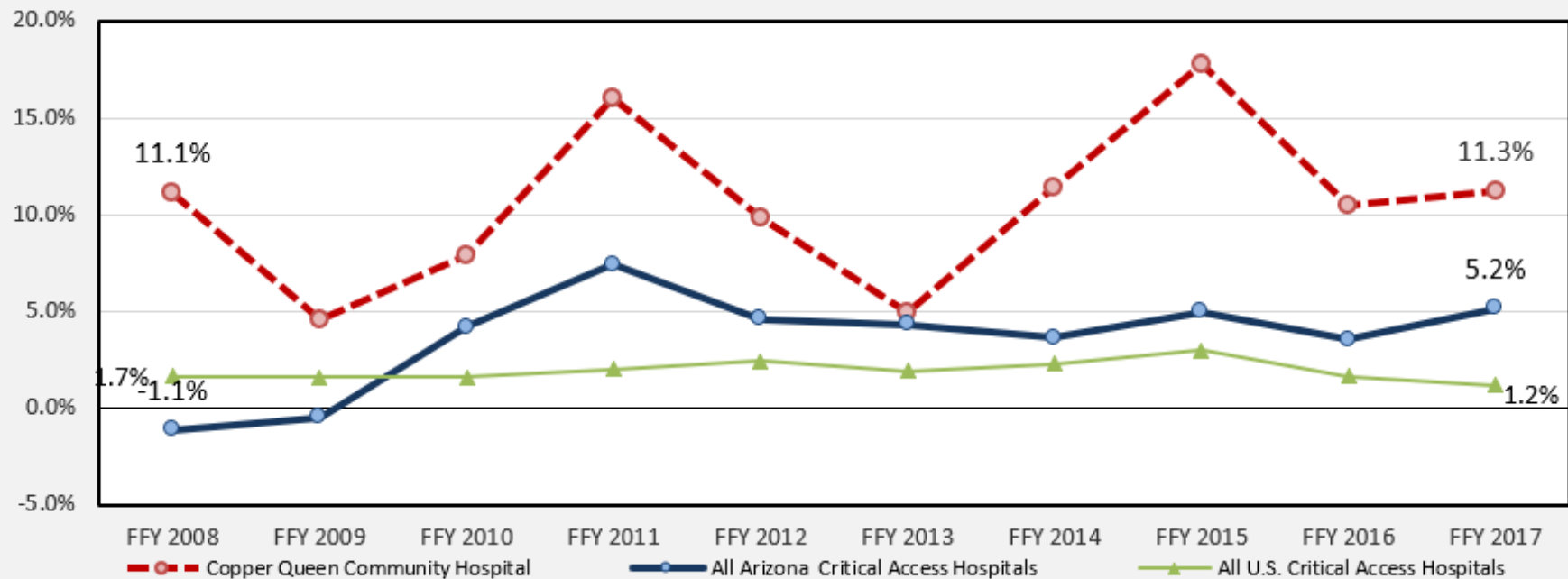
	<u>2018</u>	<u>2017</u>
Income Statement		
Revenues		
Net Patient service revenue	\$ 39,634,154	\$ 34,155,632
Other revenue	91,590	288,346
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	39,725,744	34,443,978
Expenses		
Salaries Wages & Benefits	20,102,135	18,373,348
Medical Professional Fees	2,048,734	1,388,858
Supplies	3,692,521	3,364,385
Depreciation	2,180,621	1,895,308
Interest	361,151	360,681
Other	6,469,497	5,582,873
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	34,854,659	30,965,453
Income from Operations	4,871,085	3,478,525
Other Income	146,695	224,928
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Change in Net Assets	\$ 5,017,780	\$ 3,703,453

Key Ratios Example

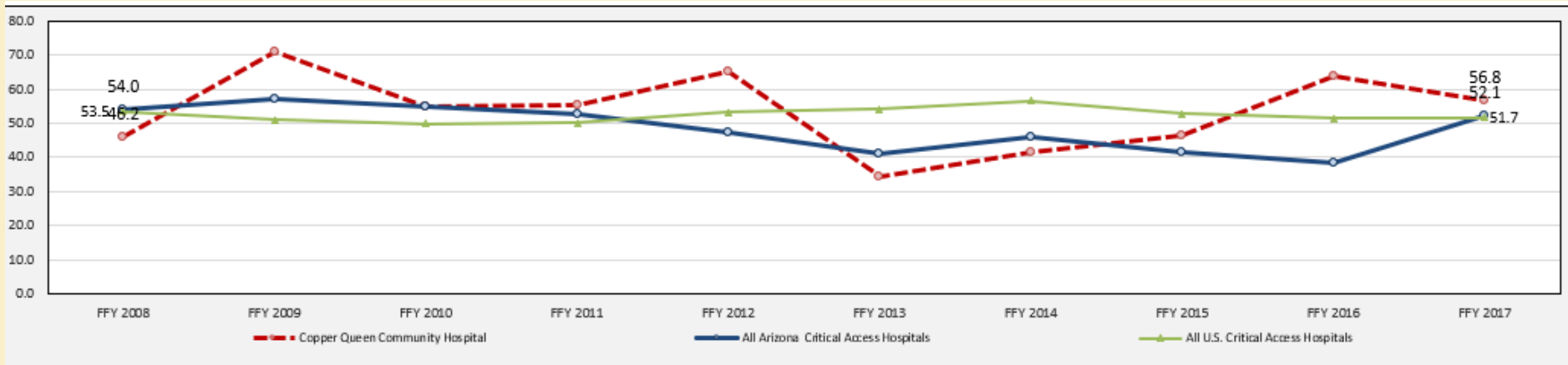
	<u>2018</u>	<u>2017</u>
Current Ratio	469%	323%
Days Cash on Hand	188	108
Days in Accounts Receivable	58	73
Operating Margin	12.3%	10.1%
Salaries & Wages as a Percent of Expenses	57.7%	59.3%



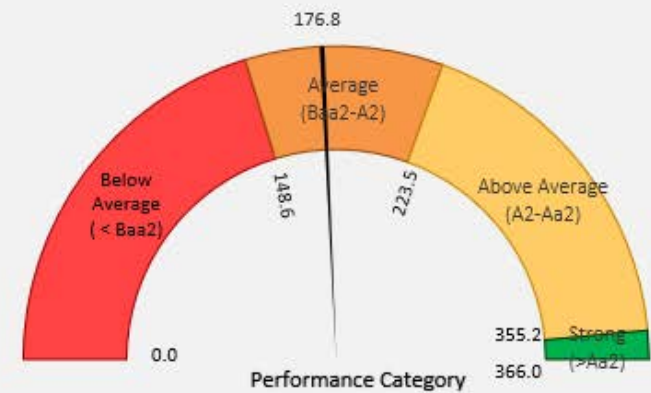
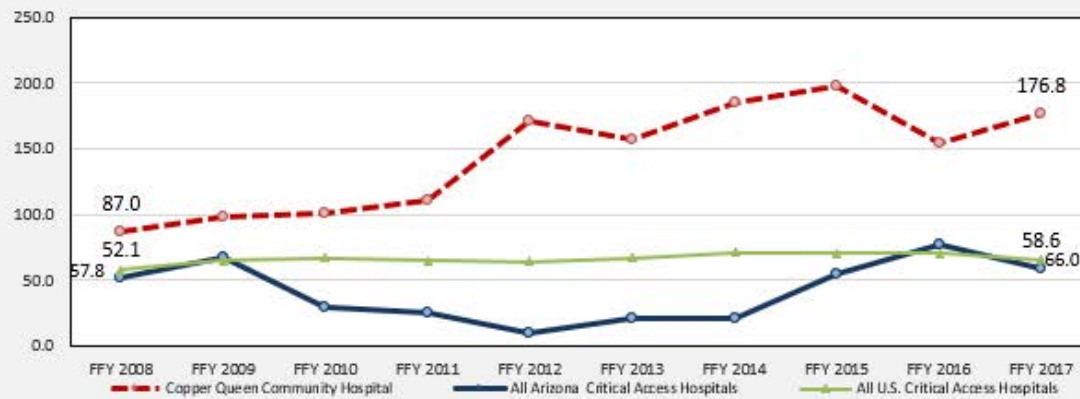
Operating Margin



Average Payment Period



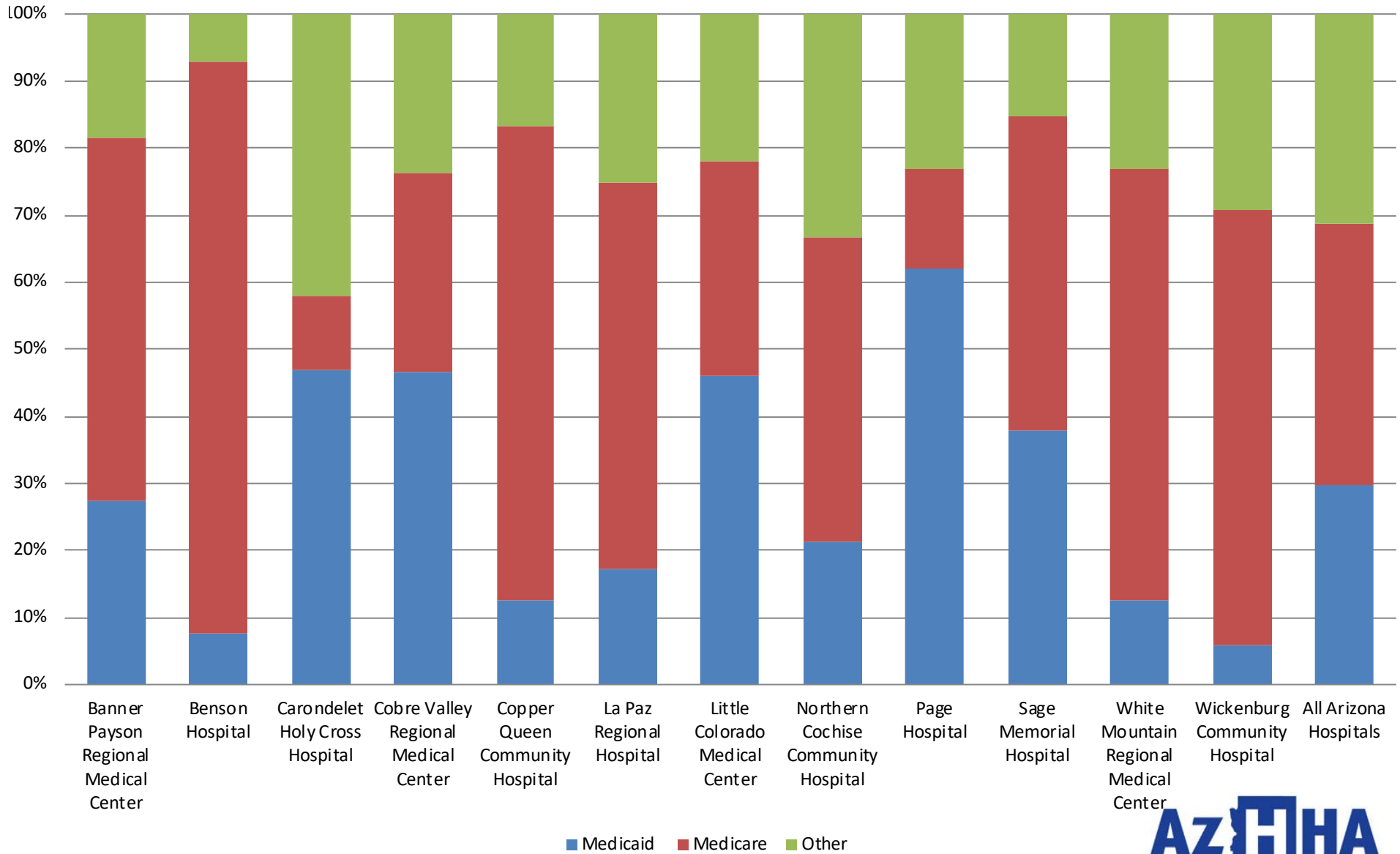
Days Cash on Hand



Hospital Reimbursement

- Three major categories:
 1. Medicare
 2. Medicaid or AHCCCS
 3. Commercial Payors

2017 Payor Mix Based on I/P Cases



Medicare Reimbursement

- Critical Access Hospitals are paid differently than other acute care hospitals
- **Not** based on the type of service or number of services provided
- Payments are based on costs for Medicare patients
- 101% of allowable costs
- Reason -- Medicare recognizes smaller hospitals do not have economies of scale

Medicaid/AHCCCS Reimbursement

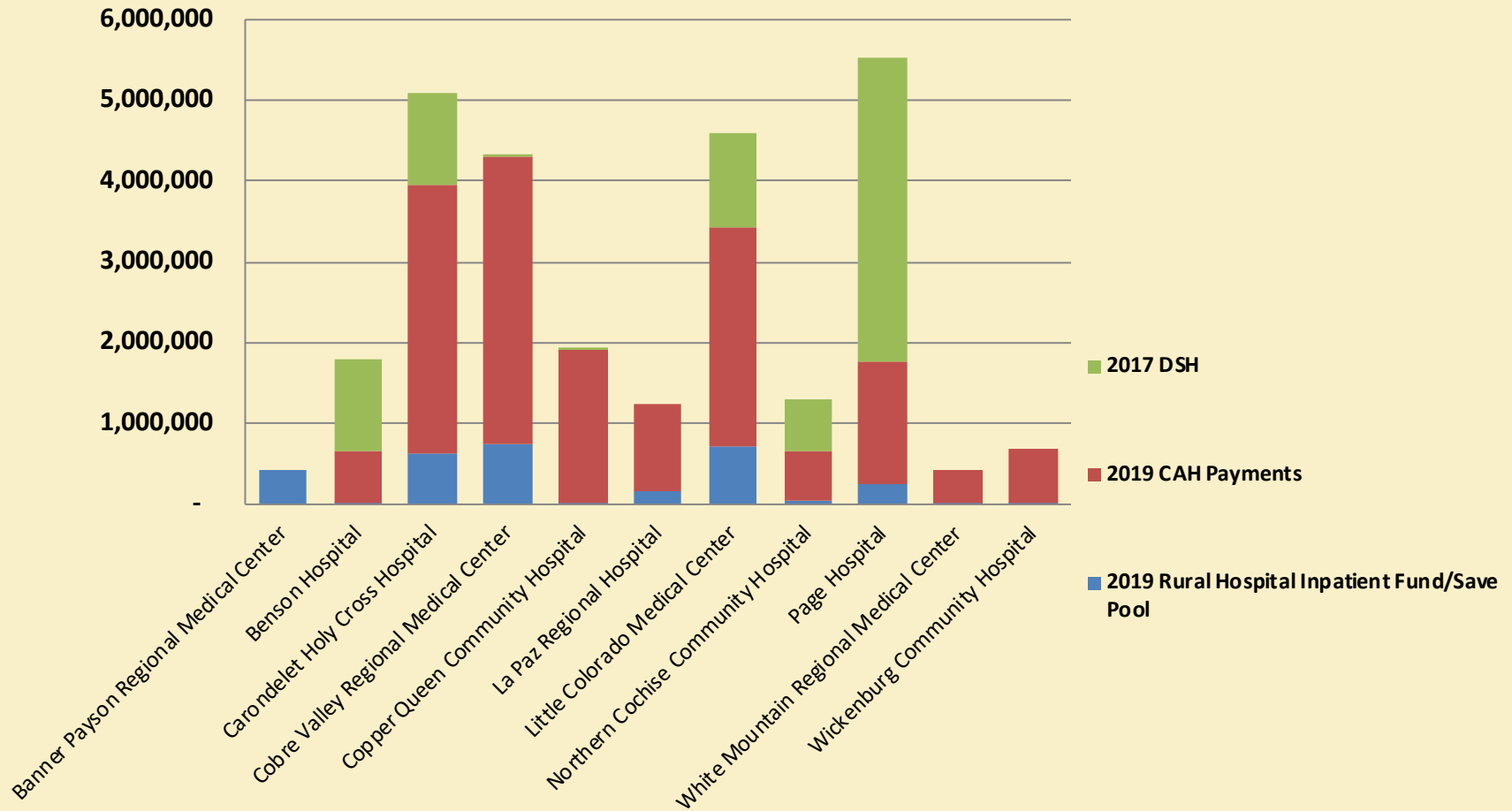
- Unlike Medicare, AHCCCS pays CAH hospitals just like any other acute care hospital
- But they have created supplemental payments
- CAH pool
- Save pool



2017 AHCCCS Payments

	Inpatient	Outpatient	Supplemental	Total
BANNER PAYSON MEDICAL CNT	1,795,785	4,268,598	603,022	6,667,405
BENSON HOSPITAL	66,320	2,077,067	1,614,494	3,757,881
COBRE VALLEY COMM HOSP	2,274,111	6,827,751	2,630,315	11,732,177
COPPER QUEEN HOSPITAL	53,877	5,852,420	1,141,788	7,048,085
HOLY CROSS HOSPITAL	1,850,322	7,624,804	3,649,489	13,124,615
LA PAZ REGIONAL HOSPITAL	360,519	2,513,791	790,825	3,665,135
LITTLE COLORADO MED CTR	2,853,744	4,862,038	3,553,984	11,269,766
NORTHERN COCHISE HOSPITAL	151,359	1,692,496	1,109,872	2,953,727
PAGE HOSPITAL	900,220	3,841,845	5,195,020	9,937,085
SAGE MEMORIAL HOSPITAL	1,597,532	9,109,675	674	10,707,881
WHITE MNTN REG MED CNTR	69,962	1,140,476	297,772	1,508,210
WICKENBURG COMMUNITY HOSP	88,301	1,553,913	370,844	2,013,058

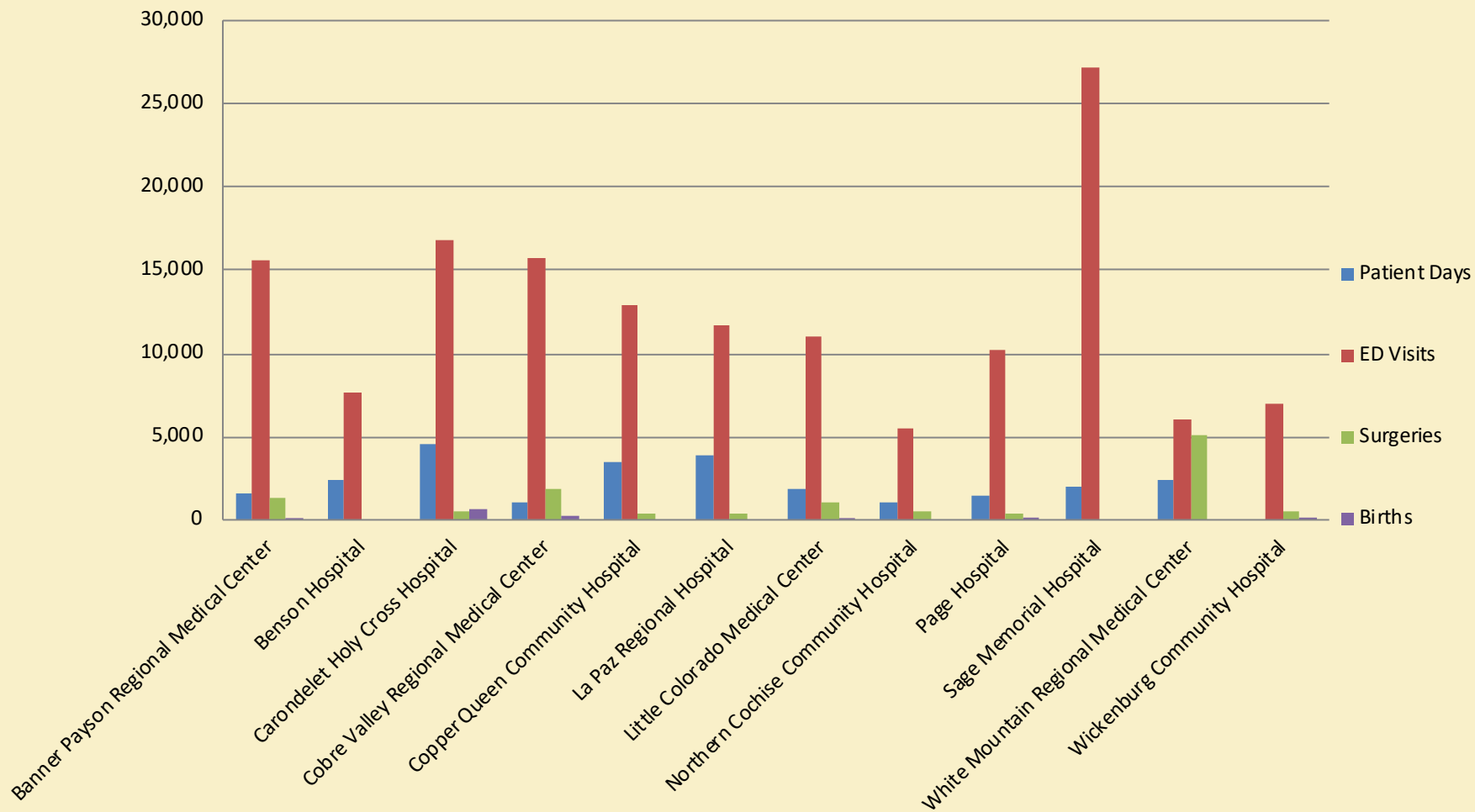
Supplemental AHCCCS Payments



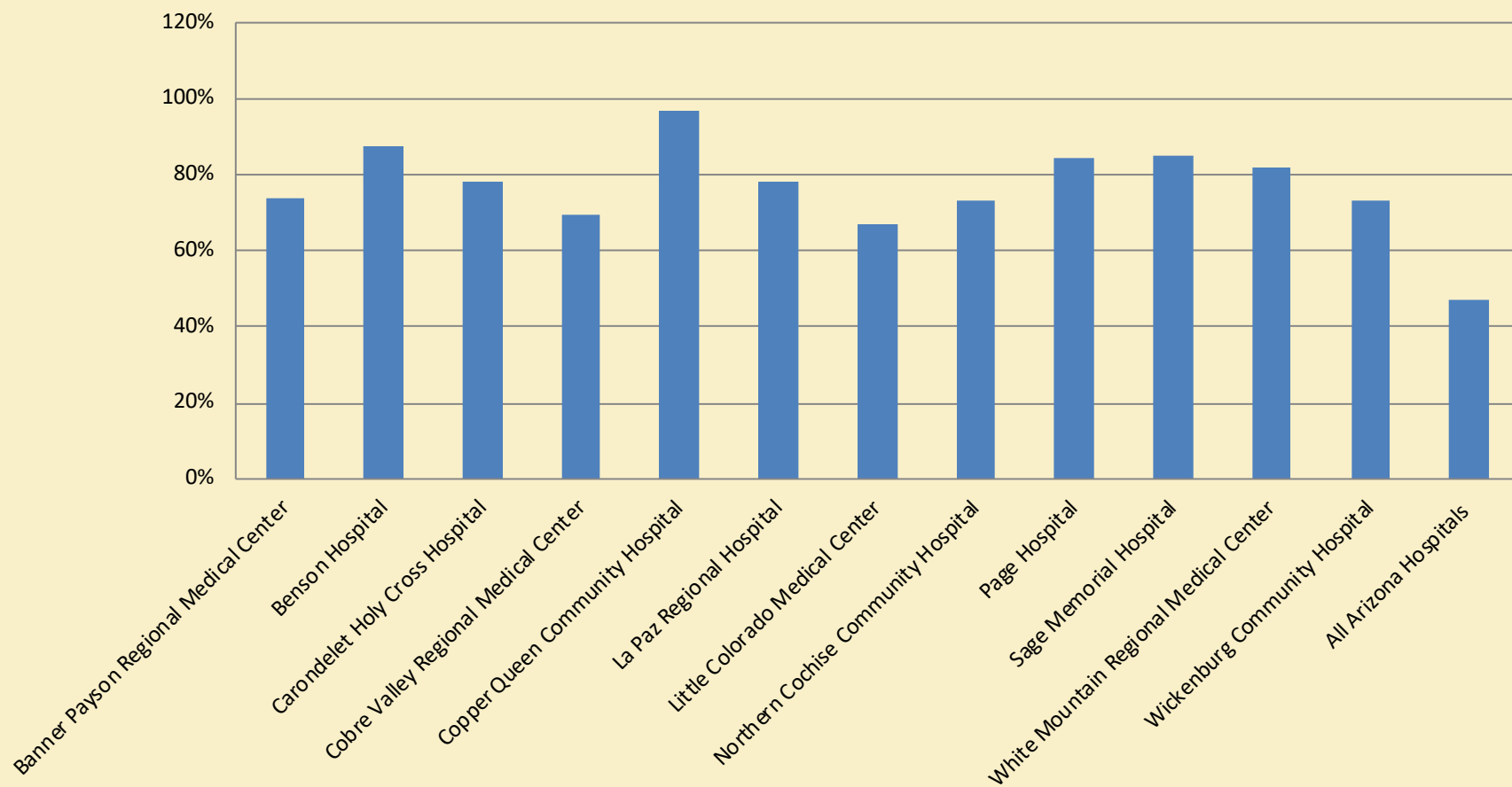
Impact of Hospital Assessment

2020	Assessment Amount	Total Projected Coverage Payments	Estimated Net Gain	Net Gain as a % of the Assessment
Banner Payson Regional Medical Center	966,690	3,342,017	2,375,327	246%
Benson Hospital	249,640	1,113,977	864,337	346%
Carondelet Holy Cross Hospital	676,726	3,916,000	3,239,274	479%
Cobre Valley Regional Medical Center	932,832	4,864,017	3,931,185	421%
Copper Queen Community Hospital	169,376	2,861,844	2,692,468	1590%
La Paz Regional Hospital	491,064	2,063,715	1,572,651	320%
Little Colorado Medical Center	851,936	3,732,399	2,880,463	338%
Northern Cochise Community Hospital	249,640	966,387	716,747	287%
Page Hospital	269,232	2,024,855	1,755,623	652%
White Mountain Regional Medical Center	156,104	666,044	509,940	327%
Wickenburg Community Hospital	290,720	1,099,279	808,559	278%
Sub-Total	5,303,960	26,650,534	21,346,574	402%
All Hospitals	331,342,187	1,241,155,606	909,813,419	275%

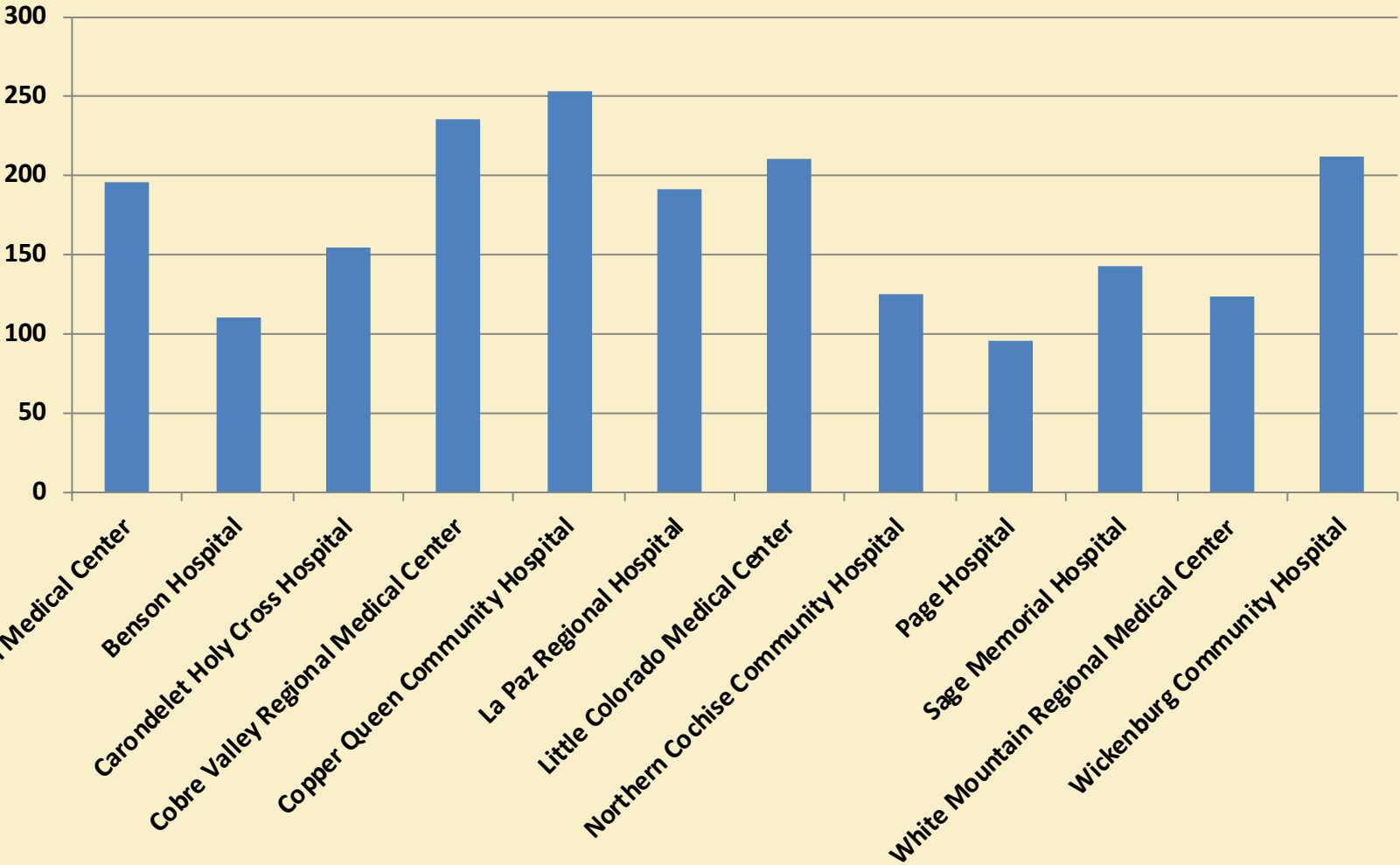
2017 CAH Hospital Volumes



2017 Outpatient Mix



2017 FTE's



Questions?

