



Fiscal Management for Rural Hospital Department Managers Webinar Series

November 11, 2011

November 18, 2011

December 9, 2011

December 16, 2011

Health Education and Learning Program (HELP) Webinar Series

Sponsored by

Rural Hospital Performance Improvement Project

STROUDWATER ASSOCIATES

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- Guiding Principles
 - Underperforming rural hospitals have often allowed a separation between “clinical” and “financial”
 - Each department is “in the business of providing healthcare services”
 - Accountability and ownership are fundamental to high performing rural healthcare organizations
 - Historically, department managers have not been provided basic fiscal management tools
 - What gets measured gets managed (*Source: Six Sigma fundamental principle*)
 - Alternatively – what doesn’t get measured, doesn’t get managed???
 - Fundamental transformation starts when we change the questions being asked
 - Webinar series is about “changing the questions”

- Learning Objectives

- Upon completion of this presentation, you should be better able to:

1. Define the managers' roles and responsibilities related to fiscal management and recognize their unit's contribution to the institution's viability
2. Understand the Medicare Cost Report as an important revenue source and as a resource for financial decision making
3. Understand financial reports and develop and monitor a department budget
4. Demonstrate knowledge of budgeting fundamentals
5. Develop projections and design accompanying strategies needed in order to meet the targeted goals
6. Review the impact of payer reimbursement on financial management

- As a manager, what should you know to better manage the financial performance of your organization:
 - Economic framework of a rural hospital
 - How does the fundamental framework effect decision making?
 - Medicare Cost Report
 - An important source of 35-50% of revenue and a valuable financial resource
 - Financial Statements
 - Better understand an important document in quantifying an organizations financial performance
 - Budget Process
 - What is a budget and why is it so important
 - Departmental Performance
 - What is contribution margin and why so important in determining departmental performance
 - Payer Reimbursement
 - Why Payer reimbursement is critical to financial performance

- Economic framework of a rural hospital
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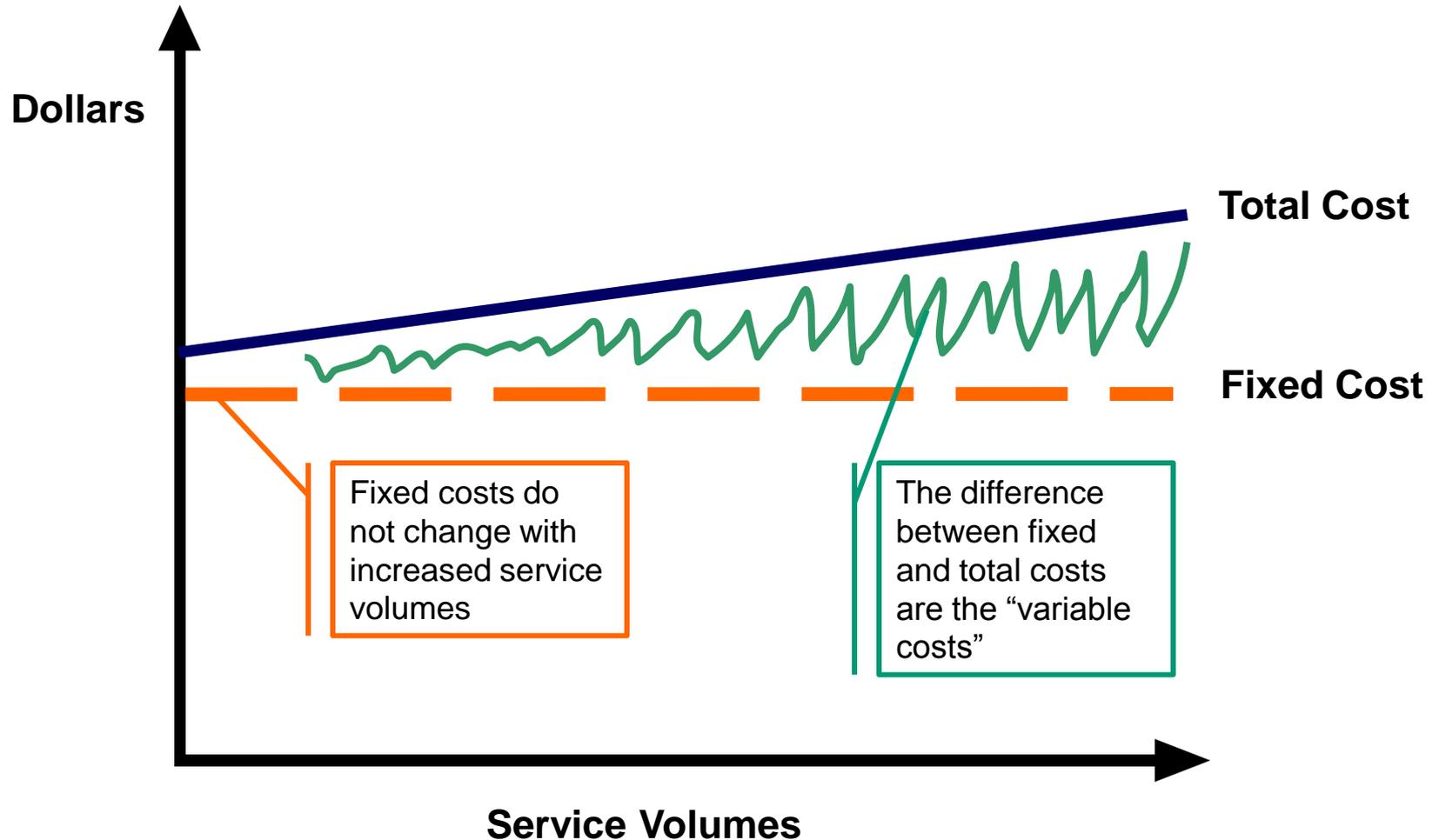
- Common Findings
 - Over emphasis on cost report management
 - Managing the “RCCs”
 - “If we increase our charges, our RCCs will go down”
 - “How do we increase our Medicare per diems to increase cash flow?”
 - Over emphasis on expense management
 - “Revenue management?? That’s what the CEO does!”
 - Belief that because we are a CAH, we should operate differently than PPS hospitals

Rural Hospital Cost Structure

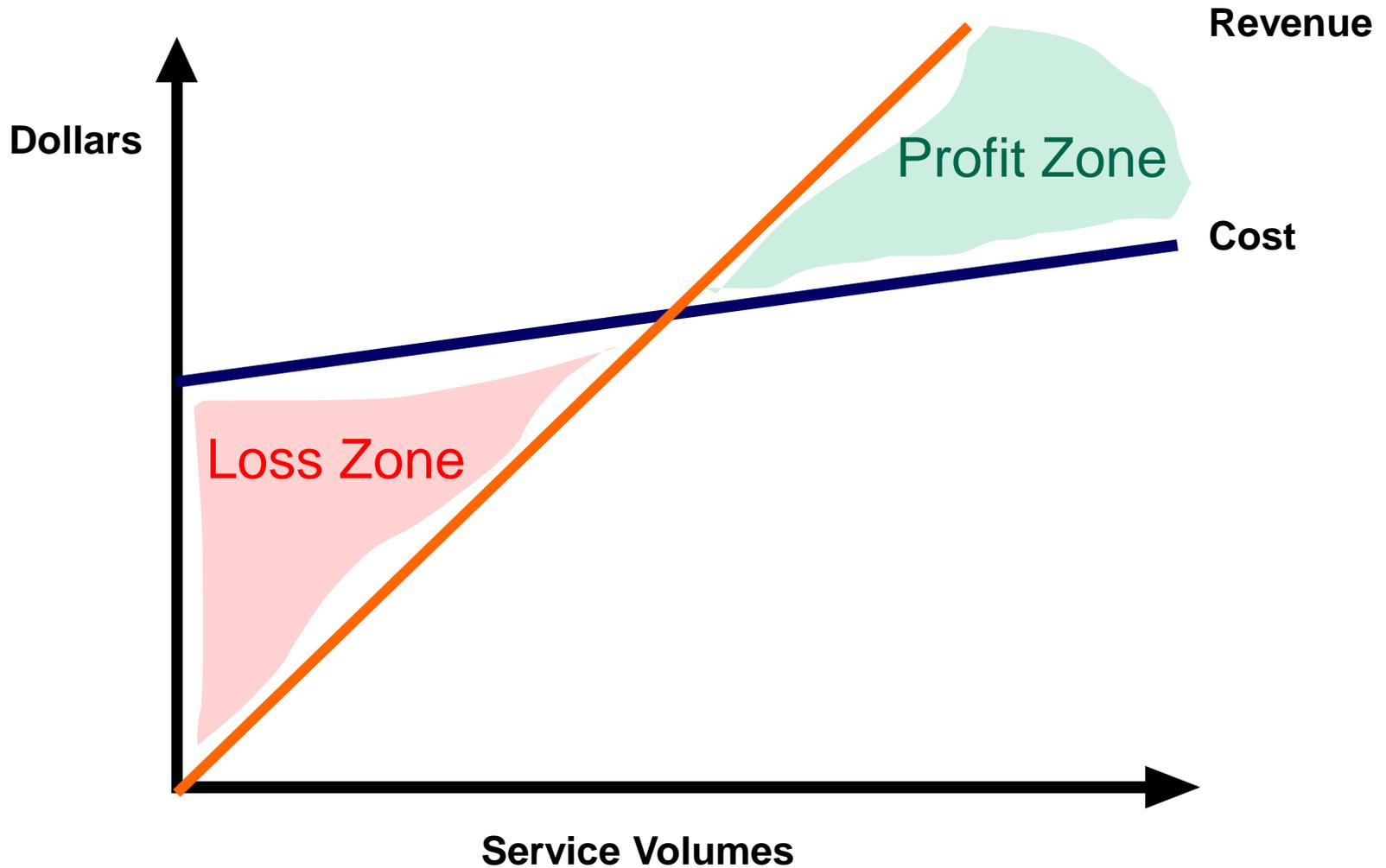
- Rural Hospital Cost Structure
 - Variable Cost
 - Definition: Expenses that change with changes in activity
 - Examples: *Pharmaceuticals, Reagents, Film, Food*
 - Fixed Cost
 - Definition: Expenses that do not change with changes in activity
 - Examples: *Salaries and benefits (??), Rent, Utilities*
 - Mixed Cost (Step Fixed Costs)
 - Costs that remain fixed through a range of volume growth, then jump to next level
 - Examples: Salaries and benefits (??)
- Rural hospitals have inordinately high fixed (or step fixed costs) costs relative to revenue
 - E.g., ER standby, acute care nursing costs, etc.

Rural Hospital Cost Structure (continued)

- A look at fixed and variable costs



- Profits and Losses

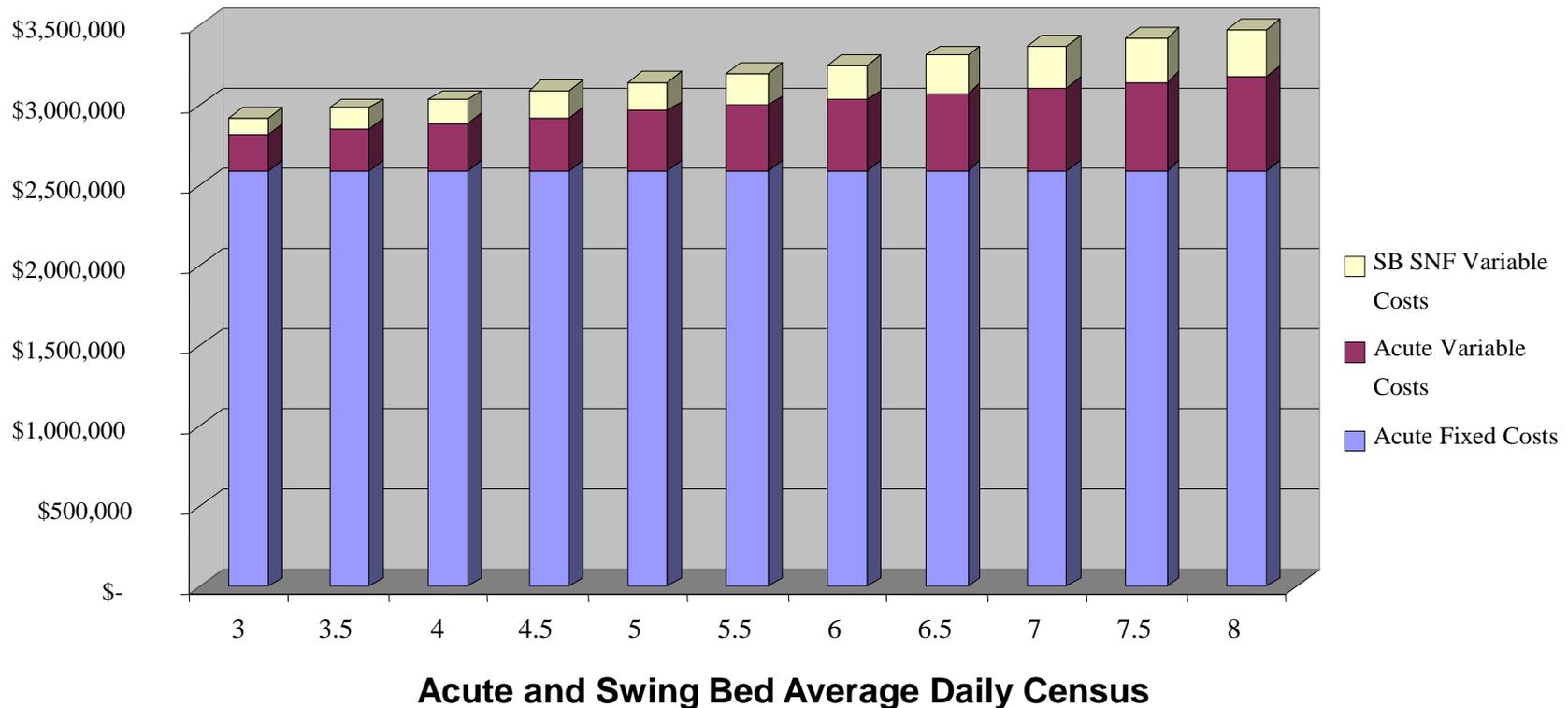


Hypothetical Model Assumptions:

Expenses:		
<i>Inpatient:</i>		
Acute Variable Costs/Day	\$	200
Swing-Bed SNF Variable Costs/Day	\$	100
Total Fixed Routine and Ancillary Costs	\$	2,600,000
<i>Outpatient:</i>		
Outpatient Variable Costs/Unit	\$	35
Total Fixed Outpatient Costs	\$	2,600,000
Revenue:		
<i>Inpatient:</i>		
Acute Revenue/Day (Non-Cost Based)	\$	950
Swing-Bed SNF Revenue/Day (Non-Cost Based)	\$	250
<i>Outpatient:</i>		
Outpatient Revenue Per Unit (Non-Cost Based)	\$	150
Payer Mix:		
<i>Inpatient:</i>		
Medicare Acute Payer Mix		60%
Medicare Swing-Bed SNF		100%
<i>Outpatient:</i>		
Medicare Outpatient Payer Mix		35%

Economic Model: Inpatient Total Costs

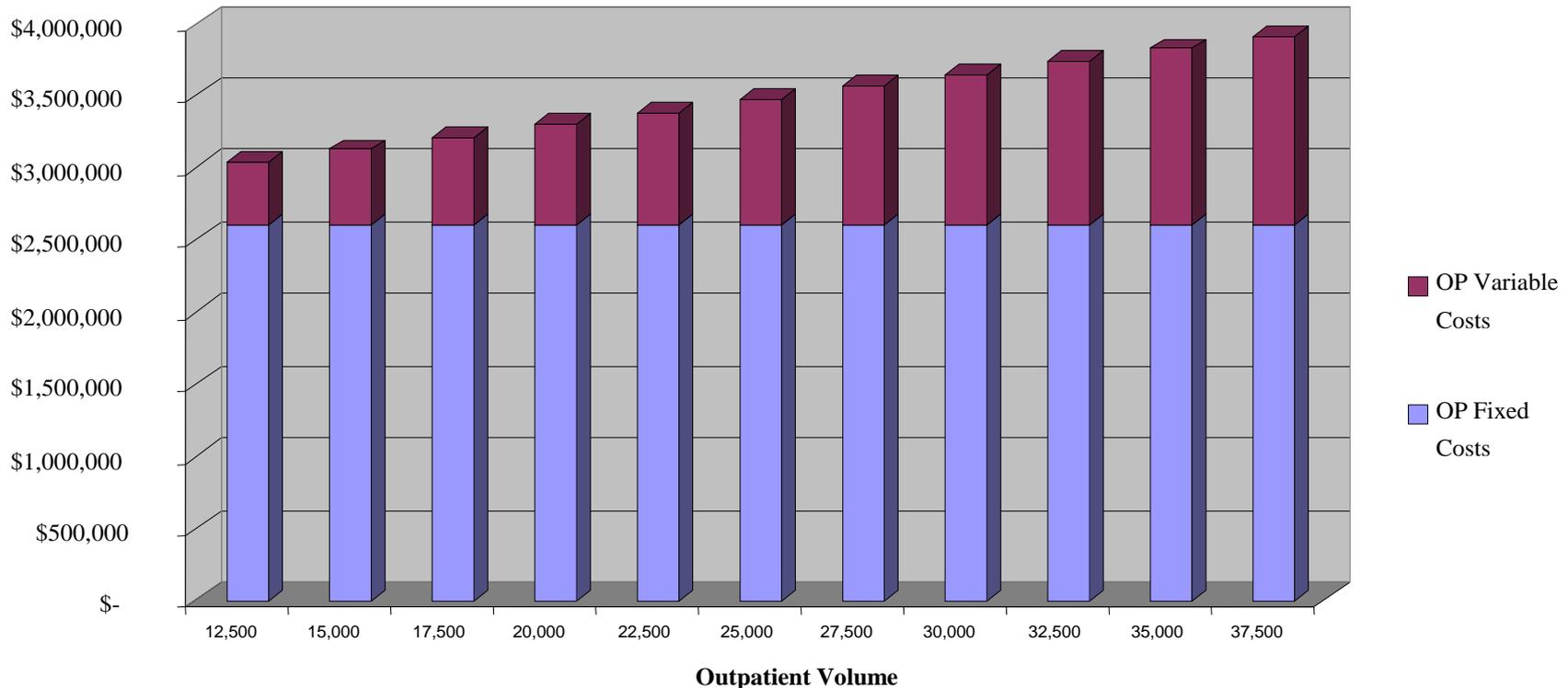
- Hypothetical example (continued)
 - Acute Variable Costs = \$200/day
 - Swing Bed Variable Costs = \$100/day
 - Fixed Costs = \$2,600,000



Economic Model: Outpatient Total Costs

- Hypothetical example (continued)
 - Outpatient Variable Costs = \$35/unit
 - Outpatient Fixed Costs = \$2,600,000

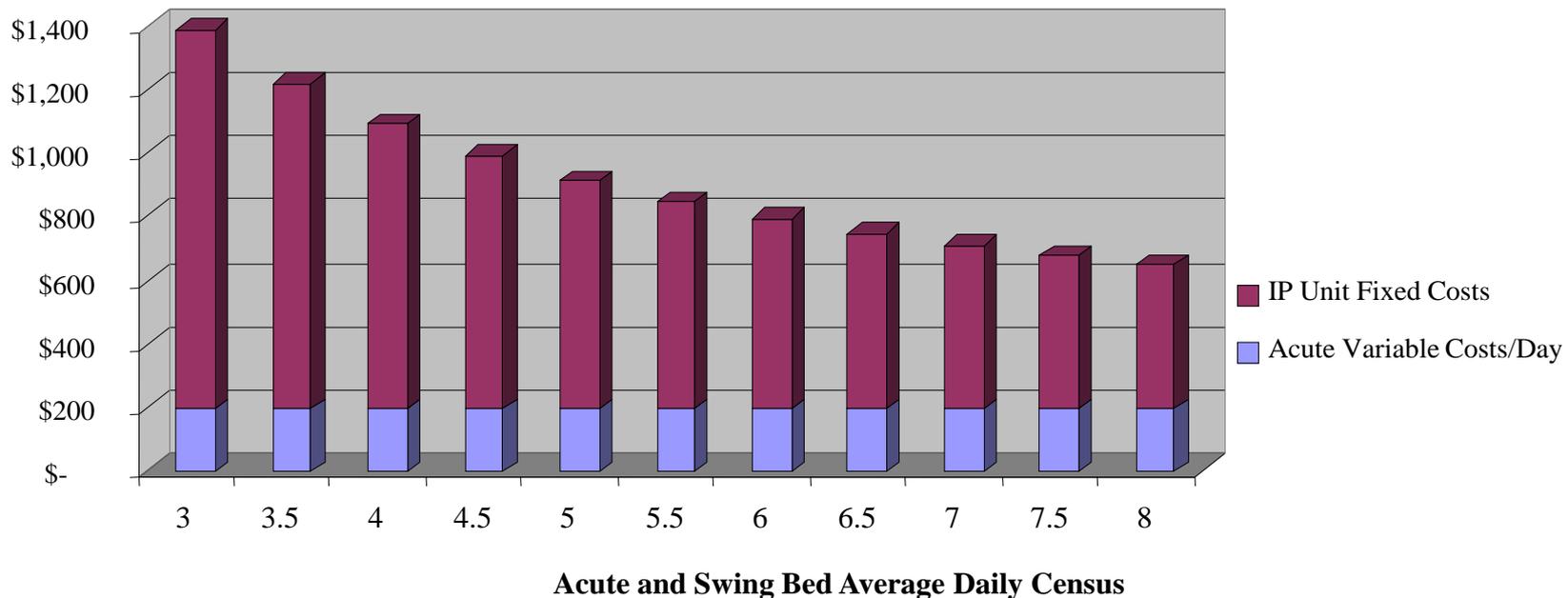
Outpatient Total Cost Analysis



Economic Model: Inpatient Per Unit Costs

- Hypothetical example (continued)
 - As volume increases, fixed costs are allocated over large base
 - Result → lower Unit Cost

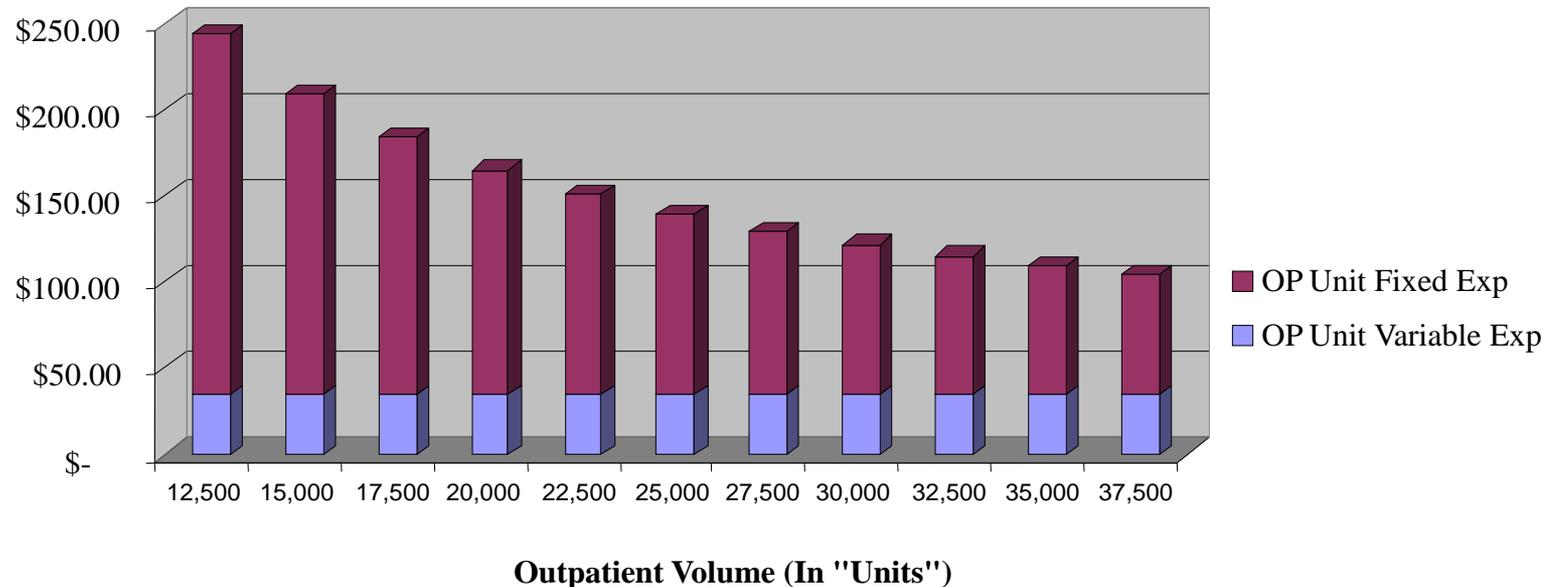
Acute Unit Cost Analysis



Economic Model: Outpatient *Per Unit* Costs

- Hypothetical example (continued)
 - Same applies to Outpatient costs!

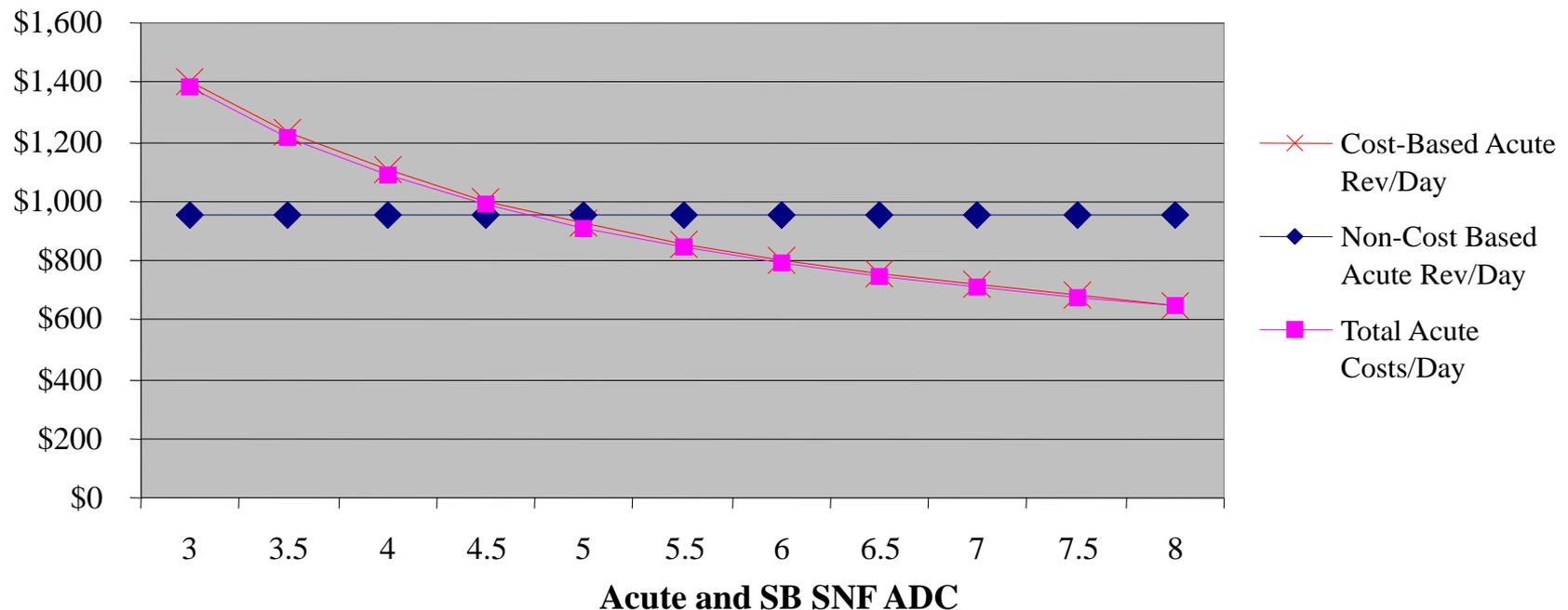
Outpatient Unit Cost Analysis



Acute Per Unit Revenue

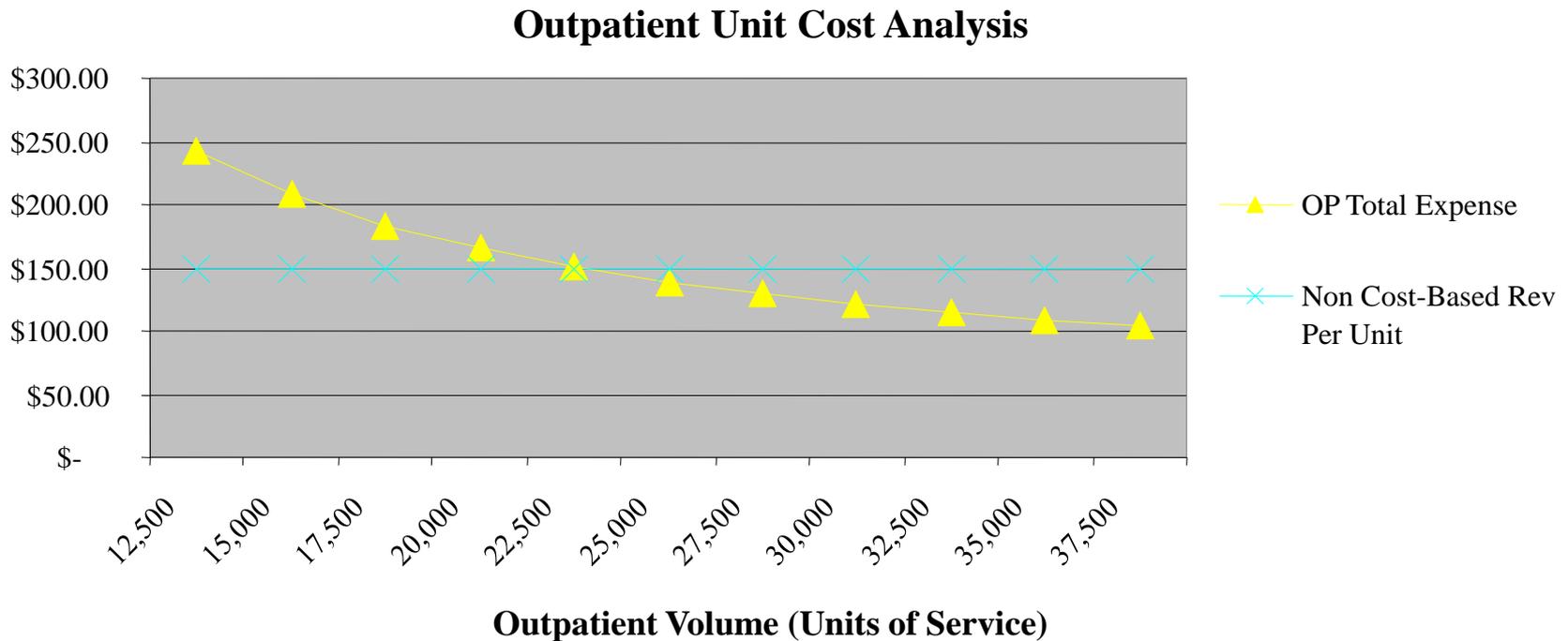
- Hypothetical example (continued)
 - Non Cost-Based Per Diems > Cost-Based Per Diems once Acute unit cost falls below \$950
 - *Note: Slightly higher acute variable costs cause higher breakeven*

IP Acute Unit Revenue



Outpatient Per Unit Revenue

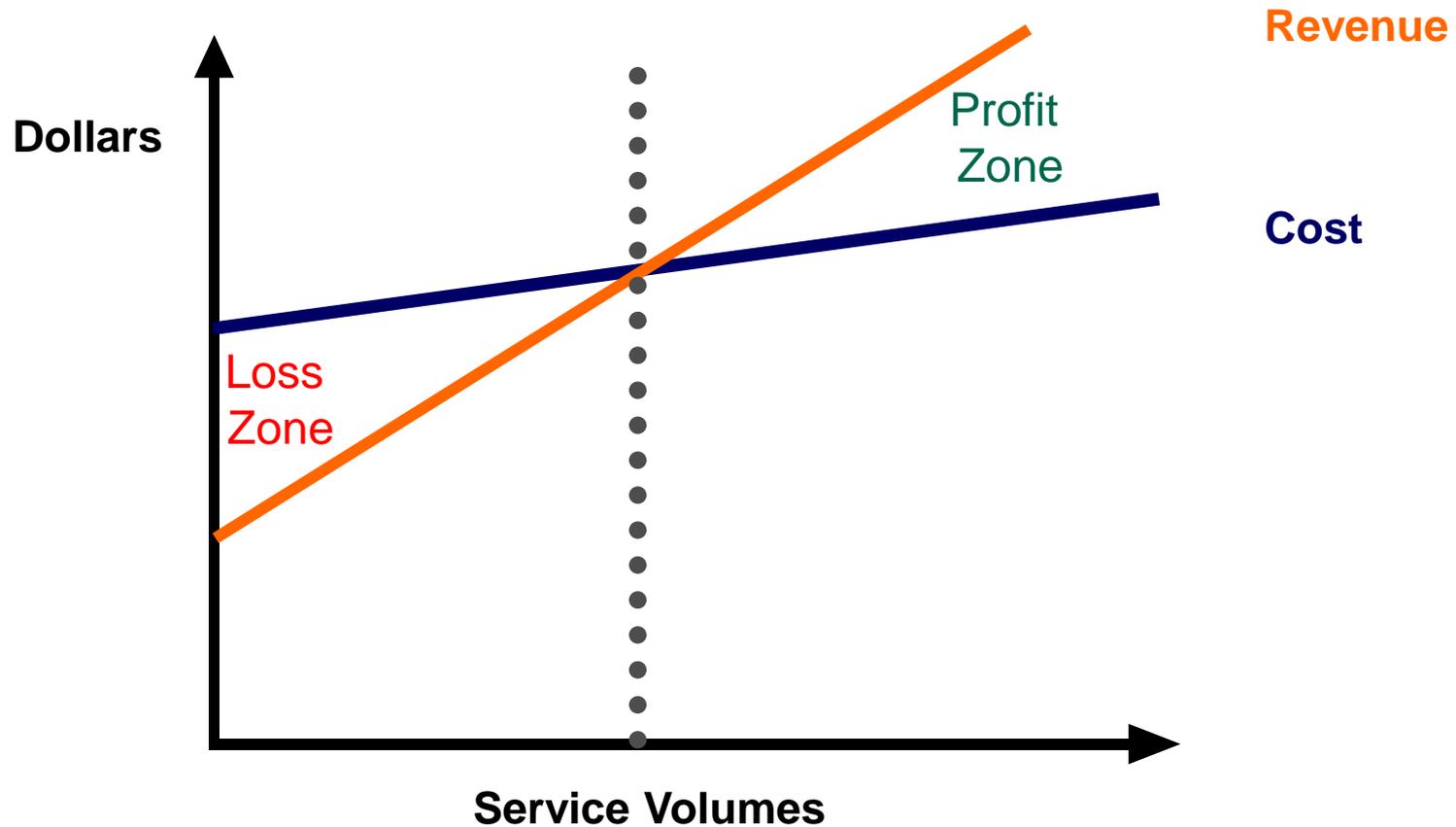
- Hypothetical Example (continued)
 - Non Cost-Based Payment > Cost-Based Payment once Acute unit cost falls below \$150



Successful Profit Strategies

- **Strategy 1: Decrease Expenses**

- Fixed Nature of standby costs, regulatory costs, etc. often make this a difficult option - Most rural hospitals have expenses right
- Reducing expenses reduces a portion of total revenue



- **Strategy 1: Decrease Expenses (continued)**

- Comparison with national standards example

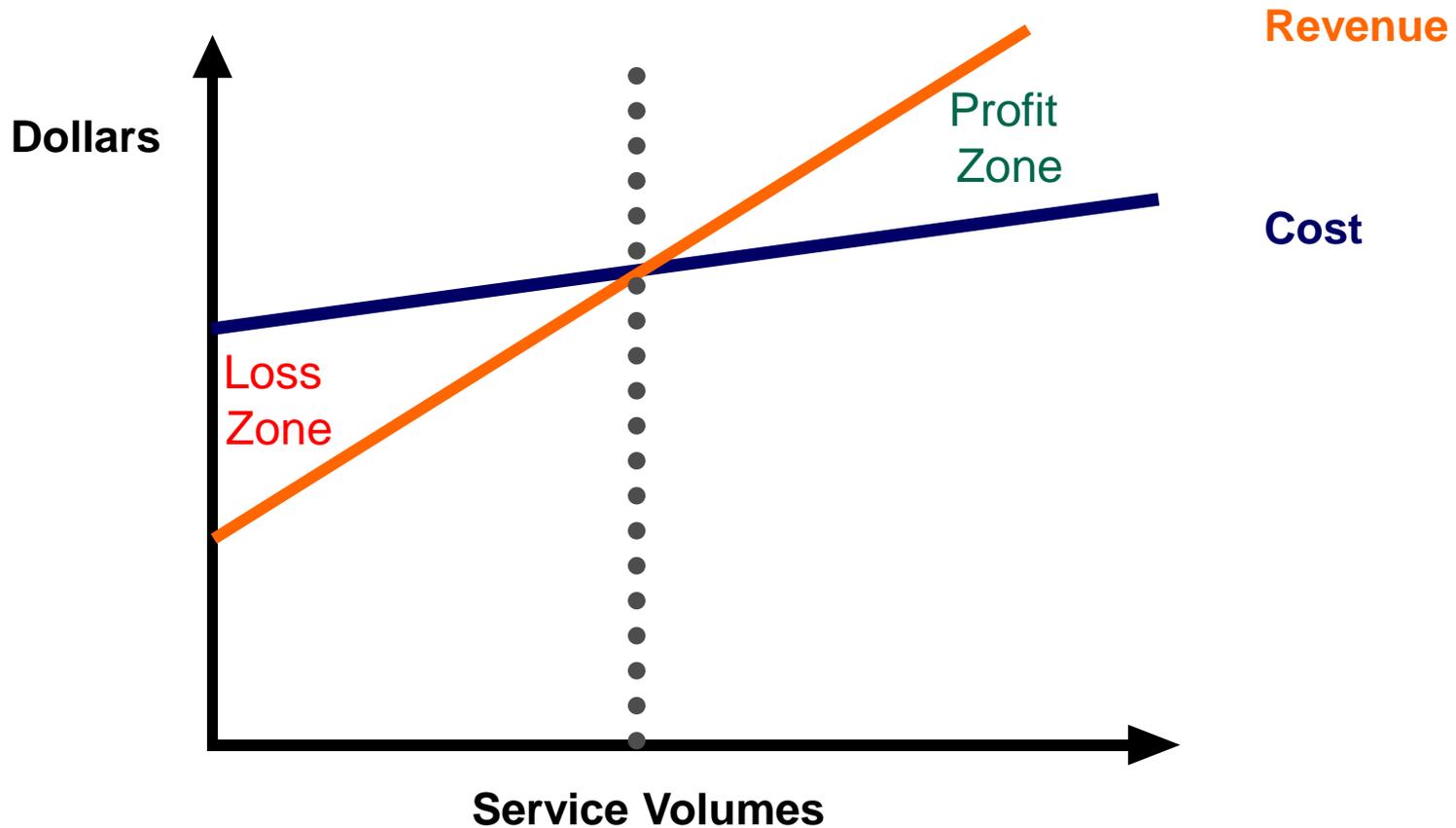
- *Note: Caution must be used when evaluating departmental performance*

Sample of Selected Departments						
Department	Performance Indicator	FY 2011 Volume	Hourly Standard (1)	FTEs @ Standard	Actual FTEs (2)	Variance
Nursing - Med Surg	Per Patient Day	2,240	12.00	12.92	18.58	5.66
Nursing - Surgery - minor	Per Case	346	5.50	0.91	4.16	3.25
Nursing - Recovery Room	Per Case	346	3.30	0.55	-	(0.55)
Surgery Subtotal				1.46	4.16	2.70
Emergency Room	Per Case	5,850	2.40	6.75	8.40	1.65
Nursing Home - Nursing Staff	Per Day	24,752	3.60	42.84	54.55	11.71
UR/Case Mgr/Soc Ser	Patient Days	2,240	0.75	0.81	1.00	0.19
Nursing Administration	Per Adjusted Admissions	2,939	1.75	2.47	5.88	3.41
Subtotal Nursing				67.26	92.57	25.31
Radiology	Per Procedure	9,610	1.44	6.65	8.04	1.39
Lab/Blood Bank	Per Test	71,126	0.25	8.62	8.82	0.20
Physical Therapy	Per Treatment	26,546	0.50	6.38	10.39	4.01
Cardiac Rehab	Per Procedure	-	1.31	-	1.00	1.00
Cardio/Pulmonary	Per Procedure	-	-	-	1.46	1.46
Pharmacy	Per Adjusted Day	15,629	0.60	4.51	2.67	(1.84)
Subtotal Ancillary				26.16	32.38	6.22
Subtotal - Clinical				93.42	124.95	31.53
Hospital Administration	Per Adjusted Admissions	2,939	1.65	2.33	5.51	3.18
Information Systems	Per Adjusted Admissions	2,939	1.00	1.41	1.00	(0.41)
Human Resources	Per Adjusted Admissions	2,939	1.10	1.55	-	(1.55)
Marketing/Planning/Public Rel	Per Adjusted Admissions	2,939	0.28	0.40	-	(0.40)
Volunteers	Per Adjusted Admissions	2,939	0.75	1.06	-	(1.06)
Telecommunications	Per Adjusted Admissions	2,939	0.36	0.51	-	(0.51)
General Accounting (5)	Per Adjusted Admissions	2,939	1.23	1.74	-	(1.74)
Security	Gross Square Feet	111,826	0.02	1.08	-	(1.08)
Patient Accounting	Per Adjusted Admissions	2,939	3.00	4.24	7.46	3.22
Admitting/Patient Registration	Per Adjusted Admissions	2,939	4.25	6.01	8.13	2.12
Medical Records	Per Adjusted Admissions	2,939	3.50	4.95	6.81	1.86
Cent Supply/Mtl Mgmt/Sterile	Per Adjusted Day	15,629	0.30	2.25	2.64	0.39
Housekeeping	Net Square Feet	79,876	0.31	11.98	19.54	7.56
Dietary	Meals Served	96,122	0.25	11.55	15.83	4.28
Plant Ops/ Maintenance	Gross Square Feet	111,826	0.12	6.45	6.13	(0.32)
Laundry and Linen	Lbs of Laundry	349,015	0.02	3.36	5.39	2.03
Subtotal Support				60.86	78.44	17.58
				154.28	203.39	49.11

(1) Hourly Standards based on Stroudwater sample of hospitals

- **Strategy 2: Increase Fees**

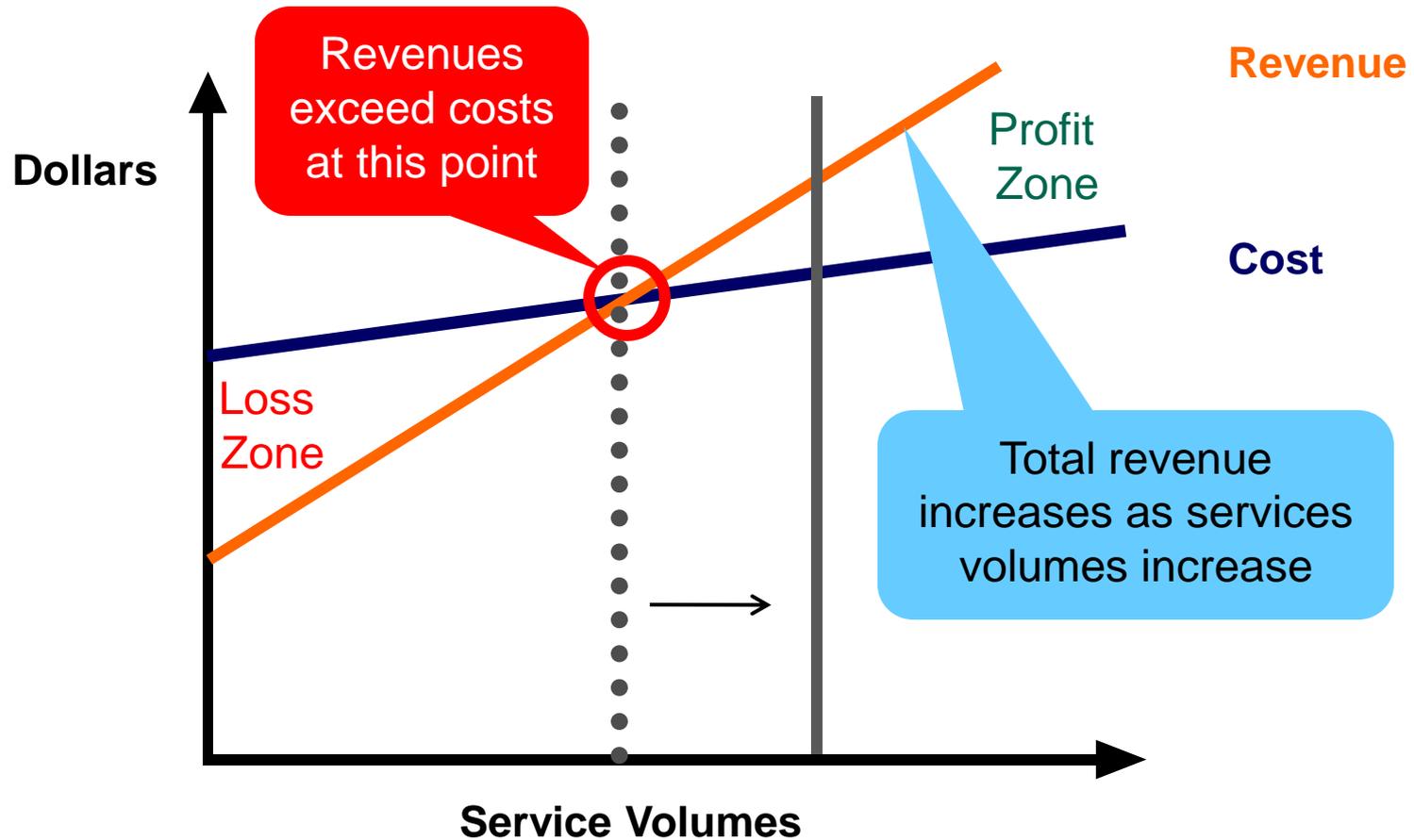
- Charge master update
- Renegotiate third party contracts
- Better Revenue cycle functions
- Cost report improvements
- Improved service mix



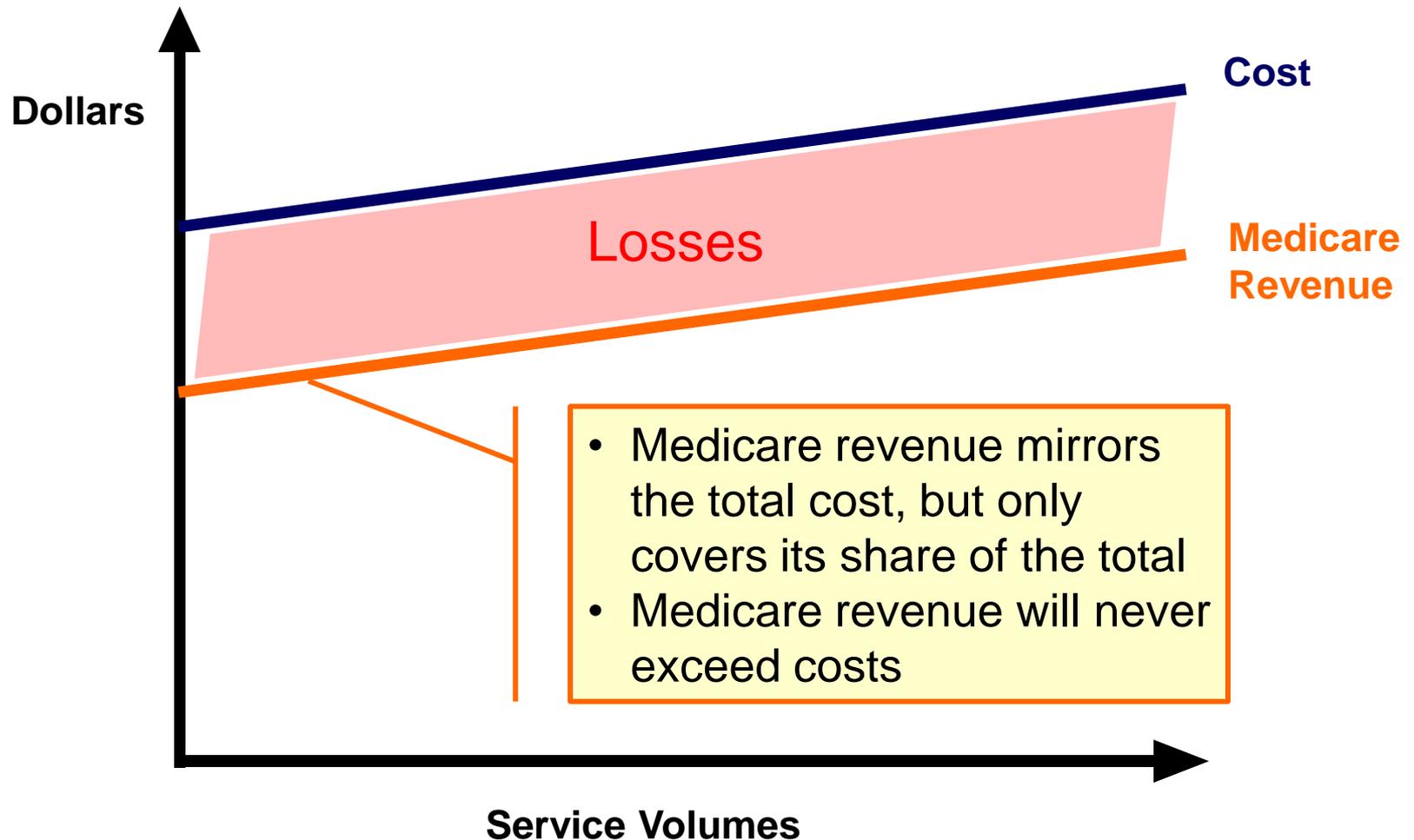
Successful Profit Strategies

- **Strategy 3:** Increase Volume or Improve Service Mix

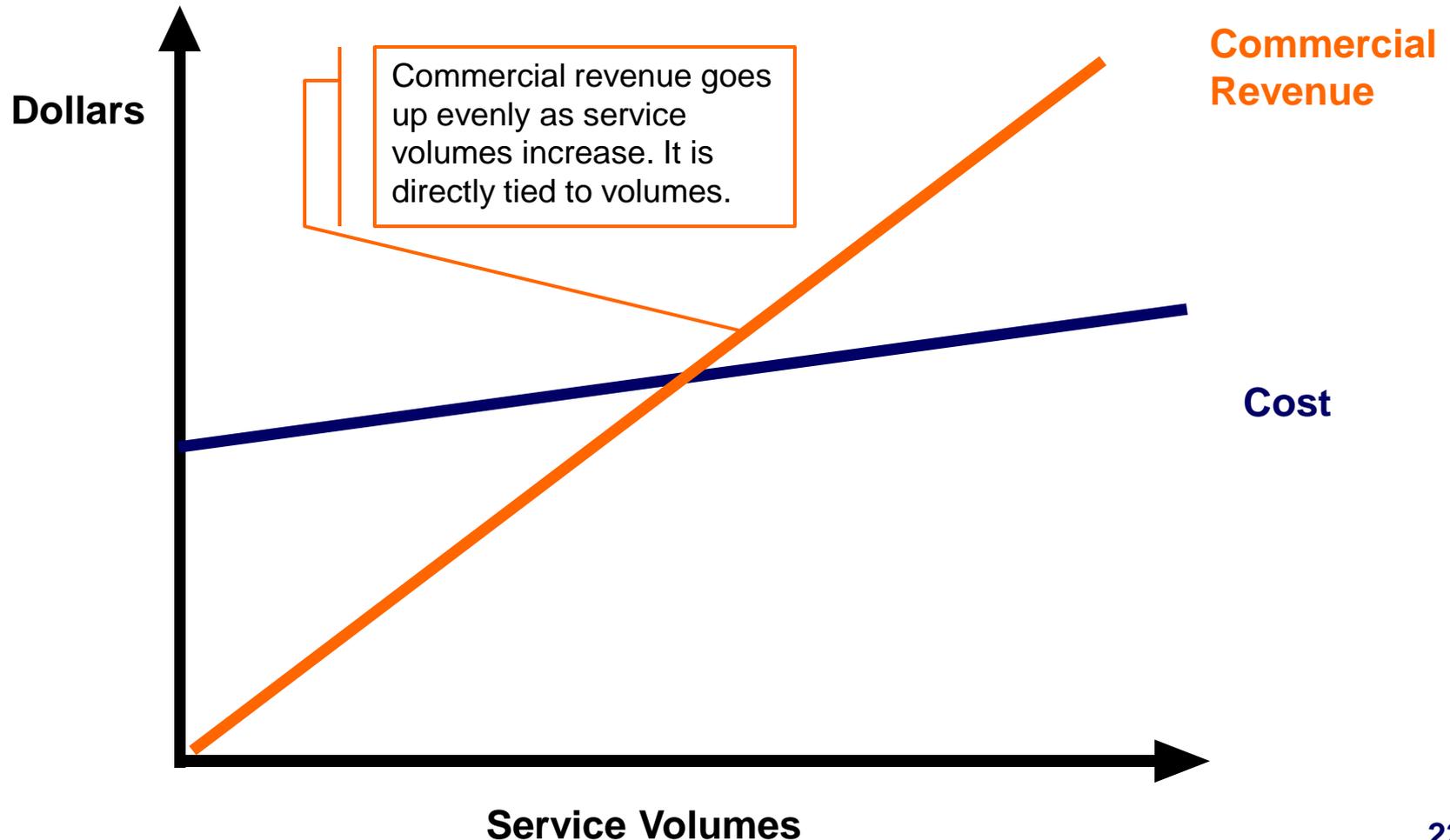
- More volume reduces the average cost per unit of service by spreading the high fixed costs over more patients



- **Strategy 4: Grow Non-Medicare Business**
 - Strategy assumes incremental margin on non-Medicare offsets reduction in Medicare per unit revenue

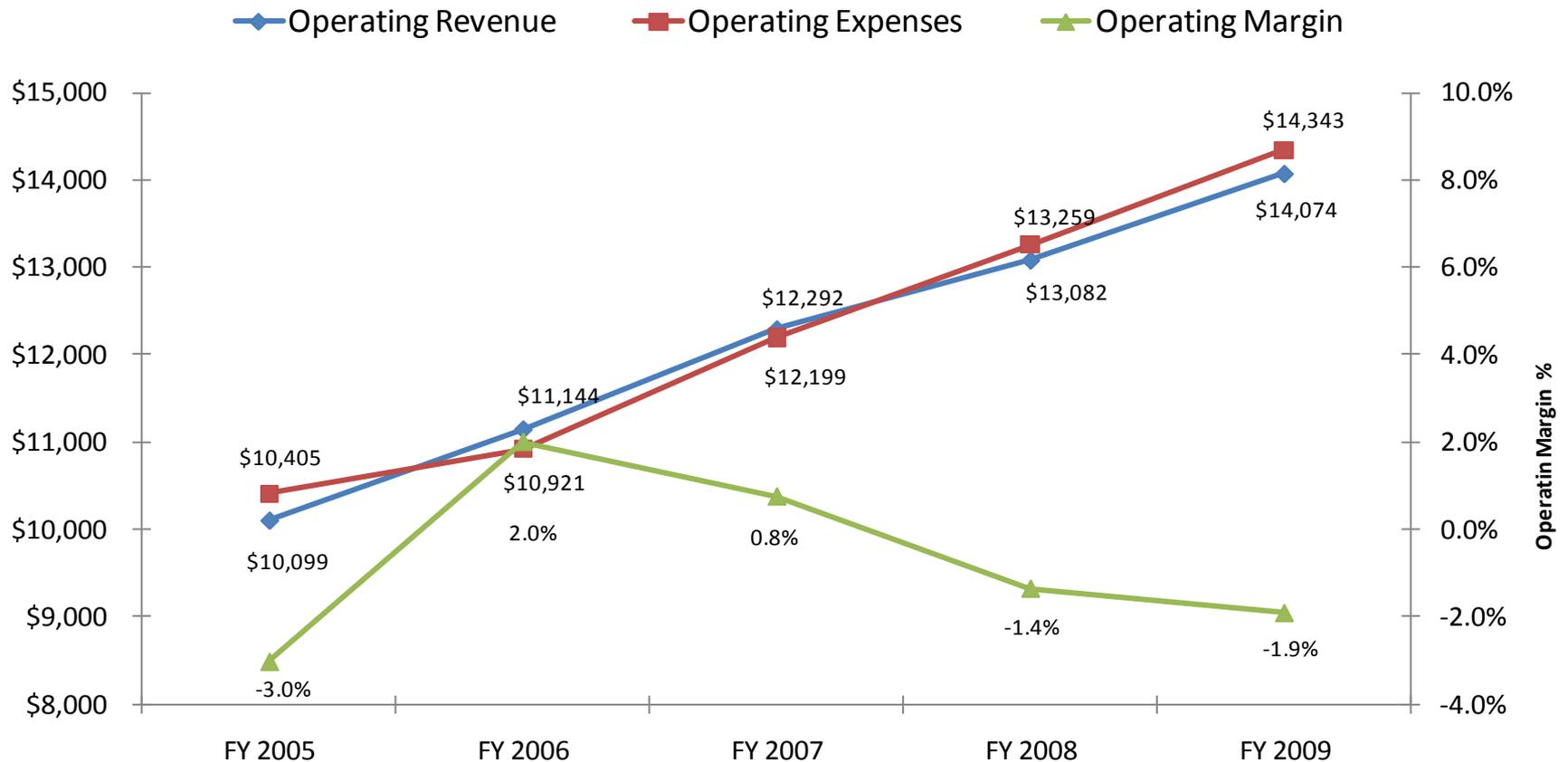


- **Strategy 4: Grow Non-Medicare Business (continued)**
 - Commercial revenue is the only potential source of profit
 - Overall services must be increased to exceed unit costs



What happened to the profit margin??

Financial Operating Trends (in 000's)



Course Overview

- Economic framework of a rural hospital
 - How does the fundamental framework effect decision making?
- Medicare Cost Report
 - An important source of 35-50% of revenue and a valuable financial resource
- Financial Statements
 - Better understand an important document in quantifying an organizations financial performance
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- Section 1861(v)(1)(A)
 - *"...providers of service participating in the Medicare program are required to submit annual information to achieve settlement of costs for health care services..."*

- Determination of Medicare ("Program") costs for reimbursement purposes
 1. Accumulate statistics required for payment purposes

 2. Direct costs +/- reclassifications and adjustments = net expenses for allocation

 3. Overhead expenses are allocated to revenue-producing areas (step down) to equal fully allocated department costs

Cost Report Structure and Logic

- Determination of Medicare ("Program") costs for reimbursement purposes (continued)
 4. Inpatient and swing payment basis
 - a) Average cost per day = routine costs/total days
 - b) Program costs = Program days * Avg. cost per day
 5. Inpatient ancillary and outpatient:
 - a) Ratio of Cost to Charges (RCC) = Total Costs/Total Charges
 - b) Program Costs = Program Charges X RCC
 6. Settlement = Program Costs – Deductibles & Coinsurance – Interim Payments

Structure and Logic

- S-3 Complex Statistical Data (p 5)
 - Purpose: Statistics on beds, acute days, discharges

HOSPITAL AND HOSPITAL HEALTH CARE
COMPLEX STATISTICAL DATA

I
I

I FROM 1/ 1/2005
I TO 12/31/2005

WORKSHEET S-3
PART I

COMPONENT	NO. OF BEDS 1	BED DAYS AVAILABLE 2	CAH HOURS 2.01	TITLE V 3	I/P DAYS / O/P VISITS / TRIPS TITLE XVIII 4	NOT LATCH N/A 4.01	TOTAL TITLE XIX 5
1 ADULTS & PEDIATRICS	25	9,125	84,110.32		2,097		217
2 HMO							
2 01 HMO - (IRF PPS SUBPROVIDER)							
3 ADULTS & PED-SB SNF					612		
4 ADULTS & PED-SB NF							
5 TOTAL ADULTS AND PEDS	25	9,125			2,709		217
11 NURSERY							21
12 TOTAL	25	9,125			2,709		238
13 RPCH VISITS							
18 HOME HEALTH AGENCY					2,967		
21 HOSPICE							
25 TOTAL	25						
26 OBSERVATION BED DAYS							
27 AMBULANCE TRIPS (01/01/2005)						210	
28 EMPLOYEE DISCOUNT DAYS							
28 01 EMP DISCOUNT DAYS -IRF							

58%

COMPONENT	TITLE XIX ADMITTED 5.01	I/P DAYS OBSERVATION BEDS NOT ADMITTED 5.02	O/P VISITS TOTAL ALL PATS 6
1 ADULTS & PEDIATRICS			3,606
2 HMO			
2 01 HMO - (IRF PPS SUBPROVIDER)			
3 ADULTS & PED-SB SNF			676
4 ADULTS & PED-SB NF			59
5 TOTAL ADULTS AND PEDS			4,341
11 NURSERY			227
12 TOTAL			4,568
13 RPCH VISITS			
18 HOME HEALTH AGENCY			4,426
21 HOSPICE			
25 TOTAL			
26 OBSERVATION BED DAYS			242
27 AMBULANCE TRIPS (01/01/2005)			
28 EMPLOYEE DISCOUNT DAYS			
28 p1 EMP DISCOUNT DAYS -IRF			

100%

Title XVIII = Medicare
Title XIX = Medicaid
All Other = Difference between Total, XVIII, and XIX

- Worksheet A: Departmental Expenses (pp 6-7)
 - Attribute direct expenses (salary and non-salary) to departments
 - Medicare allows for most accurate methodology
 - For non-cost based departments, GL detail to review appropriateness of overhead allocations is critical
 - Reclassifications and adjustments to comply with Medicare cost finding principles and program requirements
 - A-6 Reclassifications between departments (pp 8-9)
 - Match revenue with expenses
 - A-8 Adjustments
 - A-8 Expenses not related to patient care (pp 10)
 - A-8/1 Home Office Adjustment (pp 11)
 - A-8/2 Provider-based physician adjustment (pp 12)
 - A-8/4 Reasonable Cost for Therapy Provided by Outside Suppliers

Structure and Logic

CLASSIFICATION AND ADJUSTMENT OF TRIAL BALANCE OF EXPENSES		I	I	FROM	1/ 1/2005	WORKSHEET A	
		I		TO	12/31/2005		
COST CENTER	COST CENTER DESCRIPTION	SALARIES	OTHER	TOTAL	RECLASS-IFICATIONS	RECLASSIFIED TRIAL BALANC	
		1	2	3	4	5	
GENERAL SERVICE COST CNTR							
0300	NEW CAP REL COSTS-BLDG & FIXT		429,594	429,594	22,706	452,300	
0400	NEW CAP REL COSTS-MVBLE EQUIP		328,963	328,963	115,036	443,999	
0500	EMPLOYEE BENEFITS		1,560,251	1,560,251		1,560,251	
0600	ADMINISTRATIVE & GENERAL	809,239	1,878,018	2,687,257	-287,163	2,400,094	
0800	OPERATION OF PLANT	100,394	264,570	364,964		364,964	
0900	LAUNDRY & LINEN SERVICE		69,142	69,142		69,142	
1000	HOUSEKEEPING	98,358	76,566	174,924		174,924	
1100	DIETARY		81,604	81,604		81,604	
1200	CAFETERIA		6,470	6,470		6,470	
1400	NURSING ADMINISTRATION	353,876	31,186	385,062		385,062	
1700	MEDICAL RECORDS & LIBRARY	440,633	63,091	503,724		503,724	
INPAT ROUTINE SRVC CNTRS							
2500	ADULTS & PEDIATRICS	1,711,748	404,420	2,116,168	-10,121	2,106,047	
3300	NURSERY	8,130	5,357	13,487	-61	13,426	
ANCILLARY SRVC COST CNTRS							
3700	OPERATING ROOM	518,043	658,280	1,176,323	18,392	1,194,715	
3900	DELIVERY ROOM & LABOR ROOM	12,774	13,589	26,363	1,900	28,263	
4000	ANESTHESIOLOGY						
4100	RADIOLOGY-DIAGNOSTIC	286,645	941,934	1,228,579	46,971	1,275,550	
4400	LABORATORY	639,529	791,344	1,430,873	40,152	1,471,025	
4900	RESPIRATORY THERAPY	56,793	137,510	194,303	-439	193,864	
5000	PHYSICAL THERAPY	188,545	29,587	218,132	3,426	221,558	
5100	OCCUPATIONAL THERAPY		25,549	25,549	456	26,005	
5200	SPEECH PATHOLOGY	46,255	14,643	60,898	1,077	61,975	
5300	ELECTROCARDIOLOGY		51,260	51,260	-46,751	4,509	
5500	MEDICAL SUPPLIES CHARGED TO PATIENTS	30,039	343,867	373,906	7,956	381,862	
5600	DRUGS CHARGED TO PATIENTS	372,435	1,251,783	1,624,218	37,722	1,661,940	
3950	CARDIAC REHAB	134,599	13,681	148,280	817	149,097	
OUTPAT SERVICE COST CNTRS							
6000	CLINIC	747,227	2,602,456	3,349,683	39,854	3,389,537	
6001	DIABETIC EDUCATION		40,974	40,974	459	41,433	
6100	EMERGENCY	34,468	592,700	627,168	3,601	630,769	
6200	OBSERVATION BEDS (NON-DISTINCT PART)						
OTHER REIMBURS COST CNTRS							
6500	AMBULANCE SERVICES	105,603	26,174	131,777	4,010	135,787	
7100	HOME HEALTH AGENCY	833,568	88,972	922,540		922,540	
SPEC PURPOSE COST CENTERS							
8800	INTEREST EXPENSE						
9000	OTHER CAPITAL RELATED COSTS						
9300	HOSPICE						
6950	OTHER SPECIAL PURPOSE (SPECIFY)						
6951	BAD DEBT EXPENSE						
6952	HOSPICE						
	SUBTOTALS	7,528,901	12,823,535	20,352,436	-0-	20,352,436	
NONREIMBURS COST CENTERS							
9600	GIFT, FLOWER, COFFEE SHOP & CANTEEN						
9601	DIALYSIS						
9602	MASSAGE THERAPY						
9603	VA MEDICAL CENTER		25,618	25,618		25,618	
	TOTAL	7,528,901	12,849,153	20,378,054	-0-	20,378,054	

- **Worksheet B, Part I: Cost Allocation – General Service Costs (pp 13-15)**
 - Purpose: Allocates costs from non-revenue producing departments to revenue producing departments based on statistics
 - Values are all stated in terms of dollars
- **Worksheet B-1: Cost Allocation – Statistical Basis (pp 16-17)**
 - Purpose: Used to accumulate the statistics needed to allocate costs on worksheet B, Part I
 - Values may be dollars, square feet, pounds (of laundry), etc.

Structure and Logic

COST ALLOCATION - GENERAL SERVICE COSTS

I
I

I FROM 1/1/2005
I TO 12/31/2005

I WORKSHEET B
I PART I

COST CENTER DESCRIPTION		NET EXPENSES FOR COST ALLOCATION	NEW CAP REL C OSTS-BLDG & 3	NEW CAP REL C OSTS-MVBLE E 4	EMPLOYEE BENE FITS 5	SUBTOTAL 5a.00	ADMINISTRATIV E & GENERAL 6	OPERATION OF PLANT 8
003	GENERAL SERVICE COST CNTR							
004	NEW CAP REL COSTS-BLDG &	206,595	206,595					
005	NEW CAP REL COSTS-MVBLE E	380,957						
006	EMPLOYEE BENEFITS	1,507,160			1,507,160			
008	ADMINISTRATIVE & GENERAL	1,913,124	23,188	39,241	167,703	2,143,256	2,143,256	
009	OPERATION OF PLANT	290,654	9,060	15,331	20,805	335,850	50,503	386,353
010	LAUNDRY & LINEN SERVICE	69,142				69,142	10,397	
011	HOUSEKEEPING	162,439	169	286	20,383	183,277	27,560	338
012	DIETARY	78,254				78,254	11,767	
014	CAFETERIA	6,470				6,470	973	
017	NURSING ADMINISTRATION	385,062	2,990	5,059	73,335	466,446	70,141	5,989
025	MEDICAL RECORDS & LIBRARY	488,132	2,327		91,315	585,711	88,075	4,661
033	INPAT ROUTINE SRVC CNTRS							
037	ADULTS & PEDIATRICS	2,106,047	36,127		354,732	2,558,048	384,663	72,376
040	NURSERY	13,018	2,262		1,685	20,792	3,127	4,531
041	ANCILLARY SRVC COST CNTRS							
044	OPERATING ROOM	1,166,672	31,152	52,717	107,357	1,357,898	204,191	62,403
049	DELIVERY ROOM & LABOR ROO	28,263	2,990	5,059	2,647	38,959	5,858	5,989
050	ANESTHESIOLOGY							
051	RADIOLOGY-DIAGNOSTIC	1,275,550	8,600	14,554	59,403	1,358,107	204,223	17,228
052	LABORATORY	1,471,025	3,150	5,330	132,533	1,612,038	242,407	6,310
053	RESPIRATORY THERAPY	193,864	997	1,686	11,769	208,316	31,325	1,996
054	PHYSICAL THERAPY	221,558	7,444	12,596	39,073	280,671	42,205	14,911
055	OCCUPATIONAL THERAPY	26,005	212	359		26,576	3,996	425
056	SPEECH PATHOLOGY	60,591			9,586	70,177	10,553	
057	ELECTROCARDIOLOGY	4,509				4,509	678	
058	MEDICAL SUPPLIES CHARGED	354,494	13,522	22,883	6,225	397,124	59,717	27,088
059	DRUGS CHARGED TO PATIENTS	1,661,940	4,679	7,919	77,182	1,751,720	263,411	9,373
060	CARDIAC REHAB	149,097	2,743	4,641	27,894	184,375	27,725	5,494
061	OUTPAT SERVICE COST CNTRS							
062	CLINIC	566,846		88,830	101,761	757,437	113,898	105,148
063	01 DIABETIC EDUCATION	41,433			7,143	48,576	7,305	
064	EMERGENCY	483,341	7,509	12,706		503,556	75,721	15,041
065	OBSERVATION BEDS (NON-DIS							
066	OTHER REIMBURS COST CNTRS							
067	AMBULANCE SERVICES	135,787	4,320	7,310	21,885	169,302	25,458	8,653
068	HOME HEALTH AGENCY	922,540	1,993	3,373	172,744	1,100,650	165,508	3,992
069	SPEC PURPOSE COST CENTERS							
070	HOSPICE							
071	OTHER SPECIAL PURPOSE (SP							
072	01 BAD DEBT EXPENSE							
073	02 HOSPICE		997	1,686		2,683	403	1,986
074	SUBTOTALS	16,370,569	166,431	370,472	1,507,160	16,319,920	2,131,788	373,942
075	NONREIMBURS COST CENTERS							
076	GIFT, FLOWER, COFFEE SHOP							
077	01 DIALYSIS		6,196	10,485		16,681	2,508	12,411
078	02 MASSAGE THERAPY							
079	03 VA MEDICAL CENTER	25,618	33,968			59,586	8,960	
080	CROSS FOOT ADJUSTMENT							
081	NEGATIVE COST CENTER							
082	TOTAL	16,396,187	206,595		1,507,160	16,396,187	2,143,256	386,353

100%

17%

100%

Structure and Logic

WORKSHEET B-1

COST ALLOCATION - STATISTICAL BASIS

I
I

I FROM 1/ 1/2005
I TO 12/31/2005

COST CENTER DESCRIPTION		NEW CAP REL C OSTS-BLDG & (SQUARE FT)	NEW CAP REL C OSTS-MVBLE E (SQUARE FEET)	EMPLOYEE BENE FITS	RECONCIL- IATION	ADMINISTRATIV E & GENERAL (ACCUM. COST)	OPERATION OF PLANT (SQUARE FEET)
		3	4	5	6a.00	6	8
003	GENERAL SERVICE COST CNTR						
004	NEW CAP REL COSTS-BLDG &	47,683					
005	NEW CAP REL COSTS-MVBLE E		51,958				
006	EMPLOYEE BENEFITS			7,272,715			
008	ADMINISTRATIVE & GENERAL	5,352	5,352	809,239	-2,143,256	14,252,931	
009	OPERATION OF PLANT	2,091	2,091	100,394		335,850	44,51
010	LAUNDRY & LINEN SERVICE					69,142	
011	HOUSEKEEPING	39	39	98,358		183,277	3
012	DIETARY					78,254	
014	CAFETERIA					6,470	
017	NURSING ADMINISTRATION	690	690	353,876		466,446	69
025	MEDICAL RECORDS & LIBRARY	537	537	440,633		585,711	53
033	INPAT ROUTINE SRVC CNTRS						
037	ADULTS & PEDIATRICS	8,339	8,339	1,711,748		2,558,048	8,33
039	NURSERY	522	522	8,130		20,792	52
040	ANCILLARY SRVC COST CNTRS						
041	OPERATING ROOM	7,190	7,190	518,043		1,357,898	7,19
044	DELIVERY ROOM & LABOR ROO	690	690	12,774		38,959	69
049	ANESTHESIOLOGY						
050	RADIOLOGY-DIAGNOSTIC	1,985	1,985	286,645		1,358,107	1,98
051	LABORATORY	727	727	639,529		1,612,038	72
052	RESPIRATORY THERAPY	230	230	56,793		208,316	23
053	PHYSICAL THERAPY	1,718	1,718	188,545		280,671	1,71
055	OCCUPATIONAL THERAPY	49	49			26,576	4
056	SPEECH PATHOLOGY			46,255		70,177	
059	ELECTROCARDIOLOGY					4,509	
060	MEDICAL SUPPLIES CHARGED	3,121	3,121	30,039		397,124	3,12
061	DRUGS CHARGED TO PATIENTS	1,080	1,080	372,435		1,751,720	1,08
062	CARDIAC REHAB	633	633	134,599		184,375	63
065	OUTPAT SERVICE COST CNTRS						
071	CLINIC		12,115	491,041		757,437	12,11
093	01 DIABETIC EDUCATION			34,468		48,576	
094	EMERGENCY	1,733	1,733			503,556	1,73
096	OBSERVATION BEDS (NON-DIS						
096	OTHER REIMBURS COST CNTRS						
096	AMBULANCE SERVICES	997	997	105,603		169,302	99
096	HOME HEALTH AGENCY	460	460	833,568		1,100,650	46
096	SPEC PURPOSE COST CENTERS						
096	HOSPICE						
096	01 OTHER SPECIAL PURPOSE (SP						
096	BAD DEBT EXPENSE						
096	02 HOSPICE	230	230			2,683	23
096	SUBTOTALS	38,413	50,528	7,272,715	-2,143,256	14,176,664	43,08
096	NONREIMBURS COST CENTERS						
096	GIFT, FLOWER, COFFEE SHOP						
096	01 DIALYSIS	1,430	1,430			16,681	1,43
096	02 MASSAGE THERAPY						
096	03 VA MEDICAL CENTER	7,840				59,586	

17%

Structure and Logic

COST ALLOCATION - GENERAL SERVICE COSTS

I
I

I FROM 1/ 1/2005 I
I TO .12/31/2005 I

WORKSHEET B
PART I

COST CENTER DESCRIPTION	I&R COST POST STEP-DOWN ADJ 26	TOTAL
		27
003 GENERAL SERVICE COST CNTR		
004 NEW CAP REL COSTS-BLDG &		
005 NEW CAP REL COSTS-MVBLE E		
006 EMPLOYEE BENEFITS		
008 ADMINISTRATIVE & GENERAL		
009 OPERATION OF PLANT		
010 LAUNDRY & LINEN SERVICE		
011 HOUSEKEEPING		
012 DIETARY		
014 CAFETERIA		
017 NURSING ADMINISTRATION		
025 MEDICAL RECORDS & LIBRARY		
033 INPAT ROUTINE SRVC CNTRS		
037 ADULTS & PEDIATRICS		3,633,547
039 NURSERY		37,099
040 ANCILLARY SRVC COST CNTRS		
041 OPERATING ROOM		1,796,559
044 DELIVERY ROOM & LABOR ROO		58,152
049 ANESTHESIOLOGY		
050 RADIOLOGY-DIAGNOSTIC		1,660,992
051 LABORATORY		1,889,569
052 RESPIRATORY THERAPY		243,855
053 PHYSICAL THERAPY		374,055
055 OCCUPATIONAL THERAPY		32,257
056 SPEECH PATHOLOGY		81,788
059 ELECTROCARDIOLOGY		7,776
060 MEDICAL SUPPLIES CHARGED		501,982
060 01 DRUGS CHARGED TO PATIENTS		2,086,222
061 02 CARDIAC REHAB		247,484
062 03 OUTPAT SERVICE COST CNTRS		
060 CLINIC		1,414,018
060 01 DIABETIC EDUCATION		55,881
061 02 EMERGENCY		676,677
062 03 OBSERVATION BEDS (NON-DIS		
065 01 OTHER REIMBURS COST CNTRS		
071 02 AMBULANCE SERVICES		208,379
093 03 HOME HEALTH AGENCY		1,276,638
094 01 SPEC PURPOSE COST CENTERS		
094 02 HOSPICE		
094 03 OTHER SPECIAL PURPOSE (SP		
094 01 BAD DEBT EXPENSE		
094 02 HOSPICE		6,194
095 03 SUBTOTALS		16,289,124
096 01 NONREIMBURS COST CENTERS		
096 02 GIFT, FLOWER, COFFEE SHOP		
096 01 DIALYSIS		38,517
096 02 MASSAGE THERAPY		
096 03 VA MEDICAL CENTER		68,546
101 01 CROSS FOOT ADJUSTMENT		
102 02 NEGATIVE COST CENTER		
103 03 TOTAL		16,396,187



Structure and Logic

- Worksheet C: Computation of Ratio of Costs to Charges (pp 18-19)
 - Purpose: Divides fully allocated costs for ancillary and outpatient revenue departments by total department charges (inpatient and outpatient) to determine RCC

COMPUTATION OF RATIO OF COSTS TO CHARGES				I 24- I	I FROM 1/ 1/2005 I TO 12/31/2005	I	WORKSHEET C PART I
KST A LINE NO.	COST CENTER DESCRIPTION	INPATIENT CHARGES 6	OUTPATIENT CHARGES 7	TOTAL CHARGES 8	COST OR OTHER RATIO 9	TEFRA INPAT- IENT RATIO 10	PPS INPAT- IENT RATIO 11
25	INPAT ROUTINE SRVC CNTRS ADULTS & PEDIATRICS	3,109,914		3,109,914			
33	NURSERY	97,180		97,180			
37	ANCILLARY SRVC COST CNTRS OPERATING ROOM	790,151	985,200	1,775,351	1.011946	1.011946	1.011946
39	DELIVERY ROOM & LABOR ROO	126,580	51,173	177,753	.327151	.327151	.327151
40	ANESTHESIOLOGY						
41	RADIOLOGY-DIAGNOSTIC	772,832	3,589,698	4,362,530	.380741	.380741	.380741
44	LABORATORY	1,183,983	2,572,830	3,756,813	.502971	.502971	.502971
49	RESPIRATORY THERAPY	231,755	90,038	321,793	.757801	.757801	.757801
50	PHYSICAL THERAPY	40,950	279,571	320,521	1.167022	1.167022	1.167022
51	OCCUPATIONAL THERAPY	26,036	16,596	42,632	.756638	.756638	.756638
52	SPEECH PATHOLOGY	26,926	73,822	100,748	.811808	.811808	.811808
53	ELECTROCARDIOLOGY	61,710	46,943	108,653	.071567	.071567	.071567
55	MEDICAL SUPPLIES CHARGED	842,850	290,492	1,133,342	.442922	.442922	.442922
56	DRUGS CHARGED TO PATIENTS	1,506,675	2,420,200	3,926,875	.531268	.531268	.531268
59	CARDIAC REHAB	6,615	178,615	185,230	1.336090	1.336090	1.336090
60	OUTPAT SERVICE COST CNTRS CLINIC	500	811,653	812,153	1.741073	1.741073	1.741073
60	01 DIABETIC EDUCATION	146	42,780	42,926	1.301798	1.301798	1.301798
61	EMERGENCY	98,270	331,959	430,229	1.572830	1.572830	1.572830
62	OBSERVATION BEDS (NON-DIS OTHER REIMBURS COST CNTRS)		310,808	310,808	.623919	.623919	.623919
65	AMBULANCE SERVICES	161,704	213,472	375,176	.555417	.555417	.555417
101	SUBTOTAL	9,084,777	12,305,850	21,390,627			
102	LESS OBSERVATION BEDS						
103	TOTAL	9,084,777	12,305,850	21,390,627			

Structure and Logic

- Worksheet D Part V: Outpatient Costs (pp 20-22)
 - Purpose: Determine Medicare outpatient costs using RCCs determined on Worksheet C * Medicare outpatient charges

Medicare Charges

Medicare Costs

Cost Center Description	Cost/Charge Ratio (C, Pt I, col. 9)	All Other (1)	All Other
	1	5	9
(A) ANCILLARY SRVC COST CNTRS			
.37 OPERATING ROOM	1.011946	481,852	487,608
.39 DELIVERY ROOM & LABOR ROOM	.327151		
.40 ANESTHESIOLOGY			
.41 RADIOLOGY-DIAGNOSTIC	.380741	X 1,339,088	= 509,846
.44 LABORATORY	.502971	890,428	447,859
.49 RESPIRATORY THERAPY	.757801	26,239	19,884
.50 PHYSICAL THERAPY	1.167022	67,952	79,301
.51 OCCUPATIONAL THERAPY	.756638	6,500	4,918
.52 SPEECH PATHOLOGY	.811808	29,136	23,653
.53 ELECTROCARDIOLOGY	.071567	46,209	3,307
.55 MEDICAL SUPPLIES CHARGED TO PATIENTS	.442922	76,442	33,858
.56 DRUGS CHARGED TO PATIENTS	.531268	1,295,078	688,033
.59 CARDIAC REHAB	1.336090	83,422	111,459
60 OUTPAT SERVICE COST CNTRS			
60 CLINIC	1.741073	280,117	487,704
60 01 DIABETIC EDUCATION	1.301798	18,267	23,780
61 EMERGENCY	1.572830	83,202	130,863
62 OBSERVATION BEDS (NON-DISTINCT PART)	.623919	96,180	60,009
65 OTHER REIMBURS COST CNTRS			
101 AMBULANCE SERVICES (01/01/2005 LIMIT	.555417	173,866	81,493
----- SUBTOTAL		4,993,978	3,193,575
		4,993,978	3,193,575

- Worksheet D-1: Inpatient routine costs (pp 23-25)
 - Purpose: Determines inpatient routine costs per day
 - Acute, swing, and observation bed costs (outpatient)

- Worksheet D-4: Inpatient ancillary costs (pp 26-27)
 - Purpose: Applies inpatient program ancillary department charges to RCCs to determine inpatient ancillary costs
 - Hospital
 - Swing-bed SNF
 - Distinct Part Units

COMPUTATION OF INPATIENT OPERATING COST

I
I COMPONENT NO:
I

I FROM 1/ 1/2005
I TO 12/31/2005
I

WORKSHEET D-1
PART I

TITLE XVIII PART A HOSPITAL OTHER

PART I - ALL PROVIDER COMPONENTS

		1	
	INPATIENT DAYS		
1	INPATIENT DAYS (INCLUDING PRIVATE ROOM AND SWING BED DAYS, EXCLUDING NEWBORN)	4,583	
2	INPATIENT DAYS (INCLUDING PRIVATE ROOM, EXCLUDING SWING-BED AND NEWBORN DAYS)	3,848	
3	PRIVATE ROOM DAYS (EXCLUDING SWING-BED PRIVATE ROOM DAYS)		
4	SEMI-PRIVATE ROOM DAYS (EXCLUDING SWING-BED PRIVATE ROOM DAYS)	3,848	
5	TOTAL SWING-BED SNF-TYPE INPATIENT DAYS (INCLUDING PRIVATE ROOM DAYS)	676	
	THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD		
6	TOTAL SWING-BED SNF-TYPE INPATIENT DAYS (INCLUDING PRIVATE ROOM DAYS) AFTER DECEMBER 31 OF COST REPORTING PERIOD (IF CALENDAR YEAR, ENTER 0 ON THIS LINE)		
7	TOTAL SWING-BED NF TYPE INPATIENT DAYS (INCLUDING PRIVATE ROOM DAYS)	59	NF Days
	THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD		
8	TOTAL SWING-BED NF TYPE INPATIENT DAYS (INCLUDING PRIVATE ROOM DAYS) AFTER DECEMBER 31 OF COST REPORTING PERIOD (IF CALENDAR YEAR, ENTER 0 ON THIS LINE)		
9	TOTAL INPATIENT DAYS INCLUDING PRIVATE ROOM DAYS APPLICABLE TO THE PROGRAM (EXCLUDING SWING-BED AND NEWBORN DAYS)	2,097	
10	SWING-BED SNF-TYPE INPATIENT DAYS APPLICABLE TO TITLE XVIII ONLY (INCLUDING PRIVATE ROOM DAYS) THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD	612	SNF Days
11	SWING-BED SNF-TYPE INPATIENT DAYS APPLICABLE TO TITLE XVIII ONLY (INCLUDING PRIVATE ROOM DAYS) AFTER DECEMBER 31 OF THE COST REPORTING PERIOD (IF CALENDAR YEAR, ENTER 0 ON THIS LINE)		
12	SWING-BED NF-TYPE INPATIENT DAYS APPLICABLE TO TITLES V & XIX ONLY (INCLUDING PRIVATE ROOM DAYS) THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD		
13	SWING-BED NF-TYPE INPATIENT DAYS APPLICABLE TO TITLE V & XIX ONLY (INCLUDING PRIVATE ROOM DAYS) AFTER DECEMBER 31 OF THE COST REPORTING PERIOD (IF CALENDAR YEAR, ENTER 0 ON THIS LINE)		
14	MEDICALLY NECESSARY PRIVATE ROOM DAYS APPLICABLE TO THE PROGRAM (EXCLUDING SWING-BED DAYS)		
15	TOTAL NURSERY DAYS (TITLE V OR XIX ONLY)		
16	NURSERY DAYS (TITLE V OR XIX ONLY)		
	SWING-BED ADJUSTMENT		
17	MEDICARE RATE FOR SWING-BED SNF SERVICES APPLICABLE TO SERVICES THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD		
18	MEDICARE RATE FOR SWING-BED SNF SERVICES APPLICABLE TO SERVICES AFTER DECEMBER 31 OF THE COST REPORTING PERIOD		
19	MEDICAID RATE FOR SWING-BED NF SERVICES APPLICABLE TO SERVICES THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD	141.78	SB NF Rate
20	MEDICAID RATE FOR SWING-BED NF SERVICES APPLICABLE TO SERVICES AFTER DECEMBER 31 OF THE COST REPORTING PERIOD		
21	TOTAL GENERAL INPATIENT ROUTINE SERVICE COST	3,633,547	WS B FAC Costs
22	SWING-BED COST APPLICABLE TO SNF-TYPE SERVICES THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD		
23	SWING-BED COST APPLICABLE TO SNF-TYPE SERVICES AFTER DECEMBER 31 OF THE COST REPORTING PERIOD		
24	SWING-BED COST APPLICABLE TO NF-TYPE SERVICES THROUGH DECEMBER 31 OF THE COST REPORTING PERIOD	8,365	SB NF Carve Out
25	SWING-BED COST APPLICABLE TO NF-TYPE SERVICES AFTER DECEMBER 31 OF THE COST REPORTING PERIOD		
26	TOTAL SWING-BED COST (SEE INSTRUCTIONS)	550,057	Total SB Carve Out
27	GENERAL INPATIENT ROUTINE SERVICE COST NET OF SWING-BED COST	3,083,490	Net Acute Costs

Structure and Logic

- Worksheet D-1, Part II Inpatient Operating Costs

PREPARED 3/ 22/2006
WORKSHEET D-1
PART II

COMPUTATION OF INPATIENT OPERATING COST

I PROVIDER NO: I PERIOD: I
I 24-1325 I FROM 1/ 1/2005 I
I COMPONENT NO: I TO 12/31/2005 I
I 24-1325 I

TITLE XVIII PART A HOSPITAL OTHER

PART II - HOSPITAL AND SUBPROVIDERS ONLY

PROGRAM INPATIENT OPERATING COST BEFORE
PASS THROUGH COST ADJUSTMENTS

38	ADJUSTED GENERAL INPATIENT ROUTINE SERVICE COST PER DIEM				801.32
39	PROGRAM GENERAL INPATIENT ROUTINE SERVICE COST				1,680,368
40	MEDICALLY NECESSARY PRIVATE ROOM COST APPLICABLE TO THE PROGRAM				
41	TOTAL PROGRAM GENERAL INPATIENT ROUTINE SERVICE COST				1,680,368

Ln 27/Ln 2

Medicare
Routine Costs

	TOTAL I/P COST 1	TOTAL I/P DAYS 2	AVERAGE PER DIEM 3	PROGRAM DAYS 4	PROGRAM COST 5
42	NURSERY (TITLE V & XIX ONLY)				
	INTENSIVE CARE TYPE INPATIENT				
	HOSPITAL UNITS				
43	INTENSIVE CARE UNIT				
44	CORONARY CARE UNIT				
45	BURN INTENSIVE CARE UNIT				
46	SURGICAL INTENSIVE CARE UNIT				
47	OTHER SPECIAL CARE				
48	PROGRAM INPATIENT ANCILLARY SERVICE COST				1,663,009
49	TOTAL PROGRAM INPATIENT COSTS				3,343,377

Medicare
Ancillary Costs

Structure and Logic

- Worksheet D-4, Acute Ancillary Costs

INPATIENT ANCILLARY SERVICE COST APPORTIONMENT

I FROM 1/ 1/2005 I
I COMPONENT NO: I TO 12/31/2005 I
I I I

TITLE XVIII, PART A HOSPITAL OTHER

WKST A LINE NO.	COST CENTER DESCRIPTION	RATIO COST TO CHARGES 1	INPATIENT CHARGES 2	INPATIENT COST 3
25	INPAT ROUTINE SRVC CNTRS ADULTS & PEDIATRICS		1,723,170	
37	ANCILLARY SRVC COST CNTRS OPERATING ROOM	1.011946	298,819	302,389
39	DELIVERY ROOM & LABOR ROOM	.327151		
40	ANESTHESIOLOGY			
41	RADIOLOGY-DIAGNOSTIC	.380741	X 463,487	= 176,469
44	LABORATORY	.502971	711,329	357,778
49	RESPIRATORY THERAPY	.757801	119,545	90,591
50	PHYSICAL THERAPY	1.167022	22,741	26,539
51	OCCUPATIONAL THERAPY	.756638	13,907	10,523
52	SPEECH PATHOLOGY	.811808	17,416	14,138
53	ELECTROCARDIOLOGY	.071567	45,615	3,265
55	MEDICAL SUPPLIES CHARGED TO PATIENTS	.442922	513,312	227,357
56	DRUGS CHARGED TO PATIENTS	.531268	671,691	356,848
59	CARDIAC REHAB	1.336090	5,375	7,181
60	OUTPAT SERVICE COST CNTRS CLINIC	1.741073	360	627
60	01 DIABETIC EDUCATION	1.301798		
61	EMERGENCY	1.572830	56,779	89,304
62	OBSERVATION BEDS (NON-DISTINCT PART)	.623919		
65	OTHER REIMBURS COST CNTRS AMBULANCE SERVICES (01/01/2005 LIMIT			
101	TOTAL		2,940,376	1,663,009
102	LESS PBP CLINIC LABORATORY SERVICES - PROGRAM ONLY CHARGES			
103	NET CHARGES		2,940,376	

WORKSHEET D-4

Medicare
IP Charges

Medicare
IP Costs

Structure and Logic

- Worksheet D-4, SB SNF Ancillary Costs

INPATIENT ANCILLARY SERVICE COST APPORTIONMENT

I 24-1325 I FROM 1/ 1/2005 I WORKSHEET D-4
 I COMPONENT NO: I TO 12/31/2005 I
 I 24-2325 I OTHER I

TITLE XVIII, PART A

SWING BED SNF

WKST A LINE NO.	COST CENTER DESCRIPTION	RATIO COST TO CHARGES 1	INPATIENT CHARGES 2	INPATIENT COST 3
25	INPAT ROUTINE SRVC CNTRS ADULTS & PEDIATRICS			
37	ANCILLARY SRVC COST CNTRS			
39	OPERATING ROOM	1.011946		
40	DELIVERY ROOM & LABOR ROOM	.327151		
41	ANESTHESIOLOGY		X 18,619	= 7,089
44	RADIOLOGY-DIAGNOSTIC LABORATORY	.380741 .502971	43,835	22,048
49	RESPIRATORY THERAPY	.757801	31,514	23,881
50	PHYSICAL THERAPY	1.167022	11,795	13,765
51	OCCUPATIONAL THERAPY	.756638	8,303	6,282
52	SPEECH PATHOLOGY	.811808	3,712	3,013
53	ELECTROCARDIOLOGY	.071567	765	55
55	MEDICAL SUPPLIES CHARGED TO PATIENTS	.442922	46,334	20,522
56	DRUGS CHARGED TO PATIENTS	.531268	122,846	65,264
59	CARDIAC REHAB	1.336090		
60	OUTPAT SERVICE COST CNTRS			
60	01 CLINIC	1.741073		
61	DIABETIC EDUCATION	1.301798		
61	EMERGENCY	1.572830		
62	OBSERVATION BEDS (NON-DISTINCT PART)	.623919		
65	OTHER REIMBURS COST CNTRS			
101	AMBULANCE SERVICES (01/01/2005 LIMIT TOTAL		287,723	161,919
102	LESS PBP CLINIC LABORATORY SERVICES - PROGRAM ONLY CHARGES			
103	NET CHARGES		287,723	

Medicare
SNF Charges

Medicare
SNF Costs

- Worksheet E: Reimbursement Settlements
 - Wkst. E, Part B Medical and Other Health Services (p 28)
 - Purpose: Compares interim outpatient payments with outpatient program costs, net of deductibles and co-pays, and determines settlement
 - Wkst. E-2 CAH Swing Services (p 31)
 - Purpose: Compares interim payments with SB SNF costs, net of deductibles and co-pays, and determines any amounts owed between hospital and program
 - Wkst. E-3 CAH Inpatient Hospital Services (p 32)
 - Purpose: Compares interim payments with acute inpatient costs, net of deductibles and co-pays, and determines any amounts owed between hospital and program

Structure and Logic

- Worksheet E, Part B Outpatient

CALCULATION OF REIMBURSEMENT SETTLEMENT		I	I FROM 1/ 1/2005	I
		I COMPONENT NO:	I TO 12/31/2005	I
		I	I	I
PART B - MEDICAL AND OTHER HEALTH SERVICES				
HOSPITAL				
16	EXCESS OF REASONABLE COST OVER CUSTOMER CHARGES			
17	LESSER OF COST OR CHARGES (FOR CAH SEE INSTRUC)		3,236,712	
17.01	TOTAL PROSPECTIVE PAYMENT (SUM OF LINES 1.02, 1.06 AND 1.07)			
COMPUTATION OF REIMBURSEMENT SETTLEMENT				
18	CAH DEDUCTIBLES		48,433	
18.01	CAH ACTUAL BILLED COINSURANCE		813,960	
	LINE 17.01 (SEE INSTRUCTIONS)			
19	SUBTOTAL (SEE INSTRUCTIONS)		2,374,319	
20	SUM OF AMOUNTS FROM WORKSHEET E PARTS C, D & E (SEE INSTR.)			
21	DIRECT GRADUATE MEDICAL EDUCATION PAYMENTS			
22	ESRD DIRECT MEDICAL EDUCATION COSTS			
23	SUBTOTAL		2,374,319	
24	PRIMARY PAYER PAYMENTS		590	
25	SUBTOTAL		2,373,729	
REIMBURSABLE BAD DEBTS (EXCLUDE BAD DEBTS FOR PROFESSIONAL SERVICES)				
26	COMPOSITE RATE ESRD			
27	BAD DEBTS (SEE INSTRUCTIONS)			
27.01	ADJUSTED REIMBURSABLE BAD DEBTS (SEE INSTRUCTIONS)			
27.02	REIMBURSABLE BAD DEBTS FOR DUAL ELIGIBLE BENEFICIARIES			
28	SUBTOTAL		2,373,729	
29	RECOVERY OF EXCESS DEPRECIATION RESULTING FROM PROVIDER TERMINATION OR A DECREASE IN PROGRAM UTILIZATION.			
30	OTHER ADJUSTMENTS (SPECIFY)			
31	AMOUNTS APPLICABLE TO PRIOR COST REPORTING PERIODS RESULTING FROM DISPOSITION OF DEPRECIABLE ASSETS.			
32	SUBTOTAL		2,373,729	
33	SEQUESTRATION ADJUSTMENT (SEE INSTRUCTIONS)			
34	INTERIM PAYMENTS		2,705,340	
34.01	TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)			
35	BALANCE DUE PROVIDER/PROGRAM		-331,611	
36	PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH CMS PUB. 15-II, SECTION 115.2			

WORKSHEET E
PART B

Structure and Logic

- Worksheet E-2 Inpatient Swing Beds

CALCULATION OF REIMBURSEMENT SETTLEMENT
SWING BEDS

I PROVIDER NO: I PERIOD: I PREPARED BY: 1/ 2/2006
 I 24-1325 I FROM 1/ 1/2005 I
 I COMPONENT NO: I TO 12/31/2005 I
 I 24-2325 I

WORKSHEET E-2

TITLE XVIII SWING BED SNF

COMPUTATION OF NET COST OF COVERED SERVICES

	PART A 1	PART B 2
1 INPATIENT ROUTINE SERVICES - SWING BED-SNF (SEE INSTR)	495,312	
2 INPATIENT ROUTINE SERVICES - SWING BED-NF (SEE INSTR)		
3 ANCILLARY SERVICES (SEE INSTRUCTIONS)	163,538	
4 PER DIEM COST FOR INTERNS AND RESIDENTS NOT IN APPROVED TEACHING PROGRAM (SEE INSTRUCTIONS)		612
5 PROGRAM DAYS		
6 INTERNS AND RESIDENTS NOT IN APPROVED TEACHING PROGRAM (SEE INSTRUCTIONS)		
7 UTILIZATION REVIEW - PHYSICIAN COMPENSATION - SNF OPTIONAL METHOD ONLY		
8 SUBTOTAL	658,850	
9 PRIMARY PAYER PAYMENTS (SEE INSTRUCTIONS)		
10 SUBTOTAL	658,850	
11 DEDUCTIBLES BILLED TO PROGRAM PATIENTS (EXCLUDE AMOUNTS APPLICABLE TO PHYSICIAN PROFESSIONAL SERVICES)		
12 SUBTOTAL	658,850	
13 COINSURANCE BILLED TO PROGRAM PATIENTS (FROM PROVIDER RECORDS)(EXCLUDE COINSURANCE FOR PHYSICIAN PROFESSIONAL SERVICES)	3,876	
14 80% OF PART B COSTS		
15 SUBTOTAL	654,974	
16 OTHER ADJUSTMENTS (SPECIFY)		
17 REIMBURSABLE BAD DEBTS		
17.01 REIMBURSABLE BAD DEBTS FOR DUAL ELIGIBLE BENEFICIARIES (SEE INSTRUCTIONS)		
18 TOTAL	654,974	
19 SEQUESTRATION ADJUSTMENT (SEE INSTRUCTIONS)		
20 INTERIM PAYMENTS	693,308	
20.01 TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)		
21 BALANCE DUE PROVIDER/PROGRAM	-38,334	
22 PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH CMS PUB. 15-II, SECTION 115.2.		

WS D-1

WS D-4, SB SNF

Interim Payments

SB Settlements

Structure and Logic

- Worksheet E-3 Inpatient

CALCULATION OF REIMBURSEMENT SETTLEMENT

I I FROM 1/ 1/2005 I
 I COMPONENT NO: I TO 12/31/2005 I
 I I I

WORKSHEET E-3
 PART II

18	COMPUTATION OF REIMBURSEMENT SETTLEMENT	
19	DIRECT GRADUATE MEDICAL EDUCATION PAYMENTS	
20	COST OF COVERED SERVICES	3,376,811
21	DEDUCTIBLES (EXCLUDE PROFESSIONAL COMPONENT)	379,392
22	EXCESS REASONABLE COST	
23	SUBTOTAL	2,997,419
24	COINSURANCE	228
25	SUBTOTAL	2,997,191
25	REIMBURSABLE BAD DEBTS (EXCLUDE BAD DEBTS FOR PROFESSIONAL SERVICES (SEE INSTRUCTIONS))	
25.01	ADJUSTED REIMBURSABLE BAD DEBTS (SEE INSTRUCTIONS)	
25.02	REIMBURSABLE BAD DEBTS FOR DUAL ELIGIBLE BENEFICIARIES	
26	SUBTOTAL	2,997,191
27	RECOVERY OF EXCESS DEPRECIATION RESULTING FROM PROVIDER TERMINATION OR A DECREASE IN PROGRAM UTILIZATION	
28	OTHER ADJUSTMENTS (SPECIFY)	
29	AMOUNTS APPLICABLE TO PRIOR COST REPORTING PERIODS RESULTING FROM DISPOSITION OF DEPRECIABLE ASSETS	
30	SUBTOTAL	2,997,191
31	SEQUESTRATION ADJUSTMENT	
32	INTERIM PAYMENTS	2,996,892
32.01	TENTATIVE SETTLEMENT (FOR FISCAL INTERMEDIARY USE ONLY)	
33	BALANCE DUE PROVIDER/PROGRAM	299
34	PROTESTED AMOUNTS (NONALLOWABLE COST REPORT ITEMS) IN ACCORDANCE WITH CMS PUB. 15-II, SECTION 115.2.	

WS D-1*101%

Interim Payments

IP Settlement

Course Overview

- Economic framework of a rural hospital
 - How does the fundamental framework effect decision making?
- Medicare Cost Report
 - An important source of 35-50% of revenue and a valuable financial resource
- **Financial Statements**
 - **Better understand an important document in quantifying an organizations financial performance**
- Budget Process
 - What is a budget and why is it so important
- Departmental Performance
 - What is contribution margin and why so important in determining departmental performance
- Payer Reimbursement
 - Why Payer reimbursement is critical to financial performance

Basic Principles

- **Accrual Basis vs. Cash Basis**
 - Cash Basis – Reports revenue and expenses in the period in which cash is received or paid
 - Accrual Basis - Reports revenue and expenses in the period in which the transactions occur, regardless of when the cash was received or paid
- **CAH Financial Statements vs. PPS Hospital Financial Statements**
 - Cost-Based recognition of Medicare revenue

CAH Interim Payments and Revenue Recognition			
	Prior Year	Scenario 1 15% Volume Decrease	Scenario 2 15% Volume Increase
Medicare Acute Costs	\$ 1,716,000	\$ 1,716,000 *	\$ 1,801,800 **
Medicare Acute Days	1,844	1,567	2,121
Cost Per Day	<u>\$ 930.59</u>	\$ 1,094.81	\$ 849.67
Interim Rate		<u>\$ 930.59</u>	<u>\$ 930.59</u>
Difference		<u>\$ 164.22</u>	<u>\$ (80.92)</u>
Settlement		<u>\$ 257,400</u>	<u>\$ (171,600)</u>

* Assumes 0% costs increase due to higher nursing and benefits offset by a lower ancillary cost allocation

** Assumes 5% increase in costs related to higher nursing and benefits as well as additional ancillary costs

Basic Principles

- Gross Revenue vs. Net Revenue
 - Gross revenue – Charges
 - Net Revenue – Expected cash from patients

	YTD ACTUAL December 2008	YTD PR YEAR December 2007	VARIANCE December 2008	% December 2008
Gross Revenue	71,408,037	72,738,633	(1,330,596)	-1.83%
Revenue Deductions	31,952,133	31,194,973	(757,160)	-2.43%
TOTAL NET REVENUE	39,455,904	41,543,660	(2,087,756)	-5.03%

Income Statement

- Amounts earned or incurred over a period of time
 - Revenue - Amounts earned for providing services or selling assets
 - Expenses – Amounts incurred for services or assets provided

	YTD ACTUAL December 2008	YTD PR YEAR December 2007	VARIANCE December 2008	% December 2008
Gross Revenue	71,408,037	72,738,633	(1,330,596)	-1.83%
Revenue Deductions	31,952,133	31,194,973	(757,160)	-2.43%
TOTAL NET REVENUE	39,455,904	41,543,660	(2,087,756)	-5.03%
OPERATING EXPENSES				
Salaries & Benefits	23,445,065	23,581,706	136,641	0.58%
Medical Professional Fees	815,971	688,048	(127,923)	-18.59%
Supplies	6,531,155	6,605,459	74,304	1.12%
Purchased Services	4,641,418	4,922,843	281,425	5.72%
Bad Debts	4,339,943	3,159,521	(1,180,422)	-37.36%
Other Operating Expenses	1,750,748	1,676,695	(74,053)	-4.42%
TOTAL OPERATING EXPENSES	41,524,300	40,634,272	(890,028)	-2.19%
CAPITAL & OTHER COSTS				
Depreciation	2,272,860	2,782,415	509,555	18.31%
Interest	428,304	509,574	81,270	15.95%
TOTAL CAPITAL & OTHER	2,701,164	3,291,989	590,825	17.95%
NET EARNINGS FROM OPERA	(4,769,560)	(2,382,601)	(2,386,959)	100.18%
Net Non Operating Income	269,973	162,447	107,526	66.19%
NET INCOME (Gain/-Loss)	(4,499,587)	(2,220,154)	(2,279,433)	102.67%

Balance Sheet

- Amounts reflect assets or liabilities at one point in time
 - Assets - Resources available to an organization

	DECEMBER 2008	DECEMBER 2007
CURRENT ASSETS		
Total Cash & Short Term investments	1,667,878	3,212,872
Accounts Receivable, Patients	11,381,266	15,146,270
Less: Contractual Allowances	<u>(7,026,566)</u>	<u>(8,949,826)</u>
Net Patient Accounts Receivable	4,354,700	6,196,444
Accounts Receivable - Other	1,341,433	1,114,945
Inventories	989,313	990,429
Prepaid Expense	208,634	366,818
Medicare/Medicaid Settlements	<u>(2,908,917)</u>	<u>3,720,671</u>
Total Current Assets	5,653,042	15,602,179
Assets Whose Use is Limited	3,700,000	0
Property, Plant & Equipment		
Land & Land Improvement	1,574,980	1,576,737
Buildings & Improvements	27,124,052	26,293,486
Equipment	<u>30,196,361</u>	<u>29,627,728</u>
Total PP&E	58,895,393	57,497,951
Less Accumulated Depreciation	(40,352,076)	(38,086,954)
Net Fixed Assets	18,543,317	19,410,997
Total Other Assets	<u>187,886</u>	<u>187,886</u>
Total Assets	<u>28,084,244</u>	<u>35,201,061</u>

Balance Sheet

- Liabilities
 - Amounts due to others
- Fund Balance
 - Accumulation of earnings over time

	DECEMBER 2008	DECEMBER 2007
LIABILITIES		
Current Liabilities		
Accounts Payable - Vendors	3,121,160	2,956,095
Accrued Salaries & Wages	1,467,550	1,421,174
Accrued Interest	7,744	991
Notes Payable/Curr Capital Lease	488,808	498,699
Current Portion - Bonds Payable	7,205,000	325,000
Total Current Portion LT Debt	<u>7,693,808</u>	<u>823,699</u>
Total Current Liabilities	12,290,262	5,201,959
Long Term Debt(less current portion)		
Bonds Payable	0	6,880,000
Capital Lease Obligations	642,610	1,066,390
Total Long Term Debt(less curr)	<u>642,610</u>	<u>7,946,390</u>
Fund Balance	15,151,372	22,052,712
Total Liabilities and Net Assets	<u><u>28,084,244</u></u>	<u><u>35,201,061</u></u>

Departmental "Financial Statement"

- Ancillary Department Financial Statement Example

RBH DEPARTMENTAL FINANCIAL AND STATISTICAL INFORMATION			
YEAR TO DATE			
PERIOD ENDING 04/30/08			
	YEAR TO DATE	BUDGET	PRIOR
RADIOLOGY			
PATIENT REVENUES			
TOTAL INPATIENT REVENUE	\$ 256,539	\$ 220,855	\$ 212,355
TOTAL OUTPATIENT REVENUE	1,463,471	1,615,386	1,552,932
TOTAL SWING BED REVENUE	36,706	19,671	14,953
TOTAL PATIENT REVENUES	1,756,716	1,855,912	1,780,240
OPERATING EXPENSES			
SALARIES AND WAGES	95,984	92,545	91,689
SUPPLIES	16,096	18,174	18,429
PHYSICIAN FEES	734	447	436
PURCHASED SERVICES	128,860	99,305	106,674
OTHER	875	1,189	69,702
TOTAL OPERATING EXPENSES	242,549	211,660	286,931
GROSS MARGIN	\$ 1,514,167	\$ 1,644,252	\$ 1,493,309

- How different than Hospital P&L?

Departmental "Financial Statement"

- Overhead Department Financial Statement Example

RBH DEPARTMENTAL FINANCIAL AND STATISTICAL INFORMATION			
YEAR TO DATE			
PERIOD ENDING 04/30/08			
	YEAR TO DATE	BUDGET	PRIOR
ADMINISTRATION			
OPERATING EXPENSES			
SALARIES AND WAGES	\$ 76,043	\$ 73,592	\$ 75,417
SUPPLIES	16,188	14,835	15,228
PHYSICIAN FEES			
PURCHASED SERVICES	205,744	194,546	194,067
OTHER	40,002	42,425	41,494
	<hr/>	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	\$ 337,977	\$ 325,398	\$ 326,205
	=====	=====	=====

- How different than Ancillary P&L?
- How can this be used to drive improved performance?

Departmental “Financial Statement”

- How should the Departmental P&L be read and analyzed?
 1. Review the actual numbers, asking the following questions:
 - Do they appear reasonable?
 - Do you see any unusual categories or amounts? If so, ask some questions. Make sure there hasn't been a posting error.
 2. Review the budget numbers
 - Do they appear reasonable?
 - Do you see any amounts that seem unusual? If so, ask some questions. Make sure there hasn't been a posting error.
 3. Review the variance column.
 - You may establish a “threshold” amount. That is an amount significant enough to warrant more attention and perhaps some investigation. Amounts less than the threshold would be considered insignificant and not worth much time and effort to resolve.
 - What threshold amount would you set?

Departmental “Financial Statement”

- Common Pitfalls with Departmental Financial Statements
 - They are not sent out on a regular basis
 - Most often they do not include contractual allowances (C/A)
 - How can they be useful without C/A?
 - If they include C/A, often Medicare average interim payment rate
 - From our understanding of the cost report, is this a problem?
 - Department Managers file them (circularly!)

Course Overview

- Economic framework of a rural hospital
 - How does the fundamental framework effect decision making?
- Medicare Cost Report
 - An important source of 35-50% of revenue and a valuable financial resource
- Financial Statements
 - Better understand an important document in quantifying an organizations financial performance
- Budget Process
 - What is a budget and why is it so important?
- Departmental Performance
 - What is contribution margin and why so important in determining departmental performance
- Payer Reimbursement
 - Why Payer reimbursement is critical to financial performance

The Budget

- Statements of anticipated revenue and expenditures
- Tool used to plan, monitor, and motivate future performance
- Is used to allocate funds in order to achieve desired outcomes
- Budgets can be effective communication vehicles across departments
- Work involved in preparing a budget can be crucial in helping to balance the cash inflows and outflows

The Budget: Summary

	AUDITED	AUDITED	PROJECTED	ESTIMATED
	JUNE 30, 2006	JUNE 30, 2007	As of April 2008	BUDGET
	JUNE 30, 2006	JUNE 30, 2007	JUNE 30, 2008	2009
<u>GROSS OPERATING REVENUE</u>				
ROOM & BOARD - ACUTE	\$ 3,860,005	\$ 4,223,148	\$ 5,486,546	7,452,714
ROOM & BOARD - ICF	1,687,320	\$ 1,926,298	1,856,383	805,722
ANCILLARY - INPATIENT	4,470,260	\$ 5,473,200	6,466,052	8,619,193
ANCILLARY - OUTPATIENT	12,396,379	\$ 14,101,632	16,940,687	23,081,468
OTHER OPERATING REVENUE	2,045,145	\$ 2,020,480	2,034,864	1,345,794
TOTAL GROSS OPERATING REVENUE	\$ 24,459,109	\$ 27,744,758	\$ 32,784,533	\$ 41,304,890
<u>REVENUE DEDUCTIONS</u>				
CONTRACTUAL ADJUSTMENTS	5,091,849	\$ 6,118,315	8,629,932	11,787,934
BAD DEBTS	1,014,307	\$ 1,928,091	1,909,350	1,997,955
CHARITY CARE	455,080	\$ 441,641	1,002,154	1,598,364
TOTAL REVENUE DEDUCTIONS	6,561,236	8,488,047	11,541,436	15,384,253
NET OPERATING REVENUE	\$ 17,897,873	\$ 19,256,711	\$ 21,243,097	\$ 25,920,637
<u>OPERATING EXPENSES</u>				
PAYROLL	\$ 8,441,649	\$ 9,023,553	\$ 10,969,583	13,636,681
EMPLOYEE BENEFITS	2,016,168	2,298,550	2,760,710	3,433,209
PROFESSIONAL FEES	1,033,235	1,047,888	623,518	248,700
SUPPLIES	1,976,973	2,312,138	2,394,936	2,527,952
UTILITIES	300,028	332,522	346,909	453,423
PURCHASED SERVICES	1,898,918	2,564,300	2,416,398	2,100,643
INSURANCE	246,798	292,632	274,075	278,000
DEPRECIATION	963,739	1,013,858	1,100,004	1,445,087
INTEREST	291,031	297,120	297,880	276,920
OTHER EXPENSE	596,144	708,233	583,391	999,394
TOTAL OPERATING EXPENSES	\$ 17,764,683	\$ 19,890,794	\$ 21,767,404	\$ 25,400,010
INCOME/(LOSS) FROM OPERATIONS	\$ 133,190	\$ (634,083)	\$ (524,306)	\$ 520,627
<u>NON-OPERATING INCOME</u>				
TAX REVENUES - DEBT RETIREMI	\$ 129,996	\$ 128,880	\$ 130,000	130,000
TAX REVENUES - OPERATIONS	233,593	268,199	275,000	280,000
INTEREST INCOME	187,099	245,215	285,328	200,000
NET INCOME / (LOSS)	\$ 683,878	\$ 8,211	\$ 166,022	\$ 1,130,627

The Budget: Departmental Level

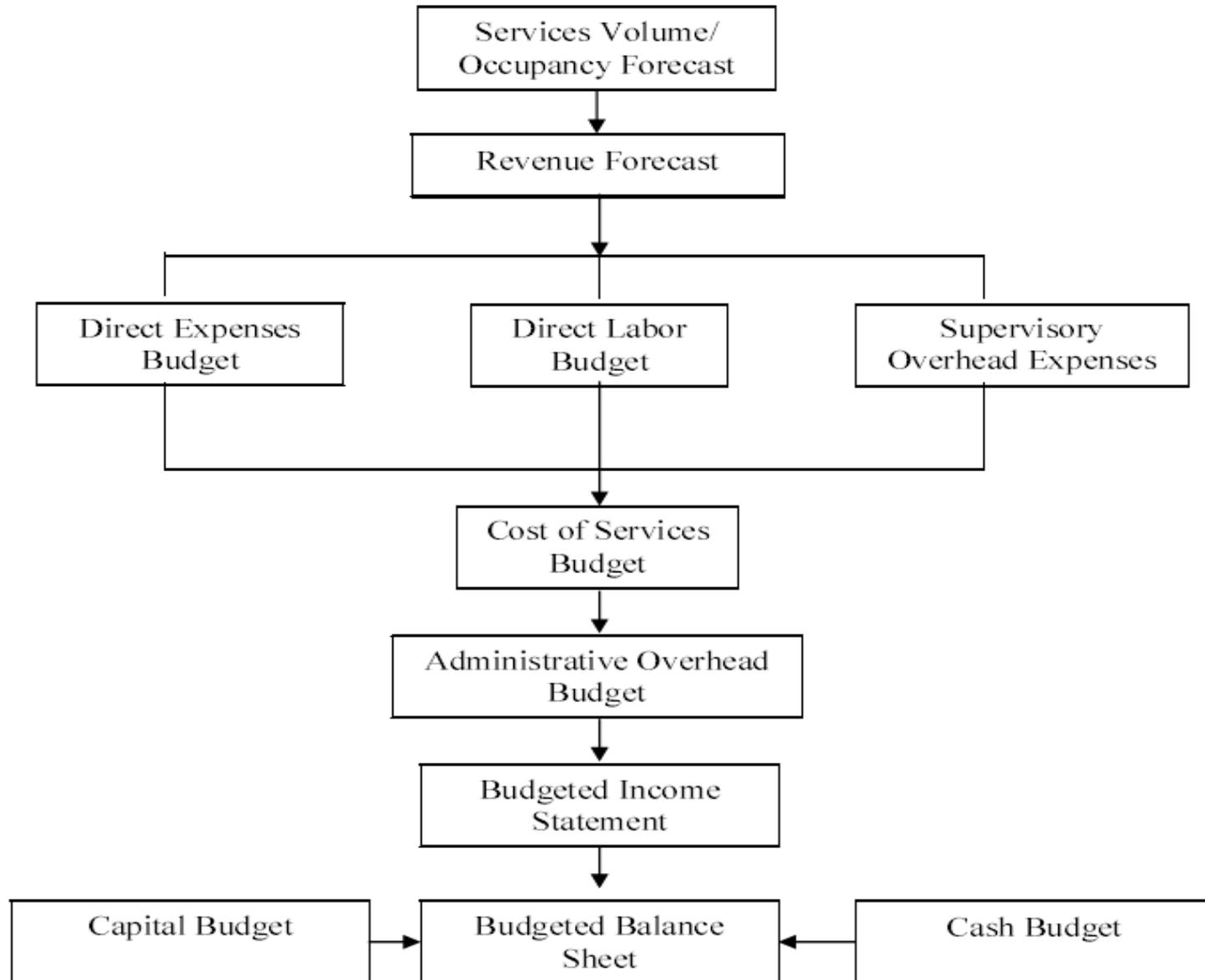
• Departmental Budget - Revenue

		MED/SURG	OR	LAB	IMAGING	ER	ADMIN	BUS OFF	TOTAL
		612	632	638	642	650	688	691	
STATS									
	SERVICE UNITS	2,819	896	64,000	12,042	11,170	365	365	
	PRODUCTIVE HOURS	49546	12576	28604	20,008.00	19600	4,160.00	19,760.00	461,103.04
	NON-PRODUCTIVE HOURS	9490	1310.4	414	2,080.00	3504	0.00	120.00	26,779.92
REVENUE									
	11 ROOM & BOARD - ACUTE	4,048,963							7,452,714
	11 ROOM & BOARD - ICF								805,722
	11 ANCILLARY - INPATIENT		2,129,118	1,336,038	536,308	146,815			8,619,193
	21 ANCILLARY - OUTPATIENT	449,885	2,216,020	3,612,250	3,932,929	3,523,560			23,081,468
	31 OTHER OPERATING REVENUE								1,345,794
GROSS PATIENT REVENUE		4,498,848	4,345,138	4,948,287	4,469,237	3,670,375	-	-	39,959,097
TOTAL OPERATING REVENUE		4,498,848	4,345,138	4,948,287	4,469,237	3,670,375	-	-	41,304,890
DEDUCTIONS FROM REVENUE									
	CONTRACTUAL ADJUSTMENTS								11,787,934
	BAD DEBTS								1,997,955
	CHARITY CARE								1,598,364
TOTAL DEDUCTIONS FROM REVE		-	-	-	-	-	-	-	15,384,253
NET PATIENT REVENUE		4,498,848	4,345,138	4,948,287	4,469,237	3,670,375	-	-	25,920,637

		MED/SURG	OR	LAB	IMAGING	ER	ADMIN	BUS OFF	TOTAL	
		612	632	638	642	650	688	691		
EXPENSES										
	01	SALARIES	1,391,007	446,470	658,157	688,178	776,957	180,000	341,707	13,636,681
	19	BENEFITS	350,204	112,404	165,700	173,258	195,609	45,317	86,029	3,433,209
		DEPRECIATION						-		1,445,087
	12	INSURANCE	-	-	-	-	-	-	-	278,000
	20	PROFESSIONAL FEES	-	-	-	-	-	-	-	-
	21	PHYSICIAN FEES	-	-	34,000	-	-	-	-	59,000
	23	CONSULTING	-	-	-	-	-	87,200	-	112,200
	24	LEGAL	-	-	-	-	-	20,000	-	30,000
	25	AUDIT	-	-	-	-	-	-	-	47,500
	30	MEDICAL SUPPLIES	28,509	635,412	405,841	4,744	50,000	-	-	1,262,287
	34	MEDICAL GASES	-	-	-	-	-	-	-	13,897
	35	I. V. SOLUTIONS	-	-	-	-	-	-	-	13,200
	36	PHARMACEUTICALS	2,402	-	-	10,243	7,000	-	-	423,582
	38	RADIOLOGY FILM	-	-	-	604	-	-	-	6,604
	39	OTHER MEDICAL SUPPLIES	46,217	35,396	7,316	2,683	35,000	-	-	190,865
	40	FOOD	-	-	-	-	-	-	-	248,529
	43	LAUNDRY and LINEN	-	-	-	-	-	-	-	15,328
	44	CLEANING SUPPLIES	734	695	-	-	500	-	-	25,361
	45	OFFICE SUPPLIES	7,588	2,606	6,398	5,044	6,000	7,000	9,753	115,536
	46	EMPLOYEE WEARING APPARE	-	500	500	-	-	-	-	3,800
	47	MINOR MEDICAL EQUIPMENT	-	945	4,000	-	1,100	-	-	12,509
	48	OTHER MINOR EQUIPMENT	410	3,598	2,000	2,402	7,000	-	651	51,875
	49	OTHER NON-MED SUPPLIES	6,010	5,080	7,633	1,500	21,500	-	-	144,579
	51	ELECTRICITY	-	-	-	-	-	-	-	128,368
	52	NATURAL GAS	-	-	-	-	-	-	-	112,702
	53	FUEL FOR VEHICLES, ETC.	-	-	-	-	-	-	-	-
	54	WATER	-	-	-	-	-	-	-	24,798
	55	DISPOSAL SERVICE	-	-	-	-	-	-	-	41,652
	57	TELEPHONE	-	-	-	18,206	-	8,400	-	59,443
	60	PURCHASED SERVICES	6,088	1,844	118,176	284,211	6,000	94,178	28,800	1,115,504
	61	TRAVEL & LODGING FOR AGE	-	-	-	-	-	-	-	11,500
	62	REPAIRS AND MAINTENANCE	5,645	13,025	12,621	140,367	1,700	-	500	268,635
	63	AGENCY/CONTRACT LABOR	5,000	-	-	-	-	-	-	77,244
	64	MANAGEMENT SERVICES	-	-	-	-	-	568,125	-	568,125
	65	PURCHASED SERVICES - DEPT	-	-	-	-	-	-	-	-
	78	RENTAL AND LEASE COSTS	7,200	-	27,531	-	-	500	1,540	59,634
	79	CABLE TELEVISION	-	-	-	-	-	504	-	8,000
	80	OTHER DIRECT EXPENSES	-	-	-	-	-	-	-	224,050
	81	MILEAGE REIMBURSEMENT	387	-	1,087	1,110	-	1,000	200	17,341
	82	LICENSES AND TAXES	264	-	1,500	-	4,700	1,000	-	78,502
	83	DUES AND SUBSCRIPTIONS	200	142	500	800	4,500	68,882	100	96,660
	85	OTHER EXPENSES	2,000	120	1,500	1,500	1,000	15,000	14,000	182,477
	86	EDUCATION & TRAINING	15,000	2,500	2,000	1,000	-	39,000	250	273,550
	87	MEALS, LODGING, & TRAVEL	10,000	1,000	2,500	3,000	-	20,000	-	69,940
	88	POSTAGE AND FREIGHT	-	5,600	10,300	130	-	-	40,414	78,460
	89	CAREGIVER APPRECIATION	-	-	-	-	-	-	-	56,875
	97	INTEREST	-	-	-	-	-	-	-	276,920
		TOTAL EXPENSES	1,884,866	1,267,337	1,469,260	1,338,979	1,118,565	1,156,106	523,945	25,400,010
NON-OPERATING INCOME										
		TAX REVENUES - DEBT RETIRE	-	-	-	-	-	-	-	130,000
		TAX REVENUES - OPERATIONS	-	-	-	-	-	-	-	280,000
		INTEREST INCOME	-	-	-	-	-	-	-	200,000
		NET INCOME	2,613,982	3,077,801	3,479,027	3,130,258	2,551,809	(1,156,106)	(523,945)	1,130,627

Budget Uses

- **Planning** – At the beginning of the fiscal period, the budget is a plan. It may include items such as:
 - Expected volume of services provided
 - Expected revenue for those services
 - Expected cost of supplies, labor, and general costs
- **Monitoring** – Throughout the fiscal period, the budget serves as a control document to keep the organization on track.
- **Motivating** – Budgets can be used to motivate staff. They can be used in other departments for keeping expenditures down. Those affected by budgets should participate in the budgeting process. Budgets should be tight, yet achievable.
- **Facilitating Communication and Coordination** – Managers should be aware of the plans made by other managers throughout the institution. A well-run budget process can serve to pull all departments together.
- **Allocating Resources** – In every institution, resources are scarce. The budgeting process provides a method for allocating resources among competing needs.
- **Learning** – The budget is the institution's best understanding of what is expected to happen. Analyzing budgets versus actual numbers can improve the institution's ability to either budget (plan) better or perform better.



Budget Characteristics

- Characteristics of Good Budgets
 - Communicate what is expected
 - Link resources to objectives
 - Establish guidelines and direction
 - Improve day-to-day decision making
 - Foster opportunity for careful study
 - Provide an early warning system
 - Help identify weak areas, problems, and potential threats
 - Aid interdepartmental coordination
 - Are flexible and not rigid

Budget Characteristics

- Signs of a Weak Budgeting Process
 - Goals are off target or unrealistic
 - Management is indecisive
 - Process takes too long
 - Different method used each year
 - Budget is not tied into accounting system
 - Lack of raw data
 - No communication between budgeting staff and operating staff
 - Managers have little or no knowledge of the budget
 - Budget is long and complex
 - Budget is ignored
 - Budgets are constantly changing
 - Variances are not investigated
 - Variances are investigated but not corrected

Budget Characteristics

- Successful CAHs:
 - Department managers to be involved in developing annual budgets
 - Budget to actual reports to be sent to department managers monthly
 - Variance analysis to be performed through regularly scheduled meetings between CFO and department managers
 - Create charts of key departmental performance indicators
 - Indicators may include: monthly charges, expenses, volume statistics, staffing to volume ratios, combined with clinical indicators etc.
 - Information must be available over a longer period to identify trends
 - Use charts and graphs to identify trends and opportunities for improvement

Course Overview

- Economic framework of a rural hospital
 - How does the fundamental framework effect decision making?
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 - An important source of 35-50% of revenue and a valuable financial resource
- Financial Statements
 - Better understand an important document in quantifying an organizations financial performance
- Budget Process
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 - Why Payer reimbursement is critical to financial performance

- Contribution Margin

- Excess of revenues *over* variable costs

Revenue	\$1,000,000
Variable Costs	<u>600,000</u>
Contribution Margin	400,000
Fixed Costs	<u>300,000</u>
Income from Operations	<u>100,000</u>

- Department contributes \$400K towards overhead of organization
- Unit contribution margin
 - The amount from each unit of service available to cover fixed costs and provide operating profits
 - Example - If Department X's unit service price is \$200 and its unit variable cost is \$120, the unit contribution margin is \$80 (\$200 - \$120)
 - A CAH is made up of 1000's of Unit Contribution Margins

Evaluating Hospital Operations

- Begins with defining “profitability”
 - Net Revenue less:
 - Fully Allocated Costs (FAC)??
 - Variable Costs??
 - Incremental Costs??
 - Does it matter how we define profitability?
- What are we evaluating?
 - Distinct part unit
 - E.g., nursing home; home health, Ambulance, etc.
 - Department or service of hospital
 - E.g., Laboratory, nursing unit, cardiac rehab
 - Unit volume
 - Do we want to provide this additional unit of service and at what price?
 - E.g., Laboratory test

- Distinct Part Unit – Nursing Home FAC and Variable Cost Example

Nursing Home Profitability Analysis			
Revenue:	Days	Rate	Revenue
Medicaid Revenue	27,563	\$ 145.00	\$ 3,996,635
Self Pay Revenue	7,285	\$ 125.00	\$ 910,625
Hospice (estimated rate)	2,974	\$ 200.00	\$ 594,800
Medicare Revenue (estimated rate)	669	\$ 250.00	\$ 167,250
Total Cash Receipts	38,491		\$ 5,669,310
Operating Expenses:			
<i>Direct Expenses (2007 ICR - WSA):</i>			
Salary expense		\$ 2,079,193	\$ 2,079,193
Other		\$ 822,690	\$ 822,690
Total Direct Expense		\$ 2,901,883	\$ 2,901,883
<i>Allocated Expenses (ICR Stepdown - WS B)</i>			
Capital Costs	\$ 464,236	90%	\$ 417,812
Admin and General	\$ 265,115	50%	\$ 132,558
Employee Benefits	\$ 499,983	90%	\$ 449,985
Plant Operations	\$ 496,179	75%	\$ 372,134
Dietary	\$ 942,008	60%	\$ 565,205
Cafeteria	\$ 145,752	60%	\$ 87,451
Central Supply	\$ 30,276	50%	\$ 15,138
Housekeeping	\$ 244,969	75%	\$ 183,727
Laundry and Linen	\$ 82,424	75%	\$ 61,818
Total Nursing Home Allocated Expense	\$ 3,170,942		\$ 2,285,828
Total Nursing Home expenses	\$ 6,072,825	(a)	\$ 5,187,711 (b)
Nursing Home Direct Gain (Loss)			\$ 481,599
Nursing Costs Per Day	\$ 157.77		\$ 134.78
Overhead expenses allocated to Nursing Home away from Hospital (a) - (b)			\$ 885,114
Estimated CAH Cost Based Payer Mix (Medicare and Medicaid)			60%
Lost Cost Based Payer Revenue on Allocated Costs			(531,069)
Nursing Home Net Profit			\$ (49,469)

WS A

WS B

FAC

Variable Costs

Variable Costs?

Evaluating Hospital Operations

- DPU – Ambulance Variable Cost Example

County Hospital FY 2007 Ambulance Profitability Analysis				
Revenue:		Gross Charges	Net Rev % *	Revenue
Medicare		\$ 433,281	64%	\$ 277,941
Medicaid		\$ 88,336	35%	\$ 31,070
Commercial		\$ 101,327	72%	\$ 72,687
Self Pay		\$ 107,411	13%	\$ 13,963
Total		\$ 730,355	54%	\$ 395,661
County Subsidy (debt service on Ambulances)				\$ 20,000
Total Cash Receipts				\$ 415,661
Operating Expenses:		Fully Allocated Costs	Adjusted FAC Costs	
<i>Direct Expenses (Source: 2007 ICR - WS A):</i>				
Salary expense		\$ 282,580	\$ 282,580	\$ 282,580
Other		\$ 33,306	\$ 33,306	\$ 33,306
Total Direct Expense		\$ 315,886	\$ 315,886	\$ 315,886
<i>Indirect Expenses (ICR Stepdown - WS B)</i>		Total Allocation	Total Allocation	Ambulance Variable %
Capital Costs		\$ 1,353	\$ 1,353	50%
Admin and General		\$ 58,966	\$ 58,966	20%
Employee Benefits		\$ 59,761	\$ 59,761	90%
Maintenance and Repairs		\$ 1,718	\$ 1,718	50%
Cafeteria (Decreased by 90% to reflect actual)		\$ 27,815	\$ 2,782	50%
Medical Records (Decreased by 90% to reflect actual)		\$ 22,628	\$ 2,263	50%
Housekeeping		\$ 1,165	\$ 1,165	50%
Laundry and Linen		\$ 1,647	\$ 1,647	50%
Total		\$ 175,053	\$ 129,654 (a)	
Total Expenses		\$ 490,939	\$ 445,540	\$ 71,042 (b)
Direct Loss		\$ (75,278)	\$ (29,879)	\$ 28,734
Overhead expenses allocated to Department away from Hospital (a) - (b)				\$ 58,613
Estimated CAH Cost Based Payer Mix excluding ambulance				60%
Lost Cost Based Payer Revenue on Allocated Costs				(35,168)
Department Net Loss				\$ (6,434)

WS A

WS B

Variable Costs

FAC

Variable Costs?

– Ambulance essentially breaks even

Evaluating Hospital Operations

- Hospital Dept – Cardiac Rehab FAC and Variable Cost Example

FY 2006 Cardiac Rehab Profitability Analysis			
Revenue:		Revenue	Revenue
Medicare Revenue (2006 Cost Report)	\$	40,368	\$ 40,368
Non Medicare (60% of Charges)	\$	14,225	\$ 14,225
Total Cash Receipts	\$	54,593	\$ 54,593
Operating Expenses:			
<i>Direct Expenses (Source: 2006 ICR - WS A):</i>			
Salary expense	\$	51,227	\$ 51,227
Other	\$	2,821	\$ 2,821
Total Direct Expense	\$	54,048	\$ 54,048
		Total	Cardiac Rehab
<i>Indirect Expenses (ICR Stepdown - WS B)</i>		Allocation	Variable %
Capital Costs	\$	9,406	20%
Admin and General	\$	12,000	10%
Employee Benefits	\$	16,355	90%
Plant Operations	\$	9,058	25%
Medical Records	\$	503	25%
Nursing Admin	\$	6,876	25%
Total	\$	54,198 (a)	\$ 21,910 (b)
Total Expenses	\$	108,246	\$ 75,958
Direct Loss	\$	(53,653)	\$ (21,365)
Overhead expenses allocated to Department away from Hospital (a) - (b)			\$ 32,288
Estimated CAH Cost Based Payer Mix			41%
Lost Cost Based Payer Revenue on Allocated Costs			(13,238)
Department Net Loss			\$ (34,603)

WS D Prt V

WS A

FAC

Variable Costs

Variable Costs?

- Hospital Department uses similar methodology to DPUs
 - Why do we consider “Lost Cost-Based Reimbursement”?

Evaluating Hospital Operations

• Units of Service – Reference Lab Incremental Cost Example

– Costs

- Variable costs \$1.75/test (assumed)
- Fixed costs remain constant

– Change

- 250 new reference lab type tests
 - Assume 9.25/test

– Outcome

- Medicare Revenue declines
- Incremental “low” paying commercial volume generates positive contribution margin
- What should we do??

Model A: Laboratory Base Case - Base Volume of 40,000 OP units

	WS D Prt V		Medicare	Medicare	Other	Payment	Other
	Units	Payer Mix	Units	Units	Units	Per Unit*	Payment
IP Laboratory Services	16,478	80%	13,102	3,376		\$ 15.00	\$ 50,641
OP Laboratory Services	40,000	59%	23,634	16,366		\$ 9.25	\$ 151,439
Total Lab Services	56,478	65%	36,736	19,742			\$ 202,080
Lab Fixed Costs	\$ 606,876	***	WS B – Variable Costs				
Lab Variable Costs	\$ 98,837	**					
Total Lab Costs	\$ 705,713						
Lab Units	56,478						
Laboratory Unit Costs	\$ 12.50		\$ 12.50				
Medicare Payment			\$ 459,030				\$ 459,030
Total Payment							\$ 661,110
Lab Costs							\$ 705,713
Net Lab Margin							\$ (44,603)

* Medicare average charge/unit from PS&R*average 3rd party collection rate (14.54%) per admin

** Assumes variable costs of an additional Lab test of \$1.75

*** Assumes fully allocated Laboratory costs less inpatient cost allocation, less variable costs

Model B: 250 Additional Commercial Lab Tests

	WS D Prt V		Medicare	Medicare	Other	Payment	Other
	Units	Payer Mix	Units	Units	Units	Per Unit	Payment
IP Laboratory Services	16,478	80%	13,102	3,376		\$ 15.00	\$ 50,641
OP Laboratory Services	40,250	N/A	23,634	16,616		\$ 9.25	\$ 153,752
Total Lab Services	56,728	65%	36,736	19,992			\$ 204,393
Lab Fixed Costs	\$ 606,876		WS B – Variable Costs				
Lab Variable Costs	\$ 99,274						
Total Lab Costs	\$ 706,151						
Lab Units	56,728						
Laboratory Unit Costs	\$ 12.45		\$ 12.45				
Medicare Payment			\$ 457,291				\$ 457,291
Total Payment							\$ 661,684
Lab Costs							\$ 706,151
Net Lab Margin							\$ (44,467)
Difference							\$ 136

Evaluating Hospital Operations

• Units of Service – Swing Bed Volume Example

Model A: Base Case (Information based on 12-Month Ended 6/30/06 Cost Report)

	ADC	Total Days	Medicare Payer Mix	Medicare Days	Other Days	Payment Per Day	Other Payment
Acute (inc ICU and Observ)	13.4	4,890	59%	2,896	1,994	\$ 1,200	\$ 2,392,952
Swing Bed - SNF	1.8 WS	600	100%	600	-	\$ -	\$ -
Swing Bed - NF	0.5 S-3	24	0%	-	24	\$ 475	\$ 11,400
Total Days	15.1	5,514		3,496	2,018		\$ 2,404,352
Net Acute/SB SNF/Obs		5,490		3,496	2,018	NA	
Inpatient Fixed Costs		\$4,117,565	*** WS B + WS C, IP Charges*RCC –				
Inpatient Variable Costs		\$1,314,900	*** VC \$250/Day acute; \$150/day SB				
Total Inpatient Costs		\$5,432,465					
Less: Cost Carve Outs		\$ (372,097)	(Gero Psych Ancillary, Labor and Delivery, Anesthesia)				
Net Inpatient Costs		\$5,060,368					
Inpatient Costs Per Day		\$ 921.74		\$ 921.74			
Medicare Payment				\$3,222,296			\$ 3,222,296
Total Payment							\$ 5,626,648
Inpatient Costs							\$ 5,432,465
Net Margin							\$ 194,183

** Assumes \$250/day marginal acute costs, \$150/day marginal swing bed SNF costs and \$100/day marginal NF costs

*** Acute Inpatient departmental inpatient charges times departmental RCCs less variable costs

- Change:
 - Grow swing bed volume to ADC of 4
 - Variable costs = \$150/day
 - Fixed costs remain constant

Evaluating Hospital Operations

- Units of Service – Swing Bed Volume Example (continued)

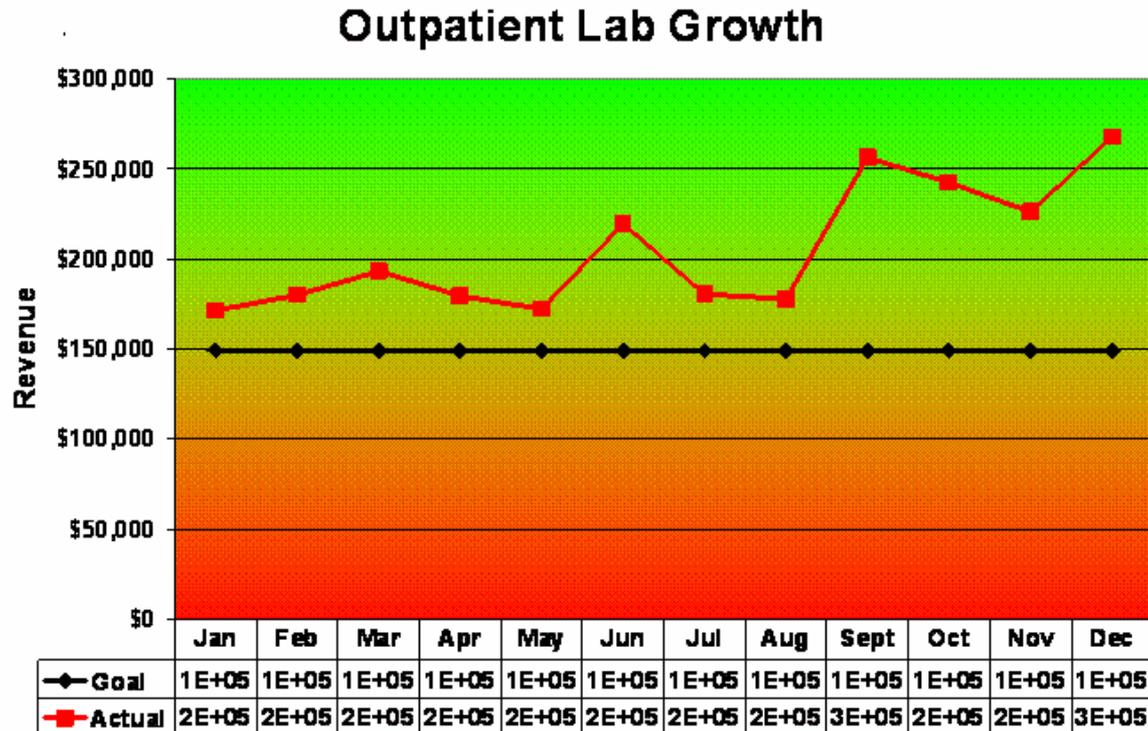
Model B: Increase Swing Bed Census to ADC of 4 (Information based on 12-Month Ended 6/30/06 Cost Report)

		ADC	Total Days	Medicare Payer Mix	Medicare Days	Other Days	Payment Per Day	Other Payment
Acute (inc Observ)	WS	13.4	4,890	59%	2,896	1,994	\$ 1,200	\$ 2,392,952
Swing Bed - SNF	S-3	4.0	1,460	100%	1,460	-	\$ -	\$ -
Swing Bed - NF		0.1	24	0%	-	24	\$ 475	\$ 11,400
Total Days		<u>17.5</u>	<u>6,374</u>		<u>4,356</u>	<u>2,018</u>		<u>\$ 2,404,352</u>
Net Acute/SB SNF/Obs			<u>6,350</u>		<u>4,356</u>	<u>2,018</u>	NA	
Inpatient Fixed Costs			\$4,117,565	***	\$250/Day acute; \$150/day SB			
Inpatient Variable Costs			\$1,443,900	**				
Total Inpatient Costs			\$5,561,465					
Less: Cost Carve Outs			\$ (372,097)					
Net Inpatient Costs			\$5,189,368					
Inpatient Costs Per Day			<u>\$ 817.22</u>		<u>\$ 817.22</u>			
Medicare Payment					<u>\$3,559,721</u>			\$ 3,559,721
Total Payment								\$ 5,964,073
Inpatient Costs								\$ 5,561,465
Net Margin								<u>\$ 402,608</u>
Increase in Net Margin								\$ 208,425

- Outcome:
 - Increased swing bed volume results in \$208K increase in margin

- Summary
 - Fully Allocated Costs
 - Readily available in cost report
 - Dangerous when used for decision making
 - Do not evaluate contribution towards CAH overhead
 - Variable Costs
 - More difficult to determine from the cost report
 - Includes lost cost-based revenue from fixed allocated costs
 - Much better measure of department profitability
 - Proxy for incremental or marginal costs
 - Necessary for unit, department, or unit of service to cover variable costs or recognize mission support

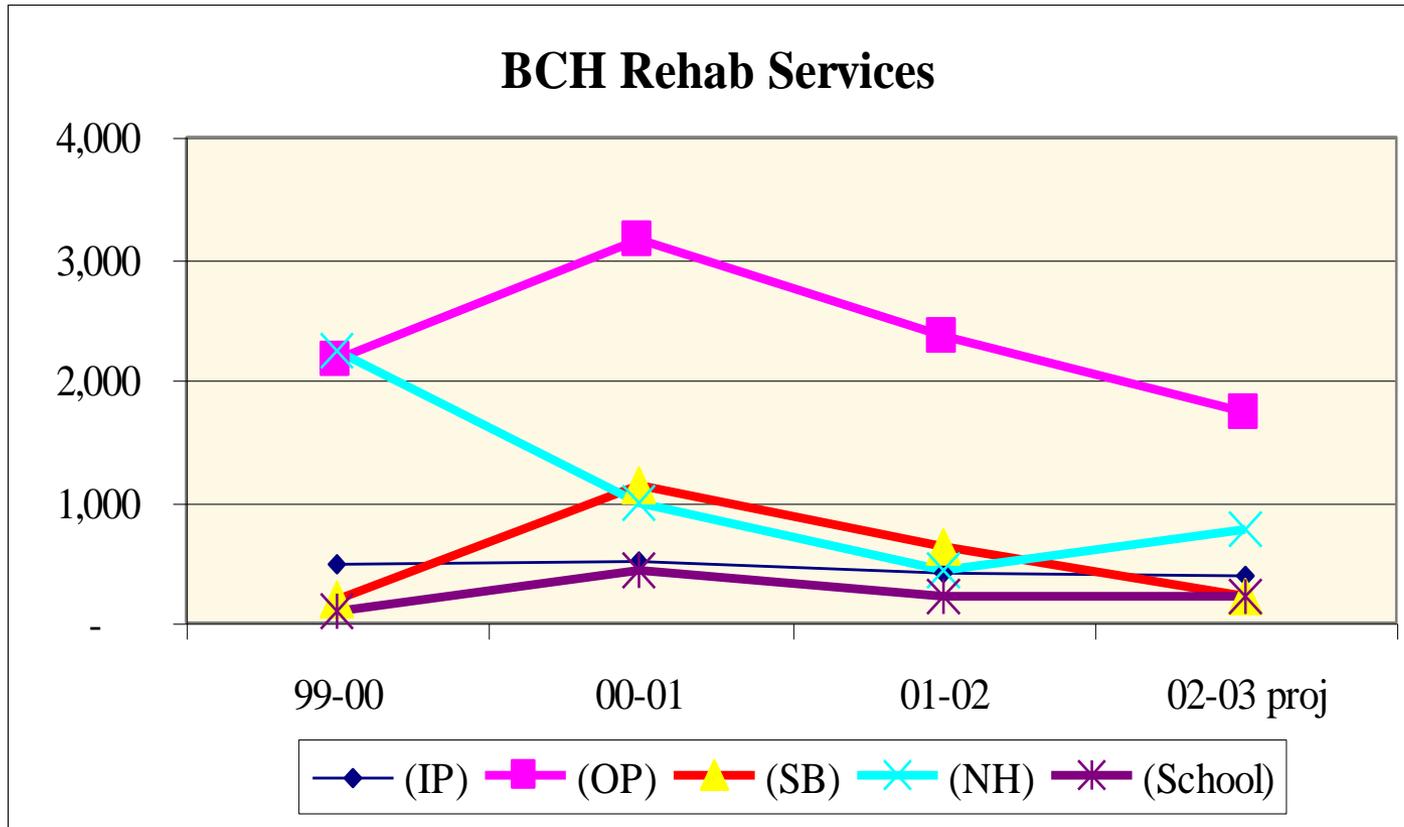
- Improving Departmental Performance



- Increased Lab Volume

- Promote services to community physicians
- New lab director

- Declining Departmental Performance



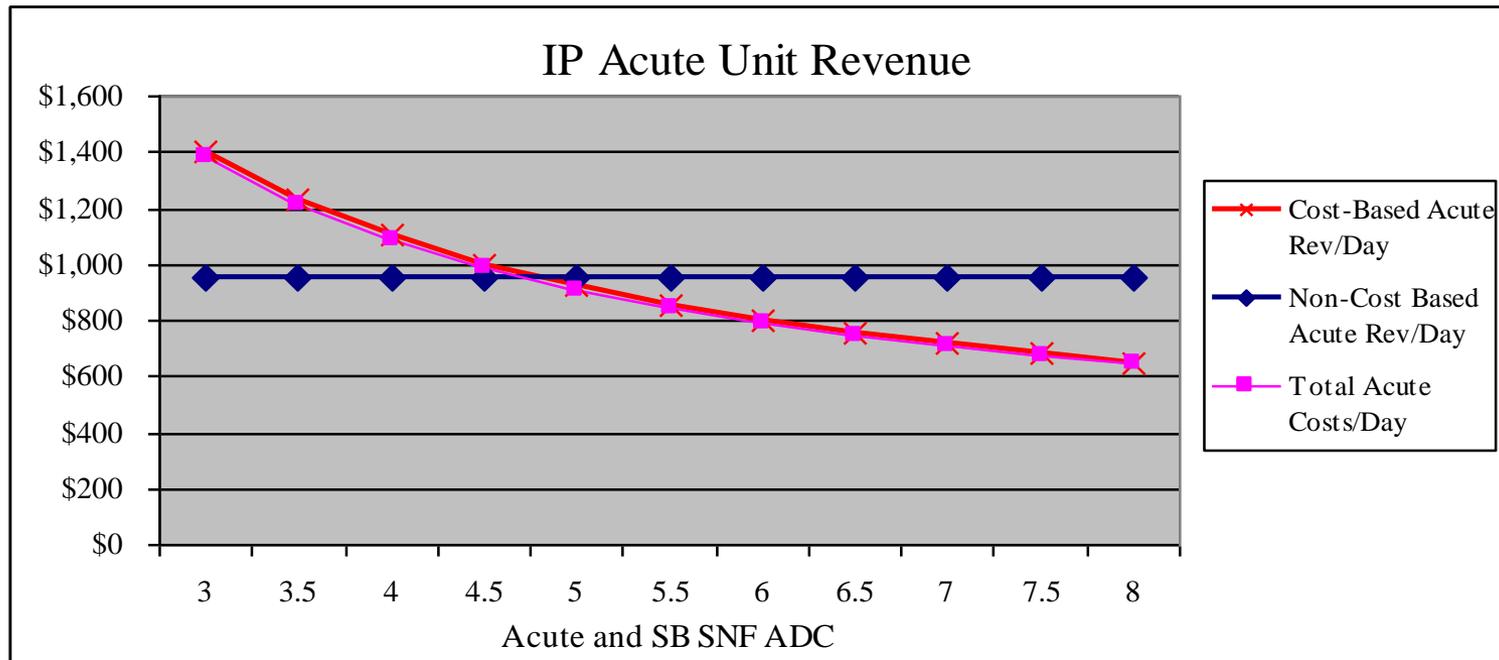
– Physical therapy decrease due to limit on space and new hires

Course Overview

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Payer Reimbursement

- Guiding Principle
 - Commercial business is an important source of profits and profits generated on this business must more than compensate for non-allowable “costs”
- Importance
 - Profit Opportunity



- Non Cost-Based Per Diems > Cost-Based Per Diems once Acute unit cost falls below \$950

Uncompensated Care

- Uncompensated care revenue provides an estimate of the amount of revenue hospitals lose due to bad debt and charity care.
 - Uncompensated care levels have increased over past 4 years
 - » Why?
 - » What can be done to address?

Common Findings and Successful Attributes

- Common Findings

- Third party contracts not updated on a regular basis
 - Essential to the profitability of a rural hospital
- Business office staff not aware of negotiated contracts
- Charge masters have not been updated for several years

- Successful Rural Hospitals

- Work with an outside vendors to perform comprehensive evaluation of the hospital wide charge master
- Organize/catalog all third-party contracts and evaluate whether any contracts should be renegotiated
- Establish process whereby all business office clerks are familiar with third-party contracts and actively work all third-party EOMBs to ensure accurate reimbursement

Successful Attributes

• Successful Rural Hospitals

- Prepare a payment to charge/cost analysis for major third party accounts to ensure margin is generated from this contract

Dept	CPT Code	Description	Total Chrgs	Total Count	CPT Code Charge	Dept RCC	FAC	3rd Party	Units/Visit	FAC/Visit	3rd Party
Lab	80053	Comp. Chem Profile	\$ 210,979	1,138	\$ 189.55	0.327	\$ 61.98	\$ 6.20			
	84443	Ultrasound TSH	154,647	1,037	\$ 152.45	0.327	\$ 49.85	\$ 9.86			
	85025	CBC Auto	88,380	1,855	\$ 48.45	0.327	\$ 15.84	\$ 4.56			
	80061	Lipid Pro I	123,189	1,648	\$ 76.25	0.327	\$ 24.93	\$ 12.26			
	87086	Lab Culture Urine	32,263	590	\$ 55.65	0.327	\$ 18.20	\$ 4.74			
	81000	Lab Urinalysis Routin	32,145	1,132	\$ 28.85	0.327	\$ 9.43	\$ 1.86			
			<u>\$ 641,603</u>								
X-Ray	71020	Chest PA-Lateral	\$ 66,861	425	\$ 159.65	0.414	\$ 66.10	\$ 45.34			
	72110	Spine L/S Complete	23,153	117	\$ 200.85	0.414	\$ 83.15	\$ 78.15			
	70450	Ct Head w/o Contrast	92,567	104	\$ 910.55	0.414	\$ 376.97	\$ 197.59			
	72192	CT Pelvis	136,565	125	\$ 1,115.50	0.414	\$ 461.82	\$ 197.59			
	76705	US Gall Bladder	6,615	24	\$ 256.50	0.414	\$ 106.19	\$ 99.77			
		<u>\$ 325,761</u>									
PT	97032GP	Electrical Stim	\$ 124,239	1,681	\$ 74.20	0.526	\$ 39.03		3.50	\$ 136.60	\$ 78.00
	97124GP	Massage 15 min	59,278	1,310	\$ 45.35	0.526	\$ 23.85		3.50	\$ 83.49	\$ 78.00
	67110GP	Therapeutic Exer 15 Mi	302,246	6,536	\$ 46.35	0.526	\$ 24.38		3.50	\$ 85.33	\$ 78.00
		<u>\$ 485,763</u>									

- Re-negotiate contracts with third party payers targeting fully allocated costs plus 20% as minimum pricing strategy

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Thanks for listening!

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