GENERAL

With the support of the Federal Office of Rural Health Policy, the National Rural Health Resource Center updated the Finance 101 Manual in July 2018 for use by state Medicare Rural Hospital Flexibility (Flex) Program personnel as well as staff and boards of small rural hospitals and clinics.
FINANCE 101 MANUAL UPDATE

• Major update in July 2018

• New Name – “Small Rural Hospital and Clinic Finance 101”

• New areas of content
  • Critical Access Hospitals
  • Prospective Payment System Hospitals
  • Rural Health Clinics

• 15 pages of new content
GENERAL TOPICS

• Retains and updates discussions on:
  • Government insurance programs
    • Medicare
    • Medicaid
    • Children’s Health Insurance Program (CHIP)
GENERAL TOPICS

• Retains and updates discussions on:
  • Government Reimbursement Models
    • Prospective Payment System (PPS)
    • Swing bed
    • Critical Access Hospital cost-based reimbursement
      • Breakdowns
      • Hospital
      • Ambulance
      • Allowable costs
    • Differences between PPS and cost-based reimbursement
    • Method II billing
    • Medicare Administrative Contractors
    • Why CAHs might not make a profit
    • The Medicare cost report
    • Rural Health Clinic billing in the PPS and CAH setting
CRITICAL ACCESS HOSPITALS
MOST IMPORTANT CAH FINANCIAL INDICATORS

- Updated with 2016 Flex Monitoring Team data

- Indicators
  - Days in Net Accounts Receivable
  - Days in Gross Accounts Receivable
  - Days Cash on Hand
  - Total Margin
  - Operating Margin
  - Debt Service Coverage
  - Salaries to Net Patient Revenue
  - Medicare Inpatient Payer Mix
  - Average Age of Plant (years)
  - Long Term Debt to Capitalization

![Table B. CAH Financial Indicator Medians, 2016](image)
MOST IMPORTANT CAH FINANCIAL INDICATORS

• Demonstration of the calculations
• Favorable values
• Examples of causes of unfavorable values
• Predicting CAH financial distress

Salaries to Net Patient Revenue

Salaries to Net Patient Revenue measures labor costs relative to the generation of operating revenue from patient care.

How values are calculated:
• Salaries: [Row T]
• Net Patient Revenue: [Row Q]
• Salaries to Net Patient Revenue: [Row T] ÷ [Row Q]

Example data:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>2,895,000</td>
<td>2,908,000</td>
<td>2,958,000</td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>5,195,000</td>
<td>5,330,000</td>
<td>5,388,000</td>
</tr>
<tr>
<td><strong>Salaries to Net Patient Revenue</strong></td>
<td><strong>55.73%</strong></td>
<td><strong>54.56%</strong></td>
<td><strong>54.90%</strong></td>
</tr>
</tbody>
</table>

Salaries are a major part of the expense structure and require close management. Reviewing the costs can help a CAH assess its staffing efficiency. Overstaffing can reduce overall hospital profitability. Closely monitoring salaries to net patient revenue and improving efficiencies can improve financial performance. Favorable values are below the median and the 2016 CAH US Median = 44.90 percent.
IMPROVING CAH FINANCIAL PERFORMANCE

• Input from 2012 & 2018 Rural Hospital & Clinic Financial Leadership Summits

• 2012 Strategies
  • Cost report review
  • Chargemaster review
  • Strategic, financial and operational assessments
  • Revenue cycle management
  • Physician practice management assessments
  • Lean
  • Finance education to CAH department managers and board members
  • Collaboration
IMPROVING CAH FINANCIAL PERFORMANCE

• 2018 Strategies
  • Market indicators
  • Current ratio
  • Operational efficiency
  • Workforce
  • Care management
  • Quality performance
  • Community health
  • Data management
RURAL PPS HOSPITAL REIMBURSEMENT
Most Important Rural PPS Financial Indicators

- Indicators
  - Days in Net Accounts Receivable
  - Days in Gross Accounts Receivable
  - Days Cash on Hand
  - Total Margin
  - Operating Margin
  - Debt Service Coverage Ratio
  - Salaries to Net Patient Revenue
  - Payor Mix Percentage
  - Average Age of Plant (years)
  - Long Term Debt to Capitalization

- No Flex Monitoring Team data available
IMPROVING PPS FINANCIAL PERFORMANCE

• Similar strategies – differing specifics

What interventions can PPSs use to improve their financial performance?

Many of the same interventions that are effective for the CAH to improve their financial performance can be effective in improving the performance for the PPS hospital. However, the specifics for each intervention may be different. They include:

- Cost report review and strategy
- Strategic, financial and operational assessments
- Revenue cycle management
- Physician practice management assessments
- Lean process improvement training
- Financial education for PPS department managers
- Financial education for PPS boards
- Pooling Small Rural Hospital Improvement Program (SHIP) dollars
- Developing chief financial officer (CFO) networks
- Benchmarking financial indicators

Unless otherwise indicated below, the interventions in these areas are essentially similar to those in the PPS.
PROVIDER BASED RURAL HEALTH CLINICS
RURAL HEALTH CLINICS

• Background

• Financial Indicators – Different than CAH and PPS
  • Days in net accounts receivable
  • Days in gross accounts receivable
  • Cost per visit
  • Medicare payer mix
  • Visits per physician/nurse practitioner/physician assistant
  • Percentage of nurse practitioner/physician assistant FTEs to total provider FTEs
  • Staffing cost per provider FTE
  • Average charge per billable visit
IMPROVING RHC FINANCIAL PERFORMANCE

• Interventions
  • Cost report review
  • Chargemaster
  • Revenue cycle management
  • Physician practice management assessments
  • Lean

What interventions can RHCs use to improve their financial performance?

Many of the same interventions that are effective for the CAH and PPS hospital to improve their financial performance can be effective in improving the performance for the RHC. However, the specifics for each intervention may be different. They include:

• Cost report review and strategy
• Strategic, financial and operational assessments
• Revenue cycle management
• Physician practice management assessments
• Lean process improvement training
• Developing chief financial officer (CFO) networks
• Benchmarking operational indicators

Unless otherwise indicated below, the interventions in these areas are essentially similar to those in the PPS.
EXPLORE THE RESOURCES ON THE NATIONAL RURAL HEALTH RESOURCE CENTER WEBSITE

2018 Rural Hospital and Clinic Financial Summit Report

Small Rural Hospital and Clinic Finance 101 Manual
SUMMARY

• The updated manual is a great resource for the following:
  • Flex Coordinators
  • Board members
  • C-suite

• Provides a good high level overview with deeper dives into appropriate indicators to monitor and strategies to assist rural providers improve their opportunities for success.
QUESTIONS?

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.
THANK YOU

Ralph J. Llewellyn, CPA, CHFP
Partner
rllewellyn@eidebailly.com
701.239.8594