

CAHMPAS Indicators and Peer Groups Using 2010 Medicare Cost Report Accounts

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Financial Indicator	Definition	Interpretation
Total Margin	Net income / Total revenue	Total Margin measures the control of expenses relative to revenues. A positive value indicates total expenses are less than total revenues (a profit). Very high positive values may indicate higher patient volumes, which drive down the cost per unit of service. A negative value indicates total expenses are greater than total revenues (a loss). Very high negative values may indicate financial difficulty.
Cash Flow Margin	$\frac{\text{Net income - Contributions, investments and appropriations + Depreciation expense + Interest expense}}{\text{Net patient revenue + Other income - Contributions, investments and appropriations}}$	Cash Flow Margin measures the cash inflow per dollar of revenue from providing patient care services. A positive value indicates cash outflows are less than cash inflows. A negative value indicates cash outflows are greater than cash inflows.
Return on Equity	Net income / Net assets	Return on Equity measures the net income generated by equity investment (net assets). In a not-for-profit entity, the equity represents the sum of federal, state, and local grants, contributions, and the accumulated earnings of the hospital. A positive value indicates net income was generated by equity investment. Very high positive values may indicate an opportunity for debt financing. A negative value indicates a net loss was generated by equity investment. Very high negative values may indicate financial difficulty.
Operating Margin	$\frac{\text{Net patient revenue + Other revenue - Total operating expenses}}{\text{Net patient revenue + Other revenue}}$	Operating Margin measures the control of operating expenses relative to operating revenue (net patient and other revenue). A positive value indicates operating expenses are less than operating revenue (an operating profit). Very high positive values may indicate higher patient volumes, which drive down the cost per unit of service. A negative value indicates operating expenses are

		greater than operating revenues (an operating loss). Very high negative values may indicate financial difficulty.
Current Ratio	Current assets / Current liabilities	Current Ratio measures the number of times short-term obligations can be paid using short-term assets. A value greater than 1.0 indicates current assets are greater than current liabilities. Very high values may indicate underinvestment in longer-term assets that usually yield higher returns. A value less than 1.0 indicates current assets are less than current liabilities. Very low values may indicate financial difficulty.
Days Cash On Hand	Cash + Temporary investments + Investments / (Total expenses- Depreciation) / Days in period	Days Cash on Hand measures the number of days an organization could operate if no cash was collected or received. A low value indicates only a few days of cash on hand. Very low values may indicate financial difficulty. A high value indicates many days of cash on hand. Very high values may indicate under-investment in longer-term assets that usually yield higher returns. Days Cash on Hand is calculated at fiscal year end, which does not reflect uneven cash flows throughout the year.
Days Net Revenue in Accounts Receivable	Net patient accounts receivable / (Net patient revenue / Days in period)	Days Net Revenue in Accounts Receivable measures the number of days that it takes an organization, on average, to collect its receivables. A high value indicates many days to collect receivables. Very high values may indicate a need to review collection policies and procedures. A low value indicates only a few days to collect receivables and may indicate a more efficient system for processing accounts receivable, higher Medicare and Medicaid payer mix, offering of long-term care services, or some combination.
Equity Financing	Net assets / Total assets	Equity Financing measures the percentage of total assets financed by equity. In a not-for-profit entity, equity represents the sum of federal, state and local grants, contributions, and the accumulated earnings of the hospital. A value greater than 50 percent indicates that more of the assets are financed by equity than by debt. Very high values may indicate opportunities for debt financing. A value less than 50 percent indicates that more of the assets are financed by debt than by equity. Very low values may indicate exposure to financial risk because debt service is a fixed charge.
Debt Service Coverage	Net income + Depreciation + Interest expense / Notes and loans payable (short term) * (365	Debt Service Coverage measures the cash inflow per dollar of principal payments and interest expense. A positive value greater than 1.0 indicates cash flow greater than current fixed charge payments. Very high positive

	$\text{ / Days in period) + Interest expense}$	values may indicate an opportunity for debt financing. A positive value less than 1.0 or a negative value indicates cash flow less than current fixed charge payments. Very low values may signal a need to reassess debt policies. Refinancing may be an option if interest rates are lower in the current period than when the original debt financing occurred.
Long-Term Debt to Capitalization	$\text{Long-term debt / Long-term debt + Net assets}$	Long-Term Debt to Capitalization measures the percentage of total capital that is debt. A value greater than 50 percent indicates that a majority of capital is debt. Very high values may indicate exposure to financial risk because debt service is a fixed charge. A value less than 50 percent indicates that the majority of capital is equity. Very low values may indicate opportunities for debt financing.
Outpatient Revenues to Total Revenues	$\text{Total outpatient revenue / Total patient revenue}$	Outpatient Revenues to Total Revenues measures the percentage of total revenues that is for outpatient services (including, for example, Rural Health Clinics, free-standing clinics, and home health clinics). A value greater than 50 percent indicates that the majority of total patient revenues is for outpatient services. A value less than 50 percent indicates that the majority of total patient revenues is for inpatient services.
Patient Deductions	$\text{Contractual allowances + Discounts / Gross total patient revenue}$	Patient Deductions measures the allowances and discounts per dollar of total patient revenue. A high value indicates higher average discounts and/or allowances. Higher values may result from higher volume of services provided, higher rate structures, or higher penetration of managed care contracts. A low value indicates lower average discounts and/or allowances. Lower values may result from lower volume of services provided, lower rate structures, or less penetration of managed care contracts.
Medicare Inpatient Payer Mix	$\text{Medicare inpatient days / Total inpatient days - Nursery bed days - NF swing bed days}$	Medicare Inpatient Payer Mix measures the percentage of total inpatient days that is provided to Medicare patients. A value greater than 50 percent indicates that the majority of inpatient days is for Medicare patients. Very high values may indicate lack of financial diversification due to high dependence on Medicare reimbursement. A value less than 50 percent indicates that the majority of inpatient days is for Medicaid, privately insured, and other patients.

Hospital Medicare Outpatient Payer Mix	Hospital outpatient Medicare charges / Hospital total outpatient charges	Hospital Medicare Outpatient Payer Mix measures the percentage of total outpatient charges that is for Medicare patients. A value greater than 50 percent indicates that the majority of outpatient charges is for Medicare patients. Very high values may indicate lack of financial diversification due to high dependence on Medicare reimbursement. A value less than 50 percent indicates that the majority of outpatient charges is for Medicaid, privately insured, and other patients.
Hospital Medicare Outpatient Cost to Charge	100* Hospital Medicare outpatient costs / Hospital Medicare outpatient charges	Hospital Medicare Outpatient Cost to Charge measures the outpatient Medicare costs per dollar of Medicare outpatient charges. A value less than 0.5 indicates that Medicare outpatient costs are less than one half of Medicare outpatient charges. Very low values may indicate patient volume is relatively high, gross charges are relatively high, costs are relatively low, or some combination of these factors. A value greater than 0.5 indicates that Medicare outpatient costs are greater than one half of Medicare outpatient charges. Very high values may indicate low volume, an inadequate rate structure, an opportunity to review operating costs, or some combination.
Medicare Acute Inpatient Cost Per Day	Medicare acute inpatient cost / Medicare inpatient days (excluding HMO)	Medicare Acute Inpatient Cost per Day measures the average daily cost of a Medicare acute inpatient. Skilled nursing facility (SNF) days are excluded. A high value indicates a high acute inpatient cost per day for Medicare patients. A low value indicates a low acute inpatient cost per day for Medicare patients. Medicare Acute Inpatient Cost per Day is influenced by facility occupancy rates, utilization of services, and the ability to manage costs.
Salaries to Net Patient Revenue	Salary expense / Net patient revenue	Salaries to Net Patient Revenue measures the percentage of net patient revenue that is labor costs. A value greater than 50 percent indicates that the majority of net patient revenue is for salaries. Very high values may indicate labor intensive organizations, employment of medical staff, or old plant and equipment. A value less than 50 percent indicates that the majority of net patient revenue is for supplies, equipment, and other expenses. Very low values may indicate capital-intensive organizations or new plant and equipment.
Average Age of Plant	Accumulated depreciation / Depreciation expense * (365 / Days in period)	Average Age of Plant measures the average accounting age in years of the fixed assets of an organization. It may differ from the average chronological age because of depreciation practices. Higher values indicate greater amounts

		of older assets. Very high values may indicate a need for fixed asset replacement. Lower values indicate greater amounts of newer assets. Very low values may indicate a new building or recent replacement of fixed assets.
FTEs per Adjusted Occupied Bed	Number of FTEs / (Inpatient days - NF swing days - Nursery days) * (Total patient revenue / (Total inpatient revenue - inpatient NF revenue - Other LTC revenue)) / Days in period	FTEs per Adjusted Occupied Bed measures the number of full-time employees per each occupied acute care bed. A high value indicates many employees per bed. Very high values may indicate low volume and a potential opportunity to evaluate staff productivity. A low value indicates a few employees per bed. Very low values may indicate high volume or a high level of staff productivity.
Average Salary per FTE	Salary expense / Number of FTEs	Average Salary per FTE measures the price and mix of labor. A high value indicates that a hospital pays above average wages / salaries and/or employs relatively more high-skill occupations and/or experienced staff. A low value indicates that a hospital pays below average wages / salaries and / or employs relatively fewer less high skill occupations and/or experienced staff.
Average Daily Census Swing-SNF Beds	Inpatient swing bed SNF days / Days in period	Average Daily Census Swing-SNF beds measures the average number of swing beds occupied per day. A high value indicates high use of swing-SNF beds. A low value indicates low use of swing-SNF beds. Average Daily Census Swing-SNF Beds is influenced by the number of swing-SNF beds available.
Average Daily Census Acute Beds	Inpatient acute care bed days / Days in period	Average Daily Census Acute Beds measures the average number of acute care beds occupied per day. A high value indicates high use of acute care beds. A low value indicates low use of acute care beds. Average Daily Census Acute Beds will be influenced by the number of acute care beds available.
Financial Distress Index	FDI Index includes the following predictive and protective forces for hospital distress: Total Margin, Percent of Benchmarks Met over 2 Years, Net Patient Revenue, Retained Earnings, Poverty Rate, For Profit Status, 2-year Change in Total Margin, Market Population, Market	The Financial Distress Index (FDI) measures a hospital's risk of financial hardship and potential closure. The FDI model identifies hospitals' level of financial distress as low, medium-low, medium-high, or high risk (on a scale of one to four respectively). High-risk hospitals (level four) are more likely to close in the next two years, according to The North Carolina Rural Health Research Program. The FDI uses a hospital's financial performance, government reimbursement measures, ownership, size, and market in determining its risk.

	<p>Share, Critical Access Hospital Status, Medicaid to Medicare Fee Index, Miles to Nearest 100 Bed Hospital. The FDI Index measures hospitals on a scale of 1 to 4, where:</p> <p>1 = low risk of financial distress 2 = medium-low risk of financial distress 3 = medium-high risk of financial distress 4 = high risk of financial distress</p>	
Days Gross Revenue in Accounts Receivable	$\frac{\text{Gross patient accounts receivable}}{\text{(Gross patient revenues / Days in Period)}}$	Days Gross Revenue in Accounts Receivable compared to Days Net Revenue in Accounts Receivable measures revenue cycle performance. Days gross and net revenues in accounts receivable that are close in value indicate good revenue cycle performance. Days gross revenue in accounts receivable greater than days net revenue in accounts receivable may indicate that allowances for doubtful accounts (implicit price concessions) require analysis and possible adjustment.
Uncompensated care	$\frac{\text{Charity care + bad debt}}{\text{Total operating expenses}}$	Uncompensated care is charity care and bad debt as a percentage of total operating expenses. A high value indicates a greater percentage of total operating expenses for which no patient or third party payment was received. Higher values may result from higher rates of un-insured and under-insured patients, prevalence of high deductible health plans among patients, and other payment factors. A low value indicates a lower percentage of total operating expenses for which no payment was received.
Medicaid payer mix	$\frac{\text{Medicaid charges}}{\text{Total patient charges}}$	Medicaid payer mix measures the percentage of total patient charges for Medicaid patients. A value greater than 50 percent indicates that the majority of total patient charges is for Medicaid patients. Very high values may indicate lack of financial diversification due to high dependence on Medicaid reimbursement. A value less than 50 percent indicates that the majority of patient charges is not from Medicaid beneficiaries, but from patients with other forms of health insurance. It is important to note that total charges vary

		by payer and actual payments are not always the same percent of charges for all payers.
1-Year change in operating expenses	$\frac{[\text{Operating expenses (year t)} - \text{Operating expenses (year t-1)}]}{\text{Operating expenses (year t-1)}}$	1-year Change in Operating Expenses measures the 1-year percentage change in operating expenses. Positive values indicate increases in operating expenses over a 1-year time period. Growth in operating expenses less than growth in operating revenues results in greater profitability as measured by operating margin. Growth in operating expenses greater than growth in operating revenues results in lower profitability.
1-Year change in operating revenue	$\frac{[\text{Operating revenue (year t)} - \text{Operating revenue (year t-1)}]}{\text{Operating revenue (year t-1)}}$	1-year Change in Operating Revenue measures the 1-year percentage change in operating revenue. Positive values indicate increases in operating revenue over a 1-year time period. Growth in operating revenue greater than growth in operating expenses results in higher profitability as measured by operating margin. Growth in operating revenue less than growth in operating expenses results in lower profitability.
3-Year change in operating expenses	$\frac{[\text{Operating expenses (year t)} - \text{Operating expenses (year t-3)}]}{\text{Operating expenses (year t-3)}}$	3-year Change in Operating Expenses measures the 3-year percentage change in operating expenses. Positive values indicate increases in operating expenses over a 3-year time period. Growth in operating expenses less than growth in operating revenues results in greater profitability as measured by operating margin. Growth in operating expenses greater than growth in operating revenues results in lower profitability.
3-Year change in operating revenue	$\frac{[\text{Operating revenue (year t)} - \text{Operating revenue (year t-3)}]}{\text{Operating revenue (year t-3)}}$	3-year Change in Operating Revenue measures the 3-year percentage change in operating revenue. Positive values indicate increases in operating revenue over a 3-year time period. Growth in operating revenue greater than growth in operating expenses results in higher profitability as measured by operating margin. Growth in operating revenue less than growth in operating expenses results in lower profitability.