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hospital financial performance trends to watch

Financial indicators derived from Medicare cost report data are reliable tools for assessing the effectiveness of a hospital's operations.

The delivery of patient care has not been especially lucrative for short-term acute care hospitals (STACHs) in recent years. Financial indicators derived from Medicare cost reports show that these hospitals are actually losing money on patient care. Indeed, these financial indicators have much to tell hospitals about their overall financial performance, and hospital financial executives should be attentive to their message.

For hospital financial executives seeking to assess their organizations' performance over time and in comparison with that of peer facilities, Medicare cost reports are among the most reliable sources of comparative information. The reason is that these data sources are available for most, if not all, hospitals. Financial indicators derived from Medicare cost reports can be used to examine trends for individual hospitals and for groups of hospitals over several years. On the macro level, such trends can help in understanding how the healthcare industry is affected by regulatory changes, shifts in utilization, and other factors that have an industrywide impact.

And on the micro level, individual hospitals can use these indicators to identify areas in which their performance falls short of best practices and to highlight areas for possible improvement.

To demonstrate the value of these financial indicators, we examined a set of indicators commonly used within the industry, looking at comparative data for the five most recent years available.

Although there are many useful indicators to choose from, we focused on the 11 listed below, which are well-known within the industry for evaluating individual hospital performance, benchmarking with peer groups, and studying particular systems or groups of hospitals:

- > Maintained bed occupancy (percentage)
- > Average length of stay (days)
- > Operating margin (percentage)
- > Current ratio
- > Cash on hand (days)
- > Accounts receivable (days)
- > Average payment period (days)
- > Inpatient gross revenue (percentage)
- > Outpatient gross revenue (percentage)
- > Contractual allowance write-off (percentage)
- > Personnel expense (percentage of operating revenue)

These indicators are used to measure an organization's overall financial health, major utilization characteristics, and important management efficiencies. The first seven of these indicators are among 14 indicators for which HFMA publishes national values each year based on contributions from various sponsoring companies (see *HFMA Key Hospital Financial Statistics and Ratio Medians 2007*; go to www.hfma.org and search on first five

AT A GLANCE

- > Hospitals may wish to compare their performance with that of their peers to identify areas for possible improvement.
- > Comparing financial indicators over five years shows directional trends and the influence of environmental factors such as regulatory change.
- > For-profit hospitals appear to outperform their not-for-profit counterparts.
- > Rural hospitals generally exhibit better financial performance than urban hospitals.
- > Nonteaching hospitals show more desirable operating margins than teaching hospitals.

words of title). Bond rating agencies, in particular, use these indicators as a means to determine a hospital's financial health.

All of the indicators are defined by data that are generally available from Medicare cost reports. This common basis enables benchmarking, comparative analysis, and industry trending that would otherwise not be possible.

Unexpected Trends

The findings of our study show stability in occupancy, average length of stay (LOS), and inpatient/outpatient mix. But the data also disclose some unexpected trends. Most important is the finding presented at the opening of this article: STACHs have been losing money from patient care services for the last five years. A hospital's operating margin percentage is one of the most important indicators of financial viability. Notwithstanding some recent improvement, hospital operating margin percentages remained negative during the period studied: from -1.88 percent in FY03 to -1.14 percent in FY07.

The financial stability of the entire hospital industry may be threatened if this trend continues.

Yet in spite of this threat, other financial indicators have remained solid and have even improved over the period studied. Current ratios have improved, hospitals have more cash on hand, and hospitals are collecting receivables and paying bills faster as an industry. At the same time, hospitals have been able to reduce personnel costs.

Also, improvements in financial indicators have not been seen uniformly across all types of hospitals. Certain types of hospitals have performed better than other types.

For-profit hospitals are outperforming their not-for-profit counterparts. For-profit hospitals as a group showed better financial performance than not-for-profit hospitals. Their operating margins remained positive for all years, ranging from 8.87 percent in FY03 to 5.45 percent in FY07. During the same time, operating margin percentages for not-for-profit hospitals remained negative,

AVERAGE FINANCIAL INDICATORS FOR SHORT-TERM ACUTE CARE HOSPITALS, FIVE-YEAR TREND

Federal Fiscal Year	FY03	FY04	FY05	FY06	FY07
Number of hospitals reported	3,983	3,853	3,667	3,498	2,386
Maintained bed occupancy (%)	64.05	65.22	65.61	65.95	66.47
Average length of stay (days)	4.79	4.78	4.74	4.73	4.73
Operating margin (%)	-1.88	-2.24	-1.67	-1.17	-1.14
Current ratio	1.74	1.94	1.94	1.92	1.90
Cash on hand (days)	32.49	32.79	35.78	36.44	35.48
Accounts receivable (days)	57.69	56.03	52.22	51.10	51.11
Average payment period (days)	70.93	64.04	65.19	67.05	69.25
Inpatient gross revenue (%)	65.01	64.46	63.60	63.29	64.07
Outpatient gross revenue (%)	34.99	35.54	36.40	36.71	35.93
Contractual allowance write-off (%)	58.68	60.65	61.93	63.07	65.23
Personnel expense (% of operating revenue)	51.60	51.17	50.48	50.06	50.06
Source: Cost Report Data Resources.					

ranging from -1.86 percent in FY03 to -0.54 percent in FY07. In terms of overall financial health, for-profit hospitals had fewer days cash on hand than not-for-profit hospitals, but their current ratios suggest a greater preparedness to meet short-term obligations.

For-profit hospitals had significantly lower maintained bed occupancy percentages, which also remained stable over five-years. Meanwhile, not-for-profits saw this indicator increase from

66.38 percent in FY03 to 69.41 percent in FY07. Similarly, the average LOS for for-profit hospitals was slightly less than for not-for-profit hospitals and remained stable for both groups over the five years. Not-for-profit hospitals showed higher outpatient gross revenue percentages than for-profit hospitals. Although the inpatient-outpatient mix remained stable for not-for-profit hospitals, the outpatient percentage increased for for-profit hospitals from 30.52 percent in FY03 to 33.60 percent in FY07.

AVERAGE FINANCIAL INDICATORS FOR STACHs, FOR-PROFIT VERSUS NOT-FOR-PROFIT*

Financial Indicators:		FY03	FY04	FY05	FY06	FY07
Number of hospitals reported	For-profit	745	775	797	833	685
	Not-for-profit	2,425	2,310	2,181	2,064	1,355
Maintained bed occupancy (%)	For-profit	56.52	57.50	57.85	57.32	57.21
	Not-for-profit	66.38	67.57	67.95	68.35	69.41
Average length of stay (days)	For-profit	4.63	4.65	4.64	4.55	4.47
	Not-for-profit	4.80	4.78	4.73	4.74	4.77
Operating margin (%)	For-profit	8.87%	4.78%	4.63%	5.33%	5.45%
	Not-for-profit	-1.86%	-1.45%	-0.99%	-0.83%	-0.54%
Current ratio	For-profit	2.00	2.04	1.87	1.82	2.40
	Not-for-profit	1.88	1.90	1.91	1.87	1.85
Cash on hand (days)	For-profit	3.90	5.11	7.21	7.95	7.86
	Not-for-profit	34.66	35.51	37.22	38.46	39.83
Accounts receivable (days)	For-profit	64.50	60.84	56.40	55.71	52.17
	Not-for-profit	56.38	54.58	50.55	49.04	48.90
Average payment period (days)	For-profit	47.64	42.81	48.17	49.09	39.36
	Not-for-profit	67.53	67.23	66.78	69.48	71.61
Inpatient gross revenue (%)	For-profit	69.48	68.52	67.14	66.81	66.40
	Not-for-profit	64.33	63.85	63.13	62.79	63.78
Outpatient gross revenue (%)	For-profit	30.52	31.48	32.86	33.19	33.60
	Not-for-profit	35.67	36.15	36.87	37.21	36.22
Contractual allowance write-off (%)	For-profit	69.39	70.17	70.55	71.90	71.99
	Not-for-profit	57.17	59.35	60.71	61.76	64.14
Personnel expense (% of operating revenue)	For-profit	40.85	41.59	41.40	41.01	40.42
	Not-for-profit	52.13	51.36	50.66	50.38	50.76

*Governmental hospitals are not reported.
Source: Cost Report Data Resources.

The financial indicators also suggest several differences in financial management practices and trends between the two groups. Accounts receivable (A/R) days were significantly lower for not-for-profit hospitals, and both groups reduced their days over the period studied: Not-for-profits decreased their A/R days by 7.48, while days for for-profits dropped by 12.33. Data also indicate that for-profits pay bills faster than not-for-profits: They decreased their average payment period by 8.28 days, while not-for-profits actually saw an increase of 4.08 days.

The contractual allowance write-off percentage was higher for for-profits than for not-for-profits, and the percentage was increasing for both groups. These trends suggest that for-profits may have higher average charges than not-for-profits. Write-offs for not-for-profits showed a more rapid increase, however, which suggests that their average charges are rising faster than the average payments from their payers.

Also, personnel expenses for for-profit hospitals were more than 20 percent less than those for

AVERAGE FINANCIAL INDICATORS FOR STACHs, RURAL VERSUS URBAN

Financial Indicators:		FY03	FY04	FY05	FY06	FY07
Number of hospitals reported	Rural	1,528	1,404	1,220	1,036	630
	Urban	2,454	2,448	2,447	2,462	1,756
Maintained bed occupancy (%)	Rural	49.50	50.65	50.59	51.24	51.47
	Urban	67.19	68.21	68.41	68.39	68.62
Average length of stay (days)	Rural	4.28	4.28	4.24	4.18	4.18
	Urban	4.89	4.87	4.82	4.81	4.79
Operating margin (%)	Rural	-1.06	-1.06	1.13	0.69	0.41
	Urban	-2.01	-2.42	-2.07	-1.41	-1.32
Current ratio	Rural	2.14	2.22	2.14	2.20	2.31
	Urban	1.69	1.90	1.92	1.89	1.87
Cash on hand (days)	Rural	39.39	39.84	39.07	42.64	46.18
	Urban	31.43	31.72	35.33	35.67	34.30
Accounts receivable (days)	Rural	62.08	61.64	58.52	56.40	53.74
	Urban	56.99	55.17	51.33	50.42	50.81
Average payment period (days)	Rural	61.04	57.80	60.88	60.02	55.13
	Urban	72.50	64.99	65.78	67.93	70.82
Inpatient gross revenue (%)	Rural	53.90	53.26	51.67	51.08	50.48
	Urban	66.41	65.83	64.95	64.53	65.28
Outpatient gross revenue (%)	Rural	46.10	46.74	48.33	48.92	49.52
	Urban	33.59	34.17	35.05	35.47	34.72
Contractual allowance write-off (%)	Rural	49.79	52.05	53.20	54.76	56.88
	Urban	59.79	61.70	62.91	63.91	65.98
Personnel expense (% of operating revenue)	Rural	52.42	51.74	50.14	49.89	49.47
	Urban	51.47	51.08	50.52	50.08	50.13

Source: Cost Report Data Resources.

not-for-profit hospitals. Personnel expenses are the largest expense for hospitals, accounting for slightly more than half of operating revenue. The fact that for-profit hospitals are able to keep their percentage so much lower than that for not-for-profit hospitals is probably the single biggest reason for the differences in their respective operating margin percentages.

Rural hospitals are enjoying better financial performance than are urban hospitals. Rural hospitals as a group showed better financial performance than

urban hospitals.^a Their operating margins increased from -1.06 percent in FY03 to 0.41 percent in FY07. During the same time, operating margin percentages for urban hospitals improved but remained negative, ranging from -2.01 percent in FY03 to -1.32 percent in FY07. In terms of overall financial health, rural hospitals had significantly more days cash on hand than urban hospitals and significantly better current ratios.

a. Go to www.hfma.org and search on "HFMA Key Hospital Financial Statistics."

AVERAGE FINANCIAL INDICATORS FOR STACHs, NONTACHING VERSUS TEACHING

Financial Indicators:		FY03	FY04	FY05	FY06	FY07
Number of hospitals reported	Nonteaching	2,900	2,791	2,626	2,459	1,671
	Teaching	1,083	1,062	1,041	1,039	715
Maintained bed occupancy (%)	Nonteaching	56.44	57.58	58.35	58.93	59.10
	Teaching	71.29	72.55	72.50	72.44	73.14
Average length of stay (days)	Nonteaching	4.46	4.47	4.46	4.44	4.37
	Teaching	5.09	5.05	4.98	4.97	5.03
Operating margin (%)	Nonteaching	0.87	1.07	1.23	1.55	1.58
	Teaching	-3.77	-4.56	-3.71	-3.05	-3.02
Current ratio	Nonteaching	1.78	2.04	2.04	1.96	2.08
	Teaching	1.72	1.88	1.88	1.89	1.81
Cash on hand (days)	Nonteaching	33.86	33.84	35.00	36.37	33.50
	Teaching	31.59	32.08	36.31	36.48	36.78
Accounts receivable (days)	Nonteaching	61.20	59.47	55.30	53.51	52.75
	Teaching	55.28	53.61	50.07	49.44	49.97
Average payment period (days)	Nonteaching	69.86	60.11	60.77	64.24	58.87
	Teaching	71.63	66.64	68.12	68.90	76.05
Inpatient gross revenue (%)	Nonteaching	61.69	61.21	60.70	60.12	60.67
	Teaching	67.32	66.74	65.69	65.53	66.47
Outpatient gross revenue (%)	Nonteaching	38.31	38.79	39.30	39.88	39.33
	Teaching	32.68	33.26	34.31	34.47	33.53
Contractual allowance write-off (%)	Nonteaching	59.01	60.65	62.54	63.65	65.78
	Teaching	58.45	60.64	61.49	62.66	64.85
Personnel expense (% of operating revenue)	Nonteaching	50.16	49.04	48.59	48.12	47.49
	Teaching	52.58	52.67	51.80	51.40	51.83

Source: Cost Report Data Resources.

Although the maintained bed occupancy percentages and the average LOS for both groups remained stable for all five years, both indicators are remarkably lower for rural hospitals. Similarly, rural hospitals had much higher outpatient gross revenue percentages than urban hospitals, and the difference continued to increase over the five years.

The financial indicators also suggest that urban hospitals tend to collect their receivables faster than rural hospitals, while rural hospitals tend to pay their bills more quickly. Accounts receivable days were significantly lower for urban hospitals, and both groups lowered their days over the period studied: Urban hospitals decreased their days by 6.18 and rural hospitals by 8.34. The average payment period for rural hospitals is significantly lower than for urban hospitals while the indicators for both groups have decreased gradually during the period studied.

The contractual allowance write-off percentage was lower for rural hospitals than for urban hospitals, suggesting that rural hospitals may have lower average charges than urban hospitals. The write-off percentages for both groups increased over the period studied, which suggests that both groups have been increasing average charges more rapidly than average payments.

The two groups also saw different trends in personnel expenses. Rural hospitals were able to decrease their personnel expense percentage from 52.42 percent in FY03 to 49.47 percent in FY07, while for urban hospitals, this measure remained relatively stable at about 50 percent for all years. Again, because personnel expenses are the largest expense for hospitals, this indicator helps explain why the operating margins were better for rural hospitals than for urban hospitals.

Nonteaching hospitals have better operating margins than teaching hospitals. Nonteaching hospitals as a

group showed much better financial performance than teaching hospitals, with positive operating margins for all years, ranging from 0.87 percent in FY03 to 1.58 percent in FY07. During the same period, operating margins for teaching hospitals remained negative, ranging from -3.77 percent in FY03 to -3.02 percent in FY07. In terms of overall financial health, both groups had about the same days cash on hand, but nonteaching hospitals had higher current ratios, suggesting a better degree of preparedness to meet short-term obligations than teaching hospitals.

Although the maintained bed occupancy percentages and the average LOS for both groups remained relatively stable for all five years, both indicators were remarkably lower for nonteaching hospitals. Similarly, nonteaching hospitals had much higher outpatient gross revenue percentages than did teaching hospitals.

The financial indicators also suggest that teaching hospitals tend to collect their receivables faster than nonteaching hospitals, while nonteaching hospitals tend to pay their bills more quickly. Accounts receivable days are significantly lower for teaching hospitals, and both groups reduced their A/R days over the period studied: Teaching hospitals saw a decline of 5.31 days compared with a drop of 8.45 days for nonteaching hospitals. The average payment period for nonteaching hospitals was significantly lower than for teaching hospitals, while the indicators for both groups decreased significantly over the period studied (except for FY07 for teaching hospitals, during which time this measure increased dramatically against the downward trend).

The contractual allowance write-off percentage was slightly higher for nonteaching hospitals than for teaching hospitals, and the percentage showed a steady increase for both groups, which

11 FINANCIAL INDICATORS

The 11 indicators reported in this study, with their definitions, are presented below. The first seven indicators are part of HFMA's *Key Hospital Financial Statistics and Ratio Medians*.^a The indicators are followed by an alphabetical list of the study's data sources in the Medicare cost reports (i.e., sections, parts, lines, and columns).

Maintained bed occupancy (percentage).

This indicator is a measure of the volume and utilization of inpatient services.

$$\text{total patient days} \div [\text{total beds} \times 365]$$

Average length of stay (days). This indicator describes the average stay of all or a class of inpatients discharged over a given period. It is used as an indicator of efficiency in containing inpatient service costs.

$$\text{total patient days} \div \text{total discharges}$$

Operating margin (percentage). This profitability indicator shows income derived from patient care operations. It is used to assess the extent to which the organization is using its financial and physical assets to generate a profit.

$$(\text{total operating revenue} - \text{total operating expense}) \div \text{total operating revenue} \times 100$$

Current ratio. This liquidity indicator shows the number of times short-term obligations can be met from short-term creditors. Because it provides an indication of the ability to pay liabilities, a high ratio number is one way short-term creditors evaluate their margin of safety.

$$\text{total current assets} \div \text{total current liabilities}$$

Cash on hand (days). This solvency indicator measures the number of days an organization can pay its cash operating expenses if none of the accounts receivable were collected. This liquidity indicator shows the minimal survival period of an organization.

$$(\text{cash on hand} + \text{market securities}) \div ([\text{total operating expense} - \text{depreciation expense}] \div 365)$$

Accounts receivable (days). This indicator is a measure of the efficiency of the collections function.

$$(\text{accounts receivable} - \text{allowances for uncollectible}) \div (\text{total operating revenue} \div 365)$$

Average payment period (days). This indicator is a measure of how efficiently an organization pays its bills.

$$\text{total current liabilities} \div ([\text{total operating expense} + \text{total other expense} - \text{depreciation}] \div 365)$$

Inpatient gross revenue (percentage). Hospital revenue typically consists of inpatient and outpatient services. This measure reflects inpatient revenue as a percentage of total.

$$\text{total inpatient revenue} \div \text{total patient revenue}$$

Outpatient gross revenue (percentage). This measure represents outpatient revenue as a percentage of the total for both inpatient and outpatient services.

$$\text{total outpatient revenue} \div \text{total patient revenue}$$

Contractual allowance write-off (percentage). The difference between hospital charges for a service and the amount actually paid is referred to as the contractual allowance. Generally, it is the discount regulated by governmental programs such as Medicare or negotiated by an insurance company.

$$\text{total contractual allowances} \div \text{total patient revenue}$$

Personnel expense (percentage of operating revenue). This indicator is a measure of how effectively a hospital manages its personnel expense in response to fluctuations in operating revenue (e.g. census variations, utilization changes, etc.).

$$(\text{salary expense} + \text{contract labor} + \text{fringe benefits}) \div \text{total operating revenue} \times 100$$

Data sources

Accounts receivable: G, line 4, column 1

Allowances for uncollectible: G, line 6, column 1

Cash on hand: G, line 1, column 1

Contract labor: S-3, part 2, lines 9, 9.01, 9.02, 10, 10.01, 11, 12, and 12.01, column 3

Depreciation expense:^b A-7, part 3, line 5, column 9

Fringe benefits: A, line 5, column 2

Market securities: G, line 2, column 1

Salary expense: A, line 101, column 1

Total beds: S-3, part 1, line 12, column 1

Total contractual allowances: G-3, line 2, column 1

Total current assets: G, line 11, column 1

Total current liabilities: G, line 36, column 1

Total discharges: S-3, part 1, line 12, column 15

Total inpatient revenue: G-2, line 25, column 1

Total operating expense: G-3, line 4, column 1

Total operating revenue: G-3, line 3, column 1

Total other expense: G-3, line 30, column 1

Total outpatient revenue: G-2, line 25, column 2

Total patient days: S-3, part 1, line 12, column 6

Total patient revenue: G-2, line 25, column 3

a. Go to www.hfma.org and search on "HFMA Key Hospital Financial Statistics."

b. Hospitals receiving 100 percent federal prospective payment for capital were not required to complete Parts III and IV of Worksheet A-7 for cost reports beginning on or after Oct. 1, 2001 and ending before Feb. 29, 2004. All other hospitals must complete Parts III and IV for all cost reporting periods ending on or after April 30, 2005. This worksheet is the source of interest, depreciation, and amortization expense.

DATA SOURCE AND METHODOLOGY

All of the financial indicators presented in this study were computed from Medicare cost report data obtained from CMS. The Healthcare Cost Report Information System (HCRIS) dataset contains the most recent version (i.e., as submitted, settled, reopened) of each cost report filed with CMS since federal FY96. The most recent HCRIS dataset available at the time of this study was for the cutoff at Dec. 31, 2007, and contained about 47,000 cost reports. Fewer than half of cost reports for FY07 are currently available.

Hospital cost reports were assigned to federal fiscal years based on their period end dates. Cost reports were excluded if they represented fewer than six months or more than 15 months. Similarly, reports were excluded if they contained missing or unreasonable data—for example, if a report did not include gross revenue or number of beds. About 10 percent of cost reports were excluded due to these factors. Indicators were calculated as arithmetic means, using national totals for each factor in the formula.

For the purposes of this study, only short-term acute care hospitals were included. Cost report data for other types of hospitals are also available but were not included due to operational differences.

suggests that their average charges are rising faster than the average payments from their payers.

Personnel expenses were significantly lower for nonteaching hospitals than for teaching hospitals, and—as with for-profit versus not-for-profit hospitals and rural versus urban hospitals—this difference is probably the single biggest reason for the difference in operating margin percentages.

Implications for Action

The financial indicators we examined suggest that hospitals are more likely to have better operating margin percentages if they have lower occupancies, shorter LOS, lower personnel cost percentages, and higher outpatient gross revenue percentages. Five-year trends identified shifts from inpatient to outpatient services for some types of hospitals, improved collections as evidenced by lower A/R days, and the continuation of negative hospital margins for many hospitals.

Hospital financial leaders should compare their own organizations' indicators with the national

averages presented and consider opportunities for improvement that are implied by the differences among types of hospitals. For example, if a hospital's personnel costs are higher than the averages reported for its peers, then this is an area that probably requires proactive attention.

Hospitals should also be aware that industry analysts and lending institutions monitor these and other indicators. Based on his experience covering many of the for-profit hospital companies, Robert R. Hawkins, CFA, vice president and stock analyst with Stifel Nicolaus, notes that stock and debt analysts are particularly interested in inpatient and outpatient shifts reflected by indicators such as maintained bed occupancy percentages, average LOS, and gross revenue percentages. Hawkins also suggests that hospital financial leaders should monitor their organizations' individual performance regarding personnel expense percentage versus industry averages, which remains at about 40 percent for for-profits. He also emphasizes that the contractual allowance write-off percentage can be an important indicator of the effectiveness of annual hospital rate increases.

In short, financial indicators are important in the measurement and control of an individual hospital and in the external evaluation of hospital operations. Public financial data for benchmarking are readily available both for hospital management and for external interests. These data offer hospital financial leaders a reliable means to identify where they should focus their efforts to improve their organizations' financial performance. ●

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**Chart 1: Key Financial Indicators for Short-Term Acute Care Hospitals
(Urban Hospitals By Bed Size)**

Number of Hospitals:	FY2003	FY2004	FY2005	FY2006	FY2007
0-99 beds	549	572	575	587	441
100-199 beds	873	833	828	833	584
200-299 beds	474	465	457	461	344
300-499 beds	395	405	413	401	268
500 or more beds	163	173	174	180	119
Totals	2,454	2,448	2,447	2,462	1,756
Operating Margin %:	FY2003	FY2004	FY2005	FY2006	FY2007
0-99 beds	-3.96%	-3.20%	-3.29%	-1.58%	-0.05%
100-199 beds	-0.37%	-1.20%	-0.66%	-1.03%	-1.08%
200-299 beds	-0.26%	-2.17%	-1.19%	-0.92%	-1.40%
300-499 beds	-0.64%	-0.95%	-1.09%	-0.56%	-2.02%
500 or more beds	-6.06%	-5.04%	-4.60%	-2.92%	-1.00%
Totals	-2.01%	-2.42%	-2.07%	-1.41%	-1.32%
Current Ratio:	FY2003	FY2004	FY2005	FY2006	FY2007
0-99 beds	1.61	1.55	1.54	1.45	1.39
100-199 beds	1.45	1.73	1.76	1.62	1.60
200-299 beds	1.66	1.91	2.00	2.07	2.13
300-499 beds	2.07	2.02	1.94	1.96	1.88
500 or more beds	1.56	1.97	2.04	1.98	2.02
Totals	1.69	1.90	1.92	1.89	1.87
Accounts Receivable Days:	FY2003	FY2004	FY2005	FY2006	FY2007
0-99 beds	66.95	61.69	56.70	56.74	57.07
100-199 beds	57.18	56.55	52.79	51.51	53.42
200-299 beds	56.21	53.75	51.10	50.90	48.59
300-499 beds	56.45	54.63	50.12	49.91	51.43
500 or more beds	56.18	54.55	50.71	48.55	48.67
Totals	56.99	55.17	51.33	50.42	50.81
Average Payment Period:	FY2003	FY2004	FY2005	FY2006	FY2007
0-99 beds	76.78	75.62	78.53	89.51	100.12
100-199 beds	77.95	64.40	64.49	68.35	69.53
200-299 beds	70.38	60.77	58.34	58.39	59.25
300-499 beds	63.67	69.71	70.96	68.33	73.00
500 or more beds	79.17	61.25	63.84	69.74	72.43
Totals	72.50	64.99	65.78	67.93	70.82

Comment:

The very large (over 499 beds) and very small (under 100 beds) urban hospitals have not performed as well as the other urban hospital groups studied, although some indicators have improved in recent periods, such as A/R Days.

**Chart 1: Key Financial Indicators for Short-Term Acute Care Hospitals
(Rural Hospitals By Bed Size)**

Number of Hospitals:	FY2003	FY2004	FY2005	FY2006	FY2007
0-49 beds	751	664	524	378	227
50-99 beds	435	415	385	368	229
100-149 beds	198	176	167	157	96
150-199 beds	72	78	75	71	44
200 or more beds	72	71	69	62	34
Totals	1,528	1,404	1,220	1,036	630
Operating Margin %:	FY2003	FY2004	FY2005	FY2006	FY2007
0-49 beds	-6.72%	-5.07%	-3.28%	-4.48%	-4.33%
50-99 beds	0.63%	-0.10%	2.56%	1.44%	1.96%
100-149 beds	0.45%	1.37%	2.33%	2.49%	2.45%
150-199 beds	2.98%	2.26%	4.14%	4.31%	1.48%
200 or more beds	-1.70%	-2.91%	-0.21%	-1.21%	-1.87%
Totals	-1.06%	-1.06%	1.13%	0.69%	0.41%
Current Ratio:	FY2003	FY2004	FY2005	FY2006	FY2007
0-49 beds	2.08	2.01	1.95	2.03	2.13
50-99 beds	2.28	2.18	2.11	2.09	2.06
100-149 beds	1.98	2.20	2.16	2.26	2.69
150-199 beds	2.25	2.57	2.84	2.90	2.88
200 or more beds	2.16	2.32	1.99	2.09	2.19
Totals	2.14	2.22	2.14	2.20	2.31
Accounts Receivable Days:	FY2003	FY2004	FY2005	FY2006	FY2007
0-49 beds	66.42	64.93	59.86	57.93	60.80
50-99 beds	58.29	58.98	58.40	55.39	52.95
100-149 beds	73.60	69.03	60.84	57.83	54.44
150-199 beds	57.25	55.88	55.52	53.98	55.70
200 or more beds	54.87	58.99	57.62	57.09	47.99
Totals	62.08	61.64	58.52	56.40	53.74
Average Payment Period:	FY2003	FY2004	FY2005	FY2006	FY2007
0-49 beds	64.98	65.13	69.54	69.42	63.23
50-99 beds	53.70	57.74	63.14	60.67	64.54
100-149 beds	67.69	60.50	59.17	56.35	45.51
150-199 beds	56.64	49.01	48.82	48.32	44.08
200 or more beds	62.16	54.39	60.32	63.78	54.00
Totals	61.04	57.80	60.88	60.02	55.13

Comment:

Operating margin percentages have been negative for very large (over 199 beds) and very small (under 50 beds) rural hospitals during the entire period studied, while all other groups of rural hospitals have enjoyed positive margins. The other financial indicators show a similar trend.

Chart 3: Financial Indicators for Post Acute Care Hospitals

REHABILITATION HOSPITALS	FY2003	FY2004	FY2005	FY2006	FY2007
Number of Hospitals	200	203	206	203	173
1 Maintained bed occupancy	73.56%	72.16%	71.27%	66.81%	64.26%
2 Average length of stay	14.91	14.56	14.54	14.77	14.52
3 Operating margin (%)	11.05%	6.90%	7.40%	5.30%	8.08%
4 Current ratio	2.40	3.23	5.41	7.16	3.96
5 Cash on hand (days)	64.11	38.04	41.32	32.64	28.47
6 Accounts receivable	63.24	53.11	56.61	55.01	58.57
7 Average payment period	68.47	38.27	24.96	15.16	28.49
8 Inpatient gross revenue	81.51%	82.12%	82.09%	82.11%	83.40%
9 Outpatient gross revenue	18.49%	17.88%	17.91%	17.89%	16.60%
10 Contractual allowance	41.58%	42.29%	41.10%	42.11%	42.12%
11 Personnel expense	50.67%	54.21%	54.78%	54.28%	52.67%

PSYCHIATRIC HOSPITALS	FY2003	FY2004	FY2005	FY2006	FY2007
Number of Hospitals	330	331	333	319	248
1 Maintained bed occupancy	71.92%	73.08%	74.92%	74.42%	71.20%
2 Average length of stay	16.50	16.55	16.85	15.02	12.32
3 Operating margin (%)	-45.74%	-41.49%	-41.00%	-47.22%	-22.19%
4 Current ratio	1.08	1.17	1.36	0.88	1.28
5 Cash on hand (days)	18.65	19.96	26.30	20.66	29.03
6 Accounts receivable	66.68	57.48	56.95	61.07	68.54
7 Average payment period	73.28	69.90	68.18	74.62	152.65
8 Inpatient gross revenue	88.12%	86.06%	85.61%	84.73%	84.72%
9 Outpatient gross revenue	11.88%	13.94%	14.39%	15.27%	15.28%
10 Contractual allowance	42.36%	43.01%	43.31%	45.96%	46.41%
11 Personnel expense	84.96%	82.17%	80.72%	85.55%	75.04%

LONG-TERM ACUTE CARE HOSPITALS	FY2003	FY2004	FY2005	FY2006	FY2007
Number of Hospitals	283	306	349	374	232
1 Maintained bed occupancy	68.48%	66.24%	65.07%	65.07%	65.55%
2 Average length of stay	36.23	34.05	32.41	31.75	30.30
3 Operating margin (%)	-14.41%	2.40%	7.07%	6.98%	3.59%
4 Current ratio	1.72	1.76	1.85	1.99	2.10
5 Cash on hand (days)	29.00	22.73	26.12	28.98	48.78
6 Accounts receivable	72.34	55.92	56.30	53.28	58.47
7 Average payment period	63.96	61.49	63.20	56.62	63.04
8 Inpatient gross revenue	97.22%	96.79%	96.54%	96.61%	97.36%
9 Outpatient gross revenue	2.78%	3.21%	3.46%	3.39%	2.64%
10 Contractual allowance	58.26%	52.45%	51.18%	53.65%	54.11%
11 Personnel expense	61.37%	53.74%	49.12%	49.39%	47.97%

Comment:

Rehabilitation hospitals have far outperformed the other post acute care hospitals during the period studied. The extreme negative margin percentages, high personnel expense percentages and weakness in the other financial indicators calls into question the continued viability of psychiatric hospitals. Long-term acute care hospitals have shown solid performance during the period studied.

Chart 4: Financial Indicators for Critical Access Hospitals

	FY2003	FY2004	FY2005	FY2006	FY2007
Number of Hospitals	659	811	971	1145	857
1 Maintained bed occu	32.02%	34.35%	36.49%	37.88%	39.47%
2 Average length of st	5.27	5.19	4.97	4.63	4.79
3 Operating margin (%)	-5.89%	-4.17%	-3.02%	-0.58%	-0.79%
4 Current ratio	1.73	1.77	1.91	2.06	2.20
5 Cash on hand (days	37.10	37.82	42.27	46.15	55.64
6 Accounts receivable	67.65	65.81	61.97	61.37	64.76
7 Average payment pe	75.55	74.21	70.90	66.11	69.40
8 Inpatient gross reve	39.91%	37.37%	35.70%	34.20%	33.11%
9 Outpatient gross rev	60.09%	62.63%	64.30%	65.80%	66.89%
10 Contractual allowan	30.72%	32.22%	34.63%	37.02%	39.15%
11 Personnel expense	53.25%	51.54%	52.16%	50.48%	50.41%

Comment:

Financial indicators have improved for critical access hospitals over the period studied. Although operating margin percentages have remained negative, they have improved significantly. Personnel expense percentages have decreased and A/R days and A/P days have improved.