

The Flex Program at 10 Years: The Financial Experience of Small Rural Hospitals

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Growth in critical access hospitals

As of December 2007, there were 1,292 CAHs.

- 71% have 25 beds, 20% have 15-24 beds
- 69 have psych DPUs
- 9 have rehab DPUs

Over the last 10 years:

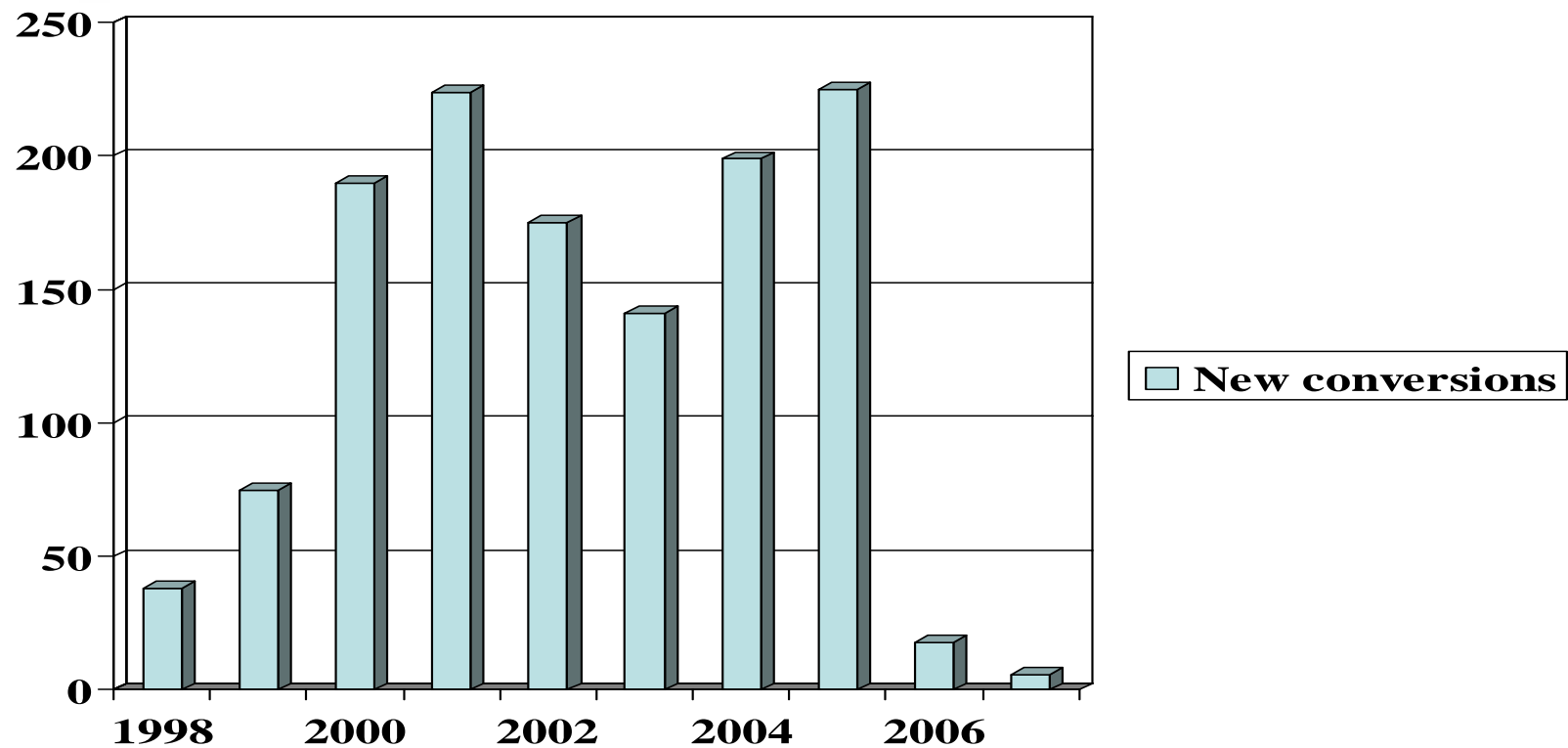
- 30 closed
- 8 dropped CAH designation
- 2 closed, then later reopened



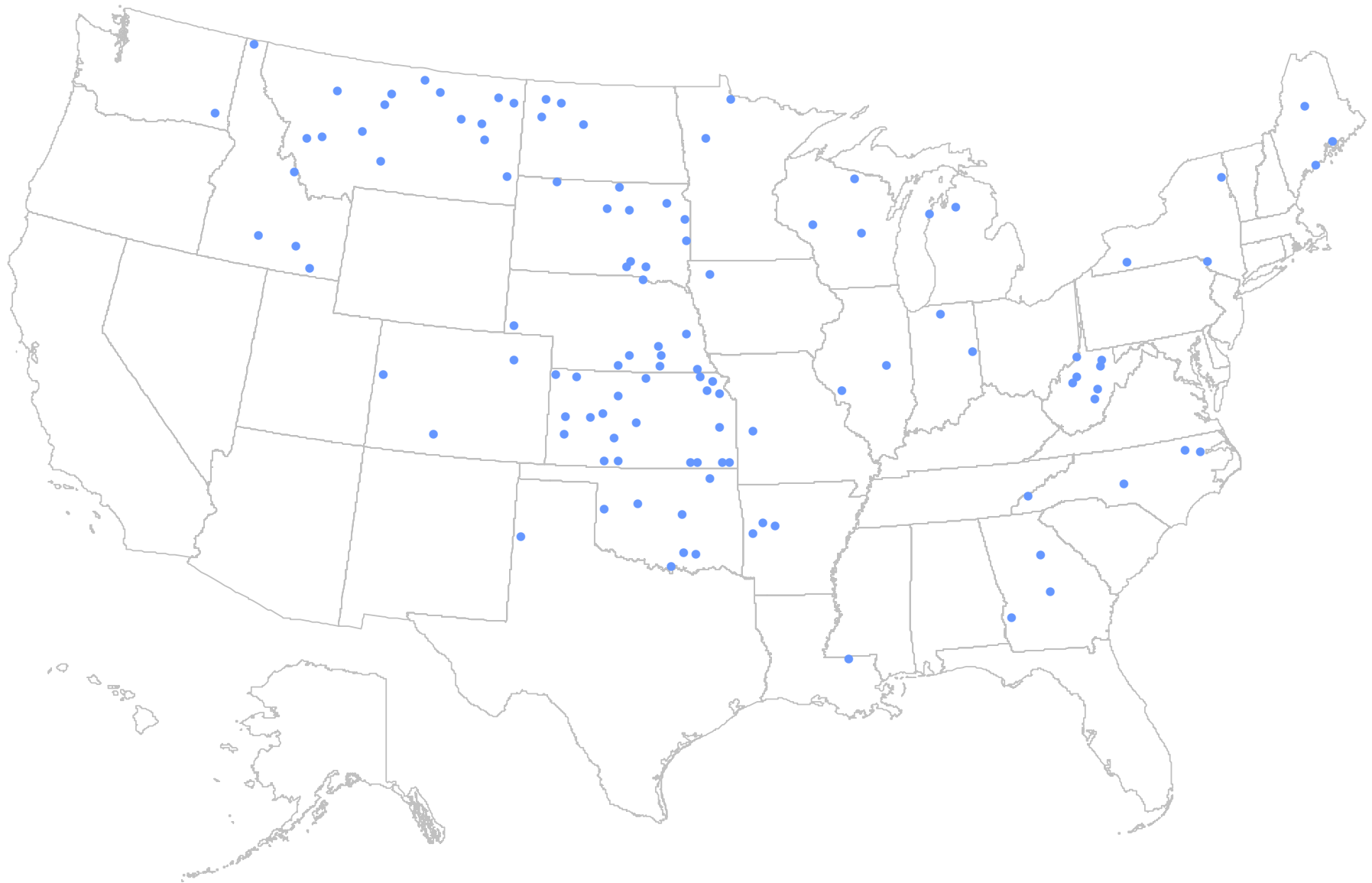
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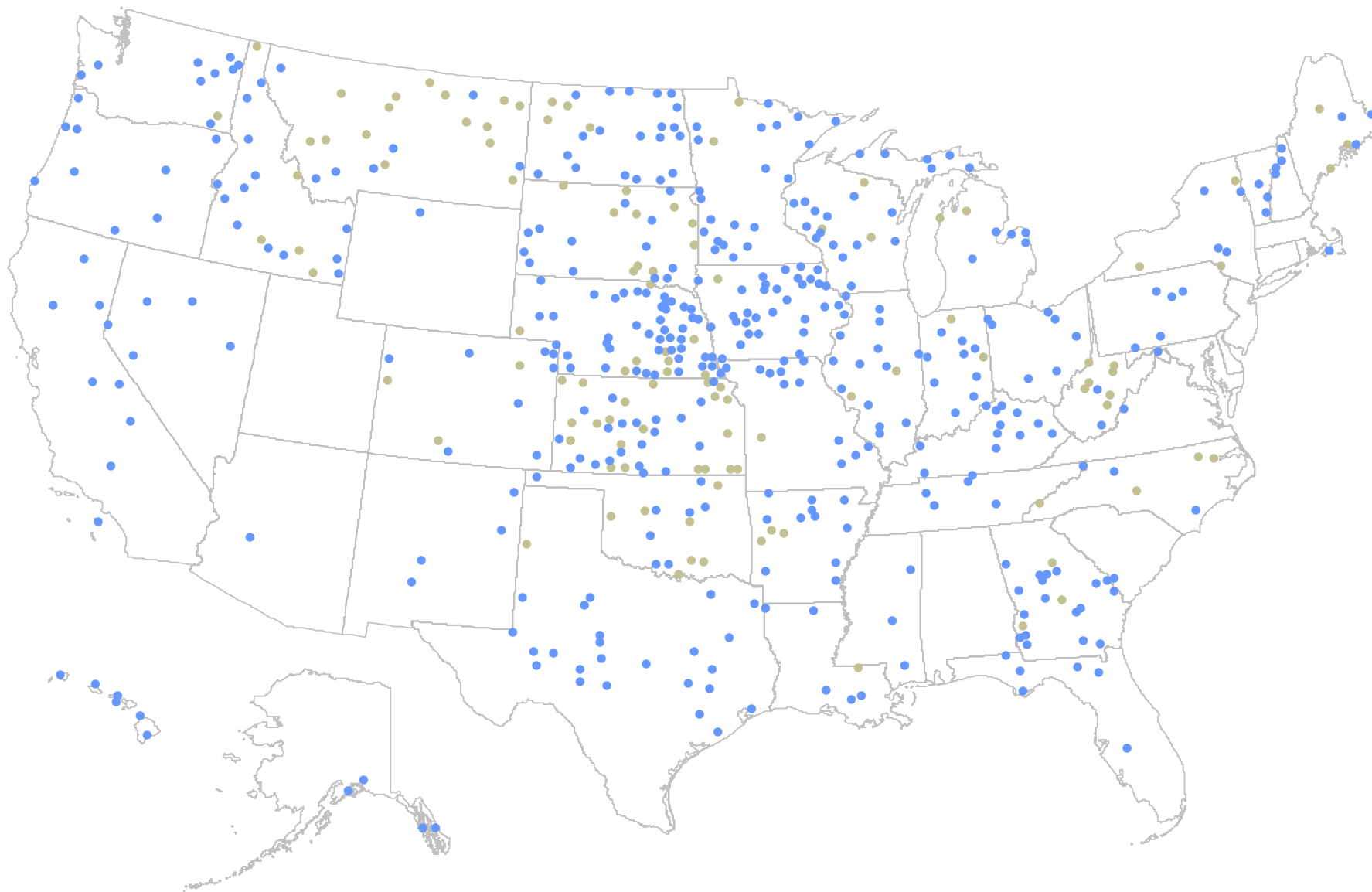
Number of conversions per year



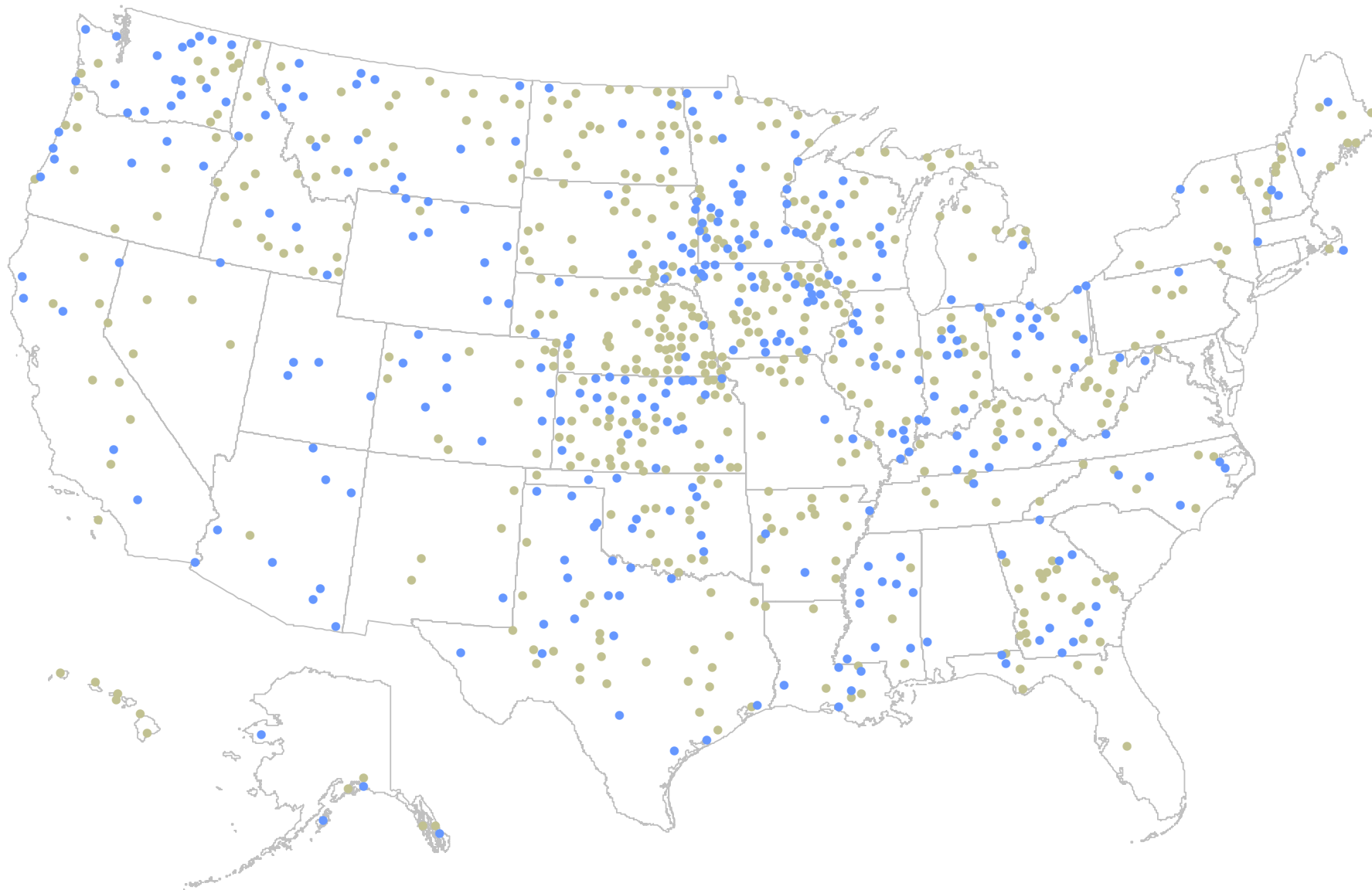
1990s



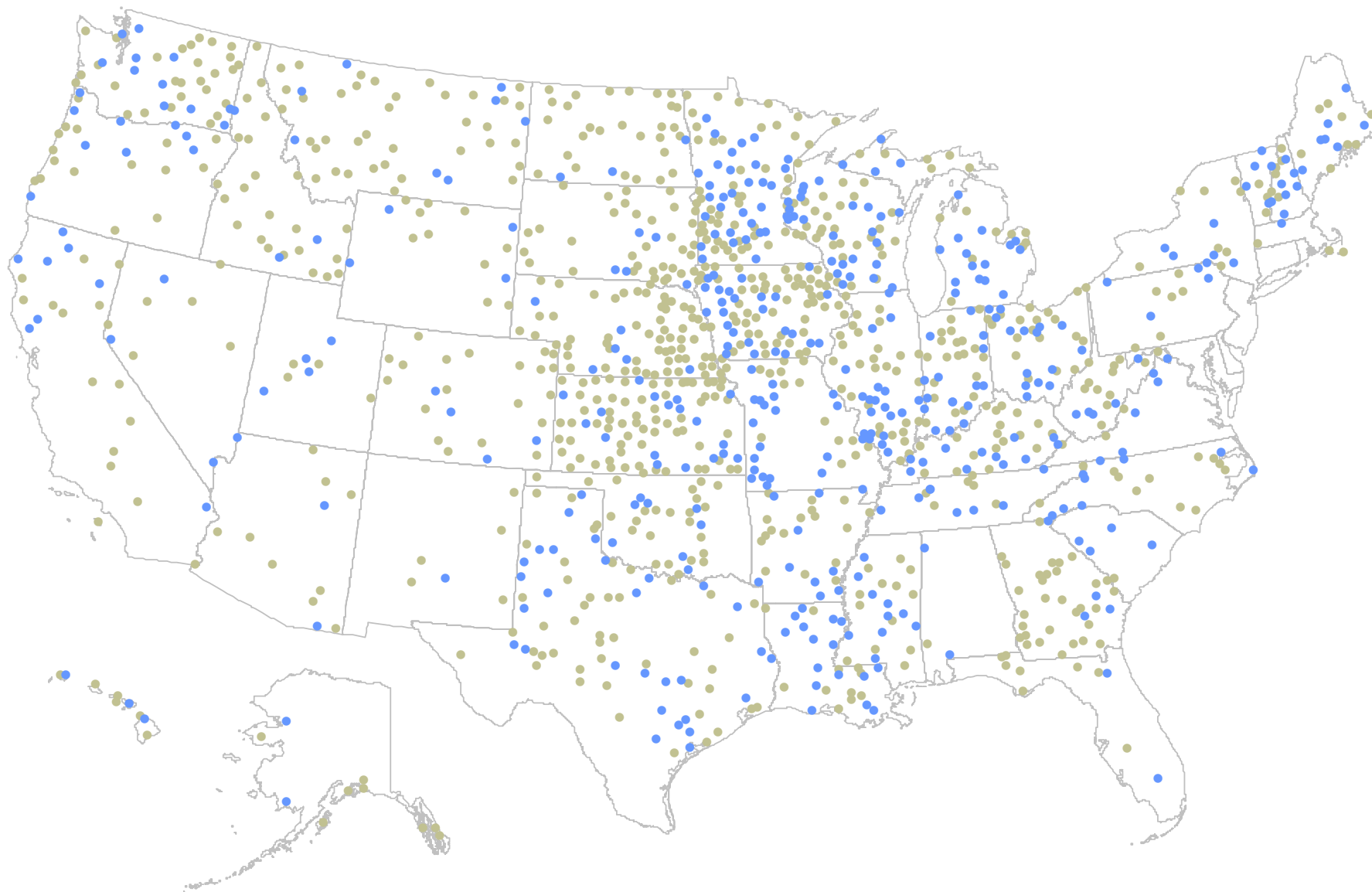
1990s 2000 2001



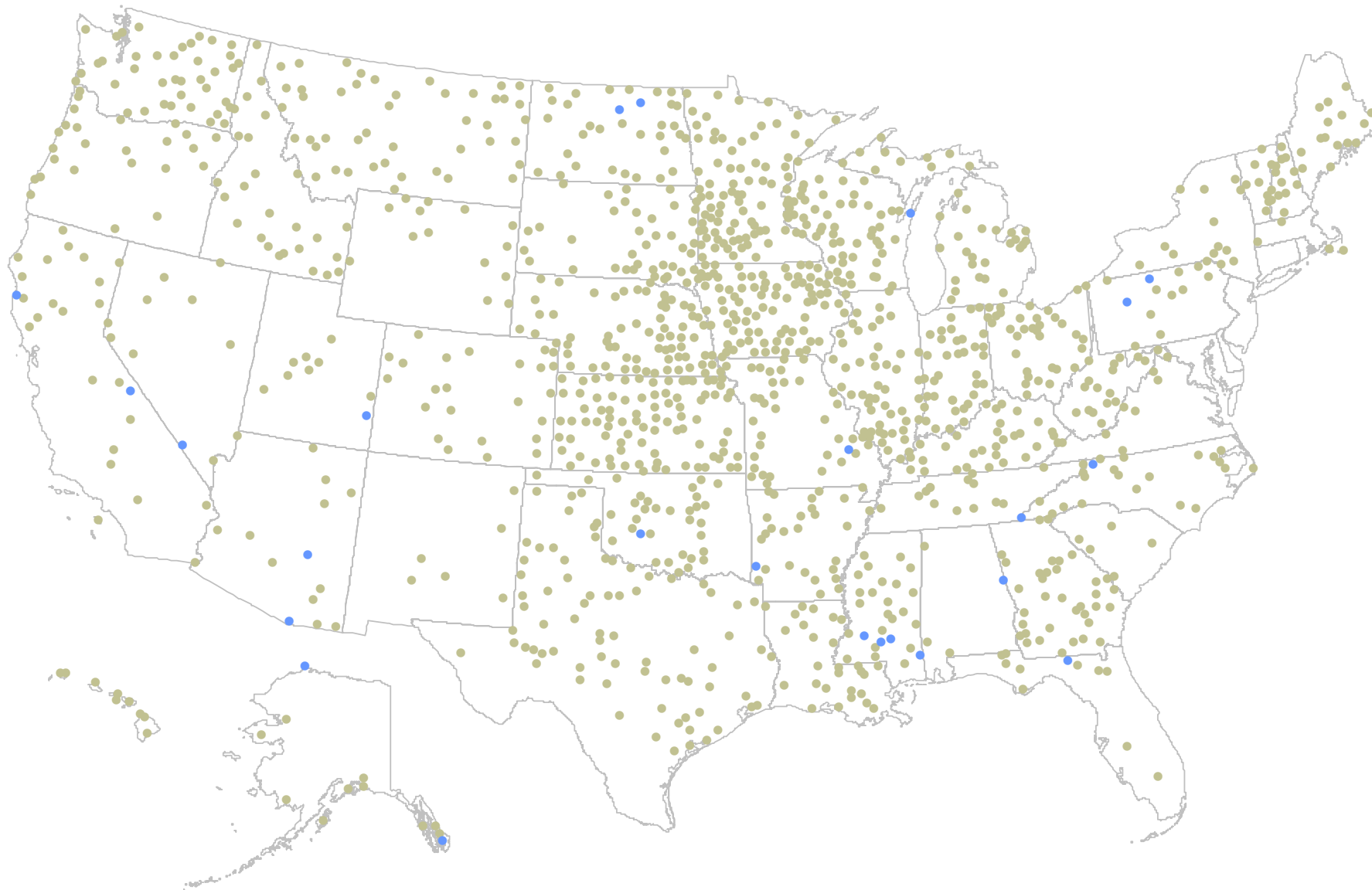
1990s 2000 2001 2002 2003



1990s 2000 2001 2002 2003 2004 2005



1990s 2000 2001 2002 2003 2004 2005 2006 2007



Small rural hospital financial performance over last 10 years

- 10 years of data for all small rural hospitals that had CAH status as of December 2007
- Each year of data includes all hospitals, regardless of whether or not the hospital was a CAH in that particular year
- Is NOT a comparison of pre- and post-conversion performance
- Gives a picture of industry trends over time

CAH Financial Indicators Report

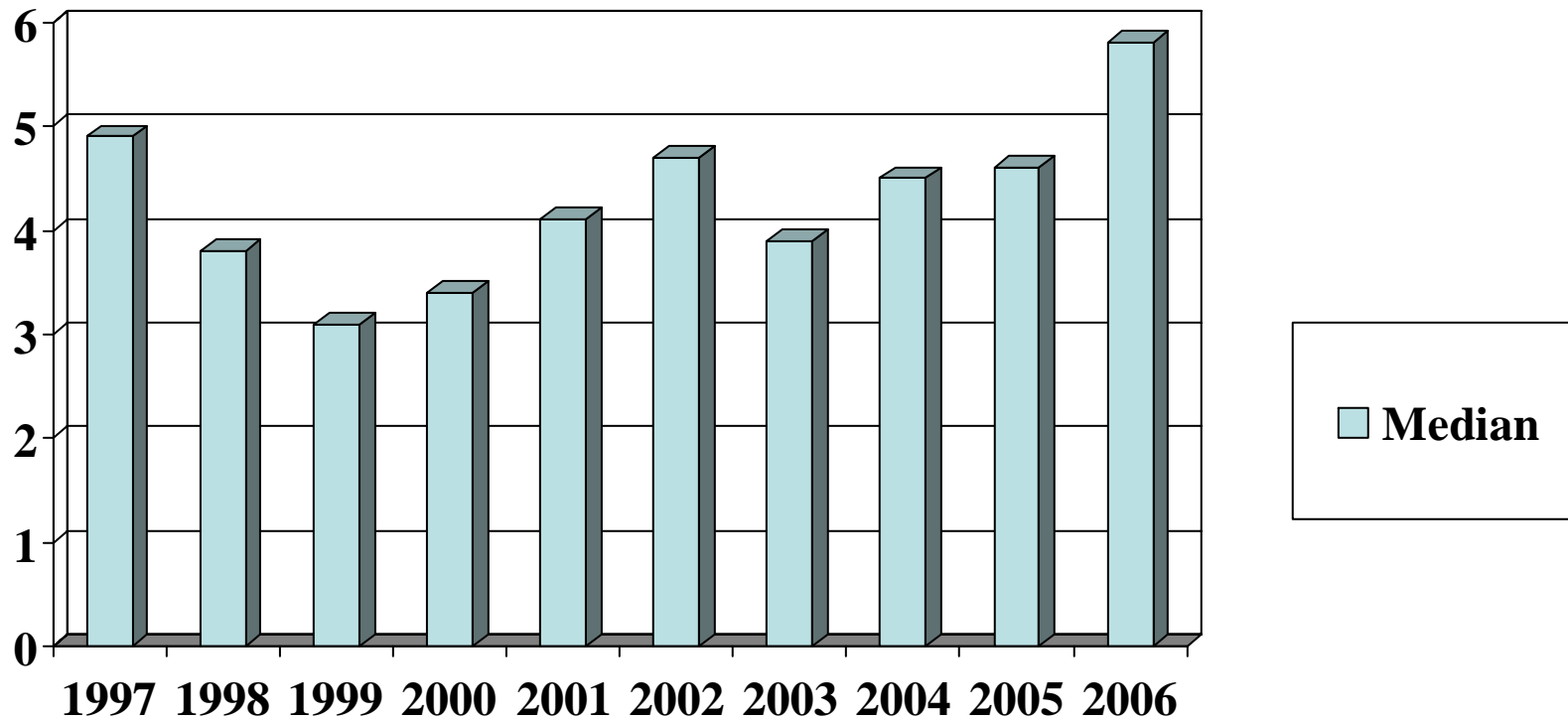
- 20 indicators of financial performance and condition developed with expert advice
- Profitability, liquidity, capital structure, revenue, cost, and utilization
- Peer groups
- Benchmarks for 5 indicators developed from survey of CEOs and CFOs of CAHs
- Results for 4 indicators are presented



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Cash flow margin (percent)

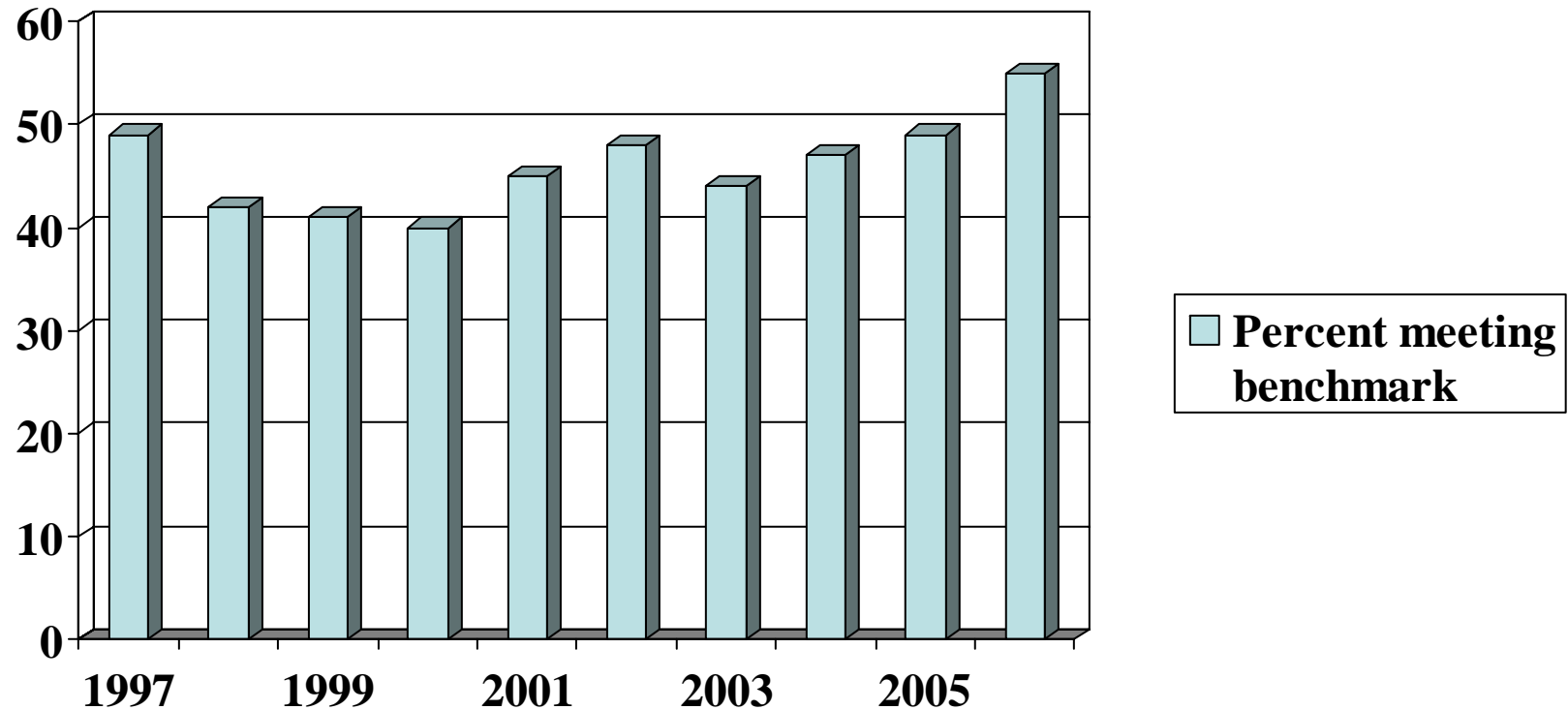




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Cash flow margin: Percent meeting benchmark >5%

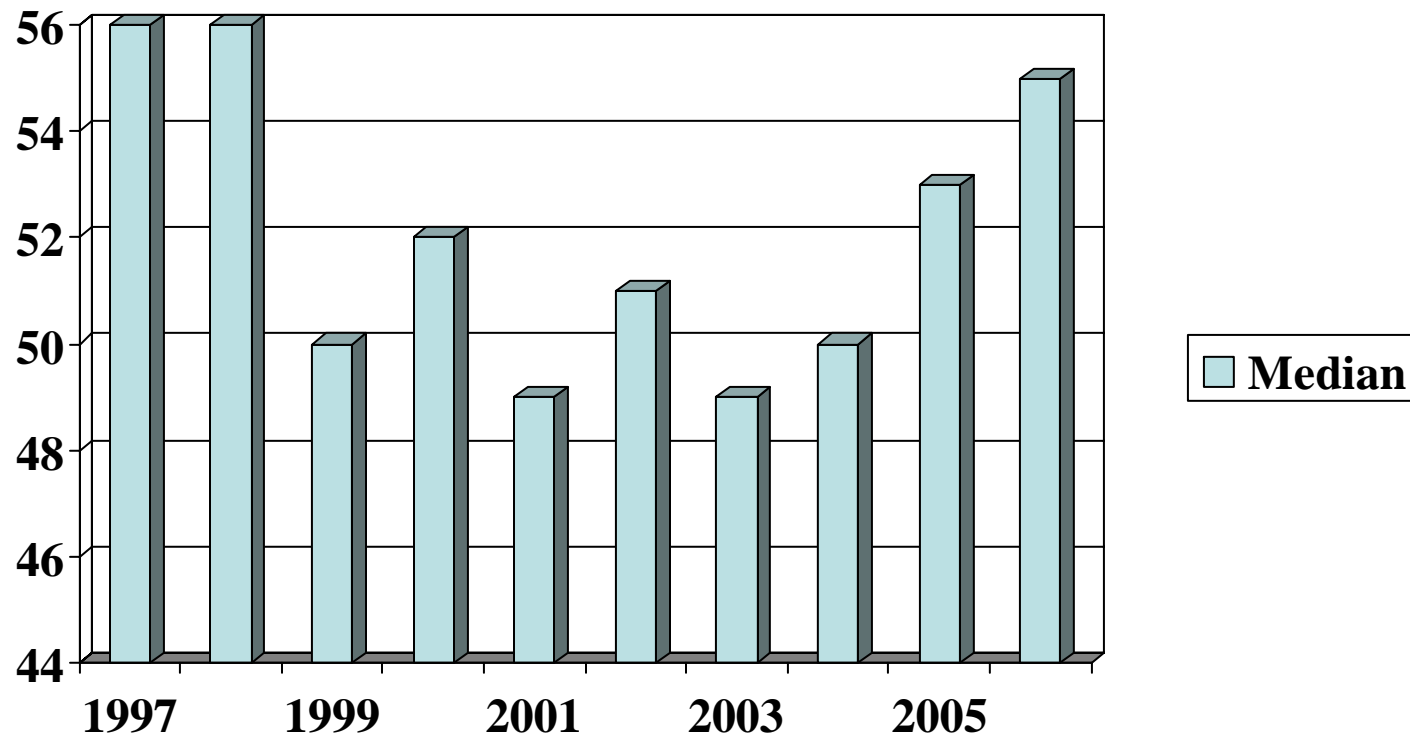




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Days cash on hand

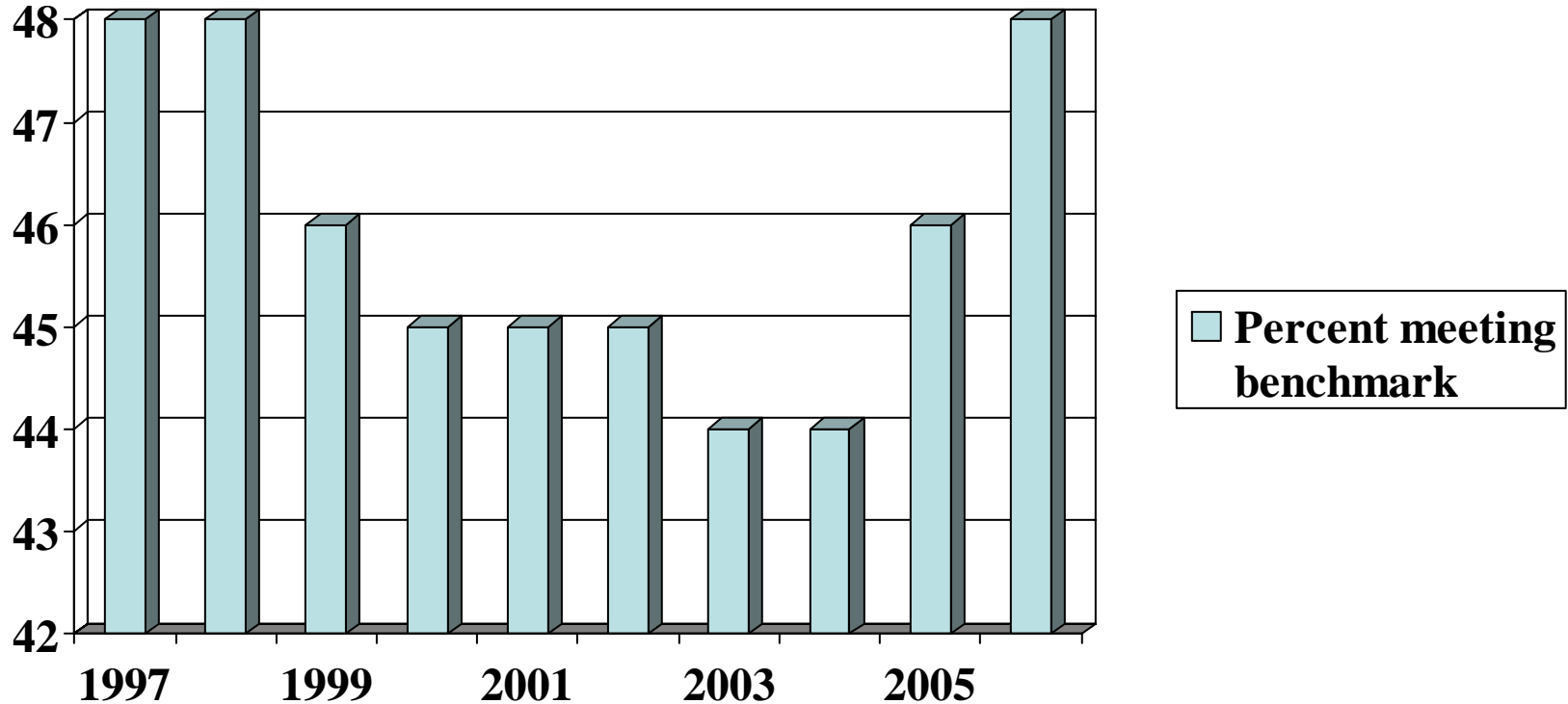




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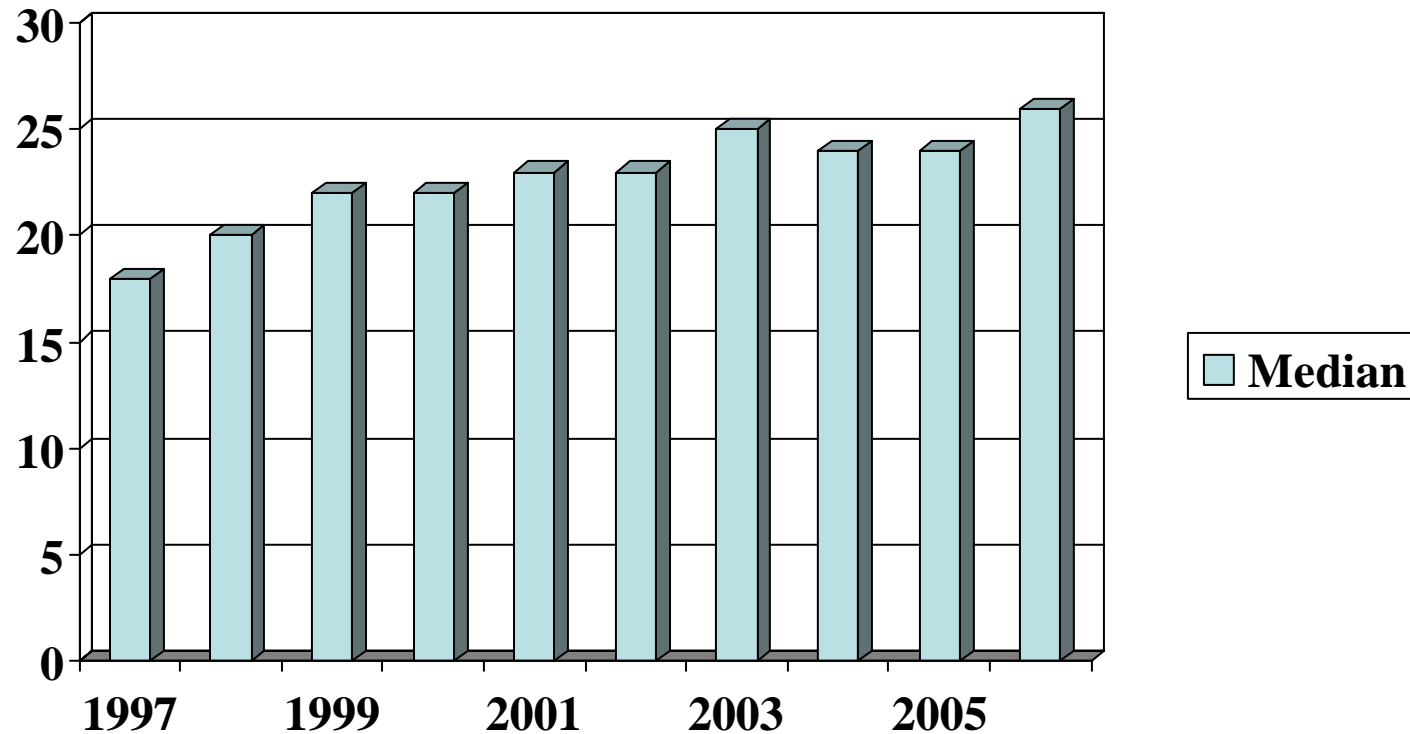
Days cash on hand: Percent meeting benchmark >60 days



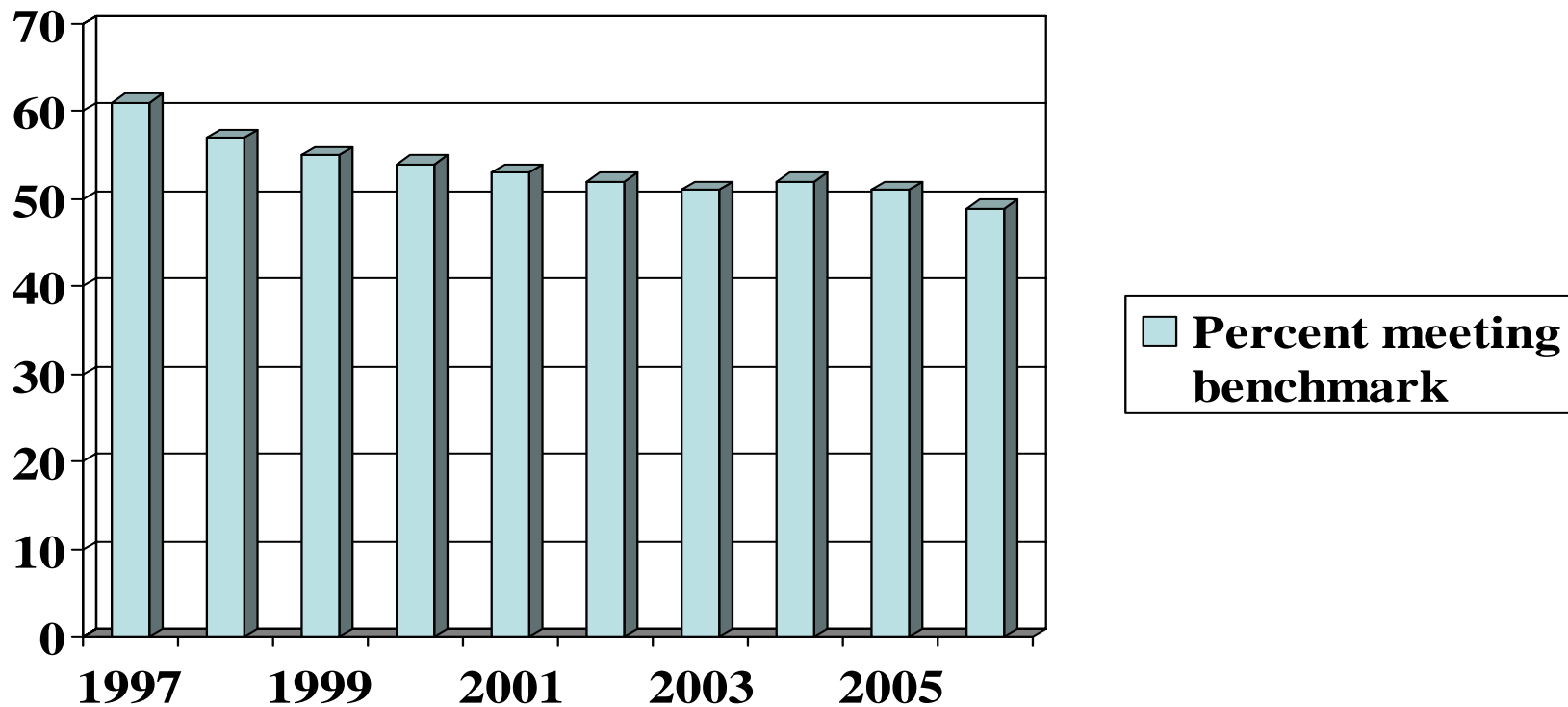


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Long term debt to capitalization (percent)



Long term debt to capitalization: Percent meeting benchmark <25%

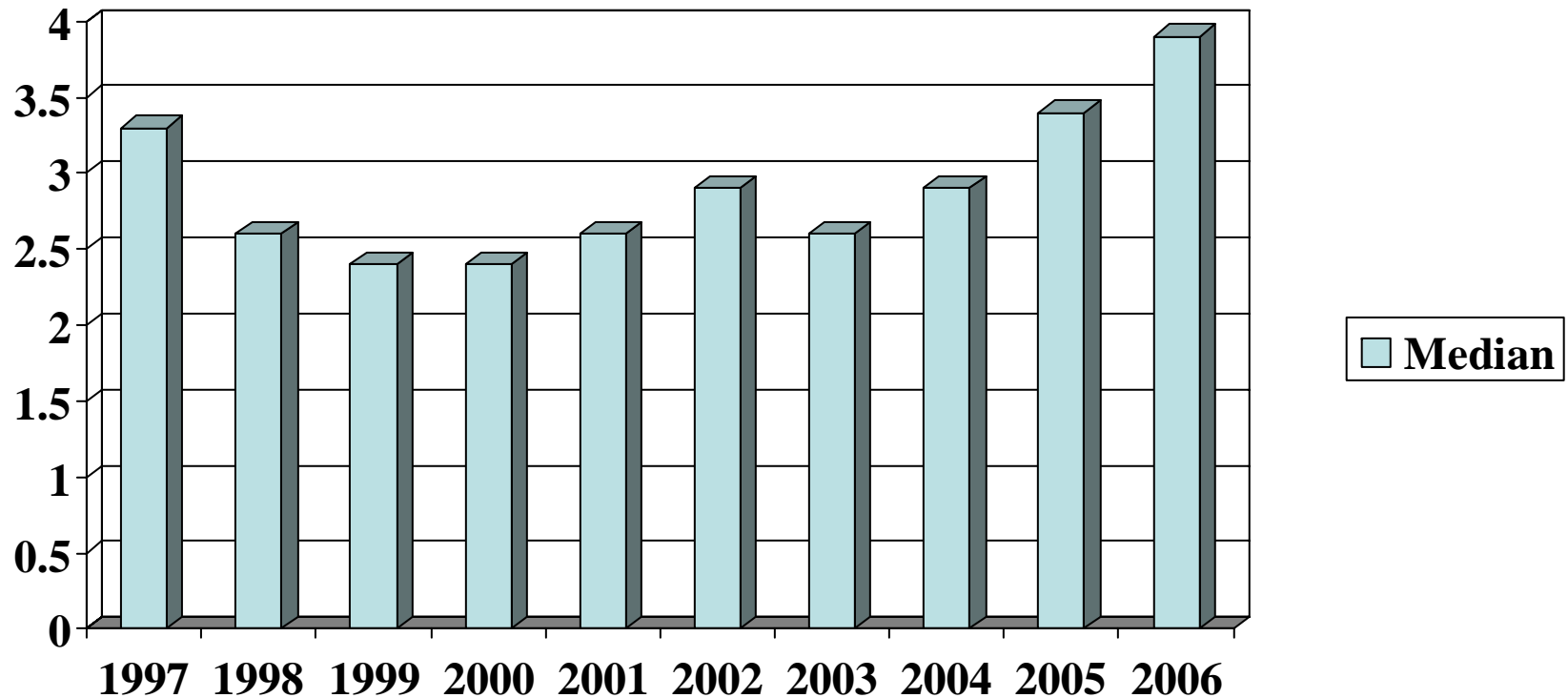




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Debt service coverage (times)

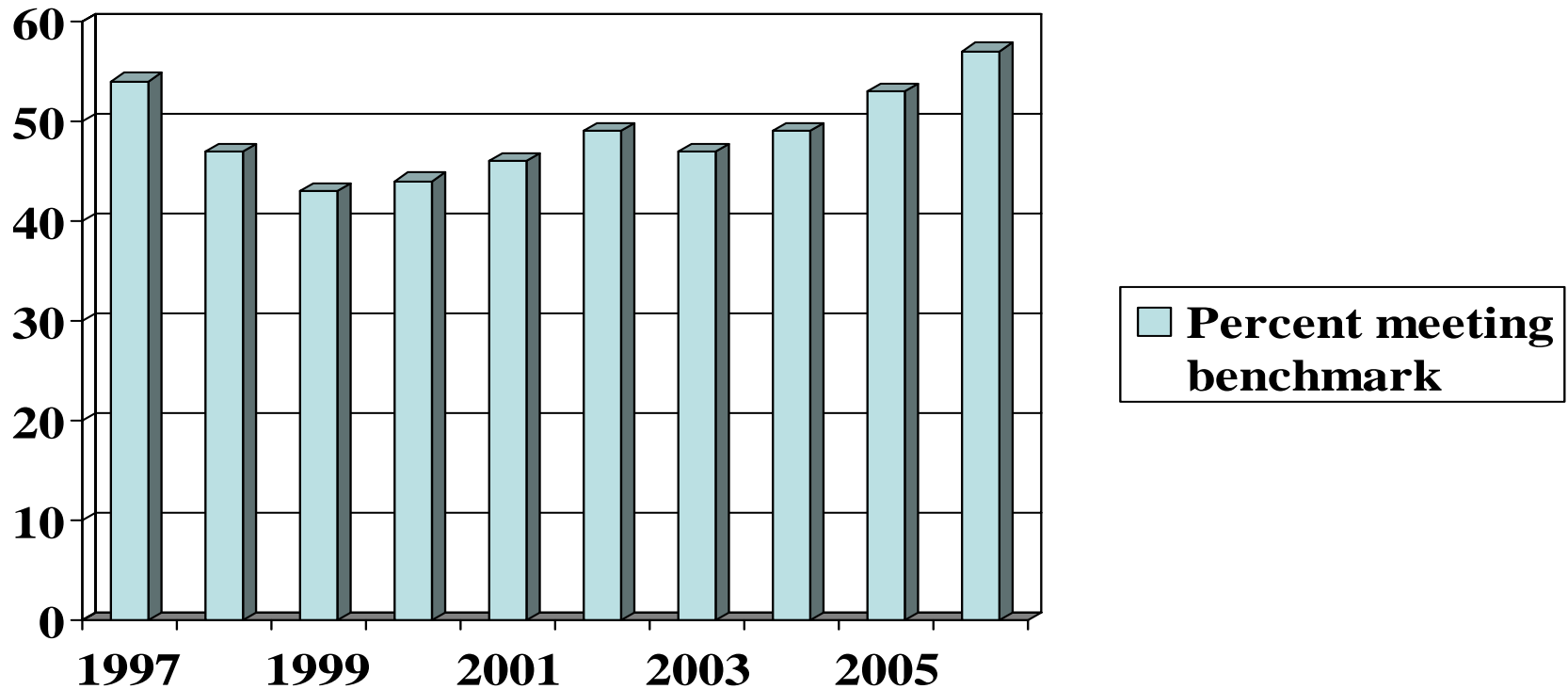




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Debt service coverage: Percent meeting benchmark >3 times



Other trends

- Acute bed ADC slowly decreased from 6.4 in 1997 to 4.4 in 2006
- Swing bed ADC slowly increased from 1.1 in 1997 to 1.5 in 2006
- Salary as a percent of total expense has slowly decreased from 47% in 1997 to 44% in 2006

Conclusions from these data

- Variable performance in early years, steady improvement since 2003
- Profitability and liquidity have improved, and hospitals have more ability to assume debt
- More than half of CAHs are now performing better than benchmark
- BUT, many CAHs are still unprofitable, illiquid, and have little debt capacity



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Lessons learned from our financial work

- CAHs are not all the same - significant differences in financial performance and condition exist among CAH peer groups
- Larger CAHs are more profitable and can carry more debt
- CAHs that operate a RHC and/or provide long-term care are less profitable
- CAHs that are owned by government are less profitable but more liquid