

# Financial Indicators Analysis – 3Q2017 Update

-Version 1, January 2018-

## Analysis Description

The Financial Indicators Analysis provides all-payer comparative financial ratios/metrics for hospitals compared to various benchmark groups for twelve financial ratios. The financial ratios shown are calculated using standard accepted formulas, as defined by various ratings agencies. The model includes a dictionary with calculation instructions and data for each of these indicators.

### Data Source

The source for the financial information in this model is the Healthcare Cost Report Information System (HCRIS) database provided by the Centers for Medicare and Medicaid Services (CMS). The HCRIS database includes Medicare Cost Report data for all hospitals in the U.S. and is updated on a quarterly basis. The analysis reflects data from the 3Q2017 data release.

### Peer Groups

This analysis provides a variety of benchmark groups hospitals can select for comparison. In this analysis, small hospitals are defined as Prospective Payment System (PPS) hospitals with less than 6,000 adjusted discharges or CAH hospitals with less than 800 adjusted discharges. Large hospitals are defined as PPS hospitals with greater than 23,000 adjusted discharges or Critical Access Hospitals (CAHs) with greater than 3,000 adjusted discharges. Medium hospitals are hospitals falling between the two ranges. Hospitals are also classified as teaching/non-teaching, urban/rural, and voluntary/government owned/investor owned based on data from the Medicare Cost Report.

### Model Description

In this analysis, financial indicators are separated into three categories:

<b>Profitability Indicators:</b>	<b>Liquidity Indicators:</b>	<b>Capital Structure Indicators:</b>
Total Margin	Current Ratio	Average Age of Plant
Operating Margin	Average Payment Period	Capital Expenditures as a % of Depreciation
Earnings before interest, tax, depreciation and amortization (EBITDA) Margin	Days Cash on Hand – All Sources	Debt to Capitalization
Operating Cash Flow Margin	Net Days Revenue in Accounts Receivable	Debt Service Coverage

Each worksheet displays indicator trends, current performance dials, and hospital distribution charts.

### Indicator Trends

For each indicator, hospital performance is displayed next to State/U.S. level benchmark group medians. Benchmark group medians are not calculated/shown for any peer groups with fewer than five valid data elements. Extreme values may skew hospital's trending line so they are excluded from the 10- year trending chart. In years where data is either missing or insufficient, the graph line will be an extrapolation using the data points on either side of the missing data.

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## Current Performance Dials

For six indicators, performance dials are shown to indicate hospital's financial strength. On each dial, the needle indicates hospital's financial ratio in Federal Fiscal Year (FFY) 2016; the performance categories are defined based on 2016 Moody's bond rating medians (where available). The medians for an indicator are calculated using data from all hospitals in each median rating category. There are four performance categories:

Strong	Aa2 Rated Hospital Median or higher
Above Average	Aa2 to A2 Rated Hospital Median
Average	A2 to Baa2 Rated Hospital Median
Below Average	Lower than Baa2 Rated Hospital Median

When data for an indicator is unavailable/incomplete, the hospital's performance is not shown on the dial. Moody's bond rating does not provide medians for EBITDA Margin, Capital Expense as a Percentage of Depreciation, Debt Service Coverage and therefore do not have a performance dial. The following indicators also do not have a performance dial analysis due to the trend of the Moody's bond rating medians; Current Ratio, Average Payment Period and Net Days Revenue in Accounts Receivable.

***The performance categories shown are based on bond rating medians as the best available proxy for financial performance, and do not reflect the actual bond rating a hospital may achieve when issuing bonds. Rating agencies do not look at each financial indicator in isolation and also take into account qualitative factors when rating hospital bonds.***

## Hospital Distribution Charts

Hospital distribution charts are shown for each indicator to display hospital financial performance relative to peers. On these charts, blue bars represent the count of hospitals falling within a range of values for each indicator in FFY 2016, while the red line represents the selected hospital's indicator value. Hospitals without FFY 2016 data will not be shown on the distribution charts.

***Due to reporting issues with the Medicare Cost Reports, extreme values have been removed from these charts. Extreme values are defined as any hospital more than 1.5 interquartile ranges below the first or above the third quartile value.***

## Tabular Data

A summary worksheet showing hospital indicator values and statewide ratio ranking for all indicators in the analysis is included. The Get Report Value Utility (GRVU) button allows you to quickly pull data from this worksheet. When using the GRVU tool, please note you can select either single or multiple cells at a time. Please hold the control button when selecting multiple cells.

## Data Dictionary

The Data Dictionary worksheet provides financial indicator definitions/formulas, the specific cost report lines used, and the hospital-specific data points used for the most recent year (FFY 2015 or FFY 2016, where is available).

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## Group Report

Group report compares performance trend and ratio distribution for any two peer groups. The table provides all ratio values for these two peer groups.

In general, hospital financial indicators in this analysis may vary from other sources due to the following:

- FFY Definitions – In this analysis, FFYs are assigned based on the FFY in which each cost report beginning date falls. In some cases, FFY definitions may differ from hospital's internal definitions. Tabular Data provides both FFY and the beginning date of FFY of hospitals.
- Cost Report Reconciliation – This analysis is based on the 3Q2017 HCRIS database. Any change after the snapshot of the HCRIS database will not be reflected in the financial indicator values.
- Data Sources – Financial indicators are calculated using data from the Medicare Cost reports. The data may differ from other sources (i.e. depreciation expenses in audited financial reports).

## Data Exclusions

This analysis excludes hospitals without any reported patient revenues and hospitals without cost reports in the most recent two years of cost report data (FFYs 2015 and 2016). For hospitals that are included in the analysis, indicators are calculated based on cost report data as reported, without manipulation.

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