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# Making Sense of Your Home Health Agency's Financial Reports: Worksheets to Analyze Your Gross Profit & Margin by Cost Per Visit and Payer or Program

***By Rich Corcoran, CPA, CHCE, CVA, CGMA***

In my last post we demonstrated how to calculate and evaluate gross profit in your agency. In this post, we look deeper at gross profit by type of service (or discipline) and do this analysis by payer of services. Need a refresher? You can review my initial "how to calculate GPM" post here. You may also view and download two handy worksheets below. But first, let's review some basics.

## Benefits of doing a GPM-by-CPV and GPM-by-Payer Analysis

The gross profit-by-service-and-payer analysis can be used to review a specific program within your agency. It can be modified to review a Hospice, non-medical home care or another program. You can also do this analysis by branch office or geographic area. You would simply use the applicable revenues and visits for the program, branch or geographic area you want to analyze.

**IT'S IMPORTANT TO FIRST UNDERSTAND YOUR GROSS MARGIN ONE OR TWO LEVELS DEEP – E.G. BY TYPE OF SERVICE OR DISCIPLINE AND BY THE PAYER OF THE SERVICES.**

Look at specific payer information prior to renewing or renegotiating a contract. Know your profit dollars by detail. When negotiating, perhaps you don't need an increase on physical-therapy but you must get one for home health aides. Or, perhaps you are not concerned with the therapy rates but really need an increase for your skilled nursing rates.

How much gross margin do you need? One answer is "As much as I can get". But it's essential to know the absolute requirements.

## Look at Fixed & Semi-Variable Costs

Previously we discussed variable or direct costs, which increase or decrease relative to our business volume. Here we need to look at **fixed costs** – also labeled G&A, overhead, indirect costs, or whatever your accounting or finance department calls them. These include all costs that don't change that much – either they are fixed (only increase once a year or more) or they are "semi-variable" and increase at certain steps in the growth (or decline) of the agency. Examples would include rent, telephone, office supplies, and management payroll. As examples, you would see increases (or decreases) in these expenses when you experience significant growth in census, or when you expand (or reduce) a certain program or decide not to accept a certain payer any longer.

A straightforward example: if you have $1,000,000 in gross profit and $900,000 in "fixed-type" expenses, then you have $100,000 of operating profit. Operating profit or operating income is the amount of profit (or loss) from operating activities. There may be other costs (or income) that are not directly related to operating activity that would be deducted or added to operating income to get to your net income (or loss). The net income (or loss) is your bottom line.

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## Look at Fixed & Semi - Variable Costs *(continued)*:

On the other hand, if you have $1,200,000 of fixed-type of expenses and $1,000,000 of gross profit dollars available to pay for them, you have an operating loss of $200,000.

The other way to look at this is to review your gross margin percentage. If your gross margin percentage is 30% of revenues and all of your fixed-type expenses add up to 32% of revenue, then you have a 2% operating loss.

Please focus on what you can do something about – control your gross profit! Be sure that you aren't letting gross profit slip thru the cracks. It's easy to let gross profit slide. The good news is that **with the proper information, we can manage it.**

**GROSS PROFIT MUST COVER REMAINING EXPENSES AND LEAVE SOMETHING FOR PROFIT!**

## Spreadsheets to get you started

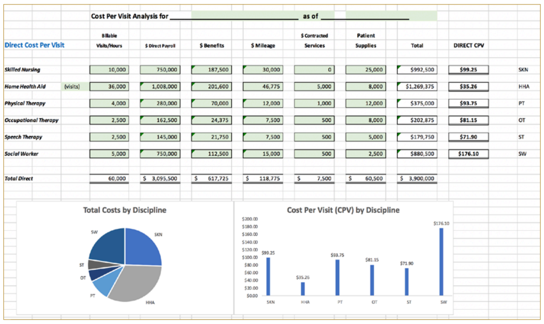
Below is a two-tab spreadsheet (for cost per visit and payer) that can be used to calculate the direct cost per visit for each discipline. In completing this worksheet, we recommend that you use at least a three-month period of costs with matching revenues and visits. Try to get the best numbers you can on benefits and mileage by discipline. If necessary, use your best estimates. Most importantly, get your best estimate as to the cost for each type of visit your agency makes.

Once you have your cost per visit (CPV) you can start to evaluate your profitability by Payer. In the second spreadsheet, you can see an example of how this is calculated. By inserting the contracted net reimbursement rates for each payer, you can calculate the gross margin by discipline. You will likely find this very revealing. This is the perfect tool to use in your negotiations with payers. This will help you truly understand where you are making enough margin and where you are not covering the remainder of your costs.

Need support estimating your CPV and GM by Payer by Discipline? Reaching conclusions and/or taking action based on what your numbers reveal? Give me a call at (203) 691-1319 or drop me an email at [RC@richcorcoranconsulting.com.](mailto:RC@richcorcoranconsulting.com)

## Click to download and plug your agency's numbers into each schedule:

### COST PER VISIT ANALYSIS

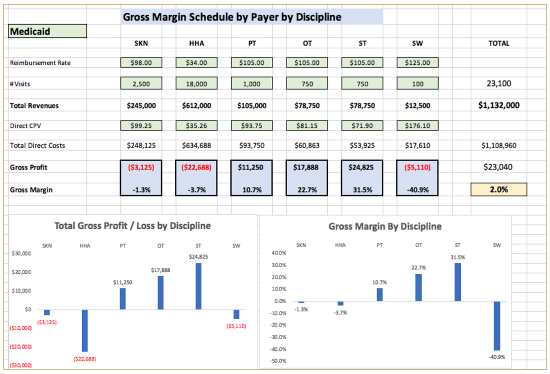


Cost Per Visit Analysis for ____________ as of ____________

| Direct Cost Per Visit | | Billable Visits/Hours | $ Direct Payroll | $ Benefits | $ Mileage | $ Contracted Services | Patient Supplies | Total | DIRECT CPV | |
|---|---|---|---|---|---|---|---|---|---|---|
| Skilled Nursing | | 10,000 | 750,000 | 187,500 | 30,000 | 0 | 25,000 | $992,500 | $99.25 | SKN |
| Home Health Aid | (visits) | 36,000 | 1,008,000 | 201,600 | 46,775 | 5,000 | 8,000 | $1,269,375 | $35.26 | HHA |
| Physical Therapy | | 4,000 | 280,000 | 70,000 | 12,000 | 1,000 | 12,000 | $375,000 | $93.75 | PT |
| Occupational Therapy | | 2,500 | 162,500 | 24,375 | 7,500 | 500 | 8,000 | $202,875 | $81.15 | OT |
| Speech Therapy | | 2,500 | 145,000 | 21,750 | 7,500 | 500 | 5,000 | $179,750 | $71.90 | ST |
| Social Worker | | 5,000 | 750,000 | 112,500 | 15,000 | 500 | 2,500 | $880,500 | $176.10 | SW |
| Total Direct | | 60,000 | $ 3,095,500 | $ 617,725 | $ 118,775 | $ 7,500 | $ 60,500 | $ 3,900,000 | | |



### GROSS MARGIN BY PAYER BY DISCIPLINE ANALYSIS



Gross Margin Schedule by Payer by Discipline

| Medicaid | SKN | HHA | PT | OT | ST | SW | TOTAL |
|---|---|---|---|---|---|---|---|
| Reimbursement Rate | $98.00 | $34.00 | $105.00 | $105.00 | $105.00 | $125.00 | |
| # Visits | 2,500 | 18,000 | 1,000 | 750 | 750 | 100 | 23,100 |
| Total Revenues | $245,000 | $612,000 | $105,000 | $78,750 | $78,750 | $12,500 | $1,132,000 |
| Direct CPV | $99.25 | $35.26 | $93.75 | $81.15 | $71.90 | $176.10 | |
| Total Direct Costs | $248,125 | $634,688 | $93,750 | $60,863 | $53,925 | $17,610 | $1,108,960 |
| Gross Profit | ($3,125) | ($22,688) | $11,250 | $17,888 | $24,825 | ($5,110) | $23,040 |
| Gross Margin | -1.3% | -3.7% | 10.7% | 22.7% | 31.5% | -40.9% | 2.0% |

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