# Cost Reports as a Financial Strategy: A CFO's Most Underleveraged Asset in Rural Healthcare

Why Accurate Medicare & Medicaid Cost Reports Are a Financial Lifeline for Rural Hospitals

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The financial environment for Rural providers remains difficult, with nearly half experiencing negative margins and hundreds facing operational and reimbursement pressures. In this setting, it's increasingly important for rural CFOs to look for opportunities to strengthen financial performance.

One opportunity may be hiding in plain sight: the Medicare and Medicaid cost reports.

Cost reports should be viewed as more than an annual compliance requirement. When approached strategically, it can become an important financial tool that helps organizations better capture reimbursement, understand costs, and plan for the future. But the real opportunity lies not in filing the report, it lies in optimizing it.

**More Than a Compliance Exercise**

Medicare and Medicaid cost reports are often viewed as a regulatory requirement, but in reality, they are a financial engine for rural providers. Cost-based reimbursement, especially CAHs and RHCs, means that accurate, complete, and strategically prepared cost reports directly influence revenue. As much as 50–70% of patients in rural hospitals carry Medicare or Medicaid as a primary or secondary payer, making these reports critical in determining the dollars hospitals receive for care already delivered.

But why does accuracy matter so much?

- Cost-to-charge ratios can directly affect reimbursement. Incorrect expense or revenue mapping may result in costs being understated or allocated inaccurately.
- Key reporting components, including utilization data, wage index information when applicable, and provider-specific data, can influence current and future reimbursement.
- Overhead allocation methodologies that no longer reflect current operations can distort how costs are distributed among departments and potentially weaken reimbursement outcomes.

In short: Cost reports tell your hospital's financial story. The more accurately they reflect reality, the more precisely you are reimbursed.

### Small Corrections Can Create Big Financial Gains

The difference between simply filing a cost report and taking a strategic approach to its preparation can be significant.

Potential opportunities include reviewing expense and revenue mapping to support accurate cost-to-charge ratios, evaluating whether cost allocation methodologies continue to reflect operational realities, and proactively validating wage index and other key reporting inputs.

These reviews may uncover missed reimbursement opportunities while also creating a stronger and more defensible cost report.

### A Forward-Looking Financial Tool

The cost report determines far more than last year's settlement. It drives:

- Future payment rates
- Budgeting accuracy
- Long-term reimbursement positioning

That makes cost reports valuable beyond the annual filing process. Regularly reviewing how operational changes, new service lines, staffing models, or departmental costs are reflected in the reports can help finance leaders identify issues earlier and make more informed decisions throughout the year.

### A Strategic Imperative for Rural Finance Leaders

Rural providers can't change the day-to-day challenges and financial constraints they face, but they can influence the quality and accuracy of the information used to determine reimbursement.

For organizations operating with limited financial flexibility, cost reports represents an opportunity to protect revenue, improve financial insight, and better position the organization for the future. Rather than viewing the cost report as a year-end compliance exercise, rural healthcare leaders should consider it an ongoing component of financial strategy.

### Supporting Rural Providers

Rural providers play an essential role in the health and well-being of their communities, while navigating financial and operational challenges that continue to evolve. RubinBrown's Healthcare Consulting team understands the unique realities of rural healthcare and offers practical guidance and an outside perspective to help organizations navigate these complexities.

Whether evaluating reimbursement opportunities, addressing financial or operational needs, or planning for what's ahead, our goal is to be a trusted resource, helping rural healthcare leaders make informed decisions that strengthen their organizations and the communities they serve.

Cost reports can serve as much more than a compliance requirement. For additional information on how cost reports can be leveraged as a financial strategy tool to enhance reimbursement, identify opportunities, and support long-term financial planning, contact Caren Puvalowski, Manager, Rural Healthcare Consulting Services at 810.853.6185 / caren.puvalowski@rubinbrown.com.