



*FINANCIAL
MANAGEMENT
SERIES*

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Financial Information Needed by Health Center Boards for Effective Oversight

Boards of Federally Qualified Health Centers (FQHCs) have a fiduciary responsibility to understand the current financial condition and future financial trends of their health center. To meet this responsibility, timely and accurate financial information must be communicated to board members.

Most FQHC Boards of Directors have a member who is an officer of the corporation and holds the title of Board Treasurer. It is this person who communicates financial issues to the Board and keeps them up-to-date on the finances of the health center. Usually the Board Treasurer is the head of the Board's Finance Committee, which provides oversight of the finances of the health center. The Finance Committee meets routinely (usually monthly) to review financial information that is reported by health center management. This financial information is reported to the full Board in summary, but in sufficient detail as to be sure that everyone has a clear understanding of the finances using comparisons with prior periods and with the operational budget for the year.

This Information Bulletin:

- ◆ Describes responsibilities of the Finance Committee,
- ◆ Lists financial reports for the Board to review to assure that Board members are knowledgeable about the financial position of the health center,
- ◆ Identifies tools for the Board to use to monitor the center's financial position.

HEALTH CENTER FINANCIAL GOALS

The Bureau of Primary Health Care (BPHC) has required, as stated in the Policy Information Notice (PIN) 98-23 Program Expectations, that a health center should at a minimum have the following financial goals:

- ◆ Provide for internal controls,
- ◆ Safeguard assets,
- ◆ Ensure stewardship of federal funds,
- ◆ Maintain adequate cash flow to support operations,
- ◆ Assure access to care,
- ◆ Maximize revenue from non-federal sources.

The Board of Directors needs to be current and knowledgeable about the financial condition of the health center and the center's position in achieving these goals. Since there are many third parties that will request and review the financial statements of the organization, and since this review could have impact on funding and other financial matters, the health center must always have a set of board-approved statements ready for distribution. Entities that might request health center financial statements include Federal, state, and local governments, banks or other lending institutions, donors, and users of the organization's services.

RESPONSIBILITIES OF THE FINANCE COMMITTEE

In order to assist the Treasurer and the full Board in meeting its fiduciary responsibilities, at a minimum, the responsibilities of the Finance Committee should include:

- ◆ Ensure that the health center has accounting and internal control systems appropriate to the size and complexity of the organization.
- ◆ Ensure that the Finance Department is using an accounting system based on Generally Accepted Accounting Principles (GAAP) and designed to accurately reflect the financial performance of the organization.
- ◆ Implement and maintain a separation of financial functions to safeguard assets.
- ◆ Receive and review a set of routine financial reports on a regular basis, and more detailed information to assure the Board that the health center is prepared for the future.

For the financial statements to conform to GAAP, the financial records need to be maintained under an accrual basis of accounting. This means that transactions are recorded based on when they occur and that revenues match expenses. The alternative to this method is the cash basis, which consists of recording transactions when cash is received or disbursed. Understanding and monitoring the cash position and cash flow of the organizations is important, and can be monitored

through a statement of cash flows and cash flow projections. The balance sheet and statement of operations should be on an accrual basis, which can be easily monitored by making sure the balance sheet includes receivables and liabilities for transactions that have occurred, but where the cash has not been received or disbursed.

FINANCIAL REPORTS THE BOARD SHOULD REVIEW

The monthly internal financial statements that are presented and reviewed by the Board should include the following:

- ◆ **Balance Sheet**
 - Current year vs. prior year
- ◆ **Statement of Operations (Income Statement)**
 - Current year vs. budget
 - Current year vs. prior year
- ◆ **Cash Flow Statement (cash received and expended)**
 - Current month and year vs. budget
- ◆ **Activities Report**
 - By payor source (with payor mix) vs. budget and prior year
 - By provider type vs. budget and prior year
- ◆ **Variance Report**
 - Written report explaining significant variances from budget

Prior to the full Board review, the Finance Committee should review these financial statements in detail,

as well as the following additional reports:

- ◆ **Cash Flow Projections**
(Weekly vs. Monthly)
- ◆ **Key Ratios**
- ◆ **Managed Care Analysis**
 - Members and Capitation Analysis
 - Utilization

These reports are a means to provide the Board with the financial information they need in order to meet their fiduciary responsibilities and make decisions.

FINANCE TOOLS REVIEWED BY THE BOARD

Another set of tools that a Board can use to monitor the financial position is to review financial ratios and trends. The Finance Committee should review these ratios and trends on a monthly basis, with the entire Board receiving them quarterly. The following is a list of financial ratios, their definitions, and guidelines for how the Finance Committee and the Board can use them to help determine the financial positions and results of the health center's operations:

Financial Ratios

- ◆ **Current Ratio**
Current assets divided by current liabilities.
The desired ratio is at least 1:1, with no decrease over time.

- ◆ **Unrestricted Net Assets, Available for Operations**
Total unrestricted net assets less net investment in fixed assets. (Fixed assets, net of accumulated depreciation reduced by outstanding debt used to purchase fixed assets.)
The goal is for this measure to be positive and not to decrease over time.
- ◆ **Days in Reserve**
Unrestricted net assets available for operations divided by average daily expense. (Total expenses less bad debt and depreciation divided by 365 days.)
The goal is 60 to 90 days of operating expenses.
- ◆ **Days in Accounts Receivable**
Net patient accounts receivable, divided by average daily patient revenue. ([Patient revenue, net of adjustments and bad debt, excluding managed care capitation] divided by 365 days.)
The goal is less than 75 days. An increase in the ratio indicates a potential billing problem that could hurt cash flow.
- ◆ **Days in Accounts Payable**
Trade accounts payable and accrued expenses divided by average daily trade expenses. ([Total expenses less salaries and wages, donated services, bad debt and depreciation] divided by 365 days.)
An increase indicates that the health center is paying its vendors more slowly, potentially indicating a cash flow problem.

Financial Trends

- ◆ **DHHS Refundable Advance**
Indicates that you have drawn down more grant funds than you earned. *It's equivalent to a loan and should not be greater than 10% of grant.*
- ◆ **Statement of Operations**
The statement of operations should be monitored compared to the budget that is approved for the health center by the Board. The following are requirements for the budget under the Program Expectations required by the BPHC:
 1. The budget is the culmination of negotiations among health center managers, clinicians, and board members as they determine the level and scope of services to be provided within the constraints of the center's resources.
 2. As part of the center's operating plan, the budget must accurately project both resources available and expenditures required to achieve the center's goals and objectives in the upcoming budget period.
 3. The budget should be based on both prior experience and expected upcoming internal and external changes in revenue sources or payment methodologies (e.g., capitation payments under Medicaid managed care).
 4. The health center's operating budget must be approved by the Board; it should also be reviewed throughout the year and adjusted, as necessary, by the center's management and the board.

Other trend analyses from the Statement of Operations include:

◆ **Changes in Patient Revenue**

Compare changes in revenues to changes in patient volume (*i.e.*, visits), prior year vs. current year and current year vs. budget.

Research and analyze any unusual trends, for example:

- Change in reimbursement rates,
- Shifts in payor mix,
- Analyze changes in patient volume (visits) as compared to:
 - Users (identify patient utilization trends),
 - Providers (identify provider productivity trends).

◆ **Changes in Expenses**

Changes in expenses as compared to changes in patient volume (*i.e.*, visits). Any unusual trends should be researched.

Analyze:

- By department

◆ **Changes in Costs per Visit**

Analyze:

- By department
- By ancillary cost (*e.g.*, lab, x-ray)
- Review provider productivity

◆ **Managed Care Measures**

Analyze trends in:

- Member utilization
- Managed care revenue per visit
- Capitated revenue per member per month (PMPM)

Financial Audit

The annual independent audit report along with a management report from the auditors, will advise the Board of the adequacy of internal controls, compliance with federal statute and regulations, and confirm the accuracy of information that is being provided by management.

The Board should have the Finance committee meet with the independent auditors to get a full report from the audit. In reviewing the auditors presentation, key items for the Finance Committee to consider are:

1. How many adjusting entries were recorded,
2. How can internal financial reporting be improved, and
3. How can the management letter to the Board be used to improve internal controls.

With these powerful and revealing internal financial statements and the annual independent audit the health center board should have a clear understanding of the financial position and operations of the health center.



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