

HEALTHCARE FINANCE AND REPORTING



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Overview Healthcare Financial Reporting

- i. Monthly Financial Reporting
- ii. Annual Financial Statements
 - ▶ Example Report
- iii. Federal Form 990 and MA form PC
- iv. Other Reporting
- v. Financial Indicators - Formulas and Definitions
- vi. Acronyms



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Healthcare Financial Reporting

Internal Financial Reporting

- ▶ Not a one size fits all approach

Basics

- ▶ Balance Sheet (“BS”)
- ▶ Statement of Operations (“SOO”) (Actual vs. Budget/PY)
- ▶ Statement of Cash Flow (“SCF”) (YTD)

Best Practices

- ▶ Key financial and operating indicators
- ▶ Statistics by department reflecting the levels of activity
 - (Actual vs. Budget/PY)
- ▶ Additional reporting
 - 12 month rolling trend (BS, SOO & SCF)
 - Narrative (*The Story Behind The Numbers*)

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Healthcare Financial Reporting

Balance Sheet Key Items

- ▶ Total Cash/Investments Position
 - *How much do you have to survive?*
- ▶ Working Capital/Current Ratio
- ▶ Debt to Equity
- ▶ Net Assets Without Restrictions (*previously called Unrestricted Net Assets*)

Statement of Operations Key Items

- ▶ Comparison to budget and understanding differences. Be reflective and update budget as necessary
- ▶ Annual budgetary process - Be realistic and get input

Statement of Cash Flows

- ▶ Most confusing and underutilized statement
- ▶ Need to understand where cash comes from and where it is going

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Healthcare Financial Reporting

Best Practices

- ▶ Incorporate charts and graphs to display certain financial ratios, trends, operating results and financial position
- ▶ Issue financial statements within 20 working days of period end
- ▶ Financial statements should be self-explanatory with verbal comments to educate the users as to specific issues and concerns related to report, operations and any specific action plans necessary based on the financial results
- ▶ Monthly financial package represents an ABRIDGED version of information that management maintains that should be distributed to the finance committee to keep trustees current as to the financial condition of the organization

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Monthly Financial Reports

Examples:

- ▶ [Summary of Operations*](#)
- ▶ [Financial Ratios*](#)
- ▶ [Key Utilization Indicators*](#)
- ▶ [Leading Indicators*](#)
- ▶ [Statement of Revenue and Expenses](#)
- ▶ [Balance Sheet](#)
- ▶ [Statement of Changes in Fund Balance \(Net Assets\)](#)
- ▶ [Statement of Cash Flows of Unrestricted Funds](#)

* See detailed example on next slides

Note: Current period amounts normally are compared to budget and/or prior year

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Example Monthly Financial Report

	Jan'07	Jan'06	MA Hosp Median*	Financial Ratios FY 2007											
				LAST 12 MONTHS											
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan			
LIQUIDITY:															
OPERATING DAYS IN CASH	9.2	6.2	17	9.2	8.6	7.9	10.8	9.0	8.4	11.4	6.9	5.6	7.7	6.8	9.2
TOTAL DAYS IN CASH (Target:30)	32	29	21	32	31	30	33	31	31	34	30	28	30	31	32
CURRENT RATIO	1.09	0.9	1.6	0.92	0.92	0.92	0.93	0.92	0.87	0.87	0.93	0.94	0.98	0.98	1.09
DAYS IN ACCTS REC (NET)	40	45	45	44	42	43	43	40	40	38	43	42	39	40	40
AVERAGE PAYMENT PERIOD	65	77	52	77	75	76	78	73	72	73	70	68	65	67	65
DEBT:															
DEBT TO CAPITALIZATION	68%	78%	35%	77%	77%	76%	76%	76%	74%	73%	74%	74%	71%	71%	68%
DEBT SERVICE COVERAGE (Covenant:1.1)	3.0	1.7	2.6	1.8	2.0	1.9	2.0	2.0	2.0	2.1	2.2	2.2	3.8	3.0	3.0
PROFITABILITY:															
OPERATING MARGIN**	4.32%	-0.43%	1.20%	0.20%	1.02%	0.93%	0.96%	1.07%	0.98%	1.45%	1.85%	1.61%	6.34%	4.25%	4.32%
BOTTOM LINE MARGIN**	5.38%	0.36%	2.60%	0.89%	1.74%	1.67%	1.78%	1.88%	1.79%	2.30%	2.70%	2.93%	7.85%	5.47%	5.38%
OPERATIONS:	Jan'07	Jan'06	Change												
GROSS REVENUE PER DAY (000's)	655	570	115%	577	591	591	595	599	590	599	601	611	638	635	655
NET REVENUE PER DAY (000's)	301	267	113%	271	275	278	279	281	280	282	285	294	296	295	301
Payment Ratio	0.460	0.468	98%	0.470	0.465	0.470	0.469	0.469	0.470	0.471	0.474	0.481	0.464	0.465	0.460
EXPENSE PER DAY (excl depr.&bad debts)(000's)	277	253	109%	256	258	261	262	264	264	264	265	272	272	275	277

* FY 2004 median Massachusetts Hospital Ratios, Division of Healthcare Finance and Policy
 ** FY 2005 median Community Hospital Ratios, Financial and Utilization Survey, MA Hospital Assn



Example Monthly Financial Report

	KEY UTILIZATION INDICATORS JULY				FAV/UNFAV	PRIOR YR YTD ACTUAL	% VARIANCE YTD JULY
	ACTUAL	BUDGET	VARIANCE	%			
INPATIENT SERVICES							
# OF DISCHARGES	5,714	5,661	53	0.9	F	5,509	3.7
# OF DELIVERIES	476	495	(19)	(3.8)	U	461	3.3
ALOS	3.6	3.5	0.1	2.9	U	3.6	0.0
AVERAGE DAILY CENSUS	75.2	73.6	1.6	2.2	F	72.6	3.6
TRANSITIONAL CARE UNIT							
PATIENT DAYS	5,088	5,371	(283)	(5.3)	U	5,315	(4.3)
RUGS PER DIEM (\$)	522	529	(7)	(1.3)	U	515	1.4
COST PER PATIENT DAY (\$)	545	537	7	1.4	U	374	45.7
BEHAVIOR HEALTH							
PATIENT DAYS	3,548	3,634	(86)	(2.4)	U	3,673	(3.4)
MEDICARE PPS PER DIEM (\$)	876	815	61	7.5	F		
DIRECT COST PER PATIENT DAY (\$)	503	461	42	(2.4)	U	513	(1.8)
INPATIENT SURGERY (CASES)	1,309	1,099	210	19.1	F	1,195	9.5
MEDICARE CASEMIX	1.16	1.17	(0.01)	(0.9)		1.17	(0.9)
ANCILLARY REVENUE PER PATIENT DAY	1,722	1,759	(38)	(2.1)	F	1,706	0.9
OUTPATIENT SERVICES							
EMERGENCY ROOM VISITS	45,805	44,232	1,573	3.6	F	46,172	(0.8)
OUTPATIENT SURGERY (CASES)	10,298	9,775	523	5.4	F	10,193	1.0
DAILY OUTPATIENT REVENUE (\$)	466,510	453,914	12,597	2.8	F	450,279	3.6
OBSERVATION							
# OF OUTPATIENTS	1,435	1,341	94	7.0		1,458	(1.6)
# OF INPATIENTS	111	143	(32)	(22.4)		184	(39.7)
TOTAL PATIENTS	1,546	1,484	62	4.2		1,642	(5.8)
TOTAL DAYS	1,931	1,683	248	14.7		1,913	0.9
ALOS	1.25	1.13	0.11	10.1		1.17	7.2
HOME CARE							
# OF NEW CASES	1,751	1,764	(13)	(0.7)	U	1,753	(0.1)
MEDICARE EPISODE RATE (\$)	2,956	2,868	88	3.1	F	2,837	4.2



Example Monthly Financial Report

		Leading Indicators			
		Actual	Budget	Variance	Prior Year
Income/(Loss) from Operations (\$ MTD)		1,527,610	480,137	1,047,473	972,217
	YTD	5,500,834	4,213,008	1,287,826	4,115,554
Total Revenue	MTD	15,973,806	15,721,542	252,264	15,900,000
	YTD	154,345,628	154,515,500	(169,872)	155,000,000
Total Expenses	MTD	14,446,197	15,241,405	795,208	14,927,783
	YTD	148,844,795	150,302,492	1,457,697	150,884,456
Days Cash (Consol.)	YTD	64.1	74.7	(10.6)	62.9
Days in A/R	YTD	45	45	-	47
Admissions (Adults & Peds)	MTD	638	729	(91)	649
	YTD	6,654	7,228	(574)	6,920
ALOS (Adults & Peds)	YTD	4.1	4.1	-	4.1
Key Outpatient Ancillary Statistics					
SDC	MTD	376	453	(77)	401
	YTD	4,196	4,498	(302)	3,980
CT Scan	MTD	2,243	2,225	18	2,082
	YTD	20,678	20,655	23	19,332
MRI	MTD	809	778	31	733
	YTD	8,008	7,890	118	7,330
Endoscopy	MTD	522	512	10	489
	YTD	4,876	5,247	(371)	5,013
Emergency Room	MTD	5,142	5,295	(153)	5,090
	YTD	46,916	47,875	(959)	46,022
VNA Net Income (\$)	MTD	43,871	20,272	23,599	34,070
	YTD	109,754	17,299	92,455	232,621
Agency Help (\$)	MTD	5,646	560	5,086	21,429
	YTD	119,200	5,600	113,600	98,335

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Polling Question 1

An organization's 'Monthly Financial Report' should include the financial ratios for what periods:

- a) Current month only
- b) Current month and previous 12 months



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Annual Audited Financial Statements

Example

- ▶ Balance Sheet
- ▶ Statement of Operations or Activities
- ▶ Statements of Changes in Net Assets
- ▶ Statement of Cash Flows
- ▶ Notes to the Financial Statements
- ▶ Consolidating or Continuing Schedules
 - Balance Sheet
 - Statement of Operations or Activities

Note: comparable financial statements are deemed meaningful and unless misleading, should be presented in annual GAAP statements (for this presentation the prior year columns have been eliminated)

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Example - Annual Audited Financial Statement - Balance Sheet

HEALTH FOUNDATION, INC. Consolidated Balance Sheet

September 30, 20XX

Assets

Current Assets:

Cash and cash equivalents	\$ 7,106,045
Investments, at fair value	564,170
Accounts receivable, net	16,203,313
Other accounts receivable	356,721
Inventory	2,257,437
Prepaid expenses and other current assets	1,942,003
Current portion of assets whose use is limited or restricted	375,644

Expected cash to be collected on unpaid accounts receivable

To be used within the operating cycle (12 months), usually represents bond funds

Total Current Assets 28,805,333

Assets Whose Use is Limited or Restricted:

Board designated investments	22,170,680
Donor restricted investments	5,638,201
Donor restricted pledges	961,701
Funds held in trust under indenture agreement	1,500,957

Informs reader of the financial statements of the dollars that are not available for operations; and that are not intended to be liquidated in less than 12 months

Assets Whose Use is Limited or Restricted, net of current portion 30,271,539

Property and Equipment, net 77,381,894

Other Assets:

Notes receivable, net	11,439,300
Estimated malpractice receivable	1,902,813
Other assets	599,541

Other Assets, net may include long term assets such as key-man life insurance policies, nonqualified retirement plan assets (457 Plans), and intangible assets.

Total Other Assets 13,941,654

Total Assets \$ 150,400,420



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Example - Annual Audited Financial Statement - Balance Sheet (cont.)

HEALTH FOUNDATION, INC. Consolidated Balance Sheet	
September 30,	20XX
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable and accrued expenses	11,143,264
Accrued salary and wages	9,429,226
Current portion of long-term debt	817,232
Current portion of capital lease obligations	368,682
Deferred revenue	540,476
Estimated settlements with third-party payors	4,382,528
Total Current Liabilities	26,681,408
Long-term Debt, net of current portion	47,396,003
Capital Lease Obligations, net of current portion	2,058,756
Estimated Malpractice Liability and Other	2,453,521
Estimated settlements with third-party payors, net of current portion	1,238,374
Total Liabilities	79,828,062
Commitment and Contingencies (Note 20)	
Net Assets:	
Without donor restrictions	63,972,456
With donor restrictions	6,599,902
Total Net Assets	70,572,358
Total Liabilities and Net Assets	\$ 150,400,420

To be paid out within the operating cycle (12 months)

Reserved for potential 3rd party audit settlements

Net Assets = Net Worth = Equity
Net Assets with Donor Restrictions includes both temporarily and permanently restricted net assets (ties to 'Donor Restricted Assets' on prev. Slide)



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Example - Annual Audited Financial Statement - Statement of Operations

HEALTH FOUNDATION, INC. Consolidated Statements of Operations	
Years ended September 30,	20XX
Revenue and Other Support:	
Net patient service revenue	165,568,558
Other revenue	11,822,910
Net assets released from restrictions used for operations	709,459
Total Revenue and Other Support	178,100,927
Expenses:	
Salaries and wages	86,144,802
Fringe benefits	18,730,022
Physician fees	12,697,436
Supplies and expenses	51,277,970
Health safety net assessment	1,756,771
Interest	963,576
Depreciation and amortization	4,878,134
Provision for uncollectible accounts	150,000
Total Expenses	176,598,711

Net revenue recognized for the period for services provided to patients (gross revenues less implicit price concessions and other variable consideration)

Restricted contributions for operations (Comes from Statement of Changes in Net Assets)

Provision for uncollectible accounts is typically reported as variable consideration in net patient service revenue in accordance with the new Revenue Recognition Standard (ASC 606). This provision is to reverse previously recognized revenue under ASC 606.



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Example - Annual Audited Financial Statement - Statement of Operations (cont.)

HEALTH FOUNDATION, INC.	
Consolidated Statements of Operations	
Years ended September 30,	20XX
Income (Loss) from Operations	1,502,216
Non-operating Income, Gains and (Losses):	
Investment income	517,226
Interest and dividends	17,618
Realized gains on sales of investments	266,717
Unrealized gains on trading securities	(26,963)
Loss on sale of property and equipment	(70,812)
Contributions and other	50,016
Total Non-operating Income, Gains and (Losses)	753,802
Excess of Revenue, Other Support and Non-operating Income and Gains Over Expenses and Losses	2,256,018
Net Assets Released from Restrictions Used for	
Purchases of Property and Equipment	680,285
Unrealized Losses on Investments	(542,808)
Increase in Net Assets Without Donor Restrictions	2,393,495

Fair value adjustment for unrealized gains (losses) on "trading securities"

Performance indicator

Previously received contributions that were restricted for the purpose of having to be used for the purchase of plant, property and equipment (PPE) that were used to purchase PPE in the current year and therefore, no longer restricted

Fair value adjustment for unrealized gains (losses) on "trading securities"

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Example - Annual Audited Financial Statement - Statement of Change in Net Assets

HEALTH FOUNDATION, INC.	
Consolidated Statements of Changes in Net Assets	
Years ended September 30,	20XX
Net Assets Without Donor Restrictions	
Excess of revenue, other support and non-operating income and gains over expenses and losses	\$ 2,256,018
Net assets released from restrictions used for purchases of property and equipment	680,285
Unrealized losses on investments	(542,808)
Increase in Net Assets Without Donor Restrictions	2,393,495
Net Assets With Donor Restrictions	
Contributions	906,177
Realized gains on sales of investments	46,719
Unrealized losses on investments	(27,356)
Investment income	62,209
Decrease in beneficial interest in perpetual trust	(24,351)
Net assets released from restrictions	(1,389,743)
Decrease in Net Assets With Donor Restrictions	(426,345)
Change in Net Assets	1,967,150
Net Assets, beginning of year	68,605,208
Net Assets, end of year	\$ 70,572,358

Statement format can be stacked or columnar

Reported in Statement of Operations

Activity in Net Assets with Donor Restrictions

Overall change in net assets (unrestricted and restricted)

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Example - Annual Audited Financial Statements - Statement of Cash Flows

HEALTH FOUNDATION, INC.		
Consolidated Statements of Cash Flows		
Year ended September 30,		20XX
Cash Flows from Operating Activities:		
Change in net assets	\$	1,967,150
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		4,878,134
Unrealized losses on investments		78,670
Realized gains on sales of investments		(313,436)
Loss on disposal of property and equipment		70,812
Restricted contributions and investment income		(968,386)
Loss on interest rate swaps		542,808
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(8,632,965)	
Other accounts receivable	210,878	
Inventory	(144,739)	
Prepaid expenses and other current assets	20,646	
Other assets	(473,694)	
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	448,535	
Accrued salary and wages	927,999	
Deferred revenue	146,373	
Estimated settlements with third-party payors	(2,093,006)	
Estimated malpractice liability and other liabilities	471,343	
Net Cash Provided by Operating Activities		5,267,054

Operating Activities

Total change in net assets per Statement of Changes in Net Assets

Add back non-cash items

Move from operating to financing activities

Increase in AR (cash not received / slower collections from payees)

Source of cash from growth in AP (slower payments to vendors)

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Example - Annual Audited Financial Statements - Statement of Cash Flows (cont.)

Cash Flows from Investing Activities:		
Purchases of property and equipment	(9,837,074)	
Notes receivable	(11,473,228)	
Funds held by trustee under indenture agreement	(13,746,373)	
Purchases of investments and assets whose use is limited or restricted	2,934,374	
Net Cash Used in Investing Activities		(32,122,301)
Cash Flows from Financing Activities:		
Restricted contributions and investment income	968,386	
Proceeds from long-term debt	31,810,000	
Principal payments on long-term debt	(1,767,621)	
Principal payments on capital lease obligations	(180,692)	
Net Cash Provided by Financing Activities		30,830,073
Net Increase in Cash and Cash Equivalents		3,974,826
Cash and Cash Equivalents, beginning of year		3,131,219
Cash and Cash Equivalents, end of year	\$	7,106,045
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$	963,576
Property and Equipment Acquired through Capital Leases	\$	75,391

Investing Activities

Financing Activities

Money taken out of operations

Moved from operating to financing activities

Net use of cash in financing activities - payment of debt principal

Additional Required Disclosures

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Polling Question 2

What is not a typical financial statement included in a healthcare organization's audited financial statements?

- a) Balance Sheet
- b) Statement of Activities
- c) Statement of Cash Flows
- d) Work-In-Progress (WIP) Report



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Recently Issued Accounting and Reporting Standards

Recently Enacted Accounting Standards:

Accounting Standards (FASB Codification):

- ▶ **ASU No. 2014-09 - Revenue from Contracts with Customers**
 - Effective for fiscal periods beginning after December 15, 2018 - Delayed 1 year to period beginning after December 15, 2019
- ▶ **ASU No. 2016-02 - Accounting for Leases**
 - Effective for fiscal periods beginning after December 15, 2021

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IRS Reporting for a Non-Profit

IRS Form 990, Form 990-EZ, IRS Form 990-T & IRS Form 990-PF

- ▶ Filed with IRS
- ▶ Deadline is 4 ½ months after the organization's year end
- ▶ Up to two 90-day extensions

Massachusetts Form PC

- ▶ Filed with MA Attorney General
- ▶ Deadline is the same as the IRS Form 990

Massachusetts Annual Report

- ▶ Filed with MA Secretary of the Commonwealth
- ▶ Deadline is November 1st

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What Is the Form 990

1. Annual information return filed with IRS
 - ▶ Principal way IRS gathers information about tax-exempt organizations
2. Not a "tax" return - no tax due
 - ▶ Separate form (990-T) used to report taxable income
3. Report financial, programmatic, governance and mission
4. Not just for numbers
 - ▶ Ubiquitous "describe" and "explain"
5. Requires detailed reporting on:
 - ▶ Activities in furtherance of exempt purpose
 - ▶ Changes in activities and governing documents
 - ▶ Governance, financial transactions among insiders, compensation
 - ▶ Community benefit, bonds and joint ventures
 - ▶ Policies and procedures within the organization
 - ▶ Disclosure of key governance, financial and mission policies
6. Publicly available - sought by and relied on by media, state regulators, donors
 - ▶ www.guidestar.org
 - ▶ www.charities.ago.state.ma.us
7. Form 990 core form (12 parts) and up to 16 additional schedules

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Massachusetts Form PC

State filing with the Division of Public Charities

Every public charity organized or operating in Massachusetts or soliciting funds in Massachusetts must file a Form PC

The Form PC become public record

Includes 14 pages and required attachments

Most of the information comes from the IRS Form 990

- ▶ Financial summary automatically populates (check for accuracy)
 - ▶ Top 5 Highest Paid Employees has no dollar threshold
 - ▶ Top 5 Highest Paid Independent Contractors has no dollar threshold
- Common Attachments
- ▶ Names, titles and addresses of officers, directors, trustees and executives
 - ▶ Names, titles and address of individuals authorized to sign checks, responsible for custody of funds, distribution of funds, fundraising and financial records
 - ▶ Related party transactions stating the name, address, nature of the transaction, amounts and the procedure to authorize the transaction

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Polling Question 3

What is the name of the Federal Informational Tax Return for non-profit organizations?

- a) IRS Form 990
- b) IRS Form 8888
- c) IRS Form 1234



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Other Reporting

Cost Reporting

- ▶ Hospital
 - Medicare 2552
 - MA 403 (Medicaid)
 - Medicare Home Office
- ▶ Nursing Homes (Medicaid)
 - HCF-1 - Nursing home report
 - HCF-2 - Real property
 - HCF-3 - Management fees
 - HCF-4 - Resident care facilities
- ▶ Adult Day Health Report
- ▶ Home Health Report
- ▶ Hospice Provider Report

Purpose

- ▶ Support for reimbursable claims submitted
- ▶ Detail cost and allocation of cost to specific service centers
- ▶ Info on types of services provided

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Other Reporting

Uniform Guidance (<http://harvester.census.gov/sac/>)

- ▶ Applicability
 - States, local governments and non-profit organizations that **expend** \$750,000 or more of Federal awards in a given year
 - Other organizations as mandated by the Federal agency providing funding
 - An audit conducted under Uniform Guidance is called a “Single Audit”
 - **CARES Act consideration**

MA Uniform Financial Report (<https://ufr.osd.state.ma.us/home.asp>)

- ▶ Applicable for entities receiving \$100,000 or more in state contracts
- ▶ Programmatic breakdown of revenues/expenses
- ▶ Surplus revenue retention limits - 20% threshold
- ▶ Audit conducted under Government Auditing Standards

Form 3ABC Tax Exemption Form

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Questions??



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Financial & Operating Indicators (Ratios)

- Current Ratio
- Working Capital (\$)
- Days in A/R, Net
- Average Payment Period
- Days Cash on Hand

Liquidity

- Equity Financing
- Long Term Debt to Equity
- Cash Flow to Debt Ratio
- Debt Service Coverage Ratio
- Average Age of Plant

Capital Structure

- Operating Margin
- Total Margin
- Expense Ratio of Revenues

Profitability

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Financial & Operating Indicators (Ratios)

- Discharges/Admissions
- Patient Days
- Observation Days
- Average Length of Stay (ALOS)
- Average Daily Census
- Occupancy Percentage
- Outpatient Visits
- Ancillary Volume Statistics

Volume Indicators

- Visits/Provider
- Case Mix- (DRG Case Weights, MMG, RUGS, APC)

Payer Mix

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Financial & Operating Indicators (Ratios)

- Number of FTE's
- FTE's per Occupied Bed/Visit
- Salary per FTE
- Benefit % of Salary

Cost Indicators

- Charity Care %
- Bad Debt %
- Collection Ratio %
- Revenue per Pt. Days, Discharges, Units
- Cost per Pt. Days, Discharges, Units
- Ratio of Cost to Charges (RCC)

Profitability Indicators

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Financial Indicators - Formulas and Definitions

Liquidity Indicators

<u>Ratio</u>	<u>Formula</u>	<u>Performance Implication</u>
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures the provider's ability to meet short-term obligations. <i>A decline in this ratio may indicate an inability to sustain adequate margins without closing operations.</i>
Working Capital	Current Assets less Current Liabilities	Identifies the dollar value of excess assets/(liabilities).
Days in Patient A/R, Net	$\frac{\text{Net Patient A/R}}{(\text{Net Patient Rev.}/365)}$	Indicates the number of days in the average collection period. <i>The ratio provides a basis for evaluating the management of A/R and helps to quantify the excess investment in a non earning asset.</i>



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Financial Indicators - Formulas and Definitions

Liquidity Indicators Cont'd

<u>Ratio</u>	<u>Formula</u>	<u>Performance Implication</u>
Average Payment Period	$\frac{\text{Current Liabilities}}{((\text{Total Op. Exp.} - \text{Depr.})/365)}$	Measures the average length of time an entity takes to pay its obligations. <i>Further erosion of cash reserves caused by declining profitability may indicate danger of default on current obligations.</i>
Days Cash on Hand	$\frac{(\text{Cash} + \text{Liquid Securities})}{((\text{Total Op. Exp.} - \text{Depr.})/365)}$	Measures the number of days of average cash expenditures that the provider maintains in cash and marketable securities. High values may indicate funds targeted for replacement or renovation purposes.



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Financial Indicators - Formulas and Definitions

Capital Structure Indicators

<u>Ratio</u>	<u>Formula</u>	<u>Performance Implication</u>
Equity Financing	$\frac{\text{Net Assets}}{\text{Total Assets}}$	Measures the % of total assets that has been financed with sources other than debt. <i>Higher values for this ratio are regarded as positive indicators of a sound financial condition.</i>
Long Term Debt to Equity	$\frac{\text{Long Term Debt}}{\text{Net Assets}}$	Measures the proportion of LTD to equity. <i>Low values for this ratio indicate to creditors an entity's ability to carry additional long term debt. Mass. Hosp</i>



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Financial Indicators - Formulas and Definitions

Capital Structure Indicators Cont'd

<u>Ratio</u>	<u>Formula</u>	<u>Performance Implication</u>
Cash Flow to Debt Ratio	$\frac{(\text{Net Income} + \text{Depr.})}{(\text{Curr. Liabs.} + \text{LT Debt})}$	Measures the firm's source of funds as compared to future debt retirement. <i>This ratio is one of the best predictors of problems in meeting future debt payment requirements.</i>
Debt Service Coverage	$\frac{(\text{NI} + \text{Depr.} + \text{Interest})}{(\text{Principal Payment} + \text{Interest})}$	Measures the ability to pay both components of indebtedness – interest and principal. <i>A declining debt service coverage ratio is a red flag regarding debt covenant default thresholds</i>
Average Age of Plant	$\frac{\text{Accumulated Depr.}}{\text{Depreciation Expense}}$	Age of property, plant and equipment



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Financial Indicators - Formulas and Definitions

Profitability Indicators

<u>Ratio</u>	<u>Formula</u>	<u>Performance Implication</u>
Operating Margin	$\frac{\text{Net Operating Income/}}{\text{Total Op. Revenue}}$	Measures the operating profit retained per dollar of sales. Mass. Hosp Range: [(15.8)-8.7].
Total Margin	$\frac{\text{Net Income/}}{\text{Total Op Revenue}}$	Measures the net profit retained per dollar of sales inclusive of operating and non-operating sources. Mass. Hosp Range: [(2.9) – 9].
Bad Debt Percentage	$\frac{\text{Provision for Bad Debt/}}{\text{Total Patient Net Rev or GPSR.}}$	Measures bad debts for trending and comparative purposes.



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Resources to Learn More - Acronyms

ACA - Patient Protection and Affordable Care Act	HSN - Health Safety Net
ACO - Accountable Care Organization	MA - Medicare Advantage
ALF - Assisted Living Facility	MU - Meaningful Use
CAH - Critical Access Hospital	NCVHS - National Committee on Vital and Health Statistics
CCN - CMS Certification Number	NP - Nurse Practitioner
CCRC - Continued Care Retirement Community	NPI - National Provider Identifier
CHIA - Center for Health Information Analysis	NPO - Non-Profit Organization
CMS - Centers for Medicare & Medicaid Services	NPRM - Notice of Proposed Rulemaking
CNM - Certified Nurse Midwife	NPSR - Net Patient Service Revenue
CY - Calendar Year	OMB - Office of Management and Budget
DRG - Diagnosis Related Group	ONC - Office of the National Coordinator of Health Information Technology
DSCR - Deb Service Coverage Ratio	OSD - Operational Service Division
EHR - Electronic Health Record	PA - Physician Assistant
EP - Eligible Professional	PPS - Prospective Payment System (Part A)
FFS - Fee-for-service	Recovery Act - American Reinvestment & Recovery Act of 2009
FQHC - Federally Qualified Health Center	RHC - Rural Health Clinic
FFY - Federal Fiscal Year	RUG - Rate Utilization Group
HHS - U.S. Department of Health and Human Services	SNF - Skilled Nursing Facility
HIT - Health Information Technology	TIN - Taxpayer Identification Number
HITECH Act - Health Information Technology for Economic and Clinical Health Act	UBIT - Unrelated Business Taxable Income
HITPC - Health Information Technology Policy Committee	UFR - Uniform Financial Report
HIPAA - Health Insurance Portability and Accountability Act of 1996	



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