

# ***Financial Savvy Matters – Essential Concepts for Migrant Health Center Board Financial Oversight***

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NATIONAL ASSOCIATION OF  
Community Health Centers®

# THANK YOU TO ALL COMMUNITY HEALTH CENTERS

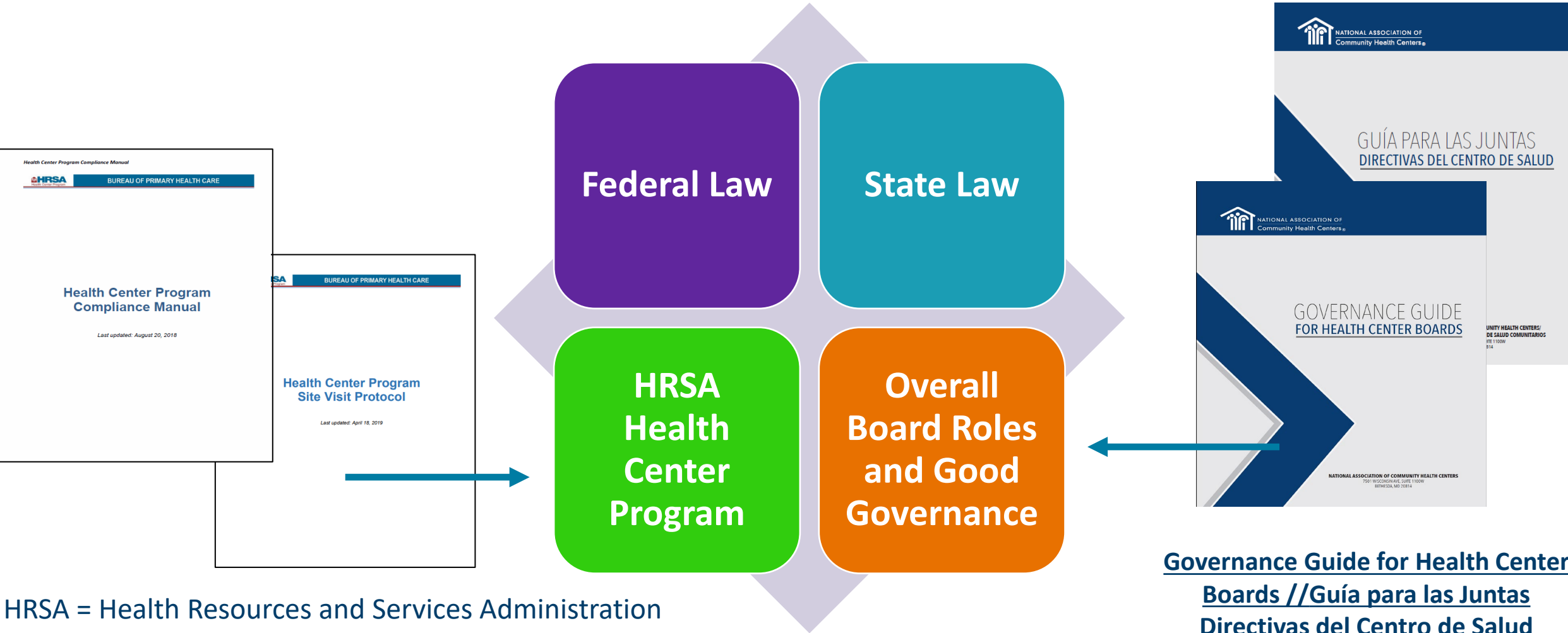
## #ThankYouCHCs

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# Objectives

1. Understand the board's responsibility in adoption of an annual budget and how to adjust projections as changes occur throughout the year.
2. Review board financial reports to know how to monitor them for potential problems and opportunities.
3. Consider the impact of the pandemic on health center board financial oversight.
4. Learn about tools available to support board education on financial oversight from NCFH and NACHC.

# Health Center Board Roles

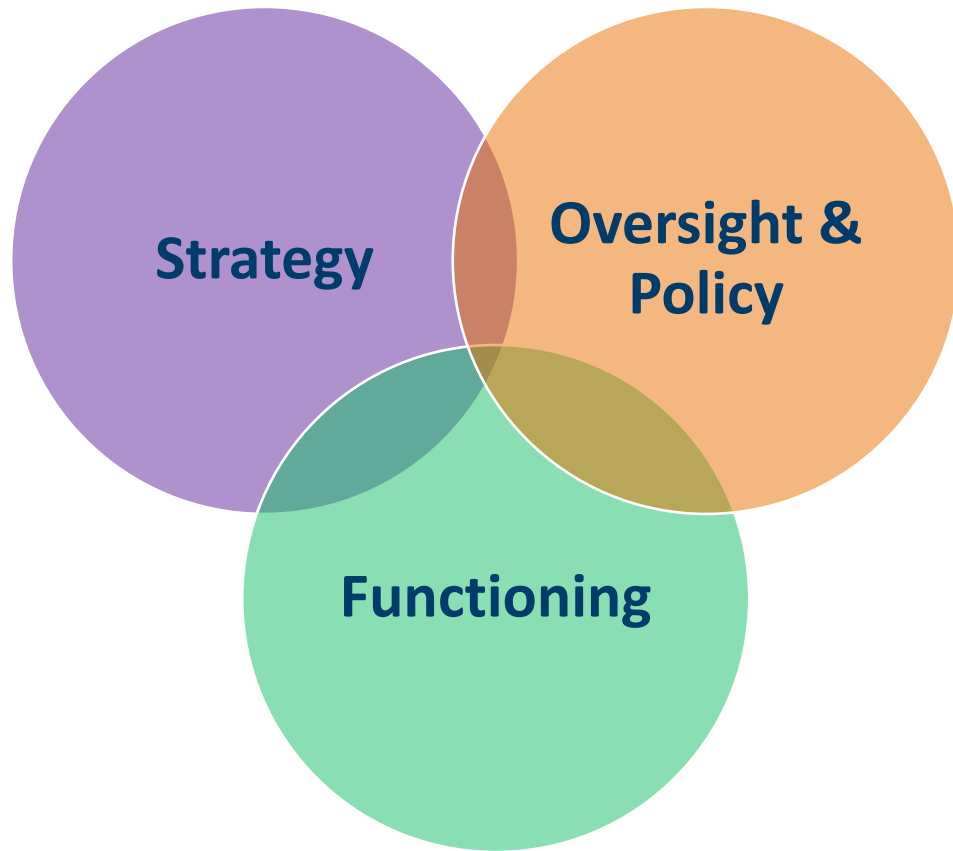


HRSA = Health Resources and Services Administration

<https://bphc.hrsa.gov/>

**Governance Guide for Health Center Boards // Guía para las Juntas Directivas del Centro de Salud**

# Overall Board Roles



## Strategy

- Strategic Board Composition
- Strategic Planning & Thinking

## Functioning

- Board Meetings
- Board Committees
- Board Culture

## Oversight & Policy

- Provide Oversight
  - CEO Oversight & Partnership
  - Corporate Compliance
  - Health Center Program Compliance
  - Financial**
  - Quality
  - Risk Management
- Approve Policy

# Establishing Financial Priorities

- Must have a long-range financial planning process.
  - Health Center Program Compliance Manual, Chapter 19: Board Authority: *The health center governing board must provide direction for long-range planning, including but not limited to identifying health center priorities and adopting a three-year plan for financial management and capital expenditures.\**
- Annually the board should discuss the center's financial priorities for the year prior to preparation of the next year's budget. Center staff should identify needs or the changing environment.

*\*Note: see the HRSA Health Center Compliance Manual, Chapter 19: Board Authority*  
<https://bphc.hrsa.gov/programrequirements/compliancemanual/chapter-19.html#titletop>

# Review and Approve the Annual Budgets

Operating Budget	Grant Budget
<ul style="list-style-type: none"><li>– Represents the annual financial plan for achieving the health center program and financial goals</li><li>– Needs to align with overall priorities and strategic plan for the center.</li></ul>	<ul style="list-style-type: none"><li>– “Total Budget” to HRSA reflecting the revenues and costs needed to support the HRSA approved scope of project.</li></ul>

# Budget Considerations

Operating Budget	Grant Budget
<ul style="list-style-type: none"><li>– The board should review the budget to make sure resources follow priorities</li><li>– Things to consider:<ul style="list-style-type: none"><li>• Strategic planning session results</li><li>• Current year’s expected results</li><li>• Changes in funding amounts</li><li>• Changes in expenses</li></ul></li></ul>	<ul style="list-style-type: none"><li>– Balances to zero</li><li>– Submitted to HRSA annually</li><li>– Represents all 330 grant activities</li><li>– Federal and non-Federal</li></ul>



# Monitor Financial Performance

- Monitor financial status through routine review of:
  - Statement of Financial Position (Balance Sheet)
  - Statement of Activities (Income Statement)
  - Statement of Cash Flows
  - Key Performance Indicators

# GAAP – What is it?

- Generally Accepted Accounting Principles (GAAP)
  - Revenue or expenses are recorded when the service is provided or when the health center is obligated to pay as opposed to when it receives or pays cash

# Statement of Financial Position (*Balance Sheet*)

Assets = Liabilities + Equity



# Statement of Financial Position (Balance Sheet)

## COMMON CHARACTERISTICS

	<u>12/31/20XX (Current Year)</u>	<u>12/31/20XX (Prior Year)</u>
Cash and Cash Equivalents	5,000,000	4,000,000
Patient Accounts Receivable, Net	2,800,000	2,200,000
Est Amounts Due From 3rd-Party Payers	600,000	300,000
Prepaid Assets and Other	100,000	100,000
<b>Current Assets</b>	<b>8,500,000</b>	<b>6,600,000</b>
Property and Equipment, Net	12,600,000	11,200,000
Other Assets	200,000	300,000
<b>Total Assets</b>	<b>29,800,000</b>	<b>24,700,000</b>
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Long-Term Debt	5,500,000	4,500,000
Other Liabilities	300,000	400,000
<b>Total Liabilities</b>	<b>10,400,000</b>	<b>9,000,000</b>
<b>Net Assets</b>	<b>19,400,000</b>	<b>15,700,000</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 29,800,000</b>	<b>\$ 24,700,000</b>



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# Statement of Financial Position (Balance Sheet)- What to Look For

- Cash trends
- Days cash on hand
- Current Asset trends
- Patients Accounts Receivable trends
- Grants Receivable trends
- Current Liability trends
- Current ratio
- Debt to Equity
- Unexpected changes

# Statement of Activities (Income Statement)

	<u>12/31/20XX</u>	<u>12/31/20XX</u>
Patient Service Revenue	\$ 25,000,000	\$ 23,500,000
Grant Revenue	6,500,000	6,300,000
Contribution Revenue	600,000	550,000
Other Revenue	400,000	350,000
<b>Operating Revenues</b>	<u>32,500,000</u>	<u>30,700,000</u>
Salaries and Benefits	21,250,000	20,050,000
Supplies and other	9,300,000	8,835,000
Rent	350,000	350,000
Depreciation and amortization	950,000	850,000
<b>Operating Expenses</b>	<u>31,850,000</u>	<u>30,085,000</u>
<b>Operating Income</b>	<u>\$ 650,000</u>	<u>\$ 615,000</u>

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# Statement of Activities (*Income Statement*)- *What to Look For*

- Operational trends of the organization
- Patient Service Revenue trends – prior period and budget
- Grant Revenue trends – prior period and budget
- Patient Service Revenue per Day
- Salary and Benefit trends – prior period and budget
- Operating Expense trends – prior period and budget
- Operating Expenses per Day
- Operating Margin
- Unexpected changes

# Sample Questions

- What are the key estimates?
- Are there any unusual or one-time revenues and/or expenses?
- Are we recognizing the health center award more than 1/12th each month?
- What is the operating margin by department or service line?
- What are current operational changes that will impact the future income statement?
- Are we growing our Encounters?
- How productive are our providers? Provider Encounters/Provider FTEs

**Your health center is 10 months into its 12-month fiscal period. The Organization has revenues year-to-date of \$10,000,000 and expenses of \$9,950,000 for an operating income of \$50,000. The Organization health center grant is for \$2,280,000 and your health center has recognized 100% of the grant revenues of \$2,280,000 within the \$10,000,000 in revenues through 10 months. What questions or comments should the Board of Directors have for management?**

- A. Congratulate management on a great first 10 months and tell them to keep it up
- B. Ask management how they expect the final 2 months of the year to progress and what they believe is the final operating income for the year?
- C. Ask management about the expenses for the first 10 months? Then review the financial statements questioning expenses that do not seem reasonable or are outside the budget.
- D. Ask why the Organization has recognized all 12 months of the health center grant in the first 10 months of the fiscal period and how they are going to balance the budget in the final 2 months?

# Statement of Cash Flows

CASH FLOW		
	20CY	20PY
<b>Operating Activities</b>		
Change in net assets	\$ (1,200,000)	\$ (800,000)
Items not requiring (providing) operating cash flow		
Depreciation	900,000	900,000
Loss on disposal of property and equipment	100,000	-
Changes in		
Patient accounts receivable, net	100,000	100,000
Estimated amounts due from third-party payers	1,000,000	100,000
Accounts payable and accrued expenses	300,000	(300,000)
Deferred grant revenue	(200,000)	200,000
Net cash provided by operating activities	1,000,000	200,000
<b>Investing Activities</b>		
Purchase of property and equipment	-	(100,000)
Net cash used in investing activities	-	(100,000)
<b>Financing Activities</b>		
Principal payments on long-term debt	(500,000)	(600,000)
Proceeds from issuance of notes payable to bank	-	700,000
Principal payments on notes payable to bank	(700,000)	(500,000)
Net cash used in financing activities	(1,200,000)	(400,000)
<b>Decrease in Cash</b>	(200,000)	(300,000)
<b>Cash, Beginning of Year</b>	300,000	600,000
<b>Cash, End of Year</b>	\$ 100,000	\$ 300,000
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 500,000	\$ 600,000

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Interest paid	\$ 500,000	\$ 600,000

**You serve as a board member and the Organization is considering borrowing \$5M dollars to construct a new clinic. This expansion is going to allow you to hire more providers and increase the number of patients that the Organization can serve. Which of the following would you want to review to make your decision to vote yes on approving this 5M loan?**

- A. Cash flow projection of current operations as well as predicted increases to cost and revenue for new operations
- B. Review of investing activities section of historical statement of cash flows to determine if cash reserves have been funded for future capital investments
- C. Cash flow projection that incorporates the cash needed to pay the principal and interest of the new debt
- D. Cash needed for start-up costs for new facility
- E. All of the above

# Key Performance Indicators

## Sample Indicators

Measure Name	What it measures	Target/desired direction
Operating Margin	Measures the performance of the health center over a period of time and is calculated by dividing operating income by total revenues.	2 to 4%, over 5% if possible
Net Patient Service Revenue and Operating Cost Per Encounter	Evaluates your service revenue and operating costs per encounter to determine how the organization is performing	Net Patient Service Revenue per Encounter exceeds Operating Costs per Encounter
Days Cash on Hand	Measures how many days a health center can pay its expenses if income were to cease.	45 to 60 days minimum; best practice 90-120 days
Days in Accounts Receivable	Measures how long it takes for a health center to collect its patient accounts receivable.	Less than 45 days (lower number is better)

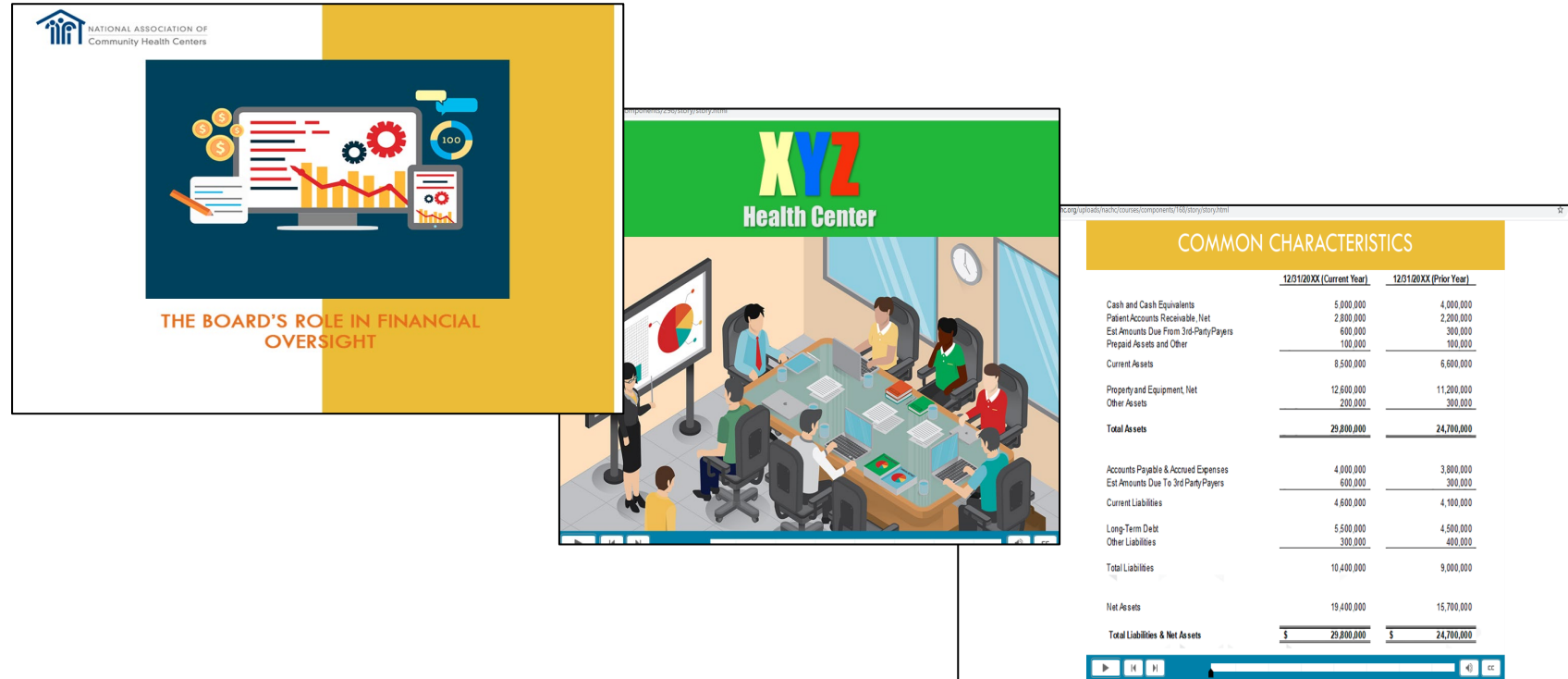


# Dashboard Approach

Focus	Example Elements
– Summarized Financial Information	– Patient Revenues, Grant Revenues, Salaries and Benefits, Total Operating Expenses, Operating Income, Current Assets, Patient Accounts Receivable, Current Liabilities, Debt, Net Assets
– Key Performance Indicators	– Total Encounters, PSR and Operating Cost per Encounter, Operating Margin, Days Cash on Hand, Net Days in Accounts Receivable, Allowance Percentage, Current Ratio, Debt to Equity, Revenue and Expenses per Day, Provider Productivity, Payer Mix



# Modules on Board Financial Oversight



**THE BOARD'S ROLE IN FINANCIAL OVERSIGHT**

**XYZ Health Center**

**COMMON CHARACTERISTICS**

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**English:** <https://www.healthcenterinfo.org/details/?id=2152>

**Spanish** (through partnership with National Center for Farmworker Health):

<https://www.healthcenterinfo.org/details/?id=3048>

# Financial Oversight During COVID-19

- ✓ Monitor key indicators
- ✓ Monitor financials with and without COVID-specific funding
- ✓ Ask questions to better understand the financial outlook
- ✓ Balance short and long-term strategy when making decisions
- ✓ Understand new funding streams
- ✓ Understand funding implications related to telehealth
- ✓ Ask questions to ensure grants compliance
- ✓ Ensure budget reflects current realities

## Resources

- [Hot Topics in Finance During the Pandemic \(Video\)](#)
- [Strategic Planning and Strategic Financial Planning During Crisis \(Video\)](#)
- [Financial Oversight During COVID-19 \(Video\)](#)
- [Pandemic Related Budgeting Considerations \(Article – English/Spanish\)](#)





# Board Financial Oversight Resources

- [Governance Guide for Health Center Boards, Chapter 4: Financial Oversight](#)
- [Modules on Board Financial Oversight](#)
  - [English](#)
  - [Spanish](#)
- [COVID-19 Governance Resources](#)
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  - [Financial Oversight During COVID-19 \(Video\)](#)
  - [Pandemic Related Budgeting Considerations](#)
  - [Audit Considerations Related to the Pandemic](#)



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