

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

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#ThankYouCHCs

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- 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



https://bphc.hrsa.gov/



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
 Represents the annual financial plan for achieving the health center program and financial goals Needs to align with overall priorities and strategic plan for the center. 	 "Total Budget" to HRSA reflecting the revenues and costs needed to support the HRSA approved scope of project.





Budget Considerations

Operating Budget	Grant Budget
 The board should review the budget to make sure resources follow priorities Things to consider: Strategic planning session results 	 Balances to zero Submitted to HRSA annually Represents all 330 grant activities Federal and non-Federal

- Current year's expected results
- Changes in funding amounts
- Changes in expenses





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

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

	12/31/20XX (Current Year)	12/31/20XX (Prior Year)
Cash and Cash Equivalents	5,000,000	4,000,00
Patient Accounts Receivable, Net	2,800,000	2,200,00
Est Amounts Due From 3rd-PartyPayers	600,000	300,00
Prepaid Assets and Other	100,000	100,00
Current Assets	8,500,000	6,600,00
Property and Equipment, Net	12,600,000	11,200,00
Other Assets	200,000	300,00
Total Assets	29,800,000	24,700,00
Accounts Payable & Accrued Expenses	4,000,000	3,800,00
Est Amounts Due To 3rd Party Payers	600,000	300,00
Current Liabilities	4,600,000	4,100,00
Long-Term Debt	5,500,000	4,500,00
Other Liabilities	300,000	400,00
Total Liabilities	10,400,000	9,000,00
Net Assets	19,400,000	15,700,00
Total Liabilities & Net Assets	\$ 29,800,000	\$ 24,700,00

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Statement of Financial Position (Balance Sheet)- What to Lok 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)

	12/31/20XX	12/31/20XX
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
Operating Revenues	32,500,000	30,700,000
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
Operating Expenses	31,850,000	30,085,000
Operating Income	\$ 650,000	\$ 615,000



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	12/31/20XX	12/31/20XX
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
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Rent	350,000	350,000
Depreciation and amortization	950,000	850,000
Operating Expenses	31,850,000	30,085,000
Operating Income	\$ 650,000	\$ 615,000



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Statement of Activities (Income Statement)- What to Lok 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?



CASH FLOW

	20CY	20PY
Operating Activities		
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
Investing Activities		
Purchase of property and equipment	-	(100,000
Net cash used in investing activities	-	(100,000
Financing Activities		
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
Decrease in Cash	(200,000)	(300,000
Cash, Beginning of Year	300,000	600,000
Cash, End of Year	\$ 100,000	\$ 300,000
Supplemental Cash Flows Information		
Interest paid	\$ 500,000	\$ 600,000

Statement of Cash Flows



CASH FLOW

	20CY	20PY
Operating Activities		
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
Investing Activities		
Purchase of property and equipment	-	(100,000
Net cash used in investing activities	-	(100,000
Financing Activities		
Principal payments on long-term debt	(500,000)	(600,000
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Principal payments on notes payable to bank	(700,000)	(500,000
Net cash used in financing activities	(1,200,000)	(400,000
Decrease in Cash	(200,000)	(300,000
Cash, Beginning of Year	300,000	600,000
Cash, End of Year	\$ 100,000	\$ 300,000
Supplemental Cash Flows Information		
Interest paid	\$ 500,000	\$ 600,000

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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



English: <u>https://www.healthcenterinfo.org/details/?id=2152</u> Spanish (through partnership with National Center for Farmworker Health): <u>https://www.healthcenterinfo.org/details/?id=3048</u>



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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



<u>Resources</u>

- <u>Hot Topics in Finance During the Pandemic</u> (Video)
- <u>Strategic Planning and Strategic Financial</u> <u>Planning During Crisis</u> (Video)
- <u>Financial Oversight During COVID-19</u> (Video)
- <u>Pandemic Related Budgeting</u>
 <u>Considerations</u> (Article English/Spanish)



COVID-19 a		
	nd Health Ce	nter Boards
FOCUS AREA: UNDERSTAN	DING THE IMPACT OF COVID-1	9 ON THE HEALTH CENTE
Pandemic-Related Budg	eting Considerations for H	Health Center Boards
BACKGROUND		
extraordinary challenges cause across the country, and as vacc center boards to understand th represented in the health center related considerations for health	rs across the country have respons d by the COVID-19 pandemic. As th ines are increasingly becoming ave e short- and medium-term picture r budgeting process. This article si h centers boards in the budgeting ssion questions for boards at the t	e virus continues to rage illable, it is important for healt of financial health which is immarizes key pandemic- process. Additionally, this
	Bevenue	prudent to continue to budget
Items to Consider	NEVENUE	less than 100% of pre-COVID







Board Financial Oversight Resources

- Governance Guide for Health Center Boards, Chapter 4: Financial Oversight
- Modules on Board Financial Oversight
 - English
 - Spanish

<u>COVID-19 Governance Resources</u>

- Hot Topics in Finance During the Pandemic (Video)
- <u>Strategic Planning and Strategic Financial Planning During</u> <u>Crisis</u> (Video)
- Financial Oversight During COVID-19 (Video)
- Pandemic Related Budgeting Considerations
- Audit Considerations Related to the Pandemic





FOCUS AREA: UNDERSTANDI	NG THE IMPACT OF COVID-1	9 ON THE HEALTH CENTER				
Pandemic-Related Budge	ting Considerations for H	Health Center Boards				
BACKGROUND						
Since March 2020, health centers extraordinary challenges caused across the country, and as vaccin center boards to understand the represented in the health center related considerations for health resource contains a list of discuss	by the COVID-19 pandemic. As the es are increasingly becoming avai short- and medium-term picture budgeting process. This article su centers boards in the budgeting	e virus continues to rage illable, it is important for health of financial health which is ammarizes key pandemic- process. Additionally, this	SOCIATION OF	\mathcal{N}		
	Revenue	prudent to continue to budget	Health Centers			
The board is responsible for reviewing and approving the annual organizational operating budget, which (is the health centers financial plan for achieving its health service program and financial goals, Health centers also submit an enrula grant application	below are terms that boards should stay mindful of regarding revenue primarily patient service and grant moment: • Patient Visits: The onset of COVID-19 initiality caused health center visits volume to plummet. Nealth	less than 100% of pre-COVID medical visit volume. Dental—Dental is the area hardest Nit by COVID-18. Because of the risk of disease spread through allow in the air and the corresponding high demands on persional protective equipment.	V			
that includes a budget, called a "total budget," to the Health Resources and Service3 Administration (HIGA) that reflects the revenues and costs needed to support the health center's proposed or HIGA-approved scope of project. ¹	to pre-pandemic levels, but some challenges remain in certain practice areas, including: Medical—Medical services shifted	(PPE), many health centers initially shut down or reduced dental services. The center's next budget (or reforecast) should consider what level of dental services are	Xi			
Various pandemic-related budgeting	rapidly to telehealth in April 2020. As health centers have better	realistic during the budget period. • Behavioral/mental health—				
considerations regarding revenue, expenses, and the overall bottom line are outlined below.	understood the COVID-19 virus, and the protections and protocols necessary, in-person services	Behavioral health is the one area where many health centers have actually seen an increase				
				COMMON	CHARACTERIST	TICS
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	.		Patient Accounts I Est Amounts Due Prepaid Assets an	Equivalents Receivable, Net From 3x4-Party/Payers nd Other	12/01/20XX (Current Year) 5,000,000 2,800,000 600,000 100,000	12/51/20XX (Prior Year) 4,000,000 2,200,000 300,000 100,000
			Patient Accounts 1 Est Amounts Due Prepaid Assets an Current Assets Property and Equi	Equivalents Receivable, Net From 3x4-Party/Payers nd Other	12/31/20XX (Current Year) 5,000,000 2,000,000 600,000 100,000 8,500,000 12,600,000	1201200X (Prior Year) 4,000,000 2,200,000 300,000 100,000 6,600,000 11,200,000
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