Health centers must comply with legal and regulatory requirements to receive financial support under the Health Center Program, including requirements related to governance authority and oversight. This series – Governing Board Responsibilities and How to Do Them – addresses several of the main governance requirements of the Health Center Program and for each describes board responsibilities and actions to meet and comply with requirements. Each document in the series provides guidance on:

- Goals for health centers to achieve related to the requirement
- Responsibilities of the governing board to achieve those goals
- Information for board members to receive from staff
- Questions for boards to review with staff and
- Links for additional information and resources.

### 6 Monitoring Financial Performance Using Financial Statement Data

A primary responsibility of a health center’s governing board is to understand the health center’s financial situation and to react accordingly with management. The Health Resources and Services Administration’s Bureau of Primary Health Care (HRSA/BPHC) requires that governing boards of grantees of the Health Center Program assure accountability for health center resources and evaluate the organization’s annual and long-term financial goals. There are many aspects to overseeing financial performance but this guidance addresses setting and reviewing basic financial goals for the organization using financial statement data. A few good measures can provide a complete picture of the financial well-being of the organization.

#### Goals for Measuring Financial Performance Using Financial Statement Data

- Presents interim financial statements and audits in a timely manner;
- Provides accurate interim statements using the method and format of the audit;
- Establishes measures that provide a complete description of the organization’s financial situation;
- Sets achievable financial targets that represent improvement over prior period baselines;
- Establishes and protects the financial viability of the health center.

#### Governing Board’s Responsibilities

- Assume legal fiduciary responsibility of the health center – assuring financial accountability, effective oversight of the center, and sound financial viability;
- Review and approve the annual audit and monthly financial statements;
- Ensure that there are board members who are willing and able to perform the financial oversight function;
- Approve the selection of the financial measures and their annual and long-term goals;
- Regularly review progress and ensure corrective action is taken when necessary.

#### Health Center Program Requirements

In order to receive and continue receiving financial grant support from HRSA/BPHC, health centers are required by law to:

- Maximize collections and reimbursement for its costs in providing health services, including written policies and procedures reflecting billing, credit, and collections;
- Accurately collect and organize data for program reporting and to support management decision making;
- Provide the governing board the authority to measure and evaluate the organization’s progress in meeting its annual and long-term programmatic and financial goals, develop plans for the long-range viability of the organization, monitor organizational assets and performance, and establish general policies for the center.

Authority described in Section 330(k)(3)(D)(F)(G)(L) of the Public Health Service Act – the federal law that authorizes the health center program.
Information for the Governing Board to Review

The finance committee will usually take the lead in establishing financial measures, their goals and reviewing progress. They will be the primary reviewer of the information identified below.

- **Independent financial audit**: Health center grantees are required to conduct an annual independent financial audit in compliance with OMB circular A-133. The audit must be conducted in accordance with generally accepted accounting principles. The audit validates the organization's financial statement data or makes qualifying statements about its validity. Interim financial statement data are subject to and are often adjusted for the audit. Auditors are required to communicate significant adjustments to the governing board. HRSA/BPHC relies on audit data to evaluate the financial performance of grantees. Similarly, the governing board's final judgments about progress made achieving the annual and long-term financial goals using financial statement data should be based upon the audit, not the interim statements. Any differences in the year-end interim and audit statement data should be reviewed and corrective actions taken as may be necessary.

- **Interim financial statements**: The financial statements consist of a balance sheet, a statement of activity, and a statement of changes in financial position. The interim financial statements should use the same method and format or account classification used in the audit and statements should be prepared in accordance with generally accepted accounting principles. If the interim statements are not prepared on a full accrual basis as is required for the audit and the accounts are not classified in the same way, the financial performance might not be comparable and may be misleading.

  - The assets and liabilities section of the balance sheet should be classified into current and long term sections so that the HRSA/BPHC required measures can be calculated. It is helpful if the interim balance sheet includes a comparison column showing the account balances at the end of the prior fiscal year.

  - The interim statement of activity should include budget performance columns. The classic six column presentation has actual, budget and variance columns for both the current and year-to-date amounts.

  - A statement of net cash flow may be substituted for a statement of changes in financial position. Additional detail and schedules supporting the financial statements may be appropriate but the accuracy of the basic statements and their comparability to the audit data are needed for a proper review of performance.

- **Grant application**: The required and any supplemental financial performance measures are contained in the grant application. The current grant application process requires the identification of annual and project period goals, contributing and restricting factors, and one or more actions to improve financial performance for each measure. The project periods can be as long as five years, which corresponds to the typical period for setting long-term financial goals. The governing board should evaluate progress for each of these financial statement measures on a monthly and annual basis along with any other measures it chooses to review.
Trend or other report that includes the required and any supplemental financial statement measures: The financial statement measures should be presented in a monthly trend report that ideally shows the performance of each measure each month in the fiscal year. Reports of this type are often one page and include other operating data being tracked by the health center.

Financial statement and trend report comments: The chief financial officer should produce a brief written summary each month to accompany the interim statements and trend report highlighting and explaining any significant findings. This should include comments about the financial measures.

Required and Supplemental Financial Measures

There are currently five financial measures required by HRSA/BPHC. Two are based upon calendar year Uniform Data System (UDS) reporting data that Health Center Program grantees routinely collect. They are total cost per patient and medical cost per medical visit. These two measures are based on operating data, patients, and visits. There are three financial measures based solely upon audit or financial statement data. They are change in net assets as a percent of expense, working capital to monthly expense ratio, and long-term debt as a percent of net assets. These measures were chosen in order to describe the three principal dimensions of a health center’s financial situation: the current period change, the current financial condition, and the long-term financial condition. Taken together these measures provide a reasonably complete picture of the organization’s financial well being and are the principal measures used by HRSA/BPHC to evaluate financial performance. Health centers may choose to track additional measures for internal monitoring. Additional measures will provide more detail but will not change the basic result the required financial statement measures describe. Each of the required measures and a few possible supplemental measures are briefly discussed below.

HRSA/BPHC Required Financial Performance Measures

Total Cost per Patient: This is a measure of the dollar value of services provided. It is determined by dividing the total accrued costs before donations and after allocation of overhead by the total number of patients.

Medical Cost per Medical Visit: This is a measure of medical cost efficiency. It is determined by dividing total accrued medical staff salaries and benefits and other direct medical costs such as dues, supplies, depreciation of equipment, etc., plus allocation of overhead costs by the total number of non-nursing medical encounters.

Change in Net Assets as a Percent of Expense: This is a measure of current performance and is the most significant of the three financial statement measures. This measures the current year’s financial performance or the amount by which the organization increased or decreased in value during the audit period.

This measure adds up all the income earned and all the expense incurred during the audit period plus any other transactions that affected the change in value of the organization during the period. The difference is the change in net assets. Just knowing the amount of change does not tell you whether it is significant, but by dividing it by the total expense, the measure compares the change to the size of the organization. In accounting, any change over 5% is considered material or significant.
The Health Center Program grant application requires budgets to be presented at breakeven. Minimally organizations should achieve breakeven or better performance. Organizations in a weak financial condition can survive so long as their operations are profitable. Health centers with weak current and long-term financial conditions need to have better than breakeven performance in order to retain earnings and improve their financial health.

- **Working Capital to Monthly Expense Ratio:** This measures the organization’s current financial condition and is the second most important financial statement measure.

  Working capital is calculated by subtracting current assets from current liabilities. Current assets are those assets the organization owns that can be realized in cash in a year’s time. Current liabilities are those debts the organization owes that must be paid in a year’s time. The difference between current assets and current liabilities is working capital. Working capital is the cushion the organization has to deal with business disruptions. Disruptions can include losing clinicians, reimbursement problems, and unforeseen expenses. Just knowing the value of working capital does not tell you whether the current financial condition is good or bad. Dividing working capital by the average monthly expense compares working capital to the size of the organization. It tells you how many months of working capital you have.

  Working capital amounting to three months of operations would be considered good for protecting normal operations. However, if a health center is saving for future development, a much larger amount may be appropriate. Working capital amounting to less than one month of operating expense is considered weak and in need of improvement. If working capital is negative, the organization’s current financial condition is in trouble. Minimally health centers should strive to have working capital equal between one and three months of average monthly expense. If working capital exceeds three months of operating expense, there should be a capital development plan or other planned use for those resources.

- **Long-Term Debt to Equity Ratio:** This is measuring the organization’s long-term financial condition.

  Long-term debt are those debts that are payable after one year’s time. Equity, or net assets, is the difference between what the organization owns and what is owes.

  The less long-term debt the organization has the better its financial condition. Minimally an organization should have long-term debt amounting to less than half of net assets. However, an organization with nominal net assets will distort the ratio. If this is the case, an alternate measure may be used to evaluate the long-term debt load. One suggested alternate measure described below is the long-term debt to fixed assets ratio.

**HRSA/BPHC Supplemental Financial Statement Measures**

- **Months of Cash:** This is a measure of current financial condition. Cash is part of current assets. Ideally, cash should amount to one month or more of expense to protect against business disruptions.

- **Days in Accounts Receivable:** This is a measure of current financial condition. Patient accounts receivable are typically the largest item in current assets for health centers. There are different ways to calculate this measure but preferably, it is done by dividing net accounts receivable (accounts receivable less allowances), by average daily net charges (charges less adjustments). The ideal number of days in accounts receivable will depend upon payer mix but can amount to 40 days or less. If it exceeds 120 days, it should be a cause for concern.
Days in Accounts Payable: This is another measure of current financial condition. There are different ways to calculate this measure but the typical calculation subtracts depreciation from non-personnel expense and divides by 365. Organizations that are in good shape will pay bills at least twice monthly so that accumulated payables will not amount to more than 15 days of payables. Most invoices are due either upon receipt or within 30 days. If the days in payables exceed 45 days, it should be another cause for concern.

Long-Term Debt to Fixed Assets Ratio: This is measuring the organization’s long-term financial condition by dividing long-term debt by net fixed assets. Net fixed assets are those assets such as land and the depreciated value of buildings and equipment that the organization would ordinarily borrow against when taking out a long-term loan. If long-term debt exceeds 60% of net fixed assets, the debt load might be considered heavy.

Questions for the Board to Ask

1. Is the financial capability of the board adequate? The board needs one or more members who have the professional training and experience in either accounting or financial management or both and who are willing to take the time to lead the board’s financial oversight responsibility. The absence of this capability and commitment will jeopardize the board’s ability to fulfill its fiduciary obligation.

2. Does the board establish the financial measures, set the goals, and regularly monitor performance? The board must approve the grant application, which includes the required and supplemental financial measures, their annual and project period goals, the contributing and restricting factors affecting those measures and proposed actions to be taken to improve the measure. The progress for each of these required financial statement measures must be evaluated on monthly and annual basis along with any other financial measures it chooses to establish.

3. Are appropriate corrective actions taken if goals are not achieved? The board must have management take appropriate corrective action if goals are not achieved. These actions can range in severity from resetting the goal to preparing a financial recovery plan.

4. Are supplemental measures needed? The required financial statement measures do a good job of describing the current year performance, the current financial condition, and the long-term financial condition of the organization. However, it is appropriate and often necessary for the other measures to be established and monitored. A few are described in the preceding section.

5. Are the interim statements acceptable? As noted earlier in this document, the statements consist of a balance sheet, a statement of activity, and a statement of changes in financial position. Indicators of acceptable interim financial statements include:

   • The statements are presented in the same manner as presented in the audit and are prepared in accordance with generally accepted accounting principles and on a full accrual basis as is required for the audit.

   • On the balance sheet, the assets and liabilities section is classified into current and long term sections and includes a comparison column showing the account balances at the end of the prior fiscal year.
Monitoring Financial Performance Using Financial Statement Data

- On the interim statement of activity, budget performance is demonstrated using the classic six column presentation for actual, budget and variance columns for both the current and year-to-date amounts.

- A statement of net cash flow may be substituted for a statement of changes in financial position.

- Accuracy of the statements is demonstrated by a minimal number and value of adjustments the auditor makes to the interim statements. The auditor is required to communicate significant adjustments to the governing board.

6. **What is the health center’s financial situation?**  The board should have a well-found sense of the financial situation of the organization based on the reports received from staff. Reports that present current data compared to prior period, the budget, the strategic plan, and industry benchmarks provide context for board member oversight. It can be characterized as simply as good, okay or bad. A good situation requires regular surveillance but less attention. A bad situation requires significantly more time and attention.

7. **How do the measures relate to grantee organizations that have corporate activity unrelated to the health center that is outside the scope of federal project?**  BPHC will evaluate the required financial statement measures for all the corporate activity included in the audit. This will include activity outside the scope of project. The financial well being of the grantee organization has a bearing upon its ability to be a reliable steward of the federal funds. Similarly, the board has an obligation to govern the whole corporation, not just the health center. In these situations, the board should consider developing comparable supplemental financial performance measures specific to the health center operation.

8. **How do the measures relate to public entity grantees?**  BPHC does not require public entity grantees to use the financial statement measures. Nevertheless, the co-applicant boards of public entity grantees must still evaluate the performance of the health center and should develop supplemental financial performance measures specific to the health center operation. Public centers are still required to respond to the two UDS based financial measures: total cost per patient and medical cost per medical visit.

9. **Are there other financial data that the board should review besides the established measures?**  The finance committee should review a lot more information than just the financial measures. This should include among other things source data reports that substantiate the numbers presented in the financial statements. The reports for the finance committee might include the following: an income statement and balance sheet with budget performance elements; a one page summary of statement highlights; a one page trend report with financial measures; finance committee minutes; a statement of net cash flow; an updated projection of net cash flow if there are cash problems; an accounts receivable aging report; an accounts receivable reconciliation between the general ledger and the subsidiary ledger or billing system; a grants receivable aging report; an accounts payable aging report; individual provider productivity reports; and an old and new business progress report.
For More Information

HEALTH CENTER PROGRAM REQUIREMENTS  
http://bphc.hrsa.gov/about/requirements/index.html

CLINICAL AND FINANCIAL PERFORMANCE MEASURES  

FINANCIAL MANAGEMENT RESOURCES  
http://www.mscginc.com/mscg/Resources/documentspublic.cfm

FINANCIAL MANAGEMENT TECHNICAL ASSISTANCE TOPICS  
http://bphc.hrsa.gov/technicalassistance/tatopics/financialmanagement/index.html

BPHC NEW START WEB GUIDE  
Financial Management and Control Policies  
http://bphc.hrsa.gov/technicalassistance/newstarts/managementfinanced.html