

Overview Healthcare Financial Reporting

- . Monthly Financial Reporting
- **II.** Annual Financial Statements
 - Example Report
- III. Federal Form 990 and MA form PC
- ıv. 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 <u>understanding differences</u>. 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



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 <u>ABRIDGED</u> 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

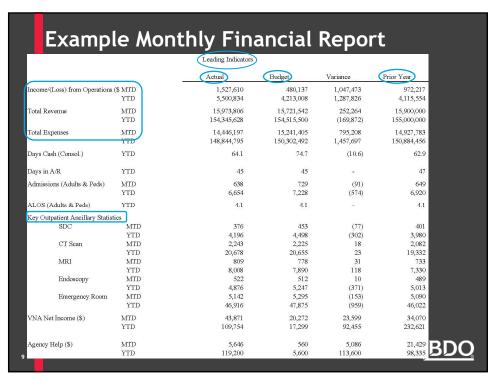
Note: Current period amounts normally are compared to budget and/or prior year

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				Financial Ratios FY 2007
			ar-samenana	LAST 12 MONTHS
LIQUIDITY:	Jan'07	Jan'06	MA Hosp Median *	Feb Mar Apr May Jun lul Aug Sep Oct Nov Dec ,
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 8.8
TOTAL DAYS IN CASH (Target:30)	32	29	21	32 31 30 33 31 31 34 30 28 30 31
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
DAYS IN ACCTS REC (NET)	40	45	45	44 42 43 43 40 40 38 43 42 39 40
AVERAGE PAYMENT PERIOD	65	77	52	77 75 76 78 73 72 73 70 68 65 67
DEBT:				
DEBT TO CAPITALIZATION	68%	78%	35%	77% 77% 76% 76% 76% 74% 73% 74% 74% 71% 71%
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
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
BOTTOM LINE MARGIN**	5.38%	0.36%	2.60%	0.99% 1.74% 1.67% 1.78% 1.88% 1.79% 2.30% 2.70% 2.93% 7.85% 5.47% 5
OPERATIONS:	<u>Jan'07</u>	Jan'06	Change	
GROSS REVENUE PER DAY (000's)	655	570	115%	577 591 591 595 599 596 599 601 611 638 635
NET REVENUE PER DAY (000's) Payment Ratio	301 0.460	267 0.468	113% 98%	271 275 278 279 281 280 282 285 294 296 295 0.470 0.465 0.470 0.469 0.470 0.471 0.474 0.481 0.464 0.465 0
EXPENSE PER DAY (excl.depr.&bad debts)(000's)	277	253	109%	256 258 261 262 264 264 264 265 272 272 275

	KEV	UTILIZATIO	N INDICAT	ORS				
		ЛЛ			R TO DATE			
							% VARIANCE	
	ACTUAL	BUDGET V	ARIANCE	%	FAV/UNFAV	YTD ACTUAL	YTD JULY	
INPATIENT SERVICES								
# OF DISCHARGES	5,714	5,661	53	0.9	F	5,509	3.7	
# OF DELIVERIES	476	495	(19)		U	461	3.3	
ALOS AVERAGE DAILY CENSUS	3.6 75.2	3.5 73.6	0.1 1.6	2.9	U F	3.6 72.6	0.0 3.6	
	15.2	73.0	1.6	2.2	Р	/2.0	3.0	
TRANSITIONAL CARE UNIT	100000000	00.0000e			2000	W177500000		
PATIENT DAYS	5,088	5,371	(283)	(5.3)	U	5,315	(4.3)	
RUGS PER DIEM (\$) COST PER PATIENT DAY (\$)	522 545	529 537	(7)	(1.3)	U	515 374	1.4 45.7	
	343	337	7	1.4	U	3/4	45.7	
BEHAVIOR HEALTH								
PATIENT DAYS	3,548	3,634	(86)	(2.4)		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 DA'	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								DD
# OF NEW CASES	1.751	1,764	(13)	(0.7)	U	1.753	(0.1)	51.
MEDICARE EPISODE RATE (\$)	2.956	2,868	88	3.1	F	2.837	4.2	



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

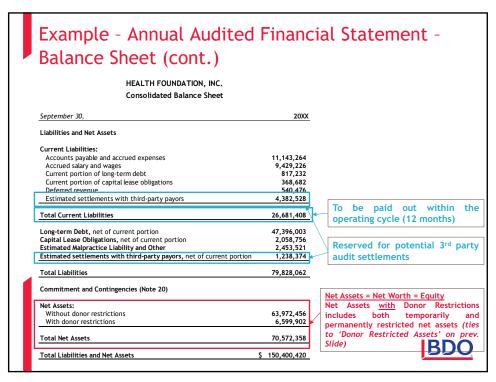
- ▶ Balance Sheet
- Statement of Operations or Activities
- ▶ Statements of Changes in Net Assets
- Statement of Cash Flows
- ▶ Notes to the Financial Statements
- ► Consolidating or Continuing Schedules
 - · Balance Sheet
 - · Statement of Operations or Activities

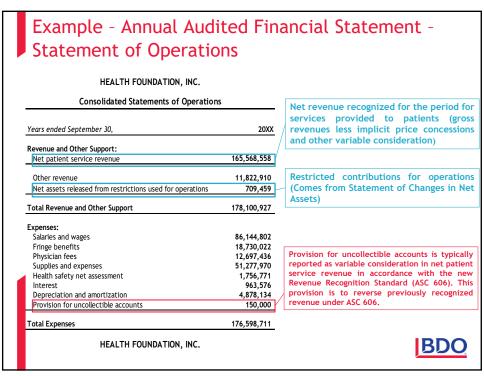
Note: comparable financial statements are deemed meaningful and unless misleading, should be presented in annual GAAP statements (for this presentation the prior year columns have been eliminated)

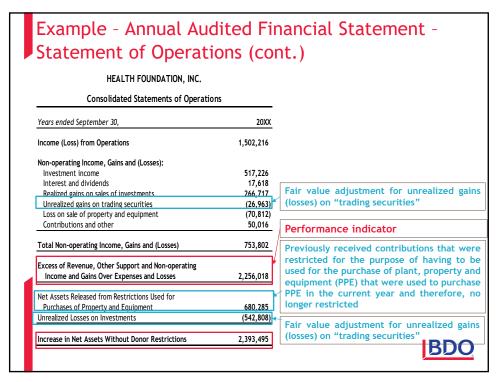
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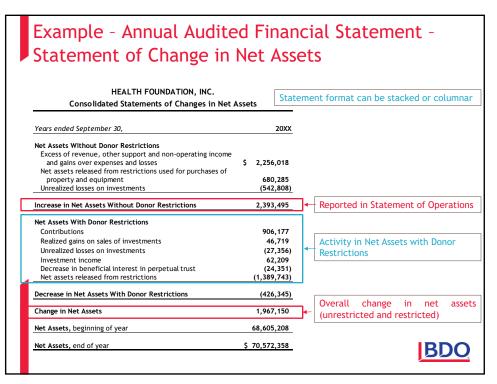
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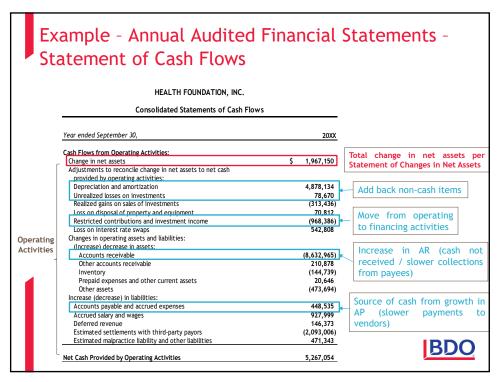
Example - Annual Audited Financial Statement -**Balance Sheet** HEALTH FOUNDATION INC. Consolidated Balance Sheet September 30, 20XX Assets Expected cash to be collected on unpaid Current Assets: accounts receivable \$ 7,106,045 Cash and cash equivalents Investments, at fair value 5 7,106,045 564,170 16,203,313 356,721 2,257,437 1,942,003 Accounts receivable, net Other accounts receivable To be used within the operating cycle (12 months), usually represents bond funds Prepaid expenses and other current assets Current portion of assets whose use is limited or restricted 375,644 Total Current Assets 28,805,333 Informs reader of the financial statements of Assets Whose Use is Limited or Restricted: the dollars that are not available for Board designated investments Donor restricted investments Donor restricted pledges Total Donor \$6,599,902 5,638,201 961,701 1,500,957 operations; and that are not intended to be liquidated in less than 12 months Funds held in trust under indenture agreement Assets Whose Use is Limited or Restricted, net of current portion 30,271,539 Other Assets, net may include long term Property and Equipment, net 77,381,894 assets such as key-man life insurance Other Assets: policies, nonqualified retirement plan assets Notes receivable, net 11 439 300 1,902,813 599,541 Estimated malpractice receivable (457 Plans), and intangible assets. **Total Other Assets** 13,941,654 BDO \$ 150,400,420

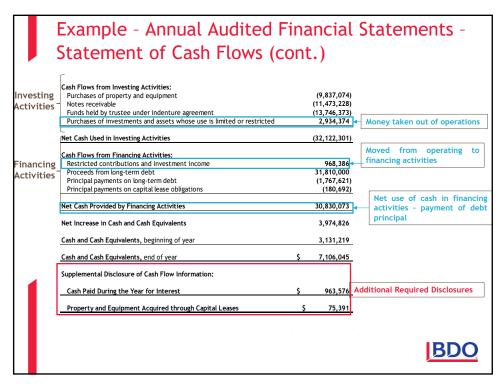












Polling Question 2

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 <u>Delayed 1 year</u> to period beginning after December 15, 2019
- ► ASU No. 2016-02 Accounting for Leases
 - Effective for fiscal periods beginning after December 15, 2021



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
 - \blacktriangleright Governance, financial transactions among insiders, compensation
 - ▶ Community benefit, bonds and joint ventures
 - ▶ Policies and procedures within the organization
 - \blacktriangleright 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



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)

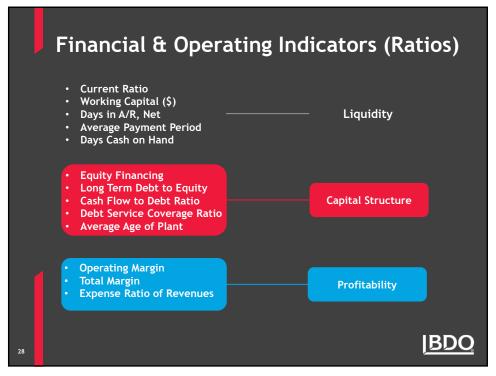
- ▶ Applicable for entities receiving \$100,000 or more in state contracts
- ▶ Programmatic breakdown of revenues/expenses
- ▶ Surplus revenue retention limits 20% threshold
- ► Audit conducted under Government Auditing Standards

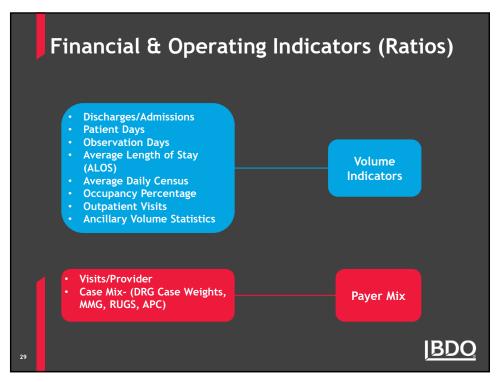
Form 3ABC Tax Exemption Form

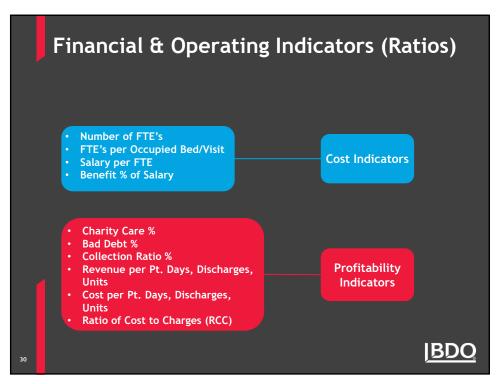












Financial Indicators - Formulas and Definitions

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

Financial Indicators - Formulas and Definitions

Liquidity Indicators Cont'd Ratio <u>Formula</u> Performance Implication Average Payment Current Liabilities/ Measures the average length of time an entity Period ((Total Op. Exp. - Depr.)/365) takes to pay its obligations. Further erosion of cash reserves caused by declining profitability may indicate danger of default on current obligations. Days Cash on Hand (Cash + Liquid Securities)/ Measures the number of days of average cash ((Total Op. Exp. - Depr.)/365) 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

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



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Financial Indicators - Formulas and Definitions

Capital Structure Indicators Cont'd

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

Financial Indicators - Formulas and Definitions

Profitability Indicators

Ratio Formula Performance Implication Operating Margin Net Operating Income/ Measures the operating profit retained per Total Op. Revenue dollar of sales. Mass. Hosp Range: [(15.8)-8.7). Total Margin Net Income/ Measures the net profit retained per dollar Total Op Revenue of sales inclusive of operating and nonoperating sources. Mass. Hosp Range: [(2.9) Bad Debt Percentage Provision for Bad Debt/ Measures bad debts for trending and Total Patient Net Rev or GPSR. comparative purposes.



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Resources to Learn More - Acronyms

ACA - Patient Protection and Affordable Care Act

ACO - Accountable Care Organization

ALF - Assisted Living Facility CAH - Critical Access Hospital

CCN - CMS Certification Number

CCRC - Continued Care Retirement Community

CHIA - Center for Health Information Analysis CMS - Centers for Medicare & Medicaid Services

CNM - Certified Nurse Midwife

CY - Calendar Year

DRG - Diagnosis Related Group

DSCR - Deb Service Coverage Ratio

EHR - Electronic Health Record

EP - Eligible Professional

FFS - Fee-for-service

FQHC - Federally Qualified Health Center

FFY - Federal Fiscal Year

HHS - U.S. Department of Health and Human Services

HIT - Health Information Technology

HITECH Act - Health Information Technology for

Economic and Clinical Health Act

HITPC - Health Information Technology Policy

HIPAA - Health Insurance Portability and Accountability Act of 1996

HSN - Health Safety Net

MA - Medicare Advantage

MU - Meaningful Use

NCVHS - National Committee on Vital and Health Statistics

NP - Nurse Practitioner

NPI - National Provider Identifier

NPO - Non-Profit Organization

NPRM - Notice of Proposed Rulemaking

NPSR - Net Patient Service Revenue

OMB - Office of Management and Budget

ONC - Office of the National Coordinator of Health Information

OSD - Operational Service Division

PA - Physician Assistant

PPS - Prospective Payment System (Part A)

Recovery Act - American Reinvestment & Recovery Act of 2009

RHC - Rural Health Clinic

RUG - Rate Utilization Group SNF - Skilled Nursing Facility

TIN - Taxpayer Identification Number

UBIT - Unrelated Business Taxable Income

UFR - Uniform Financial Report

BDC

