



**Strengthening Oklahoma's Safety Net,
One Community At A Time**

Board Bulletin

Volume 2, Number 8 • August 2004

The Budget: Business Plan for the Present and the Future

Perhaps the foremost duty of the CHC board is budget development and review. It takes a strong finance committee working with the health center management team to do it right. All board members should have a working knowledge of financial statements so they will be able to identify the 'tell tale' signs to correct potential financial problems in a timely, effective manner. Because the budget is a living document designed to aid in fiscal management, modifications may be necessary to meet health center goals.

Budget Development & Oversight

- **Preparation** - Health center management should begin work on the next year's budget four months in advance with the board finance committee joining the process at least six weeks prior to budget finalization. CHC boards should ensure that management has conducted a complete review of the prior year's budget and actual expenditures, identified capital and equipment needs, and provided written explanations for significant budget changes (10% + or -). A direct, evident connection between performance goals and budget requests reflect a mission-minded organization.
- **Financial Reports** - Thorough review of financial statements is at the heart of each board member's fulfillment of fiscal oversight. Financial responsibility of each board member does not change with organizational size. Health centers, both large and small, must generate monthly reports that provide board members with information necessary for proper fiscal stewardship. While each health center has its own set of reports, CHC boards must have detailed information to do their job. The most common financial statements include:
 - **Statement of Financial Position** (Balance Sheet) - serves as a snapshot of the financial position of the health center at a specific point in time. Total assets are first summarized in categories such as Cash Accounts, Accounts Receivable, Other Current Assets, Property & Equipment and Available Grant Funds. Part Two of the report must 'balance' the sum of the Liabilities and Capital (net assets) with the Total Assets.
 - **Statement of Activity** (called the Income Statement or Profit & Loss Statement) - indicates revenues less expenses for the current month and year to date to determine if operational activity is resulting in 'Net Income' or 'Net Loss' for the organization. Board members should use this report to monitor the budget (actual vs. projected), examining if actual income aligns with revenue projections used in budget development.
 - **Statement of Functional Expenses** (can be a part of the Statement of Activity) - breaks down expenses by category. This detailed report is helpful in determining where the money is being spent.
- **Questions to Ask** - Where's the money coming from? Does our health center have a healthy payor mix? Do the Accounts Receivable (A/R) adequately reflect what can realistically be collected? Are patient revenues down? If so, why? How is the money being spent? Are we within budget from month to month? Are we meeting payroll? Are we up to date in our taxes? Are grant dollars being used appropriately?
- **Warning Signs** - Board members should know the danger signs of financial distress and be prepared to scrutinize issues that may indicate problems. A decline in major income sources suggests trouble for the health center. Increasing expenses warrant further investigation, especially in the categories of salary, benefits, miscellaneous fees, and consultant fees. Private inurement (where a board member or senior manager receives personal benefit in an appreciable amount) poses a substantial threat and may jeopardize the nonprofit tax exempt status. An unexplained, unplanned change in who does the audit should also raise a red flag. While it is essential to track major expenditures, it is equally important that boards avoid micromanaging small-dollar decisions. Save your efforts for issues that can make or break your health center. If you have questions or want further information, please contact OPCA by phone or e-mail jgrant@okpca.org.

**Oklahoma Primary Care Association
4300 N. Lincoln Blvd., Ste 203, OKC, OK 73105
(405) 424-2282, Ext. 104 • Fax (405) 424-1111 • www.okpca.org**

Funded by Health Resources and Services Administration (HRSA)/Bureau of Primary Health Care (BPHC).