



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

Board Bulletin

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Breaking Down the Balance Sheet: Part 1

Community health center (CHC) board members, as stewards of the health center, are accountable for the fiscal oversight. As part of the series dedicated to improving understanding of financial reports, this issue will focus on the Balance Sheet, more properly known as the Statement of Financial Position.

How Do Balance Sheets Balance?

The Statement of Financial Position (Balance Sheet) offers a snapshot of the health center's financial position for a given period of time. The Balance Sheet formula is as follows: $Assets = Liabilities + Equity$. The balance sheet shows what a company owns and what it owes at a fixed point in time. If the sum of what a company owns (Assets) is more than the sum of what it owes (Liabilities), the remainder is equity – that is how the balance sheet balances. While multi-million dollar budgets may be intimidating, the basic finance principles are the same used at home - you must have more money coming in than you spend to stay solvent.

Know Your Assets

Assets have positive monetary value worthy of being exchanged – real estate, automobiles, equipment, cash, etc. Because there are different kinds of assets with fluctuating value, it is important to know what makes up each category listed in the Asset section of the Balance Sheet. Some examples are:

◆ **Current Assets** – The first major Balance sheet component, Current Assets, includes items of value that can easily be converted into cash and are at the disposal of the organization to fund day-to-day operations. Different types of current assets listed on a health center Balance Sheet may include the following:

Cash – As the name implies, it is literally cold, hard cash considered a liquid asset that could be used immediately. Because health centers are in the business of providing a service to a growing number of uninsured with limited resources, cash on hand has historically been minimal. This creates solvency issues and threatens sustainability of the health center. In recent years, the Health Resources and Services Administration (HRSA) Bureau of Primary Health Care (BPHC) has shown greater interest in CHCs improving their 'cash on hand' status. Be mindful that this number fluctuates with reporting period as cash flows in and out of an organization. The information must be trended to see if there is a real issue or just a reporting period anomaly.

Accounts Receivable – This figure, commonly abbreviated as A/R, represents the money owed to the health center by its users for services already rendered. While it is important for health centers to capture all charges and aggressively bill patients for services, boards must institute a policy designed to clear out projected revenue from A/R that is not collectible and needs to be written off. "Allowance for bad debt" should be included in parentheses beside the A/R number that reflects this activity. If bad debts are not written off, A/R will be overstated and present a financial position that looks more favorable than it actually is. Conversely, if the bad debt write-offs escalate, boards should review their collection policies, direct the CEO to investigate patient fee collection issues and then report to the board regarding improvement measures.

Prepaid Expenses - This category represents amounts that have been set aside for payment to keep from incurring the entire expense in one reporting period.

◆ **Property and Equipment** – Also known as long-term or fixed assets since they are not expected to be converted into cash within the current year. The loss of value of an asset, known as depreciation, should also be reported to provide board members with a reasonable estimate of its current value.

◆ **Other Assets** – A category like "Available Grant Funds" should be included on the Balance Sheet to track use of grant funds. As mentioned previously, health centers have varying formats for reporting this information. Boards should check with the CEO to ensure that measures have been implemented to distribute grant funds over the entire year. CHCs must also guard against having a budget issue that results in unobligated funds – a situation that would require the health center to return grant dollars to HRSA/BPHC.

To review OPCA's entire *Board Bulletin* series, visit the 'CHC Boards' section of www.okpca.org.

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