



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

## **Board Bulletin**

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### **Breaking Down the Balance Sheet: Part 2**

Because community health center (CHC) boards are held accountable for fiscal oversight, each member must enhance their understanding of financial statements by studying report components and how each one relates to health center operations. As discussed previously, the 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:  $Assets = Liabilities + Equity$ . This issue will focus on the second part of the equation – liabilities and capital.

#### **Liabilities Language**

◆ **Current Liabilities** – This portion of the balance sheet reveals the CHC's short-term debt (less than a year) and how much will be needed to pay the bills. CHCs have varying reporting formats and required items will be listed by different titles. Some commonly entitled categories of Current Liabilities include:

- **Accounts Payable** – This grouping represents the payments due to suppliers, partners and employees. It is basically the cost of doing business that has not yet been paid. Board members will want to heed particular attention to types of expenses incurred to ensure appropriate spending and that grant funding is being used in accordance with federal regulations. It is also important to 'age' Accounts Payable to determine how many days the bill has been unpaid. If there are bills that have not been paid in a timely manner, boards should ask questions as this may be an indicator of financial distress. CHCs must be careful to pay bills responsibly so community trust is not compromised.

- **Accrued Expenses** – Accrue means to accumulate. Bills owed by the CHC that are accumulating on a set schedule but have not yet come due would fall into this category. Vacation payable is an example of an accrued expense. Annual leave is owed by the employer according to the CHC's policy but is not paid until the vacation is actually taken.

- **Payroll Deductions Payable** – Board members need to be watchful to ensure that all required taxes and withholding is paid in a compliant manner. Also included in this category would be retirement payable if the CHC offers retirement plans. Two areas that board members can be held individually liable are 1) failure to pay taxes and 2) inappropriate accounting of retirement funds. By documenting receipt of financial reports that reflect proper payment of taxes and retirement, board members demonstrate 'duty of care' was exercised.

- **Short-Term Notes Payable** – This includes amounts drawn from a financial institution line of credit that must be repaid within 12 months. If a portion of a long-term debt becomes due within the year, it will be counted as a current liability.

- **Unapplied Grant Funds** – Grant funds not yet drawn down are recorded as an asset reflecting dollars available for use. As grant dollars are expended, there should also be a liability entry that shows obligated grant funds. It most likely will never equal the asset amount because of expenses in accounts payable that have been charged to the grant but not yet paid. Again, the reporting format of unapplied grant funding varies. It is important to track grant draw downs to ensure that funds are available for use throughout the funding period. Also, be aware of the "order of dollars spent" that requires federal dollars be spent last. Proper budgeting of program income is necessary to prevent an 'unobligated balance' situation that may require return of federal funds.

#### **Equity**

The remaining component of the balance sheet equation is equity, also known as capital or fund balance. **Excess program income** - the desired effect of proper budgeting of program income and management of expenses that result in excess revenue over outlays – would be included in this category. If the board has an established policy requiring a designated reserve fund, that amount would be contained within the equity section.

In essence, the balance sheet shows how much a CHC has to pay for the things it owns (assets) by either borrowing money (liabilities) or using reserves (equity). To review OPCA's entire *Board Bulletin* series, visit the 'CHC Boards' section of [www.okpca.org](http://www.okpca.org).

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