



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

## **Board Bulletin**

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### **Financial Management Using Cash Flow and Key Ratios**

To exercise proper financial stewardship, community health center (CHC) board members must know if their health center has sufficient cash to meet both short-term and long-term obligations. While the Balance Sheet and the Statement of Activity are excellent financial reporting tools, they do not reflect the inflows and outflows of cash. CHC boards should also monitor key ratios to determine the health center's financial status. Cash flow statements and ratio reviews are important components of the board's monthly financial reporting package.

#### **Cash Flow Statements**

A cash flow statement is necessary for boards to determine if enough cash is on hand to pay expenses and purchase assets. Cash flow statements, using information from both the Balance Sheet and Statement of Activity, reflect changes over time rather than the exact dollar amount for a point in time. Review of a cash flow statement will tell the board if the health center generated cash with the bottom line showing whether there was a net increase or decrease in cash. Cash flow statements compare current year balances with the previous year and are generally divided into three categories: 1) operating activities; 2) investing activities; and 3) financing activities. Under the operating activities section, the board will see the health center's cash flow from net income or losses. The net income as shown on the Statement of Activity will be reconciled to the actual cash received from health center operations by adjusting non-cash items and cash that was used or provided by other operating assets and liabilities. For example, depreciation expenses (a non-cash item) are added back to net income to reflect actual cash. Healthy organizations have a positive cash flow from operating activities. Investing activities, the second part of a cash flow statement, includes purchases or sales of long-term assets (e.g., property and equipment) and investment securities. If the health center invested in dental equipment, this will be reflected as a cash outflow from investing activities on the cash flow statement. Proceeds from sales of equipment or investments would be posted as a cash inflow in this category. The financing activities section of the cash flow statement includes cash borrowed (inflow) or cash used to make loan payments (outflow).

#### **Key Ratios and Financial Indicators**

Specific ratios, designed to monitor and trend health center performance, plus other financial indicators are used by the Health Resources and Services Administration (HRSA) to determine health center viability and sustainability. Boards should establish a benchmark (from a prior reporting period) by which to compare the current period to make sure the health center is moving in a fiscally sound direction – and take corrective action before a CHC gets in trouble. Key ratios and financial indicators include, but are not limited to, the following:

**Current ratio** (current assets/current liabilities) – monitors health center liquidity and is looked at closely during performance reviews. Does the health center have the ability to pay obligations as they become due? Health centers should, at a minimum, strive for 1.5:1, always having more assets than liabilities.

**Days in Patient A/R** – This reflects the length of time the net patient revenues remain uncollected in net patient receivables. An increase in the number of days patient revenues are outstanding is an indicator that problems exist with collections. It could be failure to collect patient payments, incorrect filing of claims, or payor reimbursement issues. Whatever the reason, it must be resolved immediately for financial viability.

**Working Capital** (current assets – current liabilities) – Health centers should strive for working capital that ranges between 1 – 2 months of expenses. Is there working capital available to accomplish health center goals?

**Days Cash on Hand** - This number reflects how many days the health center could be operable (e.g., make payroll, pay bills, etc.). HRSA is paying close attention to this indicator as it reflects health center sustainability. If there is a decreasing trend in days of cash on hand, the board must find out why.

**Days in A/P** – indicates how long it is taking the health center to pay its bills. If there is an increase in the number of days it takes to meet obligations, the board needs to ask why there is a delay in paying bills. Is it because funds are not available or staff negligence? Health center credibility within the community is at stake.

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