Overview of the Statement of Financial Position for Health Center Boards

Presenter: Tammy Jelinek, Partner

WIPFLi
CPAs and Consultants

Statement of Financial Position

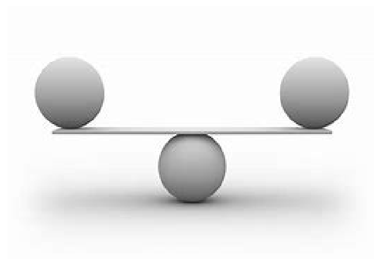
This module will explore areas to watch and suggested questions to ask on the Statement of Financial Position

WIPFLi CPAs and Consultants

Statement of Financial Position

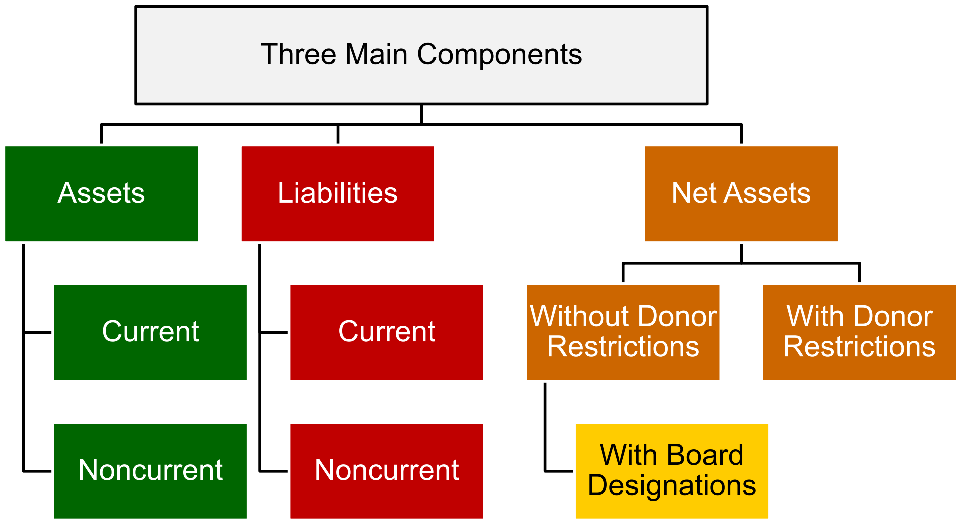
AKA “Balance Sheet”

- Focuses on the entity as a whole
- Balances reported for a specific date, usually the last day of a month or year
- Provides information about liquidity and financial flexibility



WIPFLi CPAs and Consultants

Statement of Financial Position



Statement of Financial Position

Assets	
Current assets:	
Cash and cash equivalents	$ 740,000
Restricted cash held for others	186,000
Certificates of deposit	98,000
Membership dues receivable	3,000
Accounts receivable	27,000
Grants receivable	227,000
Other receivable	52,000
Prepaid expenses	45,000
Total current assets	1,378,000
Property and equipment, net	51,000
TOTAL ASSETS	$1,429,000

Liabilities and Net Assets	
Current liabilities:	
Accounts payable	$ 55,000
Accrued liabilities	157,000
Funds held for others	186,000
Unearned dues revenue	1,000
Grant funds received in advance	90,000
Total current liabilities	489,000
Net assets:	
Without restrictions - undesignated	338,000
Without restrictions - board designated	579,000
With restrictions	23,000
Total net assets	940,000
TOTAL LIABILITIES AND NET ASSETS	$1,429,000

Totals must equal

WIPFLi CPAs and Consultants

Statement of Financial Position

Classification

- Sequenced according to nearness to cash conversion
- Current and noncurrent assets and liabilities
  - Current – within the next 12 months
  - Noncurrent – over 12 months into future

WIPFLi
CPAs and Consultants

Statement of Financial Position

Assets	
Current assets:	
Cash and cash equivalents	$ 740,000
Restricted cash held for others	186,000
Certificates of deposit	98,000
Membership dues receivable	3,000
Accounts receivable	27,000
Grants receivable	227,000
Other receivable	52,000
Prepaid expenses	45,000
Total current assets	1,378,000
Property and equipment, net	51,000
TOTAL ASSETS	$1,429,000

WIPFLi CPAs and Consultants

Statement of Financial Position

Liabilities and Net Assets	
Current liabilities:	
Accounts payable	$ 55,000
Accrued liabilities	157,000
Funds held for others	186,000
Unearned dues revenue	1,000
Grant funds received in advance	90,000
Total current liabilities	489,000
Net assets:	
Without restrictions - undesignated	338,000
Without restrictions - board designated	579,000
With restrictions	23,000
Total net assets	940,000
TOTAL LIABILITIES AND NET ASSETS	$1,429,000

WIPFLi
CPAs and Consultants

Statement of Financial Position

Classification of Net Assets

With or Without Restriction?

Donor-imposed restriction examples

- Stipulation funds be used for a specific purpose, be preserved, not sold
- Stipulation funds be invested to provide permanent source of income
- Support particular operating activities
- Invested for specific period of time
- To acquire specific resources

WIPFLi CPAs and Consultants

Statement of Financial Position

Classification of Net Assets

Without Restriction, but with Designation

Board Designated Examples

- Operating Reserves
- Fund Specific Projects
- Support Particular Operating Activities
- Emergency Funds
- Internal "Line of Credit"

WIPFLi CPAs and Consultants

Statement of Financial Position

Areas to watch and suggested questions to ask

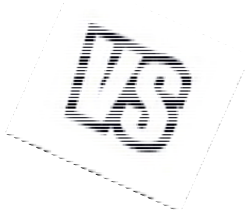
11

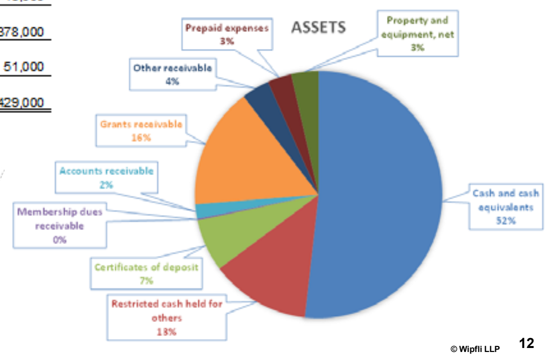
Areas to watch, questions to ask

How do you want information presented?

Assets	
Current assets:	
Cash and cash equivalents	$ 740,000
Restricted cash held for others	186,000
Certificates of deposit	98,000
Membership dues receivable	3,000
Accounts receivable	27,000
Grants receivable	227,000
Other receivable	52,000
Prepaid expenses	45,000
Total current assets	1,378,000
Property and equipment, net	51,000
TOTAL ASSETS	$1,429,000

Same data source, different presentation





WIPFLI CPAs and Consultants

Areas to watch, questions to ask

Current ratio

- Total current assets divided by current liabilities

  $1,378,000 / $489,000 = 2.8
- What is the goal?

Accounts Payable ratio or Pay-off ratio

- Accounts payable divided by monthly expenses

  $55,000 / $195,000 = .3

WIPFLi CPAs and Consultants

Areas to watch, questions to ask

Days Cash On-hand

Estimates the number of days the entity can pay its daily expenses before running out of unrestricted cash

What is the goal?

Total unrestricted cash and cash equivalents divided by average operating days (operating days, 250 days) cash expenses

$740,000 / $9,400 = 78 days

OR divided by average daily (calendar year, 365 days) cash expenses

$740,000 / $6,400 = 115 days

WIPFLi CPAs and Consultants

Areas to watch, questions to ask

Receivable Days Outstanding

Helps determine the average number of days it takes to collect payment once a claim or reimbursement request is submitted

What is the goal?

Receivable amount divided by its related annual revenue amount (consider each receivable type)

Grants Receivable Days Outstanding

$227,000 / ($1,840,000 / 365 days) = 45 days

WIPFLi CPAs and Consultants

Areas to watch, questions to ask

Defensive Interval

Helps determine how many days the entity can operate and meet its daily operational expenses without the need for additional funding

What is the goal?

Liquid assets (cash and cash equivalents + CDs + marketable securities + receivables) divided by average daily operating cash expenses (operating days, 250 days)

$1,147,000 / $9,400 = 122 days

OR divided by average daily cash expenses (calendar year, 365 days)

$1,147,000 / $6,400 = 179 days

WIPFLi CPAs and Consultants

 16

Areas to watch, questions to ask

Operating Reserve

Helps determine if there are appropriate resources to support the mission without relying on external financing

What is the goal?

Net assets without donor restrictions divided by total expenses

$917,000 / $2,350,000 = 39%
or
$338,000 / $2,350,000 = 14%
or
$287,000 / $2,350,000

WIPFLi
CPAs and Consultants

Areas to watch, questions to ask

Net Assets to Long-Term Debt ratio

- Helps determine the entity's ability to cover its debt obligation
  - Net assets divided by long-term debt

    $940,000 / $1,000,000 = .94
- What is the goal?

WIPFLi CPAs and Consultants

 18

Areas to watch, questions to ask

What is the balance of net assets with donor restrictions?

What is the balance of board designated net assets without donor restrictions?

Liabilities and Net Assets

Current liabilities:	
Accounts payable	$ 55,000
Accrued liabilities	157,000
Funds held for others	186,000
Unearned dues revenue	1,000
Grant funds received in advance	90,000
Total current liabilities	489,000
Net assets:	
Without restrictions - undesignated	338,000
Without restrictions - board designated	579,000
With restrictions	23,000
Total net assets	940,000
TOTAL LIABILITIES AND NET ASSETS	$1,429,000

WIPFLi
CPAs and Consultants


YOUR TURN

Questions to ask / discuss

What is our current cash position?

What is the status of investments?

What is the balance of the operating reserves?

Is the receivable balance appropriate for the type of revenue?

WIPFLi CPAs and Consultants

Questions to ask / discuss

Is the Accounts Payable balance reasonable?

Are there payroll-related liabilities reported on the statement?

Is there any short-term or long-term debt?

What is the status of any unearned revenue?

Does the Statement of Financial Position (aka Balance Sheet) actually balance?

WIPFLi CPAs and Consultants

 22

HRSA Disclaimer

This presentation was made possible by Grant Number U58CS06821 from the Health Resources and Services Administration, an operating division of the U.S. Department of Health and Human Services.

Its contents are solely the responsibility of the authors and do not necessarily represent the official views of the Health Resources and Services Administration or the U.S. Department of Health and Human Services

WIPFLi CPAs and Consultants

