Beyond the Basics of Health Center Finances

MPCA Board Member Training
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Linda Constantino, Chief Financial Officer
Cherry Health, Grand Rapids
Introductions

Linda Constantino, Chief Financial Officer
Cherry Health, Grand Rapids

A health center veteran of 20+ years

I am a Board Member myself
A CHC Story in Grand Rapids

- Cherry Health has grown 1600% over the past 20 years.
- New sites, grants, collaborations and mergers.
- From 50 staff in the early 90’s to over 800 today.
- Today we serve over 60,000 individuals in 3 counties
- Medical, mental health and substance abuse, dental, vision, pharmacy, school based services
Board members are Important

- Thank you for your time and investment in CHCs! We would not exist without YOU.
- Our complex world... non profit, mission focused but must act like a business.
- You get one meeting a month to understand this complex world enough to fulfill your role.
Today’s Goal

1. What is your role around the Health Center’s Finances?

2. What financial measures might help you understand the financial position of the Health Center?

3. What is a Financial Strategy and how does it help in times of growth?
Review: Why Community Health Centers?

• History of growth
• National data on quality
• Newly insured people through ACA need access to healthcare
• Cost effective primary care, reduces hospital usage and cost of care
No slowing the speeding train...you are the Conductors!

CHCs are part of the national solution to Access to Healthcare

Community based, high quality, patient centered

Health care reform bill = $11 billion over 5 years to CHCs

Additional resources for workforce and HIT
Goal #1

• Figure out –
  1. What is your role around the Health Center’s Finances?
Board member Role  

*Excerpt from HRSA Health Center Site Visits Guide*

- Approval of the health center Section 330 grant application and annual budget:
  
  *Financial Implications? YES*

- Selection of services to be provided and health center hours of operations:
  
  *Financial Implications? YES*

- Measure/evaluate meeting programmatic and financial goals:
  
  *Financial Implications? YES*
Board Member Role cont.

• Develop plans for the long-range viability by engaging in strategic planning:
  
  Financial Implications? YES

• Monitor organizational assets and performance.
  
  Financial Implications? YES

• Establish general policies for the health center.
  
  Financial Implications? YES (Sliding fee...)


What to focus on?


Ask questions -

Is the budget based on current factors such as staffing, productivity rates and facilities? If not, why not.

Is it reasonable given prior year results?

Is it reasonable given the program goals?
Focus on...

• 2. **Measure / evaluate financial goals**
  
The budget must be balanced but planning for a margin! Is there a goal for a surplus?

  
  ****No Margin, No Mission****  “Non profit” does not mean No Profit

Board is involved with annual independent audit, effective oversight, financial viability
Focus on...

3. Establish General policies - review annually the high level policies that govern the agency.

Financial examples:

*Critical – Policy on Sliding Fee Discount Schedule

*Critical - See everyone regardless of ability to pay
Goal #2

• 2. What financial measures might help you understand the financial position of the Health Center?
The Financial Story

Three Financial Statements tell the financial story.

The monthly Financial Report highlights key points.

The Financial Statements relate and balance to each other.
The Balance Sheet (Stmt of Financial Position)

The **Balance Sheet** = As of a point in **TIME**... a month end... a year end..

What items of value do we have? **ASSETS**

How much do we owe others? **LIABILITIES**

What resources have we kept in the business as of that point in time? Assets less Liabilities = **NET ASSETS**
The Statement of Revenue and Expenses

- shows financial transactions from operations over a span of time- a month...a quarter...a year.

Did revenue exceed expenses?

How are we doing against our budget?
Statement of Cash Flow

The Statement of Cash Flow – shows activities that affect cash over a period of time.

What happened to our CASH this month, this year? Increase? Decrease? And Why..
Where does Funding come from?

Revenue

- Patient Revenue: 60%
- Grants/Contracts: 25%
- Contributions: 10%
- Misc/Other: 5%
Where does Funding go?

Expenses

- Salaries and Fringes: 70%
- Supplies: 15%
- Occupancy: 10%
- Other: 5%
It’s All About That Data

Your health center will use data from:
• The billing/practice management software
• Uniform Data System
• Annual financial audit
• Internal prepared financial statements
• Internal productivity reports
• State and National benchmarks
Operations Dashboards

- **Revenue per visit** – higher than Cost per Visit (most helpful if by Business Line such as Medical or Dental)

- **Payer Mix** - who is paying for our services (3rd parties or patients?)

- **Cost per visit** – Is it lower than Revenue per visit? Helpful by Business Line such as Medical or Dental

- **Productivity** – Overall + average per location. Per individual provider per hour.
# Balance Sheet Dashboards

<table>
<thead>
<tr>
<th>Goal - Current Ratio = greater than 2</th>
<th>Goal - Days Cash on Hand = greater than 30</th>
<th>Goal - Days in A/R = less than 40 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.04*</td>
<td>20 Days*</td>
<td>35 Days*</td>
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</table>

*Current Assets divided by Current Liabilities

*Days of expenses we can cover with cash on hand

*Days of revenue earned sitting in A/R, not collected yet
Financial Challenges
YES ...Health Centers can FAIL!

- **CASH** – cyclical nature, must have enough at any point in time

- **Productivity** – is the health center at max efficiency, balance of quality and quantity

- **Diverse set of services** with different payment mechanisms and wide variety of billing requirements which tend to change often.
Financial Challenges Continued...

- More of our patients are covered by Medicaid than any other insurance source.
- Our Cost Based reimbursement per visit from Medicaid is higher than any other third party payer after our annual settlement process. Annual Settlement process has become very difficult.
- Reimbursement is based primarily on quantity of services over any other measure. That may change in the future. Conflicts with quality goals.
Financial Challenges Continued...

- **Limited Federal grant $** are used to cover costs of uninsured visits.
- Paying **high enough salaries** to attract the talent we need. It’s competitive out there!
- Keeping up with expensive **technology**.
- **Biggest Financial Challenge:** Balancing resources-dependent on solid cash flow, accurate estimates, quality billing, high productivity and good data.
Goal #3

• What is a Financial Strategy and how does it help in times of growth?
Financial Strategy

• “There is always a better strategy than the one you have; you just haven't thought of it yet”  Sir Brian Pitman, former CEO of Lloyds TSB, Harvard Business Review, April 2003

• “In real life, strategy is actually very straightforward. You pick a general direction and implement like hell”

   Jack Welch in Winning, 2005
An Example ...

• Creative decision making -

Years ago we had our Board select from several different options by “Voting” on a project with fruit. Each basket represented a project, each fruit = a vote!

Orange – 1\textsuperscript{st} choice
Avocado – 2\textsuperscript{nd} choice
Lemon – 3\textsuperscript{rd} choice
Building Blocks to Strategy Decisions

- Strategic Plan
  - Goals
- Budget/Projections
- Resources/New Opportunities
Growth considerations

• Is there start up funding – New Access Point Grant?
• Market share - Who else is in the area?
• What is the Payer mix at a new location?
• Can we expand services without adding overhead cost
Wrap up

• Questions?