

WSHA & AWPHD
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Conference

Monitoring Financial Performance
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What are your objectives for this session?



Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity}$$

- Assets - What is *owned*
- Liabilities - What is *owed*
- Owner's Equity - What is the worth?
 - Net Assets, Fund Balance, Net Position



Financial Statements

Business Name
Balance Sheet or Statement of Net Position
Date of Financial Statement

Assets

Current
Non Current

Total Assets

Liabilities

Current
Long Term
Total Liability
Owners Equity
Total L and OE.



Financial Statements

Business Name Statement of Revenues and Expenses For the Period Ending

Revenues

Expenses

- **Labor** (salaries, wages & benefits)
- **Purchased Services**
- **Supplies**
- **Capital** (depreciation & interest)
- **Other**

Net income



Financial Statement Analysis

Assessing the Financial Condition of the Business



- **Standardized reporting is required for valid benchmarking.**
- **Careful evaluation of the peer group being compared is critical.**
- **Washington CAH 2016 median**

Flex Monitoring Team

U of Minn., UNC, U of South Maine



- Dollar & Percentage changes over time
- **Compare line items on the statements over time**
- Very easy to do
- **Comparison less meaningful w/ inflation**
- Does not consider change in size of business
- **Little help w/ external comparisons**



Financial Statement Analysis

Vertical Analysis (common size)

- **Component percentage of total statement**
- **Examples: Cash as % of total assets
Labor as % of net revenues**
- **Helpful for comparing organizations of different sizes.**



- **Assessing the financial condition of an organization**
- **Examining the relationship of two or more pieces of financial or operating information to obtain more information**
- **New information aids monitoring performance & decision making**



Financial Statement Analysis

4 Major Categories of Ratios

- Liquidity
- **Capital Structure**
- Activity
- **Profitability**



- Ability to meet short-term obligations.
- **Most firms experiencing financial problems do so because of a liquidity crisis.**



Summarize liquidity ratios

Days Cash on Hand

Net Days in Patient Accounts Receivable



Financial Statement Analysis

Capital Structure Ratios

- **Assesses long-term solvency**



Financial Statement Analysis

Long Term Debt to Capitalization

Long term debt

Long term debt + Total net assets

BM = 37.2%

2015 = 58.5%



Financial Statement Analysis

Debt Service Coverage Ratio

$$\frac{\text{Increase in net assets} + \text{depreciation} + \text{Interest Expense}}{\text{Interest expense} + \text{principal payment}}$$

Higher values and increasing trends are positive

BM = 4.3 times

2015 = 2.5 times



Summarize Capital Structure

Long term Debt to Capitalization

Debt Service Coverage Ratio



Financial Statement Analysis

Activity Ratios-Efficiency Ratios

- Measures relationship between revenue & assets
- **Retail Example – Sales per square foot & sales per same store**



Introduction to Financial Management

Total Asset Turnover

$$\frac{\text{Total operating revenue + net non-operating revenue}}{\text{Total assets}}$$

- **Higher revenue reflects more productive use of assets (watch for old or new facilities)**
- Sales per \$1 dollars of assets

BM = 0.77

2015 = 0.82



$$\frac{\text{Accumulated depreciation}}{\text{Depreciation expense}}$$

- Financial age of fixed assets
- **How up to date are assets?**
- Is a big PP&E investment on the horizon?
- **The older the PP&E, the nearer the need for investment**

BM = 11.9 years

2015 = 10.9 years



Summarize

Total Asset Turnover

Average Age of Plant



Financial Statement Analysis

Profitability



Increase in net assets

Total operating revenue + net non-operating income

How much profit do you need?

BM = 2.0%

2015 = 3.1%



$$\frac{\text{Operating income}}{\text{Net operating revenue}}$$

Firms with higher profit margins are less likely to experience financial difficulties

Operating margin comes from the core business.

BM = 0.8%

2015 = 2.6%



Financial Statement Analysis

Describe how this business is performing financially?

What are its financial strengths and concerns?

What steps can the organization take to improve the financial strength?

