

Financial Statement Analysis for the Non-financial Manager

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The Balance Sheet

Assets = Liabilities + Equity

The Balance Sheet

Assets = Liabilities + Equity

- Collections

| | | | |
|------|---|---|-----|
| Cash | + | = | -0- |
| A/R | - | | |

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Balance Sheet

Assets = Liabilities + Equity

- Income

| | | | | |
|------|---|---|--------|---|
| Cash | + | = | Equity | + |
|------|---|---|--------|---|

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Balance Sheet

Assets = Liabilities + Equity

- Payables

Cash – = Liabilities –

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Balance Sheet

Assets = Liabilities + Equity

- Distributions

Cash – = Equity –

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Income Statement

- Revenue = Gross Charges less “Allowances”
 - Contractual allowances
 - Bad Debt allowances
 - Refunds

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Income Statement

- Expenses
 - Personnel Cost 25-30% of Net Revenue
 - Drugs & Medical Supplies 18-22% of Net Revenue
 - Other Operating Expenses 15-25% of Net Revenue

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Income Statement

| | | <u>% of Net Rev</u> |
|-----------------------------|------------|---------------------|
| Gross Charges | \$1,500 | |
| Less: Contractual Allowance | 975 | |
| Refunds | <u>25</u> | |
| Net Revenue | \$500 | 100% |
| Operating expenses: | | |
| - Personnel Costs | \$135 | 27% |
| - Drugs & Medical Supplies | 100 | 20% |
| - Other operating expenses | <u>125</u> | 25% |
| EBITDA | \$140 | |
| Margin | 28% | |

What is EBITDA....and Who Cares?

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Income Statement

- E = Earnings
- B = Before
- I = Interest
- T = Taxes
- D = Depreciation
- A = Amortization

EBITDA is a good measure of cashflow generated from operations AND cash available to pay debt service and distributions to the partners.

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Financial Reporting

Summary Financials

- Executive Summary Narrative
- Operating Statistics

Current Results

- Income Statement vs. Budget & Prior Year

Historical – monthly trends

- Income Statement
 - Revenue by payers
 - Detailed operating expenses
 - Balance Sheet
 - Cash Flow Statement
-
-

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Financial Reporting

Accrual Accounting – Estimating Revenue & Expenses

Accrual accounting ***matches*** expenses with revenue

- **Payroll**
 - Expenses are matched to days worked
 - **Medical Supply Costs**
 - **Other Expenses:**
 - Expenses that benefit several months (e.g. Insurance - generally paid once and benefits the whole year)
 - Invoices for recurring costs are accrued
-
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The Financials Tell a Story

Case Mix

Payer Mix

Operating Statistics

- Per case statistics – net revenue, drugs & meds

Balance sheet calculations

- Debt service – change in debt balance
 - Distributions – reduction in equity
 - New partners – increase in capital
 - Days in Accounts Receivable
-
-

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The Financials Tell a Story

| Case Mix | <u>Month 1</u> | % | <u>Month 2</u> | % | <u>Month 3</u> | % |
|------------------------|----------------|----|----------------|----|----------------|----|
| GI | 250 | 50 | 250 | 48 | 300 | 55 |
| Ophthalmology | 150 | 30 | 200 | 38 | 200 | 36 |
| Orthopedics | <u>100</u> | 20 | <u>100</u> | 20 | <u>75</u> | 14 |
| Surgical Cases - Total | 500 | | 525 | | 550 | |

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The Financials Tell a Story

| | | | |
|---------------------------------|------------------|------------------|------------------|
| Net Revenue | \$476,000 | \$475,000 | \$450,000 |
| <i>Per Case</i> | \$950 | \$905 | \$818 |
| Personnel Costs | \$130,000 | \$125,000 | \$125,000 |
| <i>% of Net Revenue</i> | 27% | 26% | 28% |
| <i>Per Case</i> | \$260 | \$238 | \$227 |
| Medical Supplies | \$108,000 | \$110,000 | \$97,500 |
| <i>% of Net Revenue</i> | 23% | 23% | 22% |
| <i>Per Case?</i> | | | |
| Other Operating Expenses | \$75,000 | \$77,500 | \$80,000 |
| <i>% of Net Revenue</i> | 16% | 16% | 18% |
| EBITDA | \$163,000 | \$162,500 | \$147,500 |
| <i>Margin %</i> | 34% | 34% | 33% |

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The Financials Tell a Story

Payer Mix

| | <u>Per Case</u> | <u>Month 1</u> | <u>Month 2</u> | <u>Month 3</u> |
|-------------------------|-----------------|----------------|----------------|----------------|
| Medicare | \$750 | 30% | 50% | 20% |
| HMO/PPO | \$1,200 | 50% | 40% | 30% |
| Commercial | \$2,000 | 20% | 10% | 50% |
| Net Revenue/Case | | \$1,225 | \$1,055 | \$1,510 |

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The Financials Tell a Story

Calculating Monthly Debt Service Obligations

| <u>Balance Sheet</u> | <u>Month 1</u> | <u>Month 2</u> | <u>Month 3</u> |
|-----------------------------|----------------|----------------|----------------|
| Capital Lease | 1,350 | 1,300 | 1,250 |
| <u>Income Statement</u> | | | |
| Interest Expense | 10 | 10 | 10 |
| Monthly Debt Service = | 60 | 60 | 60 |

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The Financials Tell a Story

| <u>Equity</u> | <u>Month 12</u> | <u>Month 1</u> | <u>Month 2</u> |
|-----------------------------------|-----------------|----------------|----------------|
| Partners Capital | 884 | 1,084 | 1,084 |
| Retained Earnings (beginning) | 0 | 300 | 300 |
| Net Income | 1,465 | 128 | 405 |
| Distributions | (1,165) | (110) | (230) |
| Total Retained Earnings | 300 | 18 | 175 |
| Total Equity | 1,184 | 1,402 | 1,559 |
| <u>Current Month Activity</u> | | | |
| Monthly Distribution | – | 110 | 120 |
| New Partner Capital | – | 200 | – |

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The Financials Tell a Story

| | | | |
|----------------------------------|-------------|-------------|-------------|
| Collections | \$480,000 | \$465,000 | \$450,000 |
| Collection % - Trailing 3 months | 102% | 100% | 98% |
| Gross Accounts Receivable | \$2,150,000 | \$2,200,000 | \$2,350,000 |
| Net Accounts Receivables | \$550,000 | \$560,000 | \$575,000 |
| Billed Receivables - Aging | | | |
| Current | 10% | 11% | 9% |
| 31-60 Days | 38% | 42% | 40% |
| 61-90 Days | 15% | 18% | 21% |
| Over 90 Days | 27% | 29% | 30% |
| A/R Days Outstanding | 35 | 37 | 40 |

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