

Financial management of healthcare organizations

[Finance](#)



Financial Management For Health Care organizations Case Analysis of Harris Memorial Hospital and Harris Community Foundation Insert Instructor's name

Name of the university

Report of the Independent Auditors

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1. 0 Opinion Letter from Independent Auditors

Submitted to: The Board of Directors Harris Memorial Hospital and Harris Community Foundation.

From: Pennypacker & Vandelay LLC.

Subject: Independent Auditors report to the Board of Directors (H. C. F).

The following report comprise of a five year financial analysis for Harris Memorial Hospital and Harris Community Foundation (HCF). I would present the report on behalf of Pennypacker& Vandelay, LLC which is an accounting firm duly appointed by HCF to conduct an independent audit on the company's financial statements. The period of analysis runs from 2003 to the year 2007 and it captured the following areas: combined Balance sheet,

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consolidated statement of change, combined statement of operations, cash flow statements and brief notes of the organization's financial statements (William, Paula and James, 2011).

The auditing criteria which we applied in the analysis were in accordance with the U. S generally acceptable auditing standards. According to the regulations, we are required to undertake the audit process so that assurance is provided to the company that no sign of material misstatement was exhibited in their financial statements. The audit considered assessment of accounting principles, the presentation of statements and the supporting evidences for the amount and disclosures as provided by the financial statements of the organization. Being a respected institution in the field, our opinion would be an asset for future financial management plan.

2. 0 Financial Highlights

Under this section the analysis would show an evaluation of the general financial profile of the organization. The interpretation of the HCF data would be captured which will summarize the figures as extracted from the combined financial statements of cash flow, balance sheet, equity statement and income statement as was prior prepared by the organization.

2. 1 Financial condition of the company

According to figures as was posted in the balance sheet, total asset for the year 2003 was \$238, 365. This increased to \$265, 784 in 2004; \$276, 975 in 2005; \$287, 983 in 2006 and \$311, 140 thousand in the year 2007. Basically, the combined total resource between 2003 and 2007 experienced an increment of \$72, 775 thousand dollars which is an equivalent of 30. 53 percent. Referring to the combined liability values, the company reported \$39, 458 thousands dollar of total liabilities in 2003; \$51313 thousands in <https://assignbuster.com/financial-management-of-healthcare-organizations/>

2004; 44960 thousands in 2005; \$41, 277 in 2006 and \$45, 432 thousands in 2007. There was a general increase in the combined liabilities with the financial year 2003 and year 2004 reporting the highest percentage increment of 30. 04 percent. The overall change in total liabilities within the period of analysis however, was slightly lower because the value declined in 2007 to (\$5974 thousands) which is an equivalent of 15. 14 percent.

Combined Equity of the organization was also expressed as the net assets of the company whereby they recorded \$188, 743 thousands in 2003; \$204262 in 2004, \$222, 606 in 2005; \$237, 022 in 2006 and \$252, 241 thousand in the year 2007. These values increased considerably during the period with the overall change amounting to \$63, 498 thousand between the year 2003 and 2007 which is an equivalent of 33. 64 percent. This showed a positive performance for the company. Graph 1 below represents the general condition of the organization in terms of combined assets, liabilities and equity for year 2003 and year 2007.

Graph 1: Combines assets, Liabilities and Equity in thousands of dollars
Comparative analysis (Financial Condition)

According to the graph above HCF financial position was stable because the total asset in 2007 was \$311, 140 which was more than the creditors' claims amounting to \$45, 432. These values are indicative that the organization was in a position to deliver required services to customers, public and the relevant stakeholders. In addition, the liabilities of the company were approximately 14. 6 percent of the value of total asset. The equity of the organization during the same period also known as the excess of total asset against the total liabilities amounts to \$252, 241 thousands. This means that the shareholders of HCF had available equity claims of 81. 06 percent.

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Liquidity ratio on the other hand was $(112,637/35,862)$ which is equal to 3.1 was an indication that the organization has a good financial health and is in a position to pay off the short term debts comfortably. Long term debt for the organization was relatively small compared to current liabilities. For instance in 2007, the long term obligations for HCF were \$9570 thousand compared to fixed assets and current liabilities of \$276,458 and \$35,862 thousands respectively. The figure 2 below is a chart representing the same.

Figure 2: Comparative analysis of Long term debts, Current Liabilities and Fixed Assets in thousands of dollars

Comparative analysis (L. T. Debt, Fixed . A & Current Liabilities)

2. 2 Financial performance of HCF

The income statement for the organization indicates that in 2003, they recorded a net income amounting to \$14,193 thousands; \$15,517 in 2004; \$22,009 in 2005; \$237,022 in 2006 and \$251,241 in 2007. This shows that the generated profit was on an increasing trend during this period of analysis with an estimated overall change of \$237,038 which is an equivalent of 167 percent between 2003 and 2007 financial years. Total revenues which the company generated during this period were \$210,430 in 2003 which also increased considerably to \$284,218 in 2007. This represents an increment of \$73,788 thousands which is an equivalent of 35.02 percent rise. Net patient revenue was \$208,861 in 2003 and the value increased to \$282,461 in the year 2007. In addition, other income also posted a substantial change with 2003 recording \$1561 and the highest change realized in 2006 at \$2170. However, the value declined in 2007 where the amount of other income recorded was \$1757. The figure 3 below is a chart which represents the general composition of the income generated by the organization.

Figure 3: Revenue Composition in Thousands of dollars

Comparative Analysis (Income composition)

2. 3 Expenditure components of the organization

In financial statements, all the costs incurred should be report by use of each of the cost objects. According to HCF case, the following categories comprise of the expense breakdown incurred by the organization: Employees salaries and wages, advertisement, benefits for employees, supplies, bad debt provisions, cost of occupancy, Amortization and depreciation and interest. According to the figures posted in the income statements, the total operating expense incurred in the year 2003 was \$ 203, 043; \$219, 768 in 2004; \$ 233, 867 in 2005, \$ 254, 382 in 2006 and \$ 278, 629 in the year 2009. It was advisable to have a breakdown of each cost object as was incurred. As can be observed in the values, the organization's costs of operation have been on an increasing trend. The following pie chart would represent the cost incurred in the same period of analysis.

Figure 4: Total Operating Expense in thousands of dollars

Comparative Analysis of Operating Expense

3. 0 Change in Equity (unrestricted Net asset)

The HCF statement of change indicates that changes in the unrestricted net asset are accounted for on annual basis. The statement posted by the organization shows that most changes are due to the amount of net income or short fall of expense over the generated revenues. The only components which are not present in the statement of change include bequests, contribution or gifts however, donations by the organization has been part of the statement. As can be shown in the statement, the total net worth of HCF in 2003 was \$238, 365; 2004 (\$265, 784); 2005(\$276, 965); 2006(\$287, 193)

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and 2007(\$311, 140). The changes in the last subsequent years-(2006 and 2007) amounts to \$23, 947 or an equivalent of 8. 3 percent. The statement was supposed to have separate components such as surplus reserves, share capital, retained earnings and appraisals increments for clarity presentation. This would have given a more accurate and precise information as far as change in unrestricted asset was concerned. The following chart represents change in equity between the year 2003 and the year 2007.

Figure 5: Equity change from 2003 to 2007 (Thousands of dollars)

Change in Equity (Y2003-Y2007)

4. 0 Cash Flow Statement

According to the organization's Cash Flow Statements, the recorded cash and cash equivalents for the same period of analysis was as follows: 2003 (\$34, 402); 2004(\$30, 444); 2005(\$45, 848), 2006(\$46, 010) and 2007(\$73, 711). The overall change was \$39, 309 or 114. 26 percent which means that it was 114. 26 percent higher in 2007 than in 2003. Comparing 2006 and 2007, the difference was \$27, 701 which means that the figure went up by 60. 2 percent. Other components of the statements include net cash directed to operating activities and cash outflow for investment purposes

Figure 6: Selected Financial Ratios for HCF

4. 1 Discussion

Return on Equity as shown in the table has not been consistent with the highest value recorded in 2005 at 9. 9 percent and the least value in 2007 at 5. 7 percent. The same trend was noticed in 2005 when the total margin was 8. 6 and a subsequent decline in 2007 at 4. 9 percent. Referring to Financial Strength Index, similar trend of a binomial curve was realized with 2005 at the peak and 2007 on the decline phase. The account receivable days were

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highest in 2003 at 69 days but the organization improved on the trend by reducing the days to 46 in 2007. The ratio of Revenue to fixed assets and Cash flow to debts percent also showed a healthy financial performance of HCF.

5. 0 Recommendations

Based on the analysis it is recommended that HCF should ensure that in future, the designed planning and implementation timetable must be adequate enough to address the organization's goals and objectives. The organization is also advised to undertake a complete review on the reclassification process. In order to have a better financial management and budgetary allocation, the costing of future exercise should be conducted in advance before the approval date. The organization should also install performance indicators which are vital in supporting the management functions. The budgeting processes may also be enhanced by ensuring that training and support materials are provided to staffs in the finance department. The management should also develop a system which can be used to record cost for performance information. Based on the financial performance, HCF should improve on the collection period ratio to avoid bad debt incidences by patients. The revenue to equity ratio should be improved to between 8 to 10 percent. When capturing operation expenses, each object should be captured individually so that control measures are easily implemented. The organization should minimize at all cost unnecessary expenditure so that total margin is improved. Based on my opinion, the financial position of the organization during this period was healthy considering the figures as were posted in the balance sheet, cash flow, statement of equity change and income statement.

Reference

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