Financial Analysis

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NUR 560 Applied Healthcare Economics, Finance, & Budgeting

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February 11, 2024

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How are you going to pay for that? An organization with a goal of being successful or sustainable requires a plan, or a budget. Ross et al. (2024) defined capital budgeting as the process of managing of expenditures against long-lived assets. Roussel et al. (2023) further described a budget as an estimate of income and expenditures of an organization developed to function as the operational management plan. The budgeting process provides a formalized plan that allows leaders to have a road map of intentions and expectations (Jones et al., 2019). Most organizations utilize annual budgeting to guide the use of resources, products, and services to maintain operations and maximize productivity. The budgeting process follows three stages of development: formulation, review, and execution. (Roussel et al., 2023).

Financial statement analysis is a critical piece of the budgeting process, ensuring satisfactory financial results are met. One of the key responsibilities of financial managers is to compile the financial statements and have an intimate understanding of the components included in the statements. Financial statements give an overview of the overall fiscal health of an organization. It is up to each organization and senior leadership to determine which metrics and financial statements are going to require the most attention. Not all entities are looking at the same quantities or benchmarks (Ross et al., 2024).

According to Roussel et al. (2023), nurse leaders have a critical role in determining the necessary human and fiscal capital required for sustainability. Competencies of the nurse leader includes fiscal responsibility and managing within their own operational budgets and the ability to creatively adjust when necessary. If nurse leaders want to justify additional staffing, for example, it is imperative to be able to approach the financial management team with a solid proposal. Jones et al. (2019) identified that there are two critical reasons for nurse leaders to be

fluent in accounting concepts. Firstly, nurse managers need to be able to communicate effectively with their financial teams to operate at the highest level. Secondly, the financial managers provide critical information that help nurse leaders impact the overall health of the organization.

Financial Statements

The purpose of financial statements is to illustrate financial health of the organization to individuals that may be interested. Utilizing appended notes for financial statements help provider further understanding of findings. Ross et al. (2024) stated that a good working knowledge of financial statements is important as the statements and numbers within them serve as the primary means of communicating fiscal information to those within and outside of the organization. Monthly financial statements are provided to internally associates and annually to outside stakeholders (White & Griffith, 2019). According to Jones et al. (2019), there are four key statements included in the reporting of financial results and fiscal health of an organization: the statement of financial position, the operating statement, the statement of changes in net assets, and the statement of cash flows.

The Statement of Financial Position

Jones et al. (2019), identified the statement of financial position (referred to as the balance sheet), as the most essential of the financial statements. The balance sheet represents the real-time fiscal position of the organization. The balance sheet serves as an accountant's snapshot of the organization's accounting value on a particular date (Ross et al., 2024). There are two sides to the balance sheet, the left side includes the assets, and the right includes the liabilities and owner's equity. Simply described, the balance sheet shows what is owned and

what is owed. The balance sheet is based on the fundamental accounting equation, thus the total on the left must equal the total on the right.

The Operating Statement

The operating statement measures performance over a specific timeframe, often a month, quarter, year. Organizations outside of the healthcare arena refer to this statement as the income statement. This is differentiated to lead the reader/researcher to realize that profits my not the primary goal of the HCO. The operating statement lists revenues (money coming in) less expenses (costs of providing services). The total income is determined by the total revenues less the total expenses (Jones et al., 2019). Further differentiation of HCOs breaks them down into for-profit and not-for-profit. Profitability status factors into the mission and values of the organization and provides fiscal viability to allow for improved and continued services in the future.

The Statement of Changes in Net Assets

The statement of changes in net assets or equity summarizes items that affect the organization's unrestricted, temporarily restricted, and permanently restricted net assets (Jones et al., 2019). This statement aims to reconcile the net assets from the end of the previous fiscal year to the end of the current fiscal year. The change in net assets is the equivalent of the net profit figure on an income statement and is used in the reporting for not-for-profit entities (Accounting Tools, 2024).

Statement of Cash Flows

The statement of cash flow identifies where cash came from and how it was used over a specified amount of time. First, you must determine cash flow from operating activities (Ross et al., 2024). The second step requires an adjustment for cash flow from investing activities. The

third and final step is to make an adjustment to cash flow for financing activities. When all three calculations are added together, you have the change in cash on the statement of financial position. One other reported measure within the statement of cash flow may include earnings before interest, taxes, depreciation, and amortization (EBITDA) (Jones et al., 2019). The EBITDA value can give a sense of cash flow under the control of managers. Utilizing EBITDA as a measure may be done for a couple of reasons. Reports may include EBITDA to justify acquisitions or to show that the organization can afford to borrow money to acquire other HCOs. Including EBITDA as a measure should be done so with caution and a full understanding of what that value represents.

Analysis

The following analysis is related to a not-for-profit home health and hospice agency in two of the largest metro areas in North Dakota. The agency serves approximately 700 unduplicated home health and 350 unduplicated hospice admissions annually. There is a lot of competition in both markets in the area. Unique factors influencing the financial report include the agency having one operating budget split into two cost centers, home health and hospice. The agency is owned by three separate entities with equal investment and authority and is overseen by a board of directors. Operationally, this agency has had a significant transition period over the last year including nearly all leadership positions being turned over following ownership changes. This agency has also closed a third branch location in Minnesota two months prior to the month analyzed.

The reports analyzed were provided from calendar month December 1-31, 2023. The fiscal year for this organization runs from October 1 through September 30th annually. The Balance sheet reflects total assets valued at $3,298,549 with a total liabilities and net asset value

equally balanced at $3,298,549 compared to year end $3,327,563 on 9/20/2023. The total presented on the balance sheet encapsulates all operations of the agency's service lines and locations. Reflected on the balance sheet is a change in net assets total of $107,779 for the current year to date (10/1/2023-12/31/2023). The fiscal total of change in net assets ending FY23 on 9/30/2023 was $495,833.

Total net income for the organization is split into home health services and hospice services for an overall operational total. Reporting in this fashion allows leaders to quickly identify where losses may be occurring and prioritize where turnaround efforts should be focused. Operating in this way also helps the organization to optimally function with the ebbs and flows that may come with each service line over time. For the month of December 2023, home health experienced a loss of $38,535. Hospice, however, experienced a profit margin of $105,640. Thus, the agency saw a profit of $67,105 for the month. Although the agency closed the month with a profit, the monthly budgeted total was $90,310, leaving the agency $23,205 short of the budgeted goal for December 2023. Current year to date totals of $107,780 measures at $67,504 less than the budgeted goal of $175,283 across service lines. This is slightly up from the prior year-to-date total of $100,705. This organization does report EBITDA as it exists in part due to previous acquisition, as well as looking toward future acquisitions. Our organization is led by a visionary team with goals of continuing to enrich the lives of those we serve through servant leadership. Overall organizational goals include a plan for growth that will allow the organizational footprint to serve greater numbers.

The Consolidated Board Report provides a snapshot of all expenses and revenues that factor into the balance sheet. The report is designed to show current month end totals, fiscal year

to date totals, comparisons to the same month of the previous year, and prior fiscal year to date. As a not-for-profit organization, contributions and donations are budgeted and reported.

Some things to note as the current state of business for this agency include the hiring of an outside consultant to assist in maximizing profitability across the home health service line. Other changes in home health include maximizing episodic payment admissions (Medicare), decreasing Medicaid admissions, known to be a financial loss in most situations due to poor reimbursement, and tightening operations to the episodic visit thresholds to maximize episodic profits. Strengthening our bridge program, which monitors patients that are currently on home health, but potentially appropriate to transition to hospice has been beneficial as it maximizes home health outcomes and lengthens hospice length of stay if we can transition patients to the right service at the right time. The regional clinical managers from home health and hospice have worked hard with their respective teams to understand criteria for both service lines to improve opportunities for transitions. Communications across home health and hospice service lines have been strengthened to coordinate discharges and transfers to meet operational goals where possible and preventing gaps in services. Patients that graduate from hospice are more closely evaluated to determine if a transition to home health upon discharge is appropriate.

Critical staffing shortages for hospice during the previous fiscal year into the current quarter have balanced out with multiple new hires in November 2023. Hospice alone brought on 3 RN 1.0 FTEs that had previously been vacant but budgeted, leading to significant overtime payouts. The operational close of a branch in October 2023 will continue to hit line items until the existing office space lease expires in March of 2024. Average daily census for both service lines continues to grow. During the height of the leadership change over in the summer of 2023, hospice daily census reached an all-time low of 49 patients. Current census for the hospice

division is 74 patients. Efforts to rebuild have proven to be profitable as the last three calendar months have been the most profitable since the acquisition of the agency pre-COVID. On the hospice side, efforts have been made in the referral to admission process to get patients on care sooner, maximizing length of stay on hospice services, reimbursed on a per diem structure. Monitoring visit frequencies across disciplines has allowed for better resource management has improved quality scores as well as financial status. Utilizing a productivity-based model has allowed for reduction in overtime and held clinicians accountable to meet expected standards. Closely monitoring supply, equipment, and drug costs has facilitated further decreases in cost. The regional clinical manager has decreased the cost of drugs per patient per day by $2.00 in just three months through educating staff on the importance of deprescribing, monitoring high-cost items and considering alternative drugs when able with a census of 74, the cost savings is approximately $4,500/month. Working closely with the contracted pharmacy and the medical director has significantly reduced drug spending.

Current goals involve regional clinical managers working with controllers and billing team members to reduce bad debt due to untimely billing practices,, timeliness of documentation and notifying payers of hospice elections. Other notifications include updating medical assistance for room and board pass through and decreasing unbilled days due to inefficiencies in systems. Additional practice improvement methods include educating clinicians on the importance of their documentation quality to reduce the risk for recouped payments by Medicare under the value-based purchasing model. Efforts have been strengthened in both service lines with the medical records team to reduce delayed payments related to delayed receipt of physician signatures on required documents. One thing I have learned with my current organization is that we don’t have a solid charity care process or fund accounting system in place. This is something

I would like to see improve. Also, with transparency in mind, I'd like to be able to have a stronger understanding and impact on the unbilled summary. These and other opportunities have been discussed with the leadership team. I have spent thirteen years working with home health and hospice operations, twelve with a previous agency. The opportunities I have been given to be directly involved in the financial operations of both organizations has provided me with a strong understanding of maximizing profits and minimizing losses. My overall goal would be to open my own consulting firm to assist with implementing optimal operational structure with entities driven to succeed.

Leader Interview

I met with my direct leader, Scott Holm. Scott is a physical therapist by trade and he serves as the director for home health and hospice operations. One year ago, when I was hired, Scott was my peer, overseeing one of our small branch locations in the regional clinical manager role. Due to some leadership structure changes, Scott was promoted to director, and I now serve as regional clinical manager for all hospice operations under his leadership. I have a partner that mirrors my role for home health. Scot and I complement each other as my background in clinical hospice operations strengthens our combined skill set. The three of us work closely together to carry out our mission and optimize operations. Our leadership team meets monthly to review and discuss our financials. This allows us to drill down into the numbers and identify direct impact some of our decisions have on financial outcomes. The three of us also meet with senior leadership monthly to review the financials and give a high-level overview of the reports. Because of my involvement in the financial impact of the agency, I have a strong understanding of the financial statements and the components that go into them. We then present the state of our fiscal health to clinicians and ancillary staff at our monthly meetings.

The landscape of home health and hospice services are every changing. In my thirteen years committed to these service lines, I have seen three different payment models: fee-for service, prospective payment system, and the newest, value-based purchasing payment system. The intricacies of each payment system require prompt response by leaders to ensure they are not lost in the translation of changing guidance. Our organization stays current regarding changing reimbursements and legislation impacting changes in a variety of ways. We work closely with McBee, a company specializing in home health and hospice operations and the importance of optimal operational functioning. We also participate in Leading Age of Minnesota to stay abreast of upcoming regulatory and practice changes. Both home health and hospice have received their state survey assessments in the past quarter and have passed for the next three years. Home health aims to maintain a payer mix with 65% Medicare reimbursement and 35% combined amongst all other payers. Hospice is generally 80% Medicare reimbursement with Veteran's Administration, Medicaid, and private insurers making up the remaining 20%. In the event a patient does not insurance, community benefit funds would be implemented to provide care. Private pay is an option, but very rarely utilized due to the agency's not-for-profit status.

> I will include some of the input received from Scott: Regarding ways to maximize reimbursement: Strategies to maximize reimbursement vary between home health and hospice. Hospice is primarily volume driving to increase revenue. Within hospice admissions and length of stay are the primary levels to increase hospice revenue. There is additional revenue that can be gained through service intensity add-on unites (SIA); however, this is minimal in comparison to the revenue generated through admissions. Home health employs a different strategy focusing more on payers, functional

impairment level, and frequency of visits. The foundation of revenue generation still goes back to admissions, but there are other factors that can impact overall revenue.

Regarding expense management: Expense management is a multifaceted approach. The largest expense and most challenging to manage is salaries. Aligning hours to workload has the greatest impact on expense management. Other key expenses including pharmaceuticals and other supplies.

Regarding primary focus of the organization: As an organization, our primary focus is driving revenue to meet targets. We continue to utilize the various strategies listed above to increase revenue and balance expenses to align with the workload. The greatest opportunity for both home health and hospice is to increase census and admissions.

Summary

The aim of this assignment was to emphasize the significance of having a solid understanding of financial management as a nurse leader. Nurse leaders have had to adapt over the years and focus on the financial management piece of operations to be the best advocates for their organizations, associates, and most of all, patients. By completing this assignment, I was able to reinforce my understanding of the financial management processes in place at my current organization. I worked at my previous organization for nearly twelve years and spent much of that time learning the business side of operations. I joined a new agency eleven months ago. Because of my previous experience, I have been able to quickly assist in turning around financials and impact within my new organization. Our focus and collaboration on the monthly

financial statements has shown through our improved profits. Scott has only been with the organization for fifteen months and in his current role for six months. Together, we have made a significant impact with the last three consecutive months being the highest grossing income since pre-pandemic. We have also stabilized staffing and worked hard at improving organizational culture. Completing this assignment has reaffirmed my skill set and understanding of financial operations.

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