

## For a Picture of Your Organization's Financial Health, Check Your Balance Sheet

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Many physician groups overlook or simply don't understand the importance of their balance sheets, when in fact they're one of the most important accounting financial statements. A balance sheet provides a basic overview of an organization's financial health and a snapshot of its stability, and it can help guide future decisions.

It's essential that physicians understand how to best track and assess balance sheets to determine

how efficiently their groups are using capital and managing risks. The stronger the balance sheet, the greater the likelihood an organization will be able to capitalize on future opportunities, grow sensibly, and weather unforeseen challenges.

### **Tracking Financial Health**

A balance sheet includes a detailed summary of assets, liabilities, and equity. Assets are anything the business owns that has monetary

value; liabilities are the claims of creditors against the assets. Assets, including cash accounts, and liabilities are divided into short- and long-term resources and obligations, respectively.

A common mistake physician groups make is tracking only their profitability. But profits don't guarantee solvency. At any given time your assets must equal liabilities plus equity. Increases or decreases in assets or liabilities can significantly influence your cash flow.

As a result regular maintenance of and attention to your balance sheet is the key to your physician group's stable financial health. Ideally your balance sheet should be reviewed on a monthly basis. If that's not possible, it's important to review your balance sheet at least once each quarter.

### **Benefiting from Your Balance Sheet**

If your group is considering growing its practice, your balance sheet can be a helpful tool to identify your strengths and weaknesses. It can also help determine how payables

and receivables might address those areas.

To derive the greatest benefit from your balance sheet, your group must routinely monitor the ratio of its assets to liabilities and course-correct quickly if needed. For example, your balance sheet might reveal that receivable cycles are lengthening or that payables are slowing—signaling a potential oncoming cash shortage. With such an issue identified, your group could implement a strategy to speed up its collection of receivables, gaining continued financial stability.

### Key Ratios to Monitor

Physician groups should understand their ability to carry debt or cover expenses. To make the most of your balance sheet, your organization should monitor ratios, including:

- **Current ratio.** This is a liquidity ratio that measures an organization's ability to pay short-term liabilities with short-term assets. The higher the current ratio, the more capable the organization is of paying its obligations.
- **Quick ratio.** This short-term liquidity ratio measures a physician group's ability to meet its short-term obligations with liquid assets. This ratio excludes inventories and prepaid expenses from short-term assets.
- **Days cash on hand.** This ratio estimates how many days of

operating expenses can be covered by available cash at a particular point in time, and it can help identify whether excess cash is available or if your organization is facing difficulty meeting its monthly expenditures.

Other important ratios to keep an eye on include:

- Days of revenue in accounts receivable
- Days of expenses in accounts payable
- Average age of plant and depreciation
- Debt to cash flow
- Debt to equity

Because every organization's ratios are unique, it's important to evaluate them against your particular group's priorities and business goals. Consider the effects a given ratio may have on other ratios and how your company overview may be impacted by them. If your organization focuses on only one ratio, it may fail to notice certain issues and may lose opportunities for growth. One ratio alone may not reveal potential weaknesses that could be easily identified by looking at the larger picture. Rather than focusing on any individual ratio, assess your balance sheet holistically.

### We're Here to Help

Although balance sheets may seem cumbersome to maintain, they're critical to have when you're evaluating the financial strength

and solvency of your business. Moss Adams can help you better understand your company's balance sheet and learn ways to reap its benefits. Contact your Moss Adams health care professional for help assessing the strength of your balance sheet and for guidance on how to best track the financial health of your organization.

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