

River Community Hospital Financial Reporting

Posted on May 17, 2023

River Community Hospital is presented as an acute-care, not-for-profit hospital whose chief executive, Melissa Randolph, is concerned about financial performance. The original analysis correctly identifies the balance sheet, statement of cash flows, and income statement—or, in not-for-profit terminology, statement of operations and changes in net assets—as essential reporting tools. However, individual numbers cannot be interpreted safely in isolation. A hospital may report rising revenue while margins weaken, strong net assets while liquidity declines, or negative annual cash change while still generating positive operating cash flow. Financial analysis must therefore connect statements, compare multiple years, calculate ratios, examine operating indicators, and consider the hospital's mission and restrictions on net assets. This expanded review preserves the original figures while explaining what they do and do not show.

Purpose of Healthcare Financial Reporting

Healthcare financial reports help governing boards, executives, lenders, donors, regulators, and community stakeholders evaluate whether an organization can sustain operations and fulfill its mission. A not-for-profit hospital must finance salaries, supplies, medications, technology, facilities, debt service, uncompensated care, and emergency capacity. It may receive patient-service revenue, grants, contributions, investment income, and government payments. Financial strength is not the same as maximizing profit; it means generating enough resources to maintain safe care, replace assets, manage risk, and serve the community. Because hospital accounting includes estimates for contractual allowances, bad debt, charity care, insurance liabilities, depreciation, and restricted funds, users need both quantitative analysis and explanatory notes. (Gapenski & Pink, 2015)

The Statement of Financial Position

The balance sheet for a not-for-profit organization is generally called the statement of financial position. It reports assets, liabilities, and net assets at a specific date. The fundamental equation is:

$$\text{Assets} = \text{Liabilities} + \text{Net Assets}.$$

Assets may include cash, receivables, investments, supplies, property and equipment, and other resources. Liabilities may include accounts payable, accrued salaries, long-term debt, lease obligations, and estimated claims. Net assets represent the residual interest and are commonly classified according to whether donor restrictions exist. The statement provides a snapshot, not a

complete account of performance over time. Comparative columns and ratios are needed to understand direction.

Interpreting River Community Hospital's Balance Sheet

The original data state that 2017 liabilities were \$4,401 and net assets were \$32,079, presumably in thousands. If those figures are complete, total assets would equal \$36,480. A relatively low liability balance compared with net assets may indicate modest leverage and a strong accumulated capital position. It does not prove that the hospital stayed "within budget," because a budget compares planned and actual revenue or expense during a period, while the balance sheet reports resources and obligations at one date. It also does not reveal whether the net assets are liquid. A hospital can own valuable buildings and restricted investments while lacking enough unrestricted cash to meet payroll. The analysis should therefore examine current assets, current liabilities, days cash on hand, debt terms, and restrictions.

Liquidity Ratios

Liquidity measures the ability to meet near-term obligations. The current ratio divides current assets by current liabilities. The quick ratio excludes less liquid items such as inventories. Days cash on hand estimates how long unrestricted cash and investments could cover average daily cash operating expenses. Days in accounts receivable measure how quickly the hospital collects patient balances and third-party reimbursements. A high receivable balance can make total assets appear strong while cash remains constrained. River Community Hospital's decline in ending cash makes these measures especially important. Management should determine whether the decline reflects slow collections, capital purchases, debt repayment, investment transactions, or operating losses.

Capital Structure and Solvency

Solvency concerns long-term financial capacity. Useful measures include debt-to-capitalization, debt-service coverage, cash-to-debt, and average age of plant. A low debt ratio may provide borrowing flexibility, but avoiding all debt is not necessarily optimal. Long-lived facilities can reasonably be financed over time, and delaying essential investment may create clinical and maintenance risk. The hospital should compare interest rates, covenants, replacement needs, and expected cash flows. If net assets are high because of old property values while infrastructure is aging, the apparent strength may be misleading.

The Statement of Cash Flows

The statement of cash flows explains changes in cash through operating, investing, and financing activities. Operating activities relate mainly to the hospital's core operations, though classification rules depend on accounting standards. Investing activities include purchases and sales of long-term investments and property. Financing activities may include borrowing, debt repayment, and certain donor-restricted transactions. The statement helps users understand whether daily operations generate cash and how capital needs are funded. It is not primarily a forecasting statement, although historical patterns can inform forecasts.

Interpreting the 2017 Cash Decline

The original analysis reports a 2017 decrease in net cash of \$2.274 million, leaving ending cash of \$2.795 million compared with \$5.069 million in 2016. This arithmetic is consistent: \$5.069 million minus \$2.274 million equals \$2.795 million. However, the decrease does not itself prove a "minor loss." Cash may decline because the hospital bought equipment, constructed facilities, repaid debt, or moved cash into investments. Conversely, an organization can report accounting income while operating cash weakens because receivables increase. The correct response is to examine the three cash-flow sections and reconcile operating results to cash. Management should ask whether operating cash flow was positive, whether capital expenditures were planned, and whether minimum liquidity targets were breached.

The Statement of Operations

For a not-for-profit hospital, the statement of operations reports revenues, gains, expenses, and an operating performance indicator. Patient-service revenue is usually reported net of contractual adjustments and may be affected by payer mix, case volume, reimbursement rates, denials, and estimates of collectability. Expenses include labor, supplies, pharmaceuticals, purchased services, depreciation, interest, and other costs. Nonoperating items may include investment income, contributions, or gains depending on the institution's reporting policies. Readers must distinguish operating income from the overall change in net assets.

Revenue Growth Is Not the Same as Profit Growth

The original data state that total revenue increased from \$28.796 million in 2015 to \$34.582 million in 2017. That is an increase of \$5.786 million, or approximately 20.1 percent over the two-year period. This indicates revenue growth, not necessarily profit growth. If expenses increased faster than revenue, the operating margin could decline. Growth may result from higher patient volume, reimbursement, service expansion, acquisitions, or accounting changes. It may also come with

increased staffing and supply costs. The hospital should compare operating expenses, operating income, and margin across the same years.

Operating Margin and Total Margin

Operating margin divides operating income by operating revenue and reflects performance from core activities. Total margin includes nonoperating items and measures the overall excess of revenues over expenses. A hospital may have a weak operating margin but a positive total margin because of investment gains or donations. That position may not be sustainable if market returns fall. Conversely, a hospital may report a temporary total loss because investments decline while core operations remain stable. River Community Hospital should identify which source is driving performance and avoid funding recurring operating deficits with volatile nonoperating gains.

Volume and Utilization Indicators

Financial statements become more meaningful when connected to operating indicators such as admissions, patient days, emergency visits, surgeries, outpatient encounters, staffed beds, occupancy, average length of stay, and case mix. Revenue can rise because more patients are treated, because cases are more complex, or because rates increase. Cost per adjusted discharge and revenue per adjusted discharge help normalize inpatient and outpatient activity. A falling census can damage margins even when prices rise, while excessive length of stay may consume capacity and increase cost. River Community Hospital should analyze financial and clinical activity together.

Payer Mix and Reimbursement Risk

Hospitals receive different payment levels and methods from Medicare, Medicaid, commercial insurers, self-pay patients, and other sources. Payer mix affects revenue, collection timing, denials, and bad debt. A shift toward lower-paying sources may reduce net patient-service revenue even if volume remains stable. Contract terms, prior authorization, coding, quality programs, and payment updates also matter. Management should report payer mix trends, denial rates, contractual allowance estimates, and accounts receivable by payer. Concentration in a small number of insurers increases negotiation and cash-flow risk.

Labor and Supply Costs

Labor is often a hospital's largest expense. Salary levels, overtime, agency staffing, vacancies, productivity, benefits, and turnover all affect financial performance and patient safety. Supply costs are influenced by pharmaceuticals, implants, inflation, purchasing contracts, standardization, waste, and clinical practice. Cost reduction should not be achieved by indiscriminate staffing cuts that

increase adverse events or burnout. Finance and clinical leadership should identify variation, remove low-value processes, improve scheduling, and protect essential capacity.

Restricted and Unrestricted Net Assets

Donor-restricted funds cannot necessarily be used for general operations. A hospital may hold substantial net assets restricted for a building, scholarship, research program, or other purpose. The board therefore needs a liquidity disclosure showing which financial assets are available for general expenditure within one year. Unrestricted board-designated funds may be internally reserved but can sometimes be released by board action. River Community Hospital's favorable net-asset figure should be separated by restriction and liquidity before concluding that all resources are available.

Quality, Mission, and Community Benefit

A not-for-profit hospital's financial analysis should include mission outcomes. Community benefit, charity care, public-health programs, quality, patient safety, workforce stability, and access are not optional distractions from finance. Poor quality can increase readmissions, litigation, penalties, and reputation risk, while excessive cost cutting can undermine revenue and trust. The board should use a balanced scorecard connecting margin and liquidity with infection rates, patient experience, staffing, access, and health equity. Financial sustainability exists to support care rather than replace it as the institution's purpose. (Financial Accounting Standards Board, 2026; Zelman et al., 2014)

Limitations of the Original Data

The figures provided are insufficient for a definitive conclusion. They do not show current assets, current liabilities, operating expenses, debt maturity, cash restrictions, capital purchases, payer mix, or operating indicators. They also do not state whether amounts are in dollars or thousands, though the scale strongly suggests thousands. Any recommendation must therefore be conditional. The CEO should request full audited statements, footnotes, budgets, and monthly internal reports before deciding that there is no cause for concern.

Recommended Analytical Process

First, management should prepare a three- to five-year trend of revenue, expenses, operating income, cash, receivables, debt, and net assets. Second, it should calculate liquidity, profitability, leverage, and efficiency ratios and compare them with budget, prior years, debt covenants, and appropriate peer benchmarks. Third, finance staff should reconcile the \$2.274 million cash decline by activity. Fourth, leadership should analyze service-line contribution, payer mix, denials, labor productivity, and capital needs. Finally, the board should model best-, expected-, and adverse-case

scenarios rather than rely on one forecast.

Financial Recommendations for River Community Hospital

The hospital should establish a minimum unrestricted-liquidity target and monitor cash weekly if current reserves are tight. Revenue-cycle work should focus on accurate registration, coding, documentation, clean claims, denial prevention, and timely follow-up. Service-line analysis should identify programs that are strategically necessary even if they are not individually profitable, separating mission decisions from unnoticed inefficiency. Capital projects should be prioritized according to safety, regulatory need, return, and strategic importance. Any debt refinancing should be evaluated against interest-rate and covenant risk.

Management should not assume that rising revenue guarantees strength. It should set operating-margin and debt-service targets appropriate to its size and mission while protecting quality. If the cash decline was driven by a planned capital purchase and operating cash remains positive, concern may be moderate. If it reflects recurring operating deficits or delayed collections, corrective action is urgent. The analysis should be updated monthly and communicated in a dashboard that explains causes rather than presenting isolated totals.

Conclusion

River Community Hospital's reported growth in revenue and high net assets provide encouraging signals, but they do not justify a conclusion that the hospital is financially healthy without further analysis. The 2017 cash decline requires explanation, and revenue growth must be compared with expense growth and operating margin. The statement of financial position shows resources and obligations, the statement of operations shows financial activity, and the cash-flow statement explains liquidity movement. Their value comes from being read together with footnotes, ratios, budgets, operating indicators, payer mix, and mission outcomes. The appropriate recommendation is therefore continued financial discipline: investigate the cash decrease, test liquidity, analyze operations, protect quality, and create a multi-year forecast before making strategic decisions.

References

Financial Accounting Standards Board. (2026). *Accounting Standards Codification: Not-for-profit entities and health care entities*.

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