

Board Finance Training Discussion Guide

Module 3 – Reading and Understanding the Income Statement

Purpose

The Board Finance Training Discussion Guide is designed as an opportunity for participants to expand on what they learned in the e-learning module, Reading and Understanding the Income Statement. The discussion guide can assist facilitators in engaging board members in dialogue after they have viewed the module. Keep in mind that sharing takeaways with others is a key method to remember new content and inspire new ideas.

Let's get started!

As you begin, be mindful of time and be sure to know everyone's name and title. Facilitators should remind board members that there is always more to learn about nonprofit governance and encourage participants to ask questions at any point. If working together in a virtual training, consider using polls or the chat feature to gather feedback and engage your audience. If questions have been submitted ahead of time, use them as conversation starters or include them in the appropriate topic areas. As you go through the discussion guide, confirm that the questions have been addressed before going to the next question. Lastly, write down any follow-up questions that may be asked.

To kick off discussion, invite members to share a *one-two minute reaction* to the e-learning module.

- What do you think about your role in providing financial oversight?
- What are some of the concepts you identified that you feel confident in applying?
- What about those concepts do you find challenging and may need additional support?

Discussion

After initial reactions are shared, acknowledge everyone's input and highlight topics from the module that participants mentioned. Remind participants that providing financial oversight can be challenging especially if they are not familiar with their role. Then process what was learned in the module using the following questions to prompt participant feedback:

- **The Purpose of the Income Statement**

The Income Statement is often referred to as the Statement of Financial Activities. The purpose of the income statement is to compare income (also known as revenue) that flows into the health center and expenses that flow out of the health center over a certain period.

- Keep in mind the income statement seems to be the most popular financial statement because everyone wants to know if the health center made or lost money.
- As a board member it is important to understand its components.



- One example of an expense is employee salaries. Discuss other expenses.
- Discuss revenues the health center receives. A grant from HRSA is one example.
- It is important to note that a health center estimates what they will be paid to record revenues properly on the income statement.
- Describe what “operating income” means.
- What does it mean when “operating income” is negative?

Examples of questions that a board member should ask when looking at the operating income:

- Does the health center have positive or negative operating income?
- How does this compare with what was budgeted? with last month? with last year?
- Why has (x revenue source) (increased, decreased)?

- **Accounting Concepts Reflected in the Income Statement**

Operating Income is made up of types of revenues, such as revenue from patient services, grants, and contributions. Expenses include salaries and benefits, supplies and rent, and depreciation and amortization. Over time the health center should have more revenues than expenses, although this may not be the case every year.

- Discuss why the patient service revenue figure is an estimate.
- Depreciation is an amount that is shown on the income statement. Give another example of an amount showing on the income statement.
- Is a checkbook balanced on a cash basis or an accrual basis?
- When does your Health center record revenues from a patient service?

- **Understanding Financial Ratios that Health Centers Use to Monitor Income and Expenses**

Operating margin is operating income divided by operating revenues.

- Why should the operating margin be positive?
- What is the recommended percentage of operating margin?
- What is the purpose of the Cost Per Patient and Cost Per Visit ratios? Why is it important to compare costs against what other health centers pay?
- What do you want to track the Net Revenue by Payer? Why would you need to consider the Payer Mix when thinking about opening a new site?
- Does your health center compare grant revenues to patient services revenues?
- Does your health center track the percentage of salaries and benefits paid?

- **Risk Areas in the Income Statement**

Health centers have risk areas on the income statement, such as patient revenue estimates that are too high. What are some other risks?

Examples of questions that a board member should ask when about the income statement as a whole:

- What are the key estimates used to prepare the income statement?
- Did the audit cause large adjustments to operating income?
- Are there any unusual or one-time revenues/expenses that account for gain or loss in operating income?
- Are we recognizing the health center award more than 1/12th each month?
- What is the operating margin by department or service line?
- What changes in our operations could impact the income statement?
- What are current operational changes that will impact the income statement?

Act

As a whole group, use this time to invite participants to share what they learned from the conversation – new insights, “aha” moments, more questions to consider. This is an opportune moment for members to share their takeaways and possibly connect with other participants.

- As a collective board, what are 1-2 things you can put into practice now that will help you provide better financial oversight?
- Any takeaways from this discussion or module?



Resources

These financial oversight responsibilities are integrated within the [Health Center Program Compliance Manual](#) and the [Health Center Program Site Visit Protocol](#).

Access the Health Center Program Compliance Manual here:

- <https://bphc.hrsa.gov/sites/default/files/bphc/programrequirements/pdf/hc-compliance-manual.pdf>

Access the Health Center Program Compliance Manual in Spanish here:

- <https://bphc.hrsa.gov/sites/default/files/bphc/programrequirements/pdf/health-center-manual-spanish.pdf>

Access the Health Center Program Site Visit Protocol here:

- <https://bphc.hrsa.gov/sites/default/files/bphc/programrequirements/pdf/site-visit-protocol.pdf>