

MBA 505 Final Project

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This paper provides responses to questions on the final project and correlates with the submitted Excel spreadsheet titled “ACC510 Chapter 18 Final Project Charrington Morell”.

**Comparison of two contracts for outsourcing information technology services**

The option that Healthy Living Hospital (HLH) should choose for outsourcing their information technology services (ITS) is the first option that requires a two-hundred fifty thousand upfront cost and yearly payments of one-hundred thousand dollars for the term of the contract. Both options have a positive Net Present Value (NPV), which determines whether to move forward. The second option requires an initial payment of three-hundred fifty thousand dollars and costs seventy-five thousand dollars for each year remaining under contract. The total cost of option two is five-hundred seventy five thousand dollars for the four-year contract. That cost is twenty-five thousand more than option one. The initial outlay of three-hundred and fifty thousand dollars for option two results in less cash available to invest elsewhere during all years. This is represented by the higher NPV for option one and organizations favor paying later so they can earn a return on their money (Finkler et al., 2019).

**Analysis of Data**

My initial thoughts are that the current liquidity ratio for 2019 has dropped significantly and the other liquidity ratio formulas confirm that finding. According to Finkler et al., (2019), the liquidity ratio should be two. This puts the organization at risk of not being able to pay bills or unexpected expenses. This may change when the five-hundred and forty-one million of billed patient services are realized. The board also chose to pay out fifty-one million in accelerated payments for long-term debt principal. It may have been prudent to wait until outstanding debt was received. Maverick (2020) says the quick ratio is more precise and referred to as the acid

test. He states a quick ratio lower than one is a danger signal because liabilities lead assets. For year-end 2019, the quick ratio dropped to 0.93. It may be a temporary condition based on what was happening at the end of the year.

The efficiency ratios also increased which suggest there is opportunity to move money more quickly. The average payment period and days in both accounts payable and accounts receivable are longer than in 2018. The solvency formulas suggest this organization is in a precarious position for the beginning of 2020 based on the end of 2019 data. Perhaps this indicates a deeper dive and possibly the need for new management in accounts payable and accounts receivable. Contradicting this information is that the total margin is higher in 2019 than in 2018.

The financial strengths of the hospital at the end of 2019 are an increase in cash and cash equivalents. Inventory was purchased, patient care has increased, and therefore total current assets have increased. The financial weaknesses are that as of year-end 2019, accounts payable and accrued expenses have ballooned. Other current liabilities have doubled as well, resulting in total liabilities almost double what it was in 2018.

Significant changes I would highlight for the leadership team, in addition to the information above, is that salaries and wages have increased. The good news is that there is an excess of revenue over expenses including the increase in net assets without donor restrictions. That allows for greater flexibility with spending the funds. Noted are more cash and cash equivalents at the end of 2019 than there was at the end of 2018. This information appears mixed to me and I would want a clearer understanding of the transactions resulting in these numbers. It is important to have liquidity to prevent bankruptcy. A lot of inventory was purchased with a loan and there are outstanding patient accounts. It does seem to me that the

fifty-one million payment on long-term debt was premature; however, this was a board decision.

I wonder what the CFO and Controller thought. Maverick (2020) states that profitability is the

most important factor to consider when evaluating the financial health of an organization. I

would suggest a review of the strategic plan to improve the company's financial position.

Current liabilities exceed current assets and this means that creditors may change interest rates or

call in loans early if the company does not appear stable. Ratios need to be compared to earlier

years to discern trends (McClure, 2020). Most healthcare companies have slim profit-margins.

Employees often represent the largest expense. There may be opportunity for efficiencies that

save money in this arena.

References

Finkler, S., Calabrese, T., & Ward, D., (2019). *Accounting Fundamentals for Health Care Management* (3rd ed.). Burlington, MA: Jones & Bartlett Learning

Maverick, J. (2020, March 31). What Is the Best Measure of a Company's Financial Health? Retrieved September 07, 2020, from <https://www.investopedia.com/articles/investing/061916/what-best-measure-companys-financial-health.asp>

McClure, B. (2020, August 28). How to Analyze a Company's Financial Position. Retrieved September 07, 2020, from <https://www.investopedia.com/articles/fundamental/04/063004.asp>

**Hospital for Healthy Living (HHL)**

**Consolidated Statements of Financial  
Position (In Thousands)**

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$41,443	\$40,798
Short-term investments	70,779	48,038
Accounts receivable:		
Patient care, less allowance for uncollectibles (2012 -\$31,085; 2011 - \$39,048)	56,811	56,548
Inventory	6,132	9,173
Other-net	6,416	4,662
	<u>181,581</u>	<u>159,219</u>
Other current assets	12,439	12,308
Assets limited as to use - current portion	1,276	5,628
	<u>195,296</u>	<u>177,155</u>
Assets limited as to use:		
Donor restricted	6,587	6,587
Investments held by captive insurance companies	47,099	40,023
Deferred employee compensation plan assets	5,396	3,894
	<u>59,082</u>	<u>50,504</u>
Less assets limited as to use -current portion	<u>-1,276</u>	<u>-5,628</u>
Assets limited as to use - noncurrent	57,806	44,876
Property, buildings and equipment -net	186,481	198,384

Investments in real estate - net	2,518	2,875
Other noncurrent assets	2,470	2,895
Total assets	<u>\$444,571</u>	<u>\$426,185</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$2,804	\$8,153
Accounts payable and accrued expenses	32,189	30,090
Accrued salaries and related liabilities	31,590	27,909
Due to affiliates, net	1,927	2,988
Professional insurance liabilities -current	6,738	7,767
Other current liabilities	15,534	2,071
Total current liabilities	<u>90,782</u>	<u>78,978</u>
Long-term debt, less current portion	51,250	57,421
Accrued pension liability	29,183	46,268
Deferred employee compensation plan liabilities	5,396	3,894
Professional insurance liabilities -noncurrent	117,686	106,781
Other noncurrent liabilities	55,462	56,022
Total liabilities	<u>349,759</u>	<u>349,364</u>
Net assets:		
Without donor restrictions	86,109	67,936
With donor restrictions	8,703	8,885
Total net assets	<u>94,812</u>	<u>76,821</u>
Total liabilities and net assets	<u>\$444,571</u>	<u>\$426,185</u>

<b>Consolidated Statements of Operations</b>		
<b>Revenue, gains and other support</b>	2019	2018
Net patient service revenue	541,301	531,154
Other revenue	36,656	8,057
Net assets released from restrictions	1,562	1,356
<b>Total revenue, gains and other support</b>	<b>579,519</b>	<b>540,567</b>
<b>Operating expenses</b>		
Salaries and wages	226,400	223,599
Employee benefits	59,154	56,660
Supplies and other expenses	266,356	268,202
Interest and amortization of deferred financing fees	3,093	3,180
Depreciation and amortization	23,137	24,477
<b>Total operating expenses</b>	<b>578,140</b>	<b>576,118</b>
Gain(loss) from operations	1,379	(35,551)
Profession liability insurance program premium revision	0	(2,392)
<b>Excess (deficiency) of revenue over expenses</b>	<b>1,379</b>	<b>(37,943)</b>
<b>Other changes in net assets without donor restrictions</b>		
Change in unrealized gains and losses on investments - other than trading securities	4,036	(8,145)
Net assets released from restrictions for purchases of property, buildings and equipment	527	596



Change in pension liability to be recognized in future periods	12,231	(38,728)
<b>Increase(decrease) in net assets without donor restrictions</b>	<b>18,173</b>	<b>(84,220)</b>

<b>Consolidated Statement of Cash Flows</b>		
Year Ended December 31		
	2019	2018
(In Thousands)		
<b>Operating activities</b>		
Change in net assets	17,991	(83,105)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,137	24,477
Amortization of deferred financing fees	108	129
Net change in unrealized gains and losses on marketable securities	(4,036)	8,145
Loss on other-than-temporary impairment of investments in captive insurance companies		3,875
Changes in operating assets and liabilities:		
Patient care accounts receivable, net	(263)	437
Other assets	(1,568)	(1,218)
Accounts payable and accrued expenses	2,099	(467)
Accrued salaries and related liabilities	3,681	1,110
Due to affiliates, net	(1,061)	509
Accrued pension liability	(17,085)	33,271

Professional insurance liabilities	9,876	32,947
Other liabilities	14,405	(5,342)
Net cash provided by operating activities	47,284	14,768
<b>Investing activities</b>		
Acquisitions of property, buildings and equipment, net	(8,734)	(14,938)
(Purchases) sales of investments, net	(18,705)	7,789
Net decrease in investments in real estate	357	357
Net (increase) decrease in assets limited as to use	(5,537)	5,871
Net cash used in investing activities	(32,619)	(921)
<b>Financing activities</b>		
Principal repayments on long-term debt	(14,020)	(7,097)
Net cash used in financing activities	(14,020)	(7,097)
Net increase in cash and cash equivalents	645	6,750
Cash and cash equivalents at beginning of year	40,798	34,048
Cash and cash equivalents at end of year	41,443	40,798
Supplemental disclosure of non cash investing and financing activities		
Assets acquired under capitalized lease obligations	2,500	4,905

**Option 1**

	<b>Investment</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
Initial Contract	(175,000)	(250,000)	(100,000)	(100,000)	(100,000)
Annual Contract Cost	175,000	175,000	175,000	175,000	175,000
Estimated Savings					
Net Cash Flow	0	-75,000	75,000	75,000	75,000
NPV:	<u>118,373</u>				

**Option 2**

Purchase Price	(175,000)	(350,000)	(75,000)	(75,000)	(75,000)
Annual Contract Cost	175,000	175,000	175,000	175,000	175,000
Estimated Savings					
Net Cash Flow	0	-175,000	100,000	100,000	100,000
NPV:	<u>87,077</u>				

\*\* Remember to enter the value as a negative number.

\*\* Remember to enter the value as a negative number.

	Assets														Liabilities								Net Assets		check				
	Cash and cash equivalents	Short-term investments	AR Patient care, less allowance for uncollectibles	Inventory	Other-net	Other current assets	Assets limited as to use -current portion	Donor restricted	Investments held by captive insurance companies	Deferred employee compensation plan assets	Less assets limited as to use -current portion	Property, buildings and equipment -net	Investments in real estate -net	Other noncurrent assets	Current portion of long-term debt	Accounts payable and accrued expenses	Accrued salaries and related liabilities	Due to affiliates, net	Professional insurance liabilities - current	Other current liabilities	Long-term debt, less current portion	Accrued pension liability	Deferred employee compensation plan liabilities	Professional insurance liabilities - noncurrent		Other noncurrent liabilities	Without donor restrictions	With donor restrictions	
Beginning Balance	41,443	70,779	56,811	6,132	6,416	12,439	1,276	6,587	47,099	5,396	-1,276	186,481	2,518	2,470	2,804	32,189	31,590	1,927	6,738	15,534	51,250	29,183	5,396	117,686	55,462	86,109	8,703		
a) long term loan \$3 million	3,000,000																				3,000,000								0
b) purchased \$1 million in inventory	-1,000,000			1,000,000																									0
c) purchased \$150,000 equipment on account 15 years no salvage value											140,000										140,000								0
d) \$540,865,000 patient services			540,865,000												540,865,000														0
5% will be bad debt														27,043,250							27,043,250								0
e) \$875,000 inventory was used.			-875,000	875,000																									0
f) \$400,000 donations received in cash	400,000																									400,000			0
g) 2 yr malpractice premium \$5 million. 1/2 for this year, 1/2 for next year	-5,000,000					2,500,000		2,500,000																					0
h) Pays 12,560,000 in accounts payable				12,560,000											12,560,000														0
i) \$259 million wages. \$282 million cash.	-282,000,000															-259,000,000		-23,000,000											0
\$60 million benefits all cash	-60,000,000																					-60,000,000							0
j) Transaction C was paid in cash	-135,000																				-135,000								0
k) \$370,500,000 from bills to pts rec'd in cash	370,500,000														370,500,000														0
l) \$25 million outstanding patient bills in cash	25,000,000														25,000,000														0
m) Paid \$51 million in long term debt principal and \$3 million of interest in cash	54,000,000																			3,000,000	51,000,000								0
n) Depreciation of \$23 million. Depreciation for new equipment purchased this year (150K and 15 years) assuming straight-line depreciation (adding 10K to 23 million)						23,010,000					-23,010,000																		0
o) Contract with option 1. Initial plus 1st year				250,000											250,000														0
Plus first year				100,000											100,000														0
Ending Balance	104,806,443	70,779	540,921,811	131,132	13,691,416	12,439	25,511,276	6,587	2,547,099	5,396	-1,276	-22,683,519	2,518	27,045,720	2,804	949,307,189	-258,968,410	1,927	-22,993,262	30,058,784	54,056,250	29,183	-59,994,604	117,686	55,462	486,109	8,703		

**Hospital for Healthy Living (HHL)**

<b>Consolidated Statements of Financial Position (In Thousands)</b>		
	2019	2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	104,806,443	\$41,443
Short-term investments	70,779	70,779
Accounts receivable:		
Patient care, less allowance for uncollectibles (2012 -\$31,085; 2011 -\$39,048)	540,921,811	56,811
Inventory	131,132	6,132
Other-net	13,691,416	6,416
	659,621,581	181,581
Other current assets	12,439	12,439
Assets limited as to use -current portion	25,511,276	1,276
	685,145,296	195,296
Assets limited as to use:		
Donor restricted	6,587	6,587
Investments held by captive insurance companies	2,547,099	47,099
Deferred employee compensation plan assets	5,396	5,396
	2,559,082	59,082
Less assets limited as to use -current portion	(1,276)	-1,276
	2,557,806	57,806
Assets limited as to use -noncurrent		
Property, buildings and equipment - net	(22,683,519)	186,481
Investments in real estate -net	2,518	2,518
Other noncurrent assets	27,045,720	2,470
	692,067,821	\$444,571
<b>Total assets</b>	<b>692,067,821</b>	<b>\$444,571</b>
<b>Liabilities and net assets</b>		

Current liabilities:		
Current portion of long-term debt	2,804	\$2,804
Accounts payable and accrued expenses	949,307,189	32,189
Accrued salaries and related liabilities	(258,968,410)	31,590
Due to affiliates, net	1,927	1,927
Professional insurance liabilities - current	(22,993,262)	6,738
Other current liabilities	30,058,784	15,534
Total current liabilities	697,409,032	90,782
Long-term debt, less current portion	54,056,250	51,250
Accrued pension liability	29,183	29,183
Deferred employee compensation plan liabilities	(59,994,604)	5,396
Professional insurance liabilities - noncurrent	117,686	117,686
Other noncurrent liabilities	55,462	55,462
Total liabilities	691,673,009	349,759
Net assets:		
Without donor restrictions	486,109	86,109
With donor restrictions	8,703	8,703
Total net assets	494,812	94,812
Total liabilities and net assets	692,167,821	\$444,571

	<b>Consolidated Statements of Operations</b>	
	2019	2018
<b>Revenue, gains and other support</b>		
Patient service revenue	540,865,000	541,301
Other revenue	400,000	36,656
Net assets released from restrictions		1,562
Total revenue, gains and other support	541,265,000	579,519
<b>Operating expenses</b>		

Salaries and wages	259,000,000	226,400
Employee benefits	60,000,000	59,154
Supplies and other expenses	(28,268,250)	266,356
Interest and amortization of deferred financing fees	(54,000,000)	3,093
Depreciation and amortization	23,010,000	23,137
Total operating expenses	259,741,750	578,140
Gain(loss) from operations	281,523,250	1,379
Profession liability insurance program premium revision		0
Excess (deficiency) of revenue over expenses	281,523,250	1,379
<b>Other changes in net assets without donor restrictions</b>		
Change in unrealized gains and losses on investments - other than trading securities		4,036
Net assets released from restrictions for purchases of property, buildings and equipment		527
Change in pension liability to be recognized in future periods		12,231
<b>Increase(decrease) in net assets without donor restrictions</b>	281,523,250	18,173

<b>Consolidated Statement of Cash Flows</b>		
Year Ended December 31		
	2019	2018
(In Thousands)		
<b>Operating activities</b>		
Change in net assets	281,523,250	17,991
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,010,000	23,137
Amortization of deferred financing fees		108
Net change in unrealized gains and losses on marketable securities		(4,036)



Loss on other-than-temporary impairment of investments in captive insurance companies		
Changes in operating assets and liabilities:		
Patient care accounts receivable, net	(540,865,000)	(263)
Other assets	(68,863,250)	(1,568)
Accounts payable and accrued expenses	949,275,000	2,099
Accrued salaries and related liabilities	(259,000,000)	3,681
Due to affiliates, net		(1,061)
Accrued pension liability		(17,085)
Professional insurance liabilities		9,876
Other liabilities		14,405
Net cash provided by operating activities	385,080,000	47,284
<b>Investing activities</b>		
Acquisitions of property, buildings and equipment, net	(140,000)	(8,734)
(Purchases) sales of investments, net		(18,705)
Net decrease in investments in real estate		357
Net (increase) decrease in assets limited as to use		(5,537)
Net cash used in investing activities	(140,000)	(32,619)
<b>Financing activities</b>		
Issuance of long-term debt	3,000	
Principal repayments on long-term debt	51,000,000	(14,020)
Net cash used in financing activities	51,003,000	(14,020)
Net change in cash and cash equivalents	104,765,000	645
Cash and cash equivalents at beginning of year	41,443	40,798

Cash and cash equivalents at end of year	104,806,443	41,443
Supplemental disclosure of non cash investing and financing activities		
Assets acquired under capitalized lease obligations		2,500