

HOSPITALS: WORKING CAPITAL ADVANCES

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HOSPITALS: WORKING CAPITAL ADVANCES

I. INTRODUCTION

The combined effect of small operating margins, length of time to collect patient accounts receivable, and extensive capital outlay programs requires that each hospital have substantial amounts of working capital available to meet its day-to-day operating expenditures. While some working capital is generated within the hospital (e.g., depreciation cash flow, timing of accounts payable), the major portion of hospital working capital is advanced from the Short-Term Investment Pool (STIP). These advances are the subject of this chapter.

II. SOURCE OF WORKING CAPITAL ADVANCES

The Treasurer of The Regents maintains a concentration bank account (Treasurer's General Cash) for the University into which all monies received by the University are transferred. * Monies received by the campuses are deposited into campus depository accounts and then transferred daily from the * depository accounts into the concentration bank account. Disbursements are made from the Treasurer's General Cash account to reimburse campus revolving funds for payroll and vendor disbursements made by the campuses. Hospital disbursements are processed and paid through the campus accounting office, thereby drawing against the campus revolving fund accounts. Likewise, cash received by the * hospitals is deposited into the Treasurer's concentration bank account. Because there is, on the average, a two- to three-month time lag between the providing of service (incurring of expense and the resultant disbursement) and the final settlement on a patient's account (receipt of cash), each hospital normally operates with a cash deficit. Since this cash deficit is a reduction of the cash that would otherwise be available for temporary investment by the Treasurer, it represents an unrecorded advance from STIP which, in turn, becomes the source of hospital working capital advances.

III. MAXIMUM LINE OF CREDIT

In order to assure that the total hospital working capital borrowing from STIP is reasonable and prudent, The Regents adopted the following guidelines which would limit the amount of STIP funds used by the teaching hospitals for their working capital needs:

III. MAXIMUM LINE OF CREDIT (Cont.)

- ** a) A hospital's working capital borrowings from STIP for a month shall not exceed 60% of the hospital's accounts receivable (prior to deducting the allowance for uncollectible accounts) as reported on Schedule B of the Monthly Statement of Operations for that same month; and
- b) the total working capital borrowing of all hospitals shall not exceed 20% of legally available cash balances in the unrestricted portion of STIP.
- ** Exceptions to these foregoing guidelines require approval of The Regents.

IV. INTEREST ON WORKING CAPITAL ADVANCES

A. POLICY

It is the University's policy that the hospitals are to pay interest on the actual working capital advances funded from the STIP. The amount of interest to be charged will be calculated based on the STIP (dollar-day) rate of return¹ at the end of each quarter and on an average of the monthly working capital advances as reported on the Balance Sheet (see Schedule B, Chapter H-576-67, Hospitals: Reporting Requirements). Working capital is calculated as follows: total current assets less the sum total of current liabilities (exclusive of current portion of long term debt), equity in current assets, unexpended plant fund, and funds held by the Treasurer's Office in a retirement of indebtedness account.

** A hospital with a net cash balance will receive interest on the amount of the balance. The interest will be calculated at the STIP (dollar-day) rate of return for the given quarter, based on the hospital's cash balance as reported on the Balance Sheet (see Schedule B, Chapter H-576-67, Hospitals: Reporting Requirements).

B. PROCEDURES

1. Interest Expense on Advances Funded by STIP

During the second month following the end of each quarter, the University Controller will calculate the amount of interest expense of the

¹ The dollar-day rate became effective 10/1/90.

hospitals on the three-month average of net cash balances, as reported on the Balance Sheet (see Schedule B, Chapter H-576-67, Hospitals: Reporting Requirements), and will recharge the hospitals for their share of the interest expense on working capital advances from STIP. The interest charges will be made in a quarterly report, entitled: Computation of Interest on Hospital Working Capital.

a. Accrual

The hospitals will accrue the interest charges on a monthly basis by recording an estimated amount of the interest as follows:

Dr. Hospital Interest on Working Capital
X-42XXXX-63000-3-7200

Cr. Accrued Interest Payable
X-115XXX-63000

b. Adjustment to Actual

After the interest charge is transferred by the University Controller, the amount of interest accrued during the quarter should be adjusted to actual as follows:

Campus Financial Entries

Dr./Cr. Hospital Interest on Working Capital
X-42XXXX-63000-3-7200

Dr./Cr. Accrued Interest Payable
X-115XXX-63000

Cr. Financial Control
X-119500

2. Interest Income on Hospital Net Cash Balances

During the second month following the end of each quarter, the University Controller will calculate the amount of interest earned by the hospitals on the three month average of net cash balances, as reported on the Balance Sheet (see Schedule B, Chapter H-576-67, Hospitals: Reporting Requirements), and will transfer such interest income to the hospitals. The amount of interest earned will be provided in a quarterly

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IV. INTEREST ON WORKING CAPITAL ADVANCES (Cont.)

B. PROCEDURES (Cont.)

2. Interest Income on Hospital Net Cash Balances
(Cont.)

report, entitled: Computation of Interest on Hospital Working Capital. The hospitals are to offset interest income with interest expense. If the net interest is a negative amount (interest expense) it is to be reported as an operating expense. If the net interest amount is positive (interest income) it is to be reported as nonoperating income.

a. Accrual

The hospitals will accrue the interest income on a monthly basis by recording an estimated amount of the interest as follows:

Dr. Hospital Interest Income Receivable
X-112XXX-63000

Cr. Unexpended Balance--Hospital Income
X-119850-63000-0-0833

b. Adjustment to Actual

The amount of the interest income accrued during a quarter should be adjusted to actual when the interest is transferred by the University Controller:

Office of the President Financial Entries

** Dr. J-119510-090010
Cr. J-1195XX-0900XX

Dr. J-119850-67943-0-0833
Cr. 1-119500

** Campus Response to Office of the President
Entries

Dr. Financial Control
X-119500

Cr. Unexpended Balance--Interest Transfer
from OP
X-119850-63000-0-0833

Reversal of Hospital Interest Accrual

Dr. Unexpended Balance--Hospital Income
X-119850-63000-0-0833

Cr. Hospital Interest Income Receivable
X-112XXX-63000

3. Fiscal Closing

During fiscal closing, each campus will reclassify the STIP interest charged to hospitals from an expense to a funds balances transfer. This entry must be made before the final General Ledger cut-off, as follows:

Dr. Unexpended Balance--Hospital Income
X-119850-63000-0-0833

Cr. Hospital Interest on Working Capital
X-42XXXX-63000-3-7200

4. Budgetary Matter

- * The estimated STIP rate of return for the next two fiscal years will be included with the list of assumptions used by the hospitals when preparing their runs of the hospital financial model. The estimated STIP rate will help the hospitals accrue an amount of interest income/expense for the respective fiscal years.

IV. REFERENCES

Accounting Manual Chapters:

C-173 Cash
C-173-14 Cash: Campus Cash Collection Deposits
C-173-62 Cash: Revolving Fund Balances
C-173-63 Cash: Revolving Fund Reimbursements

Business and Finance Bulletins:

A-60 Short-Term Investment Pool (STIP)--Distribution of Income

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