

Table 11.8. Common Ratios for Financial Activity Analysis and Control

	Definition ^(a)	Formula ^(a)	S&P benchmark ^(b)	Goal
Liquidity				
Current ratio	This liquidity indicator shows the number of times short-term obligations can be met from short-term creditors. Because it provides an indication of the ability to pay liabilities, a high ratio number is one way short-term creditors evaluate their margin of safety.	Total current assets / total current liabilities	n/a	Higher
Accounts receivable (days)	A measure of the efficiency of the collections function	Net patient accounts receivable / (net patient revenue /365)	46.2	Lower
Cash-on-hand (days)	This solvency indicator measures the number of days an organization could pay its cash operating expenses if none of the accounts receivable were collected. This liquidity indicator shows the minimal survival period of an organization.	(Cash + cash equivalents)/(total operating expenses – depreciation expense/365)	175.7	Higher
Average payment period (days)	A measure of how efficiently an organization pays its bills	Current liabilities/(total operating expenses – depreciation and amortization expense/365)	n/a	Lower
Profitability				
Operating margin %	This profitability indicator shows the income derived from patient care operations. Profitability indicators measure the extent to which the organization is using its financial and physical assets to generate a profit.	(Operating revenue – operating expense)/operating revenue	2.7	Higher

Excess margin %	This measure goes beyond the operating margin to include all sources of income and expenses. Other sources of income besides those from patient care operations have become increasingly important to hospitals.	(Operating revenue – operating expense) + nonoperating revenue)/(operating revenue + nonoperating revenue)	4.4	Higher
Capital structure				
Debt service coverage	A ratio that measures the organization's ability to meet its debt repayments. A declining ratio number can indicate that an organization is in danger of becoming insolvent.	(Net income + depreciation + interest expense)/(principal payment + interest expense)	4.2	Higher
Debt to capitalization %	A measure of the long-term sources of debt financing	Long-term debt/(long-term debt + unrestricted fund balance)	38.1	Lower
Asset efficiency				
Average age of plant (years)	Indicates the financial age of the fixed assets of the hospital. The older the average age, the greater the short-term need for capital resources.	Accumulated depreciation/depreciation expense	10.2	Lower

(a) "Key Hospital Financial Statistics and Ratio Medians: Glossary of Formulas." HFMA. December 29, 2011.

(b) S&P Benchmark: Non-Profit Health Care System Medians, using 2011 hospital data (n = 143).

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n/a = not available.

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