

**TABLE 1**  
**FINANCIAL RATIOS TO BE USED IN**  
**ANALYSIS OF CERTIFICATE OF NEED APPLICATIONS**

NAME		FORMULA
<i>Ratio Category: Profitability</i>		
Operating Margin		$\frac{\text{Total Oper. Rev.}^1 - \text{Oper. Exp.}}{\text{Total Operating Rev}^1}$
Operating Ratio		$\frac{\text{Total Oper. Exp.} - \text{Depr.}}{\text{Total Operating Revenue}^1}$
Deductibles Ratio		$\frac{\text{Total Deductions From Revenue}}{\text{Gross Patient Service Revenue}}$
Bottom Line		$\frac{\text{Net Income}}{\text{Total Oper. Rev.}^1 + \text{Net Nonoper. Rev.}}$
Return on Total Assets	- A	$\frac{\text{Net Operating Income}}{\text{Total Assets}}$
	- B	$\frac{\text{Net Income}}{\text{Total Assets}}$
Return on Equity	- A	$\frac{\text{Net Operating Income}}{\text{Fund Balance}}$
	- B	$\frac{\text{Net Income}}{\text{Fund Balance}}$
<i>Ratio Category: Debt</i>		
Equity Financing		$\frac{\text{Fund Balance}}{\text{Total Assets}}$
Debt to Equity	- A Long-Term	$\frac{\text{Long-Term Debt}}{\text{Fund Balance}}$
	- B Total	$\frac{\text{Total Debt}}{\text{Fund Balance}}$
Debt Service as a Percentage of Gross Patient Revenue <sup>2</sup>		$\frac{\text{Debt Service Payment}}{\text{Gross Patient Revenue}}$
Cash Flow to Total Debt		$\frac{\text{Excess of Rev. Over Exp.} + \text{Depr.}}{\text{Current Liabilities} + \text{Long-Term Debt}}$
Total Debt to Total Assets		$\frac{\text{Total Debt}}{\text{Total Assets}}$
Peak Debt Service Coverage by Historical Net Revenue		$\frac{\text{Net Inc.} + \text{Depr.} + \text{Int. Exp.}}{\text{Max. Ann. Present} + \text{Planned Debt Serv.}}$

NAME		FORMULA
Debt Service Safety Margin	$\frac{\text{Net Income} + \text{Depr.} + \text{Int. Exp.} - \text{Current Debt Serv. Payment}}{\text{Tot. Oper. Rev.} + \text{Nonoper. Rev.}}$	
Debt to Plant	$\frac{\text{Long-Term Debt}}{\text{Net Fixed Assets}}$	
<i>Ratio Category: Liquidity</i>		
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	
Days Revenue in Accounts Receivable	$\frac{\text{Net Patient Accounts Rec.}}{\text{Total Oper. Rev.}^1 \div 365}$	
Average Payment Period	$\frac{\text{Current Liabilities}}{(\text{Total Oper. Exp.} - \text{Depr.}) \div 365}$	
Days Cash on Hand	$\frac{\text{Cash} + \text{Current Mkt. Secur.}^2}{(\text{Total Oper. Exp.} - \text{Depr.}) \div 365}$	
Quick Ratio	$\frac{\text{Cash} + \text{Mkt. Secur.}^3 + \text{Net Acct. Rec.}}{\text{Current Liabilities}}$	
<i>Other Ratios</i>		
Adjusted Pat. Days	$\frac{\text{Outpatient Revenue}}{\text{Inpnt. Rev. Per. Inpnt. Day}}$	= Equiv. Outpat. Days
	$\text{Equiv. Outpat. Days} + \text{Inpnt. Days}$	= Adj. Pat. Days
Adjusted Admissions	$\text{Admiss.} \div (\text{Pat Days} \div \text{Adj. Pat. Days})$	= Adm. Admiss.

<sup>1</sup> Net of deductions from revenue.

<sup>2</sup> Explain how debt service will be managed and demonstrate sufficiency of gross patient revenues.

<sup>3</sup> Excludes noncurrent plant improvement and replacement funds.