

# Note on Financial Statement Analysis

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## *Objectives*

- Importance of knowing the scope of the business
- Understand format and content:
  - Balance Sheet
  - Statement of operations
  - Statement of changes in net assets
  - Statement of cash flows

# Statements

- **Balance sheet:**
  - assets = liabilities + equity
  - financial snapshot of the organization at a certain date
- **Statement of operations:**
  - video clip showing the running total of funds generated and expended during the period
- **Statement of changes in net assets:**
  - lists how equity changes during the period
- **Statement of cash flows:**
- **Notes to the financial statements:**
  - details on the org structure, accounting practices, and financial standing

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## Statement of Operations

### Revenue

#### Three sources

- Patient services revenue
- Other revenue
- Non operating gains (losses)

### Patient Services Revenue

- Net patient services revenue - residual of gross patient less allowances
- Gross patient services revenue - the list price for services provided to the patient

### Other Revenue

- generated from normal day-to-day operations not directly related to patient care
- usual sources:
  - educational programs
  - research and grants
  - rentals of space or equipment
  - sales of medical and pharmacy items to nonpatients
  - cafeteria shop
  - gift shop sales
  - parking lot sales
  - investment income on borrowed funds held by a trustee
  - investment income on malpractice trust funds

### Nonoperating Gains (losses)

- Result from peripheral or incidental transactions
- These items are often categorized as nonoperating gains or losses:
  - Contributions or donations that are unrestricted income from endowments
  - Income from the investment of unrestricted funds
  - Gains or losses on sale of property
  - Net rentals of facilities not used in the operation of the facility

### Statement of Operations

For the year ended December 31  
(in thousands)

	2012	2011	2010
Direct Written Premium	\$ 183,102	\$ 180,664	\$ 163,058
Not Written Premium	167,787	169,383	154,405
Change in Unearned Premium	(2,074)	(1,222)	(3,975)
<b>Net Earned Premium</b>	<b>165,712</b>	<b>168,161</b>	<b>150,430</b>
Losses	(95,246)	(108,413)	(89,500)
Loss Adjustment Expenses	(16,862)	(15,262)	(10,842)
Underwriting Expenses	(54,444)	(53,254)	(48,687)
<b>Underwriting Profit</b>	<b>(839)</b>	<b>(8,768)</b>	<b>1,491</b>
Net Investment Income	8,780	8,400	9,369
Other Income	2,845	3,132	2,891
Federal Income Taxes	(1,492)	25	(3,211)
<b>Net Income</b>	<b>9,293</b>	<b>2,789</b>	<b>10,450</b>
Other Direct Changes in Surplus	1,720	(1,998)	477
<b>Net Changes in Surplus</b>	<b>\$11,014</b>	<b>\$791</b>	<b>\$10,927</b>

### Operating Expenses

- In most general-purpose financial statements, costs are reported by cost object
  - Salaries and wages
  - Employee benefits
  - Supplies and purchased services
  - Advertising
  - Staff enrichment
  - Occupancy cost
  - Depreciation and amortization
  - Interest
  - Provision for bad debts
- Expenses and expenditures may not be equivalent in any given period
  - Retirement or repayment of debt
  - Investment in new fixed assets
  - Increases in working capital or current assets

\$300,000

160,000

460,000

\$910,000

# *Current Assets*

- Assets that are expected to be exchanged for cash or consumed during the operating cycle of the entity

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# *Cash and Cash Equivalents*

- Cash consists of coin, currency, and available deposited funds at the bank
- Cash equivalents include savings accounts, certificates of deposit, and other temporary marketable securities **TheCaseSolutions.com**
  - Two categories must be met:
    - management must intend to convert the investment into cash within 1 year or during the operating cycle
    - must be readily marketable and capable of being transformed into cash easily

## *Accounts Receivable*

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- Represent legally enforceable claims on customers for prior services or goods
- The charges actually billed to patients are often settled for substantially less amounts
- The differences are known as allowances
  - Charity allowances
    - difference between established service rates and amounts actually charged to indigent patients
  - Courtesy allowances
    - the difference between established rates for services and rates billed to special patients, such as employees, physicians, and clergy
  - Doubtful allowances
    - difference between rates billed and amounts expected to be recovered
  - Contractual allowances
  - represent the largest deduction from accounts receivable

Inventories i  
that are to b  
services

- Represent t  
the healthca  
any improve
  - water an
  - roadway
  - fences
  - sidewalk
  - shrubber
- Land may n  
improvement

• The a  
asset



## ***Inventories and Supplies***

Inventories in a healthcare facility represent items that are to be used in delivery of healthcare services

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## ***Land & Improvements***

- Represent the historcal cost of land owned by the healthcare facility and the histocal coast of any improvements built on it