

Understanding Basic Financial Statements

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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)
Net Earned Premium	165,712	168,161	150,430
Losses	(95,246)	(108,413)	(89,500)
Loss Adjustment Expenses	(16,862)	(15,262)	(10,842)
Underwriting Expenses	(54,444)	(53,254)	(48,687)
Underwriting Profit	(839)	(8,768)	1,491
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)
Net Income	9,293	2,789	10,450
Other Direct Changes in Surplus	1,720	(1,998)	477
Net Changes in Surplus	\$11,014	\$791	\$10,927

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