NURS 6211: *Finance and Economics in Healthcare Delivery*

Week 3, Program BFS

Basic Financial Statements

WILLIAM WARD:

The four financial statements that are produced in any health care organization: a balance sheet, a profit and loss statement, a statement of changes, and then the cash flow statement.

If we look at what a balance sheet is about, it's basically about three things. The assets of a company, items of value. The liabilities are the amounts that you owe other people. And then finally, the equities. It’s the owner's net claim on the asset.

The current assets, those assets that are going to be consumed and replaced within the next business cycle. And the business cycle is generally speaking a one-year period of time.

Down below are the fixed assets, the big ticket items—the property, plant, and equipment. The big CT scanner is going to be down there and the MRI and the beds and the buildings and the land are down in fixed assets. So, the two classes of assets that are the current ones that turn over very quickly and the fixed ones that are there all the time.

Balancing that are the current liabilities, those bills that you have to pay within the next business cycle. Next comes the long-term debt—mortgages, bonds, that organizations have floated in order to build their buildings.

And then what's left is the net asset or equity. So, if you were to pay off all of the current liabilities and all that long-term debts with all of your assets, what would you have left? And the answer is the net assets.

WILLIAM WARD:

Here we have the operating statement. It begins with what we charge patients for the services we provide. So, that's called gross revenue—what did we put on the bill. Then come a series of deductions for charity care, for discounts and the like. What's left after you deducted all of those things is net revenue, the amount of money that we're actually going to get. From that, you deduct the operating expenses for salaries and wages.

But there are other things there as well for repairs, for interest, depreciation and so on. A $119 million going out, a $128 million—a few lines above—coming in says that we have a gain from operating a hospital of just under $9 million. And then we have a non-operating gain. And those can be from a variety of different sources—revaluation of some assets or other things like that, a gift, perhaps a large from a donor and the like. And we wind up with what's called excess or deficiency. Excess if it's profit, deficiency if it's a loss of revenue.

When you look at financial statements like this, you want to look at them by comparing back and forth this year to last year. What has changed, have they changed in sync, has the revenue gone up the same proportion that the operating expenses have gone up?

The statements link together in a kind of interesting way. All of the account balances, all the money that's flowed into and out of and through the organization is going to be in either the balance sheet or the profit and loss statement. But, the flow, generally speaking, doesn't begin with the balance sheet and go to the P&L, it starts the other way around. The P&L is where the activity is and that P&L then flows into the balance sheet.

WILLIAM WARD:

The statement basically looks at the previous balance sheet and the current balance sheet and asks what changed, how did we get from Point A to Point B, what went on? And so this, rather than a statement of position or a statement of activity, is more of an analytical statement.

The final financial statement is the statement of cash flow. And what we look at here is the money that's coming in from all different sources and the money that's going to be going out for a variety of reasons.

Now, the money that comes in comes in from basically three places—the operation of the hospital, borrowing, and investments. And the same is true for the money that goes out. We can put it back into operating the hospital and we spend our cash for things like salaries and wages and the like. We'll also spend to make investments in facilities and so on and in investment portfolios and then we also pay back debt, and that's the final reason that we would consume our cash.

And those are the numbers that we look at, at board meetings, the numbers that the finance folks, the executive team look at on a month-to-month basis.