Financial Statement Analysis

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It can be assumed that any moderately successful organization handles their finances with some sort of budgeting. Not budgeting finances is a surefire way to lose control of an organization. Without a budget, it can be difficult to see where the organization currently stands, where it has been, and what needs to change in order to grow as a business.

A budget is a common element in financial management for any organization or facility. At its core it is simply a plan. This is its main purpose. This plan is formally processed and contains specifically quantified items such income, patient numbers, or any other quantifiable element that can and does affect the finances of an organization.

Economists use a term called “utility”. This term references the positive elements gained from performing an action or consuming a good (“Principles”, 2016). For example, one might get a feeling of fullness from eating a piece of fruit, thereby receiving utility from it. In the economic and financial world, there are utilities to be gained. Analyzing the financial statements of an organization can provide utility. There is utility in having a full understanding of the finances of the organization. There is also utility in the clarity provided by the financial reports. As an employee it can provide a sense of satisfaction that one is working for a quality organization. As a leader, analyzing the finances with a positive outcome can reinforce the work that has been invested.

It is important to have a strong understanding of budgeting concepts as a nurse leader. The daily decisions and expectations on how they manage the department affect not only the expenses of their own department but the revenue of the organization as a whole. Poor financial management skills can lead to inaccurate documentation. Inaccurate documentation leads to denied claims and lower revenue. It can also result in unsafe care that can result in patient harm. This can result in increased liability cost and litigation.

**Financial Statements**

There are four key statements generally used in the financial reporting of an organization. These are the statement of financial position, the operating statement, the statement of changes in net assets, and the statement of cash flows. Not every budgetary report includes all four statements, but these are the most commonly used (Finkler, Kovner, & Jones, 2013).

The first statement is the statement of financial position. In practice this is often referred to as the “balance sheet”. The balance sheet is the most essential report included in a budget. It is a report of the entirety of both what assets an organization owns and what liabilities are owed at the time of the report. The balance sheet is an easily viewed tool that gives a complete snapshot of the current financial situation for the organization (Finkler et al., 2013).

The next statement is the operating statement. This statement is alternately known as an income statement. The operating statement is a listing of the revenues and the expenses for the organization. Patient revenues and miscellaneous operating revenues are listed in one section. In the other sections are expenses such as administrative services, wages, housekeeping services, maintenance costs, etc. (Finkler et al., 2013).

The third statement is the statement of changes in net assets. This statement is also referred to as the statement of changes in equity. This statement examines the net assets from the previous year and compares it to the assets for the current year. This a valuable tool for a number of reasons. First, it gives the reader an idea of the direction the organization is going. The difference between the previous year and the current year shows what growth, if any, the organization has fostered. It reveals if the organization is growing or declining. Also, the statement of changes in net assets shows how many assets are considered unrestricted, temporarily restricted , and permanently restricted (Finkler et al., 2013).

The fourth and final statement is the statement of cash flows. This statement is an account for the incoming and outgoing of cash for an organization. The currently available cash amount is important knowledge. Cash is required to pay expenses and bills. Any potential project must be judged according to the amount of cash available to the organization. The statement of cash flows breaks down the flow of cash into the itemized origins and destinations of the cash movement. This provides a level of clarity in the report for the way the financials of the organization are handled.

**Analysis**

The organization chosen for this analysis is a large health care organization recognized as among the “100 Top Hospitals” in the nation 38 times, among the “15 Top Health Systems” three times, and is the only "Top 10 Health System" west of the Mississippi. They are based in California but operate 45 acute-care hospitals in 14 states across the country. They provide 45,000 jobs for employees . Within the health care system is a foundation consisting of 13 hospitals that are not for profit, a 501(C)3 public charity whose mission is to provide quality health care for everyone (“Prime”, 2017).

The first statement analyzed is the balance sheet. The balance sheet lists assets, liabilities, and stockholders' equities for the prior year and the current year. Under the assets heading is current assets, restricted cash, property and equipment, insurance claims and reserves recoverable, goodwill, and “other” assets. Similarly, the liabilities and equity heading has current liabilities such as accounts payable, line of credit, accrued expenses, etc. It also shows long-term liabilities such as sale lease-back liability, insurance claims liabilities and reserves, capital leases, etc. Finally, it lists items such as stockholder's equity such as common stock, additional paid in capital, and retained earnings. The balance sheet shows an increase of assets by $458,018,686.00 from the previous year to the current year. It also shows an increase in liabilities by the same amount from the previous year to the current.

The second statement analyzed is the consolidated statement of income. This statement is also known as the operating statement. This statement gives an itemized breakdown of sources of revenue and expenses. There are several revenue sources listed, such as net patient services, provision for doubtful accounts,premium revenue, etc. Operating expenses are listed like compensation and employee benefits, general and administrative expenses, supplies, rent and lease, etc. Also listed are other sources of income not driven by daily operations. Examples of these are gains from acquisitions, income from operations, income tax provisions, etc. The statement shows a net patient service revenue increase $590,595,867. There is also a decrease in controlling interest in net income of $9,932,912 when compared to the prior year.

The size and scope of the organization is incredibly large. Similarly, their finances are equally substantial. They are responsible for over $1.6 billion of assets and liabilities. They control $590 million of liquid assets. The organization holds $690 million worth of property and equipment. This is an increase of $110 million from the previous year. The statements show they have $442 million in doubtful accounts. This is an increase of approximately $136 million from the previous year which is reflective of the economy of the time.

According to the data from the financial statement, the organization has less cash overall but owns more assets as a whole. By this measure, it is apparent they are focused on continuing to invest in the company. The organization also has a focus on acquiring struggling health care systems. This is seemingly in alignment with their mission of “saving hospitals, saving jobs, and saving lives.” The acquisition of struggling hospitals can reflect negatively on a financial statement. In the process of acquisition, the amount of expenses outweighs the revenue for the initial phase. The shift in health care has led to more endangered small rural hospitals, leaving America's health care at risk. While this is an unfortunate fact, it provides the organization with more opportunities to grow. This organization shows promise it will continue to fulfill its mission. Their largest controllable expense is compensation for employees and benefits at $889 million. Because of this large amount, this organization recognizes the need to control the staffing costs with real time evaluations on a daily basis instead of relying on a monthly review process. There is an expectation for each hospital to hold a daily productivity huddle. The projected patient days and full time equivalent (FTE) are calculated in a staffing model, allowing for real time adjustments when goals are not met.

In meeting with the Chief Nursing Officer (CNO) of a hospital within the organization, we discussed the mission of the organization. The mission is not acquiring money, but rather “saving hospitals, saving jobs, and saving lives.” For a mainly profit organization, having income not be the final goal is a rarity. We also discussed how the founder of the organization does not conform to standard business practices such as budgeting (“Prem Reddy”, n.d.). The founder expects a proactive approach to financial decisions. He has implemented guidelines for purchasing medical supplies, evaluating implant expenses, and planning staffing. Correct documentation and coding in the reimbursement process is also an important practice championed by the founder.

We discussed how the decisions at a department level are reflected on a system level. Examples of this are excessive supplies, missed patient charges, and poor reimbursement metrics. The CNO confirmed my assessment on the decrease in cash flow and increase in assets. This is due to the organization's mission.

**Conclusion**

Budgeting and finance management is a crucial part of every business. While the primary focus of health care organizations is generally not acquiring income, it is still important to properly manage the revenue that does come in. Without proper financial management, an organization will inevitably fail. The compiling and distribution of financial statements is a valuable tool for the management of finances. Financial statements quantify all of the elements of an organization's finances. They give a measure of clarity to the finances and show how the organization is excelling and how it can be improved.

References

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