**Income Statement**

Table 13:1 contains simplified forms of the 2005 and 2006 income statements (also called statements of operation or statements of revenues and expenses) for bayside memorial hospital, a 450-bed, not for profit, acute care hospital. Although a hospital is being used to illustrate financial conditions analysis techniques, such techniques can be applied to any health services stetting. Bayside had an excess of revenues over expenses, or net income, of $8,572,000 in 2006. Of course, being not-for-profit, the hospital paid no dividends, so it retained all of its net income. When looking at an income statement, it is also possible to get a rough idea of the organizations cash flow, which is approximately equal to its net income plus any non-cash expenses. In 2006, bayside cash flow was $8,572,000 net income plus $4,130,000. Depreciation does not really provide funds; it is simply a noncash charge that is added back to net income to obtain an estimate of the business’s net cash flow. Later in the sec, we will discuss the statement of cash flow, which provides a better insight into bay side’s cash flows. Note that the income statement reports on transaction over a period of time-for example, during Fiscal Year 200 (note that Bay side’s fiscal years coincides with the calendar year). The Balance sheet, which we will discuss next, may be thought of as a snapshot of the firm’s assets, liability and equity position at a single point in time –for example, on December 31, 2006

Table13:1

Bayside Memorial Hospital Statements of Operations (Income Statements) Years Ended December 31, 2006 and 2005 (Thousands of dollars 2006 2005

Net Patient Service Revenue $108,600 $97,393

Premium revenue 5,232 4,622

Other revenue $ 3,644 6,014

 Total revenues $117,476 $108,029

Expense:

 Nursing Services $58,245 56,752

 Dietary Services 5,424 4,718

 General services 13,198 11,655

 Administrative services 11,427 11,585

 Employee health and welfare 10,250 10,705

 Provision for uncollectible 3,328 3,469

 Provision for malpractice 1,320 1,204

 Depreciation 4,130 4,025

 Interest expense 1,542 1,521

 Total Expense $108,904 $105,634

 Net Income $8,572 $2,395

**Balance Sheet**

Table 13.2 contains Bay side’s 2005 and 2006 balance sheets. Although the assets are all stated in terms of dollars, only cash represents actual money we see that bayside can if it liquidated its short-term investment securities. Write checks at the end of 2006 for a total $6,263,000 (verse total current liabilities of $13,332,000 due during 2006). The noncash current assets will presumably be converted to cash within a year, but they do not represent cash on hand.

Then Claims against assets are two types: 1) liabilities, or money the firm owes, and 2) equity, also called net assets or fund capital. Equity is a residual, so for 2006

Assets -Liabilities = Equity

151,278,000 - ($13,332,000+$30,582,000) =$107,364,000

Liabilities consist of $(13,332,000 of current liabilities plus $30,582,000of long-term liabilities. If assets decline in value-suppose some of Bayside’ s fixed assets were sold at less that book value-liabilities remain constant, so the value of the equity capital declines.

Table 13:2 Bayside Memorial Hospital Balance Sheets December 31, 2006 and 2005 (thousand of dollars)

 2006 2005

Cash $4,263 $5,095

Short-term investments 2,000 0

Accounts receivable 21,840 20,738

Inventories 3,177 2,982

 Total current assets $31,280 $28,815

Gross plant and equipment $145,168 $140,865

Accumulated depreciations 25,160 21,030

 Net plant and equipment $119,998 $119,835

Total assets $151,278 $148,650

Accounts payable $4,707 $5,145

Accrued expenses 5,650 5,421

Notes payable 825 4,237

Current portion of long-term debt 2,150 2,000

 Total current liabilities $13,332 $16,803

 Long-term debt $28,750 $30,900

 Capital lease obligations 1,832 2,155

 Total long-term liabilities $30,582 $33,055

 Net assets (equity) $107,364 $98,792

Total liabilities and net assets $151,278 $148,650

A business‘s equity account is built up over time by retentions (retained earnings). In 2006, Bay side’s income statement reported a net income of $8,572,000. As a not-for-profit organization, none of the net income can be paid out in dividends, so the entire amount must be retained in the business. Barring any assets sales or revaluations, Bay side’s equity account should increase from year to year by the amount of net income thus,

2006 Equity balance = 2005 Equity balance + 2006 Net income

$107,364,000 = $98,792,000 + $8,572,000

Note that accumulated depreciation reported on the balance sheet is a contra asset account; that is , it is subtracted from gross fixed assets, so the larger a firms accumulated depreciation ,all else the same, the smaller its total assets. However, as noted earlier, the larger the amount of depreciation in any year, the greater the firm’s cash flow because depreciation is a non-cast expense. Accumulated depreciation on the balance sheets increases each year by the amount of depreciation expense reported on the income statement. For example,

2006 Accumulated 2005 Accumulated 2006 Depreciation

Depreciation = Depreciation + Expense

$25,160,000 = $21,030,000 + $4,130,000