

# How to Read a Statement of Operations

A statement of operations (also called a profit-and-loss statement or income statement) presents the revenues earned and expenses incurred by a healthcare organization during a given period of time. Learning your way around this important statement can give you more information about your hospital's financial health.

## XYZ Hospital Statement of Operations, Year Ended December 31, 2005

Net patient services revenues*	\$9,000
Other operating revenues	500
Total operating revenues	9,500
Less operating expenses:	
Nursing services	3,400
Other professional services	2,700
General services	1,800
Fiscal and administrative services	1,400
Total operating expenses	9,300
Operating income	200
Add nonoperating income	130
Excess of revenues over expenses	<u>\$330</u>

\* Net patient services revenue is net of \$500 of charity care. XYZ Hospital provides charity care to patients with incomes less than 200 percent of the federal poverty level.

This profit-and-loss statement covers the course of an entire year. Hospitals may prepare monthly and/or quarterly statements as well. The dollar amounts used are purposefully small to make it easy to navigate. For a more real-life statement of operations, imagine the numbers are stated in thousands or millions. Supplementary schedules typically provide more details about the hospital's revenues and expenses (for example, revenues of each nursing unit).

## How Profitable Is this Hospital?

One indicator of profitability is the **operating profit margin:**

$$\text{Operating income} \div \text{total operating revenues}$$

Hospital XYZ example:  $\$200 \div \$9,500 = 2.1\%$  operating profit margin

From this you can also calculate Hospital XYZ's operating expense ratio:  $100\% - 2.1\% = 97.9\%$ .

This means that operating expenses consume 97.9 cents of every operating dollar.

A weakness of the operating margin as a measure of profitability is that it does not take into account the amount of resources invested in the hospital enterprise. That's why it can also be useful to calculate the return on investment, or the percentage of gain or loss from an investment. A future "Business School for Nurses" will address how to calculate ROI.

## What Constitutes Revenue?

There's a difference between assets and revenue. An asset includes all the resources owned by a hospital, including cash on hand, accounts receivable (or money due to the hospital), supply inventories, bonds and other long-term securities, and acquisition costs of plant assets (land, buildings, and equipment). Revenues, on the other hand, consist primarily of dollars earned by providing services and products to patients. Revenues may also include donated gifts and contributions. Some increases in assets are considered revenue. Others are not:

Asset	Is it considered revenue?
Cash received from an outpatient for a laboratory exam	Yes
A billing made to an inpatient for a day's room and board	Yes
Money borrowed from a bank	No

## What Does That Mean?

**Net patient services revenues:** Gross revenues minus deductions from patient services revenues. For instance, XYZ Hospital might anticipate \$10,000 in revenue. But the accountants estimate that \$1,000 of those revenues will be uncollectible. Some patients may not be able to pay, some insurers may have negotiated lower payment rates, etc. So, the net patient service

revenues is  $\$10,000 - \$1,000 = \$9,000$  of net revenue (or "collectible" revenue).

**Other operating revenues:** Income from cafeteria sales, parking lot fees, research grants, and other non-patient care services and amenities.

**Nonoperating income:** Unrestricted donations from donors, income from investments, and other

income that the hospital earns from non-operational activities.

**Excess of revenues over expenses:** Also known as "net income" or "net margin." Total operating revenues – total operating expenses + nonoperating income = excess of revenue over expenses.