CHAPTER 9
Financial Statements

LEARNING OBJECTIVES

After studying this chapter, you should be able to do the following:

1. Explain why it is important to know the scope of business being reviewed when using financial statements.
2. Understand the format and content of the balance sheet.
3. Understand the format and content of the statement of operations.
4. Understand the format and content of the statement of changes in net assets.
5. Understand the format and content of the statement of cash flows.

REAL-WORLD SCENARIO

Ed Adams, a 2004 graduate of a well-respected health administration graduate program, recently accepted a job offer to work as a financial analyst in the controller's office at Northern Healthcare Corporation (NHC), an investor-owned provider of outpatient and rehabilitative healthcare services. Ed, who will start his job next month, has obtained the company's financial statements for the past several years so that he can better understand the company's recent financial position and performance.

Ed already knew that NHC owns nearly 200 rehabilitation facilities and ambulatory surgery centers across the United States. In recent years NHC had expanded rapidly through multiple acquisitions, new facilities, and growth at existing facilities. Yet, even with this rapid growth, Ed knew that the financial performance had been unsatisfactory in recent years and that management was feeling intense pressure by shareholders to improve its performance.

Upon his first inspection of NHC's financial statements, Ed noticed that the financial statements were in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," which were issued by the Financial Accounting Standards Board (FASB) in 1997. Ed had learned in school that SFAS 131 requires an enterprise to report operating segments based on the way its operations are managed. This approach defines operating segments along the lines used by management to assess performance and to make operating and resource allocation decisions. Among other requirements, Ed knew that segments must be segregated by product and service, by geographic area, by legal entity, and by type of customer. In the case of NHC, based on its management and reporting structure, segment information was presented for inpatient and other clinical services and outpatient services.

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