Welcome back, class. We're going to do the tutorial on the balance sheet for Sunnyvale. This is the second tutorial on the financial statements. And we had already done the income statement. And now, in the same file, we have Sunnyvale's balance sheet, as well. And again, this is information that is supporting information in the book. It's on page 112.

Similar to the income statement, I think you're going to see how this analysis kind comes alive. When we put it into this Excel format, we're able to see things in a little bit different light. And it becomes a lot more apparent exactly what's happening with this company. And we can start to really tell the story about Sunnyvale and potentially how they've kind of got into the financial difficulties that they may be headed for.

So again, we're looking at this on kind of side-by-side 2010 and 2011 here. And just to go over this, you had a PowerPoint presentation on balance sheet. But I think it's much more descriptive if we look at it with actual numbers behind it and you can see how it's put together.

So typically, a balance sheet is set up just the way that it is here. And the formula, again, for the balance sheet is assets equal assets. Here's our asset number, $115 million in 2010, equal liabilities plus equity. And our liabilities here, our total liabilities, in this case are $68,893,000 with this amount plus equity of $46,208,000.

So assets equal liabilities plus equities. And this always balances. This always stays in balance here, all of the transactions that are done. And this is, again, is at a point in time, any point in time. In this case, here, it's December 31. And it matches up with the income statement.

But you could do a balance sheet at any time of the year. You could do it every day. And it would change from day to day based upon the transactions that are taking place. But at any time, it always balances. Total liabilities and equity equal the total assets here.

So there are some significant things that are happening here. And I guess, on the surface, we look at this. And similar to the income statement, we would say, well, Sunnyvale is doing really well. In 2010, they had total assets of $115 million. In 2011, that increased significantly to $154,815,000.

But when we take a look at how they financed those assets, then we're able to kind of really tell the story of what's going on here. So the question is, how did they get from $115,000,000 to $154,000,000? If it was all in equity and all in retained earnings from that income, that would be a significant boost.

But we know that's not the case, because we looked at the income statement. And through the equity line, there wasn't that much that was generated. So this difference here, let's take a second and explain how we get in our net assets or our equity from $46,208,000 to $54,068,000.

And that number shows up on our income statement. So that difference between $46,000,000 and $54,000,000 is this $7,860,000. That's our link from the income statement to the balance sheet.

So the income that we made in 2011 is dumped into the equity in the year 2011. And that's what this bridge is here. If you were to subtract $46,208,000 from this $54,000,000, you would get that $7,860,000.

And what that tells us is that there was no stock that was issued, as well. So there was no public offering for this company, that all of the equity that was generated from 2010 to 2011 came from the income statement and the income that was produced from this year. But that's only a small piece of this bump here, so that $7,860,000 added to this difference between 2010 and 2011.

But where did the remainder of that come from? And I'll pause for a second. And you can think about, where would that difference have come from? Well, we know that the way that the balance sheet is set up, we only have really one other option to turn to find out where that difference was. And it has to be liabilities.

So you can see the significant jump in liabilities between 2010 and 2011. We go from $68 million in total liabilities to $100 million in total liabilities. That is what's contributing to this large jump in assets between years-- not unusual. They're basically borrowing money to generate additional assets for their company.

Why they're growing that fast, we don't really know at this point. But as we kind of work through this, we might be able to make some assumptions as to exactly what they're doing. So let's kind of keep working.

So like the income statement, I'm going to expand this. And we're going to take a look and see exactly where these differences have come from. So when I expand this out-- and I've got to calculate it out here-- you'll still see where these differences are.

So here's the changes that have taken place between 2010 and 2011. So that difference in total assets is $39,714,000, which is the same difference down here in total liabilities and equity. There's that $7,860,000 that we talked about. Total liabilities increased by $31,854,000.

So the majority of that bump, like we kind of surmised, is coming from total liabilities. And the majority of that is not from current liabilities. Because there is only $110,000 difference between 2010-- so $110,000 in current liabilities. The majority of it's coming from the long-term debt.

So we kind of narrow this down. Long-term debt went from $53,578,000 to $85,322,000. And that's debt like bonds. Or long-term notes to banks would be in this category here. But most likely, either a bond issue or some type of long-term note to a bank is what's going to be passing through this long-term debt line.

Now what becomes really interesting, though, is when we match this up and we take a look at, where was this money that was borrowed or earned through retained earnings? So between long-term debt and retained earnings, $31,744,000 and $7,860,000 was then invested in these assets up here.

When we take a look, we moved long-term debt into total current assets. Because they jumped. And this is like cash, and cash equivalents, short-term investments. This is the liquidity part of our balance sheet. These are the assets that allow us to pay our bills.

Long-term investments are normally investments in not necessarily our own company, but investments in other companies that flow through this investment line in the income statement. So those are the long-term investments that are generating dollars through this non-operating income. If you remember, non-operating income is a part of our overall business.

But it's not the core part of our business. It's those additional investments outside of what we normally do. But there's significant increases and significant investments in that line.

The lifeblood of our company is in this net property. And it should be plant and equipment. This is the lifeblood.

These are the investments that we make internally in our corporation or in our business that are going to generate additional business for us. They're MRI machines. They're ORs. They're freestanding clinics, this type of thing that's going to generate additional revenue and additional income for our business.

What's disturbing or what's so surprising is this only went up from $49 million to $52,450,000, a very small change for all of the borrowing that is taking place down here in our liabilities. We borrowed this money. It was funneled into current assets, which are just, again, like cash, and short-term investments, and this type of thing, but not necessarily in items that are going to generate additional revenue for our business.

And then it was also invested in long-term investments here. Because that went from $25 million to $48 million. But very little of those dollars went to the core piece of Sunnyvale's assets.

These are assets, again, that are the lifeblood. They're the assets that are there to generate additional revenue for Sunnyvale. And it's kind of alarming that so little of those dollars went to this.

Another interesting piece of this is, when you look at 2010 to 2011 in the long-term investments, those investments, again, are generating investment dollars here. And for that significant increase, we got very little bump in our investment income from those. So those investments on the balance sheet are generating revenue dollars through non-operating income. And they're flowing through this line here.

So we only went from $3,600,000 to $3,800,000. Yet, we made this significant increase in long-term investments. And I'm just going to pause for a second. And you can think about why that may be.

It's possible that just those investments did poorly and all of those investment dollars either didn't have the same type of return that they did the prior year. But another possibility is we don't know when this took place. And these investments here, to go from $25 million to $48,000,000-- and same way with this long-term debt-- could have happened really late in the year when they haven't had the opportunity to actually start generating dollars. That's one possibility.

It's also the possibility that they've invested in these, but really, what they're doing is they're planning on this large expansion taking place. And that has not yet transpired. So they're staging these assets and planning these additional capital expenditures through net property plant and equipment. And that's going to take place in this next year, and that those assets just haven't had a chance to generate any income, because they came as late in the year as possible.

But clearly, if that's not the explanation, then Sunnyvale, and the CFO, and the Treasury Department, and those high-ranking financial folks would have some explaining to do as to why they borrowed money the way they did here and the assets that they purchased with those additional dollars. Because clearly, those dollars are going into non-income-producing buckets here. And they're going into buckets, in this case here, which are non-operating income pieces of the income statement and balance sheet.

And just haven't produced the way that I'm sure that they'd intended. So a lot of borrowing here and some additional equity-- but not being funneled into the property, plan, and equipment that has the opportunity to turn the significant revenues and the significant potential net income and operating income that Sunnyvale would be looking for.

This piece right here would be something that we would definitely need an explanation of why they're investing the way they are, and why they're borrowing the way they are, as well. It's very possible, again, that there's some large project that's on the table that they are planning on investing in. And at this point, these dollars are just being staged in these assets waiting to purchase the net property, plan and equipment. If that's not the case, then they are setting themselves up for some very kind of lean years, and some large interest expense payments, or this additional debt that's coming on, and potentially, not being able to cover those interest expense payments with the investments that they're making here.

So this is the way that we kind of do our financial analysis. Again, it's comparing side-by-side balance sheet from

2010 to 2011, and then taking a look at these changes, and trying to determine exactly what happened, and why they may be making the changes that they do. So if we were within this organization, we would certainly have access to this information. And we would we would know probably more than what we do now.

Because in this case here, we're just kind of speculating as to why they may be making the moves that they are. But this concludes our tutorial on the balance sheet. And all I'll see you on the next tutorial that we're going to do.