

Table of Contents

Preface	xi	
Acknowledgments	xiii	
PART I—HEALTH CARE FINANCE OVERVIEW	1	
Chapter 1	Introduction to Health Care Finance	3
	Progress Notes	3
	The History	3
	The Concept	4
	How Does Finance Work in the Health Care Business?.....	4
	Viewpoints.....	4
	Why Manage?	5
	The Elements of Financial Management	5
	The Organization’s Structure	5
	Two Types of Accounting	7
	Information Checkpoint	9
	Key Terms.....	9
	Discussion Questions.....	9
Chapter 2	What Does the Health Care Manager Need to Know?.....	11
	Progress Notes	11
	How the System Works in Health Care.....	11
	The Information Flow	11
	Basic System Elements.....	14
	The Annual Management Cycle	19
	Communicating Financial Information to Others	20
	Information Checkpoint.....	20
	Key Terms.....	20
	Discussion Questions.....	21

PART II—RECORD FINANCIAL OPERATIONS.....	23
Chapter 3 Assets, Liabilities, and Net Worth	25
Progress Notes	25
Overview.....	25
What Are Examples of Assets?.....	26
What Are Examples of Liabilities?	26
What Are the Different Forms of Net Worth?	27
Information Checkpoint.....	28
Key Terms.....	28
Discussion Questions.....	28
Chapter 4 Revenues (Inflow)	29
Progress Notes	29
Overview.....	29
Receiving Revenue for Services	29
Sources of Health Care Revenue	31
Grouping Revenue for Planning and Control	34
Information Checkpoint.....	37
Key Terms.....	37
Discussion Questions.....	38
Chapter 5 Expenses (Outflow).....	39
Progress Notes	39
Overview.....	39
Disbursements for Services	40
Grouping Expenses for Planning and Control	40
Cost Reports as Influencers of Expense Formats.....	44
Information Checkpoint.....	46
Key Terms.....	46
Discussion Questions.....	46
Chapter 6 Cost Classifications	47
Progress Notes	47
Distinction Between Direct and Indirect Costs.....	47
Examples of Direct Cost and Indirect Costs.....	48
Responsibility Centers	50
Distinction Between Product and Period Costs.....	53
Information Checkpoint.....	54
Key Terms.....	54
Discussion Questions.....	54

PART III—TOOLS TO ANALYZE FINANCIAL OPERATIONS	55
Chapter 7	Cost Behavior and Break-Even Analysis
	Progress Notes
	Distinction Between Fixed, Variable, and Semivariable Costs
	Examples of Variable and Fixed Costs.....
	Analyzing Mixed Costs
	Contributions Margin, Cost-Volume-Profit, and Profit Volume Ratios ..
	Information Checkpoint
	Key Terms.....
	Discussion Questions.....
Chapter 8	Staffing: The Manager’s Responsibility
	Progress Notes
	Staffing Requirements.....
	FTEs for Annualizing Positions.....
	Number of Employees Required to Fill a Position: Another Way to Calculate FTEs
	Tying Cost to Staffing
	Information Checkpoint
	Key Terms.....
	Discussion Questions.....
PART IV—REPORT AND MEASURE FINANCIAL RESULTS	83
Chapter 9	Reporting
	Progress Notes
	Understanding the Major Reports.....
	Balance Sheet.....
	Statement of Revenue and Expense
	Statement of Changes in Fund Balance/Net Worth.....
	Statement of Cash Flow
	Subsidiary Reports.....
	Summary
	Information Checkpoint
	Key Terms.....
	Discussion Questions.....
Chapter 10	Financial and Operating Ratios as Performance Measures
	Progress Notes
	The Importance of Ratios

	Liquidity Ratios	93
	Solvency Ratios	97
	Profitability Ratios	97
	Information Checkpoint	99
	Key Terms	99
	Discussion Questions	99
Chapter 11	The Time Value of Money	101
	Progress Notes	101
	Purpose	101
	Unadjusted Rate of Return	101
	Present-Value Analysis	101
	Internal Rate of Return	102
	Payback Period.....	103
	Evaluations	104
	Information Checkpoint	105
	Key Terms	105
	Discussion Questions	105
	Appendix 11-A Present Value Table	106
	Appendix 11-B Compound Interest Table	108
	Appendix 11-C Present Value of Annuity of \$1.00	110
	PART V—PLAN, MONITOR, AND CONTROL FINANCIAL OPERATIONS.....	111
Chapter 12	Comparative Data, Forecasts, and Benchmarking	113
	Progress Notes	113
	Comparative Data	113
	Forecasts.....	117
	Importance of a Variety of Performance Measures	118
	Adjusted Performance Measures Over Time	119
	Benchmarking	119
	Economic Measures.....	121
	Measurement Tools	121
	Information Checkpoint	124
	Key Terms	124
	Discussion Questions	124
Chapter 13	Budgeting and Variance Analysis.....	125
	Progress Notes	125
	Budgets.....	125
	Variance Analysis	129
	Information Checkpoint	133
	Key Terms	134
	Discussion Questions	134

Chapter 14	Capital Expenditure Budgets	135
	Progress Notes	135
	Overview.....	135
	Creating the Capital Expenditure Budget	135
	Budget Construction Tools	136
	Funding Requests	138
	Evaluating Capital Expenditure Proposals.....	139
	Information Checkpoint.....	140
	Key Terms.....	141
	Discussion Questions.....	141
	Appendix 14-A A Further Discussion of Capital Budgeting Methods...	142
PART VI—ALLOCATE RESOURCES AND ACQUIRE FUNDS		147
Chapter 15	Business Loans and Financing Costs	149
	Progress Notes	149
	Overview of Capital Structure.....	149
	Sources of Capital.....	149
	The Costs of Financing.....	150
	Management of Decisions About Business Loans.....	151
	Information Checkpoint.....	152
	Key Terms.....	152
	Discussion Questions.....	152
	Appendix 15-A Sample Amortization Schedule.....	153
Chapter 16	Owning Versus Leasing Equipment	155
	Progress Notes	155
	Purchasing Equipment.....	155
	Leasing Equipment	155
	Buy-or-Lease Management Decisions	156
	Information Checkpoint.....	161
	Key Terms.....	161
	Discussion Questions.....	161
Chapter 17	Putting It All Together: Creating a Business Plan	163
	Progress Notes	163
	Overview.....	163
	Elements of the Business Plan	163
	Preparing to Construct the Business Plan	163
	The Service or Equipment Description.....	164
	The Organization Segment.....	164
	The Marketing Segment	165
	The Financial Analysis Segment	165
	The “Knowledgeable Reader” Approach to Your Business Plan	168

	The Executive Summary	168
	Assembling the Business Plan	168
	Presenting the Business Plan	169
	Information Checkpoint	169
	Key Terms	170
	Discussion Questions	170
PART VII—CASE STUDY		171
Chapter 18	Case Study: Metropolis Health System	173
	Background.....	173
	Appendix 18-A Using Financial Ratios and Benchmarking: A Case Study in Comparative Analysis.....	184
PART VIII—MINI-CASE STUDIES		191
Chapter 19	Mini-Case Study 1: Proposal to Add a Retail Pharmacy to a Hospital in the Metropolis Health System	193
Chapter 20-A	Mini-Case Study 2: Changing Economic Realities in the Health Care Setting: A Physician’s Office Teaching Cases	199
	Improving Patient Care in a Changing Environment: A Teaching Case	200
	Case Presentation	200
	Case Analysis	204
	Customer Perspective	204
	Organizational Perspective	205
	Provider Perspective	206
Chapter 20-B	Mini-Case Study 2: Changing Economic Realities in the Health Care Setting: A Physician’s Office Teaching Cases	207
	The Anatomy of a Managed Care Adhesion Contract: The Fallacy of Physician Choice in Contracting with Managed Care Organizations	208
Chapter 20-C	Mini-Case Study 2: Changing Economic Realities in the Health Care Setting: A Physician’s Office Teaching Cases	217
	Relative Value Units and the Physician Fee Schedule	218
	Overview	218
	Composition of the RBRVS System.....	218
	Summary	223

Chapter 21	Mini-Case Study 3: The Economic Significance of Resource Misallocation: Client Flow Through the Women, Infants, and Children Public Health Program	225
	Confronting the Operational Problem	225
	The Environment	225
	The Peak-Load Problem.....	226
	Method.....	227
	Results	227
Appendix A	Checklists.....	231
Appendix B	Web-Based and Software Learning Tools	235
Notes		237
Glossary.....		239
Examples and Exercises, Supplemental Materials, and Solutions		247
Index		305
About the Authors.....		315