

HEALTHCARE FINANCE 101

2018 SASGOG

DIVISION DIRECTOR WORKSHOP

HEALTHCARE FINANCE 101

- Disclosures
 - None

HEALTHCARE FINANCE 101

- Exercise #1
 - Financials Scavenger Hunt
 - Participants are asked to find specific information on an income statement and/or a balance sheet
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WHY AM I HERE?

Damn it, Nancy! I'm a Doctor, not an...



WHY AM I HERE?



~~Good~~ **Great** Financial
Management



Efficient Practice
Operations



Greater Comfort with
Financial Documents

FINANCIAL STATEMENTS

- Balance Sheet
 - A quantitative summary of a company's financial condition at a specific point in time.
 - The first part (Assets) shows what a company owns
 - The second part (Liabilities) what it owes
 - The remainder (Net Assets) is the difference between the two and represents the organizations retained earnings
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FINANCIAL STATEMENTS

- **Statement of Operations (Profit & Loss = P&L)**
 - An accounting of revenues, expenses, and net profit (loss) for a given period.
- **Statement of Cash Flows**
 - Summarizes the entity's cash receipts and payments for a given period – shows operating, investing, and financing activities
- **Statement of Changes in Net Assets**
 - Identifies the reasons for the changes in the entity's value

FINANCIAL STATEMENTS

- Income Statement

- Revenue

- Net Patient Services Revenue (NPSR)

- Expected collections from patient care revenue

- Other Operating Revenue

- Nonpatient activity such as research revenue, academic revenue, operating investment income, etc.

- System for verification of revenue stream

FINANCIAL STATEMENTS

- Income Statement
 - Expenses
 - Salaries and Benefits
 - Supplies and Outside Services
 - Miscellaneous Expenses

FINANCIAL STATEMENTS

- **Income Statement**

- Operating Gain (Loss)

- The amount of income we made, after expenses, from continuing medical operations
 - The bottom line

- Excess (Deficit) of Revenues over Expenses

- Net gain or loss
 - The amount of money earned from ALL our lines of business, including nonoperating gains, gifts, non-operating investment income, etc.

FINANCIAL STATEMENTS

- **Balance Sheets**

- Current Assets (C/A)

- Resources that are available to the organization within a year
 - Cash, investments, receivables – generally for patient care services

- Current Liabilities (C/L)

- Represent what the entity has to pay within a year
 - Debt payments, accounts payable, compensation & benefits, settlements with 3rd party payers

FINANCIAL STATEMENTS

- **Balance Sheets**

- Current Ratio

- Ratio of C/A to C/L is an important indicator of the organizations ability to meet near term responsibilities.
 - <2:1 ratio can be a sign of financial stress

- Net Assets

- Difference between total assets and liabilities
 - Measure of the financial value of the organization

Revenue Discussion

CATEGORIES OF REVENUE

- Patient Service Revenue
- Research Revenue
 - Direct and Indirect
- Academic Revenue
- Other Revenue

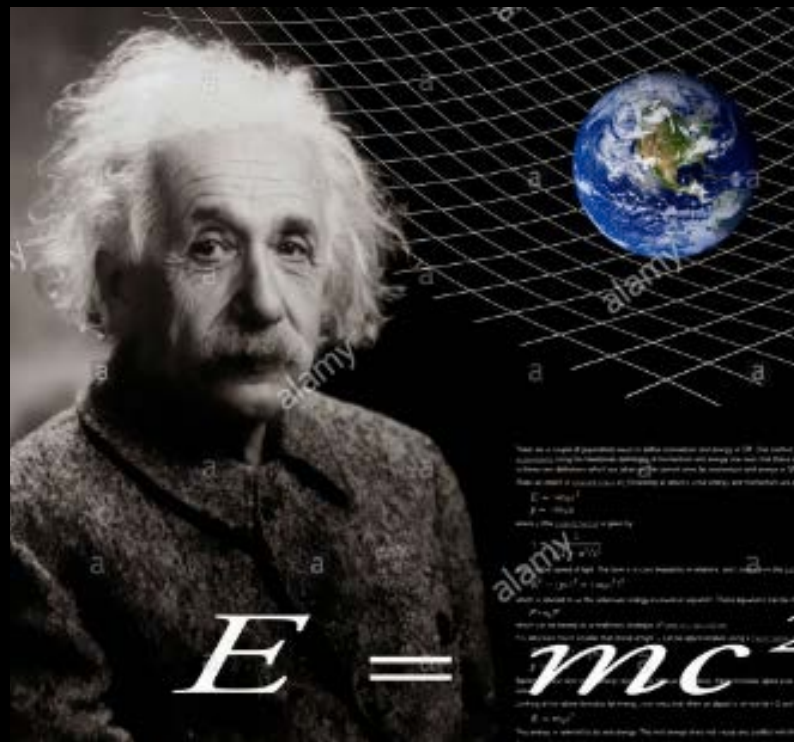


CATEGORIES OF REVENUE

- Patient Services Revenue
 - Gross Patient Services Revenue (GPSR)
 - The total amount of charges that result from the provision of health care to patients
 - Net Patient Service Revenue (NPSR)
 - The amount of patient revenue that remains after reducing charges to contractual rates and estimating charges for services rendered for charity care, bad debt, and insurer denials

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Physicist love $E=mc^2$

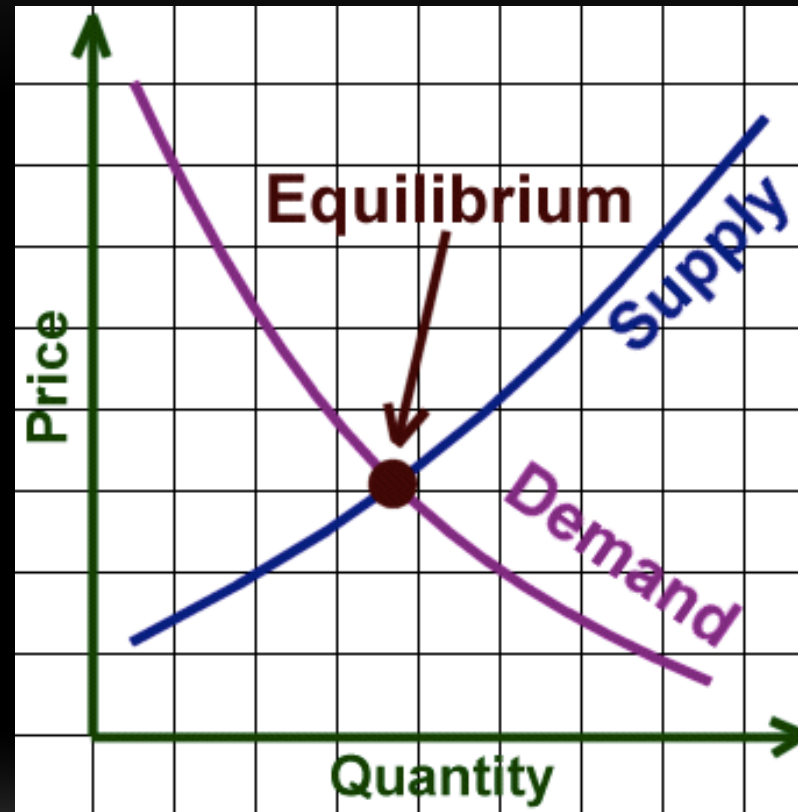


Accountants love $P*Q$



BASICS: PRICE AND QUANTITY

- Price and Quantity
 - Supply and Demand
 - Isolates the drivers of variance
 - May pinpoint areas you can *Control*



EXERCISE #2

- You manage a family planning clinic. You notice that actual patient net revenue from IUD's is \$337,500 versus a budget of \$350,000. That's \$12,500 less than you planned.
- You investigate a bit further, and you determine that your volume was 7,500 IUDs versus a budget of 7,000.
- If you placed 500 more IUDs, how did you make less money?

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	Actual	Budget	Variance
Revenue	\$337,500	\$350,000	\$(12,500)
Volume (IUDs)	750	700	50
Price per IUD	\$450	\$500	(\$50)

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- Changes to Gross Patient Services Revenue
 - Contractual Allowances
 - Denials
 - Charity Care
 - Bad Debt
 - Risk Contract Forfeitures
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- **Statement of Gross Charges**
 - List of services with corresponding charges that a provider requests for providing these services
 - **Fee Schedules**
 - List of services with corresponding reimbursement amounts that a provider will receive from a payer for providing these services
 - Fees are payer-specific
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- Physician Payment Systems
 - Percent of charges
 - Resource Based Relative Value System
 - Capitation
 - Global Fee
 - Case Rate
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- Research Revenue
 - “Directs”
 - Direct research expenses, such as lab-tech salaries and the cost of reagents, are directly related to the cost of research being performed
 - They should ALWAYS equal direct research revenue
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- Research Revenue
 - “Indirects”
 - Indirect research expenses/overhead expenses
 - Indirect revenue – overhead rates paid by sponsors to reimburse the institution for the indirect costs of research
 - Typically expressed as a percentage of payment for every dollar of direct expense
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- **Academic Funds**
 - Charitable donations for hospital academic and research programs
 - Endowment spending distributions
 - Portions of royalties designated for departmental program needs
 - State or school allocations
 - Other
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- Academic Funds

**MY FINANCIAL STATUS:
I JUST RINSED OFF A
PAPER PLATE.**

Expense Discussion

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- Exercise #3
 - List all of your Department/Division's expense categories
 - Rank each category by the percentage of total expenses
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- Salary
 - Salary consists of the amounts paid directly to hourly and exempt employees
 - Bonus and incentive payments are included in salary
 - Other expenses accrued for future pay to employees such as earned, sick, and vacation time.
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- Benefits
 - Three Major Categories of Benefits
 - Health and welfare type benefits
 - Retirement benefits
 - Employment portion of taxes
 - Benefit costs generally range from 20-35% of direct payroll
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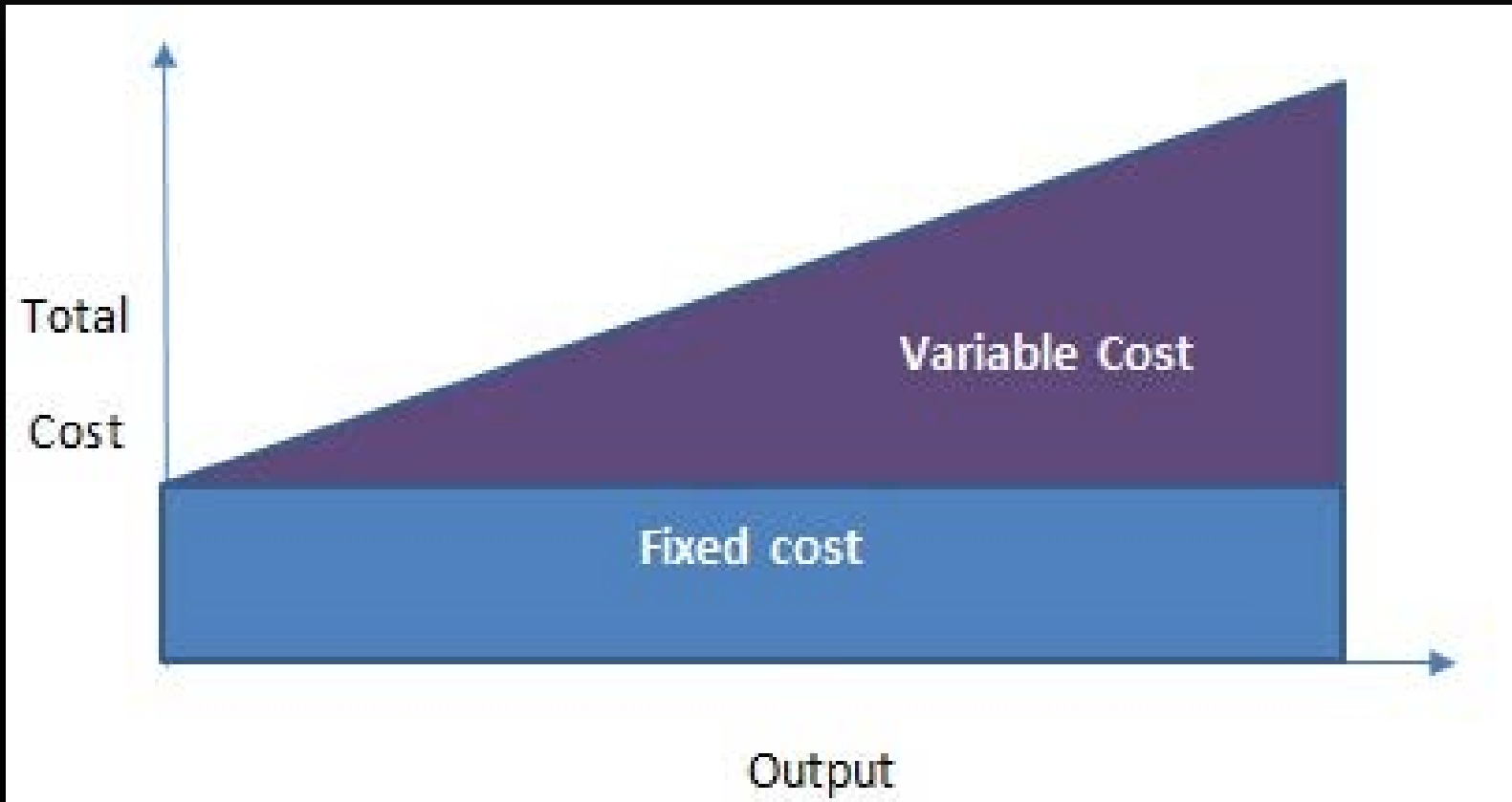
- Non-Salary Expenses
 - Supplies – includes med/surgical supplies, pharmaceuticals, implants, and other materials
 - Utilities
 - Miscellaneous – purchased services, rentals and leases, travel, and consulting
 - Corporate allocations for centralized services
 - Amortization and Depreciation
 - Interest
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- Types of Expenses
 - Fixed Costs
 - Remain constant within a range of activity, but varies per unit
 - Rent, malpractice, administrative staff
 - Variable Costs
 - Change in direct proportion to volume, but varies in total
 - Clinical salaries, utilities, supplies

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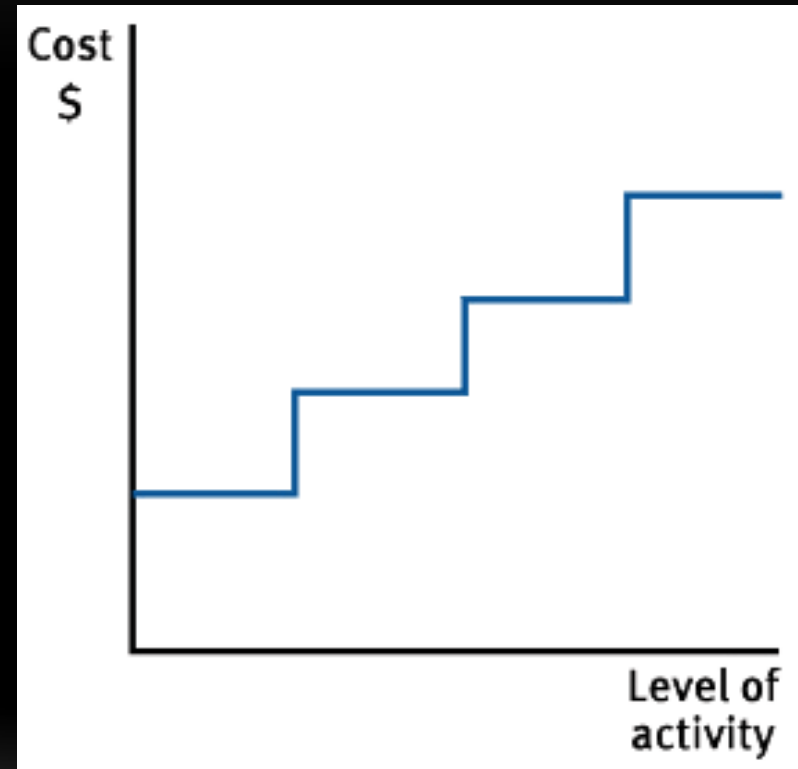
- Types of Expenses



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Stepped Fixed Costs

- Fixed over a certain activity range
- At a particular point, there is stepped increase in costs
- i.e. nursing services



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