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
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) shows what it owes.
  - The remainder (Net Assets) is the difference between the two and represents the organization's retained earnings.
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 organization’s 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?
## HEALTHCARE FINANCE 101

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$337,500</td>
<td>$350,000</td>
<td>$(12,500)</td>
</tr>
<tr>
<td>Volume (IUDs)</td>
<td>750</td>
<td>700</td>
<td>50</td>
</tr>
<tr>
<td>Price per IUD</td>
<td>$450</td>
<td>$500</td>
<td>$(50)</td>
</tr>
</tbody>
</table>
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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
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
HEALTHCARE FINANCE 101

- Types of Expenses

![Diagram showing fixed and variable costs](image-url)
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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