

CHAPTER 1

Introduction to Healthcare Finance

- **Definition of healthcare finance**
- **Goals of the course**
- **The role of healthcare finance**
- **Finance department structure**
- **The health services industry**
- **Regulatory and legal issues**
- **Course organization**

Definition of Healthcare Finance

- The definition depends on the *context*.
 - Policymaker or manager
 - Type of healthcare organization
- For our purposes, **healthcare finance** is the practice of finance, including both *accounting* and *financial management*, within *health services organizations*.

Accounting Versus Financial Management

- **Accounting** concerns the measurement, in *financial terms*, of events that reflect the resources, operations, and financing of an organization.
- **Financial management** provides the theory, concepts, and tools necessary to help managers make *better financial decisions*.
- ? Are the two disciplines independent?

Goals of the Course

- The primary goal of this course is to ***introduce*** students to the field of healthcare finance, including:
 - Principles and concepts.
 - Applications across a wide variety of provider settings.
 - The impact of alternative reimbursement methods.
- Along the way, important ***personal finance*** concepts also are discussed.

The Role of Finance

- The primary **role of finance** within businesses is to plan for, acquire, and utilize resources to maximize the *efficiency* (and *value*) of the organization.
- Finance **activities** include:
 - Planning and budgeting
 - Financial reporting
 - Capital investment decisions
 - Financing decisions
 - Working capital management
 - Contract management
 - Financial risk management

The Four C's

The finance activities listed on the previous slide can be summarized by the four C's:

- **Cost** minimization
- **Cash** sufficiency
- **Capital** sufficiency
- **Control**

Finance Department Structure

At large organizations, the finance department often is organized as follows:

- **Chief financial officer**
 - **Comptroller**
 - Budgeting and reporting activities
 - Payables and receivables management
 - **Treasurer**
 - Acquisition and employment of capital
 - Debt management
 - Financial risk management

? What about small business?

Health Services Settings

- **Health services are provided by numerous types of organizations in many different settings.**
- **Applications presented in this course will include the following settings:**
 - **Hospital (inpatient) care**
 - **Ambulatory (outpatient) care**
 - **Long-term care**
 - **Integrated delivery systems**

Regulatory Issues

- **Entry into the health services industry is heavily *regulated*.**
 - **Licensure**
 - **Certificate of need (CON)**
 - **Cost containment and rate review**

- **Although designed primarily to protect consumers, critics of regulation contend that it protects providers more than consumers.**

Legal Issues

- The primary legal issue facing healthcare providers is *professional liability*.
- In addition, other issues include:
 - General liability
 - Antitrust
 - Right to die

Organization of the Course

■ Healthcare environment

- Alternative types of ownership
- Taxes
- Third-party payers
- Reimbursement methods

■ Financial accounting

- Basics
- Income statement
- Balance sheet
- Statement of cash flows

Organization of the Course (Cont.)

■ **Managerial accounting**

- **Basics**
- **Cost behavior and profit planning**
- **Cost allocation**
- **Pricing and service decisions**
- **Planning and budgeting**

■ **Basic financial analysis concepts**

- **Time value analysis**
- **Financial risk and return**

Organization of the Course (Cont.)

■ Long-term financing

- Long-term debt
- Equity
- Capital structure decisions
- The cost of capital

■ Capital investment decisions

- Cash flow estimation
- Breakeven and profitability measures
- Risk assessment
- Risk incorporation

Organization of the Course (Cont.)

■ Other topics

- Current asset management
- Current asset (short-term) financing
- Analyzing financial performance
- Lease financing
- Business valuation

Conclusion

- This concludes our discussion of *Chapter 1* (Introduction to Healthcare Finance).
- Although not all concepts were discussed in class, you are responsible for all of the material in the text.
- ? Do you have any questions?