

Financial Planning for Organizational Growth



Disclosures

Non-Declaration Statement: I have no relevant relationships with ineligible companies to disclose within the past 24 months. (Note: Ineligible companies are defined as those whose primary business is producing, marketing, selling, re-selling, or distributing healthcare products used by or on patients.)



“At times, in medicine, you feel you are inside a colossal and impossibly complex machine whose gears will turn for you only according to their own arbitrary rhythm. The notion that human caring, the effort to do better for people, might make a difference can seem hopelessly naïve.”

— Atul Gawande, [Better: A Surgeon's Notes on Performance](#)



But don't forget why you are here...



INTRODUCTION

Our Learning Objectives

Identify, define & discuss key healthcare management finance & accounting concepts

Describe the basic concepts of revenue cycles, working capital management & budgeting

Use financial reports for management decision-making

Learn about future healthcare trends that affect financial outcomes

PREPARE

Let's lay some groundwork...

"What is Accounting?"

Recording, classifying & summarizing financial transactional data.

Focuses on the daily movement of money, emphasizes past events and deals with ethics & compliance.

"What is Finance"

The study of how money is managed and the actual process of acquiring needed funds.

Focuses on the broad management of money & other assets, planning for future financial growth while reducing risk.

"What is Financial Management?"

The combination of accounting & finance within an organization.

Adds the element of "operations" to the equation, allowing finance managers & operational managers to work together to make better decisions.



What is the role
of Financial
Management in
Healthcare
Organizations?

The Role

The primary role of healthcare financial management is to provide accounting & financial information that helps managers accomplish the organization's purpose – to plan for, acquire & use resources to maximize the efficiency & value of the enterprise.

**Planning &
Budgeting**

**Investment
Management**

**Financial
Reporting &
Analysis**

**Capital
Investment
Decisions**

**Working Capital
Management**

**Contract
Management**

**Financing
Decisions**

**Financial Risk
Management**

In addition to meeting the basic accounting/finance needs of the organization there are some other major objectives of healthcare financial management...

1

Respond to the myriad of regulations in a timely & cost-effective manner

2

Facilitate the relationship with 3rd party payers

3

Influence the method & amount of payment from 3rd party payers

4

Monitor HCPs & their financial liability to the organization

5

Protect the tax status/reduce the tax burden



Generate Net Income



What is revenue
cycle
management?



"All administrative and clinical functions that contribute to the capture, management, and collection of patient service revenue." In other words, it is a term that includes the entire life of a patient account from creation to payment."

-Healthcare Financial Management Association



Revenue Cycle is the process that begins when a patient comes into the system and includes all those activities that have occurred in order to have a zero balance. In other words, think...

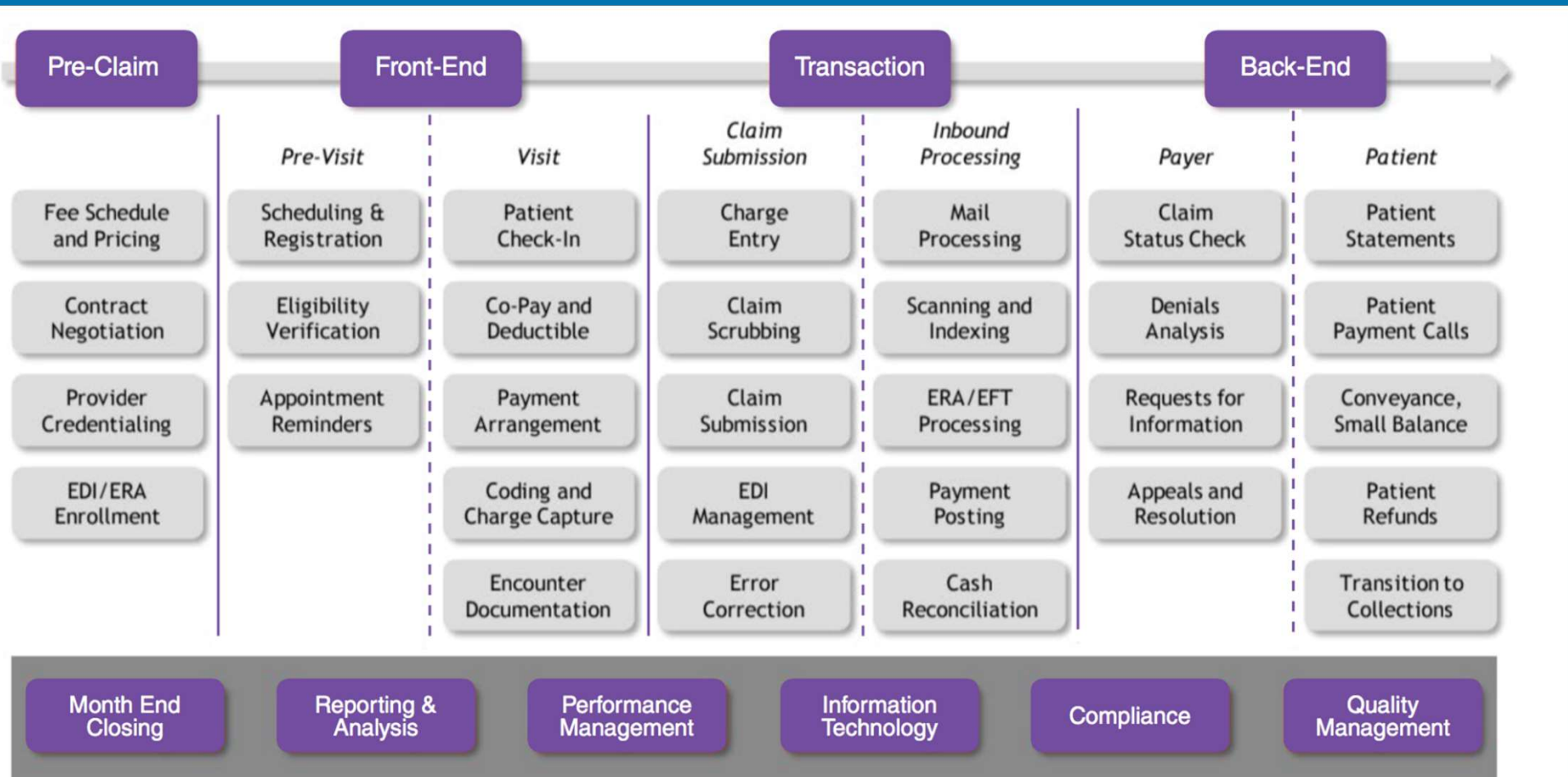
Zero to Zero!!

Revenue Cycle Overview

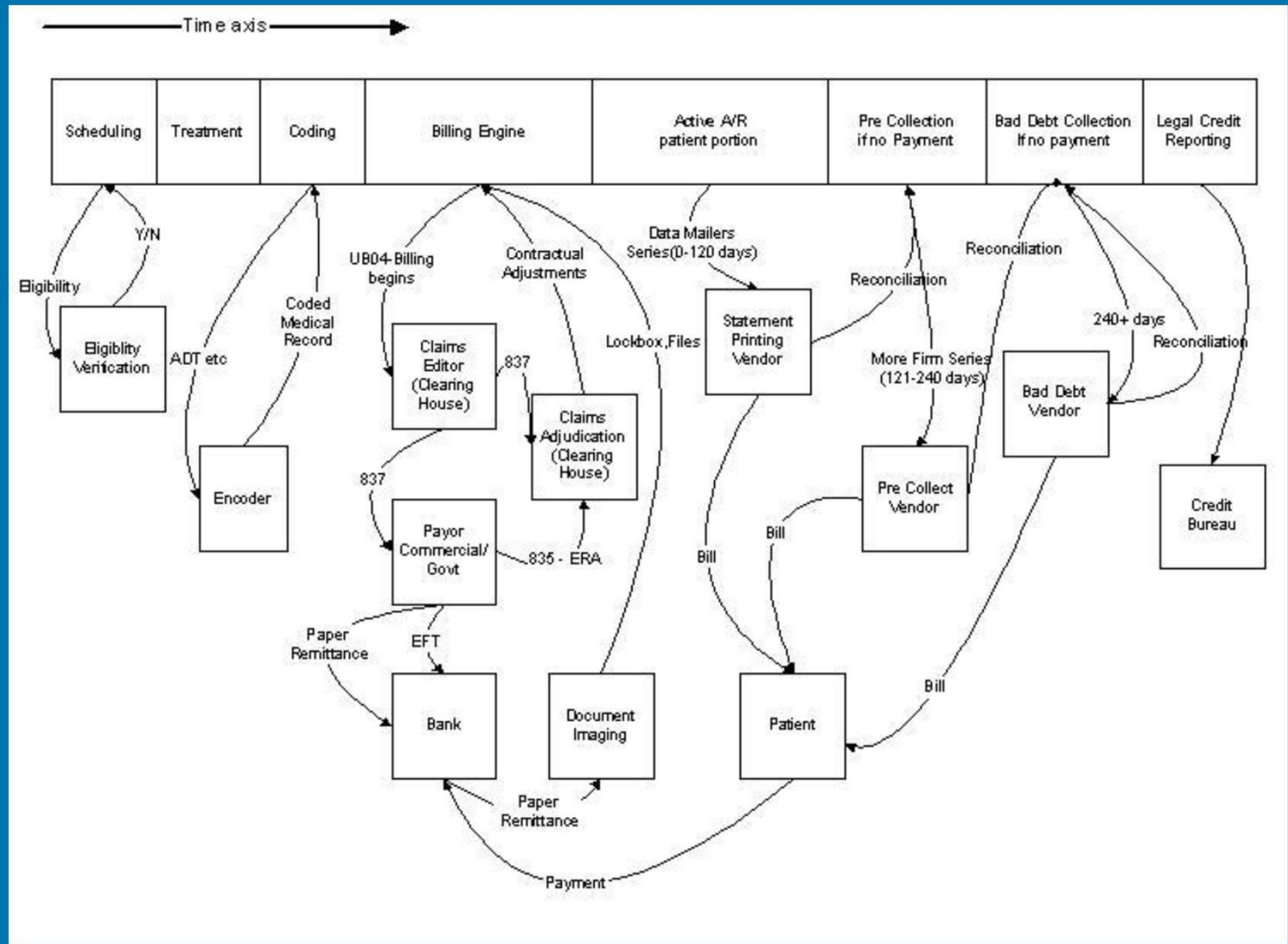
At a high level, revenue management starts at patient registration and ends at final collection of payment.



However, things are a little more complicated...



And get even more complicated!



Why is revenue cycle management important?

Hospitals exist in a very uncertain time.

Reimbursement risk runs high, and receiving payments from patients is not guaranteed.

The ability to capture lost revenue and improve the ability to forecast actual revenue received compared to the budget is necessary for hospitals' and other service providers' survival and vitality.

Inefficiencies occur.

15 cents

of every US
healthcare dollar
goes toward
revenue cycle
inefficiencies

*Source: McKinsey report - US
healthcare payments:
Remedies for an ailing system*

1% – 3%

industry estimates
on net revenue lost
to third-party claim
discrepancies

*Source: Healthcare Financial
Management Association (HFMA)
research paper*

2% – 3%

Cost to collect
payments for
healthcare
provider, annually

*Source: Healthcare Financial
Management Association (HFMA)
research paper*

Accuracy is important.

Critical Component

1



Patient Access

Gathering accurate patient information is the first step to ensure good revenue cycle management.



- Referral process
- Scheduling services
- Patient demographics
- Insurance verification
- Prior authorizations
- Point-of-Service collections
- Financial counseling
- Medicaid eligibility/charity care

Critical Component

2



Health Information Management

HIM is the practice of maintenance & care of all health records by traditional & electronic means that allow providers, payers & patients to communicate information.



- Medical transcriptions
- Diagnosis & procedure coding information
- Medication prescribing
- Other electronic health information
- Historical demographic data
- Used for billing & compliance

Critical Component

3

Charge Description Master & Charge Capture

The CDM is the comprehensive listing of all services, supplies, equipment and other items used in patient care with associated pricing.



- Appropriate charge capture is one of the most critical steps in revenue cycle management
- The CDM is used by almost all departments
- This database & process must be kept up-to-date at all times to ensure compliance, transparency & defensibility
- Ultimately the backbone of reimbursement determinant

Critical Component

4

Patient Financial Services

Patient Financial Services manages the patient claim from the time it is entered into the system to the time it is adjudicated.



- Maintain CDM
- Billing
- Oversee claims edits
- Follow up on appeals, denial & unpaid insurance claims
- Collections
- SMEs for third-party payer & government billing issues
- Customer service for patients

Increasing Complexity

The complexity of the hospital billing process has evolved significantly over the past several years.

Increasing number of health insurance & government funded healthcare benefit programs - ACA

Enhanced regulation of the healthcare industry

More complex contracts between providers & payers

Variation in payer guidelines that impact claim forms, clean claim status, reimbursement methods, etc.

Changing economic burden placed on patient to pay deductibles & co-pays

Reimbursement Methodologies

Hospital

- Percent of Charge**
- Per Diems**
- Case Rate Payment**
 - **DRGs**
 - **MS-DRGs**
- Ambulatory Patient Groupings (APGs)**
- Ambulatory Payment Classifications (APCs)**
- Other**
 - **Value-based**
 - **Episode of Care**
 - **Shared Savings**
 - **Capitation**

Professional Services

- Fee for Services with/without discounts**
- Fee Schedules**
- RBRVS**
- Capitation**
 - **Withholds**
 - **Pools**
- Case Rates**
- Value-based**
- Shared Savings**
- Episode of Care**
- Global Budget**

Government Payers

Commercial Payers

Managed Care Payers



Business Capital

Business Capital

Business capital can be described in several different ways, but essentially it is the money necessary to start, fund and operate a business.

Financing Capital (inflow of funds)

- Debt (e.g., private or public)
- Equity (e.g., sale of company stock)
- Partner/Venture (e.g., from private investors)

Fixed Capital (outflow of funds)

- Portion of total capital outlay of a business invested in physical assets such as land, buildings, and equipment that stay in the business almost permanently, or, more technically, for more than one accounting period

Working Capital (inflow & outflow)

- Current assets minus current liabilities
- Can be positive or negative
- Used to run the day-to-day activities of the business

Working Capital

Hospital departments have the most influence on working capital through revenue production and expense control.

Increased financial pressures on hospitals have elevated the importance of working capital management for hospitals' profitability.

Efficient working capital management allows hospitals to reduce their holdings of current assets, such as inventory and accounts receivable, which earn no interest income and require financing with short-term debt.

The resulting cash inflows can be reinvested in interest-bearing financial instruments or used to reduce short-term borrowing, thus improving the profitability of the organization.

Financial Statements

Budgeting
Income Statement
Balance Sheet
Statement of Cash Flows



The Budget: A detailed financial plan of proposed revenue and expenditures over a specified future period.

1

Must be based on strategic & operating plans

2

Budget Methods

- Conventional
- Zero-based
- Bottom-Up
- Top-Down

3

Budget Types

- Operating
- Capital

4

Budget Flexibility

- Fixed
- Flexible
- Rolling

5

A variance analysis between budgeted and actual results should be performed periodically

Objective of Financial Statements

Financial statements are useful tools for internal and external stakeholders

Provide information useful for the entity's stakeholders

- Owners, Management, Directors
- Creditors
- Regulatory agencies
- Investors

Support business and economic decisions

- Transparency – understand the health of a business and how well resources are being managed
- Management principle – If you can't measure it, you can't manage it

Used to formulate budgets

- Use historical data to create plans
- Compare actual results to planned targets



Income Statement

Income Statement

Reports the “profitability” of operations

Net income = “bottom line”

Specific period of time

- Monthly
- Quarterly
- Annual (fiscal year)

$$\text{Net Income} = \text{Revenue} - \text{Expenses}$$

Income Statement – Generic Example

Generic Hospital - Income Statement

January 2018, Month-to-date

Operating Revenue:

Net Patient Service Revenue	\$550,000
Other Revenue	<u>100,000</u>
<i>Total Operating Revenue</i>	<i>650,000</i>

Operating Expenses:

Salary, Wages, & Fringe Benefits	450,000
Provision for Bad Debts	50,000
Depreciation	10,000
Other Expenses	<u>100,000</u>
<i>Total Operating Expenses</i>	<i><u>610,000</u></i>

Income (loss) from operation 40,000

Non-Operating Gains (losses)

Total Non-operating Gains (losses) 50,000

***Net Income / (Loss)* \$90,000**


Income Statement – Net Patient Service Revenue (NPSR)

Generic Hospital – Income Statement

February 2023 Month-to-Date

Operating Revenue:

Net Patient Service Revenue (NPSR)	\$550,000
Other Revenue	<u>100,000</u>
Total Operating Revenue	\$650,000



Gross Patient Service Revenue (GPSR)	\$1,170,000
Less: Charity/Free Care	(20,000)
Less: Contractual Adjustments	<u>(600,000)</u>
Net Patient Service Revenue (NPSR)	<u>\$ 550,000</u>

Net Patient Service Revenue consists of...

- Gross Patient Service Revenue (GPSR) – charges for services provided to patients (sources include: E&M, surgery, procedures, casts, radiology, etc.)
- Charity/Free Care – work done for patients without insurance
- Contractual Adjustment – amount of charges not expected to be paid based upon contractual agreements

Income Statement – *Other Revenue*

Generic Hospital - Income Statement

February 2023, Month-to-date

Operating Revenue:

Net Patient Service Revenue	\$550,000
Other Revenue	<u>100,000</u>
<i>Total Operating Revenue</i>	<i>650,000</i>

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Salary, Wages, & Fringe Benefits	450,000
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<i>Total Operating Expenses</i>	<i><u>610,000</u></i>
<i>Income (loss) from operation</i>	<i>40,000</i>

Non-Operating Gains (losses)

Total Non-operating Gains (losses)	<u>50,000</u>
<i>Net Income / (Loss)</i>	<i>\$90,000</i>

Other Revenue consists of...

- Ancillary services (includes Physical Therapy, MRI, Surgical Center, etc.)
- Grants
- Provider wages from other entities (includes Health Center revenue and Contract revenue)

Income Statement – Operating Expenses

Salary, Wages, & Fringe Benefits

- HCP and support staff salary, wages, and fringe benefits make up >70% of all operating expenses

Provision for Bad Debts

- Amount of revenue expected to be collected, but not actually collected

Depreciation

- Reduction in the value of company assets with the passage of time

Other (Operating) Expenses

- Include: billing company fees, malpractice, clinical supplies, institutional fees, rent, administrative costs, etc.

Generic Hospital - Income Statement	
<i>February 2023, Month-to-date</i>	
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Non-Operating Gains (losses)	
Total Non-operating Gains (losses)	<u>50,000</u>
Net Income / (Loss)	\$90,000

74%

Income Statement – *Non-Operating Gains (Losses)*

Generic Hospital - Income Statement

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Non-Operating Gains (losses)

Total Non-operating Gains (losses)	<u>50,000</u>
------------------------------------	---------------

Net Income / (Loss) ***\$90,000***

Non-Operating Gains (Losses)

- Income derived from activities not related to core operations
- Includes profits (and losses) from investments, donations and other non-operating revenues and expenses

What Does it Mean?

Common Profitability Ratios

Operating Margin - Measures a company's profit after paying operating costs

[Net Operating Margin / Total Operating Revenue]

Total Margin - Measures a company's net profit, inclusive of both operating and non-operating costs

[Net Income / Total Operating Revenue]

Bad Debt % - Measures the % of collectible revenue or GPSR that has been lost

[Provision for Bad Debts / Gross Patient Service Revenue]

Income Statement – Profitability Ratios

Generic Hospital - Income Statement

February 2023, Month-to-date

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------------------------------------	---------------

Net Income / (Loss) \$90,000

Operating Margin

$$40,000/650,000 = 6.2\%$$

Total Margin

$$90,000/650,000 = 13.8\%$$

Bad Debt %

$$50,000/1,170,000 = 4.3\%$$

These ratios should be shown as trends as well as compared to like-sized organizations for benchmarking.



Balance Sheet

Balance Sheet

Presents financial position as of a specific date

Lists a company's assets

- Tangible & intangible items of value an entity owns or controls
- Were acquired at a measurable cost

Lists a company's sources of funds to acquire assets

- Liabilities
- Equity

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Balance Sheet – Generic Example

Generic Hospital – Balance Sheet

February 28, 2023

Assets:

Cash and cash equivalents	\$1,000,000	
Patient Accounts Receivable	300,000	
Prepaid Expenses	<u>200,000</u>	
<i>Total Current Assets</i>		<i>\$1,500,000</i>
Property, Plant & Equipment	<u>100,000</u>	
<i>Total Non- Current Assets</i>		<i><u>100,000</u></i>
Total Assets		<u>\$1,600,000</u>

Liabilities and Equity:

Accounts Payable and accrued expenses	<u>\$1,200,000</u>	
<i>Total Current Liabilities</i>		<i>\$1,200,000</i>
Long-term Debt	<u>250,000</u>	
<i>Total Non-Current Liabilities</i>		<i>250,000</i>
Capital Stock	50,000	
Retained Earnings	<u>100,000</u>	
<i>Total Equity</i>		<i><u>150,000</u></i>
Total Liabilities and Equity		<u>\$1,600,000</u>

Balance Sheet – Current vs. Non-Current Assets

Current Assets

- Used in normal business cycle (<1 year)
- Cash and cash equivalents
- Marketable securities - temporary investments, easily converted to cash
- Inventories
- Listed in order of decreasing “liquidity”

Non-Current Assets

- Not expected to be depleted within 1 year
- Land = original cost
- Investments

Generic Hospital – Balance Sheet

February 28, 2023

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<i>Total Liabilities and Equity</i>		<i><u>\$1,600,000</u></i>

Balance Sheet – Liabilities & Equity

Liabilities

- Funds owed
- Accounts Payable and accrued expenses include:
 - Amounts owed to suppliers, contractors, etc.
 - Short term loans (lines of credit)
 - Long-term debt

Equity (net assets)

- Funds obtained from equity investors (owners who supply “capital”)
- Retained earnings or accumulated net income (profit)

Generic Hospital – Balance Sheet

February 28, 2023

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<i>Total Equity</i>		<i><u>150,000</u></i>
Total Liabilities and Equity		<u>\$1,600,000</u>

What Does it Mean?

Common Liquidity Ratios

Working Capital – Identifies the dollar value of excess assets (liabilities)

[Current Assets – Current Liabilities]

NOTE: Negative working capital indicates financial weakness.

Current Ratio - Measures a company's liquidity (ability to fund short-term debt)

[Current Assets / Current Liabilities]

NOTE: Assets greater than liabilities indicates financial strength.

Days in Accounts Receivable – Indicates the number of days it takes to collect payments owed to the company

[Net Patient A/R / (Net Patient Service Revenue/365)]

Days Cash on Hand – Measures the number of days the business could operate with current cash available

[(Cash + Cash Equivalents) / ((Total Oper. Exp – Depreciation)/365)]

Balance Sheet – Liquidity Ratios

Generic Hospital – Balance Sheet February 28, 2023

Assets:

Cash and cash equivalents	\$1,000,000	
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Working Capital

(Current Assets less Current Liabilities)

$$\underline{300,000} = 1,500,000 - 1,200,000$$

Current Ratio

(Current Assets / Current Liabilities)

$$\underline{1.25} = 1,500,000 / 1,200,000$$

Days in Patient Accounts Receivable

(Net Patient A/R / (Net Patient Revenue/365))

$$\underline{199} = 300,000 / (550,000^*/365)$$

Days Cash on Hand

((Cash + Cash Equivalents) / ((Total Op. Expense – Depreciation)/365))

$$\underline{608} = 1,000,000 / ((610,000^* - 10,000^*)/365)$$

* Refer to the income statement



Statement of Cash Flows



Statement of Cash Flows

Details why the amount of cash has increased or decreased during a specific time

Shows the flows of cash in and out of the business

Statement is divided into the following sections

- 1) Operating activities
- 2) Investing activities
- 3) Financing activities

Cash Flows Statement – Generic Example

Generic Hospital – Statement of Cash Flows

YTD for period ending February 28, 2023

Cash flows from operating activities:

Patient accounts receivable	\$120,000	
Accounts payable	(60,000)	
Depreciation	70,000	
Provision for bad debts	<u>20,000</u>	
<i>Net cash provided by operating activities</i>		<i>\$150,000</i>

Cash flows from investing activities:

Property, Plant & Equipment	(110,000)	
Capital expenditures	<u>(20,000)</u>	
<i>Net cash used in investing activities</i>		<i>(130,000)</i>

Cash flows from financing activities:

Long-term debt & capital leases	<u>(5,000)</u>	
<i>Net cash used in financing activities</i>		<i><u>(5,000)</u></i>

Net increase (decrease) in cash *\$15,000*

Cash, Beginning of Period *985,000*

Cash, End of Period *\$1,000,000*



The Future

Changing Environment

Healthcare delivery will change significantly by 2050

Rising of new technologies

Chromosome-modifying machines will be able to slow the aging process resulting in longer life spans

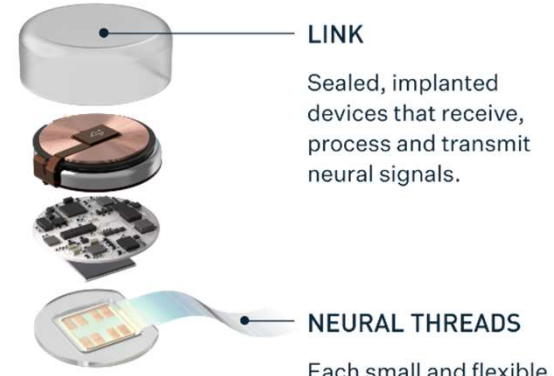
AI will replace human workforce for many common tasks, including diagnosing some current health conditions and predicting future ones

We will go from “wearables” to “internals” (flexible electronic patches, nanoparticles, nanomachines, etc.)

Robotic exoskeletons, cybernetics, ocular implants, neural implants and artificial organs will be commonplace

Gene editing and bioprinting to cure conditions and degenerative diseases will become more mainstream

The future is closer than you think...





Summary

What have we learned today?

1

Role of financial management in hospitals

2

Revenue cycle management

3

Business capital

4

Budgeting, Financial Statement & ratio analysis

5

Future trends



Questions?

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Thank you.

