

INDEX

A

Accounting basics: accounting entity, 32–33; accounting equations, 36–37; accounting period, 33; accounting principles, 32; accounting value, 36; accrual accounting, 34; conservatism, consistency, and comparability financial reporting, 35–36; expenses and depreciation, 38–40*e*, 39*e*; full disclosure and transparency, 35; importance of, 31–32; materiality, 35; monetary unit, 34; objectivity, 34; revenues, 38. *See also* Financial statements

Accounting equations: assets, 36–37, 98; average age of plant, 73; balance sheet, 53–54*e*; calculating days of cash on hand, 67; days revenue in accounts receivable ratio, 68; debt service coverage, 72; debt-to-equity, 71, 98; financial “ground zero,” 36; financial ratio, 65; liabilities, 37; liquidity ratios, 66; net present value calculations, 122–123; operating margin, 69; owners equity, 37; payback analysis, 120; present value of future sums of money, 122; total assets turnover, 72; total margin, 69

Accounts payable, 52

Accrual accounting, 34

Accumulated depreciation, 51

Activity ratios, 72–73

Adverse opinion, 131

AHERF (Allegheny Health, Education, and Research Foundation), 127, 128

AICPA (American Institute of Certified Public Accountants), 32

American College of Healthcare Executives, 154

American Governance Leader, 155

Assets: accounting equation of, 36–37, 98; balance sheet listing current, 50; balance sheets listing noncurrent, 50–51; depreciation of, 39*e*–40*e*; PPE (property, plant, and equipment) or fixed, 51; total, 51

Audit: described, 131; as financial control, 16; five types of opinion letters following, 131–134

Audit committee, 129–131, 143

Auditors: five types of opinions issued by, 131–134; postaudit conference discussion with, 134*e*–135*e*

Average age of plant, 73

B

Bad debt (provision for uncollectables), 48

Balance sheet: accounting equation of, 53–54*e*; boardroom activities regarding, 57–58; described, 48–49*e*, 50; EPFH example of, 48–49*e*, 50–54*e*, 61*e*; information listed on left side of, 49*e*, 50–51; information listed on right side of, 49*e*, 51–53; summary of, 53–54*e*

Baylor Hospital (Texas), 25

Best effort broker relationship, 105

Blue Cross, 25

- Blue Shield, 25
- Board checklist, 149–153
- Board financial calendar, 143, 144e–146e, 147
- Board Work* (Pointer and Orlikoff), 154
- Boardroom activities: financial information, 56–58; financial integrity/credibility, 138–139; financial responsibilities, 17–18; financial statement analysis, 79; financing, 108–109; general board responsibilities, 8–10; planning, 95–96. *See also* Health care organization boards
- Boards That Make a Difference* (Carver), 154
- Bond document, 58
- Bond insurer, 106
- Bond rating categories/scales: described, 101–102; distribution of, 105e; factors affecting, 102–103; by rating agencies, 101e; selected financial ratios of, 104e
- Bonds: features of, 107–108; types of, 106–107
- Book value, 51
- Borrower, 103
- Bottom line, 48
- Budgeting: board involvement in, 94; five budget components used in, 93–94; recommendations for, 94. *See also* Financial planning
- Burns, L., 128
- C**
- California Medical Society, 25
- Call provisions, 107
- Capital budget component, 94
- Capital cycle, 112e
- Capital investment: approaches to, 113–114; financial analysis of proposed, 117e–119e, 120–124; importance of decisions regarding, 112–113; types of, 114–117
- Capital project analysis: analytical factors used in, 117e–118, 120; on illustrative cash flows, 119e; integrating financial/nonfinancial criteria, 123–124; net present value analysis, 121–123e, 122e; payback analysis, 120–121e
- Capital projects: described, 118; financial analysis of, 117–119e, 120–124; risk of, 116e–117; types of, 114–115
- Capital structure ratios: described, 71–72; financing decisions and, 98–100
- Carver, J., 154
- Cash budget component, 94
- Cash (cash equivalents): calculating days of cash on hand, 67; described, 50
- Cash flows: calculating, 67; calculating present value of estimated cash flow generating in year three, 122; calculating present value of future sums of money, 122; calculating sum of present value cash flow over project life span, 123; capital project analysis on, 118, 119e, 120; statement of cash flows information on, 54–55. *See also* Statement of cash flows
- CEO (chief executive officer), 147–148, 154
- CFO (chief financial officer), 147–148
- Championship capital investment approach, 114
- Charity care, 47
- Chartbook on Trends in the Health of Americans* (National Center for Health Statistics), 19
- Checklist, 149–153
- CMS (Centers for Medicare and Medicaid Services), 26, 28
- “Code of conduct,” 137–138
- Commercial plans, 25
- Composition of governance, 10
- Core purposes: defining, 83–84; of EPFH (E. Polley Francis Hospital), 85e; relation to vision, 83e
- Core values: defining, 84; of EPFH (E. Polley Francis Hospital), 85e; relation to vision, 83e
- Covenants, 108
- Credit enhancement, 107
- Creditworthiness, 100–103
- Current assets, 50

Current liabilities, 51–52
 Current portions of long-term debt, 52
 Current ratio, 66

D

“Dashboard” system, 76, 78
 Days of cash on hand, 67
 Days revenue in accounts receivable ratio, 67–68
 Debenture, 106
 Debt: balance sheet listing of long-term, 52–53; as financing source, 98; increase of risk due to, 99; provision for uncollectables or bad, 48
 Debt service coverage, 71–72
 Debt-to-equity ratio: capital structure quantified by, 98; described, 71; leverage and, 99
 Decision making: examples of board, 7; four options of board, 6
 Dennis D. Pointer & Associates, 154
 Dennis M. Stillman Associates, 148
 Depreciation: accumulated, 51; calculating asset, 40e; calculating average age of plant, 73; described, 39e
 Disclaimer of opinion, 132
 Discount rate, 118
 DRGs (diagnosis-related groups): described, 27; Medicare flat rate of payment for, 46

E

Ending cash balance, 55
 Enron, 127
 EPFH (E. Polley Francis Hospital): average age of plant for, 73; balance sheet for, 48–49e, 50–54e, 61e; capital structure of, 98–99; current ratio of, 66; days in accounts receivable for, 68; days of cash on hand for, 67; debt service coverage of, 72; debt-to-equity, 71; financial statements used by, 43–44; horizontal and vertical financial analyses of, 62–63e, 64e–65; net income or bottom line of, 48; net income from operations of, 48; net

nonoperating income of, 48; operating expenses of, 47–48; operating margin of, 70; operating statistics of, 74e; return on equity of, 70–71; revenue from operations of, 46, 47; revenue/expense summary of, 45e, 60e; statement of cash flows for, 55e, 62e; total assets turnover for, 73; unqualified audit opinion letter issued for, 133e; vision of, 82, 85e; working capital calculated for, 52. *See also* Financial statement analysis; Financial statements
 Equity. *See* Owners equity
 Executive performance responsibility, 4
 Expansion capital projects, 115
 Expense budget component, 94
 Expenses: boardroom activities regarding, 57; defining, 38–39; depreciation, 39e–40e; EPFH revenue/expense summary, 45e, 60e; financial statements on operating, 47–48

F

“The Fall of the House of AHERF, the Allegheny Bankruptcy” (Burns and Colleagues), 128
 Feasibility consultant, 106
 Fiduciary duty of loyalty of, 3
Finance in Brief: Six Key Concepts for Healthcare Leaders (Kaufman), 155
 Finance committee, 16–17, 143
 “Financial boot camps” (Dennis D. Pointer & Associates), 154
 Financial calendar, 143, 144e–146e, 147
 Financial integrity/credibility: audit committee role in, 129–131; board actions to ensure, 128–129; boardroom activities associated with, 138–139; emerging expectations and standards of, 136–138; internal controls to ensure, 136; public debacles over, 127–128
 Financial planning: assumptions and estimates used in, 91–93; benefits of, 87–88; described, 87; example of components and relationships in, 91e; as juxtaposing financial needs with

- capacity, 88–90e, 89e; long-range, 88.
See also Budgeting
- Financial responsibilities: boardroom activities associated with, 17–18; controls and audit as, 16; core board, 4, 12–13; using “dashboard” system to fulfill, 76, 78; the frog in water syndrome and, 77; key components and relationships, 13e; key relationships regarding, 41e; monitoring and assessing as, 15–16; objectives of, 13–14; organization/finance committee used to fulfill, 16–17; planning as, 15
- Financial statement analysis: boardroom activities associated with, 79; financial oversight using, 76–77e, 78; horizontal and vertical, 62, 64e–65; ratio analysis, 65–76; three types of, 60. *See also* EPFH (E. Polley Francis Hospital)
- Financial statements: analyzing, 59–79; balance sheet, 48–49e, 50–54e; boardroom activities associated with, 56–58; described, 43–44; GAAP governing structure/format of, 44, 90; revenue/expense summary on, 44–48, 45e; statement of cash flows, 54–55e. *See also* Accounting basics; EPFH (E. Polley Francis Hospital)
- Financial worthiness, 124
- Financing: boardroom activities associated with, 108–109; capital structure ratios and, 71–72, 98–100; creditworthiness and, 100–103; equity and debt sources of, 98; long-term debt, 52–53, 103, 105–108
- Financing activities, 55
- FitchRatings, 101
- Fixed assets (or PPE), 51
- The frog in water syndrome, 77
- Full financial disclosure, 35
- G**
- GAAP (generally accepted accounting principles): accounting period requirement of, 34; accounting value determined by, 36; annual audit using, 16; described, 32; financial statements compiled following, 44, 90; unqualified audit opinion and, 132–133e
- GAAS (generally accepted audit standards), 131
- Gapenski, L., 155
- GASB (Government Accounting Standards Board), 32
- Getting to Great: Principles of Health Care Organization Governance* (Pointer and Orlikoff), 154
- Governance. *See* Health care organization board governance
- “Ground zero” accounting equation, 36
- Group-model HMO, 28
- H**
- Health care expenditures: the big picture on, 20–23e; distribution for services, 23e
- Health Care Financing Administration, 27
- The Health Care Industry: A Primer for Board Members* (Pointer and Williams), 19, 154
- Health care organization board governance: dimensions of, 2e; “enablers” of, 9–10; resources on, 154–156; specific work of, 8–9e; strategic planning as element of, 86–87
- Health care organization board policy, 7e
- Health care organization board roles: decision making, 6, 7e; engaging in oversight, 8; financial steward, 142; formulating policies, 6, 7e; regarding financial integrity/credibility, 128–129
- Health care organization boards: additional tasks of, 5; boardroom tasks of, 10; budgeting involvement by, 94; checklist for, 149–153; “code of conduct” of, 137–138; diversity of, 1; fiduciary duty of loyalty of, 3; financial calendar, 143, 144e–146e, 147; financial integrity/credibility role of, 128–129; financial performance over-

- sight process by, 77e, 78; governance work of, 2e, 8–9e; helpful resources for, 154–156; obligations of, 2; parting admonitions for, 141–148; responsibilities of, 3–4, 142–143, 147–148; roles of, 6, 8, 10. *See also* Boardroom activities
- Health care personnel, 22e
- Health insurance: described, 23–24; HMO (health maintenance organizations), 25, 28–29; national statistics on, 21e; social insurance (Medicare), 24, 26–27; three types of, 24; VHI (voluntary health insurance), 24–26; welfare insurance (Medicaid), 24, 28
- Health Insurance Coverage* (Bureau of the Census, 2000), 20
- Health Insurance Coverage and the Uninsured* (Health Insurance Institute of America), 20
- Health, United States—2002* (National Center for Health Statistics), 20
- Healthcare Finance: An Introduction to Accounting and Financial Management* (Gapenski), 155
- HFMA (Healthcare Financial Management Association), 32
- HFMA Principles and Practice Board, 32
- Historical capital investment approach, 113–114
- HMO (health maintenance organizations): overview of, 25, 28–29; revenue from operations for, 46
- Horizontal financial analysis, 62, 64e
- Hospitals: HMOs (health maintenance organizations) and, 29; national statistics on, 21e–22e
- I**
- Income statement, 46
- Infrastructure of governance, 10
- Insurance. *See* Health insurance
- Interest expenses, 47
- Interests (coupon) rate, 107
- Internal controls, 136
- Inventories, 50
- Investing activities, 55
- Investment banker, 105
- Issuing authority, 105
- K**
- Kaufman, K., 155
- Key goals: defining, 84; of EPFH (E. Polley Francis Hospital), 85e; relation to vision, 83e
- King, M. L., Jr., 142
- Kroc, R., 77
- L**
- Legal counsel, 106
- Leverage, 99
- Liabilities: balance sheet listing, 51–53; current, 51–52; described, 37; long-term debt, 52–53, 103, 105–108
- Liquidity ratios, 66–68
- LLCs (limited liability companies), 33
- LLPs (limited liability partnerships), 33
- Long-term debt (noncurrent liabilities): current portions of, 52; described, 52–53; financing using, 103, 105–108
- Long-term investments, 51
- M**
- Mandated capital projects, 115
- Market, 105–106
- Materiality (accounting), 35
- McDonald's, 77
- Medicaid: described, 24, 28; revenue from DDRG rate paid by, 46
- Medicare, 24, 26–27
- Medicare Part A, 26–27
- Medicare Part B, 27
- Mental/behavioral health statistics, 22e
- Mimic capital investment approach, 114
- Modern Healthcare* (magazine), 154
- Monetary unit, 34
- Moody's Investors Service, 101
- Mortgage bond, 106
- Municipal bond (“muni” or tax-exempt), 106–107

N

Net accounts receivable, 50
 Net cash flow from operations, 55
 Net income, 48
 Net income from operations, 48
 Net nonoperating income, 48
 Net present value analysis: calculating, 123*e*; described, 121–123; structure of, 122*e*
 New initiatives capital projects, 115
 Noncurrent assets, 50–51
 Nonoperating revenues, 38
 Nursing homes statistics, 22*e*
 NYSE (New York Stock Exchange) rules, 136–137

O

Objectivity (accounting), 34
 Operating activities, 55
 Operating expenses, 47–48
 Operating improvement capital projects, 115
 Operating margin, 69–70
 Operating revenues, 38
 Operating statistics, 73–74*e*
 Organizational ends responsibility, 3–4
 Orlikoff, J., 154
 Owners equity: calculating, 53; debt-to-equity ratio, 71; described, 37; as financing source, 98; return on, 70–71

P

Payback analysis, 120–121*e*
 Payroll accruals, 52
 PCs (professional corporations), 33
 Physician national statistics, 22*e*
 Placement, 107
 Planning: boardroom activities associated with, 95–96; budgeting, 93–94; financial, 87–93; vision and strategic, 82–85*e*, 86*e*–87, 124
 Planning cycle, 82*e*
 Pointer, D., 19, 154
 Political capital investment approach, 114
 Popularity capital investment approach, 113

PPE (property, plant, and equipment), 51
 Prepaid items, 50
 Principles and Practice Board (HFMA), 32
 Profitability ratios, 68–71
 Provision for uncollectables (bad debt), 48
 Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002, 136, 137
 Public welfare insurance, 24

Q

Qualified opinion, 132
 Quality of care responsibility, 4

R

Ratio analysis: activity ratios, 72–73; calculating, 65; capital structure ratios, 71–72, 98–100; four types of, 65; liquidity, 66–68; operating statistics used in, 73–74*e*; profitability, 68–71; trends in using, 74–76, 75*e*
 RBRVS (resource-based relative value scale), 27
 Reserve fund, 108
 Retirement schedule, 108
 Return on equity, 70–71
 Revenue budget component, 93–94
 Revenues: boardroom activities regarding, 57; days revenue in accounts receivable ratio, 67–68; EPFH revenue/expense summary, 45*e*, 60*e*; financial statement summary of, 44–47; operating and nonoperating, 38
 Risk: capital project, 116*e*–117; due to debt, 99
The Role of the Board of Directors in Enron's Collapse (2002), 128

S

Sarbanes-Oxley Act (2002), 136, 137
 Securities and Exchange Commission (SEC), 103
 Self-funded plans, 25
 Social insurance (Medicare), 24, 26–27
 Social Security Act (Title 18), 26

Social Security Act (Title 19), 26
Source Book of Health Insurance Data
 (Health Insurance Institute of America), 20
 Staff-model HMO, 28
 Standard and Poor's, 101
 Statement of cash flows: described, 54–55;
 example of, 55*e*, 62*e*. *See also* Cash
 flows
 Statement of operations, 46
 Statistical budget component, 93
 Strategic planning: capital project analysis
 as part of, 124; governing and manag-
 ing aspects of, 86–87; illustrated dia-
 gram of, 86*e*; vision as part of, 82–85*e*
 Structure of governance, 9

T

Taxable bond, 107
 Terminal value, 118
 Time zero (up-front outlays), 118
 Title 18 (Social Security Act), 26
 Title 19 (Social Security Act), 26
 Total assets, 51
 Total assets turnover, 72–73
 Total margin, 69, 70

Transparency (financial), 35
 Trustee, 106
Trustee Magazine, 154

U

Underwriter, 105
 Unqualified, or clean, opinion, 132–133*e*
 Unqualified opinion with explanatory
 language, 132
 Up-front outlays (time zero), 118

V

Vertical financial analysis, 63*e*, 64*e*
 VHI (voluntary health insurance), 24–26
 Vision: as capital project analysis factor,
 124; comparing mission and, 83; core
 purposes/core values, key goals of,
 83*e*–84; defining, 82; of EPFH (E. Pol-
 ley Francis Hospital), 82, 85*e*

W

Website resources, 155–156
 Welfare insurance (Medicaid), 24, 28
 Williams, S., 19, 154
 Working capital: boardroom activities
 regarding, 57; calculating, 52

