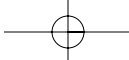


CONTENTS

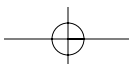
List of Exhibits	xi
Foreword	xv
Preface	xvii
About the Authors	xxiii
1 Governing	1
Obligations	2
Responsibilities	3
Roles	6
Governance Work	8
Governance “Enablers”	9
In the Boardroom	10
2 Financial Responsibilities	11
Objectives	13
Plans	15
Monitoring and Assessing	15
Controls and the Audit	16
Organization	16
In the Boardroom	17
3 Health Care Industry Financial Structure and Dynamics	19
The Big Picture	20

Health Insurance	23
Voluntary Health Insurance	24
Social Insurance (Medicare)	26
Welfare Insurance (Medicaid)	28
Health Maintenance Organizations	28
4 Accounting Basics	31
Accounting Principles	32
Accounting Entity	32
Accounting Period	33
Monetary Unit	34
Objectivity	34
Accrual Accounting	34
Materiality	35
Full Disclosure and Transparency	35
Conservatism, Consistency, and Comparability	35
Accounting Value	36
Accounting Equation	36
Revenues	38
Expenses	38
Summary	40
5 Reading Financial Statements	43
Revenue/Expense Summary	44
Balance Sheet	48
Statement of Cash Flows	54
In the Boardroom	56
6 Analyzing Financial Statements and Overseeing Financial Performance	59
Horizontal and Vertical Analyses	62
Ratio Analysis	65
Financial Oversight	76
In the Boardroom	79

7	Looking Forward: Vision, Strategies, Financial Plans, and Budgets	81
	The Vision and Strategic Planning	82
	Financial Planning	87
	Budgeting	93
	In the Boardroom	95
8	Source of Funds: Financing	97
	Capital Structure	98
	Creditworthiness	100
	Long-Term Debt Financing	103
	In the Boardroom	108
9	Use of Funds: Capital Investment	111
	Approaches	113
	Types of Capital Investment	114
	Financial Analysis of Capital Projects	117
	In the Boardroom	124
10	Financial Integrity and Credibility	127
	Audit Committee	129
	The Audit	131
	Internal Controls	136
	Emerging Expectations and Standards	136
	In the Boardroom	138
11	The Finale	141
	Admonitions	141
	Checklist	149
	Resources	152
	 Appendix A: E. Polley Francis Hospital, Traditionally Configured Financial Statements	 155



Appendix B: Executive Summary of Sarbanes-Oxley Act Provisions and NYSE Governance Rules	161
Appendix C: E. Polley Francis Hospital, Illustrative Code-of-Conduct Provisions	169
Index	171



LIST OF EXHIBITS

1.1	The Dimensions of Governance	2
1.2	Types of Board Policies	7
1.3	Governance Work	9
2.1	The Board's Responsibility for Finances: Key Components and Relationships	13
3.1	The U.S. Health Care Industry at a Glance	21
3.2	Distribution of Expenditures for Health Care Services	23
4.1	Depreciation	39
4.2	Illustrative Depreciation Calculation	40
4.3	Key Relationships	41
5.1	E. Polley Francis Hospital's Revenue/Expense Summary for Period Ending December 31, 2006	45
5.2	E. Polley Francis Hospital's Balance Sheet for December 31, 2006	49
5.3	The Balance Sheet at a Glance	54
5.4	E. Polley Francis Hospital's Statement of Cash Flows	55
6.1	E. Polley Francis Hospital's Revenue/Expense Summary for Years Ending 2006 and 2005	60

6.2	E. Polley Francis Hospital's Balance Sheet for December 31, 2006, and December 31, 2005	61
6.3	E. Polley Francis Hospital's Statement of Cash Flows for Years Ending December 31, 2006 and 2005	62
6.4	E. Polley Francis Hospital: Illustrative Horizontal Financial Statement Analysis	63
6.5	E. Polley Francis Hospital: Illustrative Vertical Financial Statement Analysis	64
6.6	E. Polley Francis Hospital: Illustrative Operating Statistics	74
6.7	Graphical Trend Analysis	75
6.8	Board Financial Performance Oversight Process	77
7.1	The Planning Cycle	82
7.2	The Vision	83
7.3	A Vision: E. Polley Francis Hospital, Illustrative Purposes, Values, and Goals	85
7.4	The Strategic Plan	86
7.5	Financial Needs and Capacities	89
7.6	The Needs and Capacity Aspects of Financial Planning	90
7.7	Exemplary Financial Plan: Components and Relationships	91
8.1	Bond Rating Categories and Scales	101
8.2	Bond Ratings: Selected Financial Ratios (U.S. Nonprofit Health Systems and Hospitals, 2003)	104
8.3	Distribution of Bond Ratings (U.S. Nonprofit Health Systems and Hospitals, 2003)	105

9.1	The Capital Cycle	112
9.2	Project Risk	116
9.3	Analytical Factors	117
9.4	Illustrative Cash Flows: Proposed Capital Project	119
9.5	Payback Analysis	121
9.6	Net Present Value Analysis Structure	122
9.7	Net Present Value Calculation	123
10.1	Illustrative Unqualified Audit Opinion Letter	133
10.2	Issues That Might Be Discussed with the Auditor in a Postaudit Conference	134
11.1	Illustrative Board Financial Calendar	144
A.1	E. Polley Francis Hospital Revenue and Expense Summary for the Year Ending December 31, 2006, by Natural Class of Expense	156
A.2	E. Polley Francis Hospital Revenue and Expense Summary for the Year Ending December 31, 2006, by Service	157
A.3	E. Polley Francis Hospital Balance Sheet, December 31, 2006	158
A.4	E. Polley Francis Hospital Statement of Cash Flows for the Year Ending December 31, 2006	159

