

PREFACE FOR INSTRUCTORS

HEALTHCARE FINANCE CAN be a fascinating, exciting subject, yet students often regard it as being either too theoretical or too mechanical. The fact is, sound financial decision making requires good theory and analysis plus a great deal of insight and judgment. The best way to get this point across to students, and to demonstrate the inherent richness of the subject, is to relate classroom work to real-world decision making. This way, students must grapple not only with the concepts but also, more important, with how the concepts are applied in practice.

Of course, the most realistic application of healthcare finance occurs within healthcare organizations, and there is no substitute for on-the-job experience. The next best thing, and the only real option for the classroom, is to use cases to simulate the environment in which financial decisions are made.

Purpose

The purpose of this casebook is to provide students with an opportunity to bridge the gap between learning concepts in a classroom setting and applying them in the real world. By using these cases, instructors can help students who have a basic understanding of healthcare finance better prepare for the multitude of problems that arise in practice.

Content

This casebook consists of 33 cases that focus on healthcare finance issues. In general, each finance case addresses a single issue, such as capital budgeting

analysis or revenue cycle management, but the uncertainty of the input data, along with the presence of relevant nonfinancial factors, makes each case interesting and challenging. Because the cases focus on both accounting and financial management decisions, they cover the full range of healthcare finance. Furthermore, the cases occur in a wide variety of organizational settings, including hospitals, clinics, medical practices, home health care organizations, integrated delivery systems, and managed care organizations.

Use of the Cases in Courses

The cases can be used in different course formats:

- *Instruction-and-case format.* Some instructors use the cases as assignments in healthcare accounting and financial management courses. A course may include six to seven cases, which the students either present or discuss in class as guided by the instructor.
- *Case-only format.* Some programs with introductory course(s) in accounting and financial management use the cases in a subsequent course to focus on the application of finance concepts within healthcare organizations. This format is essentially a pure case course with 14 to 15 cases (one per week) assigned. The students have had sufficient lecture work in healthcare finance, so at this stage, learning by doing is the best way to prepare them for success in their chosen field.
- *Distance format.* The cases work particularly well in executive MHA programs. Executive students generally bring a great deal of real-world insight into their case analyses, which often makes the discussions livelier than those in traditional programs. In addition, the cases can be worked between class meetings, which allows plenty of time for group discussion and analysis.

Regardless of the course format, cases in healthcare finance are best analyzed by teams as opposed to individual students. Typically, a team of four or five students is assigned to present a case in class. Teams that are not presenting may turn in written reports and act as members of the board of directors during the presentation. They are responsible for asking relevant questions of the presenting team and pointing out any deficiencies in the

analysis. Teamwork provides excellent experience for students because almost all decision making in business is done in a group environment, and individuals who cannot work in groups are unlikely to succeed. Students need to know how to motivate the people who work for them and to be able to work with others in a cooperative manner. An in-class presentation also provides students with the opportunity to hone their presentation skills. Healthcare executives constantly state that the ability to communicate is critical to success in business. Knowledge of healthcare finance (or any other managerial discipline) is useless unless people can communicate their ideas to others.

For many instructors, the effective use of this casebook is enhanced by the ancillary materials that are available to those who adopt it:

- Spreadsheet models for students
- Spreadsheet models for instructors
- Case questions
- Case solutions
- PowerPoint presentations

Spreadsheet Models for Students

Spreadsheet analysis has become extremely important in all aspects of health-care finance, so the cases have accompanying models that allow students to hone and improve their spreadsheet skills. Furthermore, spreadsheet models can reduce the amount of busywork required to perform analyses, giving students more time to focus on the finance issues and qualitative factors that are relevant to the decision at hand.

To facilitate spreadsheet use, we developed well-structured, user-friendly models for each case. The spreadsheet models are efficient and hence big time-savers, especially when conducting risk assessment using techniques such as sensitivity and scenario analyses. In addition, spreadsheet models allow students to easily create graphics and other spreadsheet output that enhance the quality of both the analyses and the presentations.

As we considered students' use of these models, an important question arose: Should we provide complete models to students, or should students be required to do some (or all) of the modeling themselves? After testing several different approaches, we concluded that the best solution for most cases is to provide students with complete versions of the case models such that no modeling is required to obtain a base case solution. However, zeros

have been entered for all input data in the student versions, and hence students must identify and then enter the appropriate values. When this is done, the model automatically calculates the base case solution. However, the models do not contain risk analyses or other extensions such as graphics, so students must modify the models as necessary to make them most useful in completing the cases. The student versions of the case models can be accessed through the Health Administration Press website at www.ache.org/books/FinanceCases7. Students should visit the site to download the student versions of the models.

Spreadsheet Models for Instructors

Instructor versions of the spreadsheet models are available for all 33 cases. The instructor models differ from the student models primarily in that the input data are intact in the instructor versions—that is, instructors can view the base case solution without entering any data. In addition, some instructor versions include additional modeling, such as risk analyses.

Case Questions

In general, cases may be classified as directed or nondirected. Directed cases include a specific set of questions that students must answer to complete the case, while nondirected cases (as we use the term) contain only general guidance to point students in the right direction. The primary advantage of nondirected cases is that they closely resemble how real-world managers confront financial decision making, because the cases require students to develop their own solution approach. The disadvantage is that students who stray from the key issues of the cases often do not obtain full value from their effort.

In general, students with more advanced analytical and logic skills and with relevant work experience gain the most from nondirected cases, whereas students who have had less exposure to casework and little or no work experience gain the most from directed cases. The instructor's resources found online for this casebook contain a set of case questions for each case that allow nondirected cases to be converted into directed cases. Thus, instructors have the option of using the cases in either way, depending on the experience of the students, the objectives of the course, and the extent to which cases will be used.

Case Solutions

Each case has a comprehensive solution based on the case questions.

PowerPoint Presentations

Each case is accompanied by a slideshow that introduces the main features of the case and spreadsheet model, presents the solution, and then wraps up the case with three key learning points. Instructors may either use these slides as is or customize them to meet unique class needs.

Changes in the Seventh Edition

We have used the sixth edition in numerous courses since its publication and have benefited from many student comments and suggestions. Moreover, we have received suggestions from other instructors in a variety of settings. This feedback has resulted in many changes, both substantial and minor.

The cases are ordered and grouped into specific areas of financial management. In addition, they are frequently used in conjunction with the most recent editions of *Healthcare Finance: An Introduction to Accounting and Financial Management (HF)* and *Understanding Healthcare Financial Management (UHFM)*. The cases map to the chapters in these books as follows:

Many changes have been made to improve the cases and accompanying materials. Recent changes in the healthcare environment have been incorporated to ensure the cases remain contemporary. Many numerical values have been changed so that revenue and cost figures are more current and so that old case solutions posted on the internet are no longer relevant. Several typos have been corrected, wording and format improvements have been made, and website URLs have been updated.

The most substantial changes to the seventh edition are the following:

- *Case 4: Tulsa Memorial Hospital.* The performance metrics were changed and the data format was revised to increase clarity.
- *Case 6: Big Bend Medical Center.* Substantial revision of case questions and spreadsheets were undertaken to increase clarity.
- *Case 11: Century Oaks Health.* This case is new and focuses on budgeting for a start-up clinic. It asks students to apply revenue and expense budgeting concepts to a new clinic at both start-up and Year 2.

<i>Case</i>	<i>HF</i>	<i>UHFM</i>
1. New England Healthcare	2	2
2. Beaufort Family Physicians	2	3
3. Santa Fe Healthcare	2	3
4. Tulsa Memorial Hospital	5	
5. Shasta Faculty Practice	5	
6. Big Bend Medical Center	6	
7. Eagan Family Practice	6	
8. Dallas Health Network	6	
9. Cambridge Transplant Center	7	
10. Cascades Mental Health Clinic	8	
11. Century Oaks Health	8	
12. Gulf Shores Surgery Centers	9	4
13. Mid-Atlantic Specialty, Inc.	10	5
14. Pacific Healthcare (A)	11	6
15. Senior Care Enterprises	11	6
16. Pacific Healthcare (B)	12	7
17. Seattle Cancer Center	18	8
18. Southeastern Homecare	13	9
19. RN Temps, Inc.	13	10
20. Jones Memorial Hospital	14	11
21. Coral Bay Hospital	15	12
22. National Rehabilitation Centers	15	12
23. Northwest Suburban Health System	15	12
24. Commonwealth Health Plans	17	13
25. River Community Hospital (A)	17	13
26. River Community Hospital (B)		14
27. Mountain Village Clinic	16	15
28. Foster Pharmaceuticals	16	15
29. Clarinda Community Hospital	16	15
30. Milwaukee Regional Health System	16	15
31. St. Benedict's Teaching Hospital	18	16
32. Beachside Health Partners	18	16
33. Bedford Clinics	18	16

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- *Case 20: Jones Memorial Hospital.* This case was completely rewritten to focus on basic calculations and decision criteria in capital budgeting. The student version of the model is a format guide only because the objective is for students to attempt basic calculations themselves. The key to student success in this case lies in correct calculations and interpretation of the data.

Other substantial changes have been made to the ancillary materials for the seventh edition:

- *Spreadsheet models for students.* All student spreadsheet models have two versions—one set contains tabs with case questions (for the directed case approach), and the other set contains no case questions (for the nondirected case approach). All student spreadsheets are consistent with the instructor spreadsheets. These models have been revised to ensure formula accuracy, to incorporate new Excel functions, and to better present results.
- *Spreadsheet models for instructors.* These models have been revised to ensure formula accuracy, to incorporate new Excel functions, and to better present results.
- *Case questions.* Since the sixth edition, we have gained a lot of in-class experience with the case questions and made modifications to the point that many of the questions included in the seventh edition are completely different from those in the previous edition. We are constantly surprised by the importance of how case questions are worded. For example, a question without “Interpret the results” may lead students to simply submit numerical results without thinking about what they mean. A phrase we have inserted a lot is, “Return to base case assumptions” because students confuse different scenarios. Sometimes, instructors and students themselves have provided us with ideas for new questions that we had not considered before. Our primary goal in making these changes was to improve the pedagogic value of the cases.
- *Case solutions.* Changes to case questions and case data necessitated substantial revision of the case solutions. Sometimes, changing one number in a spreadsheet entailed changing the entire numerical solution and the way it was written. For example,

the discount rates in cases 22 (National Rehabilitation Centers), 23 (Northwest Suburban Health System), 24 (Commonwealth Health Plan), and 26 (River Community Hospital [B]) were changed, which required us to revise the solutions.

- *PowerPoint presentations.* In addition to a list of the main features of the case and three learning points, updated case solutions have been added to the PowerPoint slides. The slides consist of content to be displayed to the class as well as notes to the instructor. Typically, these are 15–20 slides in length and represent the most important improvement to the ancillary materials for this edition.

We are convinced that these changes will make the casebook even more useful for instructors and more beneficial for students in their quest for healthcare finance competency.

Acknowledgments

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Conclusion

The field of healthcare finance continues to undergo significant changes and advances. Participating in these developments is stimulating, and we sincerely hope that the seventh edition of *Cases in Healthcare Finance* helps students gain a better appreciation for the application of finance principles to healthcare organizations.

A book that raises so many issues will also inevitably generate a variety of opinions regarding both financial theory and practice. Furthermore, although both the publisher and the authors have placed great emphasis on

the accuracy of the cases and accompanying materials, some discrepancies or inconsistencies may remain. We appreciate any comments, corrections, criticisms, and ideas for improving all aspects of the cases and related materials.

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Instructor Resources

This book's instructor resources, which are fully described in this preface, include instructor versions of the spreadsheet models, case questions, case solutions, and PowerPoint presentations.

For the most up-to-date information about this book and its instructor resources, go to www.ache.org/HAP and search for the book's order code (2450I).

This book's instructor resources are available to instructors who adopt this book for use in their courses. For access information, please e-mail hapbooks@ache.org.

PREFACE FOR STUDENTS

THERE IS NO better way to learn healthcare finance than by working the cases. Of course, first, a basic understanding of the principles and concepts that will be applied in the cases is necessary, and this knowledge is generally obtained from previous classroom work.

The finance cases in this book present situations that require analysis and judgment regarding financial decision making. Although the emphasis here is on financial analysis, real-world decisions are based as much (perhaps more) on qualitative factors as on the numbers. This means you must consider not only the financial implications of the cases but also the relevant nonfinancial factors before reaching final conclusions and making recommendations.

Working the Cases

All cases have accompanying spreadsheet models. These models can be downloaded from the Health Administration Press website at www.ache.org/books/FinanceCases7. Note that the input data in these models have been zeroed out. Thus, you will have to enter the appropriate values for these data to get the models to work. Also, note that the models contain only base case analyses. You must add to the models any extensions required by the case, such as risk analyses and graphics (charts).

Note that for most cases there is more than one right answer. Indeed, in some cases, multiple approaches to the solution may be appropriate. The critical issue in presenting findings is your ability to support your conclusions and recommendations.

An unlimited number of approaches to working the cases exist, and the approach that is optimal for one individual (or group) is not necessarily the best for another individual (or group). That said, here are some suggested steps to help in your casework. (Note that the cases differ in content, and hence one size [the steps below] does not fit all. Also, note that the guidance given here is generic in nature and does not take precedence over the guidance provided by your instructor.)

1. Scan the case to get an overall idea of the setting, topic, and decision at hand.
2. Look at the accompanying spreadsheet model to get a feel for its structure and the nature of the input data needed.
3. Read the case to identify alternative courses of action and to extract the data needed (typically model inputs) for the numerical analysis.
4. Read all the case questions (if provided by the instructor) to get an idea of the types of analyses that will be asked of you.
5. Enter the base case data into the spreadsheet model and check for any problems that might arise, including illogical results.
6. Conduct scenario, sensitivity, and other analyses as needed to either assess risks or make judgments about how uncertainty affects alternative courses of action.
7. Identify the qualitative factors that bear on the decision at hand. Don't forget this step!
8. Reach your final conclusions, which should logically lead to your recommendations.

Most of the information required to successfully work a case is contained in the case itself. However, you may encounter situations in which additional information would allow you either to feel more comfortable in your recommendations or to examine outside-the-box solutions. By all means, feel free to pull data from other sources as needed to create a more complete case solution. In fact, if the data needed are not easily available from other sources, there is nothing wrong with making your own assumptions—as long as they pass the “reasonableness” test.

Making a Presentation

Many of you, either as individuals or as a group, will be required to present your case analysis in class. Generally, your audience will not have written

material to refer to (except perhaps supporting financial statements, numerical tables, and so on). Thus, you must structure your presentation so that it can be easily followed and understood the first time around. Although most cases involve a great deal of detailed information, your presentation will be easy to follow if it is simply and clearly organized.

All effective presentations consist of four parts: (1) introduction, (2) body (analysis), (3) conclusions, and (4) recommendations. The first step in preparing a presentation is to construct the body. This is the analysis that must convince the audience that your conclusions and recommendations have merit. If the body is too long and complex, the audience will not be able to grasp its implications and hence will not understand the rationale behind your conclusions and recommendations. Conversely, an analysis that is too short will appear to be lacking in thought and substance and will raise more questions than it will provide answers. Similarly, a body that is not presented in a step-wise, logical sequence may contain the right information but still not get the job done because the audience just can't follow its logic.

Once the body of the presentation has been prepared, the introduction, conclusions, and recommendations should be added. The introduction serves three purposes: (1) to gain the audience's attention, (2) to describe the decision at hand, and (3) to preview the main ideas that will be covered in the remainder of the presentation.

A presentation can have an excellent introduction and body, but it may still be ineffective. There is nothing worse than a presentation that trails off, leaving the audience in the dark as to why they just spent 30 minutes listening to it. The conclusions must be strong and convincing so that the audience recognizes that a sound and thorough analysis has been achieved. Finally, the recommendations must provide concrete suggestions for action. In essence, the conclusions and recommendations should provide closure for the audience. Any questions remaining at this point should involve technical details as opposed to "What did you say we should do?"

Preparing the Slides

Often, you will be using PowerPoint slides as the basis for the presentations. Don't forget that the primary function of slides is to support your message. Thus, the slides must contain the key elements of the introduction, body (analysis), conclusions, and recommendations. Slides that are irrelevant or

confusing detract from the presentation. In addition, showing too many slides is just as confusing to the audience as showing too few slides.

Don't put a great deal of numerical detail on the slides. For example, several years of financial statements on a single slide will not be readable. Similarly, breaking the statements into sections so that they are on multiple slides is a poor idea, because the audience will not be able to see all the data at one time. For large amounts of data, handouts are preferable to slides. The key points should be on slides, but use handouts to provide the audience with numerical details.

Final Words

When all is said and done, the key to a good case analysis and presentation is preparedness: "Proper prior planning prevents poor performance." This philosophy applies to all phases of casework, including the presentation itself. How many times have you witnessed a presentation that starts 15 minutes late because the laptop or projector doesn't work or one of the presenters is late? Or, midway through the presentation, a slide either is missing or contains typographical errors? Such small things cast a shadow of doubt over the analysis and presentation—and hence reflect poorly on the entire effort—but they can easily be avoided (and should be) by proper planning.