

PREFACE

It has been 26 years since *Understanding Healthcare Financial Management* was first published, and it is now in its eighth edition. The original concepts of the book included (1) a broad definition of the health services sector that recognized that many of today's health services management students are seeking careers outside the hospital field and (2) a focus on the environmental factors that are unique to health services and hence make healthcare financial management different from generic corporate financial management. Although the book remains grounded in these original concepts, we have made many updates and improvements along the way and have tried very hard to ensure that the book continues to be of maximum value to both students and instructors. In today's healthcare environment, financial issues are of paramount importance, and future managers must be prepared to deal with these issues as they strive to improve the delivery of health services to all Americans.

Concept of the Textbook

Our goal in creating this edition, like all previous editions, is to produce a textbook that provides health services management students with (1) an operational knowledge of healthcare financial management theory and concepts and, even more important, (2) the ability to apply this knowledge to real-world decision making. In addition, we want the textbook to be useful as a reference during internships and residencies as well as after graduation. Finally, we want a textbook that students find user friendly, meaning one that they enjoy reading and could learn from on their own. If students do not find a textbook interesting, understandable, and useful, they will not read it!

The book begins with basic concepts pertaining to health services and financial management. It then progresses to illustrate how managers of healthcare businesses can apply financial management theory and concepts to make better decisions—that is, decisions that promote the financial well-being of the organization.

Intended Market and Use

The book is designed primarily for use in graduate-level courses for students whose primary interest is the management of health services organizations. The book can be used for other student clienteles, but the absence of explicit accounting content, the amount of theory, and the nature of the ancillaries make the book most suitable for master of health administration, master of business administration (healthcare concentration), and master of public health (management concentration) programs. Also, because *Understanding Healthcare Financial Management* is designed to provide students with a higher level of cognition according to Bloom's taxonomy, the end-of-chapter problems are provided on spreadsheets rather than printed in the textbook. Finally, student knowledge, skills, and abilities are maximized when the textbook is paired with cases.

Alternative Course Formats

There is no best approach to teaching a healthcare financial management course. The approach varies with students' backgrounds, instructors' interests, class contact hours, and the role of the course in the overall curriculum. Because these factors change, most instructors vary their approaches over time.

Financial management courses are generally taught as a theoretically based lecture course, as a pragmatically based pure case course, or as a blend of theory and practice that combines lectures with some cases. Over time, we have used all three approaches, but the one that we have found best is a blend of theory and practice, but with a strong bias toward practice. Thus, we lecture occasionally but use a large number of cases, minicases, and problems to provide insights into the complex financial decisions faced by practicing healthcare managers.

Understanding Healthcare Financial Management provides the theory and concepts behind financial decision-making in health services and the nuts-and-bolts tools required to implement the theory and concepts. Students learn the ideas underlying healthcare financial management from the textbook and periodic lectures and then implement the concepts by working cases.

Although the textbook is designed primarily for use in a more advanced course in financial management, a great deal of introductory material has been included. Even when students have already completed one or more finance courses, we have found that many do not have a good grasp of the basic fundamentals of financial management. Thus, they appreciate that

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the book reviews basic concepts in addition to presenting new material. After all, repetition is the key to learning.

Changes in the Eighth Edition

The most substantial change to the textbook involves authorship. The seventh edition was authored by Louis Gapenski and George Pink; however, Dr. Gapenski passed away in 2016 (see tribute in the “About the Authors section”). Fortunately, Dr. Paula Song, associate professor of healthcare finance at the University of North Carolina at Chapel Hill, agreed to step in as coauthor. Since the seventh edition was published, we have used the textbook several times and have received many comments from users at other universities. Furthermore, Health Administration Press has solicited and received a number of thoughtful reviews. The reaction of students, other professors, and the market in general has been overwhelmingly positive; every comment indicates that the basic concept of the textbook is sound. Even so, nothing is perfect, and the health services sector is evolving at a dizzying pace. These circumstances have prompted a number of changes to the textbook.

We have two primary goals for the eighth edition: (1) to update the book by incorporating changes such as tax reform and leasing reporting requirements and (2) to make the book even more reader friendly. In addition, we have two primary goals related to the ancillary material: (1) to create in-class problems that instructors can use to illustrate theory and calculations and (2) to improve the user-friendliness of the chapter models by directly linking examples and calculations to textbook content. Many revisions were made to accomplish these and other goals; here is a list of the most important. (Please note that **some** of the healthcare organizations used as examples in this and previous editions are fictitious. Any similarities in organizational name and characteristics are unintentional. Real organizations are typically accompanied by the address of their home page.)

New and Revised Material

- Chapter 1: Introduction to Healthcare Financial Management has been revised to reflect the major changes of the December 2017 tax reform bill. Federal tax rates have been updated and the ranges of state tax rates are included.
- Chapter 5: Financial Risk and Required Return has been extensively rewritten to better differentiate risk measures of realized and expected return distributions, to incorporate actual return data for calculation of beta, and to lay out how the capital asset pricing model is used to make investment decisions more explicitly.

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- Chapter 8: Lease Financing has been revised to reflect the recent changes in Financial Accounting Standards Board reporting requirements.
- Throughout the textbook, illustrative tax rates have been changed from 40 percent to 30 percent based on an assumption of a 21 percent federal tax rate and a 9 percent state tax rate.
- Chapter supplements have been removed from the textbook and can now be found online at ache.org/HAP/PinkSong8e.

Ancillary Changes

- An in-class problem for each chapter has been created that instructors can use to illustrate concepts and calculations.
- Content in chapter models is now directly linked to chapter content. For example, exhibit x.x in the textbook is clearly identified as exhibit x.x in the chapter model. This allows students to see exactly how the textbook numbers are calculated. In addition, the chapter models now include the calculations for the Integrative Application at the end of each chapter.

Miscellaneous Changes

All aspects of the text discussion, as well as the references, have been updated and clarified as needed. We have taken particular care to include content reflective of the changed healthcare financial environment after the passage of tax reform in 2017. In addition, contemporary real-world examples have been added throughout the text.

Ancillary Materials

Several ancillary materials have been designed to enhance the learning experience.

Materials for Students

Four useful ancillaries are available to students (as well as instructors) who use this text. All student ancillary materials can be accessed on this book's companion website: ache.org/HAP/PinkSong8e. A section called Chapter Models, Problems, and Minicases at the end of each chapter indicates whether text models, end-of-chapter problems, and minicases are available.

1. **Text models.** Most of the chapters have accompanying Excel models that illustrate the text calculations and additional calculations relevant to the chapter material. The purpose of these spreadsheet models

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is twofold. First, students' learning is enhanced because they can more easily visualize how various input factors influence a particular calculation. For example, the spreadsheet model for capital budgeting allows students to change input values (such as volume and average reimbursement) and immediately see the effects these changes have on profitability. Second, the spreadsheets enable students to learn the mechanics of spreadsheet analysis in a less challenging context than the minicases (discussed later) because these models typically are not part of a graded assignment. Note that sections of the text that have accompanying models are designated by a web icon (see margin).

2. **End-of-chapter problems.** A set of problems in spreadsheet format is available for most chapters. The instructor may assign the problems as homework, or students can work them on their own to gain a deeper understanding of the topics in the chapter.
3. **Minicases.** A minicase in spreadsheet format is available for most chapters. The minicases are more complicated than the end-of-chapter problems. Again, the instructor may assign the minicases as homework, or students can work them on their own to gain a deeper understanding of the topics in the chapter.
4. **In-class problems.** A short problem in spreadsheet format is available for most chapters. Instructors may use these to illustrate concepts and calculations during class.
5. **Calculation videos.** New 5–10 minute videos that demonstrate key calculations will be included on the student ancillary materials page.
6. **Online chapters.** Two chapters are available online: Chapter 17 (Distributions to Owners: Bonuses, Dividends, and Repurchases) and Chapter 18 (Financial Risk Management). These can be used by instructors in class or by students for independent learning. Chapter supplements are also available.



On the web at:
ache.org/HAP/
[PinkSong8e](#)

Materials for Instructors

In addition to the materials for students, five useful ancillaries are available to instructors who adopt this text. Instructor ancillaries are contained in a secure part of the Health Administration Press website and available only to adopters of this text. For access information, email hapbooks@ache.org. A section called Chapter Models, Problems, and Minicases at the end of each chapter indicates whether end-of-chapter problems and minicases are available.

1. **Slideshow.** Sets of PowerPoint slides that cover essential topics are available for each chapter. Each presentation contains approximately 40 slides featuring concepts, graphs, tables, lists, and calculations. Copies of the slides can be provided to students for use as lecture notes. Many

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- instructors will find these slides useful, either without modification or customized to meet unique course and student requirements.
2. **End-of-chapter problem solutions.** A set of problems in spreadsheet format is available for most chapters. Solutions to these problem sets, which are available only to instructors, can be used to grade homework or can be provided to students for self-study.
 3. **Minicase solutions.** A minicase in spreadsheet format is available for most chapters. Solutions to the minicases, which are available only to instructors, can be used to grade homework, to help students prepare for a case, or in other ways the instructor deems appropriate.
 4. **Test bank.** A multiple-choice test bank that consists of roughly 20 questions or problems per chapter is available to instructors. Most adopters use problems and cases to evaluate student knowledge, skills, and abilities; however, a test bank often is useful for in-class quizzes or other purposes.
 5. **In-class problem solutions.** A short problem in spreadsheet format is available for most chapters. Solutions to the in-class problems, which are available only to instructors, can be used to illustrate concepts and calculations during class.

The Casebook

In addition to the free ancillaries, many adopters pair this textbook with its accompanying casebook, *Cases in Healthcare Finance*, sixth edition. The most realistic application of healthcare finance occurs in health services 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, to the extent possible, the environment in which finance decisions are made. Cases provide students with an opportunity to bridge the gap between learning concepts in a lecture setting and applying them on the job. By working cases, students can be better prepared to deal with the multitude of problems that arise in the practice of healthcare financial management.

The latest edition of *Cases in Healthcare Finance* contains 32 cases that focus on the practice of healthcare finance, including accounting, in provider organizations. In general, each case addresses a single financial issue, such as a capital investment decision. The uncertainty of the input data, along with the presence of relevant nonfinancial factors, makes each case interesting and challenging. The case settings include a variety of provider organizations, including hospitals, medical practices, integrated delivery systems, and managed care organizations. In addition to cases that focus purely on financial decisions, the casebook contains seven minicases that address ethical issues related to healthcare finance. The ethics minicases are not quantitative in

nature but rather are designed to promote discussion about finance situations that have ethical implications.

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 cases in the casebook are nondirected, because such cases closely simulate how real-world managers confront financial decision-making. However, students who stray from the key issues of the cases often do not obtain full value from their effort.

We have found that students with more advanced finance skills gain the most from nondirected cases, while students who have had less finance exposure gain most from directed cases. The online instructors’ material for the casebook contains sets of questions that can be used to convert each of the cases to directed cases. Thus, instructors can use 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.

Spreadsheet analysis has become extremely important in all aspects of healthcare finance. Students must be given an opportunity to hone computer skills and be allowed, or required, to use spreadsheet programs to assist in financial analyses. Furthermore, spreadsheet models can reduce the amount of busywork required to perform the required calculations and hence leave students with more time to focus on financial management issues. Because of these factors, we developed well-structured, user-friendly spreadsheet models for every case to enable students to perform more efficient analyses. In addition, spreadsheet models enable students to easily create graphics and other computer outputs that will enhance the quality of the analyses and any required presentations.

The student version of each case model is complete in that no modeling is required to obtain a base case solution. However, zeros have been entered for all input data, so students must identify and enter the appropriate input values. The model then calculates the base case solution automatically. 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.

Acknowledgments

This book reflects the efforts of many people. The following individuals reviewed previous editions of the textbook and provided many valuable comments and suggestions for improvement:

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Errors in the Textbook

Despite the significant effort that has been expended on this edition, it is safe to say that some errors exist. To create the most error-free and useful textbook possible, we strongly encourage students and instructors to write or email us with comments and suggestions for improvement. We welcome and value your input!

Conclusion

Good financial management is vital to the economic well-being of the health services sector. Because of its importance, financial management theory and concepts should be thoroughly understood and correctly applied—but this feat is easier said than done. We hope that *Understanding Healthcare Financial Management* will help you better appreciate the financial management problems faced by health services today and provide guidance on how best to solve them.

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