

PREFACE

Almost 30 years ago, Louis C. Gapenski published his first healthcare finance textbook, *Understanding Healthcare Financial Management*. Over time, his experiences prompted him to write others, including this book, *Fundamentals of Healthcare Finance*. When he passed away on April 20, 2016, the field of healthcare finance lost a gifted scholar, writer, teacher, mentor, and friend.

By traditional academic metrics, Lou was a successful scholar: many peer-reviewed articles, other publications and book reviews, and presentations at academic and professional conferences. However, Lou was best known for his compendium of best-selling textbooks on corporate finance and healthcare financial management. His collaboration with Eugene Brigham served as a textbook factory: Lou was a coauthor of five editions of *Financial Management: Theory and Practice* (translated into Bulgarian, Chinese, French, Indonesian, Italian, Portuguese, and Spanish), six editions of *Intermediate Financial Management*, and five editions of *Cases in Financial Management* (all three from Dryden Press). In the early 1990s, Lou turned his attention to the nascent discipline of healthcare financial management, among the first to argue that the theory and application of corporate finance was both relevant and necessary to the training of healthcare managers. Over the next 25 years, Lou authored seven editions of *Understanding Healthcare Financial Management*, five editions of *Cases in Healthcare Finance*, six editions of *Healthcare Finance: An Introduction to Accounting and Financial Management*, and two editions of *Fundamentals of Healthcare Finance* (all four from Health Administration Press). By any standard, this was an extraordinary level of textbook productivity and was a constant source of amazement and curiosity among his colleagues.

Lou's textbooks and casebook in healthcare finance were novel and innovative in that they offered the rigorous finance training commonly found in business schools but using language and context that would speak to those whose passion was healthcare. In all of Lou's work, his commitment to teaching and learning was evident. While planning for new textbooks or new editions of existing books, Lou would reach out to colleagues, students, and individuals working in the field, seeking input on how to improve his books and the associated ancillary learning materials. He was eager to receive feedback, and he worked tirelessly to implement the recommendations of those around him. His creativity was apparent in the new features offered in each edition and in the stories and examples he included to engage students and draw them into the subject matter. When Lou originally approached us about becoming coauthors, we had no idea how much we would learn from him about writing textbooks—assessment of learning needs, clear exposition of complex concepts and calculations, development of ancillary learning materials, and the business of publishing itself. Better than anyone we know, Lou understood how to write a good textbook.

In this edition, we have worked very hard to build on Lou's original vision for the book: to provide a learning resource for students interested in how healthcare finance is used by clinical and operational managers as opposed to financial managers. We have provided updates and edits throughout to ensure that it remains a relevant and valuable learning tool for students and instructors. We hope that the book will continue to provide financial acumen to those who strive daily to improve healthcare delivery.

Note: Adapted from K. L. Reiter and G. H. Pink, 2016, "Remembering Louis C. Gapenski," *Journal of Healthcare Finance* 43 (2): 1–4.

CONCEPT OF THE BOOK

Our goal in the third edition of *Fundamentals* was to create a text that introduces readers to those basic principles and applications of healthcare finance that are most important to entry-level clinical and operational managers. Thus, principles that are used primarily by financial staff personnel are covered either lightly or not at all. For example, background information about financial markets and securities is not included in this book.

The end result is a book that contains three introductory chapters, six accounting chapters, and four financial management (corporate finance) chapters. The idea here is that entry-level managers, who typically will be working at the department level or perhaps in a medical practice setting, need to understand those finance principles that they will encounter and work with on a daily basis, while other concepts can be learned later as needed. Although this book does cover some "organizational" finance issues, its focus is on topics that are most relevant to managers of clinical operations.

Another consideration in writing this book is that most readers will be seeing the material for the first time. Thus, the concepts here are explained as clearly and succinctly as possible. We have tried hard to create a book that readers will find user-friendly, enjoyable,

and self-instructive. If students don't find a book interesting, understandable, and useful, they won't read it.

INTENDED MARKET AND USE

The book is not designed for any specific type of educational program. Rather, it can be used in a wide variety of settings: undergraduate and graduate, traditional and executive, on-campus and distance learning, and even independently for professional development. However, the book is ideal for undergraduate health administration programs, undergraduate and graduate public health and health science programs, and nursing administration programs and courses.

The key to the book's usefulness is not the educational program but the focus of the course. If the course covers the fundamentals of healthcare finance, with a concentration on operational management, this book will be a good fit.

Practicing healthcare professionals who need to gain a better understanding of healthcare finance may greatly benefit from this book as well. Such professionals include clinicians who have management responsibilities and clinical managers who require additional finance skills.

CHANGES IN THE THIRD EDITION

Since the publication of the first edition of this book, we have received comments from students and users at other universities. The reaction of students, other professors, and the marketplace in general has been overwhelmingly positive—every comment received indicates that the basic concept of the book is sound. Even so, nothing is perfect, and the healthcare environment is evolving at a dizzying pace. Thus, we have made many changes to the book, the most important of which are listed here:

- ◆ The book was updated and clarified throughout. Particular care was taken to include the most recent information on the Affordable Care Act and to update the real-world examples. In addition, there is no doubt that text material improves as it is repeatedly edited. Like all books, the first two editions had some rough spots, and considerable effort was expended to improve these discussions and to clarify end-of-chapter problems.
- ◆ The section on service line costing in chapter 4 was expanded to include discussions of two additional methods used to cost individual services: the cost-to-charge ratio and relative value units.
- ◆ Financial accounting coverage was updated to conform to the latest American Institute of Certified Public Accountants formats. For example, in chapter 12, we added a discussion of upcoming changes to the presentation of net assets by not-for-profit entities.

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com

- ◆ We added additional examples to the financial accounting chapters so readers can compare and contrast the financial statements of different types of healthcare organizations, including not-for-profit hospitals and home health care providers.
- ◆ Chapter 14 was added to several already-available online chapters to provide additional discussion of time value of money concepts.
- ◆ The lecture presentation material was updated and improved based on continual use and suggestions from adopters and students alike.

All in all, these changes improve the quality and value of the book without affecting its basic concept and approach to learning.

INSTRUCTOR RESOURCES

This book's instructor resources, which are fully described below, include PowerPoint slides, a test bank, cases, and solutions to the end-of-chapter questions and problems and the five online cases.

For the most up-to-date information about this book and its instructor resources, go to ache.org/HAP and browse for the book by its title or author names.

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

ANCILLARY MATERIALS FOR INSTRUCTORS

- ◆ *PowerPoint slides.* The essential material in each chapter—concepts, graphs, tables, lists, and calculations—is presented in roughly 25 to 35 slides. Hard-copy versions (or the files themselves) can be provided to students as lecture notes. Instructors may use these slides as is or customize them to meet their own unique needs.
- ◆ *Test bank.* An online test bank is available to adopters. It consists of roughly 15–20 multiple-choice questions per chapter.
- ◆ *Selected cases.* Five cases are available to instructors who want to incorporate cases into their courses. These cases are not as complex as those in *Cases in Healthcare Finance*, and they come with questions intended to both guide students and keep them on track. (See the next section for details.)

This is an unedited proof.

Copying and distribution of this PDF is prohibited without written permission. For permission, please contact Copyright Clearance Center at www.copyright.com

- ◆ *Solutions.* Instructors also have access to solutions to the end-of-chapter questions and problems, and solutions to the five online cases.
- ◆ *Additional online chapters.* Instructors who want to go over concepts beyond the fundamentals covered in the text may access four chapters that are posted online. (See the next section for details.)
- ◆ *Sample course syllabus.*

ANCILLARY MATERIALS FOR STUDENTS

Students (and instructors) can find the following learning tools on the Health Administration Press Book Companion website at ache.org/books/FinanceFundamentals3.

- ◆ *Additional online chapters.* These four chapters aim to expand the scope of study.
 - Chapter 14—Time Value Analysis
 - Chapter 15—Lease Financing and Business Valuation
 - Chapter 16—Distributions to Owners: Bonuses, Dividends, and Repurchases
 - Chapter 17—Capitation, Rate Setting, and Risk Sharing
- ◆ *Online appendixes.* These two appendixes (operational analysis ratios and financial analysis ratios) provide a more extensive list of ratios and their definitions than what is provided in this book.
- ◆ *Selected cases.* These cases are not overly complex, and they give students the opportunity to apply many of the concepts discussed in the book and in class. The cases contain a set of questions that guide students along a solution path as they work each case.
 - Case 1—The Dialysis Center: Cost Allocation Concepts
 - Case 2—University Hospital: Marginal Cost Pricing
 - Case 3—Panhandle Medical Practice: Activity-Based Costing
 - Case 4—Better Care Clinic: Breakeven Analysis
 - Case 5—Twin Falls Community Hospital: Capital Investment Analysis

ACKNOWLEDGMENTS

Special thanks are due to Jane Chaffee Makhoul, who helped revise the third edition. Colleagues, students, and staff at the University of North Carolina at Chapel Hill and the University of Florida provided valuable feedback and inspirational support during the development, class testing, and revision of this book. In addition, the Health Administration Press staff was instrumental in ensuring the quality and usefulness of the book.

ERRORS IN THE BOOK

In spite of the significant effort that has been expended by many individuals on this book, it is safe to say that some errors exist. In an attempt to create the most error-free and useful book possible, we strongly encourage both instructors and students to e-mail write us with comments and suggestions for improving the book. We certainly welcome your input.

CONCLUSION

In the environment faced by healthcare providers today, good finance is more important than ever to the economic well-being of the enterprise. As such, clinical managers must be thoroughly grounded in finance principles and applications. However, this is more easily said than done.

We hope that *Fundamentals of Healthcare Finance* will help you understand the finance issues currently faced by healthcare providers and, more important, that it will provide guidance on how best to deal with them.

Kristin L. Reiter, PhD
1104-H McGavran-Greenberg Hall
Department of Health Policy and Management
University of North Carolina at Chapel Hill
Chapel Hill, NC 27599-7411
reiter@ad.unc.edu

Paula H. Song, PhD
1105-A McGavran-Greenberg Hall
Department of Health Policy and Management
University of North Carolina at Chapel Hill
Chapel Hill, NC 27599-7411
psong@unc.edu