Case Descriptions

Case 1: This case discusses the financial statement analysis of a 210-bed hospital. It requires EVA (economic value added) analysis, Du Pont analysis, financial ratio analysis, and operating ratio analysis. The case has an accompanying spreadsheet model that contains five years of historical data, industry average data, and a complete calculation of relevant ratios and Du Pont analysis.

Case 2: This case is similar to Case 1, except it focuses on the managed care industry. It presents two years of data and discusses benchmarking against primary competitors as well as the industry; thus, here, the analysis and interpretation are somewhat different from those in Case 1.

Case 3: This case focuses on the question, What constitutes a good cost driver? Here, students must ponder the "fairness" of allocating a higher amount of facilities overhead to a department that is being forced to move to a new facility. The case raises other issues regarding cost drivers, fairness, and cost-reduction effectiveness.

Case 4: This case focuses on the mechanics of cost allocation. It asks students to use four allocation methods (direct, step down, double apportionment, and reciprocal) to allocate costs from three support departments to three patient service departments.

Case 5: This case focuses on the development of a premium rate to be offered to a buyer consortium. Here, students must deal with coverage limitations and copays, as well as the basic costs of providing services, when developing the premium rate.

Case 6: This case involves the break-even analysis of an unprofitable walk-in clinic owned by a hospital. Because the spreadsheet model for this case does the busywork, students can concentrate on the problems inherent in break-even analysis and its value to managers in making service decisions.

Case 7: This case focuses on the budget variance analysis of four managed care product lines. Because of the nature of variance analysis, the accompanying spreadsheet model handles the required calculations. To add to the mathematical complexity, the case involves both utilization and enrollment differences.

Case 8: This case is a traditional cash budgeting exercise. It calls for students to develop six monthly budgets as well as a daily budget for a single month. The spreadsheet model, which reduces the amount of busywork required, facilitates sensitivity analyses regarding both patient volume and collection experience. The case presents students with an opportunity to discuss many facets of cash management.

Case 9: This case focuses on the pricing of transplant services. It requires students to do some calculations but does not require a large-scale quantitative effort. The primary purpose of the case is to allow students to consider alternative (full versus marginal) cost definitions when pricing a service.

Case 10: This case focuses on using ABC (activity-based costing) techniques to estimate the costs associated with two alternative approaches to providing ultrasound services. The accompanying spreadsheet model takes out much of the busywork. The case calls for sensitivity analysis on many input variables and consideration of various qualitative factors that affect the selection decision.

Case 11: This case involves the measurement of physician productivity, financial performance, and quality of care and its use in determining

pay for performance. Alternative methodologies are proposed in the case, and students must choose among those given. The case also raises issues about how compensation systems should be trusted, understood, equitable, and affordable and should provide proper incentives.

Case 12: This case focuses on the mechanics of time value analysis. Because the case is meant to make students think about the time value process, it does not have an accompanying spreadsheet model. The case contains a set of questions that lead students through the case. The question format is best applied to cases that focus on fundamental concepts rather than managerial decision making.

Case 13: This case focuses on basic financial risk concepts. Its goal is to give students a sound understanding of the three types of financial risk (stand-alone, corporate, and market) and their implications for decision making within healthcare organizations. Like Case 12, the case contains a set of questions that lead students through the required concepts and has no accompanying spreadsheet model.

Case 14: This case focuses on the mechanics of bond valuation as opposed to the managerial decisions inherent in floating a bond issue. This case has no accompanying spreadsheet model and contains a set of questions that students must answer. Here, much of the bond valuation work is at a basic level, but the case includes questions pertaining to yield to call and expected rate of return when an issue has a sinking fund.

Case 15: This case takes students through the mechanics of stock valuation (not the managerial decision process that surrounds a new stock issue), including both the constant and nonconstant growth dividend models. No spreadsheet model is included, and the case contains a set of questions that students must answer.

Case 16: This case focuses on the estimation of a business's cost of capital, including both corporate and divisional costs. Because the required calculations are relatively simple, the accompanying spreadsheet model is very basic. However, students have to grapple with numerous conceptual issues regarding both estimation methodologies and the interpretation and use of the cost of capital once it is estimated.

Case 17: This case examines the capital structure decision for an investor-owned company that franchises "rent-a-nurse" businesses. Here, the primary analytical tool is a zero-growth model that calculates stock price under alternative capital structures. However, the case also examines the impact of financial leverage on accounting profits and asks students to consider the business's value under two theoretical models (Modigliani-Miller and Miller). Also, the case requires students to consider qualitative factors in making the final decision. The accompanying spreadsheet model eases the mathematical busywork.

Case 18: This case looks at the equipment leasing decision facing a hospital. The case requires students to perform both lessee's and lessor's analyses. The case brings out many side issues, including the correct discount rate, dealing with residual value uncertainty, the impact of cancellation and per procedure clauses, and the effects on both parties of leveraging the lease. To ease calculations, the case has an accompanying spreadsheet model.

Case 19: This case contains a traditional (no twists) capital budgeting analysis, including cash flow estimation, decision measures, risk assessment, and risk incorporation. In evaluating the financial attractiveness of a proposed outpatient surgery center, students are confronted with many of the problems that occur in such analyses. An accompanying spreadsheet model helps with the calculations. This is a good case for illustrating Monte Carlo simulation.

Case 20: This case focuses on the advantages of making significant capital investments in stages rather than one large investment at a single point in time. In particular, the case uses a decision tree methodology to determine project risk and to illustrate the benefits of abandonment. The accompanying spreadsheet model permits students to spend more time on concepts rather than on number crunching and takes the tedium out of the calculations.

Case 21: This case investigates several alternative proposals for a hospital system's print shop, including closing the shop and outsourcing. The case includes a spreadsheet model and discusses several technical issues related to discounted cash flow analysis, such as the handling of non-normal cash flows. Finally, the case examines the strategic issue of entering the for-profit printing market.

Case 22: This case explores the valuation of a not-for-profit hospital for possible acquisition by another not-for-profit hospital. In addition to the numerical analysis, the case raises several issues related to control after the merger. The accompanying spreadsheet model does the busywork, but students must think a great deal about the impact of the merger on both entities and how future cash flows will be affected.

Case 23: This case focuses on the analysis of a proposed joint venture involving three equity partners: a hospital and group practice (the general partners) and individual physicians (the limited partners). Here, students must consider both the costs of capital for the partners and how the partnership cash flows should be allocated across the equity participants. The case addresses several qualitative issues, including the risks associated with new, unproven technology and the ethical (and legal) issues involved in income-generating referrals. The spreadsheet model does most of the numerical work.

Case 24: This case requires students to value a family physician group practice. The case provides data to allow students to use both DCF (discounted cash flow) and market multiple methodologies. Because of a host of both qualitative and quantitative issues, the ultimate "answer" here is filled with uncertainties. More data are given in this case than in Case 22, so fewer assumptions are required. The spreadsheet model helps with the calculations.

Case 25: This case focuses on the financial assessment of the use of physician extenders in three clinical settings. Here, students must make judgments about whether a physician assistant or a nurse practitioner is better suited for particular types of clinic operations. The spreadsheet model eases the quantitative burden, but the real work is in making the hard assumptions needed to deal with extender impact on volume, reimbursement, and costs.

Case 26: This case focuses on a capital investment decision that involves the use of alternative technologies. To complicate the analysis, one technology frees up inpatient beds for alternative purposes (backfill). The case examines a simplistic replacement analysis, which also makes students consider the differences in replacement versus new project analyses. The accompanying spreadsheet model facilitates the calculations.

Case 27: This case focuses on the basics of receivables management. A start-up drug company is used to illustrate such concepts as average collection period (ACP, also known as DSO or days sales outstanding), aging schedules, uncollected balances schedules, and the cost of carrying receivables. To complicate matters, these concepts must be applied to multiple customers.

Case 28: This case leads students through an inventory decision process involving supplier selection and optimal ordering quantity (and hence inventory level). The case focuses primarily on the economic ordering quantity model, although students must also categorize inventory items according to the ABC model. The accompanying spreadsheet model facilitates the calculations.

Case 29: This case, which builds on the information given in Case 1, focuses on the development of a set of forecasted financial statements for the hospital. It encompasses both forecasting and financial accounting considerations. The accompanying spreadsheet model provides a framework for the forecasting process. However, students must modify the model to incorporate more appropriate forecasting techniques and more realistic operating assumptions. This case requires students to make an extensive set of assumptions about both the future of the hospital industry and one particular hospital.

Case 30: This case focuses on the problems faced by a PHO (physician-hospital organization) when one of its most important payers proposes a fixed per member per month payment. This situation forces the PHO to consider how to handle a full-risk contract related to both utilization risk and how the fixed payment and the associated risk should be shared among the hospital, specialist physicians, and primary care physicians. The accompanying spreadsheet model makes it easier for students to assess the impact of their assumptions.

Mini-Cases

Ethics Case 1: This case discusses a situation in which a patient pays a copayment based on full charges while the insurer pays much less than full charges because of contractual discounts.

Ethics Case 2: This case explores the issues associated with corporate ownership (in which the corporation is the beneficiary) of individual life insurance policies.

Ethics Case 3: This case is the flip side of Ethics Case 1. Here, a lower price (and copayment) is quoted to the patient while the insurer pays a higher amount.

Ethics Case 4: This case focuses on the personal conflicts that arise when the CEO of a small, not-for-profit hospital is confronted with multiple takeover bids.

Ethics Case 5: This case discusses the dilemma that hospitals face in treating the uninsured. How much should hospitals charge the uninsured for services provided, and how aggressive should they be in pursuing those collections?

Ethics Case 6: This case centers on the financial arrangements being used by some imaging services companies to "encourage" physicians to refer patients to their centers. Are these arrangements legal? If so, are the arrangements ethical?

The following case is available only online at www.ache.org/books/FinanceCases4

Waverly Enterprises: This case focuses on the mechanics of the bond refunding decision. The case raises several qualitative issues and poses a situation where the maturity of the new issue exceeds the remaining life of the issue to be refunded. The accompanying spreadsheet model assumes annual coupons, giving students a chance to demonstrate their modeling skills by requiring them to modify the model to accommodate semiannual coupons.