

## PREFACE

**S**ome 20 years ago, after years of teaching corporate finance and writing related textbooks and casebooks, I began teaching healthcare financial management in the University of Florida's Master of Health Administration (MHA) program. The move prompted me to write my first healthcare finance textbook, *Understanding Health Care Financial Management*. The book was designed for use in health services administration financial management courses in which students had prerequisite courses in both accounting and corporate finance. In general, such courses are case courses, so this book served primarily as a reference tool when working healthcare finance cases.

In recent years, I expanded my healthcare finance teaching to include other courses in traditional, nontraditional, and clinician-oriented programs in which students do not have a formal educational background in healthcare finance. Finance courses in these programs require a book that provides basic information on foundation topics. Furthermore, these courses often are part of programs that contain just one healthcare finance course, so the course must cover both accounting and financial management. In reviewing the books available for use in such courses, I found some that were strong in accounting and others that were strong in financial management; however, I could not find one that gave equal emphasis to both components of healthcare finance. This situation prompted me to write *Healthcare Finance: An Introduction to Accounting and Financial Management*.

### Concept of the Book

My goal in writing this book was to create a text that introduces students to the most important principles and applications of healthcare finance, with roughly equal coverage of accounting and financial management. Furthermore, because the book is intended for use primarily in clinical and health services administration programs, in which students are trained primarily for professional positions within healthcare providers, its focus is on healthcare finance as practiced within such organizations. The examples within the book are based on such organizations as hospitals, medical practices, clinics, home health agencies, nursing homes, and managed care organizations.

Another consideration in writing the book is that most readers would be seeing the material for the first time. Thus, it is very important that the material be explained as clearly and succinctly as possible. I have tried very hard to create a book that readers will find user-friendly—one that they will enjoy reading and can learn from on their own. If students don't find a book interesting, understandable, and useful, they won't read it.

The book begins with an introduction to healthcare finance and a description of the current financial environment in which providers operate. From there, it takes students through the basics of financial and managerial accounting. Here, my goal is not to turn clinicians or generalist managers into accountants, but to present those accounting concepts that are most critical to managerial decision making. The book then discusses the basic foundations of financial management before progressing to demonstrate how healthcare managers can apply financial management theory and principles to help make better decisions, where *better* is defined as decisions that promote the financial well-being of the organization.

## Intended Market and Use

The book is not targeted for specific types of educational programs. Rather, it is designed to teach students, in one course, the fundamental concepts of healthcare finance, including both accounting and financial management, with emphasis on provider organizations. Thus, the book can be used in a wide variety of settings: undergraduate and graduate programs, traditional and executive programs, on-campus and distance learning programs, and even independently for professional development.

The key to the book's usefulness is not the educational program but the focus of the course. If the course is a stand-alone course designed to cover both healthcare accounting and financial management, the book will fit. In fact, the book can be easily used across a two-course healthcare finance sequence, especially in modular programs where each course is two credit hours. Typically, such a sequence begins with an accounting course and ends with a financial management course. This book, supplemented by cases (and possibly readings), would work well in such a sequence. The ideal casebook for use here is *Cases in Healthcare Finance* by Louis C. Gapenski, which is part of Health Administration Press's healthcare finance series. The casebook contains 30 cases that focus on the topics contained in this textbook, along with eight ethics mini-cases that can be used to highlight ethical issues in a healthcare finance setting.

The book should also be useful to practicing healthcare professionals who, for one reason or another, must increase their understanding of healthcare finance. Such professionals include clinicians who have some management responsibilities as well as line managers who now require additional finance skills. Finally, many members of financial staffs, especially those who work

exclusively in a single area, such as patient accounts, would benefit from having a broader understanding of finance principles and hence would find this book useful.

## Changes in the Fourth Edition

Since the publication of the third edition of this book, I have used it numerous times in various settings. In addition, I have received many comments from users at other universities. The overall 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, many changes have been made 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 reimbursement 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 third edition had some rough spots, and considerable effort was expended to improve these discussions.
- Kristin L. Reiter of the University of North Carolina at Chapel Hill reviewed and suggested improvements to the six financial and managerial accounting chapters. Her educational and professional background in healthcare accounting compliments my background in healthcare financial management.
- Three new online resources for students have been added: (1) Chapter 19: Distributions to Owners: Bonuses, Dividends, and Repurchases; (2) Chapter 20: Capitation, Rate Setting, and Risk Sharing; and (3) Online Appendixes: Financial Ratios and Operating Indicator Ratios.
- Many students, as well as instructors, have asked that a glossary be added to the book. This edition has one.
- New sections have been added or existing sections have been expanded for the following topics: municipal bond pools, cost of capital for not-for-profit and small businesses, modified internal rate of return, supply chain management, current challenges for healthcare managers, and health savings accounts.
- The lecture presentation software was updated and improved based on continuous usage 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.

## Ancillary Materials for Instructors

Two important teaching aids are available online for instructors who use this book. To request access to online instructor resources, please email [hap1@ache.org](mailto:hap1@ache.org).

- **Instructor's Manual.** A comprehensive online manual is available to instructors who adopt the book. The manual includes a sample course outline and solutions to the end-of-chapter questions and problems.
- **Lecture Presentation Software.** A set of PowerPoint® slides that cover all the essential issues contained in each chapter is also available. Concepts, graphs, tables, lists, and calculations are presented in about 40 slides per chapter, much as an instructor might present them on a blackboard. However, the slides are more crisp, clear, and colorful than a blackboard, and can be displayed on a screen almost instantaneously. Furthermore, hard copies of the slides can be provided to students for use as lecture notes. Many instructors will find these slides useful, either as is or customized to best meet the situation at hand.

## Ancillary Materials for Students

Three new instructional tools are now available to students at the Health Administration Press Book Companion website at [ache.org/books/HCFinance4](http://ache.org/books/HCFinance4).

- **Chapter 19.** This chapter discusses distributions to owners of for-profit businesses, including dividends, bonuses, and stock repurchases. It is not included in the book because many of the students who use the text will work at not-for-profit organizations.
- **Chapter 20.** Chapter 20 provides additional information on capitation, rate setting, and risk sharing. It is not included in the book because these topics, for the most part, are beyond the scope of an introductory text.
- **Online Appendixes.** These appendixes provide a much more complete list of financial and operating indicator ratios and their definitions. These could not be included in the text because they would greatly increase the length and cost of the book.

## Acknowledgments

This book reflects the efforts of many people. First and foremost, I would like to thank Mark Covaleski of the University of Wisconsin, who made significant contributions to the accounting content of the book. In fact, without his materials, advice, and counsel, the book could not have been written. In addition, Anna McAleer of Arcadia University (formerly Beaver College) provided many useful comments for improving both the text and the Instructor's Manual.

Colleagues, students, and staff at the University of Florida provided inspirational support, as well as more tangible support, during the development and class testing of the text. Also, the Health Administration Press staff was instrumental in ensuring the quality and usefulness of the book.

Finally, Kristin Reiter's review of the financial and managerial accounting chapters both improved the readability of these chapters and ensured the validity of the material.

## 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, I strongly encourage both instructors and students to write me at the address below with comments and suggestions for improving the book. I 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. Because of its importance, managers of all types and at all levels should be thoroughly grounded in finance principles and applications; but this is easier said than done. I hope that *Healthcare Finance: An Introduction to Accounting and Financial Management* will help you understand the finance problems currently faced by healthcare providers and, more importantly, that it will provide guidance on how best to solve them.

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