

Michigan Great Lakes HFMA

CHFP Exam Prep Session #2

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Jason Williams, FHFMA

Interim Vice President - Contracting, Reimbursement & Revenue Integrity
Henry Ford Health



Certified Healthcare Financial Professional

Module I The Business of Healthcare

Financial Accounting Concepts

Polling Question #1

- **In which healthcare segment do you work?**
 - A) Payor
 - B) Hospital/Health System
 - C) Clinic
 - D) Vendor
 - E) Other

Polling Question #2

- **In which job function do you work?**
 - A) Accounting
 - B) Reimbursement/Other Finance
 - C) Revenue Cycle
 - D) Administration/Operations
 - E) Audit/Compliance/Legal
 - F) Other

Learning Objectives

You will be able to:

- Identify the basic elements of the accounting function
- Differentiate between the key financial statements and what information they provide
- Determine an organization's financial condition with the use of financial statements and analysis tools

Basic Accounting Principles

- Double entry system
 - Two sides to every transaction
 - Everything is in balance:

Balance Sheet Accounts

Assets

Debit (+)

Credit (-)

Liability

Debit (-)

Credit (+)

Equity

Debit (-)

Credit (+)

Income Statement Accounts

Revenue

Debit (-)

Credit (+)

Expense

Debit (+)

Credit (-)

Polling Question #3

- **Which of the examples below best represents this definition of double-entry system?**

A) Recording the purchase price for an item and also the item

B) Recording only the money spent

Basic Accounting Principles

- Balance Sheet Accounts
 - What you have or are owed – known as an asset
 - What you owe – known as a liability;
 - What you get to keep (or retain) – known as net assets or equity



$$\$5,000 \text{ } \text{💰} = \$5,000 \text{ } \text{💰}$$

Basic Accounting Principles

- Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Net Assets / Equity}$$

Basic Accounting Principles

- Trial Balance
 - Complete listing of general ledger accounts in a “left” and “right” arrangement with the debits on the left and credits on the right

Trial Balance	
Debits	Credits
Assets (cash, accounts receivable, fixed assets, etc.)	Liabilities (accounts payable, longterm debt, etc.)
Expenses (salaries, supplies, etc.)	Revenues (patient service, other operating, etc.)
	Net assets

Basic Accounting Principles

- Matching Principle
 - Match the revenues earned in a given time period (a month, a quarter, or a year) with the expenses incurred to earn that revenue.
- Accrual basis of accounting
- Accruals

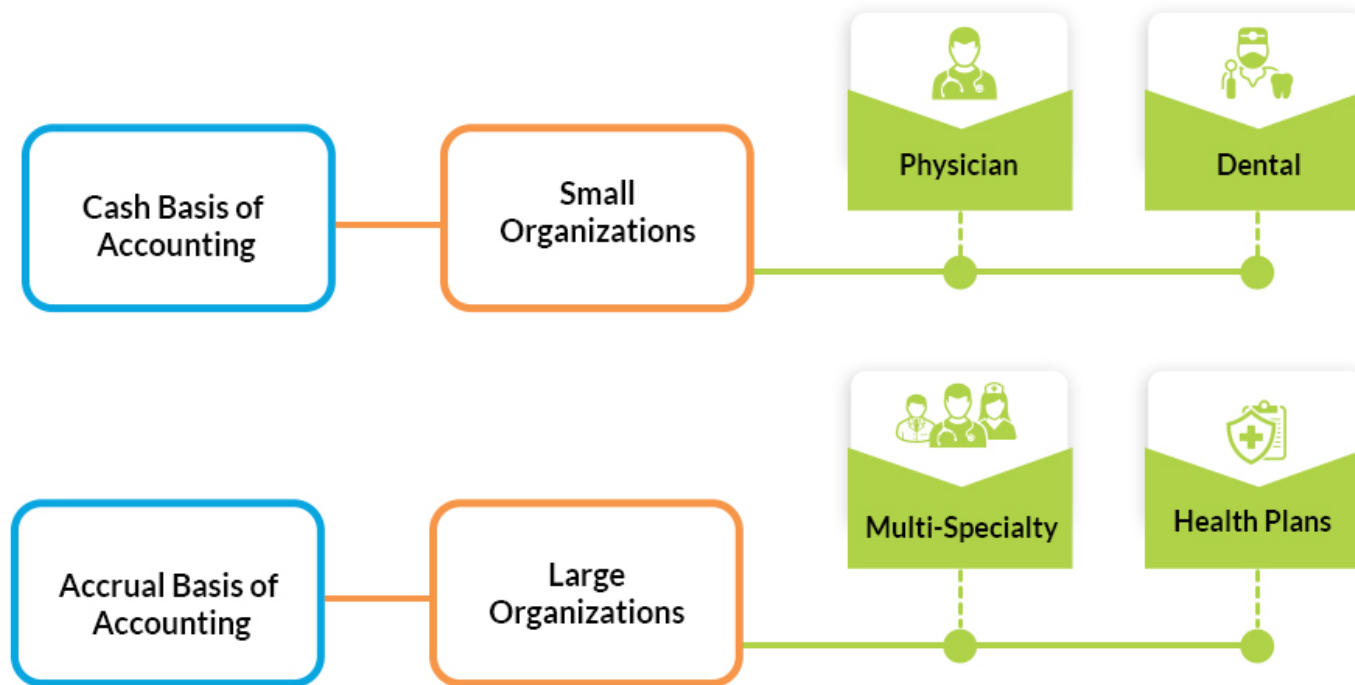
Basic Accounting Principles

- General Accepted Accounting Principles
 - Method of recording accounting transactions

The letters 'GAAP' are rendered in a large, blue, three-dimensional serif font. Each letter has a slight shadow beneath it, giving it a floating appearance. The letters are centered horizontally on the slide.

Basic Accounting Principles

- Cash Basis of Accounting



Polling Question #4

- **Which basis of accounting is NOT considered a part of Generally Accepted Accounting Principles (GAAP), primarily because it does not comply with the matching principle?**

A) Accrual basis

B) Cash basis

Key Financial Statements

- The Income Statement or “Statement of Operations”
- The Balance Sheet or “Statement of Financial Position”
- The Statement of Cash Flows



Key Financial Statements

- Income Statement

$$\text{Revenue} - \text{Expenses} = \text{Income}$$

- Important Income Statement Concerns
 - Bad Debt
 - Charity

Key Financial Statements

- Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Net Assets / Equity}$$

Key Financial Statements

- Balance sheet reserves and income statement revenues
- Income statement timing differences regarding receivables...

Impacts the balance sheet

Before Salary Expense (Income Statement) \$0 Salary Payable (Balance Sheet) \$0	Salaries Earned + \$ 5,000 + \$ 5,000	After Salary Payable (Balance Sheet) \$ 5,000 Cash (Balance Sheet) \$ 5,000
Before Claims Expense (Income Statement) \$0 Claims Payable (Balance Sheet) \$0	Claims Incurred + \$5,000,000 + \$5,000,000	After Claims Expense \$5,000,000 Claims Payable \$5,000,000

Key Financial Statements

- Statement of Cash Flows
 - Cash flows from operating activities
 - Cash flows from investing activities
 - Cash flows from financing activities

Key Financial Statements

STATEMENT OF CASH FLOWS			
ITEM	PHYSICIAN CLINIC	HOSPITAL	HEALTH PLAN
Cash flows from operating activities	Increase/(decrease) in net assets or net income	Increase/(decrease) in net assets or net income	Increase/(decrease) in net assets or net income
	+ depreciation expense	+ depreciation expense	+ depreciation expense
	Increase/(decrease) in accounts receivable	Increase/(decrease) in accounts receivable	Increase/(decrease) in accounts receivable
	Increase/(decrease) in accounts payable	Increase/(decrease) in accounts payable	Increase/(decrease) in claims payable
	Increase/(decrease) in current portion of long term liabilities	Increase/(decrease) in current portion of long term liabilities	Increase/(decrease) in accounts payable
	Net cash provided by (used for) operating activities	Net cash provided by (used for) operating activities	Increase/(decrease) in current portion of long term liabilities
			Net cash provided by (used for) operating activities

Polling Question #5

- **A Statement of Activities (income statement) for physician clinics, hospitals, and health plans includes which characteristic below:**
 - A) It includes liabilities
 - B) It tracks cash flow from operating activities
 - C) It describes the revenues earned and expenses incurred to earn revenues during that time period

Analysis of Financial Statements

- What happened?
- Operational metrics



Analysis of Financial Statements

- Hospital Common Metrics

- $ALOS = \frac{\text{patient days}}{\text{total discharges}}$

- $\text{Occupancy Percentage} = \frac{\text{Patient days}}{(\text{beds in operation} \times \text{days in period})} \times 100$

Analysis of Financial Statements

- Physician clinic common metrics

- Visits per day =
$$\frac{\text{total patient visits during the period}}{\text{total days in operation during the period}}$$

- Visits per provider =
$$\frac{\text{total patient visits by provider during the period}}{\text{total days in operation during the period}}$$

Analysis of Financial Statements

- Health plan operational metrics

Total cost or volume for the time period

Average number of members for the period X months in the period

Analysis of Financial Statements

- Ratio Analysis
 - Understand the relationships of various parts of the financial sheets
 - Benchmark performance against other organizations
 - Deterring creditworthiness

Analysis of Financial Statements

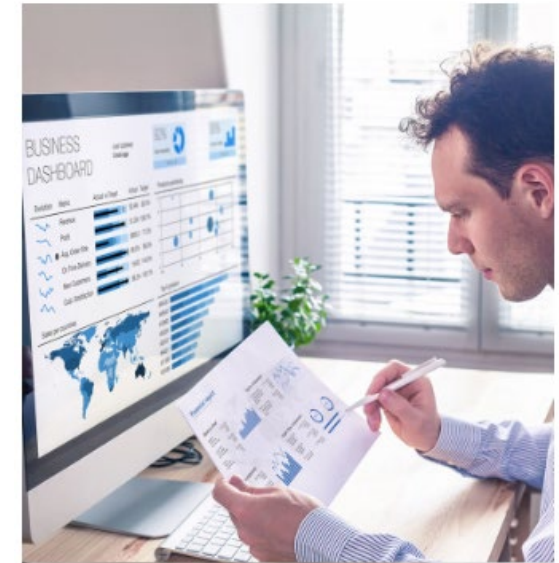
- **Types of Ratios**
 - **Liquidity** – measure the ability of an entity to pay its current obligations as they come due
 - **Capital structure** – (also known as **solvency**) – measures how the assets for an entity are financed, as well as its ability to pay its long-term debts
 - **Profitability** – measures the extent to which the entity is generating a surplus

Polling Question #6

- **Current Ratio (Current Assets / Current Liabilities) is what type of ratio?**
 - A) Capital Structure
 - B) Liquidity
 - C) Profitability

Analysis of Financial Statements

- Dashboards
 - Provide a summary of key performance indicators (or KPIs) for the physician office, hospital or health plan for shorter time periods within a fiscal year.
 - A Summary of items that can predict future results



The Take-Away

- You do not need to be a finance expert
- You do need to:
 - Know your way around the financial sheets
 - Understand what the data in these reports mean

Questions?

Example Exam Questions:

- **Calculate the Days Cash on Hand:**

Cash and Marketable Securities	\$100 million
Net Account Receivable	\$25 million
Total Current Assets	\$130 million
Net Assets	\$285 million
Current Liabilities	\$87 million
Long Term Debt	\$100 million
Annual Net Revenue	\$182.5 million
Operating Expenses	\$184 million

Answer:

B. 198 days

That's right!

$$\frac{\text{cash + cash equivalents}}{(\text{cash operating expenses / number of days in the period})} = \frac{\$100 \text{ million}}{(\$184 \text{ million} / 365 \text{ days})} = 198 \text{ days}$$

Sample Exam Question:

- **The income statement and the balance sheet are closely linked. The most significant link is:**
 - A) Current liabilities on both statements
 - B) Receivables on both statements
 - C) The time period specified
 - D) Net assets available

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Sample Exam Question:

- **The balance sheets describes the organization's:**
 - A) Profitability as a specified point in time
 - B) Assets, liabilities, and net assets at a specified point in time
 - C) Credit –worthiness
 - D) Liquidity and capacity to take on debt

Sample Exam Question:

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Sample Exam Question:

- **Calculate the Days in Net Accounts Receivable:**

Cash and Marketable Securities	\$100 million
Net Account Receivable	\$25 million
Total Current Assets	\$130 million
Net Assets	\$285 million
Current Liabilities	\$87 million
Long Term Debt	\$100 million
Annual Net Revenue	\$182.5 million
Operating Expenses	\$184 million

Answer:

A. 50 days

That's right!

$$\frac{\text{net patient service accounts receivable}}{(\text{net patient service revenues} / \text{number of days in the period})}$$

=

$$\frac{\$25 \text{ million}}{(182.5 \text{ million} / 365 \text{ days})}$$

=

50 days