



Al-Mustaqbal University
College of Sciences
Intelligent Medical System Department



جامعة المستقبل
AL MUSTAQBAL UNIVERSITY

كلية العلوم قسم الانظمة الطبية الذكية

Lecture: (1)

Healthcare Systems Administration II

Subject: Introduction to Healthcare Finance

Level: Fourth

Lecturer: MS.C Ali Haider Alazam



Fundamentals of Healthcare Finance

Before exploring advanced financial concepts, it is important to understand what makes **healthcare finance unique**. Unlike a typical retail business, where a customer purchases a product and pays immediately, financial transactions in healthcare are far more complex and often involve multiple parties.

Illustrative Scenario

Consider a patient who visits a hospital for an **appendectomy**. At first glance, the process may seem simple. However, from a financial perspective, it involves several layers of complexity:

- The patient has health insurance with a deductible and a copayment.
- Multiple providers are involved, such as the surgeon, anesthesiologist, and hospital.
- Each provider submits a separate bill.
- The insurance company negotiates different reimbursement rates with each provider.
- The final cost is not known until after the procedure is completed.
- Payment may be received several months after the service is delivered.

These factors illustrate why healthcare finance is both challenging and intellectually engaging.

The Revenue Cycle

The revenue cycle represents the financial foundation of any healthcare organization. It encompasses all financial processes related to delivering healthcare services and ensures that revenue is collected efficiently and accurately.



Pre-Service Stage : This stage includes all activities that take place **before** the patient receives medical care. Its purpose is to prepare both the clinical and financial aspects of the visit.

Key Activities:

- **Insurance Verification:** Confirming the validity of the patient's insurance and coverage for the planned services.
- **Benefits Estimation:** Determining insurance coverage and estimating the patient's out-of-pocket costs.
- **Pre-Authorization:** Obtaining approval from the insurance provider for specific procedures.
- **Financial Counseling:** Explaining costs to the patient and discussing payment plans or financial assistance.

Example:

For a patient scheduled for knee replacement surgery, the hospital must:

- Verify insurance coverage.
- Obtain pre-authorization from the insurer.
- Estimate the patient's financial responsibility.
- Arrange suitable payment options.

Point of Service Stage

This stage occurs during the delivery of healthcare services.

Key Activities:

Patient Registration: Collecting and updating patient demographic and insurance information.

Charge Capture: Recording all services and procedures provided.



Clinical Documentation: Accurately documenting diagnoses, treatments, and procedures.

Medical Coding: Translating clinical services into standardized codes used for billing and reimbursement.

Post-Service Stage

This stage begins after patient care has been completed and focuses on billing, claims, and payment management.

Key Activities:

1. **Claim Preparation:** Compiling all required information for insurance claims.
2. **Billing:** Submitting bills to insurance companies or patients.
3. **Payment Posting:** Recording payments received.
4. **Collections:** Following up on outstanding balances.
5. **Denial Management:** Addressing denied insurance claims.

Denial Management Process:

When a claim is denied, the organization should:

1. Identify the reason for denial (e.g., incorrect coding or missing documentation).
2. Gather supporting documents such as clinical notes or authorizations.
3. Submit an appeal within the specified timeframe.
4. Monitor the appeal until a final decision is made.
5. Analyze the cause to prevent future denials.

Importance of the Revenue Cycle

The revenue cycle ensures smooth financial operations, minimizes errors in billing, and optimizes revenue collection. Accurate preparation and coding are crucial for reducing delays and improving overall financial efficiency.



Understanding Financial Statements

Healthcare administrators must possess the skills to read and interpret financial statements. These documents provide critical insights into an organization's financial health. There are four key financial statements in healthcare finance:

1. **Balance Sheet** – Shows the hospital's financial position at a specific point in time (assets, liabilities, and equity).
2. **Income Statement** (Profit & Loss Statement) – Summarizes revenues and expenses over a period, showing net profit or loss.
3. **Cash Flow Statement** – Tracks cash inflows and outflows, ensuring the hospital has enough liquidity for operations, investments, and financing activities.
4. **Statement of Changes in Equity** (Retained Earnings Statement) – Explains how the hospital's net worth (equity) changes over time due to profits, losses, owner contributions, dividends, and other adjustments.

Balance Sheet

The balance sheet is a financial snapshot at a specific point in time, detailing what the organization owns and owes. It consists of three key components:

Assets – What the organization owns

Assets represent resources controlled by the healthcare facility that provide future economic benefits.

- **Current Assets:** Short-term resources that can be converted to cash within a year.
 - **Cash** – Available funds for operations.
 - **Accounts Receivable** – Money owed by patients or insurance companies.
- **Fixed Assets:** Long-term investments used in operations.
 - **Buildings & Facilities** – Hospitals, clinics, and office spaces.
 - **Medical Equipment** – MRI machines, surgical tools, and other essential healthcare devices.



- **Other Assets:** Intangible and investment-related assets.
 - **Investments** – Stocks, bonds, or other financial instruments.
 - **Goodwill** – The organization’s reputation, brand value, and relationships.

Liabilities – What the organization owes

Liabilities are financial obligations the healthcare facility must pay in the future.

- **Current Liabilities:** Short-term debts due within a year.
 - **Accounts Payable** – Payments owed to suppliers and vendors.
 - **Short-Term Debt** – Loans or financial obligations due soon.
- **Long-Term Liabilities:** Debts that extend beyond one year.
 - **Bonds Payable** – Funds borrowed from investors for large projects.
 - **Mortgages** – Loans used to purchase hospital buildings or land.

Net Assets/Equity – The organization’s financial value

Net assets (also called **equity**) represent the difference between **total assets and total liabilities**.

Formula:

Net Assets=Total Assets–Total Liabilities

This value reflects the organization’s financial stability and ability to invest in future growth.



1 Balance Sheet (As of December 31, 2024)

📌 Shows financial position at a specific point in time

Assets	Amount (\$M)	Liabilities & Equity	Amount (\$M)
Current Assets	\$50M	Current Liabilities	\$20M
Fixed Assets	\$150M	Long-Term Liabilities	\$60M
Other Assets	\$30M	Equity (Net Assets)	\$150M
Total Assets	\$230M	Total Liabilities & Equity	\$230M

✅ XYZ Hospital owns \$230M in assets, financed by \$80M in liabilities and \$150M in equity.

Why Balance Sheet Important

A well-balanced balance sheet helps healthcare administrators, investors, and stakeholders assess the financial health, liquidity, and long-term viability of an organization.

Assets are arranged by **liquidity**, indicating how quickly they can be converted into cash. For instance, cash is the most liquid, while buildings are the least.