



Texas Healthcare  
Trustees

# TrusteeWorkbook

*Inspiring Excellence in Health Care Governance*



## Health Care Finance and Reimbursement

*A companion to Trustee Guidebook*



Texas Healthcare Trustees

Texas Healthcare Trustees is a statewide association whose members are Texas hospitals, health systems and health-related organizations. THT provides education and resources to board members of these organizations to help ensure they are equipped with the tools and knowledge needed to navigate the health care industry and lead their hospital or health system to success. Membership includes more than 450 governing boards and represents nearly 4,000 trustees. THT is the oldest trustee organization in the country, founded in 1961. [www.tht.org](http://www.tht.org)



Texas Healthcare Trustees is proud to partner with BKD on the development of this resource. BKD, a national CPA and advisory firm, provides consulting, tax, assurance and accounting outsourcing solutions to health care organizations throughout Texas and nationwide. BKD is nationally ranked as a top 15 health care management consulting firm, serves more than 1,000 hospitals and health systems, and has niche expertise serving providers across the continuum of care including physician groups, long-term care and senior living organizations, and home care agencies creating holistic insights for health systems. [www.bkd.com](http://www.bkd.com)

**This workbook is a supplement to the Trustee Guidebook on Health Care Finance and Reimbursement. It is intended to help hospital trustees effectively carry out their fiduciary duties as they seek to deliver excellent care to their communities.**

## **Financial Planning Tools**

Income statements, balance sheets, benchmarking and dashboards are critical tools that board members will use in every meeting and in their finance committee work. Feedback on the effectiveness of these tools is an important best practice to ensure that members are monitoring the right performance indicators and getting the right kind of information to guide strategy.

### **Financial Statements**

One of the governing board's highest priorities is its fiduciary duty to protect the financial well-being of the hospital/health system. While a balance sheet provides the snapshot of a company's financials as of a particular date, the income statement reports income through a particular time period. The income statement provides the board with critical information on the hospital's operations and performance relative to other hospitals. The balance sheet represents a snapshot of a hospital's assets and liabilities at a particular date and should be used to evaluate the overall liquidity and financial health of the organization.

#### **Resources**

These resources are examples of financial statements for governmental and non-governmental hospitals.

[Income Statement –FASB](#)

[Balance Sheet –FASB](#)

[Financial Statements - GASB](#)

### **Key Performance Indicators and Benchmarking**

Setting goals and establishing key performance indicators (KPIs) helps governing boards and leadership benchmark and monitor performance against goals and peer benchmarks. KPIs should be established for operational profitability, balance sheet health and cash flow targets. Measurement of KPIs should be performed at the same level as what is reflected in your financial plan (organization, site specific, program specific, etc.). Benchmarking provides valuable information to guide the board and leadership in implementing strategy, reacting to problems and responding to opportunities.

#### **Resources**

[Common Key Performance Indicators](#)

[Financial Goals Worksheet](#)

### **Governance Dashboards**

With the constant and sometimes overwhelming flow of information to hospital leaders, it is important that the information provided for important strategic decisions is clear, succinct and comprehensible. One way to communicate high-level information concisely is through the use of dashboards, which provide a visual snapshot of large amounts of data and statistics.

Many board rooms are switching from reviewing lengthy multi-page narratives to one-page reports and dashboards that can show an organization's key metrics, progress on strategic goals, benchmarks against top performers and trends. Board members may find it helpful to have a one-page summary of why performance varied from expectations, either positively or negatively and what further action, if any, is being taken.

## Resources

[Financial Dashboard](#)  
[Financial Dashboard](#)

## Governance Meeting Tools

Efficient, productive and well-documented meetings are at the heart of effective governance. Agendas should clearly convey topics of discussion, and be provided well in advance of the meeting to allow members time to study the issues. Supporting documents should be shared so that members are fully briefed and can engage in meaningful discussion during the meeting. Meeting minutes serve as written documentation of action taken, items needing further deliberation and tasks or assignments for follow up.

## Resources

[Finance Committee Agenda](#)  
[Finance Committee Minutes](#)

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## Financial Policies

Financial policies guide the staff and board in fulfilling the hospital's mission. Board members vote to approve policies, and once approved, it is the board's responsibility to ensure compliance with them. The board should conduct annual or bi-annual review of financial policies through the hospital's CPA or audit firm. The following examples are important financial policies your hospital should have. However, your organization may have additional ones as well.

## Financial Assistance

Hospital bad debt is those services for which hospitals expected payment but did not receive it. Charity care is services for which the hospital did not expect to receive nor did it receive payment due to a patient's financial situation. Financial assistance includes free or discounted health services provided to persons who meet the hospital's criteria for financial assistance and are unable to pay for all or a portion of the services.

The Internal Revenue Code Section 501(r)(4) requires a tax-exempt hospital organization to establish a written financial assistance policy. It is the governing board's responsibility to establish a policy that applies to all emergency and other medically necessary care provided by the hospital facility, including care provided in the hospital facility by a substantially-related entity.

## Resources

<https://www.irs.gov/charities-non-profits/financial-assistance-policies-faps>

## Billing and Collections

The hospital governing board has a fiduciary responsibility to ensure that the hospital bills and collects appropriately for patient services. Federal law requires that hospitals bill all patients the same amount for the same service. However, some patients may pay less than the billed charges because the amount of discount provided to payers varies based on contractual terms. A billing and collections policy enables a hospital to address billing and collections in a comprehensive way.

## Resources

[Billing Policy](#)  
[Collections Policy](#)

## Investments

An investment policy defines the hospital's cash management and investment goals. It provides guidance to the board as to who can make investments, risk tolerance and asset allocation, and investment restrictions. The board should review investment performance routinely. An annual review of the investment policy enables the board to make adjustments to adapt to the environment. Hospital districts or governmental hospitals' investment policies may be restricted by laws of the state in which they operate.

### Resources

[Investment Policy - Governmental Entity](#)

[Investment Policy - Non-Governmental Entity](#)

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This workbook is a companion piece to the Texas Healthcare Trustees Guidebook on Health Care Finance and Reimbursement. The sample forms and policies contained in the workbook are provided as examples to help hospital governing boards in developing financial policies and related documentation.

The views and content expressed are not necessarily those of Texas Healthcare Trustees. Any sample documents should be customized for use in your hospital. Hospitals should consult their legal counsel for guidance.

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