

Nonprofit, Non-Business-Oriented Organizations

Non-business-oriented HCOs perform voluntary services in their communities; accordingly, they are often called **voluntary health and welfare organizations**. They are tax exempt and rely primarily on public donations for their funds. Examples include the American Red Cross and the American Cancer Society. Although these types of organizations provide invaluable services, the financial statements and financial management of these organizations are somewhat different from that of business-oriented firms.

REVENUE CYCLE FOR HEALTHCARE FIRMS

Almost any measure of size indicates that the U.S. healthcare industry is big business. Its size as a proportion of the U.S. gross domestic product has been steadily increasing for several decades, and it now accounts for approximately 16% of the gross domestic product, with more than \$2 trillion in annual expenditures. Paralleling this growth, the pressures for cost control within the system have increased tremendously, especially at the federal and state levels for control of Medicare and Medicaid. Healthcare organizations not able to deal effectively with these pressures face an uncertain future. In short, as the expected demand for health services continues to increase during the next several decades as our population ages, successful HCOs must become increasingly cost efficient.

Healthcare firms are for the most part business-oriented organizations. Their ultimate financial survival depends on a consistent and recurring flow of funds from the services they provide to patients. Without an adequate stream of revenue, these firms would be forced to cease operations. In this regard, healthcare firms are similar to most business entities that sell products or services in the economy. **Figure 5-3** depicts the stages involved in the revenue cycle for a healthcare firm. The critical stages in the revenue cycle for healthcare firms are the provision and documentation of services to the patient, the generation of charges for those services, the preparation of a bill or claim, the submission of the bill or claim to the respective payer, and the collection of payment.

A simple review of the six stages of the revenue cycle in Figure 5-3 hides the significant degree of complexity involved in revenue generation for healthcare providers. No other industry in the U.S. economy experiences the same level of billing complexity that most healthcare firms face. Part of