



# THE BOTTOMLINE

MONTANA CHAPTER HFMA

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Summer 2009

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*By Steve Scharmann  
 President*

Sherie McClelland is a registrar that has worked for Bozeman Deaconess long before I got here seven years ago. She is one of those people that everyone loves to be around. As a former schoolteacher, Sherie knows how to talk to patients and their families, setting them at ease before their impending surgeries. Her job with Bozeman Deaconess has her working with patients over the phone to make sure their pre-registration information is correct, so that when she sees them on the day of their surgery, she doesn't have anything to collect other than signatures. I had been with BDH for about two years before I realized how much these patients really meant to Sherie. Not only would she treat each patient as if they were her long-lost friends, but she would go as far as send get well cards to those whom she really made a connection with. It came to my attention one day when a patient, in my office, commented about how nice the "lady that sent me a card" was. I inquired further, and was impressed at how Sherie had done this on her own, at her own expense, because she genuinely cared for our patients. This year's HFMA National Chairman's theme is "Making It

Count". Sherie is a great example of what it means to make it count. As financial executives and managers, we are the frontrunners in the battle to offer quality healthcare at an affordable price. It's not easy, especially in today's economy. Several hospitals have freezes on hiring, travel, education, and capital expenditures. Others are looking for every way to cut expenses as daily census numbers continue to fall short of budget projections. We all can't wait for the impact the RAC project will have on our bottom lines! Today, more than ever, healthcare financial managers must make it count in order to remain financially viable. As I begin my year as president of the Montana Chapter of HFMA, I first want to acknowledge all the hard work and dedication that has preceded me in the leadership of our chapter. Last year, for example, our chapter grew by 7%, and our retention rate was 93.5%. We were one of six chapters nationally to exceed the 6.36% threshold. Last year, our educational attendance was recognized by National HFMA as one of twelve chapters with more than 19.75 registrant hours per member. And finally, between June 1, 2008 and May 31, 2009, we had seven certification tests passed. As a

result, the Montana Chapter was the only chapter nationwide to receive three gold awards for excellence in these areas (membership, education and certification). What does this all mean? In my view, it means our educational opportunities are second-to-none. As members of HFMA, we have access to state and national conferences, seminars and audio-conferences to assist us in "making it count". It means that we have certified experts in the healthcare field to use as resources. It means that there are 214 fellow Montana HFMA members facing the same problems and challenges as you! It's never been more important for us to learn the best practices for leading our organization through these trying economic times, and HFMA is the way to do that. I look forward to working with each of you this upcoming year. My experience in HFMA has convinced me that we have brilliant minds in this state, working hard to make it count in their organizations and in their communities, much the way Sherie McClelland has made it count to the hundreds of patients that pass through her office. Please feel free to contact any of the board members about opportunities you'd like to see us offer.

## Montana Chapter Announces Facebook Page

*By Donald Miller*  
*MT HFMA Secretary/Treasurer*

The Montana Chapter of HFMA has recently opened a page on the social networking site Facebook for all of our fans. This topic was discussed at LTC as a method of gaining support and providing information to the membership. Although the initial focus of Facebook was geared toward Generation X and Generation Y (also known as millennial generation) the popularity of Facebook has begun to cross into the baby-boomers (and beyond) as well. Facebook began in February, 2004 as a project at Harvard by a sophomore named Mark Zuckerberg. Facebook quickly became popular and spread to other colleges and high schools, and then rapidly took off as an internet application.

Today, Facebook has over 200 million active users. In order to access the MT HFMA Facebook page, you must first sign up as a



Facebook user. This simple process requires that you provide a valid e-mail address and provide the application with some basic information about yourself. Because Facebook is versatile, it allows the user to block a great deal of personal information if you so desire or you may allow others to access virtually everything you put on your profile. The site can be accessed at [www.facebook.com](http://www.facebook.com).

Once you have your profile established, simply perform a search for MT HFMA and you will discover a link to our page. You will be given the opportunity to become a "fan" which will allow updates from MT HFMA to be posted to your "wall." The page is currently maintained by several members of the MT HFMA board of directors. We welcome comments and suggestions to make the page useful and informative to our chapter. If you have specific comments, please direct them to the Facebook inbox. In the spirit of a social networking page, you will see that we will try to have fun on the page as well as provide information regarding chapter activities and allow a forum for individuals to communicate ideas and requests. We are optimistic that this forum will prove to be a successful venue and it is our hope that the chapter members will enjoy contributing to the page and keep it interesting and insightful.

## MT Chapter Announces Board Change

*By Donald Miller*  
*MT HFMA Secretary/Treasurer*

A recent resignation on the MT Chapter Board of Directors has resulted in an appointment to fulfill the remainder of the term. Sheri Renney asked that the Board accept her resignation due to work obligations which prohibited her from being as active as she would have liked to be.

The Board of the MT Chapter would like to extend our gratitude to Sheri for the time she spent and her continued support of HFMA. Article 5.7 of the Chapter's bylaws requires the Directors to fill a vacated position for the remainder of the term. Following these guidelines, the Directors are pleased to announce the appointment of Maria Conn from Monida Healthcare Network to fill the remaining 1 year of this term.

Maria is the Contract and Reimbursement Specialist for Monida and has been actively involved in healthcare issues for over 12 years. Maria states that she is excited to be on the board and contribute to the success of the Montana Chapter. We are glad to have Maria as a part of our leadership and are looking forward to the insights and experience she brings forth.

## Save The Dates!

- ◆ **2009 Montana Chapter Fall Conference**  
October 21-23, 2009  
Crowne Plaza, Billings, MT
- ◆ **2010 Montana Chapter Spring Conference**  
April 14-16, 2010  
Helena, MT
- ◆ **2010 ANI – The Healthcare Finance Conference**  
June 20-23, 2010  
Gaylord Opryland Resort and Convention Center,  
Nashville, TN



# Leadership Training Conference

*By Tammy Trovatten*

*MT HFMA Newsletter Chair*

In April, four MT HFMA board members attended the HFMA Leadership Training Conference (LTC) in Fort Lauderdale, Florida. Despite the fact that the hotel was located on a gorgeous beach in Fort Lauderdale, the four MT HFMA board members kept their nose to the grindstone and focused on the training at hand. Steve Scharmann, MT HFMA President, learned how to lead us through the next year of "Making It Count". Donja Erdman, MT HFMA President Elect, learned tips for planning successful conferences. Don Miller, MT HFMA Secretary/Treasurer, learned the tips for reporting finances according to HFMA requirements. While I learned tips on producing the newsletter, as I networked with other newsletter chairs and realized that I was not alone in the scary world of newsletter chairs.

Also included in the LTC training were general sessions, including an informative and humorous

look at the different generations in the workplace. This was a great opportunity to meet HFMA members on a national and regional level while learning skills to help the MT HFMA board. The four dedicated and hard working board members did take a moment or two in the evenings to explore the beautiful surroundings that Florida offered in the spring as attested to by the picture below.



*Pictured left to right: Don Miller, Sara Miller, Donja Erdman, Tammy Trovatten, and Steve Scharmann.*



**Tracy Hilderman**

*Partners in Home Care, Inc., Missoula*

**Garett Robson**

*Health Management Services, Billings*

**Carol Bischoff**

*MHREF, Helena*

**Rose Neumiller-Green**

*Northeast Montana Health Services, Wolf Point*

**Sarah Van Arsdale**

*Billings Clinic, Billings*

*We welcome you to the Montana Chapter of HFMA!*



**46 Montana Chapter HFMA**  
**Budget Overview: FY 2010 - FY10 P&L**  
 June 2009 - May 2010

	<b>Total</b>
<b>Income</b>	
4000-00 National & Regional Income	0.00
4100-00 Chapter Education Income	33,000.00
4600-00 Dues Rebated from National	4,795.00
4700-00 Interest Income	300.00
4800-00 Chapter Dues	0.00
4950-00 Sponsorship	23,000.00
<b>Total Income</b>	<b>\$ 61,095.00</b>
<b>Expenses</b>	
5000-00 National & Regional Expenses	16,600.00
5100-00 Chapter Education Expenses	45,000.00
5600-00 Member Recognition	1,500.00
5950-00 Chapter Web Site	1,000.00
6501-00 Audit Fees	110.00
6502-00 Board Meeting Expenses	4,500.00
6600-00 Insurance	504.56
6700-00 Bank Service Charge	36.00
<b>Total Expenses</b>	<b>\$ 69,250.56</b>
<b>Net Operating Income</b>	<b>-\$ 8,155.56</b>
<b>Other Expenses</b>	
9000-00 Other Expenses	305.00
<b>Total Other Expenses</b>	<b>\$ 305.00</b>
<b>Net Other Income</b>	<b>-\$ 305.00</b>
<b>Net Income</b>	<b>-\$ 8,460.56</b>

Friday, Jun 19, 2009 08:47:29 AM PDT GMT-7 - Accrual Basis



# Chapter Sponsors



## *Diamond Sponsors* Healthcare Outsourcing Network, LLC Siemens

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Collection Professionals, Inc.  
Dingus, Zarecor & Associates PLLC  
Michael R Bell & Co  
Moss Adams  
Emdeon Business Services  
New West Health Systems  
HCFS  
Perot Systems  
Healthcare Management Systems, Inc.  
Rocky Mountain Health Network  
Humana  
The MASH Program  
Recovery Resources  
United Healthcare  
Tech Time



### CHECK OUT OUR WEBSITE

For more information about the Montana Chapter of HFMA please visit:

[www.mthfma.org](http://www.mthfma.org)

Is your information up-to-date?

Visit [www.hfma.org](http://www.hfma.org) and login and check personal profile



# TRICARE/TriWest Update

## Do you find yourself curious as to what is going on with TRICARE?

### Share Your E-mail Address with TriWest

TriWest Healthcare Alliance is developing a more effective and efficient means of communicating with providers by collecting provider e-mail addresses. The goal is to obtain provider e-mail addresses that will allow TriWest to communicate the right information to the right person at the right time.

For example, it will allow TriWest to inform you about:

- ◆ TRICARE program changes
- ◆ New TriWest processes, policies and/or resources to help you care for TRICARE beneficiaries
- ◆ Educational opportunities or events in your community

TriWest will not sell or distribute your e-mail address to other companies, with the exception of your local network representative. TriWest will not send spam e-mails as all communications will be TRICARE/TriWest-related information only, and TriWest will not overload your e-mail account.

### Online Referral/Authorization Submission Now Available

You asked for it and now you have it! All registered providers on the secure provider portal at [www.triwest.com](http://www.triwest.com) now have the ability to submit referrals/authorizations online.

This enhancement is the preferred way to submit a referral/authorization request to TriWest. In most cases, the requests process to completion with a status available to the

referring provider, the servicing provider, and the TRICARE beneficiary immediately.

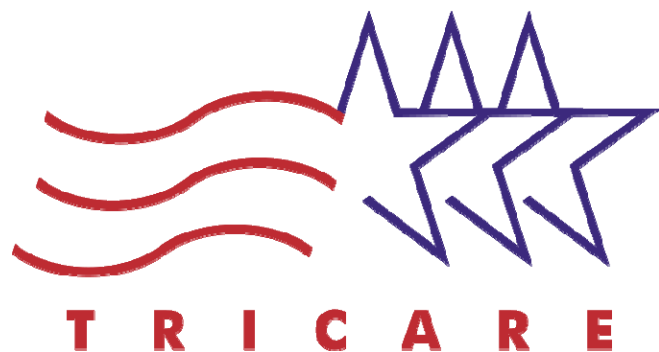
To take advantage of this and many other benefits, you must become a registered user of the secure provider portal. Just go to the "Register Now" section on [www.triwest.com/provider](http://www.triwest.com/provider) to sign up to enjoy these benefits:

- ◆ Verify patient eligibility
- ◆ Submit referrals/authorizations online
- ◆ Determine status of referrals/authorizations
- ◆ Submit claims online
- ◆ View claims and check claim status

### Download Explanations of Benefits

Once you are registered, you can log in to the secure portal by clicking on My Account. Then go to the Referrals & Authorizations section and click on the "Learn to Submit Requests" button. There is a short online tutorial to assist you with getting started and answer common questions about using the tool. Additional online help is also available.

For more information, go to [www.triwest.com/provider](http://www.triwest.com/provider) or call 1-888-TRIWEST (874-9378).



# And Now, for the Million Dollar Question: How Much Can We Afford to Spend?

By: Jason H. Sussman

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**F**ew healthcare organizations have sufficient capital resources to meet their comprehensive, strategic capital requirements. Their leaders must make choices. How much capital to spend and the projects on which dollars will be spent are critical decisions with long-term strategic and financial implications.



capital changes, and additions to balance sheet cash reserves, which are added to an income statement-based calculation.

## *The Components of Cash Constraint*

To determine an organization's capital constraint, financial leaders should start by asking the following simple question: What amount of capital, obtained through both internal operations and external sources, are we reasonably sure can be generated to support the organization's development over a defined period of time?

The answer is related to how much the organization can and should

Ultimately, the answers to spending questions must be driven by the organization's long-range strategic financial plan. This plan should include operating, financial, and capital projections based on the organization's defined strategies. It should also reflect management decisions regarding the organization's targeted long-term financial structure and optimal access.

Some organizations simply look at last year's spending levels or income statement—for example, net income plus depreciation or a percentage of total operating revenue—as a starting point. Because this approach does not account for changes in the organization's balance sheet that require or provide cash, it provides an incomplete view of capital availability, which can lead to financially detrimental levels of capital spending.

What can the organization afford to spend on capital next year? In the next three to five years? This article offers guidance on how executives can answer these questions by determining the organization's capital constraint, which is defined as the net capital available for spending during a designated period of time.

The complete picture of net cash available for capital spending emerges through a capital position analysis that considers all sources and uses of funds, including principal payments, working

borrow, as well as the level of cash that it can generate and retain from operations in uncertain times. Cash available for capital spending will be a function of projected operating results, planned use of external debt, changes to the balance sheet, and projected levels of non-income statement philanthropy (for example, capital campaign contributions). *The basic components of the capital constraint include the following:*

### Cash Flow

#### + Total Sources of Cash:

- Debt proceeds
- Philanthropy
- Other sources of cash

#### - Total Uses of Cash:

- Working capital
- Principal payments
- Carry-forward capital
- Cash reserve requirements
- Other uses of cash

#### = Total Cash Available for Capital

- Less Contingency

#### = Net Cash Available for Capital Allocation – the Capital Constraint

➡ *Continued on next page*

## And Now, for the Million Dollar Question: How Much Can We Afford to Spend? *(Continued)*

### Cash Flow

Cash flow is the starting point for any calculation of capital availability and is often determined by the simple addition of income plus depreciation. However, whether income should reflect only income from operations or should include all non-operating sources, such as investment income, contributions, and gains on sale of assets, can be a significant issue for an organization. A focus solely on operating income creates an automatic reserve to increase balance sheet liquidity at the expense of current-year capital spending. This approach is often used by organizations with balance sheet weakness or a history of spending too much capital.

On the other hand, including income from all sources maximizes current-year capital availability, but increases the importance of establishing and meeting the rigorous balance-sheet cash-reserve targets in the strategic financial plan.

### Debt Proceeds

This component includes proceeds from debt that will be issued in the upcoming year and the unspent but still available proceeds of debt issued in prior years. An organization should incur no more debt than is consistent with maintaining the credit rating that enables it to effectively compete in the marketplace and maintain optimal access to capital. The amount of debt the organization is capable of supporting within a particular desired credit-rating profile is its debt capacity.

Financial leaders must conduct a rigorous debt capacity analysis before commencing their annual process for allocating capital. Typically, this analysis occurs as part of the organization's strategic financial planning process.

### Philanthropy

Many, if not most, not-for-profit healthcare organizations benefit from ongoing donations generated as a result of their community, academic, or religious affiliations. Such contributions appear as non-operating revenue on their income statements. Depending on the definition of income adopted by the organization (see Cash Flow), this revenue stream may already be part of the capital constraint calculation.

Extraordinary philanthropy, which is typically associated with a particular capital initiative or a capital campaign, is the main focus of this capital constraint component. This source of cash flow often is not recorded as an income item, but flows directly to the balance

sheet. Thus, the inclusion of such philanthropic funds in the calculation of the capital constraint is critical.

### Working Capital

The income statement does not provide a complete picture of funding requirements. An organization that is growing, or one whose net current assets are growing, will have material year-to-year needs to fund working capital. These changes flow through the balance sheet and cash flow statement, but not through the income statement. An organization that uses a simple percentage-of-operating-income measure to calculate capital spending targets overlooks a potentially significant use (or source) of cash.

### Principal Payments

In a similar vein, payments of principal on existing and new anticipated debt constitute direct uses of cash that are not accounted for on an organization's income statement. Depending on the amortization structure of the organization's outstanding debt, principal payments could have a material impact on cash available for capital.

### Carry-Forward Capital

In general terms, carry-forward capital can be defined as approved capital expenditures that have or will have a multiyear cash flow impact. Identifying and quantifying specific types and amounts of carry-forward capital are critical to an accurate capital constraint calculation.

Carry-forward capital should be a direct deduction from available cash flow. To determine carry-forward capital amounts, the organization must first establish firm definitions for the three basic types of carry-forward capital:

- Type 1. Capital dollars originally committed for approved capital projects with a planned, multiyear implementation schedule**
- Type 2. Capital dollars required to complete an initiated approved project whose completion was originally anticipated to occur within the current fiscal year but will not occur until the subsequent fiscal year**
- Type 3. Capital dollars allocated in the current year to projects or other types of capital requests whose implementation has not commenced at the end of the current fiscal year**

After defining specific types of carry-forward capital, organizations should establish specific policies related to the funding of each type. This is critical to calculating and managing the current-year capital constraint and ensuring deployment of capital dollars according to the organization's strategic financial plan.

Every organization should address carry-forward capital issues in a

## And Now, for the Million Dollar Question: How Much Can We Afford to Spend? *(Continued)*

manner consistent with its culture and structure. Type 3 carry-forward capital typically generates the most complex issues, including the following:

- ◆ The organization's ability to quantify the approved capital spending that has not yet been committed
- ◆ The impact of large carry-forward amounts on the organization's ability to support future capital initiatives
- ◆ The potential for creation of a use-it-or-lose-it attitude or approach
- ◆ The discipline and rigor of the organization's project management process

## Cash Reserve Requirements

The financial planning process identifies operating performance and balance sheet targets required to meet the capitalization needs of the organization while maintaining access to capital within defined credit and risk contexts. Liquidity—the minimum level of required cash reserves—is a key balance sheet target.

As management projects operating performance, executives should

also define the specific amount of generated cash flow that should be held on the organization's balance sheet. The increase or decrease in cash reserves is included in the capital constraint calculation. In this way, leaders can be certain that the amount of capital to be spent will not jeopardize the organization's balance sheet liquidity.

Conversely, if capital availability is calculated as a percentage of depreciation or income, there is no correlation to the balance sheet and no way to accurately understand the impact of a particular spending level on the organization's access to capital.

## Other Sources and Uses of Cash

This catch-all category directs attention to the many other non-income statement calls on organizational cash that ultimately affect liquidity and cash available for capital spending. Among the more typical items are

- ◆ Funding of pension or benefit-related shortfalls;
- ◆ Payouts to unaffiliated organizations, such as joint venture partners or corporate members; and
- ◆ Dividends received from unaffiliated organizations.

These items can be either additions to or deductions from the capital constraint. Their inclusion and a proper accounting of their effects ensure that the ultimate capital constraint calculation reflects true levels of cash available for capital spending.

*The table illustrates a five-year capital constraint calculation*

## Calculating the Capital Constraint: Net Cash Available for Capital Allocation

	2007	2008	2009	2010	2011
Operating Income	\$ 17,587	\$ 12,950	\$ 13,035	\$ 14,104	\$ 16,664
Add: Non-Operating Income (excl. interest)	6,364	9,864	7,989	8,064	11,039
Depreciation, Amortization & Loss on Disposal	25,167	29,226	33,335	36,677	39,309
Operating Cash Flow	49,118	52,040	54,359	58,845	67,012
Plus: New Debt Proceeds (net of restriction)	-	43,096	-	-	-
Non-Income Statement Philanthropy	-	-	-	-	-
Interest Income	4,885	4,583	4,820	5,431	6,177
<i>Total Sources of Cash Available for Capital</i>	<u>54,003</u>	<u>99,719</u>	<u>59,179</u>	<u>64,276</u>	<u>73,189</u>
Less: Working Capital Requirements	(1,012)	(1,083)	(1,748)	(1,999)	(2,195)
Principal Payments	(9,400)	(7,444)	(8,254)	(8,209)	(7,243)
Other Sources/(Uses) of Cash	-	-	-	-	-
Carryover Capital <sup>(1)</sup>	(23,104)	(12,949)	-	-	-
Pre-Committed Capital	-	-	-	-	-
Contributions to Cash Reserves	10,604	(9)	(15,710)	(20,882)	(30,251)
<i>Total Uses of Cash Available for Capital</i>	<u>(22,912)</u>	<u>(21,485)</u>	<u>(25,712)</u>	<u>(31,090)</u>	<u>(39,689)</u>
<i>Total Cash Available for Capital</i>	<u>31,091</u>	<u>78,234</u>	<u>33,467</u>	<u>33,186</u>	<u>33,500</u>
Less: 10% System Capital Contingency	(3,109)	(7,823)	(3,347)	(3,319)	(3,350)
<b>Net Cash Available for Capital Allocation</b>	<b>\$ 27,982</b>	<b>\$ 70,411</b>	<b>\$ 30,120</b>	<b>\$ 29,867</b>	<b>\$ 30,150</b>
<b>Total Capital Spending<sup>(2)</sup></b>	<b>\$ 54,195</b>	<b>\$ 91,183</b>	<b>\$ 33,467</b>	<b>\$ 33,186</b>	<b>\$ 33,500</b>

Source: Kaufman, Hall & Associates, Inc. Used with permission.

➡ Continued on next page

## And Now, for the Million Dollar Question: How Much Can We Afford to Spend? *(Continued)*

performed by a two-hospital system based on its strategic financial plan. The sources and uses of capital numbers reflect the output of the financial plan and quantify the organization's strategic initiatives through volume, expense, and reimbursements projections that result in projected levels of net income, working capital, and cash reserves.

The system defined total cash available for spending in 2007 as approximately \$31.1 million, but subtracted from this a 10 percent capital contingency for system wide emergency investments, yielding net cash available for allocation of nearly \$28 million.

### Defending the Constraint

After calculating the capital constraint, management must be vigilant about ensuring that organizational spending does not exceed this sum and that capital investment does not occur outside of the organization's capital management process. High-level oversight must be provided by the capital management council. If the process breaks down and authorization of capital occurs outside of the comprehensive process, the validity of the capital constraint will be undermined and the integrity of the process diminished.

In many organizations, leasing often challenges the capital constraint. Although operating leases frequently represent the most expensive source of capital for an organization, they also are used by some executives or managers to bypass the capital management process. This is especially true if the process does not include a clear definition of capital. For example, should the value of the lease for a medical office building, a leased outpatient facility, or a leased MRI be considered capital subject to the capital constraint?

Under the separation theorem of corporate finance, an organization's investment decisions must be independent of both the preferences of executives and financing decisions. This means

that organizations must separate evaluation of investment decisions from the financing of investment decisions. In the context of the capital management process, leasing is clearly a financing decision which, by definition, should be under the purview of the organization's corporate-level financial management, not a department manager or even a COO. Whether or not a particular capital request is considered within the capital constraint should be a function of the magnitude of the proposed investment rather the structure (financing) under which it will be acquired.

Allocation of capital for information technology projects should also be handled like any other class of capital, and should be evaluated within the best practice capital management process. This ensures comprehensive consideration of the projects' short- and long-term benefits and costs within the organization's overall portfolio of investments.

A clear definition of how much capital the organization can afford to spend is a critical prerequisite to defining what projects deserve funding and then keeping within defined constraints. Without an answer to the how-much-can-we-afford-to-spend question, organizations are at significant risk for either overspending, which can quickly result in deteriorating financial performance and diminished credit status, or under spending, which can equally quickly result in deteriorating facilities with outmoded technology, a loss of competitive advantage, and declining market, financial, and credit position.

Whether \$1 million, \$10 million, or \$100 million, the question must be answered before the dollars start flowing.

*Jason H. Sussman is a partner, Kaufman, Hall & Associates, Inc., Skokie, Ill.*

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**hfma** montana chapter  
healthcare financial management association

The Montana Chapter of the Healthcare Financial Management Association is a professional membership organization for individuals in financial management of healthcare institutions and related patient organizations.



MONTANA CHAPTER  
HFMA

2008-2009 Chapter Officers

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*Don Miller*

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*Robin Hill*

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