



hfma[™]
healthcare financial management association

LETTER FROM THE
CHAIRMAN AND PRESIDENT

"HFMA has helped me throughout my career by providing educational sessions that met my needs. The education has come at local, regional, and national platforms in an array of topics from the very basic to the very elite. For instance, years ago I attended a seminar about effective leadership and how to motivate employees. That knowledge has been instrumental in how I approach work on a daily basis. Because of that presentation, I truly started to understand how having good people working with me made me more valuable to my organization. The benefits I received from them have always far outweighed the cost."

Mark A. Hartman, FHFMA

Chief Finance Officer
Arkansas Heart Hospital
Little Rock, Arkansas

"As one of the many national HFMA benefits, the chapter-level education is superb. At a recent educational meeting we discussed options to access capital and what a hospital can do to improve its financial attractiveness to potential lenders. We took back several suggestions to our facility and implemented them right away."

Todd Nelson, MBA

Vice President and CFO
Grinnell Regional Medical Center
Grinnell, Iowa

"The opportunity to network is priceless! If I have reimbursement, budget, process, or operational questions, I'm just a phone call away from getting answers from HFMA colleagues. This has been invaluable to me and to the organization for which I work."

Teresa Strausbaugh

Controller
Hanover Hospital
Hanover, Pennsylvania

We're proud to report that HFMA's 2003-04 year was very successful. HFMA's success is apparent not only through the positive financial results reported in this annual report, but also through great member satisfaction scores, a growing membership base, and a high level of membership retention. HFMA attributes its success to listening to our members' needs and acting upon them. This emphasis resulted in a number of accomplishments detailed in this annual report, including a record-breaking attendance at our Annual National Institute (ANI) and strong member participation in HFMA's conferences, seminars, audio webcasts, and e-Learning.

Through initiatives such as the *PATIENT FRIENDLY BILLING*[®] and *Financing the Future* projects, HFMA produced products and services to help members understand and manage key industry issues.

Publications continue to be an important vehicle in helping our members excel in their jobs and careers. Our members consider *hfm* magazine a "must have" resource, and HFMA's newsletters are delivering timely and targeted information. E-mail publication subscription rates are at an all-time high. And more members are finding great value in the HFMA Resource Center for the tools and technical documents it contains.

HFMA's 70 national chapters continued to effectively deliver valuable content. Through local meetings and educational opportunities, members gained critical information on the hot issues in our industry. Thanks to our very active chapters, we are able to help each other and the industry from coast to coast.

The growing number of HFMA-certified members shows the relevance of being credentialed in our field. Through our research, we've discovered that HFMA-certified members are the highest-compensated and most sought after employees in our industry.

The chairman's theme in the previous fiscal year, "HFMA: It's Personal," underscored the importance of relationships in our professional and personal lives. Our Association is much more than a group of practitioners dedicated to healthcare finance. We're colleagues and friends. And through these bonds, we support and serve each other to realize greater success in

our lives and careers. At their core, HFMA relationships often foster a spirit of cooperation to share healthcare finance best practices, lessons learned, and other essential information.

This annual report highlights some of the successes our Association attained during 2003-04. They were made possible through the diligent efforts and giving nature of our members, volunteers, board members, and staff.

We're grateful to our members, volunteers, sponsors, staff, and others for their continued hard work that makes HFMA such a success.



Above, left to right: Richard L. Clarke and David P. Canfield

With warmest regards,

A handwritten signature in dark ink, appearing to read "David P. Canfield".

David P. Canfield, FHFMA
2003-04 HFMA National Chairman

A handwritten signature in dark ink, appearing to read "R. Clarke".

Richard L. Clarke, FHFMA
HFMA President and CEO

HFMMA is dedicated to providing value to members by delivering practical tools and ideas that generate results and increase performance.

Membership

The membership rolls for 2003-04 reached 33,046, an increase of nearly 2 percent over last year. Two of HFMA’s chapters went above and beyond in membership recruitment. Both the San Diego Imperial Chapter’s and the Nevada Chapter’s recruitment growth exceeded 13 percent. Member demographics for the previous fiscal year reveal a community of highly trained and experienced professionals. Nearly 80 percent contribute to their organizations at a managerial level. This is consistent with HFMA’s goal of providing a reference group of peers able to network together to craft real-world solutions to our industry’s most pressing problems. HFMA’s continued high retention rate is a solid indicator of the value the Association provides its members.

Accelerating Professional Development—Topical Resources that Increase Your Competency

HFMA is known for its timely, high-quality educational offerings, which include conferences, seminars, e-Learning lessons, audio webcasts, and a significant “library” of content from our Resource Center and web site. Resource-rich content addresses topics such as revenue cycle performance indicators, clinical aspects of revenue cycle management, key legal issues in self-pay collections, obtaining managed care coverage for new therapies, building a facility’s talent pool, billing for the uninsured, and achieving and sustaining new revenue growth.

We work diligently to create practical tools and resources that are effective, grounded in reality, and deliver the greatest value for your time and investment. Products and programming emphasize solutions that provide members with pragmatic, take-home operational tools, tips, techniques, and strategies. For example, HFMA’s ANI incorporated issues-driven themes to deliver sessions about key topics and issues from all practice areas of financial management.

In an effort to better use technology, HFMA introduced webcasting capabilities to our audio teleconferences, giving members the important knowledge they need as industry topics and issues emerge.

HFMA also expanded its base of organizational solutions and e-Learning content, including the new Talent Manager. HFMA’s

Talent Manager offers a strategic way for hiring managers to select, recruit, develop, and retain financial management staff. Skill levels are assessed by competency, so personal development plans can be created using HFMA’s vast library of e-Learning lessons.

A major source of educational content and current industry news is provided through HFMA’s publications. Total combined circulation for these publications reached more than 136,000 for the fiscal year. The Association’s hallmark publication, *hfm* magazine, expanded its mission to provide current information on the practice of healthcare finance by producing 16 extra features, including four well-received *Financing the Future* reports.

E-mail newsletter subscriptions are at an all-time high, at nearly 80,000. A popular newsletter, judging by circulation, is *HFMA Wants You to Know*. The biweekly publication features career and professional development insights to help members advance.

The Association web site continued to be another well-used resource in the previous fiscal year. The HFMA online Resource Center experienced considerable growth as well, focusing more intently on the pressing issues facing healthcare finance professionals today. As a result, the number of members accessing Resource Center documents clearly continues to grow. We added hundreds of web pages of healthcare business information to deliver content that members want, need, and use, such as *Highlights: Stark II Interim Final Rule, Phase II; Proposed Medicare Inpatient PPS Update for FY05* (a ready-to-use presentation); *HFMA Internet Guide to Healthcare Business Statistics; Self-Assessment Tool: Registration, Financial Counseling, and Customer Service; and PPS Roundup: Proposed FY05 Medicare Inpatient Update*. This garnered a 30 percent increase in page views over 2002-03. The most popular areas proved to be the job bank, chapter resources, the membership directory, and Resource Center. HFMA continued to strengthen ties with local chapters by providing chapter web site support.

Career Development — Tools that Help You Advance

HFMA membership delivers a number of benefits to help you advance your career. The first is a comprehensive certification program designed to confer the designations of a Certified Healthcare Financial Professional (CHFP) or Fellow of the Healthcare Financial Management Association (FHFMA). To achieve these certifications, members completed detailed coursework to bolster their core competencies. Over the past fiscal year, the number of certified members continued to grow. Through HFMA-sponsored training and programs and ongoing professional development and volunteer activities, members retained their certification at a rate approaching 20 percent above the industry average.

Gender	
Female	43%
Male	57%
Race*	
African American	2.8%
Asian	2.8%
Caucasian	89.6%
Hispanic	2.3%
American Indian/Other	2.5%
*based on voluntary response	

Membership Certifications		Percent
CPA		16.9%
Total HFMA Certified		6.7
FHFMA		5.1
CHFP		1.6

Experience		Years
Average Years in HFMA		10
Average Years in Healthcare		19
Average Age		46

Professional Level		Membership (percent)
Executive Level		39.5
Management Level		37.9
Professional Level		21.5

HFMA members are qualified, experienced, and thought leaders in the field

To meet new requirements by the certification accreditation agency, all five self-study courses were converted to an interactive format. The success of this conversion may be seen through the overwhelming positive participant feedback. Maintaining a high-quality level of certification coursework instruction is an annual goal.

In the previous fiscal year, the Forums listed several significant accomplishments. First, based on customer input, the Forum newsletters were completely redesigned, employing a format that focuses on peer-to-peer interaction and real-world solutions to top-of-mind industry topics. These publications also more effectively present relevant HFMA products and services to assist members in their careers.

Forum tools have also been updated, with new technical documents being added along with numerous articles, checklists, and resources. This content continues to give users access to some of the best collaborative projects ever undertaken by the Forums.

Additionally, the Forum Advisory Council structure was redesigned to streamline volunteer efforts and enhance its effectiveness.

Chapters—Providing Local Answers

In the past fiscal year, the chapters promoted well-received education programs that registered nearly 10 percent more participants than last year. This resulted in more than 400,000 hours of career-enhancing instruction. Chapters were so effective in their mission to support members that they earned a combined 250 awards in the areas of education, membership

Continued on Next Page

growth and retention, certification, and notable contributions.

HFMA's 70 national chapters are a fundamental asset to the Association and contribute greatly to its success. One way chapters contribute to members' professional development is through support of the certification program—offering precertification testing training and operating the testing process in a convenient and timely manner.

A major priority in the 2003-04 year was participation in the chapter member satisfaction survey. And chapters answered the call with a nearly 100 percent participation rate. The rich feedback from these surveys was used to guide HFMA and chapter leaders in their efforts to improve the membership experience.

One reason for the chapters' success is the annual Leadership Training Conference. This event is designed to enhance chapter leadership skills and thoroughly covers all facets of HFMA leadership positions. The 2004 event was extremely positive, earning a notable overall satisfaction rating.

Networking and relationship building are key benefits of chapter participation. Members report that they highly value networking opportunities afforded by chapter meetings and events. The sharing of ideas as well as solutions to real-world challenges frequently assists members in creating viable solutions at their own companies.

In an effort to improve convenience for members, 2003-04 saw the first use of chapter online meeting registration. The service complements existing online registration for HFMA conferences, seminars, and webcasts.

Contributions to the Healthcare Community—Building the Profession

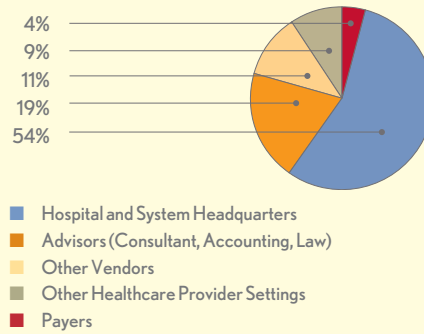
Every year, we can count on HFMA staff, leaders, members, and volunteers to contribute to the advancement of our industry and ultimately improve patient care.

HFMA provided leadership to work collaboratively with members and industry stakeholders to find constructive solutions to challenges relating to the uninsured. HFMA believes that the needs of patients should be paramount in the healthcare financial process. We are committed to developing and promoting ethical, high-quality healthcare finance practices that allow healthcare financial managers to both support patients' needs and protect the financial and operational well-being of healthcare organizations. Related efforts include:

- HFMA worked consistently on the uninsured issue to educate the media. As an example, Richard Clarke submitted a letter to the editor of *The Wall Street Journal*, which was published November 28, 2003, titled "Healthcare Complexities Work Against All of Us."

2003-04 Primary Member Companies Represented

Note: Excludes "other" (2%) and non-reporting companies (1%)



- In the past fiscal year, the Association created comprehensive materials on the topic of the uninsured including educational programs, publications, a Principles and Practices (P&P) Board statement, and e-Learning materials. These strategies and tools are available to members at <http://www.hfma.org/resource/uninsured.htm>. New and updated online resources include HFMA's *Internet Guide to Billing and Collections for the Uninsured* and *HHS and OIG Guidance on Hospital Charges to Uninsured Patients* (a ready-to-use PowerPoint presentation).
 - HFMA continued work with the *PATIENT FRIENDLY BILLING®* project. The goal of the project is to help hospitals and health system leaders create a friendlier, patient-focused healthcare billing and collection process. During 2003-04, this endeavor concluded its second phase with the examination of current patient accounting systems, and began a third phase to examine discount and collection practices for the underinsured and uninsured.
- Another HFMA industry contribution is represented by the *Financing the Future* project. The purpose of this endeavor is to give healthcare professionals the information, strategies, and tools they need to access needed capital. Favorable financing is needed to seize the opportunities presented by increasing demand for services as well as innovations in technology and

care delivery. Yet challenges persist, including rising costs and inadequate payments. *Financing the Future* brings together key stakeholders in the industry to quantify capital needs and access, identify best practices for capital planning, provide tools for determining capital need, recommend innovative techniques for capital access, and suggest areas for policy change.

2003-04 highlights for this project include the issuance of the first four reports. The first *Financing the Future* report, "Access to Capital in Health Care Today," was extremely popular, yielding positive press exposure in the first three months of posting to our web site. The second report, "Capital Spending in Health Care Today," received even greater attention in its first three months of distribution. The subsequent reports have been highly requested as well.

HFMA has called for the OIG to withdraw its proposed rule regarding excessive charges; the Association believes the proposed rule overlooks the complexity of charges and payments for healthcare services. In several instances it also appears to largely ignore Medicare's own prospective payment methods, which have distanced actual payments from providers' charges.

Members of HFMA's Managed Care and Patient Financial Services forums contributed to the Plan-Provider Claim Workgroup's efficiency by improving tools. HFMA, America's Health Insurance Plans, and the National Coalition of Specialty Societies have established a committee to identify ways health plans and providers can improve efficiency by decreasing errors related to eligibility issues and duplicate claims.

HFMA contributed to the Non-profit Healthcare Organizations and Corporate Responsibility initiative. A P&P Board representative participates in the Municipal Council, which was initiated by the Municipal Securities Rulemaking Board (MSRB) to develop a long-range plan for an "ideal" disclosure system. The P&P Board will focus its efforts on internal control issues and will provide the membership and the industry with key practical points to handle the diversity of practice and opinions on corporate responsibility questions.

Front row, left to right:

Beverly B. Wallace, Secretary Treasurer, Richard Rodriguez, FHFMA; Chairman-Elect, Joyce A. Zimowski, FHFMA, CPA; Chairman, David P. Canfield, FHFMA; President & CEO, Richard L. Clarke, FHFMA; Diane M. Hart, FHFMA; Frances H. Crunk, FHFMA

Back row, left to right:

Charles O. Bracken; William E. Bestor, FHFMA, CHE; Gregory M. Adams, FHFMA; Timothy J. Hyland, FHFMA, CPA; Jeffrey Walla, FHFMA, CPA; H. Michael Flasch, FHFMA; Christopher L. Hickey, FHFMA; Connie R. Williams, FHFMA, CPA; Robert L. Broadway, FHFMA

Not pictured: Quint Studer (Jowdy Photographers)



HFMA's Board of Directors 2003-2004

HFMA AWARD WINNERS

It is our pleasure to honor HFMA members who have made remarkable contributions to our Association and the industry. The 2003 Frederick C. Morgan Achievement Award, our Association's highest honor, went to Allan B. Hanson, FHFMA, CPA. Hanson is the 45th recipient of this award that honors career-long contributions to healthcare financial management and HFMA. His healthcare finance career highlights include helping hospitals collectively increase revenues by millions of dollars. The quality of care in Washington State, for example, has improved through his efforts as patients have benefited from enhanced equipment and services made available through these savings. Hanson has contributed to HFMA as a member since 1976 and has served as a chapter board member and officer.

Congresswoman Nancy L. Johnson received the HFMA's 2003 Board of Director's Award for her continuing efforts to ensure access to quality healthcare for all Americans. She distinguished herself through work with providers and others to ease regulatory burdens and improve payment systems.

The Gold Awards of Excellence for Certification

Appalachian Chapter of Central Pennsylvania
Kentucky Chapter
Louisiana Chapter
Metropolitan Philadelphia Chapter
New Jersey Chapter
North Dakota Chapter
Oklahoma Chapter
Tennessee Chapter

The Gold Awards of Excellence for Membership Growth and Retention

Arizona Chapter
Idaho Chapter
Indiana Pressler Memorial Chapter
Nevada Chapter
Northeastern Pennsylvania Chapter
San Diego Imperial Chapter

The Gold Awards of Excellence for Education

Alabama Chapter
Arkansas Chapter
Eastern Michigan Chapter
Georgia Chapter
Iowa Chapter
Louisiana Chapter
Mississippi Chapter
North Carolina Chapter
North Dakota Chapter
Oregon Chapter
San Diego Imperial Chapter
South Dakota Chapter
Southern Illinois Chapter
Sunflower (Kansas) Chapter
Wyoming Chapter

C. Henry Hottum Award for Educational Performance Improvement

Alabama Chapter
Appalachian Chapter of Central Pennsylvania
Arizona Chapter
Arkansas Chapter
Central Ohio Chapter
Connecticut Chapter
First Illinois Chapter
Florida Chapter
Great Lakes Chapter
Idaho Chapter
Iowa Chapter
Lone Star Chapter
Maine Chapter
Maryland Chapter
Massachusetts Chapter
Mississippi Chapter
Nebraska Chapter
New Hampshire-Vermont Chapter
New Jersey Chapter
North Dakota Chapter
Northeastern Pennsylvania Chapter
Northwest Ohio Chapter
Oregon Chapter
Rochester Regional Chapter
San Diego Imperial Chapter
South Dakota Chapter
South Texas Chapter
Southern California Chapter
Southern Illinois Chapter
Sunflower (Kansas) Chapter
Tennessee Chapter
Texas Gulf Coast Chapter
Virginia Chapter
Western Michigan Chapter
Western Pennsylvania Chapter
Wisconsin Chapter

The Robert M. Shelton Award for Sustained Excellence

Iowa Chapter
Tracy D. Warner 2003-2004
Paul G. Mangin, FHFMA, CPA 2002-2003
Michelle L. Hartzler-Combs, CHFP 2001-2002
Bob J. Shafer, FHFMA 2000-2001
Mark D. Einck, FHFMA, CPA 1999-2000

HFMA Sets the Example

Volunteer and Leader Contributions

HFMA is indebted to the efforts of its thousands of members, volunteers, sponsors and staff. The significant achievements detailed in this annual report would not have been possible without their dedication, long hours and unwavering commitment to our industry. Their labors set the drumbeat by which we pursued our objectives in 2003-04.

Recognizing Significant Contributors and Partners

HFMA appreciates its advertisers, exhibitors, chapter sponsors, and the other firms who support the Association and all our chapters through various means. Your contributions and support provided invaluable funding to help HFMA achieve its mission. Sponsorship contributions assist HFMA in reducing members' costs, funding special projects, and offering more resources to help members and their organizations excel.

Diamond Level Sponsors

McKesson Corporation
GE Healthcare Financial Services
MedAssets, Inc.
Per-Sé Technologies

Platinum Level Sponsors

3M Health Information Systems
Siemens Medical Solutions Health Services Corporation

Gold Level Sponsors

Cerner Corporation
Perot Systems Healthcare
PricewaterhouseCoopers

Silver Level Sponsors

AON Healthcare
BulldogIT Inc.
CBAS by CDR Associates
HSS, Inc.
Kaufman Hall & Associates
Navigant Consulting
OnBase Corporation, a Hyland Software Solution
Owens & Minor Medical, Inc.
Third Millennium Healthcare Systems, Inc.

Asset Sponsors

AHA Financial Solutions, Inc.
AIG Valic
Ajuba International, Inc.
American Management Systems
ARC Group Associates
Capital Source LLC
Craneware
Eclipsys Corporation
Equifax Healthcare Solutions
eWebCoding
Executive Health Resources
Financial Corporation of America
Health Data Management
Innovative Managed Care Systems, Ltd. (IMaCS)
Innovative Health Solutions
ING
Ingenix
Johnson Controls, Inc.
Kinkos
Lawson Software, Inc.
MarketNet, Inc.
MC Strategies Inc.
MD-X Solutions Inc.
MedeFinance Inc.
Mezzia Incorporated
NaviCare Systems, Inc.
Ontario Systems LLC
Oracle Corporation
OVAG International
PeopleSoft, Inc.
PNC Bank
Premium Asset Recovery Corp.
Protiviti
SRC Software, Inc.
WebMD

Level Sponsors are those sponsors who contribute to HFMA on an annual basis throughout the year with multiple assets. Asset Sponsors are those sponsors who sponsor individual events throughout the year.

Healthcare Financial Management Association and Affiliates

Consolidated Balance Sheets

May 31, 2004 and 2003

Assets	2004	2003
Current assets:		
Cash and cash equivalents	\$ 10,557,121	\$ 7,717,854
Accounts receivable, net of allowance for doubtful accounts of approximately \$122,000 in 2003 and \$90,000 in 2002	1,268,720	984,317
Convention and meeting deposits	377,931	489,599
Prepaid expenses and other	279,187	311,915
Total current assets	12,482,959	9,503,685
Investments	6,642,555	6,173,693
Investments held for deferred compensation	1,146,633	1,045,638
Furniture, equipment and leasehold improvements, net	688,221	567,601
Chapter-restricted funds	64,648	64,643
Total assets	\$ 21,025,016	\$ 17,355,260
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,555,332	\$ 2,429,085
Deferred membership dues, net of related chapter rebates of \$482,535 in 2004 and \$454,738 in 2003	4,374,919	4,123,168
Deferred institute, subscription and examination revenue	3,644,500	3,248,314
Total current liabilities	11,574,751	9,800,567
Deferred lease obligation	590,154	615,370
Deferred compensation liability	1,146,633	1,045,638
Total liabilities	13,311,538	11,461,575
Commitments (Note 6)		
Unrestricted net assets	7,713,478	5,893,685
Total liabilities and unrestricted net assets	\$ 21,025,016	\$ 17,355,260

Consolidated Statements of Activities

For the years ended May 31, 2004 and 2003

Revenue	2004	2003
Membership	\$ 5,704,641	\$ 5,421,585
<i>hfm</i> magazine	4,006,036	3,635,898
Institutes	2,487,201	2,388,099
ANI Convention	2,109,876	1,965,930
Development program	1,168,062	1,084,162
Royalties	524,382	517,645
Forums	600,045	594,372
Books and periodicals	348,394	202,367
Certification	175,949	179,997
Other products and services	205,149	48,761
Miscellaneous	190,327	263,067
Net investment income (loss)	707,025	(121,965)
Training	585,977	430,488
Total revenue	\$ 18,813,064	\$ 16,610,406

The accompanying notes are an integral part of the consolidated financial statements

Healthcare Financial Management Association and Affiliates

Consolidated Statements of Activities, *continued*

For the years ended May 31, 2003 and 2002

Expenses		
Personnel	\$ 7,642,531	\$ 7,183,405
Administrative	2,409,213	2,459,640
Professional services	1,682,989	1,435,949
Marketing	902,017	830,599
Printing	958,713	970,255
Occupancy	875,126	869,994
Travel	338,658	388,414
Postage	430,636	406,252
Depreciation and amortization	261,306	340,991
Equipment	437,542	437,986
Telephone	447,957	358,134
Other	606,583	608,467
Total expenses	16,993,271	16,290,086
Increase in unrestricted net assets	1,819,793	320,320
Unrestricted net assets, beginning of year	5,893,685	5,573,365
Unrestricted net assets, end of year	\$7,713,478	\$ 5,893,685

Consolidated Statements of Cash Flows

For the years ended May 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Increase in unrestricted net assets	\$ 1,819,793	\$ 320,320
Adjustments to reconcile increase in unrestricted net assets to net cash flows from operating activities:		
Depreciation and amortization	261,306	340,991
(Decrease) increase in deferred lease obligation	(25,216)	(7,734)
Net realized and unrealized loss on investments	468,862	340,620
Changes in operating assets and liabilities:		
Accounts receivable	284,403	276,599
Convention and meeting deposits	111,668	(84,256)
Prepaid expenses and other	32,728	(56,360)
Chapter-restricted funds	(5)	(509)
Accounts payable and accrued liabilities	1,126,247	424,933
Deferred dues and revenue	647,937	226,918
Net cash flows provided by operating activities	3,221,193	1,781,522
Cash flows from investing activities		
Purchase of furniture, equipment and leasehold improvements	(381,926)	(231,171)
Proceeds from sale of investments	6,956,119	280,330
Purchase of investments	(6,956,119)	(280,330)
Net cash flows used in investing activities	(381,926)	(231,171)
Cash flows from financing activities		
Principal payments on capital lease obligations	-	-
Net cash flows used in financing activities	-	-
Net increase in cash and cash equivalents	2,839,267	1,550,351
Cash and cash equivalents		
Beginning of year	7,717,854	6,167,503
End of year	\$10,557,121	\$ 7,717,854
Supplemental disclosure:		
Cash paid for taxes (net of tax refund)	\$ 394,000	\$ 133,000

The accompanying notes are an integral part of the consolidated financial statements

Healthcare Financial Management Association and Affiliates

Notes to Consolidated Financial Statements

May 31, 2004 and 2003

1. Organization

Healthcare Financial Management Association ("HFMA") is an association of healthcare financial management professionals with approximately 33,000 members. HFMA's operations include membership activities, publishing, meetings, conventions and investment of funds. Operating support is derived primarily from membership dues, publications and meetings. The consolidated financial statements include HFMA, Healthcare Financial Management Association Educational Foundation (the "Foundation") and HFMA Learning Solutions Inc., an inactive for-profit corporation ("LSI") (collectively the "Association"). HFMA is affiliated with the Foundation, a not-for-profit entity, through common membership on their respective Boards of Directors and shared senior management. The Foundation provides cost-effective and accessible ways for healthcare financial management professionals to increase their professional knowledge through education programs. Support for the Foundation is derived primarily from institute fees and meetings.

2. Significant Accounting Policies

The significant accounting policies followed by the Association in preparation of these consolidated financial statements are summarized below.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of HFMA, the Foundation and LSI. All intercompany accounts have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid investments with original maturities at purchase of three months or less.

Fair Value of Financial Instruments

The carrying amounts of certain of HFMA's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, deferred membership dues and deferred institute, subscription and examination revenue approximate fair value due to their short maturities.

Investments

Investments, including investments held for deferred compensation, are stated at fair value and consist of equity funds and fixed income funds. Investments in mutual funds are not insured or guaranteed by the U.S. government.

Furniture, Equipment and Leasehold Improvements

Furniture and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the depreciable furniture and equipment. Leasehold improvements are stated at cost. Amortization is computed on the straight-line method over the shorter of the useful life of the improvement or the term of the lease. Expenditures for maintenance and repairs are charged directly to expense; renewals and betterments, which significantly extend the useful lives, are capitalized. Costs and accumulated depreciation and amortization on retired or disposed assets are removed from the accounts and the resulting gain or loss, if any, is reflected in the consolidated statements of operations.

Revenue

Membership dues and related rebates to chapters are recognized ratably over the fiscal year to which they apply. Publication revenue is recognized as revenue when publications are shipped. Fees for educational programs are recognized as revenue when the programs are conducted.

Chapter-Restricted Funds

Chapter-restricted funds represent amounts held by the Foundation designated to be used for certain local HFMA chapters. Interest income on these funds amounted to \$178 and \$685 for the years ended May 31, 2004 and 2003, respectively.

Income Tax Status

HFMA and the Foundation are Illinois not-for-profit organizations. HFMA is exempt from federal income taxes under Section 501(c)(6), and the Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code (the "IRC"). HFMA and the Foundation are exempt from income taxes on related income pursuant to Section 501(a) of the IRC. HFMA is subject to taxes on unrelated business income, which are generally HFMA's advertising revenues. HFMA had approximately \$3,842,000 and \$3,464,000 in gross advertising revenues for the years ended May 31, 2004 and 2003, respectively. Income tax expense associated with unrelated business income amounted to \$284,000 and \$296,000, respectively, at May 31, 2004 and 2003. LSI, HFMA's for-profit subsidiary which has had no operations since June 1, 2000, has a net operating loss ("NOL") carry forward of approximately \$2,117,000 at May 31, 2004. The NOL will begin to expire in 2020 if not previously utilized. No deferred tax asset has been recognized, as management has established a full valuation allowance at May 31, 2004.

Marketing Costs

Marketing costs, which include activities to create or stimulate the desire to use the organization's services, are expensed when incurred.

3. Investments

At May 31, investments, which are stated at fair value, consist of the following:

	2004	2003
Equity funds	\$ 4,429,478	\$ 4,154,916
Fixed income funds	1,879,412	2,018,777
Real Estate Funds	333,665	-
Total	\$ 6,642,555	\$ 6,173,693

For the years ended May 31, 2004 and 2003, net investment income is comprised of the following:

	2004	2003
Interest and dividend income, net of fees	\$ 133,789	\$ 218,655
Net realized gains and losses on sales of investments	1,093,406	30,607
Change in net unrealized investment gains and losses	(520,170)	(371,227)
Total	\$ 707,025	(\$ 121,965)

HFMA and the Foundation invest in equity and bond funds. These investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect HFMA's and the Foundation's investment balance.

4. Investments Held for Deferred Compensation

At May 31, investments held for deferred compensation consist of the following:

	2004	2003
Equity funds	\$ 167,446	\$ 148,184
Fixed income funds	540,650	520,756
Money market fund	438,537	376,698
Total	\$ 1,146,633	\$ 1,045,638

This deferred compensation plan, established under the IRC Section 457, is funded entirely by employees or former employees of HFMA. HFMA accounts for these employee contributions as investments held for deferred compensation with the related liability recorded as a deferred compensation liability.

5. Furniture, Fixtures and Leasehold Improvements

The cost, accumulated depreciation and net book value of furniture, fixtures and leasehold improvements are summarized as follows:

	2004	2003
Furniture and equipment	\$ 3,226,098	\$ 2,895,229
Leasehold improvements	538,777	512,240
	3,764,875	3,407,469
Less: Accumulated depreciation and amortization	3,076,654	2,839,868
Furniture, equipment and leasehold improvements, net	\$ 688,221	\$ 567,601

6. Lease Commitments

The Association occupies offices in Westchester, Illinois and Washington, D.C. under operating lease agreements through July 2011, which includes certain escalation clauses. The lease in Westchester also provides two five-year renewal options, with the annual rent to be determined at the time of renewal. The effects of prior years' build-out and free rent allowances and of base rent escalation provisions are being recognized on a straight-line basis over the term of the lease and give rise to the deferred lease obligation on the consolidated balance sheets. Total rent expense approximated \$844,000 and \$852,000 in 2003 and 2002, respectively. The Association also leases equipment under capital leases. The leased equipment totaled \$112,730 at May 31, 2003 and 2002 which was fully depreciated in 2002.

Future minimum lease payments under non-cancelable operating leases are:

Year ending May 31	
2005	\$ 936,012
2006	940,242
2007	966,559
2008	933,632
2009	932,164
Thereafter	1,907,156
Total minimum lease payments	\$ 6,675,765

7. Functional Expenses

Operating expenses for the years ended May 31, 2004 and 2003 are summarized by functional classification, including only costs directly allocable to each classification, are as follows:

	2004	2003
Membership	\$ 412,948	\$ 381,524
Institutes, other products and services	3,046,544	3,280,094
Publications	1,940,977	1,806,107
Books and periodicals	125,321	160,509
Management and general	11,467,481	10,661,852
Total	\$ 16,993,271	\$ 16,290,086

8. Employee Pension Plan

HFMA sponsors a defined contribution pension plan which covers substantially all HFMA employees who complete one year of employment. Contributions are based upon a percentage of participants' earnings less forfeitures. HFMA's contributions for the years ended May 31, 2004 and 2003 were \$299,458 and \$261,453, respectively.

9. Chapters of HFMA (Unaudited)

Chapters of HFMA may be established by charter subject to the approval of the Board of Directors of HFMA, pursuant to the provisions of the bylaws and regulations governing membership, organization, procedures and financial relations with HFMA. Should a chapter cease to function or its charter be revoked by HFMA, all funds and records held by the chapter become the property of HFMA. The financial position and the operations of these chapters are not included in the Association's financial statements. The most recent summary financial data of the chapters is as follows:

	At or for the Year Ended May 31	
	2003	2002
Number of chapters	70	70
Total assets, primarily cash	\$ 6,560,042	\$ 5,883,898
Total revenue	\$ 7,419,852	\$ 6,984,591
Increase in net assets	\$ 701,481	\$ 377,270

Report of Independent Accountants

June 18, 2004

To the Board of Directors of Healthcare Financial Management Association:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Healthcare Financial Management Association and Affiliates (the "Association") at May 31, 2004 and 2003, and the results of their activities and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.