

2002-2008 ANNUAL REPORT

HFMA brings perspective and clarity to the industry's complex issues for the purpose of preparing our members to succeed. Through our programs, publications and partnerships, we enhance the capabilities that strengthen not only individual careers, but also the organizations from which our members come.



hfma
healthcare financial management association

DURING A CHALLENGING ECONOMIC YEAR FOR AMERICA, HFMA remains strong and continues to be an indispensable resource for healthcare finance professionals.

The theme "Create the Future" challenged us to be involved with the issues that affect our future. Given the efforts of HFMA's more than 1,000 volunteers, we helped our members and the profession do just that.

The individuals who volunteered this past year made a difference. Through their efforts, the Association's membership grew through strong retention and new membership. At the end of FY03, HFMA had 32,443 members, compared with 31,681 at the end of FY02.

Many successful educational programs were hosted at the chapter, regional, and national levels, and we produced the largest Annual National Institute to date and two new revenue cycle strategies conferences. The volume of participants in HFMA's e-learning program, a partnership with WebInservice, doubled in FY03. HFMA hit its target of developing 1,000 hours of e-learning content.

The Patient Financial Services task force, a group of expert volunteers in revenue cycle management, completed their work, which will set into motion new and enhanced services about this important topic. Soon, HFMA will release a new brochure detailing the innovative products and services we offer to help with revenue cycle management.

FROM THE CHAIRMAN AND PRESIDENT



Above, left to right: Richard Clarke and Phyllis Cowling

One of HFMA's unique characteristics is that it has the credibility and diversity to provide a safe arena to work out industry-wide issues. HFMA is doing this in a variety of ways. For example, in the past year, the Managed Care Forum has worked with the American Association of Health Plans to cosponsor two unique and very successful seminars that brought payers and providers together to improve claims processing. HFMA and AAHP, along with the National Coalition of Specialty Societies, also have established a committee to identify ways health plans and providers can improve efficiency related to eligibility issues and duplicate claims, some of the most common obstacles to efficient claims processing.

Another example of bridge-building is the *PATIENT FRIENDLY BILLING*[®] project. This initiative entered a new phase with support of major technology firms and volunteers from key provider organizations. This project helps healthcare industry leaders create a friendlier, patient-focused healthcare billing and collection process. HFMA leads the project in partnership with the American Hospital Association, the Medical Group Management Association, healthcare providers, and leading professional service and technology companies. To date, about one thousand hospitals and health systems have signed onto the Patient Friendly Billing philosophy, and more project supporters continually join the effort. In summer 2003, HFMA released a new set of tools and

guidelines to make patient bills clear, concise, and correct. Visit the project's website at www.patientfriendlybilling.org for more information and to learn how the project will evolve.

In 2003, HFMA renewed its involvement in the National Uniform Billing Committee (NUBC), a voluntary, multi-disciplinary committee that maintains the integrity of the UB-92 data set and develops mutually agreed upon data elements for the claim and claim-related transactions. The NUBC helps to define the data content associated with each of the electronic transactions and code sets mentioned in the HIPAA legislation.

HFMA staff and volunteers continue to provide input to HHS, Congress, and other policy leaders on critical issues that affect the financial viability of healthcare organizations. During the last fiscal year, HFMA signed onto seven coalition letters, which addressed proposed legislation on disproportionate share payments, Medicaid, and SCHIP funding, as well as proposed IRS rules on deferred compensation.

In the past year, well-publicized accounting and reporting failures crept into the healthcare community. Through education and publications, HFMA continues to inform members about how to deal with the implications of these events. In December 2002, HFMA's Principles and Practices (P&P) Board published an issue analysis, *Recognition of Other-Than-Temporary Decline in Investments for Not-for-Profit Organizations*, which FASB's Emerging Issue Task Force has cited as a resource for its background work for a statement on the meaning of other-than-temporary impairment and its application to certain investments. Through the P&P Board, HFMA also continues to participate with the Municipal Securities Rulemaking Board project to work toward an ideal disclosure system for financial and operating information. Information on HFMA's positions and activities is available at www.hfma.org/resource/HFMA_positions_activities/index.htm

In addition to the improvements that HFMA continues to make in the healthcare field, the Association is proud of many other accomplishments. Please read on to learn more about these achievements, as well as HFMA's financial results from the 2002-03 year.

We thank our members, volunteers, sponsors, staff, and others for all their hard work and help in making 2002-03 a banner year.

During the forthcoming year, HFMA will continue to provide members the information, tools, and strategies they need to succeed, while spearheading initiatives to improve the profession of healthcare financial management.

Sincerely,

A handwritten signature in dark ink, appearing to read "Phyllis Cowling".

Phyllis A. Cowling, FHFMA, CPA
2002-03 HFMA National Chairman

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

Richard L. Clarke, FHFMA
HFMA President & CEO

HFMA Experiences Continued Membership Growth.

HFMA membership surpassed 32,400 members during the 2002-03 membership year. Member retention remained high, while more than 4,650 new members joined the association. HFMA's "Strength in Numbers, Health in Numbers" member-get-a-member campaign contributed more than 1,100 new members to the final new member total.

Overall, HFMA's member base continues to be finance executives and decision-makers who work primarily in healthcare provider organizations. The ranks of membership are expanding, though, to include more students, faculty, and individuals who are in the early stages of their healthcare finance career.

Almost 9,200 HFMA members affiliate with HFMA's special interest forums (the CFO, PFS, Managed Care, and Healthcare Compliance Forums) to share information, network with their peers, and gain expertise in their chosen fields.

A variety of education programs offer solutions to meet the needs of members and the industry.

At the national level, HFMA continued to expand e-learning offerings and hosted nearly one hundred seminars and educational events. Those events included two new Revenue Cycle Strategies conferences and the CFO Exchange, providing focused education for a broad professional audience. Last year, HFMA hosted the

largest ANI to date in Seattle, featuring 74 educational sessions and an array of events to help more than 2,500 attendees share ideas. More than 50 leading healthcare financial managers from the United Kingdom and the United States gathered to discuss different facets of healthcare finance at the 22nd Annual US/UK International Exchange & Seminar, held in 2002 in Lake Tahoe, CA.

HFMA continued its commitment to life-long learning by developing new online educational

programs, in partnership with WebInservice. The educational content provides users with cost- and time-efficient ways to boost performance, with courses addressing accounting and finance, compliance, billing, coding, and documentation. Check out the demo on HFMA's website at www.hfma.org/elearning.

HFMA continues to respond to the demands of busy executives by offering more audio-teleconferences. Participants receive convenient, focused education from wherever they choose to call. In 2002-03, HFMA hosted more than 40 audio-teleconferences. A special three-part series on "Protecting Your Cash Flow Under HIPAA" was presented in collaboration with the American Health Information Management Association (AHIMA).

In addition, HFMA joined with the American Association of Health Plans (AAHP) to offer two seminars devoted to improving communication between providers and health plans as a way of reducing claims denials.

Chapters and regions provided high-quality programming in the form of conferences, seminars, and audio-teleconferences.

Chapters are the backbone of the Association. When you join HFMA, you not only join the National Association, you also get membership in one of HFMA's 70 chapters. Chapter membership brings the benefits of membership home with targeted education, issue updates, networking opportunities, newsletters, and chapter member directories.

Together, HFMA's 70 chapters, under the Davis Chapter Management System...

- Registered more than 53,000 people for educational programs.
- Provided more than 379,000 registrant hours of education.
- Achieved 100 percent participation in the Leadership Training Conference.
- Received more than 250 awards in the areas of education, membership growth, certification, and special recognition.

More members are testing to become certified. Successful completion of two exams is one requirement to become a certified member of HFMA. The number of exams administered in 2002-03 exceeded those administered in 2001-02 by more than 60 percent. This increase is likely due to HFMA's "anywhere and anytime" online testing. Other factors contributing to the rise in certification testing include the on-site availability of exams at ANI as well as the dedication and creativity of chapter certification chairmen and proctors. To ensure members stay current in their skills, HFMA requires maintenance of certification through participation in professional activities. About 95 percent of certified members maintained their designation, well above the 80 percent industry average.

HFMA publications highlight industry trends, opportunities, and news. HFMA publications offer the latest industry news, legislative and regulatory updates, in-depth issue analyses, and hands-on problem-solving techniques. Written expressly for professionals responsible for the financial leadership of America's healthcare industry, HFMA's publications are the foremost resource for healthcare financial managers across the continuum of care.

HFMA informed and educated members by publishing 12 issues of its highly respected magazine, *hfm*. With the April 2003 issue, HFMA unveiled a complete redesign of the magazine, with updated features, columns, and departments. The new *hfm* is designed to be more accessible, with layouts that better draw readers into the articles and make the information easier to navigate. Editorial coverage in 2002-03 included in-depth articles on revenue cycle management, capital access, technology, cost management, and strategic planning. Printed and online classified advertising sales continued to grow. In December, the *hfm 2003 Resource Guide* was published and now is available on HFMA's website. *The Patient Accounts* newsletter was published 12 times. In January 2003, HFMA also launched two new monthly newsletters, *Executive Insights* and *Managing the Margin*. And in June 2002, the *ANI Update* newspaper was produced and distributed daily at HFMA's 2002 ANI in Seattle.

Circulation of *HFMA Express News*, the Association's weekly executive summary of healthcare finance news, has grown to more than 29,000 members. This spring, the popular member benefit was updated to an HTML format to enhance readability and interactivity with HFMA's website.

HFMA Wants You to Know, a biweekly e-mail newsletter that provides practical, "use-it-now" career and professional development insights, continues to enjoy similar success, reaching more than 49,000 healthcare finance professionals within and outside of HFMA's membership.

Diverse online collection of resources draws visitors to the HFMA website. HFMA's website has grown to offer more than 5,000 pages of healthcare business information. Expanded this year are online chapter reports, a comprehensive index of resources, corporate responsibility, HIPAA, revenue cycle and cost control documents, free samples of our new newsletters *Managing the Margin* and *Executive Insights*, and an

Continued on next page

HFMA 2002-03 ACCOMPLISHMENTS

HFMA's 2002-2003 Accomplishments

Continued from previous page

easy-to-use HFMA branding section. HFMA provided support for 19 of the many chapter websites.

This year, HFMA's Resource Center feature, "New in the *Federal Register*," was updated to improve users' ability to pinpoint notices by keyword or date—as well as see at a glance what's new on the regulatory scene. For this tool, HFMA staff comb through the *Federal Register* daily to compile and post relevant notices affecting Medicare, Medicaid, and other Federal healthcare programs, HIPAA, IRS rules, and SEC requirements—along with links to take you directly to each notice.

Because members have told us they want help in keeping their staff, executives, and board members current on key finance-related topics, HFMA provides ready-to-use PowerPoint presentations on Medicare PPS updates, OIG activities, the *PATIENT FRIENDLY BILLING*® project, and more.

Among the tools that HFMA has delivered to help members comply with HIPAA's requirements, HFMA has provided a privacy rule checklist and a set of downloadable worksheets on the final security rule.

HFMA has developed a set of "Internet Guides" to help members locate online information on key topics, including Medicare PPS rules, corporate responsibility, business statistics, compensation surveys, and federal resources.



HFMA's Board of Directors:

Front row, left to right: **Charles O. Bracken**, FHFMA, CPA; Secretary/Treasurer, **Joyce A. Zimowski**, FHFMA, CPA; President and CEO, **Richard L. Clarke**, FHFMA; Chairman, **Phyllis A. Cowling**, FHFMA, CPA; Chairman-Elect, **David P. Canfield**, FHFMA; **Mary Beth Briscoe**, FHFMA, CPA; **Christopher L. Hickey**, FHFMA; **Diane M. Hart**, FHFMA.

Back row, left to right: **William E. Bestor**, FHFMA, CHE; **Timothy J. Hyland**, FHFMA, CPA; **Terry A. Rappuhn**, CPA; **H. Michael Flasch**, FHFMA; **Jeffrey Walla**, FHFMA, CPA; **Gregory M. Adams**, FHFMA; **Kari S. Cornicelli**, FHFMA, CPA; **Cheryl F. Yennie**, FHFMA, CPA; **Amelia Bryant**, FHFMA

Not pictured: **Quint Studer**

HFMA has added a new compliance checklist for durable medical equipment suppliers to its series of OIG compliance guidance tools. Developed by HFMA's Healthcare Compliance Forum, these documents contain a comprehensive checklist of corporate compliance program elements, with references to pertinent sections of the OIG's guidance.

One of the Resource Center's most consistently visited tools, HFMA's glossary, has been updated with a feedback form so that users can send HFMA suggestions for terms that should be added to the glossary.

HFMA increases value to members through industry research. HFMA continues to develop and publish research on the industry, including:

- HFMA research supported the *PATIENT FRIENDLY BILLING*® project. This research describes patient needs and issues related to billing and explored industry experience to identify recommendations for billing communications.
- Three reports, sponsored by McKesson, focus on improved resource management.
 - "Achieving Operating Room Efficiency Through Process Integration," which discusses how to optimize reengineering efforts by integrating processes and information.
 - "Comprehensive Performance Management in the Operating Room," which summarizes opportunities to assess OR performance against both financial and clinical quality metrics to achieve continuous improvement in patient outcomes and profitability.
 - "Profit Opportunities Still Exist... In the Operating Room," which outlines key focus areas for reducing OR costs.
- "Time Is Money—Labor Analysis Toolkit," prepared by HFMA and sponsored by Kronos Incorporated, summarizes strategies for tighter labor resource management.
- "The Patient Revenue Cycle at the Crossroads—Leadership, Structure, and Skills," focuses on the human resources aspect of patient financial services. This paper was second in a two-part series made possible

These demographics highlight members of the HFMA community:

Average Age: 45

Gender: 42% F 58% M

Race*:
African American 2.7%
Asian 2.6%
Caucasian 89.7%
Hispanic 2.3%
American Indian/Other 2/6%

*based on voluntary response

Average Years in Health Care: 19

Average Years as HFMA Member: 10

through the efforts of HFMA's Patient Financial Services Forum Advisory Council and Task Force on Patient Financial Services.

Strategic partnerships are an important element of success. HFMA's business development strategies have continued to evolve.

Today healthcare vendors are interested in working with HFMA for our mutual benefit. HFMA has been fortunate to experience growth in corporate partnerships and sponsorship opportunities. Our partnerships continue to be very selective and focus on three key attributes: value to members, value to HFMA, and value to the partner. To date, examples include:

GE Healthcare Financial Services—HFMA and GEHFS just completed the two-year *Black Ink* series of web-delivered news and information. We are now embarking upon a major research project regarding hospital access to capital.

Geico—Members continue to access Geico for quotes and savings for their personal insurance.

Ingenix—HFMA has branded multiple Ingenix publications and data resources of value to HFMA members.

McKesson—has sponsored many reports, including an operating room series, which focus on improved resource management.

WebInservice—In this partnership, HFMA's high-quality content is delivered to healthcare professions via WebInservice's ASP technology. Lessons also include content that HFMA technically reviews and maintains.

For a complete list of HFMA partners, please visit HFMA's website at www.hfma.org/Membership/Benefits/Special_Offers/Special_Offers.htm

The HFMA community.

HFMA recognized members of its community who made remarkable contributions to HFMA and the industry. David A. Timpe, FHFMA, CPA, received the 2002 Frederick C. Morgan Individual Achievement Award, the Association's highest honor. Timpe has distinguished himself at local, state, and national levels as a respected and knowledgeable healthcare leader.

Dr. Thomas F. Frist, Sr., Dr. Thomas F. Frist, Jr., and Senator Bill Frist received HFMA's distinguished Board of Director's Award in 2002. The Frist family was recognized for their significant impact on the health delivery system in this country.

HFMA congratulates the following for their significant accomplishments to HFMA and industry.

AWARDS AND SPONSORS

The C. Henry Hottum Award for Educational Performance Improvement

Arizona Chapter
Arkansas Chapter
Colorado Chapter
Eastern Michigan Chapter
Great Lakes Chapter
Greater St. Louis Chapter
Hawaii Chapter
Heart of America Chapter
Hudson Valley Chapter
Idaho Chapter
Iowa Chapter
Kentucky Chapter
Lone Star Chapter
Maryland Chapter
Massachusetts Chapter
Minnesota Chapter
New Hampshire-Vermont Chapter
New Jersey Chapter
North Carolina Chapter
North Dakota Chapter
Northeast Ohio Chapter
Northwest Ohio Chapter
Oklahoma Chapter
Southern Illinois Chapter
Southwestern Ohio Chapter
Utah Chapter
Washington Metropolitan Chapter
Western Michigan Chapter
Western New York Chapter
Wisconsin Chapter

The Gold Awards of Excellence for Education

Arkansas Chapter
Eastern Michigan Chapter

Georgia Chapter
Hawaii Chapter
Iowa Chapter
Louisiana Chapter
Montana Chapter
North Carolina Chapter
North Dakota Chapter
Sunflower (Kansas) Chapter
Wyoming Chapter

The Gold Awards of Excellence for Certification

Arkansas Chapter
Heart of America Chapter
Idaho Chapter
Iowa Chapter
Nebraska Chapter
New Hampshire-Vermont Chapter
New Jersey Chapter
Northwest Ohio Chapter
Rochester Regional Chapter
South Carolina Chapter
Southwestern Ohio Chapter
Washington-Alaska Chapter

The Gold Awards of Excellence for Membership Growth and Retention

Appalachian Chapter of Central Pennsylvania
Arizona Chapter
Central Ohio Chapter
Colorado Chapter
Florida Chapter
Heart of America Chapter
Iowa Chapter
Kentucky Chapter
Lone Star Chapter
New Hampshire-Vermont Chapter
New Jersey Chapter
New Mexico Chapter
Northeastern Pennsylvania Chapter
Northwest Ohio Chapter
Puerto Rico Chapter
Rhode Island Chapter
San Diego Imperial Chapter
Utah Chapter
Washington-Alaska Chapter

The Robert M. Shelton Award for Sustained Excellence

The Eastern Michigan Chapter

Chapter Presidents:

2002-2003 Diane S. Justewicz, FHFMA
2001-2002 Michael A. Tomkovich, CPA
2000-2001 David G. Zilli, CPA
1999-2000 Joseph T. Scallen, Jr., FHFMA
1998-1999 Deborah F. Wiley-Crossen, CPA

Honor Roll of Corporate Partners and Sponsors:

Diamond Level

GE Healthcare Financial Services
Ingenix
McKesson Corporation
Siemens Medical Solutions Health Services Corp.
WebInservice

Platinum Level

3M Health Information Systems
Per-Sé Technologies

Gold Level

PerotSystems Healthcare
Medical Business Resources, Inc. (MBR)

Silver Level

Kaufman Hall
PeopleSoft, Inc.
AON Healthcare Alliance
PricewaterhouseCoopers
Medical Business Resources, Inc. (MBR)

ANI 2002

AIG VALIC
AHC, Inc.,
American Management Systems, Inc. (AMS)
PerotSystems Healthcare
Cerner Corporation
Coast to Coast Consulting
Equifax Healthcare Solutions
EWebCoding
Fidelity Investments
Forum Sponsors

Hammes Company
GE Healthcare Financial Services
Infinium Software, Inc.
ING
Ingenix
Johnson Controls, Inc.
Keller Graduate School of Management
Kaufman Hall
Kronos, Inc.
Medical Business Resources, Inc. (MBR)
McKesson Corporation
Ontario Systems Corporation
OVAG International, Inc.
Patient Accounting Service Center, LLC
PeopleSoft, Inc.
Per-Sé Technologies
PNC Bank
PricewaterhouseCoopers
WebInservice

Revenue Cycle Strategies-April 2003

3M Health Information Systems
AON Healthcare Alliance
Executive Healthcare Resources
Financial Corporation of America
Accordis
Integra Solutions
McKesson Corporation
Per-Sé Technologies
PerotSystems Healthcare
PricewaterhouseCoopers
Siemens Medical Solutions Health Services Corp.
Third Millennium Healthcare Systems, Inc.

Revenue Cycle Strategies-October 2002

ARC Group Associates
Cerner Corporation
Financial Corporation of America
McKesson Corporation
Managed Care Solutions
PerotSystems Healthcare
The Healthcare Financial Group
Third Millennium Healthcare Systems

CFO Exchange 2003

PerotSystems Healthcare
AHA Financial Solutions, Inc.
ARC Group Associates
GE Healthcare Financial Services
Kaufman Hall
McKesson Corporation
Owens & Minor Medical, Inc.
PeopleSoft, Inc.
Per-Sé Technologies
PricewaterhouseCoopers
Siemens Medical Solutions Health Services Corp.
Third Millennium Healthcare Systems

Leadership Training Conference 2003

PerotSystems Healthcare
AHA Financial Solutions, Inc.
Altary, Inc.
AON Healthcare Alliance
Broadlane, Inc.
GE Healthcare Financial Services
Integra Solutions
Kaufman Hall
The McFaul & Lyons Group, LLC
McKesson Corporation
Owens & Minor Medical, Inc.
Zurich North America

Forums

AON Healthcare Alliance
McKesson Corporation
Per-Sé Technologies
PerotSystems Healthcare

Seminar Series

McKesson Corporation
GE Healthcare Financial Services

HFMA Express News

Deloitte & Touche LLP

Sponsored Educational Supplements

McKesson Corporation
Kronos, Inc.
3M Health Information Systems

Newsletters

Kaufman Hall
Medical Business Resources, Inc. (MBR)
Solucient

Healthcare Financial Management Association and Affiliates

Consolidated Balance Sheets

May 31, 2003 and 2002

| Assets | 2003 | 2002 |
|--|---------------|---------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 7,717,854 | \$ 6,167,503 |
| Accounts receivable, net of allowance for doubtful accounts of approximately \$122,000 in 2003 and \$90,000 in 2002 | 984,317 | 1,260,916 |
| Convention and meeting deposits | 489,599 | 405,343 |
| Prepaid expenses and other | 311,915 | 255,557 |
| Total current assets | 9,503,685 | 8,089,319 |
| Investments | 6,173,693 | 6,514,603 |
| Investments held for deferred compensation | 1,045,638 | 1,020,192 |
| Furniture, equipment and leasehold improvements, net | 567,601 | 677,129 |
| Chapter-restricted funds | 64,643 | 64,134 |
| Total assets | \$ 17,355,260 | \$ 16,365,377 |
| Liabilities and Unrestricted Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 2,429,085 | \$ 2,004,152 |
| Deferred membership dues, net of related chapter rebates of \$454,738 in 2003 and \$431,183 in 2002 | 4,123,168 | 3,921,923 |
| Deferred institute, subscription and examination revenue | 3,248,314 | 3,222,641 |
| Total current liabilities | 9,800,567 | 9,148,716 |
| Deferred lease obligation | 615,370 | 623,104 |
| Deferred compensation liability | 1,045,638 | 1,020,192 |
| Total liabilities | 11,461,575 | 10,792,012 |
| Commitments (Note 6) | | |
| Unrestricted net assets | 5,893,685 | 5,573,365 |
| Total liabilities and unrestricted net assets | \$ 17,355,260 | \$ 16,365,377 |

Consolidated Statements of Activities

For the years ended May 31, 2003 and 2002

| | 2003 | 2002 |
|------------------------------|---------------|---------------|
| Revenue | | |
| Membership | \$ 5,421,585 | \$ 5,286,777 |
| <i>hfm</i> magazine | 3,635,898 | 2,860,177 |
| Institutes | 2,388,099 | 1,799,838 |
| ANI Convention | 1,965,930 | 1,871,601 |
| Development program | 1,084,162 | 831,325 |
| Royalties | 517,645 | 661,712 |
| Forums | 594,372 | 596,118 |
| Books and periodicals | 202,367 | 183,453 |
| Certification | 179,997 | 177,833 |
| Other products and services | 48,761 | 8,075 |
| Miscellaneous | 263,067 | 227,057 |
| Net investment income (loss) | (121,965) | 192,771 |
| Training | 430,488 | 233,656 |
| Total revenue | \$ 16,610,406 | \$ 14,930,393 |

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 | \$ 7,183,405 | \$ 6,621,466 |
| Administrative | 2,459,640 | 1,999,357 |
| Professional services | 1,435,949 | 1,447,883 |
| Marketing | 830,599 | 793,101 |
| Printing | 970,255 | 955,223 |
| Occupancy | 869,994 | 874,205 |
| Travel | 388,414 | 344,843 |
| Postage | 406,252 | 411,440 |
| Depreciation and amortization | 340,991 | 407,973 |
| Equipment | 437,986 | 396,387 |
| Telephone | 358,134 | 355,479 |
| Other | 608,467 | 292,356 |
| Total expenses | 16,290,086 | 14,899,713 |
| Increase in unrestricted net assets | 320,320 | 30,680 |
| Unrestricted net assets, beginning of year | 5,573,365 | 5,542,685 |
| Unrestricted net assets, end of year | \$ 5,893,685 | \$ 5,573,365 |

Consolidated Statements of Cash Flows

For the years ended May 31, 2003 and 2002

| | 2003 | 2002 |
|---|--------------|--------------|
| Cash flows from operating activities | | |
| Increase in unrestricted net assets | \$ 320,320 | \$ 30,680 |
| Adjustments to reconcile increase in unrestricted net assets to net cash flows from operating activities: | | |
| Depreciation and amortization | 340,991 | 407,973 |
| (Decrease) increase in deferred lease obligation | (7,734) | 2,503 |
| Net realized and unrealized loss on investments | 340,620 | 142,213 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 276,599 | (253,398) |
| Convention and meeting deposits | (84,256) | 101,333 |
| Prepaid expenses and other | (56,360) | 37,238 |
| Chapter-restricted funds | (509) | (1,547) |
| Accounts payable and accrued liabilities | 424,933 | (359,711) |
| Deferred dues and revenue | 226,918 | 597,216 |
| Net cash flows provided by operating activities | 1,781,522 | 704,590 |
| Cash flows from investing activities | | |
| Purchase of furniture, equipment and leasehold improvements | (231,171) | (232,142) |
| Proceeds from sale of investments | 280,330 | 322,601 |
| Purchase of investments | (280,330) | (322,601) |
| Net cash flows used in investing activities | (231,171) | (232,142) |
| Cash flows from financing activities | | |
| Principal payments on capital lease obligations | - | (13,845) |
| Net cash flows used in financing activities | - | (13,845) |
| Net increase in cash and cash equivalents | 1,550,351 | 458,603 |
| Cash and cash equivalents | | |
| Beginning of year | 6,167,503 | 5,708,900 |
| End of year | \$ 7,717,854 | \$ 6,167,503 |
| Supplemental disclosure: | | |
| Cash paid for taxes (net of tax refund) | \$ 110,000 | \$ 57,851 |

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, 2003 and 2002

1. Organization

Healthcare Financial Management Association ("HFMA") is an association of healthcare financial management professionals with approximately 32,500 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 \$2,113 and \$2,890 for the years ended May 31, 2003 and 2002, 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 \$3,464,000 and \$2,713,000 in gross advertising revenues for the years ended May 31, 2003 and 2002, respectively. Income tax expense associated with unrelated business income amounted to \$296,000 and \$52,000, respectively, at May 31, 2003 and 2002. 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, 2003. 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, 2003.

Reclassification

Certain information in the 2002 financial statements has been reclassified to conform with the current year presentation.

3. Investments

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

| | 2003 | 2002 |
|--------------------|------------------|---------------------|
| Equity funds | \$4,154,916 | \$ 4,319,592 |
| Fixed income funds | 2,018,777 | 2,195,011 |
| Total | 6,173,693 | \$ 6,514,603 |

For the years ended May 31, 2003 and 2002, net investment income is comprised of the following:

| | 2003 | 2002 |
|---|--------------------|-------------------|
| Interest and dividend income, net of fees | \$ 218,655 | \$ 334,984 |
| Net realized gains and losses on sales of investments | 30,607 | 142,197 |
| Change in net unrealized investment gains and losses | (371,227) | (284,410) |
| Total | (\$121,965) | \$ 192,771 |

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:

| | 2003 | 2002 |
|--------------------|--------------------|--------------------|
| Equity funds | \$ 148,184 | \$ 169,609 |
| Fixed income funds | 520,756 | 496,987 |
| Money market fund | 376,698 | 353,596 |
| Total | \$1,045,638 | \$1,020,192 |

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:

| | 2003 | 2002 |
|--|--------------|--------------|
| Furniture and equipment | \$ 2,895,229 | \$ 3,024,623 |
| Leasehold improvements | 512,240 | 512,240 |
| | 3,407,469 | 3,536,863 |
| Less: Accumulated depreciation and amortization | 2,839,868 | 2,859,734 |
| Furniture, equipment and leasehold improvements, net | \$ 567,601 | \$ 677,129 |

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 | |
|-------------------------------------|---------------------|
| 2004 | \$ 928,241 |
| 2005 | 930,706 |
| 2006 | 934,788 |
| 2007 | 960,952 |
| 2008 | 987,869 |
| Thereafter | 2,817,314 |
| Total minimum lease payments | \$ 7,559,870 |

7. Functional Expenses

Operating expenses for the years ended May 31, 2003 and 2002 are summarized by functional classification, including only costs directly allocable to each classification, are as follows:

| | 2003 | 2002 |
|---|----------------------|----------------------|
| Membership | \$ 381,524 | \$ 367,391 |
| Institutes, other products and services | 3,280,094 | 2,770,592 |
| Publications | 1,806,107 | 1,296,722 |
| Books and periodicals | 160,509 | 228,322 |
| Management and general | 10,661,854 | 10,236,686 |
| Total | \$ 16,290,088 | \$ 14,899,713 |

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, 2003 and 2002 were \$261,453 and \$268,658, 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, | |
|------------------------------|-------------------------------------|--------------|
| | 2002 | 2001 |
| Number of chapters | 70 | 70 |
| Total assets, primarily cash | \$ 5,883,898 | \$ 5,142,040 |
| Total revenue | \$ 6,984,591 | \$ 6,440,897 |
| Increase in net assets | \$ 377,270 | \$ 539,896 |

Report of Independent Accountants

June 17, 2003

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, 2003 and 2002, 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.