Minutes

Finance Committee
University of Minnesota Hospital and Clinics
January 19, 1976

Present: John Quistgard, Vice Chairman
David Brown, M.D.
Al France
Debbie Gruye
John Westerman
Ron Werft

Absent: Don Brown
David Cost
Stanley Holmquist
Frederick Kottke, M.D.
Dave Preston
Don Van Hulzen

Staff: Clifford Fearing
John Diehl
Johnelle Foley

Guests: Harry Atwood
Judy Kaegy
Greg Hart

The meeting of the Finance Committee of the Board of Governors was called to order by Vice Chairman Quistgard at 9:15 a.m. in the K/E Conference Room.

I. Approval of the December 15, 1976 Minutes

Mr. France moved that the minutes of the last meeting be approved. The motion was seconded and passed.

Mr. Quistgard introduced Ms. Debbie Gruye as a new member of the Finance Committee and Mr. Ron Werft as a new member of the Committee and the new Health Sciences student representative to the Board.

II. Financial Statement- July - December

Mr. Fearing referred the Finance Committee to the Income Statement for July 1, 1976 to December 31, 1976. He noted that this would be the summary statement which would be presented to the full Board. In commenting on the statement, he pointed out that revenues were not meeting budget estimates and attributed this to the decline in the average length of stay. He added that expenditures were also .5% below their estimated level. Mr. Fearing stated that the total net operating revenue showed a variance equaling (3.59)% of total budgeted revenue and that this was the largest variance which has been experienced Year to Date. He explained that with the affects of Malpractice insurance and Campus Administrative Expense, this variance was expected. He reminded the Committee that December is generally a month of low utilization and added that this statement did not reflect the January 1, 1977 rate increase.

In discussing the statement from another point of view, Mr. Fearing demonstrated that the variance was not as significant as depicted on the income statement:

Total Variance in Total Revenue from Operations	$1,410,000
Deduct	
Expenditures under Budget	$ 175,000
Campus General Admin Expense Variance	575,000
Malpractice Insurance Variance	525,000
Net Revenue Variance after Special Considerations	$ 135,000

Mr. Fearing discussed various trends and occurances of the last six months. He indicated a decrease in laboratory services and suggested that low activity in the Bone Marrow Transplant Program, the late start of the Epilepsy Center, and the delay in making the Student Health Center operational may have affected this decrease. He noted that expenses were down with the downward trend in utilization and sited Neurology as an area experiencing the greatest decrease in patient days although admissions are fairly constant.

In examining the Statement of Operations, Mr. Fearing explained some of the various categories. He noted that Professional Fees involved the purchasing of hospital-based physicians' receivables and that Third Party Contract Adjustments involved the paying back to third-party payors that which is owed beyond cost contract reimbursement. In the case of Charitable Care, he explained the Hospitals' Hill Burton responsibility and the incorporation of those payments into the first half of the fiscal year. He mentioned the

Eustis Fund of $4-5 million as an example of an endowment source of Donations from Restricted Funds. Under Other Operating Revenue, he explained that people were not using the Powell Hall cafeteria as much as expected with the closing of the main cafeteria. Under Expenditures, Mr. Fearing commented on Nursing Services' ability to react to decreased utilization. With fringe Benefits, he discussed the increased cost of providing health insurance and mentioned that those working half time will soon be eligible for benefits under new Regent policy.

Mr. Fearing explained that Academic and Resident Contracts and Physician Compensation were contracts <u>with minimums and maximums</u> established for Physician Compensation. He He noted that it was unlikely that the Pathologists would meet their minimum and mentioned that there was presently a movement to renegotiate the Lab-Pathology contract mid-year. He stated that this matter would soon be discussed by the Reimbursement Committee of the Council of Clinical Sciences of the Medical School. Mr. Westerman pointed out that this would lend effective peer review. Mr. Fearing commented that he would like to see the physicians establish a centralized billing group which would be more cost effective with better collections.

In continuing the discussion of Expenditures, Mr. Fearing indicated that a study of the Laundry-Linen Service had recently been conducted with the University. He reported that with improved purchasing and inventory control, savings between $200,000-$250,000 could be realized. He explained that the interim Food Service contract has been extended longer than expected for the remodeling of the Hospitals' kitchens. He added that completion of the cafeteria project is now expected in April or May. He sited lower utilization as the cause for the decrease in Drugs and Medical Supplies.
He commented that he expects the cost of Utilities to increase with the cold weather of December and January. Under Non-Operating Revenue he mentioned that the Shared Services revenue involved computer programming assistance which was provided to a hospital in Brazil. Mr. Atwood concluded that the amount of

$522,000 under budgeted revenue coincided with the $526,000 expense for malpractice insurance and it was noted that this expense was not a Hospitals' option but rather a University decision.

After reviewing the Operating Cash Flow Statement, Mr. Fearing commented that it generally demonstrated an on target status. At Vice-Chairman Quistgard's request, Mr. Fearing reported that days of receivables were 95 in November and 100 in December. He added that a new system which will be implemented should, within 2 years, bring the days down to his goal of 75. It was noted that University Hospitals was still below other institutions such as Michigan at 110, Hennepin County at 145, and Ramsey County at 110, and that these public Hospitals were generally always higher than private institutions.

Mr. Fearing mentioned briefly that the Comparative Statement and Statement of Changes in Fund Balances were simply different breakdowns of the same information. In response to a question from Mr. Werft, Mr. Fearing explained that the Atkinson Fund, a Restricted Fund, was used to support the Community-University Health Care Clinic. The benefits of restricting gifts were discussed, as was the Universitys' fund raising effort. Also mentioned was the tremendously high occupancy rates being experienced in January.

III. Financial Statements Projections to Year End

Mr. Fearing stated that with increased activity in the second half of the fiscal year and with the rate increase which was implemented on January 1, 1977, a variance of only (.9%) of the total planned budget revenue should be experienced. With the Projected Cash Flow Statement, he commented that the financial picture could change and added that capital equipment funding goals should be accomplished.

IV. Credit Losses First Half of Fiscal Year

With the Board's retreat in September, Mr. Fearing explained that credit losses were inadvertently forgotten at that time and thus, his presentation today was for the first six months of the fiscal year. He reported that the total amount recommended for bad debt during the first half of fiscal year 1976-77 is $451,580.41 represented by 1,856 accounts with the inclusion of $448.98 for lodging in Powell Hall. He stated that bad debt recoveries during this period amounted to to $28,164.99 leaving a net charge off of $423,415.42. Dr. Brown moved that authorization of this bad debt be recommended to the Board. His motion was seconded and passed. Ms. Gruye asked what types of people had most difficulty in paying their bills. It was noted that all people can potentially find themselves in undesirable financial difficulties when it comes to the unpredictable requirements for health care. Mr. France noted that it would be interesting to break down the accounts to determine the number involved in catastrophic illnesses. Mr. Fearing agreed to provide this breakdown.

V. Debt Capacity Analysis

Mr. Fearing reported that Ernst and Ernst has presented their proposal to do an analysis of University Hospitals' debt capacity. He noted that the proposal has not yet been considered awaiting Mr. Van Hulzen's return from out of town. Mr. Westerman added that Mr. Van Hulzen was attending a national conference on health issues sponsored by Blue Cross, the American Hospital Association and the Federal Government.

VI. Tentative New Program Cost-Revenue Schedule

Mr. Westerman explained that the preparation of the Annual Plan for 1977-78 involved an evolutionary process. He noted that in 1975, the Annual Plan was simply presented to the new Board and that in 1976, the plan raised concerns for the Board in terms of decision making involvement. He interjected that a status summary of the 1975 and 1976 Plans has been distributed to the Board. Mr. Westerman stated that with the development of the present plan there should now be an exploration of Board policy options and that with this exploration there should be a clear understanding of why University Hospitals is more expensive than other insitutions.

He referred the Committee to the Annual Plan Cost Summary and explained that the programs had been categorized. He stated that category I pretained to programs under study and exploration which relate to the Hospitals' mission and future role. He added that the Plans' Foreward identifies some of these future considerations. Category II, he explained, were programs which have been studied and are viewed as being feasible but require decision making. Category III were programs of a continuing nature or mandatory requirements in the implementation phase.

Before reviewing each program, Mr. Westerman commented that although not specifically identified as such, many of the programs were patient care oriented. He explained that Patient Services Management involved patient services by non-professionals. He sited the Warehouse and Library as support progrms and mentioned that Capital Finance Planning was being considered in terms of patient care areas which he stressed as being essential in providing suitable facilities. Child Care he noted as a staff support service. Mr. Westerman explained that the Computer System would be invaluable in aiding in the rapid reporting of patient inforamtion. He sited the Rehab Center, House Staff Enhancement, and the Psych Program as being direct patient care related and commented that additional House Staff was viewed as an Hospital obligation to subsidize where Federal training funding has fallen off.

Mr. France questioned whether or not the Hospitals' role was expected to change in the future. Mr. Westerman commented that it was true that community hospitals were expanding their services but that it was essentially for University Hospitals to remain comprehensive to fulfill its teaching and research mission. He added that it would not be cost effective and that at some point merger and diversification must be considered for public justification. Dr. Brown indicated that a consortium with Hennepin and Ramsey County Hospitals would facilitate teaching by providing a broader base of services which would increase accessibility through different levels of care. Mr. Westerman added that the Board of Governors comprised the only trustee group of a major free-standing hospital and noted that to this point, the feasibility of a consortium with Hennepin and Ramsey was only being considered at a management level. In discussing how University Hospitals should posture itself for the future, Mr. Westerman also commented on the Hospitals' role as a corrector of the mistakes of primary care. In conclusion Dr. Brown emphasized the Board of Governors ability to influence the future of health care and co-ordination in the state.

Mr. Fearing next reviewed with the Committee a list of proposed general budget guidelines. Mr. Westerman commented that a seminar of the Commission on Public-General Hospitals was soon to be held to discuss how University's view their hospitals. He stressed the importance of the academic support unit over the service unit concept.

The Committee then discussed the strategy of its presentation to the full Board. It was suggested that there existed a need for further clarification of and development of the guidelines and thus, they should not be presented to the Board at this time. It was also suggested that an in-depth presentation of University Hospitals' unique differences and reasons for higher costs would be helpful and could be presented in February. In considering raising with the Board the need to examine options for the future, Ms. Gruye asked if preventative medicine was not an issue for future involvement. Discussion ensued regarding the responsibility for, involvements in, and the cost effectiveness of preventative health care.

The Committee also discussed the planning for quarterly joint meetings of the Finance and Facilities Committees. It was suggested that the last month of the quarter would be best for such meetings and that they should be pre-scheduled on a regular basis.

There being no further business, the Finance Committee meeting was adjourned at 12:15 p.m.

Respectfully submitted,

Johnelle Foley/so

Johnelle Foley
Secretary

UNIVERSITY OF MINNESOTA HOSPITALS
INCOME STATEMENT
FOR PERIOD JULY 1, 1976 TO DECEMBER 31, 1976

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$35,485,435	$33,815,404	$(1,670,031)	(4.7)
Deductions from Charges	2,494,316	2,289,172	(205,144)	(8.2)
Other Operating Revenue	550,594	605,756	55,162	10.0
Total Revenue from Operations	$33,541,713	$32,131,988	$(1,409,725)	(4.2)
Expenditures				
Salaries	$18,281,523	$18,180,864	$ (100,659)	(0.6)
Fringe Benefits	2,953,842	3,021,397	67,555	2.3
Contract Compensation	3,211,752	3,087,727	(124,025)	(3.9)
Med Supplies, Drugs, Blood	5,364,351	4,660,782	(703,569)	(13.1)
Campus Admin Expense	1,389,450	1,966,026	576,576	41.5
Depreciation	823,200	830,183	6,983	0.8
General Supplies & Expense	5,166,192	5,266,375	100,183	1.9
Total Expenditures	$37,190,310	$37,013,354	$ (176,956)	(0.5)
Net Revenue from Operations	$(3,648,597)	$(4,881,366)	$(1,232,769)	(33.8)
Non-Operating Revenue				
Appropriations/Univ Support	$ 3,822,290	$ 3,822,290	-0-	-
Accrued Interest Income	506,882	506,882	-0-	-
Shared Services	-0-	29,675	29,675	-
Total Non-Oper. Revenue	$ 4,329,172	$ 4,358,847	$ 29,675	0.7
Total Net Operating Revenue	$ 680,575	$ (522,519)	$(1,203,094)	(1)

(1) Variance equals (3.59)% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO DECEMBER 31, 1976

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Patient Care Charges				
Routine	$14,558,225	$13,945,505	$ (612,720)	(4.2)
Ancillary	20,613,416	19,573,733	(1,039,683)	(5.0)
Professional Fees	313,794	296,166	(17,628)	(5.6)
Gross Charges	$35,485,435	$33,815,404	$(1,670,031)	(4.7)
Deductions from Charges				
Pro Fees Paid	$ 268,078	$ 247,456	$ (20,622)	(7.7)
Third Party Contract Adjustment	85,082	85,082	-0-	-0-
Billing Adjustments & Employee Benefits	420,322	455,675	35,353	8.4
Charitable Care	448,828	505,744	56,916	12.7
Other Contract Adj	379,850	218,613	(161,237)	(42.4)
Allow for Uncoll Accts	892,156	845,376	(46,780)	(5.2)
Donations from Restricted Funds		(68,774)	(68,774)	
Total Deductions	$ 2,494,316	$ 2,289,172	$ (205,144)	(8.2)
Other Operating Revenue				
Food Services	$ 319,948	$ 290,951	$ (28,997)	(9.1)
Powell Hall Motel	123,528	120,116	(3,412)	(2.8)
Departmental Non-Patient	41,584	43,677	2,093	5.0
Reference Lab Income	65,534	95,779	30,245	46.2
Donations to Operations from Restricted Funds		55,233	55,233	
Total Other Revenue	$ 550,594	$ 605,756	$ 55,162	10.0
Total Revenue from Operations	$33,541,713	$32,131,988	$(1,409,725)	(4.2)
Expenditures				
Salaries	$18,201,379	$18,100,720	$ (100,659)	(0.6)
Fringe Benefits	2,953,842	3,021,397	67,555	2.3
Accrued Vacation & Timeback	80,144	80,144	-0-	-0-
Academic Contracts	569,396	569,396	-0-	-0-
Resident Contracts	1,210,686	1,210,686	-0-	-0-
Physician Compensation	1,431,670	1,307,645	(124,025)	(8.7)
Total Salaries, Wages, F.B., & Fees	24,447,117	24,289,988	(157,129)	(0.6)
Laundry & Linens	676,929	634,746	(42,183)	(6.2)
Raw Food	594,303	644,365	50,062	8.4
Drugs	1,882,914	1,787,371	(95,543)	(5.1)
Blood & Blood Derivatives	976,066	671,691	(304,375)	(31.2)
Medical Supplies	2,505,371	2,201,720	(303,651)	(12.1)
Utilities	391,452	393,005	1,553	0.4
Insurance	242,982	769,833	526,851	216.8
Net Loss on Disposal of Assets	-0-	6,460	6,460	-
Campus Adm Exp	1,389,450	1,966,026	576,576	41.5
Depreciation	823,200	830,183	6,983	0.8
General Supplies & Expense	3,260,526	2,817,966	(442,560)	(13.6)
Total Expenditures	$37,190,310	$37,013,354	$ (176,956)	(0.5)
Net Revenue from Operations	$(3,648,597)	$(4,881,366)	$(1,232,769)	(33.8)
Non-Operating Revenue				
Shared Services	-0-	$ 29,675	29,675	-
Appropriations & Support	3,822,290	3,822,290	-0-	-
Accrued Interest on Approp	94,320	94,320	-0-	-
Interest Income on Reserves	412,562	412,562	-0-	-
Total Non-Operating Rev	$ 4,329,172	$ 4,358,847	$ 29,675	0.7
Revenue Over (Under) Expenses	$ 680,575	$ (522,519)	$(1,203,094) (1)	

(1) Variance equals (3.59)% of Total Budgeted Revenue.

UNIVERSITY OF MINNESOTA HOSPITALS
OPERATING CASH FLOW
FOR PERIOD JULY 1, 1976 TO DECEMBER 31, 1976

Source of Funds		
Beginning Cash Balance		$ 406,468
Loss from Operations	(4,881,366)	
Non-Operating Revenue	4,358,847	
Excess of Revenue over Expense		(522,519)
Items not Requiring the Outlay of Cash		
Depreciation	830,183	
University Support: G&A	1,966,026	
K/E Utilities	33,108	
Increase in Accrued Expenses	2,384,124	
		5,213,441
Total Funds Provided from Operations		$5,097,390
Funds Applied		
Transfers to Plant		
Capital Expenditures	620,996	
Increase in Capital Encumbrance	362,300	
		983,296
Increase in Accounts Receivable		888,829
Increase in Accrued Revenue		495,965
Increase in Inventories		166,528
Transfer for Funded Depreciation Required by MHA		1,290,394
Total Funds Applied		$3,825,012
Total Net Operating Cash Available		$1,272,378 (1)

(1) Available for offsetting future cash neet of $1,888,159 to cover increase in accrued expenses. Net Deficit $615,781.

UNIVERSITY OF MINNESOTA HOSPITALS
COMPARATIVE STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 1976

	12/31/76	6/30/76
Current Assets		
Cash Working Funds	$ 31,845	$ 31,845
Cash and Investments	8,058,975	4,601,807
Patient Accounts Receivable Less Allowances for Possible Losses in Collection	14,955,471	14,066,642
Amounts Due from Third Party Payor Cost Reimbursement Programs	399,672	484,723
Other Receivables	800,594	221,067
Inventories of Drugs & Supplies	1,987,530	1,821,002
Total Current Assets	$26,234,087	$21,227,086
Long Term Investments	$12,100,000	$10,657,298
Plant and Equipment		
Cash and Investments for Construction	$ 1,562,375	$ 1,590,166
Construction in Progress	2,304,430	1,284,495
Plant and Equipment	37,977,987	37,411,266
Less Allowances for Depreciation	(18,917,219)	(18,103,346)
Total Plant and Equipment	$22,927,573	$22,182,581
Restricted Endowment and Gift Investments	$ 8,268,634 (a)	$ 8,251,563
Total Assets	$69,530,294	$62,318,528

	12/31/76	6/30/76
Current Liabilities		
Trade Accounts Payable	$ 2,157,169	$ 859,914
Accrued Salary & Wages Payable	1,782,440	1,848,899
Accrued Vacation and Timeback Payable	1,808,958	1,728,811
Contracts Payable	1,149,788	157,047
Accrued Professional Fees	500,303	488,924
Total Current Liabilities	$ 7,398,658	$ 5,083,595
Fund Balances		
Unrestricted Funds		
Operating Funds	$14,931,028	$11,946,682
Reserve Funds	16,004,401	14,854,107
Plant Funds	22,927,573	22,182,581
	$53,863,002	$48,983,370
Restricted Funds:		
Gift Funds	$ 473,515	$ 537,839
Endowment Funds	7,795,119	7,713,724
	$ 8,268,634	$ 8,251,563
Total Liabilities & Fund Balances	$69,530,294	$62,318,528

(a) Restricted Fund market value as of 12/31/76 $8,404,676.

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF CHANGES IN FUND BALANCES
FOR PERIOD JULY 1, 1976 THROUGH DECEMBER 31, 1976

	Operating Fund	Reserve Fund	Plant Fund	Total Unrestricted Funds
Unrestricted Funds				
Beginning Balance 7/1/76	$11,946,682	$14,854,107	$22,182,581	$48,983,370
Net Income				
Excess of Revenue over Expenses	(193,510)			
Accrued Reserve Int. Income		412,556		
Accrued Approp Int. Income		95,078		
Depreciation Expense			(830,183)	
Loss on Sale of Assets	18,994		(25,454)	
Total Unrestricted Income less Expenses				(522,519)
Unrealized Approp Revenue	3,389,069			3,389,069
Campus Support: G&A	1,966,026			1,966,026
K/E Utilities	33,108			33,108
Transfers to Plant:				
Major Bldg. Proj (Hosp Only)		(614,101)	614,101	
Capital Expenditures	(620,996)		620,996	
Capital Encumb Change	(362,300)		362,300	
Equip,Remod & Other Adj	4,349	(743)	(17,938)	(14,332)
Increase in Restricted Fund Commitment to Plant			21,170	21,170
Transfer to Shared Bldg. Proj.		(32,890)		(32,890)
Trans to Fund Deprec at Price Level	(1,290,394)	1,290,394		
Trans from Medical School for Patient Medical Info System	40,000			40,000
	$14,931,028	$16,004,401	$22,927,573	$53,863,002

	Gift Funds	Endowments	Total Restricted Funds
Restricted Funds			
Beginning Balance 7/1/76	$ 537,839	$ 7,713,724	$ 8,251,563
Prior Period Adjustments	-0-	(22,356)	22,356
Adj 7/1/76 Beg. Balance	$ 537,839	$ 7,691,368	$ 8,228,207
Net Income			
Gifts	27,276	177,928	
Accrued Interest Income			
Misc Expense	(55,233)		
Charity Expense	(15,960)	(52,814)	
Total Restricted Income less Expenses			81,197
Increase in Commitment to Plant Funds	(20,407)	(763)	(21,170)
Contribution to CUHCC Bldg		(20,600)	(20,600)
	$ 473,515	$ 7,795,119	$ 8,268,634

UNIVERSITY OF MINNESOTA HOSPITALS
PROJECTED STATEMENT OF OPERATIONS
FISCAL YEAR ENDING JUNE 30, 1977

	Planned Budget 7/1/76	Projected Operations	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$70,790,603	$70,243,245	$(547,358)	(.8)
Deductions from Charges	5,003,840	4,848,362	(155,478)	(3.1)
Other Operating Revenue	1,097,798	1,092,073	(5,725)	(.5)
Total Revenue from Operations	$66,884,561	$66,486,956	$(397,605)	(.6)
Expenditures				
Salaries	$36,149,135	$36,500,859	$ 351,724	1.0
Fringe Benefits	5,826,661	6,032,438	205,777	3.5
Contract Compensation	6,345,312	6,426,709	81,397	1.3
Med Supplies,Drugs,Blood	10,787,994	9,369,266	(1,418,728)	(13.2)
Campus Admin Expense	2,756,250	3,900,000	1,143,750	41.5
Depreciation	1,633,000	1,650,000	17,000	1.0
General Supplies & Expense	10,712,948	10,684,093	(28,855)	(.3)
Total Expenditures	$74,211,300	$74,563,365	$ 352,065	.5
Net Revenue from Operations	$(7,326,739)	$(8,076,409)	$(749,670)	(10.2)
Non-Operating Revenue				
Appropriations/Univ Support	$ 7,582,261	$ 7,719,397	$ 137,136	1.8
Accrued Interest Income	1,005,495	1,005,495	-0-	-0-
Shared Services	-0-	29,675	29,675	-
Total Non-Operating Rev	$ 8,587,756	$ 8,754,567	$ 166,811	1.9
Total Net Operating Revenue	$ 1,261,017	$ 678,158	$(582,859)(1)	

(1) Variance equals (.9)% of the Total Planned Budget Revenue

Based on 12/31/76 YTD Actual Data
1/19/77

UNIVERSITY OF MINNESOTA HOSPITALS
PROJECTED CASH FLOW
FYE JUNE 30, 1977

Source of Funds		
Excess of Revenue over Expense		$ 678,158
Items not requiring the Outlay of Cash		
Depreciation	1,650,000	
Campus G&A	3,900,000	
Increase in Accrued Expense	(190,949)	
Third Party Contract Adj.	168,773	
		5,527,824
Total Funds Provided from Operations		$6,205,982
Cash Applied		
Increase in Accounts Receivable	2,159,299	
Increase in Inventories	226,533	
Increase in Accrued Revenue	156,033	
Total Cash Applied		2,541,865
Cash Available		$3,664,117
Justification		
Reserve Interest	818,395	
Price Level Depreciation	1,135,586	
Historical Depreciation	1,650,000	
Appropriation Interest	187,100	
Total Justification		$3,791,081
Total Net Operating Cash Available		$ (126,964)

Based on 12/31/76 YTD Actual Data
1/19/77

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

January 14, 1977

TO: Cliff Fearing

FROM: Bill Conner

RE: Bad Debt Report 7/1/76 to 12/31/76

The total amount recommended for bad debt during the first half of fiscal year 1976-77 is $451,580.41 represented by 1,856 accounts. Included in these figures is $448.98 for lodging in Powell Hall.

Bad debt recoveries during this period amounted to $28,164.99 leaving a net charge off of $423,415.42.

A statistical summary for the six month period follows with detailed data available on the attached reports.

BC/tr

enc.

BAD DEBT STATISTICS - JULY 1, 1976 TO DECEMBER 31, 1976

OUTPATIENT

Dollar Ranges	Below $50	$50-1,999	$2,000 & Over	Total
Dollar Amount	$16,306.82	$ 63,285.14	$12,277.37	$91,869.33
Number of Accounts	973	280	4	1,257

INPATIENT

Dollar Ranges	Below $100	$100-2,000	Above $2,000	Total
Dollar Amount	$ 9,920.81	$156,626.13	$192,715.16	$359,262.10
Number of Accounts	271	305	18	594

Total Amount - Inpatient & Outpatient	$451,131.43
Total Number - Inpatient & Outpatient	1,851
% of Outpatient Number to Total Number	.68
% of Outpatient Amount to Total Amount	.20
% of Inpatient Number to Total Number	.32
% of Inpatient Amount to Total Amount	.80

Attached is a brief description of accounts over $2,000.

UNIVERSITY OF MINNESOTA HOSPITALS
ANNUAL PLAN COST SUMMARY
1977-78
DRAFT

		Total Operational Expense Increment		Potential Cost Benefits/ Anticipated Revenue Increment	
I	Programs Under Study and Exploration				
(1)4.	Patient Services Management	$ 60,000		-0-	(5)
6.	Warehouse System	-0-	(4)	-0-	
7.	Hospital Management Reference Library	20,000		-0-	
10.	Capital Finance Planning	75,000	(4)	-0-	
16.	Child Care	-0-		-0-	
II	Programs in Decision Making Phase				
2.	Payroll System	$ 20,000		-0-	(5)
3.	Hosp Computerized Information System	100,000		-0-	(5)
13.	Health Education	-0-	(3)	-0-	
14.	Human Resources Management	-0-	(4)	-0-	
18.	Rehab Center - Ergography Svc Lab	15,669		20,166	
19.	House Staff Enhancement	145,000		-0-	
20.	Psychiatry Program	-0-	(3)	-0-	
10.	Capital Finance Planning	-0-	(3)	-0-	
III	Implementation of Continuing and Mandatory Programs				
1.	Productivity Improvement Program	-0-	(3)	-0-	(5)
5.	Infection Control	-0-	(3)	-0-	
8.	Risk Management	-0-	(4)	-0-	
9.	Unit B/C	-0-	(2)	-0-	
11.	Rural Cooperative	2,500		-0-	
12.	Northwest Project	100,000		-0-	
15.	Affirmative Action Program	-0-	(4)	-0-	
17.	Communication Center	18,500		-0-	(5)
10.	Capital Finance Planning	-0-	(3)	-0-	
	Subtotal	$556,669		$20,166	
	Less Anticipated Revenue	(20,166)			
Net Annual Plan Cost before Annualized Cost Savings		$536,503			

(1) Numerical sequence corresponds to Annual Plan numbering structure.
(2) Programmatic financial implications for Unit B/C program will be dealt with as a separate budget when more complete data is available.
(3) Estimated programmatic costs undefined as of January 19, 1977.
(4) No anticipated financial implications for fiscal year 1977-78.
(5) Cost savings in this year or future years will equal or offset the increase cost associated with these programs.

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
PROPOSED GENERAL BUDGET GUIDELINES
1977-78 BUDGET

These budget guidelines as set forth are intended to be an adjunct to the Statement of Financial Policies and Requirements of University Hospitals and Clinics as adopted by the Board of Governors (January 21, 1976). As an adjunct to that statement; the overall Mission Requirements, Financial Policies, and Financial requirements are not repeated in this document but are understood to provide the overall framework within which these principles should be applied.

<u>General Guidelines</u>

1. Budget resources to achieve optimum overall mission requirements.
2. Incremental patient service costs shall be recovered through patient service revenues.
3. To the extent possible, incremental educational costs shall be recovered through educational resources.
4. Incremental research costs shall be funded fully by research funds.

<u>Specific Guidelines</u>

1. Rollforward requirements, i.e., mandated salary increases, etc., are non-negotiable.
2. Programs mandated by external sources such as JCAH, HSA, Regents action are non-negotiable.
3. New program dollars require Board approval.
4. Cost benefits, savings, or productivity increases and their apparent savings should be used in corresponding areas of costs where possible to increase quality or implement new programs.

5. The budget should remain flexible to accomodate unforeseen developments.
6. Building BC budget implications will be considered as a separate and special budget addendum during 1977-78 if necessary.
7. New costs beyond inflationary costs will be included in the 1977-78 budget to the extent of ____%.

UNIVERSITY OF MINNESOTA

Hospitals and Clinics
Board of Governors
Box 502
Minneapolis, Minnesota 55455

February 7, 1977

TO: FINANCE COMMITTEE, BOARD OF GOVERNORS

David Brown, M.D.	John Quistgard, Vice Chairman
Donald Brown	John Westerman
David Cost	Ron Werft
Al France	Donald Van Hulzen
Debbie Gruye	
Frederic Kottke	Staff
David Preston	Clifford Fearing, Controller
	Johnelle Foley, Secretary
	John Diehl, Legal Counsel

FROM: Stanley Holmquist, Chairman

The February meeting of the Finance Committee will be held:

9:00 - 12:00
Wednesday, February 16, 1977
K/E Conference Room

The agenda for the meeting is enclosed. Lunch will be served in Campus Club immediately following the meeting. Please return the enclosed postcard stating whether you can or cannot attend the meeting.

SW/sds

Enclosure

Minutes

Finance Committee

University of Minnesota Hospitals and Clinics

February 16, 1977

Present: Stanley Holmquist, Chairman
David Brown, M.D.
Donald Brown
David Cost
Al France
Donald Van Hulzen
Ron Werft
John Westerman

Absent: Debbie Gruye
Frederic Kottke
David Preston
John Quistgard

Staff: Clifford Fearing
John Diehl
Johnelle Foley

Guest: Greg Hart
Judy Kaegy

The meeting of the Finance Committee of the Board of Governors was called to order by Chairman Holmquist at 9:15 a.m., in the K/E Conference Room.

I. Approval of the January 19, 1977 Meeting Minutes

Mr. Werft moved that the minutes of the last meeting be approved. The motion was seconded and passed.

II. Contoller's Report

Mr. Fearing reviewed with the Finance Committee his report for the period July 1, 1976 through January 31, 1977. He noted that expected changes were experienced as a result of the January 1, 1977 rate adjustment of 4.26% to fund the insurance premium and cost of living increase. He added that January also demonstrated an increase in patient days above budgeted projections which resulted in revenues above those required to achieve the annual plan objective. However, this type of census level is not unusual for January and should not be consided a fixed trend. Mr. Fearing mentioned that the rate increase and increased volume also added to revenue days in accounts receivable. He added that this was expected and that it would be on target by June 30, 1977. In conclusion, he commented that the census will level off and therefore, there will not be a significant annual variance from the original final projection.

Chairman Holmquist asked if it would be possible to reduce revenue days in accounts receivable to the goal of 75 days. Mr. Fearing responded that a two-fold approach is being implemented to assist in attaining this goal. He explained that revisions are being made in the patient accounting system and that there is a new plan being developed for collection of patient liability accounts. He concluded that these changes should result in the accomplishment of the goal when fully implemented in about 18 months. He further noted that University Hospitals had fewer revenue days in receivables than other teaching hospitals. It was also noted that the percentage of projected credit losses for University Hospitals is to be reduced to 2%. Mr. Van Hulzen mentioned that although this is far below the national average of 8%, it must primarily be attributed to Minnesota's excellent private and governmental reimbursement programs.

In discussing the rate increase, Mr. Werft inquired as to what would occur in June if surplus revenue exist. Mr. Fearing explained that it was uncertain that the census would continue to run above budget to produce a surplus, but added that in such an event, surpluses can be carried into the next year as an offset to rate increase or placed in reserves to finance capital projects. He noted that rate review regulations, as they pretain to University Hospitals, allowed for such uses. Mr. Cost asked if it was unusual to request rate adjustments in two steps. Mr. Fearing responded that several hospitals had such an approach before University Hospitals.

III. Summary - Statement of Operations

Mr. Fearing next referred the Committee to the current Income Statement which displayed the occurances which he had described in his report. He explained that the 41.5%

variance in Campus Administrative Expense is a pass through/non-cash item which is included for audit and reimbursement purposes. It should be throught of like depreciation. He added that the size of the variance is the result of recent updating of calculations by the University and noted that it may change again in Fiscal Year 1977-1978.

Mr. Westerman responded to a question concerning University Hospitals' request to the Legislature and how it reaches them. He explained that the request is prepared by Mr. Fearing and Mr. Van Hulzen after discussions with Vice Presidents for Health and Finance. It is then considered as part of a total University request which the Regents submit to the Governor's Office and Legislature. He indicated the Hospitals' request has been essentially a roll-forward budget for the last two sessions.

Chairman Holmquist asked if it would not be more efficient to operate the Hospitals with full services through the weekend. Mr. Westerman explained that a 7 day operation would result in increased costs to arrange for sufficient numbers of personnel to cover all services. Mr. France inquired as to why the variance in Fringe Benefits did not coincide with Salaries. Mr. Fearing explained that there was an unexpected provision in terms of health care costs.

The timing of the budget was discussed next. Mr. Fearing explained that a preliminary budget forecast will be available for the Finance Committee and the Board in March. This document can then be examined through to April. Mr. Fearing explained that any rate adjustment estimates for July 1, 1977 must be forwarded to the rate review panel 60 days in advance or by May 1, 1977. Final rate decisions will be made by the Board in May or June. Concurrent review by the Board and the Finance Committee of the preliminary budget forecast was decided upon. The accuracy of this forecast will be highly dependent upon knowledge about next year's pay plan.

IV. Ernst and Ernst Audit Report

Mr. Fearing referred the Finance Committee to page 5 of the Ernst and Ernst report and commented briefly on minor changes made to the Statement of Revenues and Expenses of Unrestricted Funds. Chairman Holmquist inquired about Note F in the report which referred to rental expense. Mr. Fearing explained that this was for the rental of equipment, etc. He also commented on page 8, explaining that as of July 1, 1970 Medicare does not allow the acceleration of depreciation unless hardship can be shown.

Mr. Fearing next reviewed, step by step, University Hospitals' response to the Ernst and Ernst management letter. Mr. Cost commented on the Finance Committee's role in terms of the audit. Mr. Fearing explained that the Regents have accepted the audit and that it is the Hospitals' Finance Committee's role to act as the audit committee for the Board of Governors. He added that unfortunately Ernst and Ernst although requested, did not provide statistics to quantify their comments. Mr. Van Hulzen suggested that if desired, it would be appropriate to invite representatives of Ernst and Ernst in to explain their comments to the Finance Committee. Mr. France suggested that many of these comments must be boiler plated for all hospitals. Mr. Van Hulzen concluded that if an item was not footnoted in the financial report but only commented upon in the letter, it indicated to him that it was only an internal suggestion with no significant financial impact. Mr. Fearing suggested that the audit report and management letter response be forwarded to the full Board of Governors when the minutes of the Finance Committee are mailed.

In discussing the management letter responses, the Committee touched on such subjects as the improvements computerization are expected to bring to the recording of medical information, the Medical Staff's involvement in the Annual Plan, and the percentage of referrals to University Hospitals. In concluding the review of the response, Mr. Cost asked Mr. Van Hulzen for his impression of the Ernst & Ernst audit. Mr. Van Hulzen commented that he felt that the audit demonstrated that University Hospitals is progressing in its financial accounting as the comments of Ernst and Ernst over the past three years are increasing on the areas of less importance. He indicated some uneasiness with the thoroughness of the audit, mentioning that the payroll system has never been audited despite the fact that it comprises a large percent of the Hospitals expenses. He added that there was no urgency in this matter as internal controls do exist to monitor the system and related that such a review had been planned had the Hospitals' filled the internal audit positions. Mr. Westerman commented that the position had not been filled as they were awaiting assurance that the auditor would be located at University Hospitals, rather than in Central Administration. Mr. Fearing concluded that the audit did involve actual dialogue among representatives of the hospital, Ernst and Ernst, and the University.

V. Capital Development

Mr. Van Hulzen commented that the Finance Committee had previously been made aware of approximately $26 million in capital project requirements for which funding is not presently available. He reported that the three firms of Ernst and Ernst, Touche Ross & Co., and Boox, Allen, and Hamilton have been invited to prepare proposals on the analysis of University Hospitals' debt capacity. He stated that these proposals are presently being examined.

It was also reported that a Certificate of Need has been requested for University Hospitals to upgrade its facility to meet Life Safety Codes and JCAH standards. It was explained that the Facilities Committee will be requesting Board approval for the expenditure of $3.7 million to finance this project. Mr. Fearing reminded the Committee that this expense had been anticipated and that the hospital is prepared to finance the project from reserves as shown in an earlier plan at $3.5 million. It was noted that because of those physical deficiencies, University Hospitals was granted a one year accreditation and will probably be given another single year accreditation until the Life Safety Project is completed in October of 1978.

Chairman Holmquist asked Mr. Brown about the University's handling of investments on group income as noted in the Ernst and Ernst report. Mr. Brown commented that the

University has not implemented their suggestion and added that this was viewed as an impractical recommendation. He also responded that the current rate or return on investments is 7.25%. Chairman Holmquist also requested an update on the Hospitals' malpractice situation. Mr. Diehl reported that it was essentially unchanged but added that their attempt to claim sovereign immunity with regard to those cases which occured before its loss may be affected by a recent court decision which stated that proprietary activities of the State never were protected by sovereign immunity. The Committee also discussed with Mr. Brown, the University's continuing efforts to provide optimal liability coverage.

Mr. Cost referred back to the discussion of auditing the payroll and asked what appropriate step could be taken to investigate this matter further.
Mr. Van Hulzen suggested that management review the need for a payroll audit and report findings at the next meeting. This was agreed upon. It was noted that University Hospitals employs approximately 3000 employees.

VI. Other

Mr. Fearing commented on bad debts listing which he had distributed to the Committee per a request made at the last meeting. Mr. France commented that the itent of his request was to discern the percentage of catastropic illness situations. Mr. Fearing estimated that the personal costs of such illnesses may affect 2-4% of the patients at University Hospitals. Most patients have adequate third-party coverage.

Mr. Fearing also distributed revised budget guidelines for the Committee to review and discuss in March. He commented that the guidelines were essentially derived from the Statement on Financial Requirements.

There being no further business, he adjourned the Finance Committee meeting to lunch at 12:05 p.m.

Respectfully submitted,

Johnelle Foley/ss

Johnelle Foley
Secretary

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

February 16, 1977

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing, Controller Clifford P. Fearing

SUBJECT: Controller's Report for Period July 1, 1976 through January 31, 1977 - January Activity

The January financial statements show the expected changes in our financial position and also some changes in trends apparent in the first six months of this fiscal year. Several factors are responsible for these changes which I will discuss below.

The primary reason for the change is of course the January 1, 1977 rate adjustment. This adjustment of 4.26% annually was intended to reduce the losses incurred due to malpractice insurance premium increases and to offset the January 1, 1977 cost of living salary increases.

In addition to the rate increase, January's census level also increased above our projections. Patient days were budgeted at 17,628 for January but actually totalled 18,277. This 3.7% variance is reflected in our routine and ancillary revenues and our expenditures for January. Admissions for January were 2,030 and our occupancy for the month rose to 74.8%. This compares to a year-to-date occupancy level of 73.2%.

Our January through June financial plans were budgeted to eliminate the $522,519 deficit on 12/31/76 and produce net operating revenue of $678,158 by June 30. This requires U of MH&C to produce net operating revenues of $1,200,677 during the period January through June or $200,100 per month. The overall affect of the changes has been to achieve this goal and provide an additional $195,000 from volume variances, i.e., 649 days at approximately $300 per day. However, this type of census level is not unusual for January and should not be considered as a fixed trend.

As expected, our accounts receivable have increased during January. The accounts receivable rose from $18,155,263 at 12/31/76 to $19,303,110 at 1/31/77 or an increase of $1,147,847. This increase was incurred entirely in our inhouse receivables which increased $1,165,686. These increases raised our days revenue in accounts receivable from 100.2 as of 12/31/76 to 102.7 as of 1/31/77. This type of an increase has to be expected when volume increases occur and/or when prices are raised. We do not expect to exceed our projected annual increase in receivables of $2,159,299. Through January this annual increase is $2,189,239 which will be reduced by June 30, 1977 to below our annual increase projections.

In summary, January's volume was higher than anticipated which produced larger net revenues than expected. We feel that it is to early to change our original projections since we do not anticipate this trend to continue. We feel that our census will level off in the next five months and we will not have significant annual variances from our original financial projections.

CPF/tr

UNIVERSITY OF MINNESOTA HOSPITALS
INCOME STATEMENT
FOR PERIOD JULY 1, 1976 TO JANUARY 31, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$41,407,818	$40,035,346	$(1,372,472)	(3.3)%
Deductions from Charges	2,707,373	2,481,982	(225,391)	(8.3)%
Other Operating Revenue	643,357	784,691	141,334	22.0 %
Total Rev from Operations	$39,343,802	$38,338,055	$(1,005,747)	(2.6)%
Expenditures				
Salaries	$21,440,984	$21,196,689	$ (244,295)	(1.1)%
Fringe Benefits	3,464,514	3,512,082	47,568	1.4 %
Contract Compensation	3,765,574	3,630,132	(135,442)	(3.6)%
Med Supplies,Drugs,Blood	6,049,292	5,603,134	(446,158)	(7.4)%
Campus Admin Expense	1,623,542	2,297,259	673,717	41.5 %
Depreciation	961,889	968,593	6,704	0.7 %
General Supplies & Expense	5,989,347	6,236,453	247,106	4.1 %
Total Expenditures	$43,295,142	$43,444,342	$ 149,200	0.3 %
Net Revenue from Operations	$(3,951,340)	$(5,106,287)	$(1,154,947)	(29.2)%
Non-Operating Revenue				
Appropriations/Univ Support	$ 4,466,263	$ 4,466,263	-0-	
Accrued Interest Income	592;281	592,281	-0-	
Shared Services	-0-	29,675	29,675	
Total Non-Oper Rev	$ 5,058,544	$ 5,088,219	$ 29,675	0.6 %
Total Net Operating Revenue	$ 1,107,204	$ (18,068)	$(1,125,272)	(1)

(1) Variance equals (2.86)% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO JANUARY 31, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
PATIENT CARE CHARGES				
Routine	$17,013,960	$16,512,911	$ (501,049)	(2.9)%
Ancillary	24,025,652	23,170,977	(854,675)	(3.6)%
Professional Fees	368,206	351,458	(16,748)	(4.5)%
Gross Charges	$41,407,818	$40,035,346	$(1,372,472)	(3.3)%
DEDUCTIONS FROM CHARGES				
Pro Fees Paid	$ 314,556	$ 293,610	$ (20,946)	(6.7)%
Third Party Contract Adj.	99,416	99,416	-0-	-
Billing Adjustments & Employee Benefits	491,137	528,671	37,534	7.6 %
Charitable Care	524,446	526,228	1,782	0.3 %
Other Contract Adj.	443,847	258,342	(185,505)	(41.8)%
Allow for Uncoll Accts	833,971	800,682	(33,289)	(4.0)%
Donations from Restricted Funds	-0-	(24,967)	(24,967)	-
Total Deductions	$ 2,707,373	$ 2,481,982	$ (225,391)	(8.3)%
OTHER OPERATING REVENUE				
Food Services	$ 373,852	$ 341,276	$ (32,576)	(8.7)%
Powell Hall Motel	144,340	146,831	2,491	1.7 %
Departmental Non-Patient	48,590	60,555	11,965	24.6 %
Reference Lab Income	76,575	177,298	100,723	131.5 %
Donations to Operations from Restricted Funds	-0-	58,731	58,731	-
Total Other Revenue	$ 643,357	$ 784,691	$ 141,334	22.0 %
Total Revenue from Operations	$39,343,802	$38,338,055	$(1,005,747)	(2.6)%
Expenditures				
Salaries	$21,347,338	$21,103,043	$ (244,295)	(1.1)%
Fringe Benefits	3,464,514	3,512,082	47,568	1.4 %
Accrued Vacation & Timeback	93,646	93,646	-0-	-
Academic Contracts	665,327	665,327	-0-	-
Resident Contracts	1,427,372	1,427,372	-0-	-
Physician Compensation	1,672,875	1,537,433	(135,442)	(8.1)%
Total Salaries, Wages F.B. & Fees	28,671,072	28,338,903	(332,169)	(1.2)%
Laundry & Linens	790,985	786,670	(4,315)	(0.5)%
Raw Food	655,431	689,197	33,766	5.2 %
Drugs	2,392,070	2,082,041	(310,029)	(13.0)%
Blood & Blood Derivatives	916,676	858,122	(58,554)	(6.4)%
Medical Supplies	2,740,546	2,662,971	(77,575)	(2.8)%
Utilities	457,403	464,754	7,351	1.6 %
Insurance	283,919	976,428	692,509	243.9 %
Rental	711,222	468,358	(242,864)	(0.9)%
Maintenance & Repair	451,635	413,607	(38,028)	(8.4)%
Communications	304,472	290,783	(13,689)	(4.5)%
Net Loss on Disposal of Assets	-0-	6,460	6,460	-
Campus Adm. Exp.	1,623,542	2,297,259	673,717	41.5 %
Depreciation	961,889	968,593	6,704	0.7 %
General Supplies & Expense	2,334,280	2,140,196	(194,084)	(8.3)%
Total Expenditures	$43,295,142	$43,444,342	$ 149,200	0.3 %
Net Revenue from Operations	$(3,951,340)	$(5,106,287)	$(1,154,947)	(29.2)%
Non Operating Revenue				
Appropriations and Support	$ 4,466,263	$ 4,466,263	$ -0-	-
Accrued Interest on Approp.	110,211	110,211	-0-	-
Interest Income on Reserves	482,070	482,070	-0-	-
Shared Services	-0-	29,675	29,675	-
Total Non-Operating Rev	$ 5,058,544	$ 5,088,219	$ 29,675	0.6 %
Excess of Revenue over Expenses	$ 1,107,204	$ (18,068)	$(1,125,272) (1)	

(1) Variance equals (2.86)% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
OPERATING CASH FLOW
FOR PERIOD JULY 1, 1976 TO JANUARY 31, 1977

Source of Funds		
Beginning Cash Balance		$ 406,468
Loss from Operations	(5,106,287)	
Non-Operating Revenue	5,088,219	
Excess of Revenue over Expense		(18,068)
Items not Requiring the Outlay of Cash		
Depreciation		968,593
University Support: G & A		2,297,259
K/E Utilities		38,686
Increase in Accrued Expenses		2,468,362
Total Funds Provided from Operations		$6,161,300
Funds Applied		
Transfers to Plant		
Capital Expenditures	992,118	
Increase in Capital Encumbrance	186,868	
		1,178,986
Increase in Accounts Receivable		2,189,239
Increase in Accrued Revenue		752,904
Increase in Inventories		269,977
Transfer for Funded Depreciation Required by MHA		1,203,757
Total Funds Applied		$5,594,863
Total Net Operating Cash Available		$ 566,437 (1)

(1) Available for offsetting future cash need of $1,715,458 to cover net increase in accrued expenses. Net Deficit $1,149,021.

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
INPATIENT CENSUS DATA BY MAJOR CATEGORY
YTD 1/31/77

	Available Beds	Budgeted Days	Actual Patient Days	Average Daily Census	Budgeted Admissions	Actual Number of Admissions	Average Length of Stay	Budgeted Occupancy	Actual Percent Occupancy
Medical/Surgical	520	88,812	86,271	401	9,751	9,784	8.8	76.8	78.3
Pediatrics	129	19,197	19,416	90	2,000	2,010	9.6	69.2	70.0
Obstetrics	15	2,353	2,365	11	436	464	5.4	73.0	73.3
Newborn	20	1,827	1,858	9	365	385	5.0	42.5	43.2
Psychiatry	67	8,202	8,182	38	200	166	41.1	56.9	56.8
Rehabilitation	40	5,200	5,152	24	245	193	21.2	60.5	59.9
Total	791	122,591	123,244	573	12,997	13,002	9.4	72.1	73.2

UNIVERSITY OF MINNESOTA HOSPITALS
7/1/76 to 12/31/76

T & R BAD DEBTS
(Over $2,000)

540227-6	Brooks, Jerry J.	$2,856.05
558131-9	Buesgens, Leonard J.	2,306.31
585697-6	Deming, Jennifer	3,588.70
461350-1 440127-9	Eggenberger, Dorothy	3,971.36 5,783.04
651098-6	Gaslin, Marilyn	3,000.00
581870-3	Herz, James R.	2,316.76
553507-5	Holtan, Agnes T.	2,951.56
546986-1	Kruckow, Lena Belle	3,224.83
527787-6	Lehr, Llewellyn	2,551.95
558514-6	Mathis, Marilyn	4,000.00
390802-7	Rudolph, Lee	2,776.29

T & R BAD DEBTS
(OVER $2,000)

Brooks, Jerry J.
45 year old man on Public Assistance from State of Oregon. Oregon MA limits payment to 21 days which he used. Balance uncollectable.

Buesgens, Leonard J.
Patient expired. Received $1,000 settlement from non-liable son. No estate.

Deming, Jennifer
Family had no insurance and received little help from State. Cashed in life insurance policy to make a cash settlement.

Eggenberger, Dorothy
Bankruptcy. AMAC closed and returned account.

Gaslin, Marilyn
Non-working guarantor who spent most of insurance monies until Hospital started billing directly to insurance. Sending to Collection Agency might cause further health problems per Kathy Countryman. We have assignments for balance.

Herz, James R.
Settlement of $6,000 made on total balance of $8,316.76 as patient unable to pay balance over and above insurance.

Holtan, Agnes T.
Received $2,000 settlement on July, 1975 bill. Patient is now in other hospital for extensive care.

Kruckow, Lena Belle
Made settlement of $400. Patient has no funds. She is 67, her husband 77. All assets are in land and she is on Social Security.

Lehr, Llewellyn
AMAC closed and returned account as patient is deceased and there is no estate.

Mathis, Marilyn
Patient expired. Settled all balances over insurance for $6,353.35.

Rudolph, Lee
Family filed bankruptcy. Medical Assistance covered a portion of the bill.

T & R BAD DEBTS
(Over $2,000)

578698-3	Duchsherer, Tamara	$5,238.82
101192-3	Hansen, Mary Ellen	4,277.79
203140-9	Kosmosky, Darlene	2,223.29
590338-0	Schlegel, Maryellen	3,259.72

T & R BAD DEBTS
(Over $2,000)

Duchsherer, Tamara
Baby from South Dakota. Family had no insurance so applied for help from CCS who had very low funds. They did agree to pay half if we could accept this as payment in full. The child will receive CCS help in the future.

Hansen, Mary Ellen
Patient had kidney transplant in 1973 and has many medical bills. She is disabled. This is the balance left over and above Medicare and insurance payments.

Kosmosky, Darlene
Patient has many medical bills and is unemployed. Kidney transplant. Husband has low income.

Schlegel, Maryellen
Patient had no insurance. Filed bankruptcy.

T & R BAD DEBTS
(Over $2,000)

586570-4	Maki, Adolph	$9,651.36
555333-4	Negaard, Cheryl	$122,079.09
563488-6	Sailer, Arnold	$9,190.55

11/76

T & R BAD DEBTS
(Over $2,000)

Maki, Adolph
File not available.

Negaard, Cheryl
One month old child from Montana admitted 1/6/75 and discharged 4/6/76 with diagnosis of failure to breathe. Montana fund drive paid $2,000, insurance paid $57,241.33, and Montana Medical Assistance paid $35,388.52. The state's MA is limited to 30 days care per year and there are no other sources of Montana public assistance. Father was unemployed; family income of 5 was $6000/yr. Patient died this summer in Montana.

Sailer, Arnold
South Dakota man with no insurance and no money. County commissions paid approximately $4,000 on previous bills and would not pay more. He will not be eligible for Medicare until April of 1977. There is a lien filed on their property, he can't get a loan, and he has no collateral. Family of 8 has income of $500/mo.

T & R BAD DEBTS
(Over $2,000)

572257-4	Hassel, Daniel	$2,747.70
585088-8	Schlumpberger, Agnes	3,013.56
351224-1	Wake, Steven W.	3,983.80

T & R BAD DEBTS
(Over $2,000)

Hassel, Daniel
34-year-old man treated in 1975. Income for family of 2 is $4,000/yr. from sporadic construction jobs. County welfare denied. No savings. Able to borrow $2,000 from parents to settle accounts totaling $6,016.46

Schlumpberger, Agnes
59-year-old woman retired with husband on Social Security income of $137/mo. Denied by County Welfare Department because of excess assets. Had $10,000 in Mutual Funds and was able to borrow $6,338.30 to settle account at 68%.

Wake, Steven
Patient from Illinois. Out of work. AMAC closed & returned account as uncollectable.

UNIVERSITY OF MINNESOTA

Hospitals and Clinics
Board of Governors
Box 502
Minneapolis, Minnesota 55455

February 7, 1977

TO: FINANCE COMMITTEE, BOARD OF GOVERNORS

David Brown, M.D.
Donald Brown
David Cost
Al France
Debbie Gruye
Frederic Kottke
David Preston
John Quistgard, Vice Chairman
John Westerman
Ron Werft
Donald Van Hulzen

Staff

Clifford Fearing, Controller
Johnelle Foley, Secretary
John Diehl, Legal Counsel

FROM: Stanley Holmquist, Chairman

The February meeting of the Finance Committee will be held:

9:00 - 12:00
Wednesday, February 16, 1977
K/E Conference Room

The agenda for the meeting is enclosed. Lunch will be served in Campus Club immediately following the meeting. Please return the enclosed postcard stating whether you can or cannot attend the meeting.

SW/sds

Enclosure

AUDITED FINANCIAL STATEMENTS

UNIVERSITY OF MINNESOTA HOSPITALS

MINNEAPOLIS, MINNESOTA

JUNE 30, 1976

ERNST & ERNST

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CONTENTS

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ERNST & ERNST

FIRST NATIONAL BANK BLDG

MINNEAPOLIS, MINN. 55402

ACCOUNTANTS' REPORT

Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have examined the statement of financial position of the University of Minnesota Hospitals as of June 30, 1976, and June 30, 1975, and the related statements of revenues and expenses and changes in financial position of unrestricted funds and changes in fund balances for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the University of Minnesota Hospitals at June 30, 1976, and June 30, 1975, and the results of their operations and the changes in their financial position and fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

Minneapolis, Minnesota
October 15, 1976

STATEMENT OF

UNIVERSITY OF

	June 30 1976	June 30 1975
ASSETS		
CURRENT ASSETS		
Cash working funds	$ 31,845	$ 31,845
Cash and investments - Note B	4,601,807	2,793,462
Patient receivables, less allowances for possible losses in collection (1976 - $2,600,000; 1975 - $2,400,000)	14,066,642	11,711,679
Contractual adjustments receivable from third-party payor reimbursement programs - Note D	484,723	129,746
Other receivables	221,067	336,905
Inventories of drugs and supplies	1,821,002	1,325,565
TOTAL CURRENT ASSETS	$21,227,086	$16,329,202
LONG-TERM INVESTMENTS - Note B	10,657,298	10,530,000
PLANT AND EQUIPMENT - Note C		
Cash and investments for construction - Note B	$ 1,590,166	$ 1,472,017
Construction in progress	1,284,495	2,135,138
Buildings and improvements	25,586,136	23,096,041
Equipment	11,825,130	10,222,119
Less allowances for depreciation	(18,103,346)	(16,706,154)
	$22,182,581	$20,219,161
RESTRICTED FUNDS - Note B		
Cash and investments - current accounts	$ 537,835	$ 691,681
Cash and investments - principal accounts	7,713,728	7,361,526
	$ 8,251,563	$ 8,053,207
	$62,318,528	$55,131,570

FINANCIAL POSITION

MINNESOTA HOSPITALS

	June 30 1976	June 30 1975
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Trade accounts payable	$ 859,914	$ 537,498
Accrued salaries and wages payable including amounts withheld and taxes thereon	1,848,899	724,887
Accrued vacation payable	1,728,811	1,465,823
Accrued professional services	645,971	238,590
TOTAL CURRENT LIABILITIES	$ 5,083,595	$ 2,966,798
FUND BALANCES		
Unrestricted funds:		
Operating funds	$11,946,682	$11,527,808
Reserve funds	14,854,107	12,364,596
Plant funds	22,182,581	20,219,161
	$48,983,370	$44,111,565
Restricted funds:		
Gift funds	$ 537,839	$ 560,098
Endowment funds	7,713,724	7,493,109
	$ 8,251,563	$ 8,053,207
	$57,234,933	$52,164,772
CONTINGENT LIABILITIES AND COMMITMENTS - Notes D through F		
	$62,318,528	$55,131,570

See notes to financial statements.

STATEMENT OF REVENUES AND EXPENSES OF UNRESTRICTED FUNDS

UNIVERSITY OF MINNESOTA HOSPITALS

	Year Ended June 30 1976	1975
Patient service revenue	$61,947,822	$51,517,872
Less:		
Net professional fees billed by the Hospitals	$ 642,243	$ 604,502
Allowances and adjustments (after deduction of related transfers from restricted funds: 1976 - $11,839; 1975 - $46,921) - Note D	2,875,225	2,527,641
	$ 3,517,468	$ 3,132,143
NET PATIENT SERVICE REVENUE	$58,430,354	$48,385,729
Other operating revenue (including amounts transferred from restricted funds: 1976 - $47,894; 1975 - $130,012)	1,199,015	1,339,100
TOTAL OPERATING REVENUE	$59,629,369	$49,724,829
Operating expenses:		
Salaries and wages including fringe benefits	$43,629,889	$36,812,528
Supplies, drugs and other operating expenses	17,789,532	15,086,111
Provision for University administrative and general services and expenses	3,612,000	2,500,000
Provision for depreciation	1,547,449	1,437,753
TOTAL OPERATING EXPENSES	$66,578,870	$55,836,392
LOSS FROM OPERATIONS	($ 6,949,501)	($ 6,111,563)
Nonoperating revenue:		
State appropriations and support	$ 7,004,635	$ 6,262,075
Unrestricted investment income	951,527	910,621
TOTAL NONOPERATING REVENUE	$ 7,956,162	$ 7,172,696
EXCESS OF REVENUES OVER EXPENSES	$ 1,006,661	$ 1,061,133

See notes to financial statements.

STATEMENT OF CHANGES IN FUND BALANCES

UNIVERSITY OF MINNESOTA HOSPITALS

	Year Ended June 30 1976	Year Ended June 30 1975
UNRESTRICTED FUNDS		
Balance at beginning of year	$44,111,565	$41,386,596
Add (deduct):		
Excess of revenues over expenses	1,006,661	1,061,133
Contribution of University administrative and general services and expenses	3,612,000	2,500,000
Transfers from restricted funds to plant funds	125,508	182,197
Adjustment to hospital-shared facilities, net of accumulated depreciation	117,527	2,943,095
Transfer from University funds to Hospitals' operating fund	83,087	-
Transfer of unexpended plant funds to restricted funds	-	(478,000)
Transfer of reserve funds to University plant funds for construction	(73,200)	(3,500,000)
Other transfers - net	222	16,544
BALANCE AT END OF YEAR	$48,983,370	$44,111,565
RESTRICTED FUNDS		
Balance at beginning of year	$ 8,053,207	$ 7,386,941
Add (deduct):		
Restricted gifts received	61,068	31,581
Restricted income from investments	345,189	583,652
Transfer of unexpended plant funds to restricted funds	-	478,000
Transfers to plant funds	(125,508)	(182,197)
Transfers to non-hospital funds	(22,660)	(67,837)
Transfers to operating funds	(59,733)	(176,933)
BALANCE AT END OF YEAR	$ 8,251,563	$ 8,053,207

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION OF UNRESTRICTED FUNDS

UNIVERSITY OF MINNESOTA HOSPITALS

	Year Ended June 30 1976	Year Ended June 30 1975
FUNDS PROVIDED		
Loss from operations	($6,949,501)	($ 6,111,563)
Add items not requiring the outlay of working capital:		
Provision for University administrative and general services and expenses	$3,612,000	$ 2,500,000
Provision for depreciation	1,547,449	1,437,753
	$5,159,449	$ 3,937,753
FUNDS REQUIRED FOR OPERATIONS	($1,790,052)	($ 2,173,810)
Nonoperating revenue	7,956,162	7,172,696
FUNDS DERIVED FROM OPERATIONS AND NONOPERATING REVENUE	$6,166,110	$ 4,998,886
Transfers from restricted funds to plant funds	125,508	182,197
Transfer from University funds to Hospital operating fund	83,087	-
Adjustment to Hospital-shared facilities, net of accumulated depreciation	117,527	2,943,095
Other transfers - net	222	16,544
Decrease in working capital	-	3,316,551
	$6,492,454	$11,457,273
FUNDS APPLIED		
Increase in long-term investments	$ 127,298	$ 2,030,000
Additions to plant fund - net	3,510,869	5,449,273
Transfers:		
Reserve funds to University plant funds	73,200	3,500,000
Unexpended plant funds to restricted funds	-	478,000
Increase in working capital	2,781,087	-
	$6,492,454	$11,457,273
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and investments	$1,808,345	($ 4,332,291)
Patient receivables	2,354,963	530,761
Contractual adjustments receivable	354,977	86,968
Inventories of drugs and supplies	495,437	445,433
Other receivables	(115,838)	67,169
	$4,897,884	($ 3,201,960)
Increase (decrease) in current liabilities:		
Trade accounts payable	$ 322,416	($ 197,125)
Accrued salaries and wages	1,124,012	190,623
Accrued vacation payable	262,988	349,680
Accrued professional services	407,381	(64,712)
Current portion of long-term note payable	-	(163,875)
	$2,116,797	$ 114,591
INCREASE (DECREASE) IN WORKING CAPITAL	$2,781,087	($ 3,316,551)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

UNIVERSITY OF MINNESOTA HOSPITALS

June 30, 1976

Note A - ACCOUNTING POLICIES

The University of Minnesota Hospitals include Mayo Memorial Hospital, Variety Club Heart Hospital, Children's Rehabilitation Center and Masonic Memorial Hospital, all of which are located on the Minneapolis Campus of the University of Minnesota.

To conform to limitations or restrictions placed on the use of financial resources available to the University, the accounts are maintained by the University in accordance with the principles of fund accounting. Net resources are classified for accounting and reporting purposes into funds in accordance with certain objectives with separate accounts maintained for each fund. In the accompanying financial statements, assets, liabilities and fund balances of funds identified with the Hospitals which have similar characteristics have been combined.

Investments are carried at the lower of aggregate cost or fair market value. All investments are managed by the University. The Hospitals receive investment income from the University based on units of investment in University investment pools, except for income on the temporary investments which is not allocated to University departments. Unrealized gains on amounts invested are recognized by the Hospitals when they withdraw funds from the pools. (See Note B.)

Inventories are valued at the lower of cost or market (replacement value) on a first-in, first-out method.

Plant and equipment are carried at cost or fair market value as of the date acquired by the University. Depreciation is determined using an accelerated method on assets acquired by the University prior to July 1, 1969 and using the straight line method on additions since that date. Estimated useful lives of the assets are generally consistent with American Hospital Association guidelines.

Buildings and improvements	8-62 years
Equipment	3-25 years

The allocation of plant to the Hospitals and the applicable depreciation is determined annually based on square footage of University buildings occupied by the Hospitals.

Funds restricted by sources external to the University are distinguished from unrestricted funds and funds allocated to specific purposes by action of the governing board. Endowment and gift funds are subject to the restrictions of the gift instruments.

Patient service revenue is recorded at established rates. Adjustments are made for uncollectible accounts, charitable care and third-party contractual allowances - see Note D.

Note A - ACCOUNTING POLICIES (Cont'd)

The estimated allowance for doubtful patient accounts receivable has been provided based upon an evaluation of the accounts and the collection experience of the Hospitals.

Income from restricted assets is retained in restricted funds until expended. When restricted funds are expended for operating purposes the amount is transferred as income to patient service revenue or other operating revenue in unrestricted funds. When restricted funds are expended for plant and equipment, the amount is transferred directly to the plant fund. Income from unrestricted assets and state support revenue is recorded as non-operating revenue in the year earned or appropriated.

The estimated cost of general and administrative services of the University is provided for in the operating expenses of the Hospitals. Since the Hospitals do not reimburse the University for the cost of these services they are shown as a contribution to the unrestricted funds of the Hospitals. The Hospitals do reimburse certain University departments for specific services and supplies purchased from them.

Note B - CASH AND INVESTMENTS MANAGED BY THE UNIVERSITY

Cash and investments exclusive of cash working funds reflected in the Hospitals' financial statements represent amounts encumbered for future expenditure by the Hospitals. They are managed by the University and invested in University investment pools as follows:

	June 30	
	1976	1975
Temporary investment pool	$ 6,729,808	$ 4,957,160
Group income pool	10,657,298	10,530,000
Endowment and similar funds investment pool	7,713,728	7,361,526
	$25,100,834	$22,848,686

Cost approximates market value of the temporary investment pool. The market values of the group income pool and the endowment and similar funds investment pool were approximately $10,755,000 and $7,425,000, respectively, at June 30, 1976.

Note C - PLANT AND EQUIPMENT

The Hospitals share facilities with other departments of the University. A summary of the University plant and equipment accounts of hospital and hospital-shared facilities is as follows:

	June 30 1976	June 30 1975
Receivables for construction	$28,675,088	$25,064,255
Cash and investments for construction	1,326,207	6,963,633
Construction in progress	10,900,780	4,902,914
Buildings and improvements	40,064,203	37,592,624
Equipment	11,966,545	10,222,119
	$92,932,823	$84,745,545
Less accumulated depreciation	23,402,119	21,509,452
	$69,530,704	$63,236,093
Less that portion not controlled or occupied by the Hospitals	47,348,123	43,016,932
	$22,182,581	$20,219,161

In addition to the above the Hospitals have committed to fund approximately $13,000,000 of University Health Sciences construction and improvement projects estimated at $47,000,000.

Note D - CONTRACTUAL ADJUSTMENTS AND SETTLEMENT WITH THIRD-PARTY REIMBURSEMENT PROGRAMS

The Hospitals provide care for patients under provisions of Title XVIII (Medicare) and Titles V and XIX (Medical assistance) of the Social Security Act of 1965 as amended and certain other grant programs. The agreements between the Hospitals and the agencies generally provide for payment for covered services at agreed interim rates with annual settlement based on charges or reimbursable costs. Reported costs relating to such services are subject to audit by these agencies. Retroactive adjustments under these agreements have been estimated and provided for in the accounts.

Note E - PENSION EXPENSE

All employees of the Hospitals meeting age and length of service requirements participate in civil service (Minnesota State Retirement System) or faculty (University of Minnesota) pension plans. The plans require contributions by both the employer and employees. Pension expense of the University Hospitals for the years ended June 30, 1976 and 1975 were $1,789,000 and $1,383,000, respectively, which includes amortization of prior service cost through 1997.

Note E - PENSION EXPENSE (Cont'd)

As of the latest valuation date, June 30, 1975, the actuarially determined prior service cost of the Minnesota State Retirement System was approximately 60% funded. The Faculty Retirement Plan of the University of Minnesota is a deferred contribution plan and is fully funded. The dollar excess of the actuarially computed value of vested benefits over fund assets as of June 30, 1976 of the Civil Service plan applicable to the Hospitals was not determinable.

Note F - OTHER CONTRACTS AND COMMITMENTS

The Hospitals have contracts with the University Medical Schools for the services of residents and medical school staff in direct patient care, in service education and administrative duties within the Hospitals. Total expense for such services, including services of interns for 1976, for the years ended June 30, 1976 and 1975 was $3,2[illegible] and $2,267,000, respectively. The cor[illegible] commitments are reviewed annually and are estimated at approximately $3,496,000 for the year ending June 30, 1977.

Rental expense of the University Hospitals for the years ended June 30, 1976 and 1975 was $924,000 and $685,000, respectively. Minimum rental commitments, including those with other departments of the University, for the year ending June 30, 1977, are approximately $1,100,000.

Note G - SOVEREIGN IMMUNITY

On October 31, 1975 the Minnesota Supreme Court ruled that the defense of "sovereign immunity" would no longer be recognized in Minnesota courts. This decision, Nieting vs. Blondell affecting the University, stated that August 1, 1976 would be the effective date of the removal of sovereign immunity as a defense in negligence claims. On February 19, 1976, the Hennepin County District Court held that the University should be immediately removed from the protection of sovereign immunity in the case of Miller et al vs. Regents of the University of Minnesota et al. The University is currently appealing that portion of the District Court's ruling and is requesting that the effective date of August 1, 1976, established by the Supreme Court in the Nieting decision, be followed.

The University is covered by comprehensive liability insurance as of August 1, 1976. The anticipated increase in insurance cost to the Hospitals is in excess of $1,500,000 for the year ending June 30, 1977.

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

December 10, 1976

Mr. Donald Brown
Vice President of Finance, Planning & Operations
University of Minnesota
301 Morrill Hall

Dear Mr. Brown:

Enclosed please find a copy of the University of Minnesota Hospitals response to the Ernst and Ernst management letter of October 15, 1976. We have reviewed their comments and concerns and have provided you with our appropriate response. Overall we think their comments were appropriate and will lead toward a more effective operation of University of Minnesota Hospital systems once the proposed and/or planned changes have been implemented.

In addition, we have reviewed Ernst and Ernst's audited financial statements and are in general agreement with the statements and the footnotes attached thereto. The adjustments that Ernst and Ernst has made have been agreed to, and we will be making the necessary changes to our preliminary financial statements issued in August of 1976.

We have again appreciated the opportunity to work with Ernst and Ernst in their audit and review of our internal systems. If you have any questions regarding the financial report and/or the management letter which are not fully explained, please contact me at your convenience.

Sincerely,

Clifford P. Fearing
Controller

CPF/tr

enc.

cc: Clint Johnson
Sterling Garrison
Maynard Wood
Bob Benner
Nels Larson
Don Van Hulzen
John Westerman
Dan Rode
Bob Baker
Bob Dickler
Tom Jones

THIRD PARTY REIMBURSEMENT

Ernst and Ernst's Comment
The Hospitals continue to make progress toward effecting final settlement of third-party payor programs (Blue Cross, Medicare, and Medicaid). Final settlements have not been made for years after June 30, 1972, but audits have been started for fiscal years 1973 and 1974. The Hospitals have been given tentative settlements or interim payments (subject to audit) representing all or most of the amounts due for all open years.

A number of our recommendations regarding third-party reimbursement have been implemented by the Hospitals including the initiation of revenue and statistical billing logs for all third party reimbursement programs. These provide a base to make more reliable estimates of third-party settlements.

University of Minnesota Hospitals' Response
At this time, the Hospital is still awaiting adjustment reports relating to the Medicare audits for fiscal years 1972-73 and 1973-74. Until such time as the Hospital receives these adjustment reports, there can be no further progress in reaching final settlement with Blue Cross, Medicare and Medical Assistance. The Medicare audit of fiscal year 1974-75 has not been started as of this date.

The Hospital has been able to implement computer based revenue and statistical logs to accumulate relevant third-party reimbursement data.

MEDICAL RECORDS AND PATIENT FINANCIAL FILES

Ernst and Ernst's Comment
Although their frequency has diminished, we continue to find exceptions in our review of medical records as they relate to patient billing (i.e. services indicated as rendered and not billed or services billed and not indicated as rendered). We recommend that personnel in the patient accounting or Hospital accounting area, who are familiar with patient charges, be given the duty to routinely and systematically review the medical records, as they relate to patient billing. Documentation of these reviews and the clearing of exceptions noted would significantly improve the patient accounting system internal controls.

University of Minnesota Hospitals' Response

The discrepancies between the medical record and the financial file have been noted both by the Business Office and audits done by Medicare and Blue Cross. The Business Office is actively working with medical staff, Nursing, ancillary departments, and Medical Records to present the actual picture in both files. Our reviews indicate that we are making substantial progress to this end both in these projects and in educating the staffs (especially the medical staff) to the discrepancy and the problem it presents. An active review of charts versus files would require the hiring of additional personnel and cannot, at this time, be justified for the number of occurrences. Making use of occasional internal and the external audits that occur as well as the chart review that we do in the normal occurrence of billing should allow the ends that Ernst and Ernst is seeking.

As the system for collecting charges becomes more and more sophisticated, we will be able to record in both files at the same time the information indicating that service has been given from both a medical and financial standpoint.

BUDGETING

Ernst and Ernst's Comment
The projections for admissions, patient days and outpatient clinic visits for 1976-77 were the same as those projections for 1975-76. These projections are used by most departments for budgeting purposes and should be based on a thorough analysis which should include physician interviews and surveys of population trends in the primary and secondary service areas and continuing re-evaluation of the Hospitals actual service areas. Basing budget and statistical projections primarily on historical data does not consider the potential impact of known or anticipated demographic changes.

Among the benefits of periodic analysis is the additional information which can be obtained. For example, physician interviews can reveal why some physicians are not referring or admitting patients to the Hospital. A well planned interview or survey can, therefore, be quite enlightening beyond the immediate objective of fine-tuning the projection of overall Hospital demand.

We are aware that such interviews are currently being performed on at least an informal basis, however, the information is not always communicated either formally or informally to personnel involved in the budgeting process.

We suggest that the budget packet include worksheets designed to encourage department heads to prepare departmental activity projections based on the overall demand forecasts. A worksheet would show departmental units of service per inpatient and outpatient overall demand statistics, e.g. EKG's per admission. These trends of intensity factors (i.e. 1.2 EKG's per admission) could then be analyzed and, coupled with the department head's knowledge of a service, would enable the projected intensity factor to trigger total units of service. In addition, we suggest that supply or other non-wage expenses be related to units of service on these worksheets. By combining the departments heads' knowledge of price and usage changes and historical data, a per unit of service expense figure could be developed. This figure could then be extended by total units of service to arrive at total expense figure.

University of Minnesota Hospitals Response
The activity levles projected for 1976-77 were based on data provided through the Hospitals' Clinical Chiefs (physicians) together with the Hospitals' Administrative staff. At the time the budget was being formulated, there was no significant change anticipated in the scope or level of services provided.

The development of departmental projections based specifically in inpatient/ outpatient activity or upon key point of service information (i.e. procedures generally requested at the time of admission) is indeed useful as a budget tool.

It is our intention that as our budget program develops, there will be an increasing effort to identify projected expenses by unit of service so that for a given level of activity the budgeted revenue and budgeted expenses correlate and that variances from budget are more easily defined.

ACCOUNTING FOR INVESTMENTS

Ernst and Ernst's Comment

Realized gains and losses on the sale of investments are currently netted against the earned income on investments. We recommend that a separate account be set up to record gains or losses to more readily determine the reasonableness of the return on investments in preparing financial statements and budgeting.

University of Minnesota Hospitals' Response
Although the management and accounting of investments is within the University Administration, the Hospital can obtain the relevant data from Campus and identify (through a reclassification entry) the appropriate realized gains and losses on the sale of investment within the Hospital trial balance and financial statements.

ACCOUNTS RECEIVABLE - ALLOWANCE FOR BAD DEBTS

Ernst and Ernst's Comment
Our review of patient accounts receivable and the allowance for bad debts resulted in an adjustment to the allowance. We suggest that bad debt exposure areas be analyzed as well as reviewing the total change in patients accounts to determine the reasonableness of the allowance balance.

We also suggest that charge offs be related to the financial class of accounts and year the revenue was generated in order to develop more reliable historical charge off statistics for estimating bad debt experience on the basis of the amount and mix of revenue generated.

University of Minnesota Hospitals' Response
Additional analysis of bad debts will occur as we begin to reap the benefits of the Patient Accounting System update which is currently being developed by the task force so charged. One item that will be produced is aging of accounts that will give us the ability to isolate accounts to the point of performing the type of analysis suggested by Ernst and Ernst.

Once the above is accomplished, we will then have the ability to set a bad debt allowance that had bad debt historical statistics and will permit an allowance more in line with the type that Ernst and Ernst suggests. Such an analysis will also be helpful in the application of our Hill-Burton project.

INVENTORY

Ernst and Ernst's Comment
We noted that there was inadequate security over supplies stored in the storage area located off of the loading dock in Building K/E. We recommend that a tighter control over this area be initiated (i.e. wire mesh or camera surveillance, etc.)

In addition, certain supply inventories are not taken (i.e. blood and blood derivitives, radiology supplies, laundry and linen, etc.). We recommend that these items be inventoried periodically for control purposes.

University of Minnesota Hospitals' Response
Temporary provisions have been made to patrol the K/E dock area by the Hospitals Safety and Security personnel. Later this year, caged storage areas are scheduled to be erected within the dock area to provide better control over this area. The Hospitals are currently engaged in the planning of an off-site bulk storage warehouse that will provide better control of inventories and also relieve much of storage occurring on the K/E dock.

Departmental supply inventories will begin to be examined in order to define the scope of a program necessary to provide satisfactory control. The Laundry and Linen areas are currently under study and an inventory of linen items is scheduled for December.

PROPERTY, PLANT AND EQUIPMENT

Ernst and Ernst's Comment
The University Hospitals capitalize certain equipment and remodeling costs, which the University may expense and vice versa. We suggest that the Hospitals' and University's property accounting departments coordinate their efforts and develop and set up accounting procedures that will be consistent for both departments in capitalizing costs.

As an interim measure a detailed reconciliation of differences should be prepared.

University of Minnesota Hospitals' Response
An effort is already under way to examine some of the reconciliation problems cited during the audit. A review of data is being conducted by both Hospital and University personnel to identify specific differences in capitalized expenditures.

With this review will be an examination of alternative policies and procedures that may serve to identify specific differences in amounts recorded recognizing the different reporting requirements of each entity.

OPERATIONS

Ernst and Ernst's Comment
Certain departments (e.g. material service and central sterile processing) record all purchases of inventory in the expense classes. Although a physical inventory is taken at the end of the year, and the inventory and the related expense accounts are adjusted for the actual inventory on hand, the expense classes are overstated during the year. In order to obtain a better control over purchases and the allocating of these costs to the user departments, inventory accounts should be used to record all purchases.

University of Minnesota Hospitals' Response

The Hospital is currently engaged in a coordinated effort through Campus to establish inventory accounts for its major supply inventories. Purchases will be made into these accounts and dispensings will be made into a related "cost of goods sold" account. It is hoped that these accounts can be implemented and that the procedures will be operational by June 30, 1977.

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
March 16, 1977

Present: Stanley Holmquist, Chairman
David Cost
Al France
Debbie Gruye
David Preston
Donald Van Hulzen
John Westerman

Absent: David Brown, M.D.
Donald Brown
Frederic Kottke, M.D.
John Quistgard, Vice Chairman
Ron Werft

Staff: Clifford Fearing
John Diehl
Johnelle Foley

Guests: Judy Kaegy
Nehls Larson
Bruce McFadden

The meeting of the Finance Committee of the Board of Governors was called to order by Chairman Holmquist at 9:10 A.M., in the K/E Conference Room.

I. Approval of the February 16, 1977 Minutes

Mr. France moved that the minutes of the last meeting be approved. Ms. Gruye seconded the motion and it was passed.

II. Payroll Audit Status

Mr. Fearing reported to the Committee that consideration has been given to the best way to proceed with a payroll audit. He sugguested that an audit and documentation of current practice and procedure be done at the time of the normal annual audit and that plans be made to "pull the payroll". This plan would involve internal university auditors and could be implemented in July or August.

The benefits of a payroll audit were discussed by the Committee. It was pointed out that it is good financial policy and procedure to conduct a payroll audit every few years to make sure that there are no problems within the system. Mr. Cost, who had expressed interest in such an audit, commented that he was satisfied with the plan for its accomplishment.

III. Budget Guideline Approval

Mr. Fearing referred the Finance Committee to the proposed general budget guidelines for the 1977-78 budget including a few minor changes for the earlier draft. Mr. France commented that the inconsistencies in the guidelines which had been identified earlier appeared to be resolved. Mr. Fearing explained that because this was the first time that the Finance Committee and the Board were involved in the complete budget development process, it was felt that it would be helpful to provide a total basis of understanding regarding the financial practices which were followed in putting the budget together. In response to a question from Chairman Holmquist pretaining to specific guide #6, Mr. Fearing stated that it was unlikely that B/C implications to the budget would appear before 1978-1979.

IV. Budget Projections - Annual Plan 1977-1978

Mr. Fearing introduced the projected budget for 1977-78, by commenting that many assumptions were made in its development. He pointed out that the affects of salary increases had to be estimated as there was no decision from the legislature on the state pay plan. He mentioned that in many cases departmental projections have been accepted but require further scrutiny to assure their accuracy. He added that the projected budget represents reasonable estimations which may be adjusted with further investigation and more information.

In initiating the examination of the Comparative Statement of Operations, Mr. Fearing indicated that the impact of the January 1, 1977 rate increase reduced the required increase for 1977-78 fiscal year to 6.61%. He added that there will be approximately

$690,000 of expense for salaries and supplies which are not funded by the 6.61% rate increase. The 6.61% rate increase was calculated to be the necessary amount to finance a role forward inflationary budget only. He also mentioned that the 10.9% increase in Routine and Ancillary charges is based on some volume increase, the 6.61% rate increase and the carry-forward of the January 1, 1977 rate increase. He commented that Professional Feees represented a pass-through item i.e., charges made for physician services with revenue transferred to the physician under a billing contract. Mr. Preston inquired as to how patient days were projected by the budget office. Mr. Fearing responded that the Clinical Chiefs were asked to estimate their expected average length of stay and number of admissions. He commented that this resulted in projected patient days of about 240,000, far above any historic experience. A re-evaluation of these estimates resulted in a projected reduction in average length of stay from 9.4 to 9.2 days and a .69% increase in projected patient days over last year. He concluded that admissions continue to increase while the length of stay is shortening.

In looking at Other Operating Revenue, Mr. Fearing suggested that the re-opening of the cafeteria will result in an increase in Food Service Revenue. He suggested that the Powell Hall revenue requires more examination and that Non-Patient revenue item is affected by the increasing prices for drugs sold for research projects. He mentioned that the Lab Reference Income reflects the increasing laboratory activity.

In terms of Expenditures, Mr. Fearing reported that Salaries include roll-forward considerations as well as a 4% cost of living increase in July of 1977, and a 3.75% cost of living increase in January. He explained that the increase in Fringe Benefits is the result of an expected change in the State pay plan which would provide for additional health insurance payments for dependents and a provision for dental care. He also explained that while industry does, hospitals do not ususally include Vacations under Fringe Benefits. Chairman Holmquist asked if the Clinical Chiefs have been allowed maximum input into the development of the budget. Mr. Fearing explained that the budget process was not yet completed and that Clinical Chief involvement would continue with the finalization of the budget.

Mr. Cost inquired as to the perrogative of the Board with regard to the management pay plan. Mr. Preston explained that the Legislature is attempting to tighten up and even out the state pay plan for the various groups such as faculty, managers, and civil servents. Mr. Westerman commented that the system is flexible enough to respond to the market place and retain people. Chairman Holmquist asked what authority the Board of Governors has in terms of salaries. It was pointed out that the Board could recommend increases to the Board of Regents if it so desired. Mr. Westerman suggested that he could provide the Committee with an analysis of the status and rationale for the management salaries at a future meeting.

With Linen and Laundry, Mr. Fearing commented that 7% of its increase could be attributed to inflation while the rest involved enhancing the linen inventory. He reported that a study was recently conducted in this area and indicated that the consultants report suggested a possible reduction in cost of $150 - 175,000 if University Hospitals would operate the University Laundry and incorporate certain efficiencies. The decline in expenditures for Raw Foods was explained as resulting from terminating the current food service purchase contract required during the remodeling project. Mr. Fearing noted that he had no solid explanation for the increase in expenditures for drugs and indicated that he would be investigating this matter further. A new hemophiliac program in the Blood Bank is viewed as accounting for the volume increase in Blood and Blood Derivatives. He sited an 8% inflation factor and new devices in the OR, Radiology and other areas as the reason for increased expenditures under Medical Supplies. Mr. Fearing also explained that the Utilities item is estimated by the University centrally.

Mr. Fearing stated that a middle of the road stance was selected as the best strategy in terms of Insurance since there existed so much uncertainty as to what will happen to the program and its costs. Mr. Diehl commented that recent testimony at the Legislature indicated that St. Paul Companies may reduce their rates in response to the Minnesota Hospital Association captive insurance company. Mr. Fearing went on to explain that Rent Expense involved the rental of computer components and warehouse space and inflation. Mention was made that a warehouse study is being conducted, the results of which will go through the appropriate committees to the Board. Maintenance and Repair were said to involve the service contract on the maintenance of the computer and Powell Hall renovations. It was pointed out that this item did not deal with JCAH recommended improvements, because those were contained in the capital budget. Communications was noted to be strictly and inflationary affect.

The reduced expenditure for Campus Administration Expense was explained as a Central Administration adjustment identified by NIH auditors. The total facts in this case are not yet known.

Under Non-Operating Revenue, Mr. Fearing noted that the Interest on Reserves showed a decrease because reserves will be spent on capital projects in the coming year. Mr. France inquired about why the budget would be projected with a deficit. Mr. Fearing mentioned that this would be explained in the Cash Flow Statement. Mr. France also inquired as to the status of the Governors proposal to fund Medical Research. Mr. Preston explained that the subject was presently in limbo and added that such funding would probably go to the Medical School or School of Public Health.

At Chairman Holmquists' request, Mr. Preston, as Chairman of the Search Committee for the University Vice President for Finance and Development, reported on the committee's status. He stated that the committee began functioning in November and that it was large in size with good faculty, administration, and outside representation. He mentioned that the Hospitals were well represented with Mr. Atwood serving as a member and Ms. Foley staffing the committee. Mr. Preston explained that it was a nationwide search which has illicited over 200 applicants which to date, has been narrowed to 20 candidates. He indicated that they hope to provide President McGrath with a list o 8 unranked possibilities shortly after April 1st. Chairman Holmquist commented that he hoped locals were not excluded from consideration.

Mr. Fearing next referred the Finance Committee to page 5 of the Blue Book to examine the Projected Cash Flows. He explained that the statement indicated that the Hospitals would be $690,000 short of the planned $4 million net cash flow. He interjected that this calculation was based on 95 days revenue in accounts receivable. The Committee then discussed the advisability of budgeting less than the full $4 million.
Mr. Van Hulzen explained that the short-fall presented the management team with a challenge to cut costs back during the year rather than raise rates. It was explained that the $690,000 represents new program costs and thus if the budget is to be reviewed as a pure roll-forward and inflation budget, those costs should be funded in a manner other than through rate increases. Mr. Preston asked if an accounting entry to off-set budgeted expenses could be made to achieve the planned cash flow. Mr. Fearing suggested that that would be difficult in terms of general accounting practices. Mr. Van Hulzen stated that a list could be provided to the Committee which would indicate areas, such as Laundry and Linen, were reductions in costs may be made. Mr. Fearing indicated that if decisions are made in these areas before May, they could be factored out of the specific expense budgets. It was pointed out that this budget is 60 days ahead of the cycle for Rate Review requirements, but because of that, it is very preliminary and less certain. Mr. Van Hulzen added that budgeting a specific cost reduction goal ($690,000) encourages more programmatic examination of costs and promotes improved long-term efficiences.

It was decided that the Finance Committee would bring the projected budget before the Board with the explanation that it is very preliminary, requiring further investigation by the Finance Committee. Chairman Holmquist reminded the Committee that the Board had last year requested increased involvement in the budget process.

The Committee briefly examined the positions on page 7. Mr. Westerman stated that these were replacement positions reflecting a 0 net additions. Mr. France asked what would occur if management failed to contain costs to eliminate the cash flow short-fall. Mr. Fearing responded that a second rate increase might be required. On page 6, the Committee examined the Funding of Cash Flow Requirements. Mr. Fearing also noted that page 7 to 14 pretained to the financial detail supporting those programs identified in the Annual Plan for 1977-1978. He further mentioned that Schedule III programs were those which have not yet been approved and were defered as the Management Committee awaits additional information.

In concluding the projected budget preparation, Mr. Fearing suggested that because the budget guidelines assume accomplishment of the $690,000 cost reduction goal, approval should probably be deferred.

V. Controllers Report - February, 1977

Mr. Fearing referred the Committee to the Controller's Report for the Period July 1, 1976 through February 28, 1977. Essentially, Mr. Fearing read from the report (see attached) which indicated that if present trends continue and expenditures are controlled, it is still anticipated that University Hospitals will achieve its projected financial position by June 30, 1977. In reviewing the financial statements, Mr. Fearing briefly pointed out that the revenue under expenses variance equals (1.6%) of the total budget revenue. He mentioned that this figure will probably be .08% by the end of June.

VI. Debt Financing Study Status

Mr. Van Hulzen reported that the various proposals submitted by consulting firms to conduct the debt capacity analysis study were reviewed and evaluated, and that Ernst and Ernst was selected to do the study. He indicated that the study would take from 3-4 months at a cost of $60,000 and should result in a clearer understanding of the Hospitals' ability to finance debt obligations. The study should also evaluate the

Hospitals' efficiency as a producer. Mr. Van Hulzen commented that he is looking forward to working on the study because a gentleman with an excellent national reputation has been assigned to the project by Ernst & Ernst. He also mentioned being impressed with their approach to the study which will outline reasonable options for Board scrutiny at different stages in capital project planning. Mr. Van Hulzen explained that essentially the study should describe how to finance \$25 million in capital projects by the end of the calendar year. He added that this is short of a financial feasibility study required by a bond prospectus. He noted that the study would allow the Board to look at different funding sources and determine which is best with least cost impact to the patient. Mr. Van Hulzen stated that he would keep the Finance Committee informed of the study's progress.

There being no further business, Chairman Holmquist recessed the Finance Committee to lunch and the presentation of University Hospitals comparative analysis and cost differential.*

Respectfully submitted,

Johnelle Foley /bs

Johnelle Foley
Secretary

*For those Board members not in attendance for the above mentioned luncheon meeting, a recording of the presentation is available in the Board of Governors Office upon request.

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

March 16, 1977

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing, Controller C. Fearing

SUBJECT: Controller's Report for Period July 1, 1976 through February 28, 1977 - February Activity

The February financial statements continue to reflect stability in most areas of the Hospitals' operation. There were, however, several factors affecting both the actual and budgeted financial positions that are of significance and are outlined below.

The February year-to-date inpatient census is currently 1,060 days below our revised projections based on December year-to-date operations. Patient days, year-to-date through February, were budgeted at 140,349 but actually totaled 139,289. For the month of February, patient days were budgeted at 16,792 but the Hospital only achieved 16,049. Admissions for February were 1,746 and our occupancy fell to 72.7% for the month. The year-to-date occupancy level is 73.1%.

Many adjustments were made by management to bring the operating budget into line with our projections for year end. The most significant of these changes were made to general supply budgets. An annualized total of $675,890 was deducted from departmental budgets.

The combined effect of our reduced patient day census, which has lowered our anticipated income level, and the budget reductions made in several of the expense categories leaves the Hospital with the variance of expenses over revenue equal to only 1.6% of total budgeted revenue.

The year-to-date increase in accounts receivable continues to reflect the impact of the January, 1977 rate increase. The accounts receivable rose $183,346 to a total of $19,486,456 during February which represents 102.1 days of revenue outstanding.

Over the last several years, the Hospitals' census level typically increases during the last four months of the fiscal year so that we actually experience better than 34% of our patient days during that period. If that kind of trend follows through for this year and we can continue to control our expenditures at their current levels, it is still anticipated that we will achieve our projected financial position by June 30, 1977.

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO FEBRUARY 28, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$45,716,118	$45,473,031	$(243,087)	(0.5)%
Deductions from Charges	3,032,911	2,875,210	(157,701)	(5.2)%
Other Operating Revenue	727,144	879,901	152,757	21.0 %
Total Rev from Operations	$43,410,351	$43,477,722	$ 67,371	0.2 %
Expenditures				
Salaries	$24,303,024	$23,966,903	$(336,121)	(1.4)%
Fringe Benefits	3,927,153	3,968,053	40,900	1.0 %
Contract Compensation	4,267,030	4,144,056	(122,974)	(2.9)%
Med Supplies,Drugs,Blood	6,834,163	6,378,175	(455,988)	(6.7)%
Campus Admin Expense	1,834,980	2,596,437	761,457	41.5 %
Depreciation	1,087,161	1,106,959	19,798	1.8 %
General Supplies & Expense	6,295,622	7,175,706	880,084	13.9 %
Total Expenditures	$48,549,133	$49,336,289	$ 787,156	1.6 %
Net Revenue from Operations	$(5,138,782)	$(5,858,567)	$(719,785)	(14.0)%
Non-Operating Revenue				
Appropriations/Univ Support	$ 5,047,915	$ 5,047,915	-0-	-
Accrued Interest Income	669,415	669,415	-0-	-
Shared Services	-0-	29,675	29,675	-
Total Non-Oper Rev	$ 5,717,330	$ 5,747,005	$ 29,675	0.5 %
Revenue Over (Under) Expenses	$ 578,548	$ (111,562)	$(690,110) (1)	

(1) Variance equals (1.6)% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO FEBRUARY 28, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
PATIENT CARE CHARGES				
Routine	$18,895,830	$18,758,698	$(137,132)	(0.7)%
Ancillary	26,402,710	26,313,852	(88,858)	(0.3)%
Professional Fees	417,578	400,481	(17,097)	(4.1)%
Gross Charges	$45,716,118	$45,473,031	$(243,087)	(0.5)%
DEDUCTIONS FROM CHARGES				
Pro Fees Paid	$ 356,728	$ 335,169	$ (21,559)	(6.0)%
Third Party Contract Adj.	112,363	112,363	-0-	-
Billing Adjustments & Employee Benefits	555,101	607,239	52,138	9.4 %
Charitable Care	592,746	617,155	24,409	4.1 %
Other Contract Adj.	501,651	309,715	(191,936)	(38.3)%
Allow for Uncoll Accts	914,322	909,432	(4,890)	(0.5)%
Donations from Restricted Funds		(15,863)	(15,863)	-
Total Deductions	$ 3,032,911	$ 2,875,210	$(157,701)	(5.2)%
OTHER OPERATING REVENUE				
Food Services	$ 422,540	$ 386,606	$ (35,934)	(8.5)%
Powell Hall Motel	163,138	166,955	3,817	2.3 %
Departmental Non-Patient	54,918	64,436	9,518	17.3 %
Reference Lab Income	86,548	191,875	105,327	121.7 %
Donations to Operations from Restricted Funds		70,029	70,029	-
Total Other Revenue	$ 727,144	$ 879,901	$ 152,757	21.0 %
Total Revenue from Operations	$43,410,351	$43,477,722	$ 67,371	0.2 %
EXPENDITURES				
Salaries	$24,197,182	$23,861,061	$(336,121)	(1.4)%
Fringe Benefits	3,927,153	3,968,053	40,900	1.0 %
Accrued Vacation & Timeback	105,842	105,842	-0-	-
Academic Contracts	751,974	751,974	-	-
Resident Contracts	1,624,319	1,662,070	37,751	2.3 %
Physician Compensation	1,890,737	1,730,012	(160,725)	(8.5)%
Total Salaries, Wages F.B. & Fees	32,497,207	32,079,012	(418,195)	(1.3)%
Laundry & Linen	894,001	898,728	4,727	0.5 %
Raw Food	756,711	819,826	63,115	8.3 %
Drugs	2,704,236	2,415,953	(288,283)	(10.7)%
Blood & Blood Derivatives	1,036,057	976,424	(59,633)	(5.8)%
Medical Supplies	3,093,870	2,985,798	(108,072)	(3.5)%
Utilities	516,972	523,317	6,345	1.2 %
Insurance	320,894	1,127,669	806,775	251.4 %
Rental	707,822	555,502	(152,320)	(21.5)%
Maintenance & Repair	456,256	510,866	54,610	12.0 %
Communications	344,273	336,782	(7,491)	(2.2)%
Net Loss on Disposal of Assets		6,460	6,460	-
Campus Adm. Exp.	1,834,980	2,596,437	761,457	41.5 %
Depreciation	1,087,161	1,106,959	19,798	1.8 %
General Supplies & Expense	2,298,693	2,396,556	97,863	4.3 %
Total Expenditures	$48,549,133	$49,336,289	$ 787,156	1.6 %
Net Revenue from Operations	$(5,138,782)	$(5,858,567)	$(719,785)	(14.0)%
NON-OPERATING REVENUE				
Appropriations & Support	$ 5,047,915	$ 5,047,915	-0-	-
Accrued Interest on Approp	124,564	124,564	-0-	-
Interest Income on Reserves	544,851	544,851	-0-	-
Shared Services		29,675	29,675	-
Total Non-Operating Rev	$ 5,717,330	$ 5,747,005	$ 29,675	0.5 %
Total Revenue Over (Under) Expense	$ 578,548	$ (111,562)	$(690,110) (1)	

(1) Variance equals (1.6)% of Total Budgeted Revenue.

UNIVERSITY OF MINNESOTA HOSPITALS
OPERATING CASH FLOW
FOR PERIOD JULY 1, 1976 TO FEBRUARY 28, 1977

Source of Funds		
Beginning Cash Balance		$ 406,468
Loss from Operations	(5,858,567)	
Non-Operating Revenue	5,747,005	
Excess of Revenue over Expense		(111,562)
Items not Requiring the Outlay of Cash		
Depreciation		1,106,959
University Support: G&A		2,596,437
K/E Utilities		43,724
Increase in Accrued Expenses		1,229,174
Total Funds Provided from Operations		$5,271,200
Funds Applied		
Transfers to Plant		
Capital Expenditures	1,074,162	
Increase in Capital Encumbrance	286,963	
		1,361,125
Increase in Accounts Receivable		2,238,628
Increase in Accrued Revenue		854,649
Increase in Inventories		236,428
Transfer for Funded Depreciation required by MHA		1,461,004
Total Funds Applied		$6,151,834
Total Net Operating Cash Available		$ (880,634) (1)

(1) An additional future cash need of $374,525 to cover increase in accrued expenses gives a net deficit of $(1,255,159).

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
PROPOSED GENERAL BUDGET GUIDELINES
1977-78 BUDGET

These budget guidelines as set forth are intended to be an adjunct to the Statement of Financial Policies and Requirements of University Hospitals and Clinics as adopted by the Board of Governors (January 21, 1976). As an adjunct to that statement; the overall Mission Requirements, Financial Policies, and Financial Requirements are not repeated in this document but are understood to provide the overall framework within which these principles should be applied.

General Guidelines

1. Budget resources to achieve optimum overall mission requirements.
2. To the extent possible, incremental costs associated with patient care, education and research should be recovered through comparable fund sources.

Specific Guidelines

1. Rollforward requirements, i.e., mandated salary increases, etc., are non-negotiable.
2. Programs mandated by external sources such as JCAH, HSA, Regents action are non-negotiable.
3. New program dollars require Board approval.
4. Cost benefits, savings, or productivity increases and their apparent savings should be used in corresponding areas of costs where possible to increase quality or implement new programs.

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UNIVERSITY OF MINNESOTA HOSPITALS
COMPARATIVE STATEMENT OF OPERATIONS
FYE 6/30/77 and 6/30/78

	Planned 76-77	Projected 76-77	Projected 77-78	Increase (Decrease)	% Change
Patient Care Charges					
Routine	$29,295,896	$29,132,094	$77,257,108	$ 7,601,366	10.9(1)
Ancillary	40,803,378	40,523,648			
Pro Fees	691,329	587,503	673,453	85,950	14.6
Gross Charges	$70,790,603	$70,243,245	$77,930,561	$ 7,687,316	10.9
Deductions from Charges					
Pro Fees Paid	$ 587,631	$ 490,859	$ 575,470	$ 84,611	17.2
Third Party Contr Adj	168,773	168,773	60,400	(108,373)	(64.2)
Charitable Care	2,477,671	2,432,649	2,727,570	294,921	12.1
Allow for Uncoll Accts	1,769,765	1,404,865	1,558,611	153,746	10.9
Donations from Restricted Funds	-	-	-	-	-
Total Deductions	$ 5,003,840	$ 4,497,146	$ 4,922,051	$ 424,905	9.4
Other Operating Revenue					
Food Services	$ 620,612	$ 577,158	$ 814,876	$ 237,718	41.2
Powell Hall Motel	245,040	238,273	271,420	33,147	13.9
Dept Non-Patient	102,146	86,642	114,287	27,645	31.9
Ref. Lab Income	130,000	190,000	200,000	10,000	5.3
Donations to Operations from Restricted Funds	-0-	-0-	117,899	117,899	-
Total Other Revenue	$ 1,097,798	$ 1,092,073	$ 1,518,482	$ 426,409	39.0
Total Rev from Operations	$66,884,561	$66,838,172	$74,526,992	$ 7,688,820	11.5
Expenditures					
Salaries	$35,990,152	$36,339,990	$40,965,846	$ 4,625,856	12.7
Fringe Benefits	5,826,661	6,032,438	7,403,967	1,371,529	22.7
Accrued Vacation & Timeback	158,983	160,869	183,939	23,070	14.3
Academic Contract	1,129,506	1,129,506	1,231,695	102,189	9.0
Resident Contract	2,375,806	2,477,908	2,702,000	224,092	9.0
Physician Compensation	2,840,000	2,819,295	3,237,889	418,594	14.8
Total Salaries,Wages F.B. and Fees	48,321,108	48,960,006	55,725,336	6,765,330	13.8
Laundry and Linen	1,341,021	1,259,142	1,432,737	173,595	13.8
Raw Food	1,354,971	1,482,702	1,427,992	(54,710)	(3.7)
Drugs	3,981,207	3,635,513	4,235,052	599,539	16.5
Blood & Blood Derivatives	1,936,216	1,366,219	1,657,412	291,193	21.3
Medical Supplies	4,870,571	4,367,534	4,913,348	545,814	12.5
Utilities	788,716	788,716	867,588	78,872	10.0
Insurance	482,000	1,565,000	1,600,000	35,000	2.2
Rental Expense	1,329,123	904,242	1,314,468	410,226	45.4
Maint. & Repair	773,794	692,706	931,974	239,268	34.5
Communications	514,717	483,926	524,840	40,914	8.5
Campus Admin Exp	2,756,250	3,900,000	3,400,000	(500,000)	(12.8)
Depreciation	1,633,000	1,650,000	1,701,115	51,115	3.1
General S&E	4,128,606	3,507,659	4,267,929	760,270	21.7
Total Expenditures	$74,211,300	$74,563,365	$83,999,791	$ 9,436,426	12.7
Non-Operating Revenue					
Appropriations & Support	$ 7,582,261	$ 7,719,397	$ 8,469,780	$ 750,383	9.7
Accrued Int. on Approp	187,100	187,100	207,630	20,530	11.0
Accrued Int. on Reserves	818,395	818,395	630,000	(188,395)	(23.0)
Shared Services	-	29,675	-	(29,675)	-
Total Non-Oper. Rev.	$ 8,587,756	$ 8,754,567	$ 9,307,410	$ 552,843	6.3
Excess of Revenue over Expenditures	$ 1,261,017	$ 1,029,374	$ (165,389)	$(1,194,763)	(116.1)

(1) Of the total increase in Routine and Ancillary Revenue of $7,601,366, $4,608,597 relates to an effective 6.61% rate increase; $2,972,603 relates to a volume and carryforward price increase of 1/1/77; $20,166 relates to anticipated new program revenue.

UNIVERSITY OF MINNESOTA HOSPITALS
PROJECTED INCOME STATEMENT 1977-78
BASIS FOR PRELIMINARY PROJECTION

Patient Care Charges

Routine Revenue - Projected a volume of 214,979 patient days, which is a .69% increase over projected patient days for 1976-77.

Ancillary Revenue - Departmental projections of volume. Prices are based on current charges from the table file.

Note: Rate increase has not been distributed to these areas, only calculated in total.

Professional Fees - Departments projected volume for 1977-78 multiplied by current professional fee rates.

Deductions from Charges

Professional Fee Payments - Professional fee payments are at 85% of projected charges.

Third Party Contract Adj's - Clinical Research Center (N.I.H.)

Charitable Care - 3.5% of gross patient charges.

Allowance for Uncoll. Accts. - 2.0% of gross patient charges.

Other Operating Revenue

Food Services - Departmental projections (Powell Hall Cafeteria, Mayo Coffee Shop, Cafeteria income). Cafeteria service will be back in full operation next year.

Powell Hall Motel - Departmental projection.

Dept. Non-Patient - Estimate based on 1976-77 projection based on trended volume. Sale of items to non-hospital University departments.

Reference Lab Income - Estimate based on 1976-77 projected activity level.

Donations to Operations from Restricted Funds - Estimated based on projected 1977-78 charitable care accounts; donations from the H.J. Atkinson and Variety Club Patient Care funds.

Expenditures

Salaries - Based on February, 1977 payroll printout as adjusted by:

(1) positions added or deleted by 7/1/77
(2) projected overtime earnings
(3) new program/roll-forward positions
(4) 7/1/77 cost of living @ 4.0% annual rate
(5) 1/1/78 cost of living @ 3.0% annual rate
(6) merit increases @ 3.75% effective date

Fringe Benefits - 18.0% of projected salary amount - current actual effective rate is 16.6%. Increase based on health insurance premium increase.

Accrued Vacation - Assumed accrued vacation payable will increase at the same rate as projected salary expense from 6/30/77 through 6/30/78.

Academic Contract - Increased 1976-77 academic contract by 9% for academic portion and by cost of living in July (4%) and January (3%) for civil service. Fringe benefits at 19.5% were added for academic and civil service.

Resident Contract - 6% increase in house staff stipends, with 10 additional medical fellows and a projected $13,200 increase in tuition.

Physician Compensation - Based on departmental revenue plus a 14% projected contract adjustment.

Laundry & Linen - Departmental projections plus a 7% inflation factor.

Raw Food - Departmental projections plus a 7% inflation factor.

Drugs - Departmental projections plus an 8% inflationary increase.

Blood and Blood Derivatives - Departmental projections plus an 8% inflationary increase. Blood Bank will embark on a new hemophiliac program accounting for an expense volume increase.

Medical Supplies - Departmental projections plus an 8% inflationary increase. A volume increase is projected due to an increase in patient days and new departmental programs.

Utilities - Projected 1976-77 with an added 10% inflation factor (W. Soderberg).

Insurance - Minimal increase projected over 1976-77 premium level.

Rental Expense - Departmental projections. Large increase on Computer Services due to rental of additional processing equipment and additional Materials Services warehouse rental. An inflationary increase of 10% was used.

Maintenance & Repair - Departmental projections. Increased maintenance and repair on new and existing equipment within Computer Services and increased maintenance on University Warehouse. Other increases were due to general hospital maintenance. An inflationary increase of 10% was used.

Communications - Departmental projections. An inflationary increase of 15% was included.

Campus General & Admin - The University's methodology for allocating Campus G&A is currently being analyzed for 1977-78 to reach a position that will hopefully be more equitable to the Hospitals and third party payors.

Depreciation - Increased 1976-77 amount by 3.1% based on 12/31/76 detailed analysis.

General Supplies & Expense - Departmental projections. A majority of the increase was attributed to new program developments. a 7% inflation factor was used.

Non-Operating Revenue

Appropriations and Support - Total 0100 and 0372 fund departmental salaries and fringe benefits were rolled forward 10.75% and 18.0% respectively. Supplies were increased 4.0%.

Accrued Interest - Appropriations - 0372 monies at 7% for 1/2 year (assuming a declining balance over a years time).

- Reserve Funds - 7% of invested reserves.

University of Minnesota Hospitals

Projected Cash Flows

6/30/77 - 6/30/78

	Planned Budget 6/30/77	Projected Actual 6/30/77	Projected Budget 6/30/78
Cash Provided:			
Excess of Revenue over Expense	$1,261,017	$1,029,374	$(165,389)
Add: Non Cash Outlays			
Depreciation	1,633,000	1,650,000	1,701,115
Campus G/A	2,756,250	3,900,000	3,400,000
Accrued Expenses	520,361	(190,949)	618,815
Third Party Contr. Adj.	168,773	168,773	60,400
Total Cash Provided	$6,339,401	$6,557,198	$5,614,941
Cash Applied:			
Increase in Acct./Rec.	$2,475,111	$2,159,299	$2,001,008
Increase in Inventory	264,845	226,533	274,160
Increase in Accrued Revenue	-0-	156,033	30,530
Total Cash Applied	$2,739,956	$2,541,865	$2,305,698
Cash Available	$3,599,445	$4,015,333	$3,309,243
Required Cash Flow	$3,518,495	$3,791,081	$4,000,000
Variance	$ 80,950	$ 224,252	$ (690,757)

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
FUNDING OF CASH FLOW REQUIREMENTS
1977-78 PROJECTION

Cash Requirements		
Increase in 1977-78 Expenditures over 1976-77		$9,436,426
Increase in 1977-78 Revenues over 1976-77		
Routine	7,687,316	
Deductions	(424,905)	
Other Operating Revenue	426,409	
Non-Operating Revenue	552,843	
		8,241,663
Net Increase in Expenses		$1,194,763
Increase Cash Funding Required		4,000,000
Total Cash Requirements		$5,194,763
Cash Resources		
Net Cash Provided		$3,309,243
Expense Offsets		690,757
Change in 1977-78 Net Revenues		1,194,763
		$5,194,763

UNIVERSITY OF MINNESOTA HOSPITALS
SUMMARY OF NEW PROGRAM/ROLLFORWARD REQUESTS
BUDGET YEAR 1977-78

	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital	
									Equipment	Remodeling
Schedule I - New Programs	9.25	$125,089	$ 20,766	$145,855	$219,087	$38,727	$403,669	$ 20,166	$1,020,925	$ 250
Schedule II - Approved Rollforward Requests	21.85	248,002	41,174	289,176	15,405	2,483	307,064	244,869	21,965	19,500
Schedule III - Requested Rollforward Positions Not Yet Approved	23.50	243,364	40,399	283,763			283,763			
	54.60	$616,455	$102,339	$718,794	$234,492	$41,210	$994,496	$265,035	$1,042,890	$19,750

ROLL-FORWARD PROGRAM REQUESTS
FISCAL YEAR 1977/78

Dept. Name Program Code/Title	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital Equipment	Capital Remodeling
Schedule I - New Programs										
Hospital Development										
NW Hennepin Health Project										
3523 GSN	2.00	$ 24,480	$ 4,064	$ 28,544						
1134 Sr. Acct. Clerk	1.00	9,420	1,564	10,984						
3517 OP Clinic Asst.	1.00	7,740	1,285	9,025						
4435 Lab Technician	1.00	7,980	1,325	9,305						
	5.00	$ 49,620	$ 8,238	$ 57,858	$42,142		$100,000			
Hospital Mgmt Reference Library										
8414 Librarian	1.00	$ 12,600	$ 2,092	$ 14,692	5,308		20,000			
Patient Services Management										
Patient Services Manager	5.00	$ 56,243	$ 9,336	$ 65,579						
Patient Services Asst.	-	14,910	2,475	17,385						
	5.00	$ 71,153	$11,811	$ 82,964	2,076		85,040			
Rehabilitation Center										
Ergography Svc Lab										
3843 Physical Therapist	1.00	$ 11,196	$ 1,859	$ 13,055	556	2,058	15,669	20,166	20,925	250
Communication Center										
Mosman Paging System						36,669	36,669		1,000,000	
5089 Telephone Operator	.25	$ 1,995	$ 331	$ 2,326	46,505		48,831			
Hosp Computerized Info System					100,000		100,000			
Payroll System					20,000		20,000			
Rural Cooperative					2,500		2,500			
Subtotal Sch. I	12.25	$146,564	$24,331	$170,895	$219,087	$38,727	$428,709	$20,166	$1,020,925	$250

ROLL-FORWARD PROGRAM REQUESTS
FISCAL YEAR 1977/78

Dept. Name Program Code/Title	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital Equipment	Capital Remodeling
Cost Offsets										
Patient Svcs Mgmt	(3.00)	(21,475)	(3,565)	(25,040)			(25,040)			
Net Total Schedule I	9.25	$125,089	$20,766	$145,855	$219,087	$38,727	$403,669	$20,166	$1,020,925	$250
Schedule II Approved Roll-Forward Requests										
Maintenance & Operations										
5117 Prin Eng Asst	1.00	$ 7,470	$ 1,240	$ 8,710			$ 8,710			
Nursing Services										
A. Nsg Play Therapist										
3863 Hosp Ther Act Leader	2.00	24,264	4,028	28,292			28,292			
B. Health Education Media Specialist	1.00	20,000	3,320	23,320	3,000		26,320			
C. Neuro-Ophthalmology										
3523 GSN	1.00	12,132	2,014	14,146		1,500	15,646	14,146	12,000	
	4.00	$ 56,396	$ 9,362	$ 65,758	$ 3,000	$ 1,500	$ 70,258	$ 14,146	$12,000	
Pharmacy										
A. Drug Info Center										
1235 Sr. Secretary	.50	$ 4,410	$ 732	$ 5,142			$ 5,142			
3619 Hosp Pharmacist	.50	9,330	1,549	10,879			10,879			
B. Resident (Adm Fellow I)	.75	7,500	1,245	8,745			8,745			
	1.75	$ 21,240	$ 3,526	$ 24,766			$ 24,766			

ROLL-FORWARD PROGRAM REQUESTS
FISCAL YEAR 1977/78

Dept. Name Program Code/Title	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital Equipment	Capital Remodeling
Nutrition										
A. Main Production										
5021 Sr. FSW	1.00	$ 7,812	$1,297	$ 9,109			$ 9,109			
5026 Cook	.40	3,317	551	3,868			3,868			
6334 Sr. Dietician	1.00	11,652	1,934	13,586			13,586			
B. Station Services										
5021 Sr. FSW	1.00	7,812	1,297	9,109			9,109			
6214 Stud. FSW	.80	6,192	1,028	7,220			7,220			
	4.20	$36,785	$6,107	$42,892			$42,892			
Transportation & Distr										
A. Warehouse										
5081 Del Svc Driver	1.00	$11,505	$1,910	$13,415			$13,415			
B. Move-Rosemount (Temp)	1.00	2,203	366	2,569			2,569			
	2.00	$13,708	$2,276	$15,984			$15,984			
Social Service										
Therapeutic Radiology										
3716 Sr Social Worker (Temp)	.50	$ 6,546	$1,087	$ 7,633	$385	$33	$ 8,051		$465	$19,500
Health Services Admin										
3109 Asst To the Director (Temp)	1.00	$17,940	$2,978	$20,918			$20,918			
Hospital Laboratories										
A. Immunology										
4460 Student Tech Supv	2.00	22,384	$3,716	$26,100			$26,100			
5073 Sr Lab Attendant	1.50	12,434	2,064	14,498			14,498			
	3.50	$34,818	$5,780	$40,598			$40,598			
B. Surgical Pathology										
1224 Sr Clerk Typist	1.00	7,976	$1,324	$ 9,300			$ 9,300	$28,200		

ROLL-FORWARD PROGRAM REQUESTS
FISCAL YEAR 1977/78

Dept. Name Program Code/Title	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital Equipment	Capital Remodeling
C. Immunopathology										
4212 Lab Attendant	.25	$ 1,697	$ 282	$ 1,979			$ 1,979			
D. Electron Microscopy										
5078 Sr. Lab Tech.	1.00	9,166	1,522	10,688			10,688			
E. Coagulation										
4460 Stud Tech Supv	1.00	11,192	1,858	13,050			13,050	60,100		
F. Genetics										
4460 Stud Tech Supv	1.00	11,192	1,858	13,050			13,050			
4460 Stud Tech Supv	1.00	5,596	929	6,525			6,525			
	2.00	$16,788	$2,787	$19,575			$19,575	$105,600		
	8.75	$81,637	$13,553	$95,190			$95,190	$193,900		
Operating Room										
1224 Sr. Clk. Typist	1.00	$ 7,976	$1,324	$ 9,300			$ 9,300			
Asst. Director	1.00	16,579	2,752	19,331			19,331			
	2.00	$24,555	$4,076	$28,631			$28,631			
Rehabilitation										
3860 Speech Pathologist	.50	$ 7,662	$1,272	$ 8,934			$ 8,934	$ 8,934		
3527 LPN	.50	4,710	782	5,492			5,492			
	1.00	$12,372	$2,054	$14,426			$14,426			
Home Health										
3523 GSN	.50	$ 6,823	$1,133	$ 7,956			$ 7,956	4,600		
Outpatient Depts										
3523 GSN	.60	$ 8,181	$1,358	$ 9,539			$ 9,539	$ 9,539		
3510 Nursing Asst.	.30	2,738	455	3,193			3,193			
	.90	$10,919	$1,813	$12,732			$12,732			

ROLL-FORWARD PROGRAM REQUESTS
FISCAL YEAR 1977/78

Dept. Name Program Code/Title	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital Equipment	Capital Remodeling
Computer Services										
1437 Operations Supv	1.00	$ 8,704	$ 1,445	$ 10,149			$ 10,149			
1434 Sr. Data Proc. Tech.	1.00	10,184	1,691	11,875			11,875			
1434 Sr. Data Proc. Tech.	1.00	7,408	1,230	8,638			8,638			
	3.00	$ 26,296	$ 4,366	$ 30,662			$ 30,662			
Volunteer Services										
Parking for Volunteers					8,320		8,320			
Respiratory Therapy										
Pulmonary Screening Func.					3,700	950	4,650	13,750	9,500	
Subtotal Schedule II	30.60	$322,687	$53,571	$376,258	$15,405	$2,483	$394,146	$244,869	$21,965	$19,500
Cost Offsets										
Nutrition										
5061 Hosp. Carrier	(3.30)	$(24,948)	$(4,141)	$(29,089)			$(29,089)			
5020 FSW	(.55)	(4,033)	(669)	(4,702)			(4,702)			
6714 Sr. Laborer	(.60)	(4,932)	(819)	(5,751)			(5,751)			
	(4.45)	$(33,913)	$(5,629)	$(39,542)			$(39,542)			
Hosp Admin										
Summer Admin Train.	(2.00)	(5,310)	(881)	(6,191)			(6,191)			
Patient Monitoring										
4476 Scientist	(1.00)	$(20,988)	$(3,484)	$(24,472)			$(24,472)			
1235 Sr. Secretary	(1.00)	(10,380)	(1,723)	(12,103)			(12,103)			
	(2.00)	$(31,368)	$(5,207)	$(36,575)			$(36,575)			
Home Health										
3523 GSN	(.30)	(4,094)	(680)	(4,774)			(4,774)			
Schedule II Offset	(8.75)	$(74,685)	$(12,397)	$(87,082)			$(87,082)			
Net Total Schedule II	21.85	$248,002	$ 41,174	$289,176	$15,405	$2,483	$307,064	$244,869	$21,965	$19,500

ROLL-FORWARD PROGRAM REQUESTS
FISCAL YEAR 1977/78

Dept. Name Program Code/Title	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital Equipment	Capital Remodeling
Schedule III Requested Roll-Forward Positions Not Yet Approved										
Transportation & Distr.										
A. Control Transp Svc										
5061 Hosp Carrier	1.00	$ 7,559	$1,255	$ 8,814			$ 8,814			
3507 Hosp Carrier	.50	3,748	622	4,370			4,370			
	1.50	$11,307	$1,877	$13,184			$13,184			
B. Receiving										
5018 Sr. Stores Clerk	1.00	7,343	1,219	8,562			8,562			
	2.50	$18,650	$3,096	$21,746			$21,746			
Hospital Laboratories										
A. Heart Hosp Lab										
5078 Sr. Lab Tech.	1.00	9,166	1,522	10,688			10,688			
B. Special Hematology										
1214 Sr. Clerk	1.00	7,496	1,244	8,740			8,740			
C. Hematology										
4460 Stud Tech Supv	3.00	33,575	5,573	39,148			39,148			
5078 Sr. Lab Tech.	.50	4,583	761	5,344			5,344			
1214 Sr. Clerk	.50	3,748	622	4,370			4,370			
	4.00	$41,906	$6,956	$48,862			$48,862			
	6.00	$58,568	$9,722	$68,290			$68,290			
Protection Services										
Protection Officers	4.00	$44,000	$7,304	$51,304			$51,304			
Anesthesiology										
3525 CRNA	2.00	$40,000	$6,640	$46,640			$46,640			

ROLL-FORWARD PROGRAM REQUESTS
FISCAL YEAR 1977/78

Dept. Name Program Code/Title	# of Positions	Effective Salaries 1/1/77	Fringe Benefits @ 16.6%	Total Payroll Expense	Supplies $	Deprec $	Total Expense	Anticipated Revenue	Capital Equipment	Capital Remodeling
Operating Room										
3510 Nursing Asst.	5.00	$ 37,480	$6,222	$ 43,702			$ 43,702			
3523 GSN	1.00	12,131	2,014	14,145			14,145			
3534 Insv Head Nurse	1.00	12,319	2,045	14,364			14,364			
	7.00	$ 61,930	$10,281	$ 72,211			$ 72,211			
Nursing										
4443 Kidney Dialysis Tech	1.00	12,236	2,031	14,267			14,267			
Therapeutic Radiology										
1224 Sr. Clerk Typist	1.00	7,980	1,325	9,305			9,305			
Total Schedule III	23.50	$243,364	$40,399	$283,763			$283,763			

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
SUMMARY OF 1976-77 TO 1977-78 EXPENDITURES

Projected 1976-77 Expense	$74,563,365
Rollforward Salary & Contract Compensation Increases	3,546,552
July 1, 1977 Cost of Living Impact - Salaries	1,558,552
July 1, 1977 Cost of Living - Fringe Benefits	289,162
Jan. 1, 1978 Cost of Living Impact - Salaries	552,770
Jan. 1, 1978 Cost of Living - Fringe Benefits	99,500
Rollforward Supply Expense Increases	2,436,604
New Position Salaries	616,455
New Position Fringe Benefits	102,339
New Supply Increase	234,492
Total Projected Expenditures 1977-78	$83,999,791

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
MAJOR PATIENT CHARGE INCREASES SUMMARY
1976-77 TO 1977-78

Projected 76-77 Patient Charges			$70,243,245
Professional Fee Vol. Increases			85,950
New Program Revenue (Rehabilitation)			20,166
Changed Due to 1/1/77 Rate Increase and Anticipated Volume Increases:			
Routine Charges		946,336	
Ancillary Charges			
O.R.	541,605		
Labs	689,150		
X-Ray	(27,573)		
Pharmacy	284,926		
Other Ancillary	538,159		
Total Ancillary		2,026,267	
			2,972,603
Projected Revenue before Rate Increases			$73,321,964
Rate Increase @ 6.61%			4,608,597
Total Projected Revenue 1977-78			$77,930,561

UNIVERSITY OF MINNESOTA HOSPITALS

SUMMARY OF F.T.E. CHANGES 1976-77 to 1977-78

Planned Budget 1976-77	3,209.26
Approved Position Additions through 12/31/76	12.16
Requested Additions for:	
1. Approved New-Program Positions	12.25
2. Approved Roll-Forward	30.60
3. Non-Approved Roll-Forward	23.50
	3,287.77
Deletions	(17.11)
Projected Budget 1977-78	3,270.66

University of Minnesota Hospital

Summary of Statistics

	Estimated 1976-77	Estimated 1977-78
Pediatrics	24,245	24,617
Medical Surgical	124,049	123,845
OB/Nursery	3,183	3,192
Rehab	9,057	8,875
Psychiatry	14,285	14,163
Diagnostic Care	3,922	4,020
Clinical Research	2,607	2,410
Special Care	22,247	22,244
Newborn	4,099	4,075
Bone Marrow	3,641	3,603
Epilepsy	2,180	3,935
Total Patient Days	213,515	214,979
Admissions	21,861	23,241
Emergency Room	19,779	19,448
Clinic Visits	127,650	129,604
Delivery Room/Deliveries	588	700
Operating Room/Operations	15,200	15,500
Lab Procedures	1,271,447	1,312,596
Phys. & Occup. Therapy Proc.	49,841	53,175
Radiology Procedures	162,460	164,838
Respiratory Therapy Procedures	129,814	130,690

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
April 20, 1977

Present: Stanley Holmquist, Chairman
John Quistgard, Vice Chairman
David Cost
David Brown, M.D.
Debbie Gruye
Frederick Kottke, M.D.
Dave Preston
Ron Werft
John Westerman
Don Van Hulzen

Absent: Don Brown
Al France

Staff: Clifford Fearing
John Diehl
Johnelle Foley

Guests: Harry Atwood
Greg Hart
Nels Larsen

The meeting of the Finance Committee of the Board of Governors was called to order at 9:10 p.m., in the K/E Conference Room.

I. Approval of March 16, 1977 Minutes

Ms. Gruye moved that the minutes of the last meeting be approved. The motion was seconded and passed.

II. Quarterly March YTD Financial Statements/Controllers Report

At Mr. Fearing's request, Mr. Nels Larsen presented the Controller's Report for the period of July 1, 1976 through March 31, 1977. He began his presentation by commenting on the Inpatient Census Data Schedule where he pointed out a variance 1.0% lower than projected for patient days. He also noted that the YTD occupancy rate of 73.2 is .7% less than projected and the average length of stay has declined from 9.9 days to 9.4 days. Chairman Holmquist inquired as to why the average length of stay is decreasing. Mr. Fearing responded that many factors influence this decline and site such examples as utilization review, psychiatry day care programs, the mid-wife program, out-patient dialysis, sharp reduction in A.L.S. for neurology, and the trend toward ambulatory care. Mr. Atwood commented on a new program which Mr. Baker had introduced to the Joint Conference Committee the night before. He explained that it involved pre-admission testing to make surgery possible for patients the morning after admission. Therefore, in the future this could further reduce the length of stay and the cost to the patient. The Committee discussed the point that although this new procedure may reduce hospital revenue if a compensating increase in admissions does not occur, it demonstrates accountability for public demands to halt rising hospital costs. It was pointed out that the affects of this program were really unknown and that initially it would be piloted for two clinical services.

Mr. Larsen referred the Finance Committee to graphs which depicted trends over a five year period in patient days, admissions, percent occupancy and clinic visits. He noted that the number of admissions and visits has increased. In discussing the Revenue Summary, Mr. Larsen indicated that losses in routine services were made up in ancillary to bring the revenue experience very close to budget projections. The decrease in patient days was sited as the primary cause for the minor variance in revenue below budget. He explained certain variances under ancillary services. Central Sterile Supply was said to be affected by a change in the billing procedure for medical supplies in the operating room. Rehabilitation is down because of a lower pediatric census. Kidney Dialysis is accepting more cadever organs, and there is a change in their patient mix to out-patient. Patient Transportation reflects a billing problem with carriers which is being studied. Mr. Van Hulzen pointed out that there are over 100 revenue centers which are summarized in this schedule.

Next, Mr. Larsen went through the Statement of Operations. Certain items were brought to the Committee's attention. It was noted that Charitable Care experience at University Hospitals creates no financial problems and illustrates good coverage of benefits in Minnesota's Medicaid program. An example of Department Non-Patient revenue was said to involve the selling of silver from reprocessing old x-ray film. Under expenditures, as mentioned in the Controller's Report, Mr. Larsen explained the variance in Blood Derivatives to be affected by the implementation of the hemopheliac program. Medical Supplies were said to be affected by the increased cost of inplantable devices. Rental was explained as involving computer equipment and warehouse space. A University charge for air-conditioning repair affected Maintenance and Repair. General Supplies and Expense included small items such as patient brochures and custodial supplies.

In particular, the Committee discussed the Insurance item. Mr. Preston indicated that the Legislature is encouraging the University to move toward self-insurance as quickly as possible. Mr. Van Hulzen mentioned that there is presently a case before the Supreme Court which is questioning whether University Hospitals, as a provider of patient care services, was ever protected under soveriegn immunity. Dr. Brown commented that the Hospitals enjoyed little freedom of action with regard to insurance and that this matter should be of concern to the Board of Governors. Dr. Kottke noted that there should be a reconsideration of the Hospitals liability and obligation seperate and apart from the University.

Campus Administrative Expense was also discussed and explained as a non cash outlay item which is included in the budget for purposes of full costs reporting. The variance was said to represent a change in University estimates due to a question of appropriateness of allocations to the Hospitals.

Mr. Van Hulzen raised the question as to whether the budget should be presented in a manner which would show that budget adjustments have been made for these items as they have for payroll items. Mr. Fearing explained that he did not make adjustments in these areas because he felt it was important to keep the Board aware of significant changes which have occured during the year. Mr. Westerman suggested that consideration could be given to presenting an original and revised budget. Mr. Larsen then summarized the income statement noting that the bottom line variance equaled (2.3%) of total budget revenue. In examining the Cash Flow Statement, Mr. Larsen reported a decrease in the number of days in accounts receivable to 88.5 days. It was also noted that the $1 million in net cash available is committed to the University for one year and invested by them. Mr. Werft inquired as to whether it was mandated that the Hospitals must pool their resources with the University. Mr. Westerman indicated that it was but it was pointed out that the return in this case has historically been approximately 8%. Mr. Larsen asked if there were any questions pretaining to the final two schedules. There being none, he concluded his presentation.

III. 1977-1978 Budget Recommendation

Mr. Fearing explained that the budget projections were being brought before the Finance Committee with some minor changes for further consideration. He indicated that these changes did not affect the overall outcome of the budget but added that all changes will be made hopefully prior to the May meeting if the state pay plan is made know. Legislative and Regents decisions on that plan may affect the budget's present outcome in terms of the projected rate increase of 6.61%. He indicated that this was presently projected as the total rate increase for the year. He also noted that the changes which were made at this time were based on the advice of the Finance Committee to present a balanced budget. He referred the Committee to page 5 where he pointed out that the $4 million in Cash available had been adjusted down to $3.3 million and to pages 6 and 7 for areas of projected savings. Mr. Atwood informed the Committee that the night before, the Joint Conference Committee had taken action to request information on cost containment practices conducted at University Hospitals. He indicated that this was done out of a sense of need to know some specifics in terms of what is being accomplished so that costs are controlled. He indicated that Mr. Fearing might want to be aware of this action when making his presentation on the budget to the full Board. Mr. Westerman suggested that the Finance Committee might also wish to respond to the Joint

Conference Committee more formally later with an additional more detailed report of the cost containment projects.

In further discussing the budget, Mr. Quistgard asked if in-house consultants were used on all projects. It was noted that Foussard was used in the Laundry/Linen study and that Ernst and Ernst will be conducting the debt capacity analysis. Ms. Gruye inquired as to the composition of the Fringe Benefit item. Mr. Fearing explained that this item included Social Security expense, individual and dependent health care coverage, other employee insurance, and the potentital for a dental care insurance add on as part of the new state pay plan. Chairman Holmquist pointed out that this demonstrated that there were certain costs over which the Hospitals have no control. Mr. Atwood mentioned that the Hospital could control the number of people hired and thus receiving salaries and fringe benefits. Mr. Fearing stated that of the 12.7% increase in salary expense, 1.4% was caused by new positions and the rest consisted cost of living increases and merit increase.

Mr. Quistgard commented that he was not certain whether the Finance Committee had affected the preparation of the budget. Ms. Gruye reflected that it was difficult to both represent consumers and a successful hospital operation at the same time. Mr. Westerman pointed out that as Board members they should view their role as stewards of the mission of the Hospitals promoting medical education and research in a efficient and effective manner. He commented that administration felt the Hospital was well-managed before the Board existed but now with the preparation of public agendas there is a realization that former practices were insufficient without this element of accountability. Dr. Kottke suggested the need to provide Health Sciences students with a clearer understanding of the various aspects of costs at University Hospitals. Mr. Westerman noted that the recently released Interstudy Report indicated that Minnesotans are hospitalized more frequently than most.

Mr. Fearing suggested that the Finance Commitee recommend tentative approval of this budget by the Board of Governors to enable its submission to the rate review panel in a timely manner and final approval of it in May when hopefully all adjustments have been made. Ms. Gruye so moved and Mr. Werft seconded the motion which was passed.

IV. Management Salary Plan

Mr. Westerman referred the Committee to a comparison of management salaries among teaching hospitals for the fiscal year 1976-1977. He noted that the pay plan is presently under scrutiny by the University. He noted that generally the University is competetive and sensitive to the presures of recruitment. On a sampling list of managers, he indicated which were academic appointments on the management salary plan, or civil service plan. He commented on the reasons for various discrepencies and the historic trends in the various plans. Mr. Westerman summarized that except for some temporary inbalances which are tolerable the University allows reasonable responsiveness to the market place. Mr. Cost commented that he had requested this information in order to be assured that the capability existed to retain a good administrative staff. Mr. Westerman concluded that if he foresaw any difficulties in this area he would come to the Board for assistance in presenting the Hospitals case to the Regents.

There being no further business, the Finance Committee adjourned at 12:10 p.m., for lunch.

Respectfully submitted,

Johnelle Foley

Johnelle Foley
Secretary

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

April 20, 1977

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing, Controller

SUBJECT: Controller's Report for Period July 1, 1976 Through March 31, 1977 - March Activity

The March financial statements continue to reflect trends and relationships established earlier in this fiscal year. The Hospital's overall operations are still very close to our budgeted projections even though we are not experiencing our projected levels of utilization in all areas.

The inpatient census for the month of March was 18,076 days compared to our budget projection of 18,591 days. Admissions for March were 1,926 and our occupancy rose to 74.0% for the month. On a year to date basis the inpatient census is 157,364 days compared to our projection of 158,940 days. The difference of 1,576 days represents a 1.0% unfavorable variance. The year to date occupancy level is 73.2%.

Patient care charges, in total, continue to be very close to budget. This has been possible because of higher than expected levels of utilization in some of the ancillary areas, particularly in the Pharmacy and Central Sterile Processing. This increase in ancillary revenue has served to offset the reduced revenue experienced in routine services.

Operating expenses increased slightly over budget this month because of several factors. The largest single item was $130,000 for blood and blood derivatives relating to the start up of the Hemophilia program and a large back order of Albumin. Other large expenditures this month were for air conditioning repair ($40,000), patient brochures ($28,000), implantable devices ($20,000) and custodial supplies ($25,000). Also, $44,000 was transferred to current expense from work-in-process accounts as our property ledgers are updated at the end of the quarter.

The combined impact of our current census levels and the increase in expenditures for March has increased the variance of expenses over revenue to total budgeted revenue from 1.6% to 2.3%.

During the month of March, the balance in accounts receivable declined dramatically. While the reductions were experienced in almost all financial classes, the largest occurred in Medical Assistance, Medicare-Chronic Renal Disease, and Blue Cross. The primary reason for this change is better follow-up by hospital personnel on the status of outstanding claims with county, state and federal agencies. The accounts receivable were reduced by $1,929,541 to a balance of $17,556,915 which represents 88.5 days of revenue outstanding.

In conclusion, while March was not an exceptional month in terms of operations, the reduction in accounts receivable has greatly enhanced our cash position. A sustained collection effort together with close control of expenditures should continue to bring us to our projected financial position by the end of this fiscal year.

CPF/tr

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1977 TO MARCH 31, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$51,959,656	$51,676,230	$ (283,426)	(0.5)
Deductions from Charges	3,429,024	3,277,160	(151,864)	(4.4)
Other Operating Revenue	819,907	1,000,205	180,298	22.0
Total Revenue from Operations	$49,350,539	$49,399,275	$ 48,736	0.1
Expenditures				
Salaries	$27,459,983	$27,010,550	$ (449,433)	(1.6)
Fringe Benefits	4,437,419	4,469,112	31,693	0.7
Contract Compensation	4,820,852	4,629,863	(190,989)	(3.9)
Med. Supplies, Drugs, Blood	7,689,443	7,432,071	(257,372)	(3.3)
Campus Admin Expense	2,069,072	2,927,670	858,598	41.5
Depreciation	1,225,850	1,259,812	33,962	2.8
General Supplies & Expense	7,145,898	8,310,969	1,165,071	16.3
Total Expenditures	$54,848,517	$56,040,047	$ 1,191,530	2.2
Revenue Over/(Under) Expense from Operations	$(5,497,978)	$(6,640,772)	$(1,142,794)	(20.7)
Non-Operating Revenue				
Appropriations/Univ Support	$ 6,062,385	$ 6,062,385	-0-	-
Accrued Interest Income	754,814	754,814	-0-	-
Shared Services	-0-	29,675	29,675	-
Total Non-Oper Rev	$ 6,817,199	$ 6,846,874	$ 29,675	0.4
Revenue Over/(Under) Expenses	$ 1,319,221	$ 206,102	$(1,113,119) (1)	

(1) Variance equals (2.3)% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
OPERATING CASH FLOW
FOR PERIOD JULY 1, 1976 TO MARCH 31, 1977

Source of Funds		
Beginning Cash Balance		$ 406,468
Loss from Operations	(6,640,772)	
Non-Operating Revenue	6,846,874	
Excess of Revenue over Expense		206,102
Items not Requiring the Outlay of Cash		
Depreciation		1,259,812
University Support: G&A		2,927,670
K/E Utilities		49,301
Increase in Accrued Expenses		1,362,911
Total Funds Provided from Operations		$6,212,264
Funds Applied		
Transfers to Plant		
Capital Expenditures	1,280,604	
Increase in Capital Encumbrance	207,169	
		$1,487,773
Increase in Accounts Receivable		364,341
Increase in Accrued Revenue		983,972
Increase in Inventories		412,059
Transfer for Funded Depreciation Required by MHA		1,573,795
Total Funds Applied		$4,821,940
Total Net Operating Cash Available		$1,390,324 (1)

(1) Available for offsetting future cash need of $378,939 to cover increase in accrued expenses.

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF CHANGES IN FUND BALANCES
JULY 1, 1977 THROUGH MARCH 31, 1977

	Operating Fund	Reserve Fund	Plant Fund	Total Unrestricted Funds
Unrestricted Funds				
Beginning Balance	$11,946,682	$14,854,107	$22,182,581	$48,983,370
Net Income				
Excess of Revenue over Expense	735,985			
Accrued Reserve Interest Income		614,349		
Accrued Approp Interest Income		141,213		
Depreciation Expense			(1,259,812)	
Loss on Sale/Disposal of Assets	20,203		(45,836)	
Total Unrestricted Income				
Less Expenses				206,102
Unrealized Appropriation Revenue	1,628,721			1,628,721
University Support: G&A	2,927,670			2,927,670
K/E Utilities	49,301			49,301
Transfers to Plant				
Major Building Proj (Hosp Only)	90	(1,314,101)	1,314,011	
Capital Expenditures	(1,280,604)		1,280,604	
Capital Encumbrance Change	(207,169)		207,169	
Equip.Remodel & Other Adjust	25,575	(732)	(14,511)	10,332
Increase in Restrict. Fund Commitment to Plant			22,195	22,195
Transfers to/from Shared Bldg Proj		(56,382)	70,000	13,618
Transfers to Fund Deprec at Price Level	(1,573,795)	1,573,795		
Trans. from Med. Sch. for Pt Info Syst.	40,000			40,000
Prior Year Approp Inter Adjust	(83,085)	83,085		
	$14,229,574	$15,895,334	$23,756,401	$53,881,309

	Gift	Endowment	Total
Restricted Funds			
Beginning Balance	$537,839	$7,713,724	$8,251,563
Net Income			
Gifts	41,293		
Accrued Interest Income		264,968	
Misc Expenses	(59,893)		
Charity Expenses	(16,305)	(21,692)	
Total Restricted Net Income			208,371
Increase in Commitment to Plant	(21,874)	(321)	(22,195)
Contribution to CUHCC		(58,736)	(58,736)
Prior Period Adj.	43	(22,355)	(22,312)
	$481,103	$7,875,588	$8,356,691

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
May 18, 1977

Present: Stanley Holmquist, Chairman
John Quistgard, Vice Chairman
David Cost
David Brown, M.D.
Al France
Debbie Gruye
Chester Grygar (representing Don Brown)
Dave Preston
Ron Werft
John Westerman
Don Van Hulzen

Absent: Don Brown (represented by Chester Grygar)
Frederic Kottke, M.D.

Staff: Clifford Fearing
Johnelle Foley

Guests: Harry Atwood
Judy Kaegy
Nels Larson

The meeting of the Finance Committee of the Board of Governors was called to order by Chairman Holmquist at 9:15 a.m., in the K/E Conference Room.

I. Approval of the April 20, 1977 Minutes

It was moved and seconded that the minutes of the previous meeting be approved.

II. Ernst and Ernst Study

Because Mr. Atwood would not be able to attend the joint meeting of the Finance and Facilities Committees at which the debt capacity study was to be discussed, Mr. Fearing commented briefly on the study's status. He explained that the meeting would cover the various elements which are being investigated in the study such as future service demands, space requirements, projected staffing ratios, and potentials in terms of legislative funding, gifts, and endowments. He stated that the result of the study should provide capital financing alternatives. The Committee then briefly discussed the affect on patient charges which those alternatives may have.

III. Quarterly April YTD Financial Statements/Controllers Report

Mr. Fearing began his report by noting that the April financial statements continue to reflect a stable position. He went on to point out that the in-patient census continues to decline and is 1.6% below projected days. He noted that the primary cause for the decline appears to be a reduction in the year-to-date average length of stay through March of 9.3 days to 8.3 days for April. He mentioned that May is indicating longer stays again and added that the Clinical Chiefs are projecting a leveling out to 8.5 days in the future. Mr. Fearing reported that in spite of the reduced census the Hospital has been able to hold its operating position because ancillary patient revenues have held up and operating expenses have declined in response to the census situation. He pointed out that this month the operating budget was adjusted in the areas of liability insurance and campus administrative expense to reflect January decisions when rates were increased. He also stated that again there has been a significant decline in the balance of accounts receivable which is reflected in a 2.2 days reduction from March in days of revenue outstanding to 86.3 days. He noted that the bottom line shows a variance of revenue over expense equalling .8% of total budgeted revenue and summarized that the Hospital is operating very close to its breakeven point and any unfavorable variances will require a management response to contain costs.

In reviewing the Statement of Operations for April, Mr. Fearing commented that the variance in Other Contract Adjustments is caused by an increase in out-patient activity in kidney dialysis and a change in the reimbursement arrangement for that service. He mentioned that the Reference Lab Income variance is the result of an adjustment putting that item on an accrual basis and also the result of a significant increase in activity in that area. He pointed out that Salaries were down because of a change in the program of operation in the Business Office and Nursing's response to a lower census. The Rental variance he explained is under budget because a new computer has not been installed and Maintenance and Repair is over budget because certain items were processed through this expense mechanism rather than being capitalized. At Mr. Fearings request, Mr. Larsen described the General Supplies and Expense areas as including price increases for custodial supplies and Lab supplies, an unexpected patient information brochure expense and high costs being experienced by the Security Department.

Mr. Fearing next indicated that the abbreviated Statement of Operations would be provided for the Board meeting and went on to review the Operating Cash Flow statement. He reported that the cash flow situation is in a good position because of the decrease in accounts receivable. The Committee members commended staff on their excellent progress in this area. In response to inquiries from Chairman Holmquist and Vice Chairman Quistgard, Mr. Grygar from Central Administration, explained that the University pools all cash available, invests those balances, and the benefits accrued are proportionately distributed at the year's end.

V. 1977-1978 Budget Update

Mr. Fearing explained that there is no new handout regarding the 1977-1978 budget. He reported that there is still no firm data regarding the State pay plan but added that projections of what the plan is expected to be have been incorporated into the budget planning and have affected some minor changes. He referred to a 3.5% salary increase in an area where previously a 4% increase had been expected providing a $110,000 budget. He commented that if he were to request a rate increase today, he would consider 6.8% but added that there are so many variables such as the decline in occupancy and the reduction in receivables, that he is comfortable with the 6.61% rate increase which has been discussed. He noted that for at least the first 90 days or 6 months of the fiscal year, this increase should be able to support the Hospitals financial objectives. Mr. Atwood reiterated that in the previous month the Board had granted the budget and rate increase tentative approval for purposes of timely submission of the rate requests to the State's Rate Review Program. He inquired as to whether final approval was being sought from the Committee now. Mr. Fearing stated that it was and added that the changes to the budget were so minor that no need was seen for altering the rate request. It was noted that this rate increase does not preclude seeking another during the fiscal year.

The Committee members then discussed various aspects of the budget such as efforts in cost containment, the use of outside consultants and internal resoruces, plans for more extensive budget review by department and the considerable affect which inflation has on the budget. Discussions then went to the role of the Finance Committee and the Board in the development of the budget and the affect of the Board of Governor's presence on the overall operation and management of the Hospitals. Generally, comments indicated a favorable impact in terms of the Board providing accountability and public perspective. Mr. France asked if the Clinical Chiefs have experienced improved involvement with the budget process. Mr. Van Hulzen explained that through their Program Review Committee they have provided peer review for major requests with budget implications. Chairman Holmquist suggested that this question might also be put to Dr. Kottke who had originally indicated concern regarding the Chief's in-put.

Ms. Gruye commented on continued discomfort with the Board member role. Various members commented on their individual perceptions of trusteeship which included a policy function interpretation, the idea of guiding in terms of the Hospitals' mission and goals and suggestions of areas where the Board has impacted to this point. Mr. Westerman gave as an example the possible consequences to the State Health Department which the abolishment of its Board may cause.

The Committee then discussed the form which the motion should take for final approval of the budget and rate increase. It was suggested that because the approval should cover the Facilities Committee's capital budget request as well, agreement on the motion should be made at the joint meeting with that Committee.

V. Bad Debts - January through March

Mr. Fearing requested that $80,686.95 be charged off as bad debts for the third quarter of the 1976-1977 fiscal year. Mr. Quistgard made a motion to approve the write-off which was seconded by Ms. Gruye. Mr. Fearing explained that this continued to maintain University Hospitals under the 2% level while the average for teaching hospitals is 8%. He attributed the good bad debt ratio to the quality of the Minnesota medical assistance programs as well as to the collection efforts of his staff. The motion for approval was voted upon and passed.

VI. Presidential Revenue Control Program

Mr. Fearing provided the Finance Committee with a synopsis of the Hospital Cost Containment Act of 1977. He reviewed with them how the adjusted inpatient hospital revenue increase limit of approximately 9% was calculated. Mr. Van Hulzen commented on how this determination was reached through dealing with averages and the interesting decisions it would force in terms of priorities, especially for health science institutions where research developments would be affected. It was noted that the limitation is viewed as an interim step to reduce rising hospital costs until a permanent plan can be developed.

The Committee members and staff discussed their concern for the proposed legislation and its potentially adverse affects on University Hospitals and the accomplishment of its mission. Dr. Brown inquired as to what was being done to combat the bill's enactment in its present form. Mr. Van Hulzen stated that many provider groups are lobbying against the bill but that University Hospitals could deal with it and budget within it. The importance of exempting teaching hospitals from such restrictions was further discussed and various suggestions for individual, Board, and administrative staff action were put forth. It was decided that staff would gather additional information concerning the legislation and formulate a viable proposal to advance to appropriate persons or parties. In response to a question from Ms. Gruye, Dr. Brown commented on the societal and political responsibility for the health promotion practices of Americans.

Mr. Fearing pointed out additional aspects of the Cost Containment Act. He noted that because the bill limits only in-patient revenues, there will be a push toward more ambulatory care. He mentioned that non-compliance with the law would result in payment of a fine to the IRS or the development of a fund to reduce payors requirements. Also, he stated that certain states with qualified rate review programs would be exempt but added that he knew of only a few states which have programs that are qualified according to the rules of the Act. He further reported that a 9% limit would reduce estimated revenues by $651,000 in 1977-78 or by .8% for University Hospitals. Mr. Fearing stressed that the key provision of the Act is Title II which puts a limit on capital expenditures that could seriously jeopardize the future building programs of University Hospitals. The Committee continued to discuss the legislation, its philosophy, its affects on long range planning, and its timing. Mr. Cost pointed out how such potentially negative affects increase the need to consider consolidation with other institutions for purposes of survival.

In concluding the meeting, Chairman Holmquist suggested that a motion be made stating that the proposed budget for fiscal year 1977-78 was again reviewed by the Finance Committee which confirmed its original tentative approval and now recommend final approval by the Board of Governors of that budget in conjunction with the Facilities Committee's capital budget. Mr. Quistgard so moved. The motion was seconded and passed.

There being no further business, Chairman Holmquist adjourned the Finance Committee to a joint meeting with the Facilities Committee at 11:30 A.M.

Respectfully submitted,

Johnelle Foley/ps

Johnelle Foley
Secretary

UNIVERSITY OF MINNESOTA HOSPITALS
COMPARATIVE STATEMENT OF FINANCIAL CONDITION
MARCH 31, 1977

	3/31/77	6/30/76
Current Assets		
Cash Working Funds	$ 31,845	$ 31,845
Cash and Investments	6,059,578	4,601,807
Patient Accounts Receivable		
Less Allowances for Possible		
Losses in Collection	14,430,983	14,066,642
Amounts Due from Third Party Payor		
Cost Reimbursement Programs	402,783	484,723
Other Receivables	1,202,403	221,067
Inventories of Drugs & Supplies	2,233,061	1,821,002
Total Current Assets	$24,360,653	$21,227,086
Long Term Investments	$12,100,001	$10,657,298
Plant and Equipment		
Cash & Investments for Construction	$ 884,871	$ 1,590,166
Construction in Progress	3,885,225	1,284,495
Plant and Equipment	38,218,708	37,411,266
Less Allowances for Depreciation	(19,232,403)	(18,103,346)
Total Plant and Equipment	$23,756,401	$22,182,581
Restricted Endowment and Gift Investments	$ 8,356,691 (a)	$ 8,251,563
Total Assets	$68,573,746	$62,318,528

	3/31/77	6/30/76
Current Liabilities		
Trade Accounts Payable	$ 1,362,863	$ 859,914
Accrued Salary and Wages Payable	2,191,386	1,848,899
Accrued Vacation and Timeback		
Payable	1,848,159	1,728,811
Contracts Payable	420,907	157,047
Accrued Professional Fees	512,431	488,924
Total Current Liabilities	$ 6,335,746	$ 5,083,595
Fund Balances		
Unrestricted Funds:		
Operating Funds	$14,229,574	$11,946,682
Reserve Funds	15,895,334	14,854,107
Plant Funds	23,756,401	22,182,581
	$53,881,309	$48,983,370
Restricted Funds:		
Gift Funds	$ 481,103	$ 537,839
Endowment F[illegible]	7,875,588	7,713,724
	$ 8,356,691	$ 8,251,563
Total Liabilities [illegible] and Balances	$68,573,746	$62,318,528

(a) Restricted Fund market value as of March 31, 1977 $8,358,388

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

May 18, 1977

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing, Controller

SUBJECT: Controller's Report for Period July 1, 1976 through April 30, 1977
April Activity

The financial statements for the month of April continue to reflect a stable position. There are, however, several items of interest and significance which are outlined below.

The inpatient census for the month of April was 16,721 days. Admissions for April were 1,916 and the occupancy fell to 70.7% for the month. On a year to date basis, the inpatient census is 174,085 days compared to a projected 176,932 days. The difference of 2,847 days represents a 1.6% unfavorable variance.

The primary cause for the decline in the month's census was an unexpected reduction in the average length of stay which dropped from a year-to-date average of 9.3 days to 8.3 days for the month of April. While the reduced length of stay was experienced in most of the services, it is not expected to remain at the April level. Data gathered from the first 10 days of May indicate that the average length of stay is back again to more than nine days.

In spite of the reduced census, the Hospital has been able to hold its operating position. The April year-to-date total of revenues over expense is $194,402. This is down only $11,700 from the March figure. Although patient revenues are below budget by 0.8%, operating expenses are 0.9% below budget.

Our current position has been made possible because ancillary patient revenues have continued to hold up even with the reduction in inpatient census. If the present relationships are maintained, we should not have a problem in achieving our financial objectives. If, however, the ancillary revenue level does not hold up or the census continues to drop, the Hospital will have difficulty in achieving its objectives and cost containment measures might be necessary.

Two changes were made to the Hospitals' operating budget this month at the advice of the Board Finance Committee. The changes were to increase the budget (on an annual basis) for liability insurance by $1,083,000 and campus administrative expense by $1,143,750. These adjustments are consistent with other operational changes made effective with the projections from December 31, 1976 through the remainder of this fiscal year.

The combined effect of our actual operations and the adjustment of budgeted expenditures results in a variance of revenue over expense equal to 0.8% of total budgeted revenue.

For the second month in a row, there was a significant decline in the balance of accounts receivable. The accounts receivable were reduced by $591,904 to a balance of $16,965,011. The balance represents 86.3 days of revenue outstanding, down 2.2 days from March 31, 1977 and down 13.9 days from December 31, 1976. The principal reason for this change continues to be due to the follow-up effort by Hospital personnel on the status of outstanding claims. The reductions this month were primarily in commercial insurance categories.

In summary, the Hospital is operating very close to its breakeven point. Any unfavorable variances beyond what we have experienced to date will bring about a need for management to respond with further alternatives such as cost containment.

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO APRIL 30, 1977

	Budgeted	Actual	Variance - Over/(Under) Budget	Variance %
PATIENT CARE CHARGES				
Routine	$24,013,962	$23,574,557	$(439,405)	(1.8)
Ancillary	33,463,180	33,433,137	(30,043)	(0.1)
Professional Fees	524,723	514,593	(10,130)	(1.9)
Gross Charges	$58,001,865	$57,522,287	$(479,578)	(0.8)
DEDUCTIONS FROM CHARGES				
Pro Fees Paid	$ 448,249	$ 431,985	$ (16,264)	(3.6)
Third Party Contract Adj.	140,570	140,570	-0-	-
Billing Adjustments & Employee Benefits	694,447	772,799	78,352	11.3
Charitable Care	741,542	782,438	40,896	5.5
Other Contract Adj.	627,579	408,586	(218,993)	(34.9)
Allow for Uncoll Accts	1,160,037	1,150,402	(9,635)	(0.8)
Donations from Restricted Funds		(15,863)	(15,863)	-
Total Deductions	$ 3,812,424	$ 3,670,917	$(141,507)	(3.7)
OTHER OPERATING REVENUE				
Food Services	$ 528,610	$ 490,786	$ (37,824)	(7.2)
Powell Hall Motel	204,090	209,410	5,320	2.6
Departmental Non-Patient	68,704	78,394	9,690	14.1
Reference Lab Income	108,274	225,553	117,279	108.3
Donations to Operations from Restricted Funds		57,620	57,620	-
Total Other Revenue	$ 90,678	$ 1,061,763	$ 152,085	16.7
Total Revenue from Operations	$55,099,119	$54,913,133	$(185,986)	(.3)
EXPENDITURES				
Salaries	$30,389,073	$29,791,123	$(597,950)	(2.0)
Fringe Benefits	4,932,276	4,944,974	12,698	.3
Accrued Vacation & Timeback	132,412	132,412	-0-	-
Academic Contracts	940,741	940,741	-0-	-
Resident Contracts	2,051,112	2,013,361	(37,751)	(1.8)
Physician Compensation	2,365,367	2,192,237	(173,130)	(7.3)
Total Salaries, Wages F.B., and Fees	40,810,981	40,014,848	(796,133)	(2.0)
Laundry & Linens	1,118,429	1,134,524	16,095	1.4
Raw Food	1,021,702	1,074,997	53,295	5.2
Drugs	3,367,673	3,110,993	(256,680)	(7.6)
Blood & Blood Derivatives	1,296,137	1,375,114	78,977	6.1
Medical Supplies	3,866,176	3,866,215	39	-
Utilities	646,747	655,051	8,304	1.3
Insurance	1,310,986	1,305,134	(5,852)	(.4)
Rental	894,305	703,977	(190,328)	(21.3)
Maintenance & Repair	573,835	754,473	180,638	31.5
Communications	430,927	433,246	2,319	.5
Net Loss on Disposal of Assets	-0-	25,634	25,634	-
Campus Adm. Exp.	3,248,214	3,248,214	-0-	-
Depreciation	1,360,072	1,399,777	39,705	2.9
General Supplies & Exp.	2,944,378	3,179,329	234,951	8.0
Total Expenditures	$62,890,562	$62,281,526	$(609,036)	(.9)
Net Revenue from Operations	$(7,791,443)	$(7,368,393)	$ 423,050	5.4
NON-OPERATING REVENUE				
Appropriations and Support	$ 6,695,663	$ 6,695,663	-0-	-0-
Accrued Interest on Approp.	155,833	155,833	-0-	-
Interest Income on Reserves	681,624	681,624	-0-	-
Shared Services	-	29,675	29,675	-
Total Non-Operating Rev	$ 7,533,120	$ 7,562,795	$ 29,675	.4
Total Revenue Over(Under) Exp.	$ (258,323)	$ 194,402	$ 452,725 (1)	

(1) Variance equals .8% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO APRIL 30, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$58,001,865	$57,522,287	$(479,578)	(0.8)
Deductions from Charges	3,812,424	3,670,917	(141,507)	(3.7)
Other Operating Revenue	909,678	1,061,763	152,085	16.7
Total Revenue from Operations	$55,099,119	$54,913,133	$(185,986)	(.3)
Expenditures				
Salaries	$30,521,485	$29,923,535	$(597,950)	(2.0)
Fringe Benefits	4,932,276	4,944,974	12,698	.3
Contract Compensation	5,357,220	5,146,339	(210,881)	(3.9)
Med Supplies,Drugs,Blood	8,529,986	8,352,322	(177,664)	(2.1)
Campus Admin Expense	3,248,214	3,248,214	-	-
Depreciation	1,360,072	1,399,777	39,705	2.9
General Supplies & Expense	8,941,309	9,266,365	325,056	3.6
Total Expenditures	$62,890,562	$62,281,526	$(609,036)	(.9)
Revenue Over/(Under) Expense	$(7,791,443)	$(7,368,393)	$ 423,050	5.4
Non-Operating Revenue				
Appropriations/Univ Support	$ 6,695,663	$ 6,695,663	$ -0-	-
Accrued Interest Income	837,457	837,457	-	
Shared Services	-	29,675	29,675	
Total Non-Oper Rev	$ 7,533,120	$ 7,562,795	$ 29,675	.4
Revenue Over/(Under) Expenses	$ (258,323)	$ 194,402	$ 452,725 (1)	

(1) Variance equals .8% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
OPERATING CASH FLOW
FOR PERIOD JULY 1, 1976 TO APRIL 30, 1977

Source of Funds		
Beginning Cash Balance		$ 406,468
Loss from Operations	(7,368,393)	
Non-Operating Revenue	7,562,795	
Excess of Revenue over Expense		194,402
Items not Requiring the Outlay of Cash		
Depreciation		1,399,777
University Support: G&A		3,248,214
K/E Utilities		54,701
Increase in Accrued Expenses		1,600,842
Decrease in Accounts Receivable		389,683
Total Funds Provided from Operations		$7,294,087
Funds Applied		
Transfers to Plant		
Capital Expenditures	1,399,621	
Increase in Capital Encumbrance	293,409	
		1,693,030
Increase in Accrued Revenue		1,054,727
Increase in Inventories		456,859
Transfer for Funded Depreciation Required by MHA		1,783,029
Total Funds Applied		$4,987,645
Total Net Operating Cash Available		$2,306,442 (1)

(1) Available for offsetting future cash need of $546,115 to cover increase in accrued expenses.

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

May 16, 1977

TO: Cliff Fearing

FROM: Bill Connell

RE: Bad Debt Report - Third Quarter - 1/1/77 to 3/31/77

The total amount recommended for bad debt during the third quarter of the 1976-77 fiscal year is $120930.94 represented by 1022 accounts.

Bad debt recoveries during this period amounted to $40243.99 leaving a net charge off of $80686.95.

A statistical summary follows on this report with detailed monthly data available on the attached reports.

BC/el

enc.

BAD DEBT STATISTICS - January 1, 1977 to March 31, 1977

OUTPATIENT

Dollar Ranges	Below $50	$50 - $1,999	$2,000 & Over	Total
Dollar Amount	10238.80	26164.90	5086.66	41490.36
Number of Accounts	660	142	2	804

INPATIENT

Dollar Ranges	Below $100	$100 - 2,000	Above $2,000	Total
Dollar Amount	5410.03	59124.64	14905.91	79440.58
Number of Accounts	109	104	5	218

Total Amount - Inpatient and Outpatient	120930.94
Total Number - Inpatient and Outpatient	1022
% of Outpatient Number to Total Number	.79
% of Outpatient Amount to Total Amount	.34
% of Inpatient Number to Total Number	.21
% of Inpatient Amount to Total Amount	.66

Attached is a brief description of accounts over $2,000.

T & R BAD DEBTS

OVER $2000

Koenig, Lucille	5712096	$2457.68
Nelson, Alesia	3510989	$2533.85
Thune, Elsa	5823869	$2528.96

DESCRIPTIONS

Koenig, Lucille
We accepted a 50% settlement from family of this South Dakota patient

Nelson, Alesia
1968 bill returned as uncollectable from collection agency.

Thune, Elsa
Adjustment made on bill with Administrative approval due to quality of care issues.

T & R BAD DEBTS
OVER $2000

Barry, Jon	5775085	$2174.31
Hyde, Donald	6515191	$3041.53
Mace, Shirly	6735773	$2045.13
Marsh, Margaret	5512215	$5211.11

DESCRIPTIONS

Barry, Jon
We settled the account for 50% after receiving approximately $24,000 from third party sources.

Hyde, Donald
Bad debted in error. Adjustment was made on same report

Mace, Shirly
Montana patient. Unemployed. Not qualified for public assistance. We accepted compromise from son.

Marsh, Margaret
Returned from collection agency as uncollectable.

RATE CONTROLS SPECIAL SUPPLEMENT

SUMMARY OF H.R. 6575 INTRODUCED IN THE HOUSE OF REPRESENTATIVES ON APRIL 25, 1977, BY REPRESENTATIVES ROGERS AND ROSTENSKOWSKI

A bill to establish a transitional system of hospital cost containment by providing for incentives and restraints to contain the rate of increase in hospital revenues, to establish a system of capital allocation designed to encourage communities to reduce creation of unneeded and duplicative hospital facilities and services, to provide for the publication and disclosure of information useful to the public in making decisions about health care, to provide for the development of permanent reforms in hospital reimbursement designed to provide incentives for the efficient and effective use of hospital resources, and for other purposes.

The Act is Entitled, "Hospital Cost Containment Act of 1977".

Report on Permanent Reform in the Delivery and Financing of Health Care:

The Secretary shall submit to Congress, no later than March 1, 1978, a report setting forth his recommendations for permanent reforms in the delivery and financing of health care which will replace the transitional provisions of Title I of this Act.

itle I - Transitional Hospital Cost Constraint Provisions:

The average charge per admission or reimbursement per admission paid by any cost payer such as Medicare, Medicaid or Blue Cross, along with charges to others, cannot in the aggregate exceed the limitations.

Provision is made to avoid unwarranted increases in order to build up the base in less than full-year periods during 1976.

Imposition of Hospital Revenue Increase Limit:

Beginning October 1, 1977, an "adjusted inpatient hospital revenue increase limit" will be applied. This limit will be calculated by using the gross national product (GNP) deflator for the 12-month period ending June 30, 1977, plus the difference of one-third of the average annual increase in total hospital expenditures during the two-year period preceding January 1, 1977, over the GNP deflator for two preceding years. It is anticipated that in 1977 the maximum limitations will be about 9%.(1) If it is determined during any 12-month period subject to this title that the GNP deflator is expected to exceed the amount determined for the prospective rate by more than one percentage point, the Secretary shall increase the revenue limit with respect to the year in question.

Promulgation of Admission Load Formula:

The "admission load formula" is used to yield the "adjusted inpatient hospital increase limit". This formula is essentially a corridor for changes in admissions which will produce allowable additional or reduced revenue. Hospitals are classified as those which are above 4,000 admissions per year versus those lower than 4,000 admissions in the previous accounting year. The corridor for larger hospitals is:

(Continued on Page 2) ......

Promulgation of Admission Load Formula: (Cont'd. from Page 1)

- Increases --

  Up to 2% -- no increase in revenues.
  Over 2% up to 15% -- may increase one-half of allowable average revenue per admission.
  Over 15% -- no increase in revenues.

- Decreases --

  Under 6% -- no decrease in revenues.
  Over 6% up to 15% -- one-half decrease in allowable revenue per admission.
  Over 15% -- dollar-for-dollar adjustment downward.

The corridor for smaller hospitals is the same except that the decrease corridor is 10% for no adjustment and over 10% to 15% for one-half adjustment.

Base Inpatient Hospital Service Revenue:

Essentially, the base year is the accounting year ending in calendar 1976, reduced by any estimate in the base year of payments made to the hospital which do not fall within the accounting year subject to the Act.

Establishment of Exceptions:

The Secretary will have authority to grant exceptions from limitations, but only to the extent that the hospital provides evidence satisfactory to the Secretary: (1) that there is major change in admissions at levels specified by the Secretary, (2) that changes in capacity or the character of inpatient services available in the hospital or major renovation or replacement of physical plant, but only if such changes increased inpatient costs per admission by more than one-third of the annual difference, (3) that those revenues otherwise allowable (after considering all resources) are insufficient to insure solvency of the hospital as measured by the ratio of current assets to current liabilities below the 25th percentile of all hospitals, and that these changes are found essential to meet the health care needs of the community. Any hospital granted an exception under this section must make itself available for an operational review by the Secretary, the findings of such review being made public, and the continuation of the exception being made contingent upon the implementation of any recommendations for improvements to increase efficiency and economy. Exceptions will not permit the hospitals to maintain a ratio of current assets to current liabilities greater than the 25th percentile.

Appeals are provided through a subcommittee of the Provider Reimbursement Review Board if the amount in controversy is more than $25,000. Provision is made for the appointment of five additional members to the PRRB.

Enforcement:

Compliance is required under both Medicare and Medicaid for interim and final reimbursement in accordance with the limits prescribed. Any hospital or nongovernmental hospital exceeding the limitations would be subject to a federal excise tax in the amount equal to 150% of the excess, except where corrective action is taken. This action would be to hold in escrow any amount over the percentage applicable until such time as the aggregate amount 'lls below the limits established and the escrow amounts can be absorbed.

Exemption for Hospitals in Certain States:

State rate control programs in effect for at least one year may be exempted by request of the governor of that state if the program covers at least 90% of the hospitals within the state, and if the program applies to all inpatient revenue except Medicare, and if the governor certifies that the aggregate rate of increase in inpatient hospital revenues for all hospitals will not exceed the rate established by the Act, and that the governor has submitted and had approved a plan for handling any excessive revenue which may occur. Where an existing program covered at least 50% of all inpatient revenues for the preceding year, the state could be eligible if it establishes satisfactory compliance. Certain experimental rate control programs are eligible for exemption. Also, exemptions are provided for federal hospitals, new (less than two years) hospitals and HMO-owned hospitals (if more than 75% revenues are capitation).

Exemption of Nonsupervisory Personnel Wage Increases from Revenue Limit:

Provision is made for a modification to exempt wage increases to nonsupervisory personnel (as defined in the National Labor Relations Act). If an acceptable demonstration is made, the inpatient hospital revenue increase is modified by the increase in wages granted nonsupervisory personnel for that year. Provision is made to terminate this exemption after March 31, 1979.

Disclosure of Fiscal Information:

As a condition of participation in any of the federal programs, the hospital would be obliged to semiannually disclose its average semiprivate room rate and charges for ten other services which represent the most used services in the area, as well as make available all ·t reports submitted to Medicare and other third-party payers. The HSA will be obliged ice a year to publish the information which it receives in a manner "designated to facilitate comparisons among hospitals in its area". Also, the hospital would submit its overall plan and budget as currently required under Medicare.

Improper Changes and Admission Practices:

Upon proper written complaints, any hospital which has changed its admission practices in a manner that would tend to reduce its proportion of inpatients for whom reimbursement is at less than full charges may, upon finding by the local HSA, be determined by the Secretary to be ineligible for any federal program reimbursement.

Review of Certain Determinations:

Decisions made on behalf of the Secretary with respect to provisions to individual hospitals shall be subject to the appeal procedures under the Medicare program.

Excise Tax on Excessive Payments for Inpatient Hospital Services:

Provision in this section is made for 150% excise tax under the Internal Revenue Code for amounts either paid or collected in excess of the established limits unless corrective action is taken.

Title II - Limitation on Hospital Capital Expenditures:

Beginning October 1, 1977, and at least 60 days before the beginning of each successive ır, the Secretary shall establish a sum as an upper limit on hospital capital expenditures.

(Continued on Page 4) ......

Title II - Limitation on Hospital Capital Expenditures: (Cont'd. from Page 3)

The current limit is established at $2,500,000,000.(2) This amount shall be apportioned to the states on the basis of population, however, taking into account to the extent feasible variations in construction costs, population and growth patterns, need for hospital facilities and equipment, and other factors important to the equitable apportionment. A national ceiling is established which would be (a) four beds per 1,000 population (unless a particular health service area has been determined to have special characteristics) and (b) an occupancy standard of not less than 80% (unless the Secretary may establish a different standard for special characteristics). A certificate of need program is established which will review and determine the need for all programs, services and facilities for which substantial expenditures are undertaken in the certificate of need process. The limitation and allocation of capital expenditures must be considered. If, for instance, an HSA area is operating at something less than the supply ceiling, it may add beds to the extent of one-half of the number of beds under the ceiling. Beds can also be added in the proportion of one-half to one, if unneeded hospitals or hospital beds are closed. To the extent that unneeded hospitals or parts thereof are closed, the net fixed asset cost of those hospitals can be added to the apportioned amount of capital expenditure for that state. If a person (or foundation) makes an acquisition of equipment and donates it to the hospital, the cost shall be considered an expenditure for purposes of the limitation.

(1) Estimate of Hospital Revenue Increase Limit:

There are three inflation-measuring indices: (1) CPI, (2) WPI and (3) GNP deflator. The GNP deflator is the best measure of inflation in gross terms. It measures the factor by which the GNP has to be reduced in order to measure GNP in constant dollars. So, in effect, if we want to express gross national product in constant dollars and see the real growth in GNP -- we will have to divide the GNP by the GNP deflator which is an index like the CPI.

The GNP price deflator is set at the index of 100 for the year 1972 -- similar to the fact that CPI is set at 100 for 1967. The following are GNP price deflators for the years 1970 through 1976:

1970 - 91.36	1974 - 116.41
1971 - 96.02	1975 - 127.25
1972 - 100.00	1976 - 133.79
1973 - 104.80	

The average increase in the rate of GNP price deflator has been 7.5% between 1972-1976. The latest available increase has been between 1975-1976 which has been 5.1%. It is estimated that the rate of increase in GNP price deflator would be approximately 5.5% for 1977. This is very similar to CPI. Thus, the GNP price deflator moves parallel to CPI and WPI.

As to the question of how much has been the overall increase in hospital expenditure, some AHA figures indicate that for community hospitals the increase has been 15% between 1973-1974, and it has been 17.5% between 1974-1975. If we assume the GNP price deflator to be 5.5% and the total increase in hospital expenditures has been 16.0%, then according to the formula the allowable limit for inpatient revenue increase would be:

$$5.5 + \left(\frac{16.0 - 5.5}{3}\right) = 9.0\%$$

This will be the maximum allowable limit.

(2) One-half of the estimated capital expenditure total for 1977.

UNIVERSITY OF MINNESOTA HOSPITALS
ESTIMATED EFFECTS OF
COST CONTAINMENT ACT OF 1977

Total Inpatient Revenues Fiscal Year Ended 6/30/76	$54,836,844
Maximum Yearly Increase	15%
Estimated 1976-77 Maximum Base	$63,062,371
Estimated 1976-77 Actual Base	$63,031,953
Estimated Allowable 1977-78 Increase 9%	$68,737,984
Estimated 1977-78 Budgeted Inpatient Revenues (89.04)%	$69,389,372
Estimated 1977-78 Revenue Changes Required	$ 651,389
% Change Required	.84%

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
June 15, 1977

Present: Stanley Holmquist, Chairman
John Quistgard, Vice Chairman
Al France
Debbie Gruye
Ron Werft
Don Van Hulzen

Absent: David Cost
David Brown, M.D.
Don Brown
Frederic Kottke, M.D.
Dave Preston
John Westerman

Staff: Cliff Fearing
John Diehl
Johnelle Foley

The meeting of the Finance Committee of the Board of Governors was called to order by Chairman Holmquist at 10:10 a.m., in the K/E Conference Room.

I. Approval of the May 18, 1977 Minutes

Mr. France moved that the minutes of the previous meeting be approved. The motion was seconded and passed.

II. Legal Counsel Report

Mr. Diehl reported to the Finance Committee that the Department of Welfare has stated that they will not pay for the care of individuals on General Assistance Medical Care when those individuals seek their care at University Hospitals. Rather, he stated, those individuals' care is to be funded through the County Papers Program. Mr. Diehl explained that the General Assistance Medical Care Program is for individuals who are not eligible for Medicaid for reasons of age or income level and that the County Papers Program is for individuals who don't quality for any other aid because of assets they may hold. He added that the County Papers Program is a small pool of money amounting to approximately $2 million which is available each year for University Hospitals. The program was established specifically for this institution in 1923.

Mr. Diehl stated that he cannot find support for this decision in the statutues. He explained that both programs are supported by State funds and suggested that the person who made this decision may be attempting to minimize costs for the Department of Welfare. He commented that the freedom of choice of vendor and access to proper medical care is inhibited by this stand. Mr. Diehl stated that efforts will be made to change this situtation and if agreement cannot be reached, the matter may be taken to litigation. He concluded that he was optimistic that they will be successful in rectifying the error which has been made, both because the proper legal steps were not taken in making the decision and because of a previous favorable attorney generals' ruling in a similar case.

Mr. Diehl was then asked to comment on the current status of Central Administration's discussions concerning the University's liability insurance package. Mr. Diehl reported that both the Legislature and the Regents are reported to have encouraged pursuing a self-insurance approach. He commented that meetings have been held by Central Administration on this issue but that Hospitals' representatives have not been invited to these sessions. He mentioned that an article in the Daily stated that an off-shore captive arrangement is being considered and added that he heard that the University may not renew its present policy and that the insurance company may not renew the policy.

The Finance Committee then discussed various aspects of the present policy and the portion of the premium allocated to University Hospitals. Mention was made that liability insurance should be a topic for inclusion in the consortium study if it is approved. Chairman Holmquist voiced his concern and inpatience with the deliberations on this matter. Mr. Quistgard moved that the Finance Committee recommend that the Board of Governors adopt a resolution stating that University Hospitals be included in discussions with Central Administration concerning liability insurance for the University. The motion was seconded and passed. Mr. France suggested that the Chairman request that Mr. Diehl report back on the follow-up of that resolution. Chairman Holmquist asked that the minutes reflect that the request was so made.

III. Controllers Report

Mr. Fearing reviewed with the Finance Committee the narrative of the Controller's Report. General trends which he pointed out were an increase in admissions, a decline in average length of stay, and a decline in patient days. Neurology and Pediatrics were cited as having the greatest reduction in their average lengths of stay. Mention was made that this could reflect changes in Medical Staff leadership in these areas by younger physicians more conscious of utilization review practices. Mr. Fearing stated that the trend toward shorter stays has come more rapidly than projected and that there is concern but that we plan to wait and see how the situation progresses. Mr. France pointed out that it is erroneous to assume that a shorter stay means a reduced cost to the patient unless the Hospitals' expenses can be reduced concurrently. The Committee talked about the differences in lengths of stay in Minneapolis versus St. Paul, the public relations' value of shorter stays to rural physicians and the holding status of out-patient visits. Mr. Van Hulzen pointed out that with admissions up 5%, University Hospitals continues a good market place position.

Mr. Fearing next commented that reductions did occur in May in ancillary revenues which had previously held up despite the declining in-patient census. The result, he explained, is that total patient revenues are now 1.5% below budget, down from .8% below budget at the end of April. He mentioned that it is difficult for ancillary areas to react quickly to a trend which has occurred in one month, but added that management will be carefully examining and questioning monthly departmental reports as well as investigating additional cost-containment measures. He stated that the net result of current trends is a variance of expenses over revenue equal to .1% of total budgeted revenue.

Mr. Fearing reported that significant declines have occurred in the balance of accounts receivable. There are now 83.6 days of revenue outstanding, down 2.7 days from April 30, 1977 and down 16.6 days from December 31, 1976. He referred the Committee to the Cash Flow Statement which shows $3 million in total net operating cash available which he attributed to the reduction in accounts receivable. He pointed out that this amount is available for offsetting the future cash need of $774,563 to cover the increase in accrued expenses. The Committee then discussed the variance in Other Contract Adjustments on the Statement of Operations. Mr. Fearing explained that the variance in this area is due to a change in Medicare reimbursement for kindey dialysis. Another item which was covered as the settlement of certain outstanding accounts. Chairman Holmquist pointed out the benefits of settling such accounts in certain cases to avoid nuisance suits against the Hospitals.

The Committee next turned to the Gain/Loss Summary Statement for fiscal year ending May 31, 1977. Mr. Fearing explained that this statement shows gains and losses by individual departments. He commented that it deals with pricing policies and that the expenses shown include both direct and overhead expenses. He also pointed out that the statement was prepared without the application of appropiations or support. It was explained that the Out-Patient Clinics receiving $2.1 million in appropriations partially to account for the longer time it takes to go through clinics because of the teaching program. Thus, the Out-Patient Clinics are viable due to direct subsidy. It was noted that Rehabilitation is not viable to the same extent, because many activities in Rehab are not charged for and in essence, that department is priced for loss, but the situation is changing. Mr. Fearing commented that there does exist a need for adjustments in several of these areas and this matter is being studied. Later in the meeting, Mr. Van Hulzen commented further on the gain/loss statement. He stated that expenses shown are just what they are and that charges generate revenue as shown, but he pointed out that the statement does not include deductions, allowances, or discounts. Thus, there are certain situations where there is a charge but no collection. Secondly, he stated that the gain/loss statement shows which programs create the most difficulties for future financing of the Hospitals. He mentioned that it should be examined in terms of questioning how to proceed in the future and how to decide on the best utilization of services and resources. Mr. Werft inquired as to whether the Board can decide to close a loss-leading department. It was explained that if such action would affect the mission of the Hospitals, the decision would have to be approved by the Board of Regents.

IV. JCAH Financial Requirements of the Board

Mr. Fearing explained that he was providing the copy of a new standard from the Joint Commission for the Finance Committee's information. He reviewed the standard and the points of its interpretation step by step, showing that University Hospitals is in compliance with the standard. He commented that this is an interesting standard in that it is the first time the Joint Commission has shown an interest in the financing of hospitals.

Mr. France asked what the Board's position will be on the cost containment legislation which is being considered. He commented on the difficulties he foresaw should the bill be enacted because the restraints it proposes fall unevenly on all hospitals. Mr. Van Hulzen responded that management would continue to work individually through the various hospital groups they are associated with and stated that there appears to be no need for the Board to take formal action. He added that the impact of the legislation on University Hospitals is understood and is viewed as manageable with some difficulties. It was mentioned that it is unlikely that the bill will be passed. Mr. France suggested that the issue should be taken before the Board of Governors.

Chairman Holmquist stated that the Board will be deciding upon the consortium resolution that afternoon and he commented on the benefits of such a venture. He also noted that there will be no Finance Committee meetings in July or August unless a special need arises and that he will not be in attendance at the August retreat.

There being no further business, the Finance Committee adjourned its meeting at 12:35 p.m.

Respectfully submitted,

Johnelle Foley /ss

Johnelle Foley, Secretary

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
Special Meeting
June 15, 1977 - 4:40 P.M.

Present: Stanley Holmquist, Chairman
David Cost
Al France
Debbie Gruye
John Quistgard
Ron Werft
John Diehl
Donald Van Hulzen

Mr. France moved that the resolution requesting that University Hospitals' representatives be more involved in deliberations with Central Administration concerning the University's liability insurance arrangement be reconsidered. The motion was seconded and passed.

Mr. Quistgard moved that the resolution be withdrawn. The motion was seconded. Discussion followed and the motion was voted upon and passed.

Respectfully submitted,

Johnelle Foley/ao

Johnelle Foley
Secretary

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO MAY 31, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$64,238,604	$63,280,387	$(958,217)	(1.5)
Deductions from Charges	4,208,401	4,032,518	(175,883)	(4.2)
Other Operating Revenue	1,002,441	1,139,172	136,731	13.6
Total Revenue from Operations	$61,032,644	$60,387,041	$(645,603)	(1.1)
Expenditures				
Salaries	$33,682,187	$33,016,224	$(665,963)	(2.0)
Fringe Benefits	5,443,163	5,477,874	34,711	0.6
Contract Compensation	5,911,042	5,674,622	(236,420)	(4.0)
Med Supplies,Drugs,Blood	9,399,409	9,305,075	(94,334)	(1.0)
Campus Admin Expense	3,579,446	3,579,446	-0-	-
Depreciation	1,498,761	1,539,760	40,999	2.7
General Supplies & Expense	9,925,151	10,284,639	359,488	3.6
Total Expenditures	$69,439,159	$68,877,640	$(561,519)	(0.8)
Revenue Over/(Under) Expense	$(8,406,515)	$(8,490,599)	$ (84,084)	(1.0)
Non-Operating Revenue				
Appropriations/Univ Support	$ 7,349,713	$ 7,349,713	-0-	-
Accrued Interest Income	922,856	922,856	-0-	-
Shared Services	-0-	29,675	29,675	-
Total Non-Oper Rev	$ 8,272,569	$ 8,302,244	$ 29,675	0.4
Revenue Over/(Under) Expenses	$ (133,946)	$ (188,355)	$ (54,409) (1)	

(1) Variance equals 0.1% of Total Budgeted Revenue.

STANDARD VIII The governing body, through its chief executive officer, shall provide for the control and use of the physical and financial resources of the hospital.

INTERPRETATION Responsibility for implementing the policies of the governing body relative to the control and the effective utilization of the physical and financial resources of the hospital shall be given to the chief executive officer. A written plan of internal control that establishes a valid business and financial basis for the systems and programs of the hospital shall be implemented. The plan shall contain, as a minimum, the following:

- a plan of organization that provides an appropriate segregation of functional responsibilities;

- a system of authorization and record procedures adequate to provide accounting control over assets, liabilities, revenues, and expenses;

- valid practices to be followed by each organizational department in performing its duties and functions; and

- a requirement for employment of personnel with qualifications commensurate with responsibilities.

The internal control plan shall also include written policies and procedures for the control of accounts receivable, for the handling of cash, and for credit arrangements. A current written schedule of rates and charges for all hospital services shall be maintained, and shall be available to all who use them.

It is recommended that the hospital employ an accounting system that is responsibility-oriented, i.e., one that parallels the institution's plan of organization, and identifies financial results with those responsible for them.

A formal budget shall be prepared at least annually and should be a written expression of the hospital's financial plan for attaining its goals and objectives. The budget should be developed with the participation of appropriate members of the administrative and medical staffs. There should be departmental budgets that are related to the objectives of the departments, and to the budgetary program of the hospital. Periodic reports showing comparisons between planned performances and actual experience should be available and should be provided to department heads for analysis.

Planning, coordinating, and controlling at the operational level require intelligent estimates of the volume and types of service to be rendered, the number of personnel required to provide service and the resulting cost, and the amount and type of supplies required to provide service and the resulting cost. Minimum requirements for valid budgeting procedures include the following:

-sound organizational structure;

-a uniform system and classification of accounts;

-adequate and pertinent statistical data; and

-reporting systems.

The chief executive officer should ascertain that the budget adequately presents the budgetary and professional objectives of the hospital and includes sufficient information to enable the governing body to evaluate and approve the budget as an operating plan.

There shall be an insurance program that provides for the protection of the physical and financial resources of the hospital. There should be appropriate coverage for damage to or destruction of hospital property, for financial loss resulting from theft or from uncontrollable business interruptions, and for financial loss resulting from liability imposed by law for actions of the members of the governing body, medical staff, and hospital personnel, including those serving on a voluntary basis. To the extent available, insurance should cover liability of the hospital arising out of malpractice or error in rendering or failing to render medical, surgical, dental, or nursing treatment and the like, including dispensing of food and medications, by all individuals for whose acts the hospital may be held legally responsible.

There shall be written policies governing the control of inventories including purchasing procedures, product selection and evaluation, and supply distribution. Such policies should have as their objective that prices paid for products and services be the lowest possible, consistent with quality and use. Records shall be maintained documenting compliance with these established policies.

An audit of the financial operations of the hospital should be performed by an independent public accountant at least annually. The reports of such audit shall be reviewed by the chief executive officer and the governing body at least annually, and should be available to the Joint Commission on Accreditation of Hospitals at the time of the hospital's accreditation survey.

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals
Minneapolis, Minnesota 55455

June 15, 1977

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing, Controller

SUBJECT: Controller's Report for the Period July 1, 1976 Through May 31, 1977 - May Activity

The May financial statements continue to show the overall operations of the Hospital very close to budget. However, within the total operations of the Hospital, there are variances due to a changing census, and also levels of expenditure that deserve comment.

The May year-to-date inpatient census is currently 4,503 days below our projections. Patient days were budgeted at 195,523 but actually totaled 191,020. This difference represents an unfavorable variance of 2.3%. For the month of May, the inpatient census was 16,941 days, the number of admissions was 1,923 and the occupancy fell to 69.3%.

The variance in our inpatient census level is a product of two variables; the number of admissions and the length of stay. While the number of admissions is up 5% over last year, the decline in the length of stay, from 9.9 days a year ago to 9.2 days currently, has resulted in a reduced census. The most significant reductions in the length of stay have occurred in Neurology (decrease of 3.2 days) and Pediatrics (decrease of 0.7 days). These declines are a result of changes in the clinical chiefs on those services as well as other yet undefined factors which management is studying.

The decline in the inpatient census is now beginning to impact the current position of the Hospital. In previous months, ancillary revenue had held up and, to a large extent, had effectively offset the decline in routine revenue. In May, however, reductions occurred in the level of ancillary revenue. These revenue reductions have impacted many ancillary areas but are most significant in Radiology, Pharmacy, Operating Room, and the Blood Bank. The result is that total patient revenues are now 1.5% below budget, down from 0.8% below budget as of the end of April.

Operating expenses continue to remain fairly stable at 0.8% below budget. While this relationship may be acceptable with an adequate and stable patient population or charge base, operating expenses must be reduced to offset major reductions in census and ancillary utilization. Given this situation, management is now studying alternative cost containment measures which will serve to protect the financial position of the Hospital should this downward trend in census continue into 1977-78.

The combined impact of our present census levels, which has lowered our anticipated income, and the current level of total operating expenses results in a variance of expenses over revenue equal to 0.1% of total budgeted revenue.

Significant declines in the balance of accounts receivable have occurred for the third month in a row. The accounts receivable were reduced by $725,668 during May to a balance of $16,239,343. The balance represents 83.6 days of revenue outstanding, down 2.7 days from April 30, 1977 and down 16.6 days from December 31, 1976. The reductions this month were again primarily in the commercial insurance categories and are a result of the follow-up effort by Hospital personnel on the status of outstanding claims.

In conclusion, although the Hospital is still operating very close to its break even point, management is concerned about the declining trend in average length of stay and is developing alternative plans for operations that will protect the financial viability of the institution. These cost reduction or containment measures are particularly important in light of our proposed capital projects and their related financing alternatives. Management is aware and concerned about these trends and is working to develop the necessary plans to react to a continued downward trend in census to insure the necessary financial integrity of our short and long range plans.

CF/tr

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO MAY 31, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
PATIENT CARE CHARGES				
Routine	$26,614,980	$25,948,541	$(666,439)	(2.5)
Ancillary	37,051,287	36,765,934	(285,353)	(0.8)
Professional Fees	572,337	565,912	(6,425)	(1.1)
Gross Charges	$64,238,604	$63,280,387	$(958,217)	(1.5)
DEDUCTIONS FROM CHARGES				
Pro Fees Paid	$ 494,727	$ 475,343	$ (19,384)	(3.9)
Third Party Contract Adj.	154,904	154,904	-0-	-
Billing Adjustments & Employee Benefits	765,262	844,907	79,645	10.4
Charitable Care	817,160	831,458	14,298	1.7
Other Contract Adj.	691,576	476,419	(215,157)	(31.1)
Allow for Uncoll Accts	1,284,772	1,265,552	(19,220)	(1.5)
Donations from Restricted Funds		(16,065)	(16,065)	-
Total Deductions	$ 4,208,401	$ 4,032,518	$(175,883)	(4.2)
OTHER OPERATING REVENUE				
Food Services	$ 582,514	$ 535,293	$ (47,221)	(8.1)
Powell Hall Motel	224,902	230,962	6,060	2.7
Departmental Non-Patient	75,710	85,511	9,801	12.9
Reference Lab Income	119,315	242,331	123,016	103.1
Donations to Operations from Restricted Funds	-0-	45,075	45,075	-
Total Other Revenue	$ 1,002,441	$ 1,139,172	$ 136,731	13.6
Total Revenue from Operations	$61,032,644	$60,387,041	$(645,603)	(1.1)
EXPENDITURES				
Salaries	$33,536,273	$32,870,310	$(665,963)	(2.0)
Fringe Benefits	5,443,163	5,477,874	34,711	0.6
Accrued Vacation & Timeback	145,914	145,914	-0-	-
Academic Contracts	1,036,672	1,036,672	-0-	-
Resident Contracts	2,267,798	2,230,047	(37,751)	(1.7)
Physician Compensation	2,606,572	2,407,903	(198,669)	(7.6)
Total Salaries, Wages F.B., and Fees	45,036,392	44,168,720	(867,672)	(1.9)
Laundry & Linens	1,232,485	1,242,820	10,335	.8
Raw Food	1,167,524	1,257,185	89,661	7.7
Drugs	3,711,519	3,491,646	(219,873)	(5.9)
Blood & Blood Derivatives	1,428,309	1,569,331	141,022	9.9
Medical Supplies	4,259,581	4,244,098	(15,483)	(.4)
Utilities	712,698	718,422	5,724	.8
Insurance	1,444,672	1,439,618	(5,054)	(.3)
Rental	986,292	778,803	(207,489)	(21.0)
Maintenance & Repair	633,550	808,151	174,601	27.6
Communications	474,959	477,351	2,392	.5
Net Loss on Disposal of Assets	-0-	25,634	25,634	-
Campus Adm. Exp.	3,579,446	3,579,446	-0-	-
Depreciation	1,498,761	1,539,760	40,999	2.7
General Supplies & Exp.	3,272,971	3,536,655	263,684	8.1
Total Expenditures	$69,439,159	$68,877,640	$(561,519)	(0.8)
Net Revenue from Operations	$(8,406,515)	$(8,490,599)	$ (84,084)	(1.0)
NON-OPERATING REVENUE				
Appropriations and Support	$ 7,349,713	$ 7,349,713	-0-	-
Accrued Interest on Approp.	171,724	171,724	-0-	-
Interest Income on Reserves	751,132	751,132	-0-	-
Shared Services	-0-	29,675	29,675	-
Total Non-Operating Rev	$ 8,272,569	$ 8,302,244	$ 29,675	0.4
Total Revenue Over(Under) Exp.	$ (133,946)	$ (188,355)	$ (54,409) (1)	

(1) Variance equals 0.1% of Total Budgeted Revenue.

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO MAY 31, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$64,238,604	$63,280,387	$(958,217)	(1.5)
Deductions from Charges	4,208,401	4,032,518	(175,883)	(4.2)
Other Operating Revenue	1,002,441	1,139,172	136,731	13.6
Total Revenue from Operations	$61,032,644	$60,387,041	$(645,603)	(1.1)
Expenditures				
Salaries	$33,682,187	$33,016,224	$(665,963)	(2.0)
Fringe Benefits	5,443,163	5,477,874	34,711	0.6
Contract Compensation	5,911,042	5,674,622	(236,420)	(4.0)
Med Supplies,Drugs,Blood	9,399,409	9,305,075	(94,334)	(1.0)
Campus Admin Expense	3,579,446	3,579,446	-0-	-
Depreciation	1,498,761	1,539,760	40,999	2.7
General Supplies & Expense	9,925,151	10,284,639	359,488	3.6
Total Expenditures	$69,439,159	$68,877,640	$(561,519)	(0.8)
Revenue Over/(Under) Expense	$(8,406,515)	$(8,490,599)	$ (84,084)	(1.0)
Non-Operating Revenue				
Appropriations/Univ Support	$ 7,349,713	$ 7,349,713	-0-	-
Accrued Interest Income	922,856	922,856	-0-	-
Shared Services	-0-	29,675	29,675	-
Total Non-Oper Rev	$ 8,272,569	$ 8,302,244	$ 29,675	0.4
Revenue Over/(Under) Expenses	$ (133,946)	$ (188,355)	$ (54,409) (1)	

(1) Variance equals 0.1% of Total Budgeted Revenue.

UNIVERSITY OF MINNESOTA HOSPITALS
OPERATING CASH FLOW
FOR PERIOD JULY 1, 1976 TO MAY 31, 1977

Source of Funds		
Beginning Cash Balance		$ 406,468
Loss from Operations	(8,490,599)	
Non-Operating Revenue	8,302,244	
Excess of Revenue over Expense		(188,355)
Items not Requiring the Outlay of Cash		
Depreciation		1,539,760
University Support: G&A		3,579,446
K/E Utilities		60,276
Increase in Accrued Expenses		1,942,772
Decrease in Accounts Receivable		1,275,386
Total Funds Provided from Operations		$8,615,753
Funds Applied		
Transfers to Plant		
Capital Expenditures	1,490,129	
Increase in Capital Encumbrance	325,584	
		$1,815,713
Increase in Accrued Revenue		1,168,209
Increase in Inventories		518,859
Transfer for Funded Depreciation Required by MHA		2,059,541
Total Funds Applied		$5,562,322
Total Net Operating Cash Available		$3,053,431 (1)

(1) Available for offsetting future cash need of $774,563 to cover increase in accrued expenses.

UNIVERSITY OF MINNESOTA HOSPITALS
GAIN/LOSS SUMMARY
FYE 5/31/77

	Revenue	Expense	Gain or (Loss)	Gain/ (Loss)	
Nursing Services					
Medical/Surgical	$17,222,818	$17,504,261	$ (281,443)	(2.10)	a
Pediatrics	5,561,416	6,353,357	(791,941)	(26.48)	a
Obstetrics	364,016	552,474	(188,458)	(52.28)	a
Newborn	157,547	192,724	(35,177)	(12.23)	a
Psychiatry	1,654,466	2,753,064	(1,098,598)	*(84.48)	a
Rehabilitation	988,278	1,204,187	(215,909)	*(27.87)	a
Subtotal Nursing	$25,948,541	$28,560,067	$(2,611,526)	(13.67)	a
Ancillary Services					
Laboratory	$12,516,380	$12,228,029	$ 288,351	2.3	b
O.R.,P.A.R.,Anesthesiology	6,038,888	5,404,127	634,761	10.5	b
X-Ray,Rad. Therapy,Nuc. Med.	5,419,706	5,157,842	261,864	4.8	b
Pharmacy	5,547,796	5,004,340	543,456	9.8	b
Outpatient Clinics & E.R.	1,384,019	3,412,072	(2,028,053)	*(146.5)	b
C.S.S.	2,185,565	2,257,556	(71,991)	(3.3)	b
Respiratory Therapy	1,212,229	1,281,404	(69,175)	(5.7)	b
Rehabilitation	301,575	2,081,177	(1,779,602)	*(590.1)	b
Kidney Dialysis & Acquisition	1,637,453	1,275,571	361,882	22.1	b
Patient Transportation	58,823	181,132	(122,309)	(207.9)	b
Other Services	463,500	1,007,106	(543,606)	(117.3)	b
Subtotal Ancillary Services	$36,765,934	$39,290,356	$(2,524,422)	(6.9)	b
Total	$62,714,475	$67,850,423	$(5,135,948)		

* Before application of appropriations and support.
a Per Patient Day
b As % of Revenue

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
September 21, 1977

Present:	John Quistgard, Vice Chairman David Cost David Brown, M.D. Seymour Levitt, M.D. Dave Preston Don Van Hulzen
Absent:	Don Brown Al France Debbie Gruye Stanley Holmquist John Westerman
Staff:	Nels Larsen Johnelle Foley
Guests:	Harry Atwood Dan Notto Ron Werft

The meeting of the Finance Committee of the Board of Governors was called to order by Vice-Chairman Quistgard at 9:05 A.M., in the K/E Conference Room.

I. Approval of the June 15, 1977 Meeting Minutes

Mr. Cost moved that the mintues of the last meeting be approved. Mr. Preston seconded the motion and it was passed.

II. 1976-1977 Preliminary Financial Reports

Because Mr. Fearing was on vacation, Mr. Nels Larsen presented last year's preliminary financial reports. Mr. Larsen referred the Finance Committee to the blue books which contained the reports. He noted that Mr. Fearing had prepared a Controller's Report for the period of July 1, 1976 through June 30, 1977 which provides descriptive information pertaining to that period.

Mr. Larsen began his review by commenting that pages 1-12 of the blue book present an analysis of University Hospitals' operations over the last 5 years. Essentially, the sources of revenues have remained constant while expenses show a slight decline in the areas of supplies and depreciation. On page 2, Mr. Larsen referred to the growth in revenue and pointed out that out-patient revenues have increased reflecting the shift toward more ambulatory care. He also noted that the rate of increase in revenues is declining slightly.

In viewing the sources of revenue on page 3, Mr. Larsen pointed out that there has been an increase in Blue Cross and Other Commercial Insurance as sources. Mr. Preston commented on the decline in Collection Agencies as a source. It was suggested that this was due to a major effort in 1974 to improve collections and that these efforts have contributed to improvement in the quality of accounts receivable. Mr. Preston also questioned separate reporting of University Support and Appropriations since the Legislature is the source for both. It was explained that historically the hospital has reported funds separately when the fund numbers are different. On page 4, Mr. Larsen discussed inpatient census data and the variances below projected outcomes. He mentioned that the most significant declines in the inpatient census were in Pediatrics where there was a decline in average length of stay, in Rehabilitation where admissions were down and in Neurology where there was a combination of fewer admissions and shorter stays. Mr. Van Huzen added that in Neurology there was a new head of the department who has a different philosophy in managing the care of patients. Overall, it was reported that the average length of stay has declined from 9.9 to 9.2 days. Dr. Levitt commented on the public pressure to shorten lengths of stay with utilization review methods making it very difficult to justify an additional day. Mr. Larsen did note that although admissions were below projections, they were still 4% above the previous year.

Going on to the bar graphs, Mr. Larsen referred to the decline in percent of occupancy on page 5. Mr. Atwood commented that 72.2% was slightly below the community average as reported in a recent Minneapolis Tribune article. Again, Dr. Levitt attributed this occurance to the stringent utilization review requirements which do not take into account the special needs of such patients as the elderly who have difficulties receiving their care on an ambulatory basis. Vice Chairman Quistgard noted that utilization review occurs while the patient is in the hospital. Mr. Cost pointed out that being affective with utilization review means bringing down your occupancy rate. Mr. Van Hulzen commented on the irony of this in terms of present press acqusations intimating that a low occupancy means an inefficient operation. Dr. Brown suggested that the press must be made aware of their inaccurate judgements concerning hospital care. Dr. Levitt added that they appear to be unknowledgeable concerning the unique needs of the teaching and critical care centers. Mr. Van Hulzen stated that the planning agencies and hospital associations should be speaking up for hospital utilization practices. Mr. Atwood noted that there appears to be too many assumed simple solutions to what is in fact, a most complex situation. He added that average occupancy rates are spread over a seven day week which is unrealistic and deceiving. Dr. Brown and Dr. Levitt also commented on the fact that smaller hospitals are attempting to provide services which should only be available in major health care centers. In doing so, they are creating duplication and bringing up the cost of care. Dr. Brown stressed that aggressive measures should be taken to make the press aware of the health care providers' position. Vice Chairman Quistgard suggested that this may be a matter which the Executive Committee of the Board may wish to take up. Mr. Preston also mentioned the role bed count plays in the percent of occupancy figure which has become so important, pointing out that the figure can be based on staffed and operating beds or licensed beds.

In continuing the examination of the bar graphs, Mr. Larsen showed that page 6 demonstrated a 3.8% increase in the number of admissions. This factor has somewhat offset the shortened length of stay. On page 7, the Committee viewed a 3.3% decline in patient days which has been attributed to the shortened length of stay which, although there is no conclusive evidence, is believed to be the result of P.S.R.O. efforts.

Page 8 indicated that the inpatient cost per patient day has increased $50.00 or 18%. Page 9 showed a 10% increase in inpatient cost per admission. It was noted that much of this increase has to do with inflation. Drs., Levitt and Brown calculated that the liability insurance premuim affected the cost per admission by $50.00 or 9%. The question was also raised as to whether there were the same number of procedures performed during the shortened stays. Mr. Cost asked how important this particular chart was in reporting results. Dr. Brown suggested that mortality rates were the best indicator of results. Vice Chairman Quistgard indicated that the chart was helpful in terms of internal trends but could not be used comparatively with other hospitals because of the unique aspects of University Hospitals as a major teaching center. Dr. Levitt suggested that the chart also reflects the more critical types of patients at University Hospitals.

On page 10, Mr. Larsen explained that outpatient clinic visits have increased 3.0% with the increase being fairly evenly distributed with the exception of Radiation Therapy and Opthamology where the largest increases were experienced. Again, this is consistent with the industry trend toward ambulatory care. Mr. Larsen commented that the outpatient cost per visit has increased 13.9% as shown on page 11. It was suggested that this is due again to more procedures being handled on an out-patient basis.

The Finance Committee next reviewed the revenue days in accounts receivable on page 12. The bar graph clearly indicated a more aggressive approach to outstanding accounts beginning in 1972. Mr. Larsen pointed out that there was a reduction from 1976 to 1977 of 12.4 days or a 13% decline. Discussion revolved around where the credit should be given for the decline. Mr. Larsen explained that the largest reduction in outstanding accounts is with insurance companies. He mentioned that there has been an improved follow-up effort by business office personnel who have also reduced the number of days in which a bill can be generated after discharge thus, speeding up many of the processes.

The Statement of Operations was presented on page 13. Mr. Larsen stated that Ernst and Ernst is nearing completion of their audit of 1976-1977 and that to this point, no materials adjustments are expected. Mr. Atwood suggested that a final variance of .01% is very close, but he reminded the Committee that this was not against the original budget, but against the operating budget which had been adjusted for such items as insurance. Mr. Larsen then reviewed the various items listed in the statement of operations, commenting on the causes for variances from budget. The highlights of his comments can be found on page 2 and 3 of the supplemental Controller's Report. The Committee members asked questions and commented on certain aspects of the report. In concluding their discussion, it was suggested that the full Board receive the report with notification that it is preliminary and that the audited report of Fiscal Year 1976-1977 will be presented to them in October along with the results of the first quarter of Fiscal Year 1977-1978.

The Committee then examined the cash flow and changes in fund balances statement on page 14 and 15. It was noted that the Hospitals' overall activities were able to fund approximately $4.2 million for current and future capital obligations. Mr. Larsen indicated that the $451,000 in total net operating cash available was 10% better than anticipated. Of the $4.2 million, it was pointed out that $3.8 million was used for current capital projects including the nutrition area remodeling and the air-conditioning project. Also noted was the fact that of the $15 million reserve account balances, $4 million must be retained to meet the requirements of the liability insurance policy. The balances of the reserve fund will be used during 1977-1978 to help fund a projected $17 million in capital expenditures. The Committee also reviewed the statement of financial condition on page 16. Mr. Larsen commented on the impact of the reduction in accounts receivable and the increase in construction in progress. Mr. Van Hulzen added that the Unit B/C assets were not included. He also mentioned that a balance of assets to liabilities of 4 to 1 is a good ratio.

III. August Year-to-Date Financial Reports

Next, Mr. Larsen reviewed with the Finance Committee the current fiscal year to date activities through August. He commented that many of the trends of 1976-1977 continue to be reflected. Patient days continue to run at 3.7% under budget. He pointed out that admissions are down as well with the largest decline occuring in adult medical/surgical areas. Average lengths of stay on the whole appear to be stabilizing although Pediatrics experienced a considerable under budget variance.

Mr. Larsen indicated that despite continued reduced census, the Hospital has a variance of revenue over expense equal to .02% of total budgeted revenue. He further commented on the fact that accounts receivable had increased but explained that that occurance is the product of the 6.61% rate increase and has noting to do with collection efforts. Mr. Larsen referred the Committee to the Statement of Operations for July 1 to August 30 1977, and noted various trends. Reduced census has brought Patient Charges down by 2.7%. A new on-line system in Radiology and the Laboratories has reduced the need for Billing Adjustments. The Community University-Health Care Center (CUHCC) has affected a variance in Charitable Care. (It was noted that other factors are included within this item). The variance in Other Contract Adjustments involved a re-calculation of kidney transplant cases. The Allowance for Uncollectible Accounts could be reduced. Food Services have experienced a reduced utilization of the Coffee Shop and the Powell Hall Cafeteria is closed in the summer. There are fewer residents in the Powell Hall Motel in the summer months due to the heat. Salaries over budget is inappropriate due to reduce census and summer employment practices and will be looked at closely. Most all other expenditure items are under budget in correlation with decreased patient activity or because certain events budgeted for, have not yet occurred. Examples of this include computer equipment which has not yet been leased, the paging system which is not yet installed, (The Regents are presently reviewing the bidding procedures which were followed for the paging system by Central Administration and equipment which has not yet been capitalized. Similarly, under Supplies and Expenses, forms and printing is purchased seasonally and has not yet been distributed, nor has the new University payroll system been implemented in the Hospital. Mr. Van Hulzen interjected that the proposed new warehouse and materials services system will eliminate discrepencies under Supplies and Expense between point of purchase and point of use.

Mr. Larsen stated that although University Hospitals is presently slightly ahead of budget, caution should be exercised because of the declining census. He added that Administration is closely studying this situation. Mr. Van Hulzen also added that it is most important that University Hospitals demonstrate a viable financial situation this year, in the event that outside financing is sought for capital development. The Committee also reviewed the Operating Cash Flow statement. It was noted that the projected union salary contract settlement has been incorporated. Mention was made that AFSCME and the Teamsters are presently battling out with the courts the possibility of holding an election. In conclusion, it was noted that expenses should stay at the present level with revenues increasing slightly. Thus, the net deficit between the $1.5 million in cash available and the $1.7 million in cash required should be eliminated.

IV. <u>June 30, 1977 Bad Debt Approval</u>

Mr. Van Hulzen explained that Mr. Fearing will be drafting a cover letter to Vice Presidents French and Brown explaining the fourth quarter's bad debt experience and comparing it to previous quarters. He suggested that a copy of this letter should be reviewed at the next Finance Committee meeting. The Committee discussed the various bad debt accounts noting that many were from other states. It was suggested that this frequently occurs in the case of bone marrow transplants because University Hospitals serves as the regional center providing this service. Mr. Preston moved that the Finance Committee recommend to the Board the approval of $432,011.27 for bad debts during the fourth quarter of the 1976-1977 fiscal year. The amount being represented by 1647 accounts. Dr. Levitt seconded the motion and it was passed.

V. Other

Mr. Van Hulzen and Mr. Atwood informed the Committee that on the previous Monday the Facilities Committee had met and considered the new Warehouse. Having done so, they will be recommending approval of the project to the full Board this afternoon. Mr. Atwood reminded the Finance Committee that they had been made aware of the warehouse plans when they had previously met with the Facilities Committee to review the list of capital development projects. Mr. Van Hulzen stated that $1.5 million is being earmarked to pay for the project but that only $1.2 million is expected to be required and there appears to be no difficultly in managing this expenditure.

There being no further business, Vice Chairman Quistgard adjourned the Finance Committee meeting at 11:30 A.M.

Respectfully submitted,

Johnelle Foley/ps

Johnelle Foley
Secretary

UNIVERSITY OF MINNESOTA HOSPITALS
PRELIMINARY FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1977

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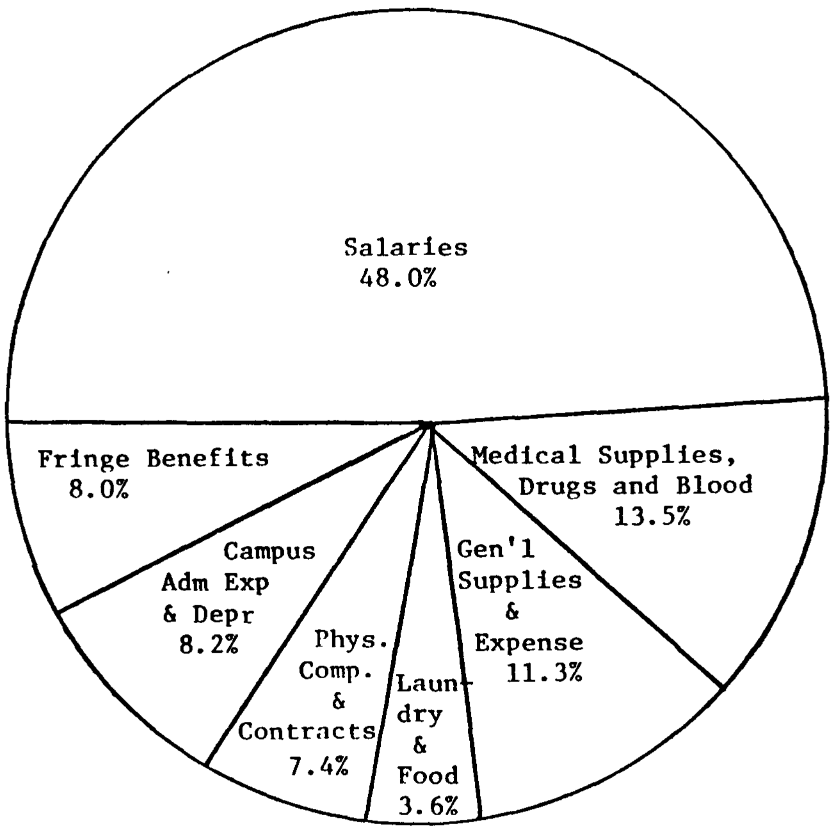
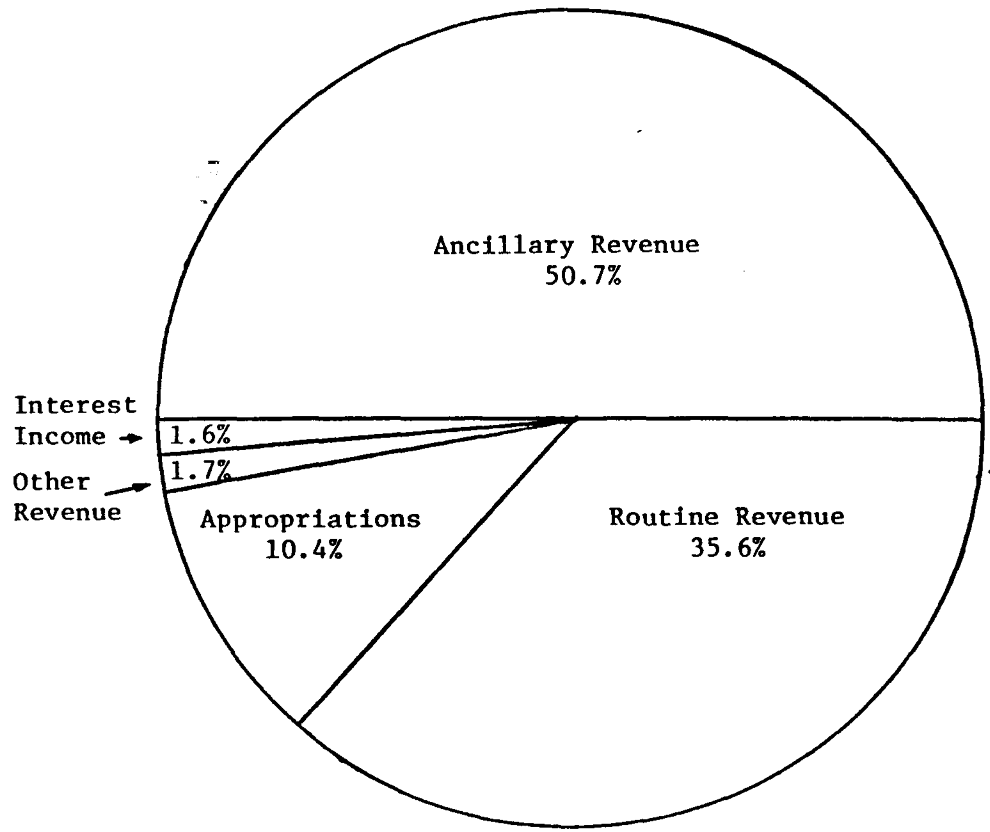
YEAR ENDED JUNE 30, 1977

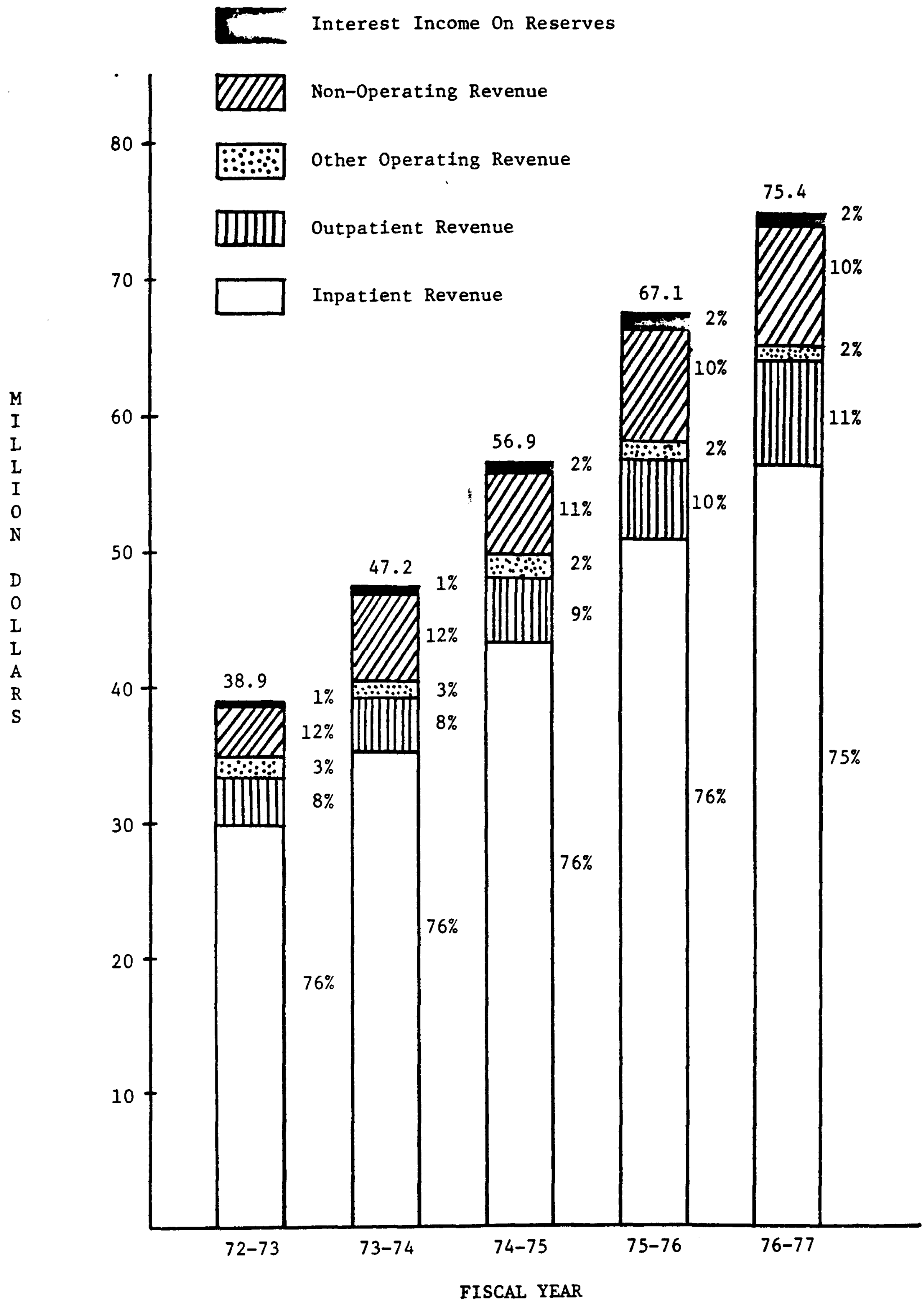
EXPENSE



REVENUE



UNIVERSITY OF MINNESOTA HOSPITALS
TOTAL REVENUE BREAKDOWN BY TYPE
1972-73 TO 1976-77



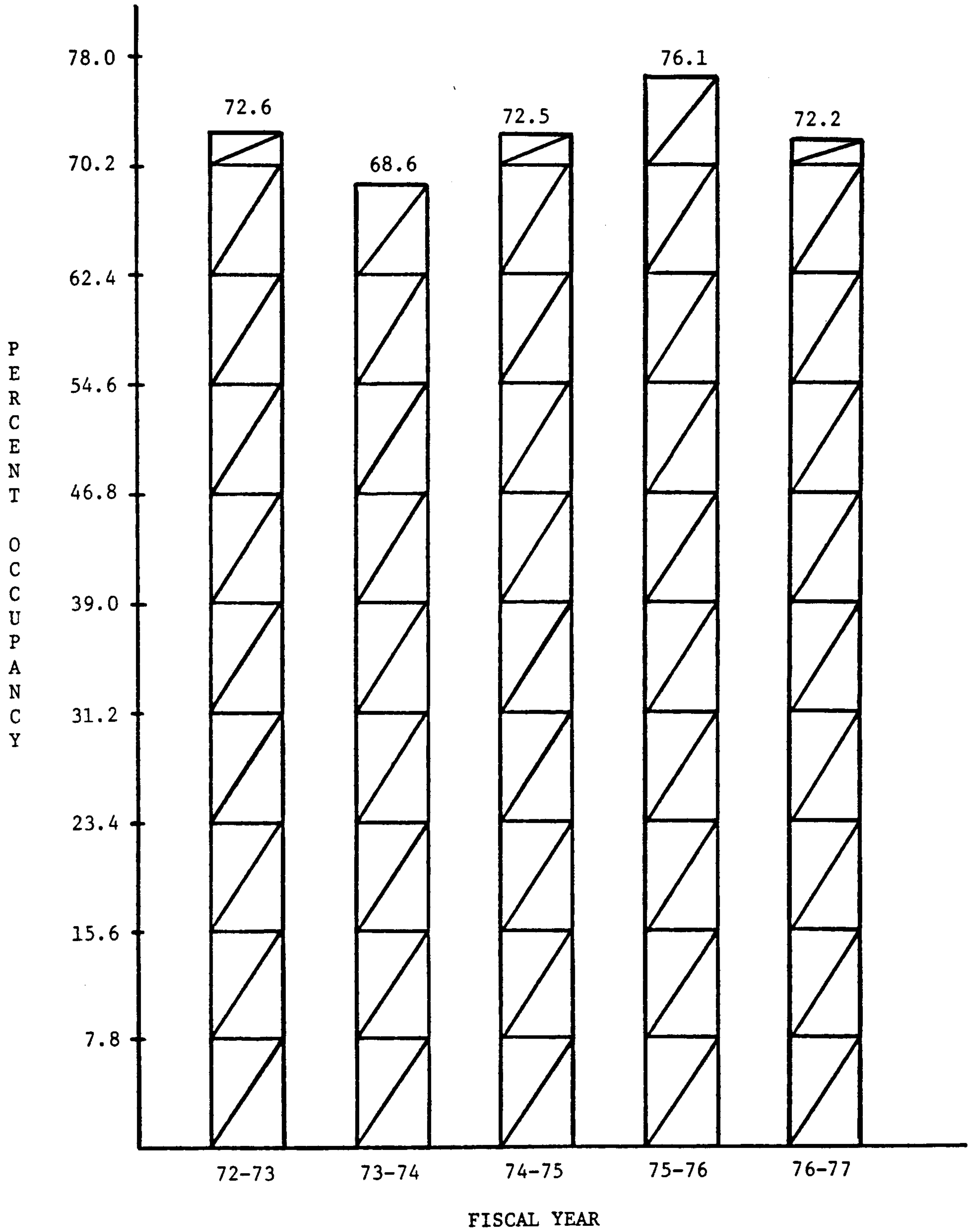
UNIVERSITY OF MINNESOTA HOSPITALS
SOURCE OF CASH DEPOSITS

	Year Ended June 30							
	1974		1975		1976		1977	
	Amount in 1,000's	Percent of Total	Amount in 1,000's	Percent of Total	Amount in 1,000's	Percent of Total	Amount in 1,000's	Percent of Total
Medicare	$ 8,053	16.8	$12,496	22.5	$15,539	24.1	$18,174	24.0
Medical Assistance and Federal Crippled Children	6,175	12.9	5,465	9.9	6,781	10.5	7,990	10.6
Blue Cross	6,515	13.6	7,694	13.9	9,674	15.0	11,465	15.2
Other Commercial Insurance	11,789	24.7	13,543	24.4	16,410	25.4	20,386	27.0
Patient Liability	4,978	10.4	5,185	9.3	4,901	7.6	4,971	6.6
Other Agency	1,037	2.2	1,453	2.6	1,732	2.7	2,680	3.6
County	1,763	3.7	2,091	3.8	1,647	2.6	1,554	2.1
Student Health Service	593	1.2	603	1.1	498	0.8	208	0.3
Collection Agencies	520	1.1	354	0.6	228	0.4	398	0.5
Other	1,761	3.7	1,689	3.1	1,584	2.4	1,681	2.2
Refunds	(871)	(1.8)	(1,191)	(2.1)	(1,470)	(2.3)	(1,959)	(2.6)
Subtotal	$42,313	88.5	$49,382	89.1	$57,524	89.2	$67,548	89.5
University Support	1,492	3.1	1,728	3.1	2,054	3.1	2,592	3.4
Appropriations	4,030	8.4	4,348	7.8	4,980	7.7	5,345	7.1
Total	$47,835	100.0%	$55,458	100.0%	$64,558	100.0%	$75,485	100.0%

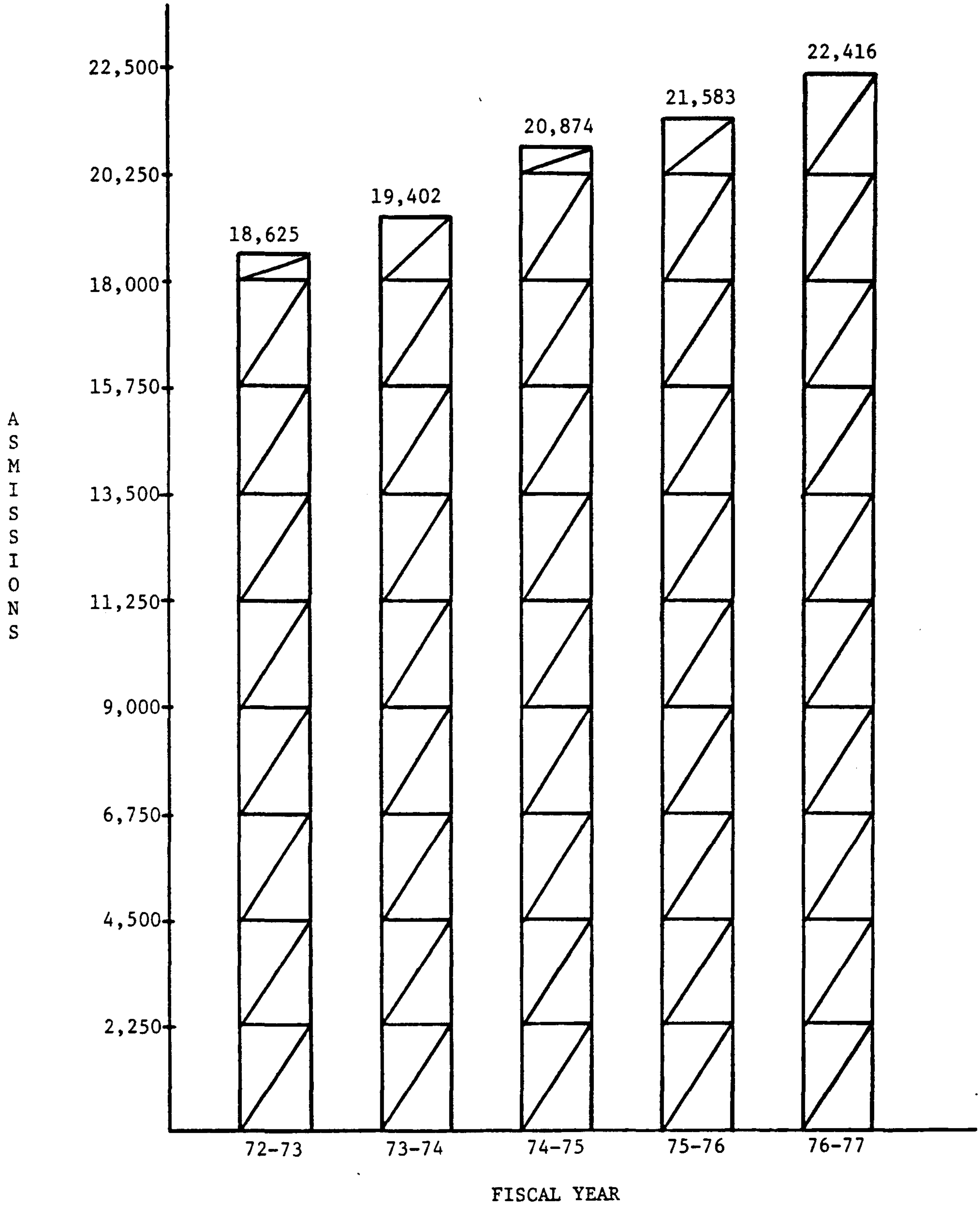
UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
INPATIENT CENSUS DATA BY MAJOR CATEGORY
YEAR ENDED JUNE 30, 1977

	Available Beds	Budgeted Days	Actual Patient Days	Average Daily Census	Budgeted Admissions	Actual Number of Admissions	Average Length of Stay	Budgeted Occupancy	Actual Percent Occupancy
Medical/Surgical	450	132,465	128,045	350.8	16,202	15,132	8.2	80.6	78.0
Pediatrics	101	25,572	24,882	68.2	3,206	3,118	8.0	69.4	67.5
Obstetrics	15	4,099	3,970	10.9	775	810	5.3	74.9	72.5
Newborn	20	3,183	3,184	8.7	652	672	4.9	43.6	43.6
Psychiatry	68	14,285	14,289	39.2	363	314	40.3	57.6	57.6
Rehabilitation	40	9,057	8,484	23.2	429	323	21.1	62.0	58.1
Special Care Units	84	22,247	22,138	60.6	1,071	1,561	20.8	72.6	72.2
Clinical Research	11	2,607	2,163	5.9	550	486	4.7	64.9	53.9
Total	789	213,515	207,155	567.5	23,248	22,416	9.2	74.1	72.2

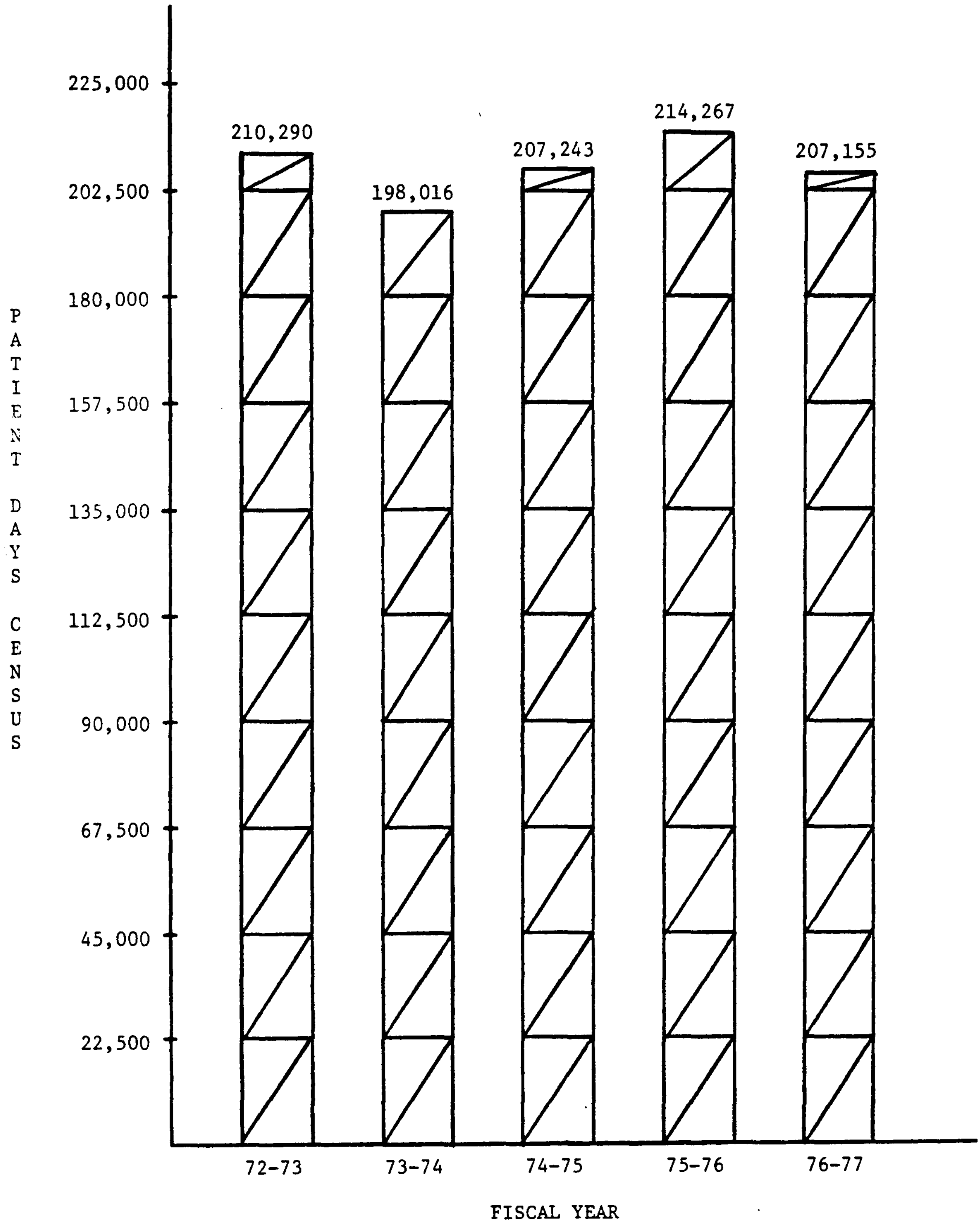
UNIVERSITY OF MINNESOTA HOSPITALS
PERCENT OCCUPANCY
1972-73 TO 1976-77



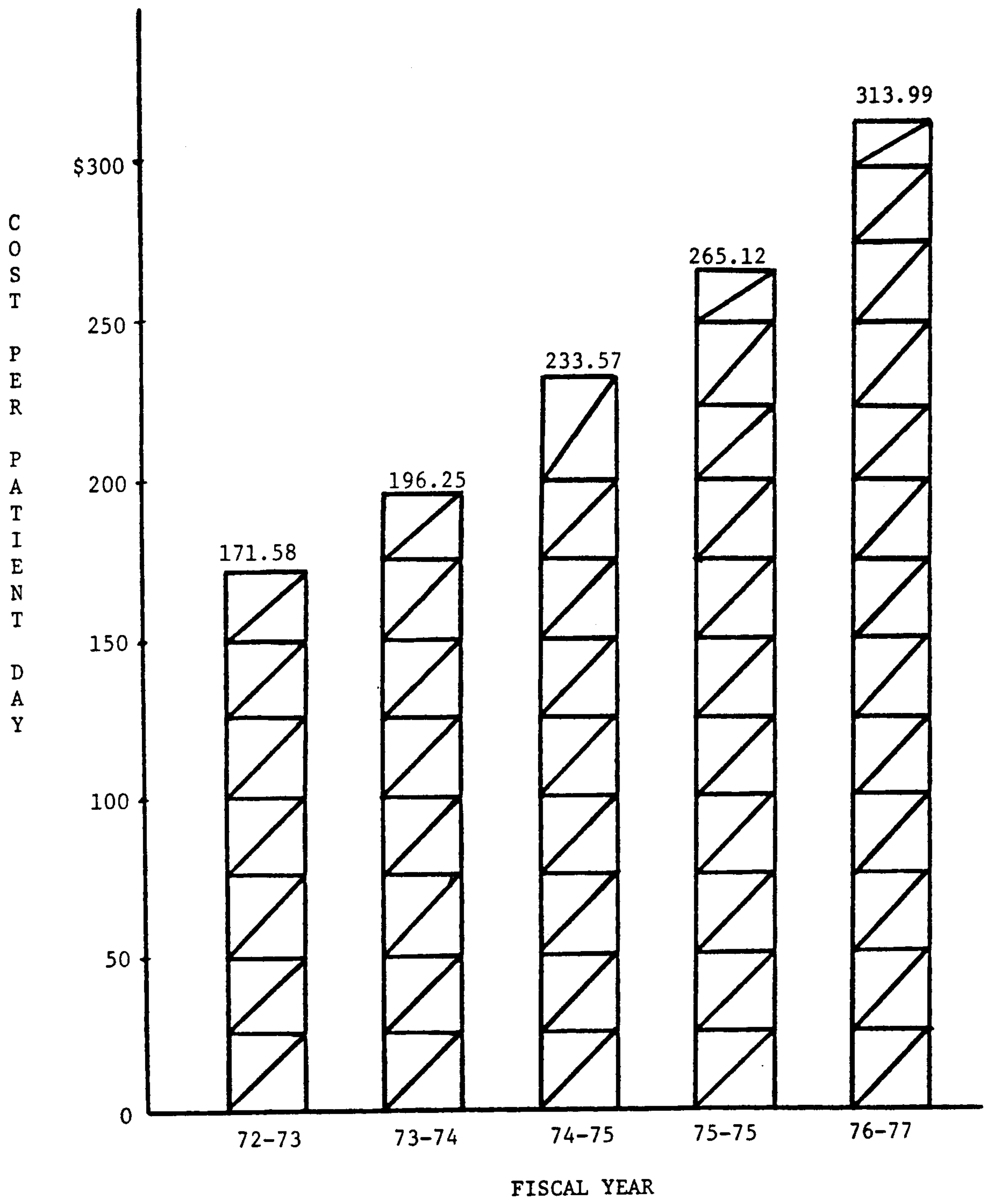
UNIVERSITY OF MINNESOTA HOSPITALS
NUMBER OF ADMISSIONS
1972-73 TO 1976-77



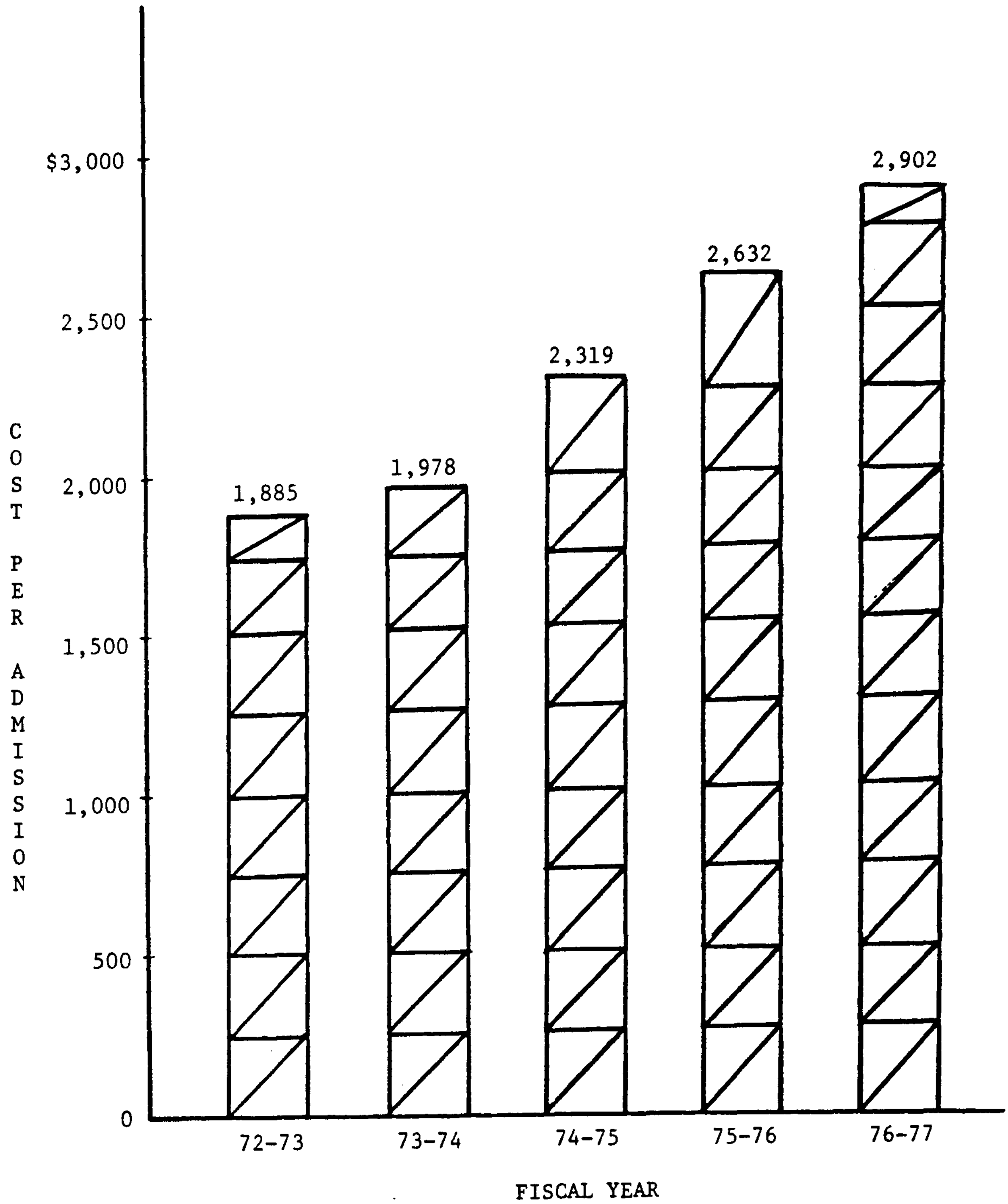
UNIVERSITY OF MINNESOTA HOSPITALS
PATIENT DAYS CENSUS
1972-73 TO 1976-77



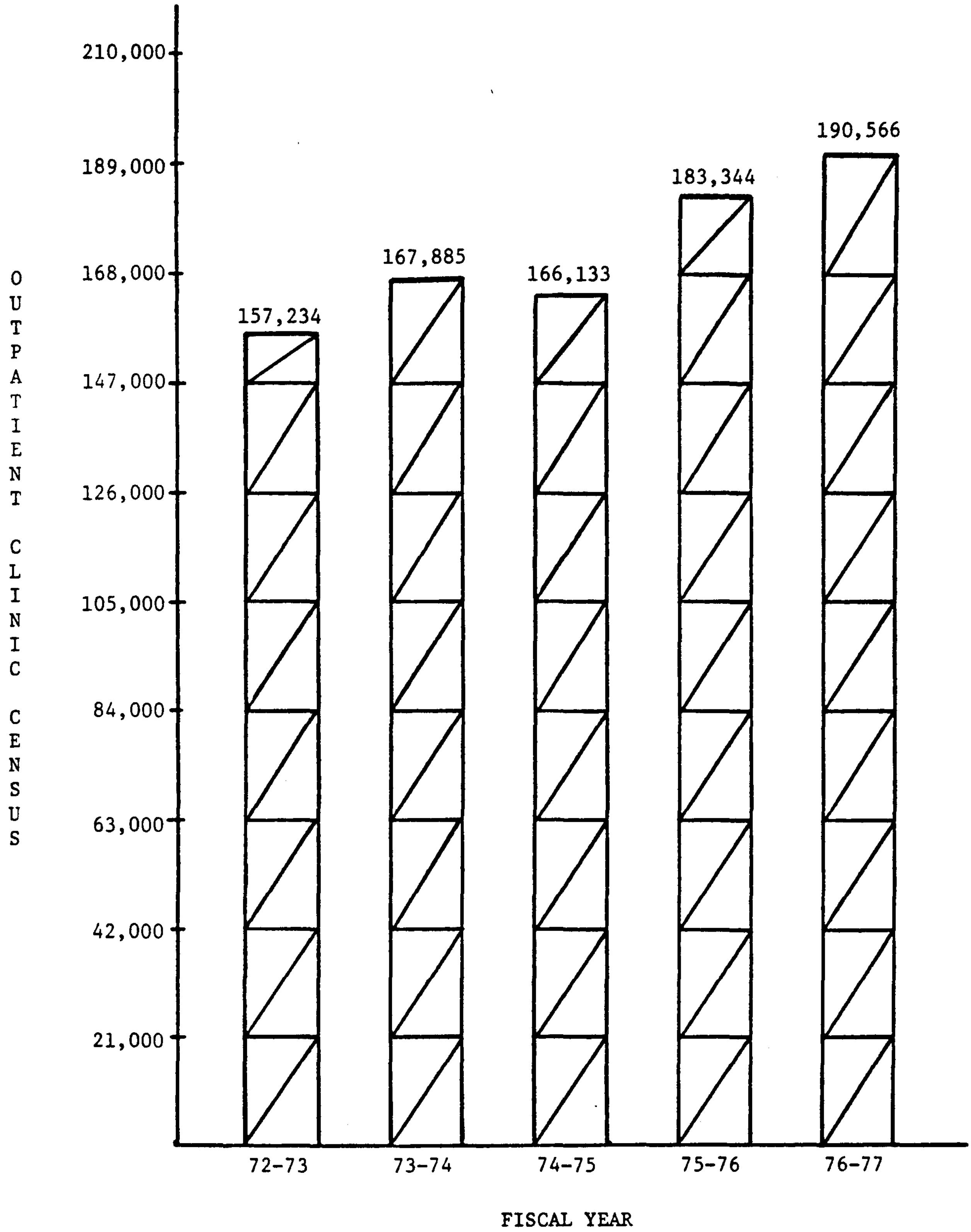
UNIVERSITY OF MINNESOTA HOSPITALS
INPATIENT COST/PATIENT DAY
1972-73 TO 1976-77

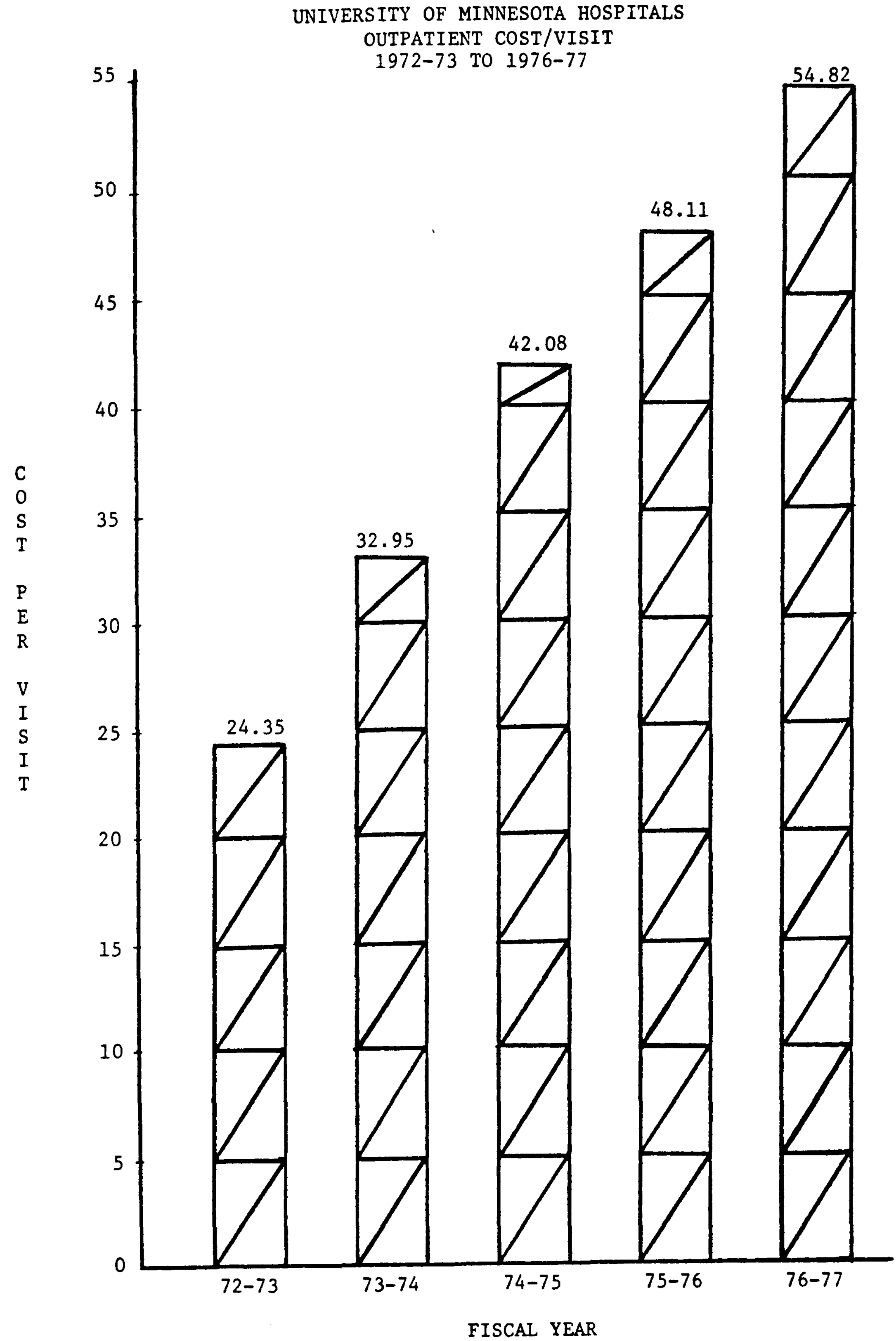


UNIVERSITY OF MINNESOTA HOSPITALS
INPATIENT COST/ADMISSIONS
1972-73 TO 1976-77

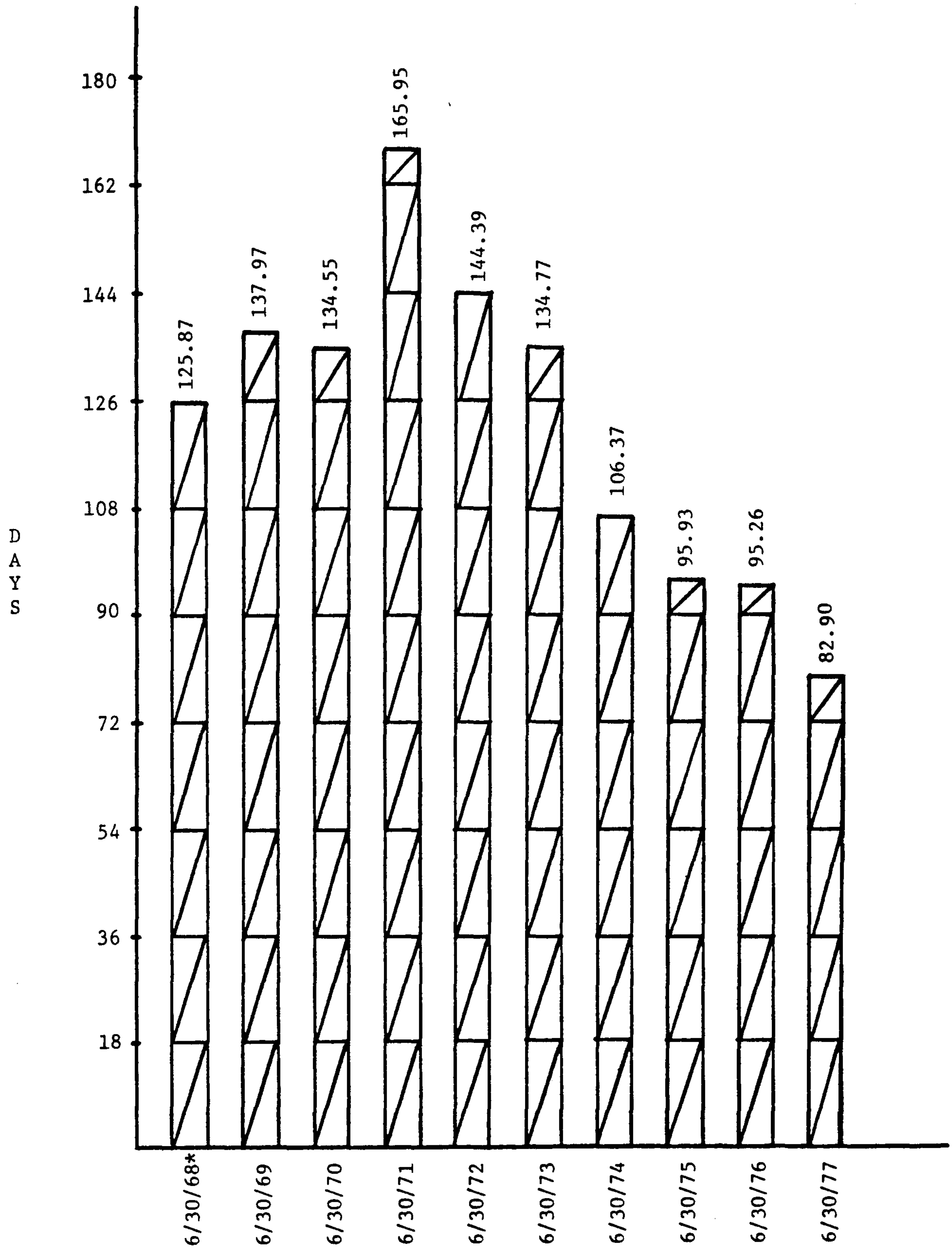


UNIVERSITY OF MINNESOTA HOSPITALS
TOTAL OUTPATIENT CLINIC VISITS
1972-73 TO 1976-77




UNIVERSITY OF MINNESOTA HOSPITALS
OUTPATIENT COST/VISIT
1972-73 TO 1976-77
COST PER VISIT
55
50
45
40
35
30
25
20
15
10
5
0
24.35
32.95
42.08
48.11
54.82
72-73
73-74
74-75
75-76
76-77
FISCAL YEAR

UNIVERSITY OF MINNESOTA HOSPITALS
REVENUE DAYS IN ACCOUNTS RECEIVABLE
1968-69 TO 1976-77



*Revenue Days Based on 365 Day Average
(All Others Based on 90 Day Average)

UNIVERSITY OF MINNESOTA HOSPITALS
PRELIMINARY STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1976 TO JUNE 30, 1977

1975-76 Actual		Budgeted	Actual	Variance Over/(Under) Budget	Variance %
	PATIENT CARE CHARGES				
$25,832,414	Routine	$29,132,057	$28,197,517	$ (934,540)	(3.2)
35,366,014	Ancillary	40,520,491	40,015,175	(505,316)	(1.3)
749,394	Professional Fees	627,619	622,037	(5,582)	(.9)
$61,947,822	Gross Charges	$70,280,167	$68,834,729	$(1,445,438)	(2.1)
	DEDUCTIONS FROM CHARGES				
$ 642,243	Pro Fees Paid	$ 539,770	$ 519,027	$ (20,743)	(3.8)
(152,895)	Third Party Contract Adj.	168,777	74,998	(93,779)	(55.6)
649,323	Billing Adjustments & Employee Benefits	833,793	934,011	100,218	12.0
694,390	Charitable Care	890,338	888,534	(1,804)	(3.8)
577,608	Other Contract Adj.	753,507	516,040	(237,467)	(31.5)
1,118,638	Allow for Uncoll Accts	1,415,811	822,003	(593,808)	(41.9)
(11,839)	Donations from Restricted Funds		(16,065)	(16,065)	-
$ 3,517,468	Total Deductions	$ 4,601,996	$ 3,738,548	$ (863,448)	(18.8)
	OTHER OPERATING REVENUE				
$ 615,251	Food Services	$ 634,680	$ 588,674	$ (46,006)	(7.2)
276,924	Powell Hall Motel	245,042	249,783	4,741	1.9
130,886	Departmental Non-Patient	82,490	119,222	36,732	44.5
127,878	Reference Lab Income	130,000	258,589	128,589	98.9
48,076	Donations to Operations from Restricted Funds		47,122	47,122	-
$ 1,199,015	Total Other Revenue	$ 1,092,212	$ 1,263,390	$ 171,178	15.7
$59,629,369	Total Revenue from Operations	$66,770,383	$66,359,571	$ (410,812)	(.6)
	EXPENDITURES				
$33,010,455	Salaries	$36,755,943	$36,268,318	$ (487,625)	(1.3)
4,940,368	Fringe Benefits	5,937,781	6,026,411	88,630	1.5
1,054,357	Academic Contracts	1,129,508	1,120,796	(8,712)	(.8)
2,187,963	Resident Contracts	2,464,207	2,426,456	(37,751)	(1.5)
2,436,746	Physician Compensation	2,839,997	2,618,512	(221,485)	(7.8)
43,629,889	Total Salaries, Wages F.B., and Fees	49,127,436	48,460,493	(666,943)	(1.4)
1,181,347	Laundry & Linens	1,342,857	1,373,094	30,237	2.3
974,513	Raw Food	1,328,883	1,384,961	56,078	4.2
3,792,177	Drugs	4,044,293	4,057,983	13,690	.3
5,444,444	Medical Supplies, Blood and Blood Derivatives	6,200,114	6,156,623	(43,491)	(.7)
575,612	Utilities	776,522	733,542	(42,980)	(5.5)
439,161	Insurance	1,574,069	1,574,069	-	-
10,083	Net Loss on Disposal of Assets	-0-	37,368	37,368	-
3,567,000	Campus Adm. Exp.	3,900,000	3,900,000	-	-
1,547,449	Depreciation	1,632,983	1,700,905	67,922	4.2
5,417,195	General Supplies & Exp.	5,882,051	6,226,404	344,353	5.9
$66,578,870	Total Expenditures	$75,809,208	$75,605,442	$ (203,766)	(0.3)
$(6,949,501)	Net Revenue from Operations	$(9,038,825)	$(9,245,871)	$ (207,046)	(2.3)
	NON-OPERATING REVENUE				
$ 7,004,635	Appropriations and Support	$ 7,833,757	$ 7,833,757	$ -	-
1,489	Accrued Interest on Approp	187,102	125,764	(61,338)	(32.8)
950,038	Interest Income on Reserves	818,397	1,061,730	243,333	29.7
	Shared Services		29,675	29,675	-
$ 7,956,162	Total Non-Operating Rev	$ 8,839,256	$ 9,050,926	$ 211,670	2.4
$ 1,006,661	Total Revenue Over/(Under) Exp	$ (199,569)	$ (194,945)	$ 4,624 (1)	

(1) Variance equals .01% of Total Budgeted Revenue.

UNIVERSITY OF MINNESOTA HOSPITALS
PRELIMINARY OPERATING CASH FLOW
FOR PERIOD JULY 1, 1976 TO JUNE 30, 1977

Source of Funds		
Beginning Cash Balance		$ 406,468
Loss from Operations	(9,245,871)	
Non-Operating Revenue	9,050,926	
Excess of Revenue over Expense		(194,945)
Items not Requiring the Outlay of Cash		
Depreciation		1,700,905
University Support: G&A		3,900,000
K/E Utilities		52,936
Increase in Accrued Expenses		173,986
Decrease in Accounts Receivable		935,578
Total Funds Provided from Operations		$6,974,928
Funds Applied		
Transfers to Plant		
Capital Expenditures	1,755,173	
Increase in Capital Encumbrance	76,667	
		$1,831,840
Increase in Accrued Revenue		73,499
Increase in Inventories		390,156
Transfer for Funded Depreciation Required by MHA		2,268,812
Transfer to Reserves		
Operations	897,604	
Reserve Interest Income	1,061,730	
		1,959,334
Total Funds Applied		$6,523,641
Total Net Operating Cash Available		$ 451,287

UNIVERSITY OF MINI. JTA HOSPITALS
PRELIMINARY STATEMENT OF CHANGES IN FUND BALANCES
JULY 1, 1976 THROUGH JUNE 30, 1977

	Operating Funds	Reserve Fund	Plant Fund	Total Unrestricted Funds
Unrestricted Funds				
Beginning Balance	$11,946,682	$14,854,107	$22,182,581	$48,983,370
Net Income				
Excess of Revenue over Expense	356,565	(731)		
Reserve Interest Income		1,061,730		
Approp Interest Income		125,764		
Depreciation Expense			(1,700,905)	
Loss on Sale/Disposal of Assets	29,314		(66,682)	
Total Unrestricted Income Less Expenses				(194,945)
Campus Support: G&A	$ 3,900,000			$ 3,900,000
K/E Utilities	52,936			52,936
Transfers to Plant				
Major Bldg Projects (Hosp Only)	90	$(3,564,504)	$ 3,564,414	
Capital Expenditures	(1,755,173)		1,755,173	
Capital Encumbrance Change	(76,667)		76,667	
Equip,Remodel & Other Adjust.	27,269	(751)	(71,731)	(45,213)
Increase in Restrict. Fund Commitment to Plant			26,326	26,326
Transfers To/From Shared Bldg Proj		(329,181)	70,000	(259,181)
Transfers to Fund Deprec at Price Level	(2,268,812)	2,268,812		
Trans. from Med. Sch. for Pt. Info. Syst.	40,000			40,000
Transfers to Reserves	(897,604)	897,604		
	$11,354,600	$15,312,850	$25,835,843	$52,503,293

	Gift	Endowment	Total
Restricted Funds			
Beginning Balance	$537,839	$7,713,724	$8,251,563
Gifts	191,791	635	192,426
Interest Income	22,486	351,297	373,783
Donations to Operations	(46,779)	(343)	(47,122)
Donations to Operations for Patient Care	(16,065)		(16,065)
Transfer to Non-Hospital Funds		(53,136)	(53,136)
Increase in Commitment to Plant	(25,900)	(426)	(26,326)
Contribution to CUHCC		(97,536)	(97,536)
Gain on Sale of Units		5,041	5,041
	$663,372	$7,919,256	$8,582,628

UNIVERSITY OF MINNESOTA HOSPITALS
PRELIMINARY STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1977

	6/30/77	6/30/76
Current Assets		
Cash Working Funds	$ 31,845	$ 31,845
Cash and Investments	3,538,372	4,601,807
Patient Accounts Receivable Less Allowances for Possible Losses in Collection	13,131,064	14,066,642
Amounts Due from Third Party Payor Cost Reimbursement Programs	464,382	484,723
Other Receivables	314,907	221,067
Inventories of Drugs & Supplies	2,211,158	1,821,002
Total Current Assets	$19,691,728	$21,227,086
Long Term Investments	$12,100,001	$10,657,298
Plant and Equipment		
Cash & Investments for Construction	$ 1,569,028	$ 1,590,166
Construction in Progress	5,223,257	1,284,495
Plant and Equipment	38,689,343	37,411,266
Less Allowances for Depreciation	(19,645,785)	(18,103,346)
Total Plant and Equipment	$25,835,843	$22,182,581
Restricted Endowment and Gift Investments	$ 8,582,628 (a)	$ 8,251,563
Total Assets	$66,210,200	$62,318,528

	6/30/77	6/30/76
Current Liabilities		
Trade Accounts Payable	$ 617,867	$ 582,632
Insurance Payable	723,700	277,282
Accrued Salary and Wages Payable	1,258,195	1,848,899
Accrued Vacation and Time Back Payable	2,021,722	1,728,811
Accrued Professional Fees	502,795	488,924
Contracts Payable	-0-	157,047
Total Current Liabilities	$ 5,124,279	$ 5,083,595
Fund Balances		
Unrestricted Funds		
Operating Funds	$11,354,600	$11,946,682
Reserve Funds	15,312,850	14,854,107
Plant Funds	25,835,843	22,182,581
	$52,503,293	$48,983,370
Restricted Funds		
Gift Funds	$ 663,372	$ 537,839
Endowment Funds	7,919,256	7,713,724
	$ 8,582,628	$ 8,251,563
Total Liabilities and Fund Balances	$66,210,200	$62,318,528

(a) Restricted Fund market value as of June 30, 1977 $8,594,037

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals and Clinics
420 Delaware Street S.E.
Minneapolis, Minnesota 55455

September 21, 1977

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing

SUBJECT: Controller's Report for the Period July 1, 1976 Through June 30, 1977

During the 1976-77 fiscal year several significant trends have impacted the financial operations of the University of Minnesota Hospitals. Below is a brief summary of major factors which have contributed toward our current financial position.

The inpatient census for the fiscal year 1976-77 was 207,155 days compared to a projected total of 213,515 days; the difference of 6,360 days represents a 2.9% unfavorable variance. The 1976-77 total is a 3.3% decline from the previous fiscal year census of 214,267 days. The downward trend in the census is, in general, the product of a shorter length of stay. The average length of stay went from 9.9 days in 1975-76 to 9.2 days for 1976-77. Although there is no conclusive evidence, it is believed the shorter length of stay is the result of P.S.R.O. Somewhat offsetting the shortened length of stay has been a 3.8% increase in the number of admissions. The admissions for the current year were 22,416, up 833 from the previous year total of 21,583.

The most significant declines in the inpatient census were in (A) Pediatrics, where the average length of stay declined from 9.9 to 9.1 days; (B) Rehabilitation, where the number of admissions went down by 19.6%; and (C) Neurology, where a combination of fewer admissions and a shorter length of stay reduced the census on that service by 23.3%.

The Hospitals outpatient clinic census for the year increased by 7,222 visits from 183,344 in 1975-76 to 190,566 in 1976-77. This represents a 3.9% increase. The increase in clinic visits were fairly evenly distributed with the largest increases occurring in Radiation Therapy and Ophthalmology. The overall Hospital trend is consistent with the industry trends which emphasize a shift toward ambulatory care.

Changes in patient care revenue reflect the changes in census. Routine revenue for the current year was below budget by 3.2%. The slight variation between this statistic and the 2.9% variance in patient days is a result of lower than expected occupancies in the higher priced beds, primarily the intensive care units and pediatrics.

The 1.3% unfavorable variance in ancillary revenue is the product of two factors: (A) The majority of the ancillary work is not given to the patient during his last days in the hospital. Even though the Hospital experienced fewer patient days than were projected, the increase in the number of admissions produced ancillary revenue that served to offset the effect of a reduced census. (B) The increase in outpatient clinic visits produced additional ancillary charges. This is evident when looking at the overall composition of the Hospitals' revenue. Outpatient charges increased from 10% to 11% of total patient charges. This represents a dollar increase in outpatient activity of approximately $754,000.

Operating expenses for the 1976-77 fiscal year totaled $75,605,442. This total is $203,766 below budget and represents a favorable variance of 0.3%. Comparing current year expenses with those from the previous year, significant changes are evident in salaries, fringe benefits, liability insurance and food costs.

Salaries represent the largest component of expense and they increased by approximately $3,258,000. The change is due to $1,653,000 for cost-of-living increases, $1,167,000 for merit increases, a $134,000 increase in overtime, shift differential and accrued vacation, and $304,000 as a result of adding new positions to the hospital staff. For the 1976-77 fiscal year salary expense was $487,625 or 1.3% below budget. The underspending occurred primarily because of reduced staffing in the Business Office and Respiratory Therapy and unfilled positions within Management Services, Rehabilitation Center and the Pharmacy.

The increase in fringe benefit costs is a result of the increased salary base as well as a significant increase in health insurance premiums for employee coverage. Of the $1,086,043 increase in fringe benefits from the previous year approximately one half,or $540,000,relates to increased health insurance costs. The balance of the increase is a result of a higher salary base against which the fringe benefits rates are applied.

The increased health insurance costs result both from higher premium costs to the University from Blue Cross and Group Health and because the University paid an additional $10/month per eligible employee for dependent coverage.

Liability insurance increased from $439,000 to $1,574,000 as a result of a new policy through the University of Minnesota. The policy now in effect covers all employees of the Hospitals whereas before only the house staff was covered.

Food costs increased substantially as a result of having to go to an outside vendor for food service for six months while the main nutrition areas in the Hospital were undergoing major remodeling. The contract for the tray service was to have cost the Hospital $1.68/meal. However, in March the Hospital was put into a position of having to renegotiate a new contract at a price of $1.99/meal. This 18% cost increase in the contract is responsible for the unfavorable variance in food costs.

Within the Other Supply and Expense categories, most items came close to the expected inflationary increases. A few exceptions, however, do exist.

Expenses were over budget in the areas of maintenance and repair, outside laboratory services, custodial supplies and office supplies. The most significant of these was maintenance and repair where the Hospital expensed more minor remodeling projects than anticipated and also conducted more plastering and painting than was budgeted for.

Utility costs, however, were not as high as originally projected by University Plant Services and this resulted in a favorable budget variance of 5.5%.

The month of June showed the accounts receivable total declining another $608,275 to a year end balance of $15,631,067. The balance represents 82.9 days of revenue outstanding, down 0.7 days from May 31, 1977. The net reduction in accounts receivable for the 1976-77 fiscal year was $1,035,578. Because of the improved position of the accounts receivable, an adjustment was made to the allowance for uncollectable accounts reducing it by $100,000 to a balance of $2,500,000. The overall improvement in accounts receivable has been achieved as a result of an improved follow-up effort by Hospital personnel on the status of outstanding claims.

Given the overall activities of the current year, the Hospital was able to fund approximately $4,228,000 for current and future capital obligations, $3,895,000 of that was used for current capital projects. Of the $15,312,850 reserve account balance as of June 30, 1977, $4,715,000 must be retained to meet the requirements of our liability insurance policy. The balance of the reserve funds will be used during the 1977-78 fiscal year to help fund a projected $17,395,000 in capital expenditures. Programmed into the projected 1977-78 capital expenditures is $4,000,000 for three projects which have not yet received a Certificate of Need. The three projects are the Warehouse, Computer Hardware and Remodeling, and remodeling within Radiology and Central Sterile Processing. If Certificates of Need are granted for the above projects, the $17,395,000 would be financed with approximately $10,598,000 from current reserves, $4,000,000 from 1977-78 operations and $2,798,000 in debt service.

In conclusion, the 1976-77 fiscal year end reports indicate University Hospitals has achieved its financial objectives for the 76-77 fiscal year. The overall variance was insignificant in relationship to the total University of Minnesota Hospitals operating budgets. However, several significant trends have emerged in the 76-77 year such as the decrease in average length of stay and the increasing utilization of outpatient ancillary services. These two trends coincide with the overall objectives of the federal government to reduce inpatient costs by reducing the average length of stay through PSRO's and health system agency plans and shifting the emphasis of health care to the less expensive ambulatory care setting. Because these trends coincide with national goals in health care, we expect them to continue. University Hospitals' management will have to carefully control the rising costs per patient day in order to remain within any potential future health care cost caps or guidelines and meet our capital requirements. We feel that management is ready for this challenge and will continue to meet our financial objectives in an environment which is growing more regulated each year. 1976-77 was a financially successful year, and we look forward to future years being the same.

CPF/tr

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals and Clinics
420 Delaware Street S.E.
Minneapolis, Minnesota 55455

September 21, 1977

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing Clifford Fearing

SUBJECT: Controller's Report for the Period July 1, 1977 through August 31, 1977

The operations for the first two months of the 1977-78 fiscal year continue to reflect some of the trends that developed through the 1976-77 fiscal year. The most prominent of these being a declining inpatient census.

The inpatient census for July and August was 16,969 days and 17,563 days respectively. Admissions for July were 1,839 and for August 1,884. On an August year-to-date basis, the inpatient census is 34,532 compared to a projected 35,878 days. The difference of 1,346 days represents an unfavorable variance of 3.7%. The occupancy through August has averaged 71.0%.

The primary basis for the variance in patient days is a decline in the number of admissions. We are presently 2.2% below where we were last year at this time and 5.6% below our projected position for the current fiscal year. The decline in admissions is evident in most of the services, with the largest being in the Adult Medicine/Surgical areas. The one significant change in length-of-stay occurred in Pediatrics where the average declined by 0.6 days from 9.1 days as of June 30, 1977 to 8.5 days at the end of August. The average length of stay for the Hospital as a whole, however, has remained fairly stable. Through August the average length of stay has been 9.3 days compared to the 9.2 day average for 1976-77.

Although the Hospital has continued to experience a reduced census, we have been able to hold a positive operating position. The August year-to-date total of revenues over expense is $208,436. This has been achieved because operating expenses are 3.1% below budget while patient revenues are only 2.7% below budget. The result of these factors is that the Hospital has a variance of revenue over expense equal to 0.2% of total budgeted revenue.

The balance in accounts receivable increased through July and August by $988,742 to a balance of $16,619,809. This represents a 6.3% increase from the June 30, 1977 total of $15,631,067 and parallels the 6.61% rate increase effective July 1, 1977. The number of days of revenue outstanding at the end of August was 83.5. This is a change of only 0.6 days from the June 30, 1977 total of 82.9 days. This clearly reflects the fact that the increase in receivables is a product of the rate increase and not of collection efforts.

In light of the continual downward trend in census, management is actively pursuing a position that will keep our expenditures in line with revenues. A task force has been established to evaluate our current position and to rebudget the 1977-78 fiscal year taking into account the developments since the 1977-78 budget was formulated late last spring. Budgets based on lower inpatient census levels and seasonal patterns will also be examined in greater depth to determine the variance from budget on these bases.

While the Hospitals' position is currently very close to our expected net revenue results, seasonal factors indicate that tight controls on expenses will be necessary to maintain these results. The evaluations currently in process will be complete by the October Board meeting, at which time management will be making any needed recommendations to the Board of Governors.

CPF/tr

UNIVERSITY OF MINNESOTA HOSPITALS
PRELIMINARY STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1977 TO AUGUST 31, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$13,117,240	$12,760,765	$(356,475)	(2.7)
Deductions from Charges	805,412	821,143	15,731	2.0
Other Operating Revenue	237,908	201,765	(36,143)	(15.2)
Total Revenue from Operations	$12,549,736	$12,141,387	$(408,349)	(3.3)
Expenditures				
Salaries	$ 6,761,575	$ 6,804,410	$ 42,835	.6
Fringe Benefits	1,209,415	1,199,848	(9,567)	(.8)
Contract Compensation	1,164,178	1,121,495	(42,683)	(3.7)
Med. Supplies, Drugs, Blood	1,843,952	1,630,560	(213,392)	(11.6)
Campus Admin. Expense	577,534	577,534	-	-
Depreciation	316,524	283,512	(33,012)	(10.4)
General Supplies & Expense	2,092,742	1,909,962	(182,780)	(8.7)
Total Expenditures	$13,965,920	$13,527,321	$(438,599)	(3.1)
Revenue Over/(Under) Expense	$(1,416,184)	$(1,385,934)	$ 30,250	2.1
Non-Operating Revenue				
Appropriations/Univ. Support	$ 1,451,870	$ 1,451,870	-0-	
Accrued Interest Income	35,486	35,486	-0-	
Shared Services	107,014	107,014	-0-	
Total Non-Oper. Rev	$ 1,594,370	$ 1,594,370	-0-	
Revenue Over/(Under) Expenses	$ 178,186	$ 208,436	$ 30,250	(1)

(1) Variance equals .2% of Total Budgeted Revenue

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
October 19, 1977

Present: Stanley Holmquist, Chairman
John Quistgard, Vice Chairman
David Cost
Seymour Levitt, M.D.
Dave Preston
John Westerman
Dan Notto

Absent: David Brown, M.D.
Don Brown
Al France
Debbie Gruye

Staff: Nels Larson
Cliff Fearing
Don Van Hulzen

Guests: Harry Atwood

The meeting of the Finance Committee of the Board of Governors was called to order by Chairman Holmquist at 10:10 a.m., in the K/E Conference Room. Chairman Holmquist recognized the presence of Mr. Dan Notto, the new Board member and welcomed him to the committee.

I. Approval of the September 21, 1977 Meeting Minutes

Mr. Quistgard moved that the minutes of the last meeting be approved. Mr. Cost seconded the motion and it was passed.

II. September YTD Financial Reports

Mr. Fearing began the review by referring to the Controllers Report and pointing out that there has been a slight change in the census/patient charge statistics for the third month of the first quarter of our fiscal year. Occupancy in September was closer to projections showing a gradual improvement in both the routine and ancillary revenue variances. In reviewing page 2 of the Controllers Report, Mr. Fearing noted that the average total cost per patient day for the first quarter was $338 compared to $314 as of June 30 or a 7.6% increase. The average total cost per admission was $3,158 vs $2,902 or an 8.8% increase and total cost per clinic visit only increased 1.8% primarily due to some changes in allocation methods but also due to the increase in outpatient activity. He also stated that there are new programs which have not been implemented and are netting out at about $78,000 which we haven't spent. Our accounts receivable have gone up $1,700,000 to 83.6 revenue days or up .7 of a day from June 30, 1976. This is a historically standard increase over the first quarter primarily because of the rate increase taking effect. Major remodeling projects completed during the quarter were the Mayo nutrition project and Mayo air conditioning project and we capitalized $3 million or $153,000 annual depreciation. Mr. Fearing noted that if our expenses remain fairly constant, even at the current census level, we should be able to achieve our original financial objectives if we get the planned $690,000 out of our operating budget this year.

Next in referring to the Statement of Operations, Mr. Fearing pointed out that patient charges are 3.9% under budget which compares to a 3.6% variance in patient days. The ancillary charges showed a dramatic improvement both on a per admission basis and on a per patient day basis in the month of September and we are now .6% under budget for patient charges through the first quarter compared to 1.6% at the end of August. The professional fees show the same basic trends which is due to a higher utilization of ancillary services as admissions continue to be below our projected levels. Our overall gross charges are 2% under budget compared to 2.7% or a .7% improvement over the YTD August report. Mr. Fearing next noted that the Deductions from Revenue don't show any major changes from the August statements although Lab Medicine utilization of special accounts continues to be down which is why we see a continued 13% variance in Billing Adjustments and Employee Benefits. The other major variance, Other Contract Adjustments, is in variance because the number of transplants that have been done are significantly over projections and because of a higher Indian Health Service utilization. In the area of Other Operating Revenue, Mr. Fearing noted that the only significant items are the Food Services revenue which is explained by the closing of the Powell Hall Cafeteria for the three months, July through September. That variance will be diminishing throughout the rest of the year. Powell Hall Motel normally runs a low occupancy in the summer and that variance should also decline for the remainder of the year. The Departmental Non-Patient Revenue deviation is primarily due to the Radiology Department falling behind in recovering on their silver sales. In the Expenditure category, Mr. Fearing pointed out that salaries continue to run over budget at $144,000 or 1.4% which is of some concern to us due to the lower occupancy levels we have been running. Fringe benefits are down basically because our Blue Cross contracts do not go into effect until October 1. Physician Compensation which was 8+% under budget as of the end of August is now only .5% under budget primarily because of the dramatic change in ancillary service charges per patient day. Overall salaries and contract compensation are 1% over budget as compared to only .1% over budget as of the end of August. Raw Food is down because patients days are down and the cafeteria in Powell Hall is closed for the summer. The primary reason for Drugs being under budget is the non-implementation of the piggy-back drug system which was approved last year but which has not been implemented yet. The entire variance of 24% in Blood & Blood Derivatives is made up of blood derivatives related to the Hemophilia Program budgeted at a higher level than experienced YTD. Utilization in Medical Supplies did not recover in the month of September and the downward favorable variance in medical supplies expense is offset by an unfavorable variance in ancillary revenue. Utilities variance has diminished 5% since last month primarily because we are now getting into the heating season. Under Rental Expense both the computer and peripheral equipment were budgeted for a full year's implementation but have not been brought on board yet. The variance in Communications is due to the Mossman Paging System which has not yet been purchased. Basically the variance in General Supplies and Expense is due to consulting fees for OAD staffing analysis, for the architect selection and K/E development, and the E&E consulting fee for the financial feasibility study which are all being delayed because of the delay in the K/E project. The total variance in expenditures of 2.2% offsets the 2.5% overall reduction in total revenue from operations and exceeds the gross charge variance of 2%. Mr. Fearing next pointed out that overall we budgeted $137,000 net revenues for the first three months and we are at $138,000, a very significant variance overall as far as our operating statements are concerned.

III. Census Data

In referring to the Inpatient Census Data by Major Category report, Mr. Fearing brought to the Committee's attention the fact that the trend in inpatient census data by major category is the overall trend within major categories of service in the hospital. Most services are down with the exception of OB and Rehab which are up about 4%. Overall we are down about 2.3% in our occupancy as of the end of September which corresponds fairly close to our overall hospital position.

IV. Cash Flow

In reviewing the cash flow statement, Mr. Fearing noted that YTD figures indicated a $541,000 increase in working capital with a net cash of $1.5 million. We are in a plus working capital position primarily made up of an increase in accounts receivable. In regard to the balance sheet, Mr. Fearing pointed out that cash in investments showed a significant change from $483,000 at the end of last fiscal year to $7,400,000 at 9/30 position. This is made up of $1.5 million cash flow and $5,800,000 of advanced funding from the Legislature in the special appropriations area.

V. Bad Debts

Mr. Fearing mentioned that at last month's meeting a bad debt summary for the year 1976-77 was asked for. He provided the cover memo to Dr. French and Mr. Brown requesting the approval of the Board of Regents on write offs.

VI. Projected Year End Statements

In regard to Item #3 on the agenda, Projected Year End Statements, Mr. Fearing informed the committee that there have been significant problems with our computer system so the projected statements were not available for this meeting, but he would have them for the next meeting.

VII. Other

In discussions in regard to the Citizens League Report and an editorial entitled, "Coming to Grips with Hospital Costs" in the Minneapolis Tribune of October 19, 1977, Mr. Van Hulzen pointed out that the weakness of the report was the lack of clear discussion of what assumptions were being made and very clearly one assumption that is being made is that the style of medical practice will change to be more like that in Seattle. In other words, the average length of stay in this area for each admission will drop considerably. He stated that 85% of the difference in general medical/surgical care between here and Seattle can be explained simply by the difference in the average length of stay. The other assumption is that there are many elective admissions to hospitals that can be qued up and this was not pointed out in the report. A number of patients could be treated successfully on an outpatient basis, but are being admitted. That also changes medical practice and what people expect, and health care treatment at home is not an expectation of people in Minnesota. Dr. Levitt stated that because we are a special type of institution, our costs are going to be higher and the Board should be getting this across to the Metro Health Board and to the press. Mr. Westerman pointed out that Mr. Baker will take up the public response question at the afternoon meeting starting with the reaction to the Citizens League and will be trying to engage

Mr. Atwood and other Board members to begin shaping the system. He also stated that this strategy would be introduced into the France Committee this afternoon. The Metro Health Board is demanding a long range plan as of January 1, 1978. The France Committee will go through a process of re-evaluation of mission and draw up programs and goals to emphasize the public nature of the hospital.

Mr. Van Hulzen asked for the Finance Committee's approval in upgrading the University Hospitals computer system. He stated that if the project is approved, it will require an outlay of $1,053,000. The decision has been made that the best way to purchase the system is through installment payments. This is a 3 phase program of $5,000,000 over several years to have the complete configuration in place. Mr. Van Hulzen also stated that if the project is approved, an application for a waiver in the certificate of need process will be initiated since patient care activity will not be directly affected. Chairman Holmquist mentioned that the committee had already given approval and in the afternoon Board meeting, he would indicate that the Finance Committee had been briefed and is aware of this expenditure.

In regard to legal problems, Mr. Diehl stated that the two areas of significance are malpractice and GAMC eligibility. He mentioned that there are no new malpractice lawsuits, but we are involved in some formal claims and a continuing flow of business. Mt. Atwood stated that even though the captive insurance is in place, there has been no material change in the malpractice situation. He said that hopefully within three to five years it will be demonstrated that it doesn't take $4 or $5 million a year to finance this kind of coverage and will, therefore, be reflected in rate reductions or some kind of rebate. Mr. Fearing mentioned that there was a renegotiation of last year's minimum premium from $1,700,000 down to

$800,000, however, that didn't do anything to the base contribution so dollar for dollar, payments would be made by the Hospital and University for all claims incurred. He added that if we don't incur any claims over a three year period, we save $900,000 but to the extent we incur claims we don't save anything so the $4 million must remain in escrow until February, 1981. Mr. Diehl commented that the physicians part is still in the same status. He also noted that we continue to experience confusion or disagreement with the claims investigation people. One possible solution is that the head of the claims for INA has been hired by Alexander & Alexander so we may deal with them exclusively. Mr. Holmquist stated that Vice President Brown had been contacted to meet with the committee in November to discuss the malpractice topic.

Mr. Diehl pointed out that starting in June, the DPW began declaring ineligible patients who are otherwise qualified for GAMC if they selected University Hospitals as a provider. A law of 1976 assured public assistance recipients freedom of choice of provider. The DPW felt that UH Papers Program should be exhausted before GAMC is used. If this decision stands, it would short us about $1 million. We have been disputing this and the Welfare Department has taken the same position with the Dental School and CUHCC. We have met with the Attorney General representing the Welfare Department and others but so far there has been a significant lack of response.

There being no further business, Chairman Holmquist adjourned the Finance Committee meeting at 12:05 p.m.

Respectfully submitted,

Teresa Rosecke

Teresa Rosecke

Minneapolis Tribune

Established 1867

Charles W. Bailey Editor
Wallace Allen Associate Editor
Frank Wright Managing Editor
Leonard Inskip Editorial Editor

Wednesday, October 19, 1977

Coming to grips with hospital costs

If you think inflation hurts you in the supermarket, take a look at hospitals. It's twice as bad. During the year ended last June, according to an analysis by Blue Cross, average daily charges in Minnesota hospitals rose 14.7 percent. In Minneapolis costs per day now nudge $200, and an average stay is over eight days.

What can be done to slow the increase? In the widening debate, at least four different approaches are beginning to emerge. All are difficult, controversial and probably necessary.

■ One is to attack the inflationary symptoms by limiting the money hospitals can spend. Nationally, an administration bill would "cap" every hospital's annual revenue increase at 9 percent the first year and less thereafter. Hospital associations oppose the idea as unfair and inflexible. It is not likely to emerge from Congress this year.

■ A second strategy is to reduce the number of hospitals and thus eliminate both the cost of empty beds and the pressure to fill them. This is the goal of regulations proposed last month by Joseph Califano, secretary of the Department of Health, Education and Welfare. HEW would limit beds to 4-per-1,000 residents, with average occupancy of at least 80 percent. Now 35 hospitals in the metro area provide about 5.5 beds-per-1,000, with occupancy under 74 percent. Hospital closings here, voluntary if possible, are also recommended by a recent report of the Citizens League.

■ A longer-range approach is to counter cost-push causes with cost-containment incentives. High among the Citizens League recommendations, for instance, is expanded use of pre-paid health plans. They have built-in rewards for economy, are competitive with each other and could conceivably be sponsored by some hospitals' own medical staffs.

■ Equally long-range, and more controversial, is an approach which looks toward reducing patient demand. One cause of high costs, the argument runs, is high expectation of extraordinary services as a matter of right. Extraordinary services, though, mean extraordinary expense. Perhaps lower expectations — as to how near home a hospital must be, for instance, or how fancy its equipment — are necessary now for lower costs.

We think public policy needs elements of all these approaches. Effective cost containment depends on both regulatory and marketplace strategies. Their successful combination depends on a new community consensus about health-care values and goals. That requires broad-based public planning.

Such a process is now beginning. Key local groups are the Metropolitan Health Board of the Metropolitan Council and its 20-member task force on viable hospitals. Above them is the Legislature. In February, the task force will make preliminary recommendations on the future role and number of Twin Cities hospitals. The Legislature has already established a joint committee on health-care costs.

Thus an apparatus exists for considering alternative proposals and deciding among them. In the next 18 months some far-reaching directions will be set. As new ideas are put forth, we hope the public will take note and begin to make its opinions known.

UNIVERSITY OF
TWIN CITIES

October 19, 1977

TO: Board of Governor's Finance Committee

FROM: Clifford P. Fearing

SUBJECT: Controller's Report - For the Quarter July 1, 1977 through September 30, 1977.

The operations of the Hospital through the first quarter have remained relatively stable. While the overall inpatient census has not been as high as anticipated, the Hospital has been able to maintain a positive operating position. Highlights of the first quarter activity are outlined below.

The patient day census for the first quarter totaled 51,356 days, compared to a projected 53,249 days. The difference of 1,893 days represents an unfavorable variance of 3.6%. This year's total is down by 4.8% from last year's September 30, 1976 total of 53,930 days. The decline in inpatient census is primarily the result of fewer inpatient admissions. Through the first quarter, inpatient admissions were 5,489, 5.8% below the projected number of 5,620. The overall average length of stay has remained stable at 9.3 days and the occupancy rate has averaged 71.1%.

Pediatrics continued to show the most significant decline in census as a result of fewer admissions and a shorter average length of stay. A general decline in admissions resulted in fewer patient days in the medical/surgical areas. One area of increasing census is Obstetrics where we are 30% ahead of last year in number of admissions. The combined inpatient census for maternity (including the nursery) is 17% above last year's total at the end of September and 4.3% above our projection for the current year.

The outpatient clinic census continues to show a slow but steady increase. Outpatient clinic visits for the first quarter were 51,835, 1.2% above a projected clinic census of 51,220. It is significant to note that while Pediatrics and Medicine are two areas of declining inpatient census, they are clinic areas that are experiencing some of the larger increases in clinic visits. Trends such as this are consistent with the Hospitals and the industry's goal of emphasizing ambulatory care.

The net result of our patient [illegible] is patient revenues 2.0% below budget through the end of September. [illegible] inpatient routine revenue is 3.9% below budget, ancillary utilization is only 0.6% below budget. In spite of the fact that patient revenues are down, the September year-to-date total of revenue over expense is $138,589. This position is largely due to the fact that operating expenses are 2.2% below budget. The combined impact of our current census levels and level of expenditures yields a September year-to-date variance of revenue over expense equal to only 0.1% of total budgeted revenues.

In relation to the first quarter's level of operations the following is noteworthy:

	9/30/77	6/30/77
- Average Total Cost per Patient Day	$ 338	$ 314
Average Total Cost per Inpatient Admission	3,158	2,902
Average Total Cost per Clinic Visit	56	55

- Many of the new positions and programs scheduled to start during the first quarter have not yet been implemented. The result is to have reduced operating expenses by approximately $109,000 below what was anticipated. Patient revenues are also reduced as a result of these decisions by approximately $31,000.

- During the first three months of the 1977-78 fiscal year the balance in accounts receivable has increased by $1,718,000 to a total of $17,349,000. The increase in patient receivables parallels the projected increase in patient revenues brought about by the July 1, 1977 rate increase. The balance as of September 30, 1977 represents 83.6 days of revenue outstanding, up only 0.7 days from the June 30, 1977 total of 82.9 days.

- Two major remodeling projects were capitalized during the first quarter. The Mayo Nutrition Project and the Mayo Air Conditioning Project (6th and 7th floors) were capitalized at a cost of $3,000,585. These costs will be added to the Building and Building Services accounts. Their addition will add approximately $153,000 annually to depreciation expense.

Given the overall position of the Hospital at the end of the first quarter, the financial objectives of the 1977-78 fiscal year can still be achieved if the patient census does not decline below its current rate. Management however, can not permit expenditures to grow beyond their current levels. The challenge for the remainder of this fiscal year will be to live within the present rate structure in the face of a reduced census. This will require the elimination of expenditures planned during the budget process of $690,000 to meet our cash flow objectives and to further offset expenditures upon start up of new programs. In order to achieve these goals, management is currently reviewing the productivity changes which have occurred to define the level of expenditure reduction which will be necessary to achieve our financial objectives within the projected 1977-78 revenue base.

tkr

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
INPATIENT CENSUS DATA BY MAJOR CATEGORY
YTD 9/30/77

	Available Beds	Budgeted Days	Actual Patient Days	Average Daily Census	Budgeted Admissions	Actual Number of Admissions	Average Length of Stay	Budgeted Occupancy	Actual Percent Occupancy
Medical/Surgical	452	32,552	31,470	342.1	3,852	3,618	6.3	78.3	75.7
Pediatrics	100	6,198	5,839	63.5	820	756	6.7	67.4	63.5
Maternity	35	1,949	2,032	22.1	412	408	4.7	60.5	63.1
Psychiatry	68	4,036	3,827	41.6	103	97	30.6	64.5	61.2
Rehabilitation	40	2,252	2,394	26.0	74	68	21.3	61.2	65.1
Special Care Units	79	5,474	5,312	57.7	417	408	5.0	75.3	73.1
Clinical Research	11	788	482	5.2	150	134	3.4	77.9	47.6
Total	785	53,249	51,356	558.2	5,828	5,489	9.3	73.7	71.4

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1977 TO SEPTEMBER 30, 1977

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$19,485,251	$19,095,838	$(389,413)	(2.0)
Deductions from Charges	1,195,126	1,220,047	24,921	2.1
Other Operating Revenue	353,025	304,314	(48,711)	(13.8)
Total Revenue from Operations	$18,643,150	$18,180,105	$(463,045)	(2.5)
Expenditures				
Salaries	$10,150,895	$10,295,633	$ 144,738	1.4
Fringe Benefits	1,815,781	1,807,492	(8,289)	(.5)
Contract Compensation	1,727,489	1,723,225	(4,264)	.2
Med Supplies, Drugs, Blood	2,743,875	2,412,889	(330,986)	(12.1)
Campus Admin Expense	856,986	856,986	-0-	-
Depreciation	469,686	470,523	837	.2
General Supplies & Expense	3,106,930	2,840,609	(266,321)	8.6
Total Expenditures	$20,871,642	$20,407,357	$(464,285)	2.2
Revenue Over/(Under) Expense	$(2,228,492)	$(2,227,252)	$ 1,240	.1
Non-Operating Revenue				
Appropriations/Univ Support	$ 2,154,388	$ 2,154,388	-0-	-
Accrued Interest Income	211,453	211,453	-0-	-
Shared Services	-0-	-0-	-0-	-
Total Non-Oper Rev	$ 2,365,841	$ 2,365,841	-0-	-
Revenue Over/(Under) Expenses	$ 137,349	$ 138,589	$ 1,240 (1)	

(1) Variance equals .01% of Total Budgeted Revenue

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF CHANGES IN FUND BALANCES
JULY 1, 1977 THROUGH SEPTEMBER 30, 1977

	Operating Fund	Board-Designated Fund	Plant Fund	Total Unrestricted Funds
UNRESTRICTED FUNDS				
Beginning Balance	$11,354,600	$15,312,850	$25,835,843	$52,503,293
Net Income				
Excess of Revenue over Expense	400,872			
Accrued Board Designated Interest Income		158,795		
Accrued Approp Interest Income		52,658		
Depreciation Expense			(470,523)	
Loss on Sale/Disposal of Assets	1,444		(4,657)	
Total Unrestricted Income				
Less Expenses				138,589
Unrealized Appropriation Revenue	5,883,507			5,883,507
Campus Support: G&A	856,986			856,986
K/E Utilities	13,749			13,749
Transfers to Plant				
Major Building Projects (Hosp Only)	-	(101,697)	101,697	-
Capital Expenditures	(388,111)		388,111	-
Capital Encumbrance Change	(356,920)		356,920	-
Equip, Remodel & Other Adjust	(79,309)	5	(365,478)	(444,782)
Increase in Restrict. Fund Commitment to Plant			2,052	2,052
Transfers to/from Shared Bldg Proj		(236,492)		(236,492)
Transfers to Fund Deprec at Price Level	(644,436)	644,436		-
	$17,042,382	$15,830,555	$25,843,965	$58,716,902

	Gift	Endowment	Total
RESTRICTED FUNDS			
Beginning Balance	$663,372	$7,919,256	$8,582,628
Net Income			
Gifts	30,820		
Accrued Interest Income		87,824	
Misc Expenses	(11,786)		
Charity Expenses			
Total Restricted Net Income			106,858
Increase/(Decrease) in Commitment to Plant	(2,163)	112	(2,051)
Contribution to CUHCC		(2,364)	(2,364)
Prior Period Adj	(118,725)		(118,725)
	$561,518	$8,004,828	$8,566,346

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 1977

ASSETS	9/30/77	6/30/77
UNRESTRICTED FUNDS		
CURRENT ASSETS		
Cash and Investments	$ 7,405,062	$ 483,132
Patient Receivables Less Allowance for Uncollectable Accounts	14,584,813	13,131,064
Contractual Adjustments Receivable from Third Party Payor Reimbursement Programs	462,149	464,382
Other Receivables	314,658	189,143
Inventories of Drugs and Supplies	2,211,166	2,211,158
TOTAL CURRENT ASSETS	$24,977,848	$16,478,879
BOARD DESIGNATED ASSETS		
Cash & Short Term Investments	$ 3,519,106	$ 3,087,085
Interest Receivable	211,451	125,764
Long Term Investments	12,100,000	12,100,001
TOTAL BOARD DESIGNATED ASSETS	$15,830,557	$15,312,850
PLANT AND EQUIPMENT		
Cash & Investments for Construction	$ 1,708,129	$ 1,569,028
Construction in Progress	2,419,765	5,223,257
Buildings and Improvements	28,992,618	26,259,063
Equipment	12,798,334	12,430,280
	$45,918,846	$45,481,628
Less Allowance for Depreciation	(20,074,886)	(19,645,785)
	$25,843,960	$25,835,843
TOTAL UNRESTRICTED FUNDS	$66,652,365	$57,627,572
RESTRICTED FUNDS		
Cash and Investments-Current Acct	$ 561,518	$ 663,372
Cash and Investments-Prin. Acct	8,004,828	7,919,256
TOTAL RESTRICTED FUNDS	$ 8,566,346	$ 8,582,628
	$75,218,711	$66,210,200

LIABILITIES AND FUND BALANCES	9/30/77	6/30/77
UNRESTRICTED FUNDS		
CURRENT LIABILITIES		
Trade Accounts Payable	$ 882,417	$ 617,867
Insurance Payable	1,122,584	723,700
Accrued Salaries and Wages Payable	2,480,561	1,258,195
Accrued Vacation Payable	2,068,086	2,021,722
Accrued Professional Fees and Physicians Compensation	631,974	502,795
Contracts Payable	749,841	
TOTAL CURRENT LIABILITIES	$ 7,935,463	$ 5,124,279
FUND BALANCES		
Operating Funds	$17,042,382	$11,354,600
Board Designated Funds	15,830,555	15,312,850
Plant Funds	25,843,965	25,835,843
	$58,716,902	$52,503,293
TOTAL UNRESTRICTED FUNDS	$66,652,365	$57,627,572
RESTRICTED FUNDS		
Gift Funds	$ 561,518	$ 663,372
Endowment Funds	8,004,828	7,919,256
TOTAL RESTRICTED FUNDS	$ 8,566,346	$ 8,582,628
	$75,218,711	$66,210,200

Minutes
Finance Committee
University of Minnesota Hospitals and Clinics
October 19, 1977

Present: Stanley Holmquist, Chairman
John Quistgard, Vice Chairman
David Cost
Seymour Levitt, M.D.
Dave Preston
John Westerman
Dan Notto

Absent: David Brown, M.D.
Don Brown
Al France
Debbie Gruye

Staff: Nels Larson
Cliff Fearing
Don Van Hulzen

Guests: Harry Atwood

The meeting of the Finance Committee of the Board of Governors was called to order by Chairman Holmquist at 10:10 a.m., in the K/E Conference Room. Chairman Holmquist recognized the presence of Mr. Dan Notto, the new Board member and welcomed him to the committee.

I. <u>Approval of the September 21, 1977 Meeting Minutes</u>

Mr. Quistgard moved that the minutes of the last meeting be approved. Mr. Cost seconded the motion and it was passed.

II. <u>September YTD Financial Reports</u>

Mr. Fearing began the review by referring to the Controllers Report and pointing out that there has been a slight change in the census/patient charge statistics for the third month of the first quarter of our fiscal year. Occupancy in September was closer to projections showing a gradual improvement in both the routine and ancillary revenue variances. In reviewing page 2 of the Controllers Report, Mr. Fearing noted that the average total cost per patient day for the first quarter was $338 compared to $314 as of June 30 or a 7.6% increase. The average total cost per admission was $3,158 vs $2,902 or an 8.8% increase and total cost per clinic visit only increased 1.8% primarily due to some changes in allocation methods but also due to the increase in outpatient activity. He also stated that there are new programs which have not been implemented and are netting out at about $78,000 which we haven't spent. Our accounts receivable have gone up $1,700,000 to 83.6 revenue days or up .7 of a day from June 30, 1976. This is a historically standard increase over the first quarter primarily because of the rate increase taking effect. Major remodeling projects completed during the quarter were the Mayo nutrition project and Mayo air conditioning project and we capitalized $3 million or $153,000 annual depreciation. Mr. Fearing noted that if our expenses remain fairly constant, even at the current census level, we should be able to achieve our original financial objectives if we get the planned $690,000 out of our operating budget this year.

Next in referring to the Statement of Operations, Mr. Fearing pointed out that patient charges are 3.9% under budget which compares to a 3.6% variance in patient days. The ancillary charges showed a dramatic improvement both on a per admission basis and on a per patient day basis in the month of September and we are now .6% under budget for patient charges through the first quarter compared to 1.6% at the end of August. The professional fees show the same basic trends which is due to a higher utilization of ancillary services as admissions continue to be below our projected levels. Our over-all gross charges are 2% under budget compared to 2.7% or a .7% improvement over the YTD August report. Mr. Fearing next noted that the Deductions from Revenue don't show any major changes from the August statements although Lab Medicine utilization of special accounts continues to be down which is why we see a continued 13% variance in Billing Adjustments and Employee Benefits. The other major variance, Other Contract Adjustments, is in variance because the number of transplants that have been done are significantly over projections and because of a higher Indian Health Service utilization. In the area of Other Operating Revenue, Mr. Fearing noted that the only significant items are the Food Services revenue which is explained by the closing of the Powell Hall Cafeteria for the three months, July through September. That variance will be diminishing throughout the rest of the year. Powell Hall Motel normally runs a low occupancy in the summer and that variance should also decline for the remainder of the year. The Departmental Non-Patient Revenue deviation is primarily due to the Radiology Department falling behind in recovering on their silver sales. In the Expenditure category, Mr. Fearing pointed out that salaries continue to run over budget at $144,000 or 1.4% which is of some concern to us due to the lower occupancy levels we have been running. Fringe benefits are down basically because our Blue Cross contracts do not go into effect until October 1. Physician Compensation which was 8+% under budget as of the end of August is now only .5% under budget primarily because of the dramatic change in ancillary service charges per patient day. Overall salaries and contract compensation are 1% over budget as compared to only .1% over budget as of the end of August. Raw Food is down because patients days are down and the cafeteria in Powell Hall is closed for the summer. The primary reason for Drugs being under budget is the non-implementation of the piggy-back drug system which was approved last year but which has not been implemented yet. The entire variance of 24% in Blood & Blood Derivatives is made up of blood derivatives related to the Hemophilia Program budgeted at a higher level than experienced YTD. Utilization in Medical Supplies did not recover in the month of September and the downward favorable variance in medical supplies expense is offset by an unfavorable variance in ancillary revenue. Utilities variance has diminished 5% since last month primarily because we are now getting into the heating season. Under Rental Expense both the computer and peripheral equipment were budgeted for a full year's implementation but have not been brought on board yet. The variance in Communications is due to the Mossman Paging System which has not yet been purchased. Basically the variance in General Supplies and Expense is due to consulting fees for OAD staffing analysis, for the architect selection and K/E development, and the E&E consulting fee for the financial feasibility study which are all being delayed because of the delay in the K/E project. The total variance in expenditures of 2.2% offsets the 2.5% overall reduction in total revenue from operations and exceeds the gross charge variance of 2%. Mr. Fearing next pointed out that overall we budgeted $137,000 net revenues for the first three months and we are at $138,000, a very significant variance overall as far as our operating statements are concerned.

III. Census Data

In referring to the Inpatient Census Data by Major Category report, Mr. Fearing brought to the Committee's attention the fact that the trend in inpatient census data by major category is the overall trend within major categories of service in the hospital. Most services are down with the exception of OB and Rehab which are up about 4%. Overall we are down about 2.3% in our occupancy as of the end of September which corresponds fairly close to our overall hospital position.

IV. Cash Flow

In reviewing the cash flow statement, Mr. Fearing noted that YTD figures indicated a $541,000 increase in working capital with a net cash of $1.5 million. We are in a plus working capital position primarily made up of an increase in accounts receivable. In regard to the balance sheet, Mr. Fearing pointed out that cash in investments showed a significant change from $483,000 at the end of last fiscal year to $7,400,000 at 9/30 position. This is made up of $1.5 million cash flow and $5,800,000 of advanced funding from the Legislature in the special appropriations area.

V. Bad Debts

Mr. Fearing mentioned that at last month's meeting a bad debt summary for the year 1976-77 was asked for. He provided the cover memo to Dr. French and Mr. Brown requesting the approval of the Board of Regents on write offs.

VI. Projected Year End Statements

In regard to Item #3 on the agenda, Projected Year End Statements, Mr. Fearing informed the committee that there have been significant problems with our computer system so the projected statements were not available for this meeting, but he would have them for the next meeting.

VII. Other

In discussions in regard to the Citizens League Report and an editorial entitled, "Coming to Grips with Hospital Costs" in the Minneapolis Tribune of October 19, 1977, Mr. Van Hulzen pointed out that the weakness of the report was the lack of clear discussion of what assumptions were being made and very clearly one assumption that is being made is that the style of medical practice will change to be more like that in Seattle. In other words, the average length of stay in this area for each admission will drop considerably. He stated that 85% of the difference in general medical/surgical care between here and Seattle can be explained simply by the difference in the average length of stay. The other assumption is that there are many elective admissions to hospitals that can be qued up and this was not pointed out in the report. A number of patients could be treated successfully on an outpatient basis, but are being admitted. That also changes medical practice and what people expect, and health care treatment at home is not an expectation of people in Minnesota. Dr. Levitt stated that because we are a special type of institution, our costs are going to be higher and the Board should be getting this across to the Metro Health Board and to the press. Mr. Westerman pointed out that Mr. Baker will take up the public response question at the afternoon meeting starting with the reaction to the Citizens League and will be trying to engage

Mr. Atwood and other Board members to begin shaping the system. He also stated that this strategy would be introduced into the France Committee this afternoon. The Metro Health Board is demanding a long range plan as of January 1, 1978. The France Committee will go through a process of re-evaluation of mission and draw up programs and goals to emphasize the public nature of the hospital.

Mr. Van Hulzen asked for the Finance Committee's approval in upgrading the University Hospitals computer system. He stated that if the project is approved, it will require an outlay of $1,053,000. The decision has been made that the best way to purchase the system is through installment payments. This is a 3 phase program of $5,000,000 over several years to have the complete configuration in place. Mr. Van Hulzen also stated that if the project is approved, an application for a waiver in the certificate of need process will be initiated since patient care activity will not be directly affected. Chairman Holmquist mentioned that the committee had already given approval and in the afternoon Board meeting, he would indicate that the Finance Committee had been briefed and is aware of this expenditure.

In regard to legal problems, Mr. Diehl stated that the two areas of significance are malpractice and GAMC eligibility. He mentioned that there are no new malpractice lawsuits, but we are involved in some formal claims and a continuing flow of business. Mt. Atwood stated that even though the captive insurance is in place, there has been no material change in the malpractice situation. He said that hopefully within three to five years it will be demonstrated that it doesn't take $4 or $5 million a year to finance this kind of coverage and will, therefore, be reflected in rate reductions or some kind of rebate. Mr. Fearing mentioned that there was a renegotiation of last year's minimum premium from $1,700,000 down to

$800,000, however, that didn't do anything to the base contribution so dollar for dollar, payments would be made by the Hospital and University for all claims incurred. He added that if we don't incur any claims over a three year period, we save $900,000 but to the extent we incur claims we don't save anything so the $4 million must remain in escrow until February, 1981. Mr. Diehl commented that the physicians part is still in the same status. He also noted that we continue to experience confusion or disagreement with the claims investigation people. One possible solution is that the head of the claims for INA has been hired by Alexander & Alexander so we may deal with them exclusively. Mr. Holmquist stated that Vice President Brown had been contacted to meet with the committee in November to discuss the malpractice topic.

Mr. Diehl pointed out that starting in June, the DPW began declaring ineligible patients who are otherwise qualified for GAMC if they selected University Hospitals as a provider. A law of 1976 assured public assistance recipients freedom of choice of provider. The DPW felt that UH Papers Program should be exhausted before GAMC is used. If this decision stands, it would short us about $1 million. We have been disputing this and the Welfare Department has taken the same position with the Dental School and CUHCC. We have met with the Attorney General representing the Welfare Department and others but so far there has been a significant lack of response.

There being no further business, Chairman Holmquist adjourned the Finance Committee meeting at 12:05 p.m.

Respectfully submitted,

Teresa Rosecke

Teresa Rosecke

Minneapolis Tribune
Established 1867

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Wednesday, October [illegible], 1977

Coming to grips with hospital costs

If you think inflation hurts you in the [illegible]ket, take a look at hospitals. It's [illegible]. During the year ended last June, according to an analysis by Blue Cross, average daily charges in Minnesota hospitals rose [illegible] percent. In Minneapolis costs per day now nudge $200, and the average stay is over eight days.

What can be done to slow the increase? In the widening debate, at least four different approaches are beginning to emerge. All are difficult, controversial and probably necessary.

■ One is to attack the inflationary symptoms by limiting the money hospitals can spend. Nationally, an administration bill would "cap" every hospital's annual revenue increase at 9 percent the first year and less thereafter. Hospital associations oppose the idea as unfair and inflexible. It is not likely to emerge from Congress this year.

■ A second strategy is to reduce the number of hospitals and thus eliminate both the cost of empty beds and the pressure to fill them. This is the aim of regulations proposed last month by Joseph Califano, secretary of the Department of Health, Education and Welfare. HEW would limit beds to 4-per-1,000 residents, with average occupancy of at least 80 percent. Now 35 hospitals in the metro area provide about 5.5 beds-per-1,000, with occupancy under 74 percent. Hospital closings here, voluntary if possible, are also recommended by a recent report of the Citizens League.

■ A longer-range approach is to counter cost-push causes with cost-containment incentives. High among the Citizens League recommendations, for instance, is expanded use of [illegible]. They have built-in rewards [illegible] petitive with each other [illegible] sponsored by [illegible].

■ Equally long-range [illegible] an approach which [illegible] demand. One cause of [illegible] runs, is high expectation [illegible] as a matter of right. [illegible] though, mean extraordinary [illegible] of expectations — as to [illegible] must be, for instance, or [illegible] — are necessary now for [illegible].

We think public policy [illegible] approaches. Effective [illegible] both regulatory and [illegible] successful combination [illegible] nity consensus about [illegible]. That requires broad-based [illegible].

Such a process is now [illegible] are the Metropolitan [illegible] politan Council and its [illegible] viable hospitals. About [illegible] February, the task force [illegible] recommendations on the [illegible] Twin Cities hospitals. The [illegible] established a joint committee [illegible].

Thus an apparatus exists [illegible] tive proposals and [illegible] next 18 months [illegible] be set. As new [illegible] public will take [illegible] ions known.