



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

**MEETING OF THE
BOARD OF GOVERNORS FINANCE COMMITTEE**
Wednesday, January 28, 1987: 10:00 A.M.
Dale Shepherd Room - Campus Club
Coffman Memorial Union

COMMITTEE MEMBERS

Robert Nickoloff, Chair
Carol Campbell
Edward Ciriacy, M.D.
Clifford Fearing
Al Hanser
William Krivit, M.D., Ph.D.
Jerry Meilahn
C. Edward Schwartz
Vic Vikmanis

A G E N D A

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|------|---|----------------------|
| I. | Opening of Meeting, and Approval of Minutes of Finance Committee Meeting held 12/17/86 (Approval) pp. 3-6 | Mr. Robert Nickoloff |
| II. | December Year-to-Date Financial Statements (Information) pp. 7-14 | Mr. Clifford Fearing |
| III. | 1986-87 Financial Projections for Regents Information (Information) pp. 15-16 | Mr. Clifford Fearing |
| IV. | 1987-88 Budget Schedule (Information) | Mr. Nels Larson |
| V. | Bad Debts 10-1-86 to 12-31-86 (Endorsement) (attachment) | Mr. Dan Rode |
| VI. | Legislative Update (Information) p. 17 | Mr. Clifford Fearing |
| VII. | University Hospital Consortium Malpractice Insurance Project (Information) | Mr. Clifford Fearing |

Minutes
Meeting of the
Board of Governors Finance Committee
The University of Minnesota Hospital and Clinic
December 17, 1986

MEMBERS Carol Campbell
PRESENT: Edward Ciriacy, M.D.
Clifford Fearing
William Krivit, M.D., Ph.D.
Jerry Meilahn
Robert Nickoloff
C. Edward Schwartz
Vic Vikmanis

MEMBERS Al Hanser
ABSENT:

STAFF: Kay Fuecker
Greg Hart
Nels Larson
Barbara Tebbitt

CALL TO ORDER: The meeting of the Finance Committee was called to order by Chairman Robert Nickoloff at 9:45 A.M. in the Dale Shepherd Room of the Campus Club.

MINUTES: The minutes of November 19, 1986 Finance Committee meeting were approved as written.

11/19/86
FINANCIAL
STATEMENTS: Mr. Fearing reviewed the Report of Operations for the period July 1, 1986 through November 30, 1986. High census levels continued during November. Admissions were 1,480 (10% above budget), average length of stay was 8.4 days (12% above budget), and the November average daily census was 424. The census has not dropped as much during the holidays as it typically does between Thanksgiving and Christmas. Outpatient visits totalled 18,464 (6.4% above budget) and are 9,607 (10.3%) over budget for the first 5 months of the fiscal year.

Total revenue over expenses was \$4,374,721 for a favorable variance of \$7,109,803. Total patient care charges are 13.0% above budget with routine revenue 6.6% above budget, a close correlation to our favorable patient day variance. Ancillary revenue is 15.8% above budget, reflecting the favorable variance in both admissions and clinic visits and the

utilization of ancillary services per patient being higher than anticipated. The average inpatient ancillary revenue is \$6,602 per admission versus the budgeted average of \$6,199. Outpatient revenue per clinic visit is \$167 compared to a budgeted average of \$153. Operating expenditures are 4.0% above budgeted levels due to the increase in demand for patient services, primarily in personnel costs and patient care supplies.

Accounts Receivable are currently 106 days outstanding. Mr. Fearing attributed this increase to four factors: 1) more patients in the Hospital; 2) Discharged patients, where the final bill has not been sent to the insurance company due to a problem in getting final diagnosis from the Doctor; 3) Medical Assistance and Medicare slow down of payments; and 4) HMO payments which are consistently slow.

**CONTRACT
STATUS REPORT:**

The Blue Cross/Blue Shield contract for 1987 has been signed with negotiated discounts of \$3.5 million or \$1 million less than the original Blue Cross/Blue Shield contract proposal. This decrease in discounts was achieved by: 1) creating a unique category of cases when no one else in the state would do it, we would be paid at 100%; 2) Transplants are not included in the Aware contract, but in a separate break-even contract; 3) payment to UMHC on a severity illness basis for any patient transferred from another hospital at 85% of charges rather than the current 55%; and 4) increasing the level of reimbursement in some diagnostic categories.

The Indian Health Service has proposed we help them develop a contract that is meaningful to both parties and keep the existing contract in place for the next calendar year during this process. Under the existing contract we experience about \$4.5 million in charges, and we will receive about 85¢ on the dollar. The 1987 contract originally proposed for Indian Health Service would have paid only \$2 million of the \$4.5 million in charges.

**FINANCIAL
SYSTEMS
MODERNIZATION:**

Mr. Fearing requested approval of the purchase of computer hardware and software to modernize the purchase of computer hardware the financial system. Nels Larson headed a task force that evaluated 13 different vendors before selecting McCormick & Dodge and MSA as the final software vendors. Because the software selected required IBM hardware, admin-

istration is recommending the acquisition of an IBM 4381-12 mainframe to implement its financial system modernization. Other systems were evaluated but rejected because they did not meet specifications or were not state-of-the-art design. The purchase cost of the hardware necessary to run the system is \$875,000.

A motion was made and passed to endorse the selection of the IBM hardware for the financial systems modernization.

RESERVES:

Mr. Vikmanis reported that the Hospital state appropriation of approximately \$13 million is an area where the State Department of Finance will likely recommend a reduction for the next biennium. The primary basis for their recommendation is that the hospital has accumulated reserves over the last several years and therefore doesn't require the appropriation at its current size. Mr. Fearing indicated that the financial feasibility study done for the financing of the new hospital specifically points out that reductions to the appropriation or other support of the hospital could impair bond repayment. Mr. Nickoloff suggested the Board of Governors and University administration make Governor Perpich's staff aware that any decrease in the Hospital appropriation would be contrary to the Governor's technological plan for the state as well as being detrimental to the University of Minnesota Hospital and Clinic. Mr. Schwartz indicated President Keller has stated his 100% support of the Hospital. Dr. Ciriacy suggested the Board of Governors address the reserve and appropriation issue to develop a strong support position for future legislative discussions. Mr. Nickoloff requested that copies of the feasibility study be sent to the Committee for future discussion.

**GRADUATE
MEDICAL
EDUCATION
SURVEY:**

Mr. Fearing briefly discussed the Graduate Medical Education Survey. After completion of a survey to determine the methodology of and size of resident support, it was determined that funding of residents at The University of Minnesota Hospital and Clinic should be increased. This will be accomplished by increasing the number of residents funded by UMHC from 196.5 to 227 and by raising the amount per funded resident July 1, 1987. The total cost of this increase will be approximately \$1 million per year. The Clinical Development fund will be reduced to offset part of this increase. The size of the reduction will be addressed prior to July 1, 1987. Dr. Chou's Education Committee will review these proposals in late December for approval by the Clinical Chiefs in January or February, 1987.



UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospital and Clinic
420 Delaware Street S.E.
Minneapolis, Minnesota 55455

January 28, 1987

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing
Senior Associate Director

SUBJECT: Report of Operations for the Period
July 1, 1986 through December 31, 1986

The Hospital's operations through the month of December continued to reflect both inpatient admissions and outpatient visit activity that were above budgeted levels. In addition, we continued to experience ancillary service utilization that was higher than anticipated. To highlight our position:

Inpatient Census: For the month of December, inpatient admissions totaled 1,448 or 249 above budgeted admissions of 1,199. Our overall average length of stay for the month was 8.3 days. Patient days for December totaled 12,106 and were 1,578 days above budget. The increase in admission levels continued to be primarily in the areas of Medicine, Pediatrics, Surgery, and Urology.

To recap our year-to-date inpatient census:

	1985-86	1986-87	1986-87		%
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Variance</u>
Admissions	8,681	8,488	9,276	788	9.3
Avg.Lnth.of Stay	8.4	8.4	8.4	0	0.0
Patient Days	72,480	71,092	77,116	6,024	8.5
Percent Occupancy	66.5	64.4	70.7	6.3	9.8
Avg.Daily Census	393.9	386.4	419.1	32.7	8.5

Outpatient Census: Clinic visits for the month of December totaled 19,471 or 3,807 (24.3%) above budgeted visits of 15,664. The increase in activity was experienced in nearly all clinic areas with the largest increases occurring in Medicine, Psychiatry, and Urology. CUHCC (Community University Health Care Center) visits for the month of December totaled 3,708, or 575 (18.4%) above budgeted visits of 3,133, while Home Health visits of 1,003 for the month were 261 (20.6%) below budgeted visits of 1,264.

Report of Operations - December 1986
Page two

To recap our year-to-date outpatient census:

	1985-86	1986-87	1986-87		%
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Variance</u>
Clinic Visits	109,403	109,147	122,507	13,360	12.2
CUHCC Visits	18,510	18,800	22,555	3,755	20.0
HHA Visits	4,083	7,502	4,992	-2,510	-33.5

Financial Operations: The Hospital's Statement of Operations shows total revenues over expense of \$4,483,019, a favorable variance of \$ 9,893,181.

Patient care charges through December totaled \$116,051,761 and were 15.9% above budget. Routine revenue was 8.0% above budget and reflected our favorable patient day variance. Ancillary revenue was approximately \$13,448,000 (19.4%) above budget and reflected (1) the favorable variance in both admissions and clinic visits; and (2) the utilization of ancillary services per patient being higher than anticipated. Inpatient ancillary revenue has averaged \$6,686 per admission compared to the budgeted average of \$6,199 per admission. Outpatient revenue per clinic visit has averaged \$169 compared to the budgeted average of \$153.

Operating expenditures through December totaled \$109,268,132 and were approximately \$4,413,200 (4.2%) above budgeted levels. The overall unfavorable variance continued to relate to the increase in demand for patient services and was seen primarily in increased personnel costs (salaries and fringe benefits) and patient care supplies (drugs, blood, medical supplies).

Accounts Receivable: The balance in patient accounts receivable as of December 31, 1986 totaled \$70,858,919 and represented 107.6 days of revenue outstanding. The overall increase in our patient receivables in December of 1.6 days occurred primarily in the Medicare and Medical Assistance categories.

Conclusion: The Hospital's overall operating position continues to be positive and above budgeted levels. Both inpatient and outpatient census levels remain above budget. We continue to monitor our demand for service closely and make those operating changes that are necessary and appropriate.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
EXECUTIVE SUMMARY OF FINANCIAL ACTIVITY
FOR THE PERIOD JULY 1, 1986 TO DECEMBER 31, 1986

	Budgeted -----	Actual -----	Variance Over/-Under Budget -----	Variance %
Patient Care Charges	\$100,144,041	\$116,051,761	\$15,907,720	15.9%
Deductions from Charges	-15,555,847	-17,065,559	-1,509,712	-9.7%
Other Operating Revenue	2,647,544	2,702,021	54,477	2.1%
Total Operating Revenue	87,235,738	101,688,223	14,452,485	16.6%
Total Expenditures	-104,854,938	-109,268,132	-4,413,194	-4.2%
Net Operating Revenue	-17,619,200	-7,579,909	10,039,291	0.0%
Non-Operating Revenue and Expenses	12,209,038	12,062,928	-146,110	-1.2%
Revenue Over Expense	-5,410,162 =====	\$4,483,019 =====	\$9,893,181 =====	(1)

(1) Variance equals 9.9 % of total budgeted revenue.

	Budgeted -----	Actual -----	Variance Over/-Under Budget -----	Variance %
Admissions	8,488	9,276	788	9.3%
Patient Days	71,092	77,116	6,024	8.5%
Average Daily Census	386.4	419.1	32.7	8.5%
Average Length of Stay	8.4	8.4	0.0	0.0%
Percentage Occupancy	64.4%	70.7%	6.3%	9.8%
Outpatient Clinic Visits	109,147	122,507	13,360	12.2%

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

STATEMENT OF OPERATIONS

FOR THE PERIOD JULY 1, 1986 TO DECEMBER 31, 1986

	Budgeted	Actual	Variance Over/-Under Budget	Variance %
	-----	-----	-----	-----
Gross Patient Charges	\$100,144,041	\$116,051,761	\$15,907,720	15.9%
Deductions from Charges	15,555,847	17,065,559	1,509,712	9.7%
Other Operating Revenue	2,647,544	2,702,021	54,477	2.1%
Total Revenue from Operations	\$87,235,738	\$101,688,223	\$14,452,485	16.6%
Expenditures				
Salaries	\$44,659,939	\$48,122,473	\$3,462,534	7.8%
Fringe Benefits	8,671,182	9,102,544	431,362	5.0
Contract Compensation	4,384,698	4,407,245	22,547	0.5
Medical Supplies, Drugs, Blood	14,944,850	16,816,772	1,871,922	12.5
Campus Administration Expense	3,136,821	3,136,821	0	
Depreciation and Amortization	7,109,660	7,505,442	395,782	5.6
General Supplies & Expense	21,947,788	20,176,835	-1,770,953	-8.1
Total Expenditures	\$104,854,938	\$109,268,132	\$4,413,194	4.2%
Net Revenue from Operations	\$ -17,619,200	\$ -7,579,909	\$10,039,291	
Non-Operating Revenues and Expenses				
Appropriations	\$7,261,217	\$7,418,179	\$156,962	2.2%
Interest Income on Reserves	3,718,501	3,517,241	-201,260	-5.4
Shared Services	183,648	204,327	20,679	11.3
Investment Income on Trustee Held Assets	1,045,672	923,181	-122,491	-11.7
Total Non-Operating Revenues and Expenses	\$12,209,038	\$12,062,928	\$ -146,110	-1.2%
Revenue Over / -Under Expenses	\$ -5,410,162	\$4,483,019	\$9,893,181	(1)
	=====	=====	=====	

(1) Variance equals 9.9% of total budgeted revenue.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

STATEMENT OF OPERATIONS

FOR THE PERIOD JULY 1, 1986 TO DECEMBER 31, 1986

Annual Budget		Budgeted	Actual	Variance Over/-Under Budget	Variance %
	Patient Care Charges				
\$60,169,700	Routine	\$30,845,529	\$33,305,282	\$2,459,753	8.0%
139,094,000	Ancillary	69,298,512	82,746,479	13,447,967	19.4
<u>\$199,263,700</u>	Gross Charges	<u>\$100,144,041</u>	<u>\$116,051,761</u>	<u>\$15,907,720</u>	<u>15.9%</u>
	Deductions from Charges				
\$16,821,600	Third Party Contractual Adjustments	\$8,407,499	\$8,952,255	\$544,756	6.5%
8,124,800	Billing Adjustments & Employee Benefits	4,087,291	4,377,234	289,943	7.1
420,000	Charitable Care	211,080	299,810	88,730	42.0
3,026,700	Other Contractual Adjustments	1,521,130	1,896,126	374,996	24.7
2,644,100	Provisions for Uncollectables	1,328,847	1,540,134	211,287	15.9
<u>\$31,037,200</u>	Total Deductions	<u>\$15,555,847</u>	<u>\$17,065,559</u>	<u>\$1,509,712</u>	<u>9.7%</u>
	Other Operating Revenue				
\$1,165,100	Food Services	\$587,340	\$683,535	\$96,195	16.4%
452,400	Parking Services	182,154	0	-182,154	
99,900	Department Non-Patient	50,362	94,326	43,964	87.3
1,023,100	CUHCC Grants	515,752	514,902	-850	-0.2
1,486,100	Reference Lab Income	749,158	728,978	-20,180	-2.7
1,119,800	Pro Fees - Net Revenue	562,778	656,540	93,762	16.7
0	Donations to Operations from Restricted Funds	0	23,740	23,740	
<u>\$5,346,400</u>	Total Other Revenue	<u>\$2,647,544</u>	<u>\$2,702,021</u>	<u>\$54,477</u>	<u>2.1%</u>
<u>\$173,572,900</u>	Total Revenue from Operations	<u>\$87,235,738</u>	<u>\$101,688,223</u>	<u>\$14,452,485</u>	<u>16.6%</u>
	Expenditures				
\$87,879,400	Salaries	\$44,659,939	\$48,122,473	\$3,462,534	7.8%
17,115,800	Fringe Benefits	8,671,182	9,102,544	431,362	5.0
1,875,700	Academic Contracts	937,848	934,090	-3,758	-0.4
4,685,500	Resident Contracts	2,342,748	2,342,748	0	0.0
2,208,200	Physician Compensation	1,104,102	1,130,407	26,305	2.4
<u>\$113,764,600</u>	Total Salary, F.B. & Fees	<u>\$57,715,819</u>	<u>\$61,632,262</u>	<u>\$3,916,443</u>	<u>6.8%</u>
2,079,600	Laundry & Linen	1,055,897	1,035,021	-20,876	-2.0%
1,392,200	Raw Food	707,954	823,730	115,776	16.4
13,975,900	Drugs	6,964,021	7,523,457	559,436	8.0
4,880,400	Blood & Blood Derivatives	2,431,846	2,763,377	331,531	13.6
11,136,100	Medical Supplies	5,548,983	6,529,938	980,955	17.7
3,055,900	Utilities	1,508,669	1,996,754	488,085	32.4
2,832,400	Insurance	916,308	898,433	-17,875	-2.0
2,335,200	Rental	1,203,600	1,130,809	-72,791	-6.0
3,349,300	Maintenance & Repair	1,688,414	1,573,578	-114,836	-6.8
1,312,800	Communications	661,794	691,073	29,279	4.4
0	Net Loss on Disposal of Assets	0	9,311	9,311	
6,222,500	Campus Administration Expense	3,136,821	3,136,821	0	
14,103,400	Depreciation and Amortization	7,109,660	7,505,442	395,782	5.6
14,001,200	Interest	7,058,140	4,979,486	-2,078,654	-29.5
14,177,500	General Supplies & Expense	7,147,012	7,038,640	-108,372	-1.5
<u>\$208,619,000</u>	Total Expenditures	<u>\$104,854,938</u>	<u>\$109,268,132</u>	<u>\$4,413,194</u>	<u>4.2%</u>
<u>-35,046,100</u>	Net Revenue from Operations	<u>-17,619,200</u>	<u>-7,579,909</u>	<u>\$10,039,291</u>	
	Non-Operating Revenue and Expenses				
\$13,638,900	Appropriations & Support	\$6,875,498	\$6,986,960	\$111,462	1.6%
511,500	Accrued Interest on Appropriation	385,719	431,219	45,500	11.8
7,187,600	Interest Income on Reserves	3,718,501	3,517,241	-201,260	-5.4
364,300	Shared Services	183,648	204,327	20,679	11.3
2,074,300	Investment Income Held by Trustee	1,045,672	923,181	-122,491	-11.7
<u>\$23,776,600</u>	Total Non-Operating Revenue and Expenses	<u>\$12,209,038</u>	<u>\$12,062,928</u>	<u>\$-146,110</u>	<u>-1.2%</u>
<u>-11,269,500</u>	Revenue Over/-Under Expense	<u>-5,410,162</u>	<u>\$4,483,019</u>	<u>\$9,893,181</u>	

(1) Variance equals 9.9% of total budgeted revenue.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

OPERATING CASH FLOW

FOR THE PERIOD JULY 1, 1986 TO DECEMBER 31, 1986

Source of Funds

Beginning Operating Cash Balance		\$9,475
Net Income from Operations	-7,579,909	
Non-Operating Revenue	12,062,928	

Excess of Revenue over Expense		4,483,019
Items not Requiring the Outlay of Cash:		
Depreciation		7,505,442
University Support: G & A		3,136,821
University Support: KE Utilities		123,096
Decrease in Other Receivables		1,215,540
Decrease in Prepaid Expenses		781,540
Decrease in Inventories		61,258
Deferred Third Party Reimbursement		198,316
Renewal Project Interest Expense		4,606,282
Miscellaneous Sources		20,614

Total Funds Provided from Operations		\$22,141,403

Funds Applied

Transfers to Plant:		
Increase in Capital Expenditures	\$2,172,594	
Decrease in Capital Encumbrances	138,027	
Total Transfers to Plant from Operations		\$2,310,621
Increase in Accounts Receivable		11,225,154
Third Party Liabilities Transfer		264,220
Decrease in Accrued Expenses		2,963,204
Investment Income - Trustee Held Assets		923,181
Transfer to Reserves - Bond Retirement		1,315,000
Transfer to Reserves - Bond Interest Payable		3,730,022

Total Funds Applied		\$ 22,731,402
Operating Cash Made Available from Operations		\$ -589,999
		=====

(1) Total Operating Cash Available of \$-589,999; plus Transfers to Plant of \$2,310,621; plus Transfers to Reserves for debt retirement and interest payable of \$5,045,022 equals Cash Generated from Operations of \$6,765,644.

Current Cash Summary

Operating Cash	-589,999
Reserve Cash for Liability to Third Party Payors	10,406,206
Unrealized Appropriation Cash	6,651,940
Reserve Cash for Short Term Debt Retirement	2,500,000

	18,968,147
Less Interest Income on Reserves	-3,948,460

Total Current Cash	\$15,019,687
	=====

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

BALANCE SHEETS

DECEMBER 31, 1986 AND JUNE 30, 1986

ASSETS

LIABILITIES AND FUND BALANCES

	12/31/86	6/30/86		12/31/86	6/30/86
CURRENT ASSETS			CURRENT LIABILITIES		
Operating Cash	\$ -4,538,559	\$ 9,475	Accounts Payable	\$2,757,958	\$3,969,645
Reserve Cash- Third Party Payable	10,406,206	10,141,986	Payable to Third Party Contr. Payors	10,406,206	10,141,986
Unrealized Appropriation Cash	6,652,040	0	Salaries, Wages and Payroll Taxes	2,860,292	5,405,654
Reserve Cash- Short Term Debt	2,500,000	2,500,000	Accrued Vacation	6,281,847	5,957,248
Accounts Receivable			Accrued Professional Fees and		
Patient Receivables	70,858,919	55,896,815	Physician Compensation	1,812,291	2,468,184
Other Receivables	597,838	1,813,378	Contracts Payable	5,021,911	4,464,866
	71,456,757	57,710,193	Interest Payable	6,421,269	2,407,435
Less Allowances for Losses			Current Portion of Long-Term Debt	6,103,466	6,155,057
in Collection	-5,274,529	-4,710,000			
Less Allowances for Discounts					
to Third Party Payors	-12,794,612	-9,622,191			
	53,387,616	43,378,002			
Trustee Held Assets	3,720,864	6,549,469			
Inventories of Drugs & Supplies	4,747,378	4,670,632			
Prepaid Expenses	255,850	1,037,390			
Silver Flake	0	138,004			
TOTAL CURRENT ASSETS	\$77,131,395	\$68,424,958	TOTAL CURRENT LIABILITIES	41,665,240	40,970,075
BOARD DESIGNATED ASSETS:					
Board Designated Assets					
Available for Assignment					
Cash & Investments	\$63,265,384	\$60,064,655			
Accrued Interest	2,639,949	749,059			
	65,905,333	60,813,714			
Cash & Investments Assigned					
to Construction Projects	7,451,485	5,059,360			
TOTAL BOARD DESIGNATED ASSETS	\$73,356,818	\$65,873,074			
DEFERRED THIRD PARTY REIMBURSEMENT	\$10,692,255	\$10,890,571			
OTHER ASSETS	591,161	591,161			
LAND, BUILDINGS & EQUIPMENT					
Land, Buildings & Improvements	\$178,172,443	\$174,543,682			
Equipment	65,410,816	64,418,269			
	243,583,259	238,961,951			
Less Accumulated Depreciation	-62,684,954	-55,384,931	UNRESTRICTED FUND BALANCE	\$178,976,247	\$164,581,371
	180,898,305	183,577,020			
Construction in Progress	10,680,793	7,458,010			
TOTAL LAND, BUILDINGS & EQUIPMENT	\$191,579,098	\$191,035,030			
TRUSTEE HELD ASSETS	\$48,926,375	\$50,143,723			
DEFERRED DEBT EXPENSE	\$2,638,857	\$2,187,659			
	\$404,915,959	\$389,146,176		\$404,915,959	\$389,146,176
	=====	=====		=====	=====
RESTRICTED ASSETS			RESTRICTED FUND BALANCES		
			Fund Balances		
			Endowment Funds	\$1,682,308	\$1,656,445
			Gift Funds	2,797,443	2,586,802
Cash and Investments	\$4,479,751	\$4,243,247		\$4,479,751	\$4,243,247
	=====	=====		=====	=====

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

STATEMENT OF CHANGES IN FUND BALANCE

FOR THE PERIOD JULY 1, 1986 TO DECEMBER 31, 1986

	OPERATING FUND	BOARD DESIGNATED FUND	PLANT FUND	TOTAL UNRESTRICTED FUNDS
	-----	-----	-----	-----
UNRESTRICTED FUNDS				
Beginning Balance	\$30,339,323	\$60,813,714	\$73,428,334	\$164,581,371
Net Income				
Excess of Revenue over Expense	11,732,413			
Interest Income on Reserves		3,517,241		
Accrued Interest on Appropriations		431,219		
Depreciation Expense			-7,505,442	
Loss on Disposal of Assets			-9,311	
Interest Expense			-4,606,282	
Interest Income on Trustee Held Fund			923,181	
Total Income				4,483,019
Less Expense				
Unrealized Appropriation Revenue	6,651,940			6,651,940
University Support: G & A	3,136,821			3,136,821
K/E Utilities	123,096			123,096
Transfers Between Funds				
Major Building Projects- Hospital Only		-1,772,990	1,772,990	
Capital Expenditures	-2,172,594		2,172,594	
Capital Encumbrance Change	-138,027		138,027	
Major Equipment Purchases		-622,462	622,462	
CT Scanner	-897,975	897,975		
Transfer to Trustee- Interest Payment		-2,404,385	2,404,385	
Transfer to Reserves- Debt Sinking Fund	-1,315,000	1,315,000		
Transfer to Reserves- Bond Interest	-3,730,021	3,730,021		
Ending Balance	\$43,729,976	\$65,905,333	\$69,340,938	\$178,976,247

RESTRICTED FUNDS	Gift	Endowment	Total
	-----	-----	-----
Beginning Balance	\$2,586,802	\$1,656,449	\$4,243,251
Income	210,641	25,859	236,500
Ending Balance	\$2,797,443	\$1,682,308	\$4,479,751



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

January 23, 1987

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing
Senior Associate Director

SUBJECT: Financial Projections for Regents Information

When the Board of Regents approved the 1986-87 budget the Hospital was in the initial weeks of a significant increase in occupancy. Because of this increase in activity the Board of Regents requested that the Hospital provide them with an interim year update on patient activity and financial operations.

In accordance with this request we will be presenting the attached financial projections to the Regents at their February meeting. These projections are those that were reviewed by the Board of Governors Finance Committee in November.

No action is being sought from the Regents, this will be provided for information only.

CPF:th

Attachment

University of Minnesota Hospital & Clinic
 Summary Statement of Operations and Operating Cash Flow
 For Fiscal Years 1985-86 and 1986-87


	1986-87 Board Approved	1986-87 Current Projection
	-----	-----
Gross Patient Charges	\$ 199,263,700	\$ 224,281,000
Deductions from Charges	31,037,200	36,151,100
Net Patient Charges	\$ 168,226,500	\$ 188,129,900
Other Operating Revenue	5,346,400	5,517,000
Non-Operating Revenue	23,776,600	22,840,900
Total Revenues	\$ 197,349,500	\$ 216,487,800
Total Expenditures	\$ 208,619,000	\$ 224,284,000
Excess of Revenues Over Expenses	\$ -11,269,500	\$ -7,796,200
Add Non-Cash Outlays:		
Depreciation	\$ 14,103,400	\$ 16,261,100
Campus Administration Expense	6,258,800	6,258,800
Net Increase/(Decrease) in Working Capital	2,347,900	-1,464,500
Net Funds Provided	\$ 11,440,600	\$ 13,259,200
Funds Applied:		
Capital Obligations:		
Principal Payment on Fixed-Rate Bonds	2,550,000	2,550,000
Direct Purchased Capital Equipment and Remodeling	4,108,500	5,108,500
Parking Ramp Sinking Fund	60,300	76,200
Reserve for Accrued Interest	4,721,800	4,402,300
Net Funds Applied	\$ 11,440,600	\$ 12,137,000
Total Cash Available from Operations	\$ 0	\$ 1,122,200
	=====	=====
Census:		
Admissions	16,950	18,200
Average Length of Stay	8.2	8.2
Patient Days	138,790	149,200
Average Daily Census	380.2	408.8
Clinic Visits	222,600	245,000



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

January 23, 1987

TO: Board of Governors Finance Committee
FROM: Clifford P. Fearing
Senior Associate Director 
SUBJECT: Update on Hospital Appropriation Review by the State Department
of Finance

Following discussions with the State Department of Finance it appears that the Governor's budget recommendations will transfer \$6.6 million of the \$13.9 million Hospital appropriation to regular University operating funds. Of the \$6.6 million reduction, \$4.6 will continue to be provided to UMHC in support of instructional educational costs incurred by UMHC. An additional \$2 million will be transferred to the Medical School to support graduate medical education costs presently funded by UMHC which will also be transferred to the Medical School.

This will leave the Hospital special appropriation at approximately \$7.7 million for 1987-88.

If this proposal is passed in its present form it will essentially leave State support of UMHC at current levels.

CPF:th



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

January 20, 1987

TO: Board of Governors
FROM: Clifford P. Fearing
Senior Associate Director
SUBJECT: Bad Debts - Second Quarter, 1986-87

The total amount recommended for bad debt of Hospital and Clinic accounts receivable during the second quarter of 1986-87 is \$619,034.82, represented by 1076 accounts. Bad debt recoveries during the period amounted to \$2,562.77, leaving a net charge-off of \$616,472.05.

A statistical summary is attached with detailed description of losses over \$2,000 and recoveries over \$200 for each of the months in the second quarter. We have also included additional reports with a breakdown of bad debts by residence and by admitting clinic service for the quarter and year-to-date.

Year-to-date bad debts have amounted to \$997,968.51, represented by 2527 accounts. Recoveries during these two quarters amounted to \$22,363.84, leaving a net charge-off of \$975,604.67.

Statistical summaries of year-to-date figures are also attached.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

BAD DEBT STATISTICS

OCTOBER 1986 THROUGH DECEMBER 1986

	Less Than \$2000	# of Accounts	More Than \$2000	# of Accounts	TOTAL AMOUNT	TOTAL # of ACCOUNTS
INPATIENT						
Medicare (610) Non-Recoverable	\$ --	--	\$ --	--	\$ --	--
Bad Debt (701) Write-Offs	<u>30,702.66</u>	112	<u>212,956.86</u>	25	<u>243,659.52</u>	137
Total	30,702.66	112	212,956.86	25	243,659.52	137
Recoveries	(517.88)	11	.00	0	(517.88)	11
Net Total	<u>\$ 30,184.78</u>	112*	<u>\$ 212,956.86</u>	25*	<u>\$ 243,141.64</u>	137*
OUTPATIENT						
Medicare (610) Non-Recoverable	\$ 4,509.60	15	\$ 242,786.07	7	\$ 247,295.67	22
Bad Debt (701) Write-Offs	<u>82,543.93</u>	903	<u>39,469.82</u>	7	<u>122,013.75</u>	910
Total	87,053.53	918	282,255.89	14	369,309.42	932
Recoveries	(2,044.89)	55	.00	0	(2,044.89)	55
Net Total	<u>\$ 85,008.64</u>	918*	<u>\$ 282,255.89</u>	14*	<u>\$ 367,264.53</u>	932*
INPATIENT AND OUTPATIENT TOTAL	<u>\$ 115,193.42</u>	1030*	<u>\$ 495,212.75</u>	39	<u>\$ 610,406.17</u>	1069*
MEDICARE BAD DEBTS						
Inpatient (710)	\$ 1,642.00	4	\$ 4,187.27	1	\$ 5,829.27	5
Outpatient (710)	<u>236.61</u>	2	<u>.00</u>	0	<u>236.61</u>	2
Total	1,878.61	6	4,187.27	1	6,065.88	7
Recoveries	(000.00)	0	(000.00)	0	(000.00)	0
Net Total	<u>\$ 1,878.61</u>	15*	<u>\$ 4,187.27</u>	1	<u>\$ 6,065.88</u>	7*
TOTAL NET BAD DEBT	<u>\$ 117,072.03</u>	1036*	<u>\$ 499,400.02</u>	40*	<u>\$ 616,472.05</u>	1076*

NOTE: More than \$2,000 amount includes legal settlements totaling \$20,462.74

DOLLARS BUDGETED

\$ 631,146.00

*Net total of accounts do not include recoveries.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

BAD DEBT STATISTICS

OCTOBER 1986 THROUGH DECEMBER 1986

	LESS THAN \$100	# OF ACCOUNTS	\$100 - \$999	# OF ACCOUNTS	\$1000 - \$1999	# OF ACCOUNTS	\$2000 - \$9,999	# OF ACCOUNTS	\$10,000 +	# OF ACCOUNTS	TOTAL AMOUNT	TOTAL # OF ACCOUNTS
INPATIENT												
Medicare (610) Non-Recoverable	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0
Bad Debt (701) Write-Offs	1416.97	42	24,397.82	67	4,887.87	3	75,798.85	19	137,158.01	6	243,659.52	137
Total	\$1,416.97	42	\$24,397.82	67	\$4,887.87	3	\$75,798.85	19	\$137,158.01	6	\$243,659.52	137
Recoveries	(\$357.61)	10	(\$168.27)	1	\$0.00	0	\$0.00	0	\$0.00	0	(\$517.88)	11
Net Total	\$1,059.36	42 *	\$24,237.55	67 *	\$4,887.87	3 *	\$75,798.85	19 *	\$137,158.01	6 *	\$243,141.64	137 *
OUTPATIENT												
Medicare (610) Non-Recoverable	\$263.38	7	\$2,845.88	7	\$1,488.58	1	\$28,628.67	5	\$222,157.48	2	\$247,295.67	22
Bad Debt (710) Write-Offs	\$23,547.95	698	\$46,879.39	197	\$12,116.59	8	\$14,779.63	5	\$24,698.19	2	\$122,813.75	918
Total	\$23,811.25	705	\$49,725.19	204	\$13,517.09	9	\$35,488.30	10	\$246,847.59	4	\$369,389.42	932
Recoveries	(\$849.85)	48	(\$1,195.84)	7	\$0.00	0	\$0.00	0	\$0.00	0	(\$2,044.89)	55
Net Total	\$22,962.20	705 *	\$48,529.35	204 *	\$13,517.09	9 *	\$35,488.30	10 *	\$246,847.59	4 *	\$367,264.53	932 *
INPATIENT AND OUTPATIENT TOTAL	\$24,021.56	747 *	\$72,766.90	271 *	\$18,404.96	12 *	\$111,287.15	29 *	\$384,005.60	10 *	\$618,486.17	1069 *
MEDICARE BAD DEBTS												
Inpatient (710)	\$0.00	0	\$1,642.88	4	\$0.00	0	\$4,187.27	1	\$0.00	0	\$5,829.27	5
Outpatient (710)	\$63.24	1	\$173.37	1	\$0.00	0	\$0.00	0	\$0.00	0	\$236.61	2
Total	\$63.24	1	\$1,815.37	5	\$0.00	0	\$4,187.27	1	\$0.00	0	\$6,065.88	7
Recoveries	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0
Net Total	\$63.24	1 *	\$1,815.37	5 *	\$0.00	0 *	\$4,187.27	1 *	\$0.00	0 *	\$6,065.88	7 *
TOTAL NET BAD DEBT	\$24,084.80	748 *	\$74,582.27	276 *	\$18,404.96	12 *	\$115,394.42	30 *	\$384,005.60	10 *	\$618,472.05	1076 *

DOLLARS BUDGETED

\$631,146.00

* Net total of accounts do not include recoveries.

NOTE: More than \$2000 amount includes legal settlements totalling \$28,462.74

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

BAD DEBT STATISTICS

JULY 1986 THROUGH DECEMBER 1986

	Less Than \$2000	# of Accounts	More Than \$2000	# of Accounts	TOTAL AMOUNT	TOTAL # of ACCOUNTS
INPATIENT						
Medicare (610) Non-Recoverable	\$ --	--	\$ --	--	\$ --	--
Bad Debt (701) Write-Offs	<u>79,251.99</u>	238	<u>305,641.24</u>	37	<u>384,893.23</u>	275
Total	79,251.99	238	305,641.24	37	384,893.23	275
Recoveries	<u>(3,653.83)</u>	27	<u>(6,765.64)</u>	2	<u>(10,419.47)</u>	29
Net Total	<u>\$ 75,598.16</u>	238*	<u>\$ 298,875.60</u>	37*	<u>\$ 374,473.76</u>	275*
OUTPATIENT						
Medicare (610) Non-Recoverable	\$ 9,698.64	28	\$ 335,860.46	11	\$ 345,559.10	39
Bad Debt (701) Write-Offs	<u>188,617.63</u>	2185	<u>70,017.30</u>	12	<u>258,634.93</u>	2197
Total	198,316.27	2213	405,877.76	23	604,194.03	2236
Recoveries	<u>(8,073.07)</u>	140	<u>(3,871.30)</u>	1	<u>(11,944.37)</u>	141
Net Total	<u>\$ 190,243.20</u>	2213*	<u>\$ 402,006.46</u>	23*	<u>\$ 592,249.66</u>	2236*
INPATIENT AND OUTPATIENT TOTAL	<u>\$ 265,841.36</u>	2451*	<u>\$ 700,882.06</u>	60	<u>\$ 966,723.42</u>	2511*
MEDICARE BAD DEBTS						
Inpatient (710)	\$ 4,134.00	10	\$ 4,187.27	1	\$ 8,321.27	11
Outpatient (710)	<u>559.98</u>	5	<u>.00</u>	0	<u>559.98</u>	5
Total	4,693.98	15	4,187.27	1	8,881.25	16
Recoveries	<u>(000.00)</u>	0	<u>.00</u>	0	<u>(000.00)</u>	0
Net Total	<u>\$ 4,693.98</u>	15*	<u>\$ 4,187.27</u>	1	<u>\$ 8,881.25</u>	16*
TOTAL NET BAD DEBT	<u>\$ 270,535.34</u>	2466*	<u>\$ 705,069.33</u>	61*	<u>\$ 975,604.67</u>	2527*

NOTE: More than \$2,000 amount includes legal settlements totaling \$31,476.28

DOLLARS BUDGETED

\$1,328,374.00

*Net total of accounts do not include recoveries.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

BAD DEBT STATISTICS

JULY 1986 THROUGH DECEMBER 1986

	LESS THAN \$100	# OF ACCOUNTS	\$100 - \$999	# OF ACCOUNTS	\$1000 - \$1999	# OF ACCOUNTS	\$2000 - \$9,999	# OF ACCOUNTS	\$10,000 +	# OF ACCOUNTS	TOTAL AMOUNT	TOTAL # OF ACCOUNTS
INPATIENT												
Medicare (610) Non-Recoverable	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0
Bad Debt (701) Write-Offs	3160.85	90	51,648.03	133	24,443.11	15	111,713.59	27	193,927.65	10	384,893.23	275
Total	\$3,160.85	90	\$51,648.03	133	\$24,443.11	15	\$111,713.59	27	\$193,927.65	10	\$384,893.23	275
Recoveries	(\$503.21)	20	(\$3,150.62)	7	\$0.00	0	(\$6,765.64)	2	\$0.00	0	(\$10,419.47)	29
Net Total	\$2,657.64	90 *	\$48,497.41	133 *	\$24,443.11	15 *	\$104,947.95	27 *	\$193,927.65	10 *	\$374,473.76	275 *
OUTPATIENT												
Medicare (610) Non-Recoverable	\$437.00	11	\$4,640.83	14	\$4,620.01	3	\$33,307.07	7	\$302,553.39	4	\$345,559.10	39
Bad Debt (710) Write-Offs	\$54,660.18	1685	\$114,200.38	487	\$19,757.07	13	\$34,313.57	9	\$35,703.73	3	\$258,634.93	2197
Total	\$55,097.98	1696	\$118,841.21	501	\$24,377.08	16	\$67,620.64	16	\$338,257.12	7	\$604,194.03	2236
Recoveries	(\$2,750.57)	114	(\$5,322.50)	141	\$0.00	0	(\$3,871.30)	1	\$0.00	0	(\$11,944.37)	141
Net Total	\$52,347.41	1696 *	\$113,518.71	501 *	\$24,377.08	16 *	\$63,749.34	16 *	\$338,257.12	7 *	\$592,249.66	2236 *
INPATIENT AND OUTPATIENT TOTAL	\$55,005.05	1786 *	\$162,016.12	634 *	\$48,820.19	31 *	\$168,697.29	43 *	\$532,184.77	17 *	\$966,723.42	2511 *
MEDICARE BAD DEBTS												
Inpatient (710)	\$0.00	0	\$4,134.00	10	\$0.00	0	\$4,187.27	1	\$0.00	0	\$8,321.27	11
Outpatient (710)	\$132.74	3	\$427.24	2	\$0.00	0	\$0.00	0	\$0.00	0	\$559.98	5
Total	\$132.74	3	\$4,561.24	12	\$0.00	0	\$4,187.27	1	\$0.00	0	\$8,881.25	16
Recoveries	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0	\$0.00	0
Net Total	\$132.74	3 *	\$4,561.24	12 *	\$0.00	0 *	\$4,187.27	1 *	\$0.00	0 *	\$8,881.25	16 *
TOTAL NET BAD DEBT	\$55,137.79	1789 *	\$166,577.36	646 *	\$48,820.19	31 *	\$172,804.56	44 *	\$532,184.77	17 *	\$975,604.67	2527 *

NOTE: More than \$2,000 amount includes legal settlements totalling \$20,462.74

BILLS ARE DUNGED

\$1,320,374.00

* Net total of accounts do not include recoveries.

SECOND QUARTER FISCAL YEAR - 1987
and YEAR-TO-DATE BAD DEBTS
BY STATE

STATE	SECOND QUARTER NUMBER	SECOND QUARTER AMOUNT ¹	YEAR- TO-DATE NUMBER	YEAR- TO-DATE AMOUNT ¹
Alabama			7	\$ 339.92
Alaska	1	\$ 23.00	2	52.08
Arizona	15	16,827.31	18	17,315.83
Arkansas	2	449.82	3	643.27
California	8	740.20	30	562.35
Colorado	18	1,646.55	20	1,707.37
Delaware				
District of Columbia	1	20.00	1	20.00
Florida	5	4,927.04	12	16,441.88
Georgia	3	4,490.01	6	4,966.44
Hawaii				
Idaho	2	237.33	2	237.33
Illinois	1	210.90	14	1,062.84
Indiana	3	53,831.38	7	54,024.24
Iowa	5	713.78	13	1,736.62
Kansas			3	739.00
Kentucky	1	75.00	1	75.00
Louisiana				
Maine				
Maryland	8	2,209.38	8	2,209.38
Massachusetts	1	69.00	5	258.97
Michigan	1	47.80	3	266.60
Minnesota	884	455,123.02 ²	2097	702,055.98 ²
Mississippi	1	172.80	1	172.80
Missouri	1	22.00	2	316.58
Montana	3	131.94	4	516.04
Nebraska	2	40,356.11	3	40,369.07
Nevada			1	22.22
New Hampshire				
New Jersey				
New Mexico			1	123.20

STATE	SECOND QUARTER NUMBER	SECOND QUARTER AMOUNT ¹	YEAR- TO-DATE NUMBER	YEAR- TO-DATE AMOUNT ¹
New York	1	304.57	16	1,741.26
North Carolina			1	98.00
North Dakota	16	2,095.71	47	25,971.91
Ohio	2	3,700.54	3	3,870.26
Oklahoma	2	207.80	2	207.80
Oregon				
Pennsylvania				
Puerto Rico				
Rhode Island				
South Carolina	1	20.00	2	302.46
South Dakota	41	23,490.34	62	63,168.98
Tennessee			3	95.50
Texas	4	2,746.48	9	13,357.10
Utah			1	120.38
Vermont				
Virginia				
Washington			1	27.38
West Virginia				
Wisconsin	41	3,977.51	98	21,482.44
Wyoming				
Unidentified	<u>1</u>	<u>152.50</u>	<u>17</u>	<u>16,149.03</u>
TOTAL	<u>1076</u>	<u>\$619,034.82</u>	<u>2527</u>	<u>\$997,968.51</u>

¹These figures do not include recoveries to bad debt.

²The Minnesota figures include not only Minnesota bad debts, but also includes some group bad debt, including Medicare and Legal categories.

SECOND QUARTER FISCAL YEAR - 1987
and YEAR-TO-DATE BAD DEBTS
BY ADMITTING SERVICE

ADMITTING SERVICE	SECOND QUARTER NUMBER	SECOND QUARTER AMOUNT ¹	YEAR-TO-DATE NUMBER	YEAR-TO-DATE AMOUNT ¹
Anesthesiology				
Dentistry			1	9.93
Dermatology				
Family Practice	1	517.88	1	517.88
GYN	2	4,499.06	6	6,791.77
GYN Oncology	10	3,152.26	23	11,165.48
Lab. Medicine & Pathology				
Medicine-Blue	2	610.02	3	4,090.24
-Green	6	7,025.55	10	9,529.77
-Masonic(Oncology)	9	3,475.98	14	5,852.98
-Purple			1	2,213.99
-Red A	5	10,975.27	7	11,509.57
-Red B	1	202.70	1	202.70
-Rose A	1	297.97	3	403.22
-Rose B				
-White A	7	1,122.15	11	3,931.83
-White B	9	9,827.24	11	10,787.55
-Yellow A	2	108.60	2	108.60
-Yellow B	1	31.00	1	31.00
Neurology	1	16,311.67	5	16,879.69
Neuro-epil	3	1,720.89	3	1,720.89
Neurosurgery	6	4,988.04	13	7,472.94
New Born - General	2	5,865.07	4	6,602.03
Obstetrics - General	1	131.57	4	489.72
Ophthalmology	3	801.36	7	1,710.60
Orthopaedic Surgery	10	1,918.65	24	10,821.59
Otolaryngology	2	600.85	8	3,938.13
Pediatrics-General	7	5,897.61	16	25,692.45
-Neurology			2	265.66
-Neurosurgery	1	125.00	1	125.00
-Ophthalmology	1	3,054.47	1	3,054.47

ADMITTING SERVICE	SECOND QUARTER NUMBER	SECOND QUARTER AMOUNT ¹	YEAR- TO-DATE NUMBER	YEAR- TO-DATE AMOUNT ¹
-Orthopaedic	1	3,133.23	2	4,224.91
-Otolaryngology				
-Surgery Green			1	20.00
-Surgery Orange	2	1,089.72	3	1,863.17
-Urology	1	11.61	1	11.61
Physical Med. & Rehab.	1	88.62	2	111.74
Psychiatry - Child			1	1,734.05
- Adult	5	12,637.51	11	17,549.69
Radiology				
Surgery -Blue	9	45,992.00	14	54,010.48
-Orange	5	2,881.95	7	3,557.15
-Purple	3	52,594.13	5	53,671.30
-Red	6	8,998.74	8	11,735.36
-White	5	1,372.08	7	3,836.34
Therapeutic Radiology				
Urology	4	6,407.48	8	7,114.41
Unknown	7	31,020.86	33	87,859.61
Outpatient	<u>934</u>	<u>369,546.03</u>	<u>2241</u>	<u>604,754.01</u>
TOTAL	<u>1076</u>	<u>\$619,034.82</u>	<u>2527</u>	<u>\$997,968.51</u>

¹These figures do not include recoveries to bad debt.



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

**MEETING OF THE
BOARD OF GOVERNORS FINANCE COMMITTEE**
Wednesday, February 25, 1987: 9:30 A.M.
Dale Shepherd Room - Campus Club
Coffman Memorial Union

COMMITTEE MEMBERS

Robert Nickoloff, Chair
Carol Campbell
Edward Ciriacy, M.D.
Clifford Fearing
William Krivit, M.D., Ph.D.
Jerry Meilahn
Barbara O'Grady
C. Edward Schwartz
Vic Vikmanis

A G E N D A

- | | | |
|-------|--|------------------------|
| I. | Opening of Meeting, and Approval of Minutes of Finance Committee Meeting held 1/28/87 (Approval) pp. 1-3 | Mr. Robert Nickoloff |
| II. | January Year-to-Date Financial Statements (Information) pp. 4-11 | Mr. Clifford Fearing |
| III. | Peat Marwick Mitchell 1986 Management Letter (Information) pp. 12-17 | Mr. Clifford Fearing |
| IV. | 1985-86 Attached Financial Statements (Information) Enclosed | Mr. Clifford Fearing |
| V. | Graduate Medical Education Funding (Information) pp. 18-23 | Mr. Clifford Fearing |
| VI. | Accounts Receivable Reduction Plan (Information) pp. 24-25 | Mr. Dan Rode |
| VII. | Primary Care Network Management Company Inc. (Endorsement) | Mr. C. Edward Schwartz |
| VIII. | Other Business | |
| IX. | Adjournment | |

Minutes
Meeting of the
Board of Governors Finance Committee
The University of Minnesota Hospital and Clinic
January 28, 1987

MEMBERS Edward Ciriacy, M.D.
PRESENT: Clifford Fearing
William Krivit, M.D.
J.E. Meilahn
C. Edward Schwartz

MEMBERS Carol Campbell
ABSENT: Al Hanser
Robert Nickoloff
Vic Vikmanis

STAFF: Kay Fuecker
Greg Hart
Nancy Janda
Nels Larson
Dan Rode
Barbara Tebbitt

CALL TO ORDER: The meeting of the Finance Committee was called to order by Mr. Jerry Meilahn at 10:15 A.M. in the Dale Shepherd Room of the Campus Club.

MINUTES: The minutes of December 17, 1986 Finance Committee meeting were approved as written.

12/17/86
FINANCIAL
STATEMENTS: Mr. Fearing reported the Hospital continues to experience a high census level. For December, admissions totaled 1,448 (249 above budgeted levels), average length of stay was 8.3 days, and patient days were 12,106 (1,578 days above budget). The average daily census for December was 394 and 409 for the first 21 days of January. Outpatient visits were 24.3% above budget with the increase in activity in nearly all clinics areas, but the largest in Medicine, Psychiatry, and Urology.

The Hospital shows a favorable variance of total revenues over expenses of \$9,893,181, Mr. Fearing Reported.

Patient care charges through December totaled \$116,051,761 and were 15.9% above budget. Routine revenue was 8.0% above budget and reflected our favorable patient day variance. Ancillary revenue was approximately \$13,448,000 (19.4%)

above budget and reflected (1) the favorable variance in both admissions and clinic visits; and (2) the utilization of ancillary services per patient being higher than anticipated. Inpatient ancillary revenue has averaged \$6,686 per admission compared to the budgeted average of \$6,199 per admission. Outpatient revenue per clinic visit has averaged \$169 compared to the budgeted average of \$153.

Mr. Fearing reported operating expenditures through December 4.2% above budgeted levels and continues to relate to the increase in demand for patient services and was seen primarily in increased personnel costs and patient care supplies.

Mr. Hart reported a number of factors have had an effect on the Hospital's high census levels, etc.: 1) recent personnel additions such as Dr. Jamieson; 2) new contracts with HMO's; 3) increased activity in liver transplants; and 5) the new building.

**1986-87
FINANCIAL
PROJECTIONS FOR
REGENTS
INFORMATION:**

When the projected 1986-87 Hospital budget was submitted to the Board of Regents, the Hospital was experiencing higher than normal occupancy levels. The Regents requested the Hospital submit an interim financial report during the year to keep them informed on the financial status of UMHC. Mr. Fearing and Mr. Hart will be presenting the year-end forecasts at the February Regents meeting.

**1987-88 BUDGET
SCHEDULE:**

Mr. Nels Larson reported Administration will be presenting the projected budget for 1987-88 for Finance Committee discussion in March and approval from the Finance Committee and the Board of Governors in April.

BAD DEBTS:

Mr. Dan Rode reported total bad debts for the second quarter of 1986-87 of \$619,034.82, representing 1076 accounts.

Recoveries of \$2,562.77 were made, leaving a net charge-off of \$616,472.05. A motion was seconded and passed to approve the write-off.

Mr. Rode discussed the increase in accounts receivable and informed the Committee that a detail work plan to reduce the receivables was being developed and would be shared with the Committee in February.

**LEGISLATIVE
UPDATE:**

Mr. Fearing reported a proposal by the legislature to reduce the Hospital special appropriation as follows: 1) \$4.6

million "to be transferred" to the University General Operations and Maintenance Fund, then theoretically given back to the Hospital for instructional costs; 2) \$2 million "to be transferred" to the Medical School along with \$2 million in faculty costs currently paid for by the Hospital 3) This will leave the Hospital with a special of \$7.7 million. The risk is that the Hospital will not receive the entire \$6.6 million back and that all or a part of it will be reallocated within the University. The immediate impact of this proposal is the Hospital will lose \$250,000 - \$300,000 in interest income on the money "to be transferred" to the University and the Medical School because "non special" funds are not received at the beginning of the year, but over the year as funds are needed.

**UNIVERSITY
HOSPITAL CON-
SORTIUM MAL-
PRACTICE
INSURANCE
PROJECT:**

Mr. Fearing reported that UMHC and 20-25 other members of the University Hospital Consortium (UHC) are attempting to set up a captive insurance company for additional medical malpractice insurance. Details of the structure, cost and UMHC's participation should be known by June of 1987. The purpose of this process is to attempt to arrange for insurance coverage over UMHC's present coverage of \$1 million per person, \$3 million per incident and \$5 million annual aggregate coverage.

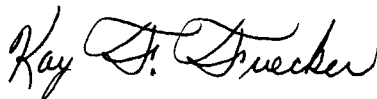
**PRIMARY CARE
NETWORK**

The Committee discussed the present status of Primary Care Network Management Company, Inc. in a confidential session regarding trade secret information. This issue will be discussed by the Board of Governors in February, 1987.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 11:45 A.M.

Respectfully submitted,



Kay F. Fuecker
Recording Secretary



UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospital and Clinic
420 Delaware Street S.E.
Minneapolis, Minnesota 55455

February 25, 1987

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing
Senior Associate Director

SUBJECT: Report of Operations for the Period
July 1, 1986 through January 31, 1987

The Hospital's operations through the month of January continued to reflect both inpatient admissions and outpatient visit activity that were above budgeted levels. In addition, we continued to experience ancillary service utilization that was higher than anticipated. To highlight our position:

Inpatient Census: For the month of January, inpatient admissions totaled 1,607 or 118 above budgeted admissions of 1,489. Our overall average length of stay for the month was 8.3 days. Patient days for January totaled 12,669 and were 921 days above budget. The increase in admission levels continued to be primarily in the areas of Medicine, Pediatrics, Surgery, and Urology.

To recap our year-to-date inpatient census:

	1985-86	1986-87	1986-87		%
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Variance</u>
Admissions	10,247	9,977	10,883	906	9.1
Avg.Lnth.of Stay	8.3	8.3	8.3	0	0.0
Patient Days	84,289	82,840	89,785	6,945	8.4
Percent Occupancy	66.3	64.2	70.7	6.5	10.1
Avg.Daily Census	392.1	385.3	417.6	32.3	8.4

Outpatient Census: Clinic visits for the month of January totaled 20,167 or 1,501 (8.0%) above budgeted visits of 18,666. The increase in activity was experienced in nearly all clinic areas with the largest increases occurring in Medicine, Psychiatry, and Urology. CUHCC (Community University Health Care Center) visits for the month of January totaled 4,189, or 1205 (40.4%) above budgeted visits of 2,984, while Home Health visits of 791 for the month were 473 (37.4%) below budgeted visits of 1,264.

Report of Operations - January, 1987
Page two

To recap our year-to-date outpatient census:

	1985-86	1986-87	1986-87		%
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Variance</u>
Clinic Visits	127,995	130,292	142,674	12,382	9.5
CUHCC Visits	22,697	21,784	26,744	4,960	22.8
HHA Visits	4,961	8,766	5,783	-2,983	-34.0

Financial Operations: The Hospital's Statement of Operations shows total revenues over expense of \$ 2,796,527, a favorable variance of \$ 9,285,047.

Patient care charges through January totaled \$135,630,938 and were 15.6% above budget. Routine revenue was 8.2% above budget and reflected our favorable patient day variance. Ancillary revenue was approximately \$15,348,100 (18.9%) above budget and reflected (1) the favorable variance in both admissions and clinic visits; and (2) the utilization of ancillary services per patient being higher than anticipated. Inpatient ancillary revenue has averaged \$6,663 per admission compared to the budgeted average of \$6,199 per admission. Outpatient revenue per clinic visit has averaged almost \$170 compared to the budgeted average of \$153.

Operating expenditures through January totaled \$129,229,316 and were approximately \$6,292,800 (5.1%) above budgeted levels. The overall unfavorable variance continued to relate to the increase in demand for patient services and was seen primarily in increased personnel costs (salaries and fringe benefits) and patient care supplies (drugs, blood, medical supplies).

Accounts Receivable: The balance in patient accounts receivable as of January 31, 1987 totaled \$70,813,086 and represented 109.3 days of revenue outstanding. The overall increase in our patient receivables in January of 1.8 days occurred primarily in the Blue Cross/AWARE and Blue Cross Out-of-State categories.

Conclusion: The Hospital's overall operating position continues to be positive and above budgeted levels. Both inpatient and outpatient census levels remain above budget. We continue to monitor our demand for service closely and make those operating changes that are necessary and appropriate.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
EXECUTIVE SUMMARY OF FINANCIAL ACTIVITY
FOR THE PERIOD JULY 1, 1986 TO JANUARY 31, 1987

	Budgeted -----	Actual -----	Variance Over/-Under Budget -----	Variance %
Patient Care Charges	\$117,328,964	\$135,630,938	\$18,301,974	15.6%
Deductions from Charges	-18,237,219	-20,685,787	-2,448,568	-13.4%
Other Operating Revenue	3,110,952	3,198,089	87,137	2.8%
Total Operating Revenue	102,202,697	118,143,240	15,940,543	15.6%
Total Expenditures	-122,936,561	-129,229,316	-6,292,755	-5.1%
Net Operating Revenue	-20,733,864	-11,086,076	9,647,788	
Non-Operating Revenue and Expenses	14,245,344	13,882,603	-362,741	-2.5%
Revenue Over Expense	\$-6,488,520 =====	\$2,796,527 =====	\$9,285,047 =====	(1)

(1) Variance equals 8.0 % of total budgeted revenue.

	Budgeted -----	Actual -----	Variance Over/-Under Budget -----	Variance %
Admissions	9,977	10,883	906	9.1%
Patient Days	82,840	89,785	6,945	8.4%
Average Daily Census	385.3	417.6	32.3	8.4%
Average Length of Stay	8.3	8.3	0.0	0.0%
Percentage Occupancy	64.2%	70.7%	6.5%	10.1%
Outpatient Clinic Visits	130,292	142,674	12,382	9.5%

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

STATEMENT OF OPERATIONS

FOR THE PERIOD JULY 1, 1986 TO JANUARY 31, 1987

	Budgeted	Actual	Variance Over/-Under Budget	Variance %
	-----	-----	-----	-----
Gross Patient Charges	\$117,328,964	\$135,630,938	\$18,301,974	15.6%
Deductions from Charges	18,237,219	20,685,787	2,448,568	13.4
Other Operating Revenue	3,110,952	3,198,089	87,137	2.8
Total Revenue from Operations	\$102,202,697	\$118,143,240	\$15,940,543	15.6%
Expenditures				
Salaries	\$52,290,771	\$56,422,550	\$4,131,779	7.9%
Fringe Benefits	10,161,117	10,589,097	427,980	4.2
Contract Compensation	5,115,481	5,141,787	26,306	0.5
Medical Supplies, Drugs, Blood	17,563,794	19,901,256	2,337,462	13.3
Campus Administration Expense	3,665,307	3,665,307	0	
Depreciation and Amortization	8,307,483	9,331,347	1,023,864	12.3
General Supplies & Expense	25,832,608	24,177,972	-1,654,636	-6.4
Total Expenditures	\$122,936,561	\$129,229,316	\$6,292,755	5.1%
Net Revenue from Operations	\$ -20,733,864	\$ -11,086,076	\$9,647,788	
Non-Operating Revenues and Expenses				
Appropriations	\$8,458,985	\$8,631,240	\$172,255	2.0%
Interest Income on Reserves	4,349,925	3,936,861	-413,064	-9.5
Shared Services	214,589	239,551	24,962	11.6
Investment Income on Trustee Held Assets	1,221,845	1,074,951	-146,894	-12.0
Total Non-Operating Revenues and Expenses	\$14,245,344	\$13,882,603	\$ -362,741	-2.5%
Revenue Over / -Under Expenses	\$ -6,488,520	\$2,796,527	\$9,285,047	(1)

(1) Variance equals 8.0% of total budgeted revenue.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

STATEMENT OF OPERATIONS

FOR THE PERIOD JULY 1, 1986 TO JANUARY 31, 1987

Annual Budget		Budgeted	Actual	Variance Over/-Under Budget	Variance %
	Patient Care Charges				
\$60,169,700	Routine	\$35,947,343	\$38,901,241	\$2,953,898	8.2%
139,094,000	Ancillary	81,381,621	96,729,697	15,348,076	18.9
<u>\$199,263,700</u>	Gross Charges	<u>\$117,328,964</u>	<u>\$135,630,938</u>	<u>\$18,301,974</u>	<u>15.6%</u>
	Deductions from Charges				
\$16,821,600	Third Party Contractual Adjustments	\$9,866,298	\$11,341,812	\$1,475,514	15.0%
8,124,800	Billing Adjustments & Employee Benefits	4,784,580	5,009,317	224,737	4.7
420,000	Charitable Care	247,302	361,331	114,029	46.1
3,026,700	Other Contractual Adjustments	1,782,159	2,173,574	391,415	22.0
2,644,100	Provisions for Uncollectables	1,556,880	1,799,753	242,873	15.6
<u>\$31,037,200</u>	Total Deductions	<u>\$18,237,219</u>	<u>\$20,685,787</u>	<u>\$ 2,448,568</u>	<u>13.4%</u>
	Other Operating Revenue				
\$1,165,100	Food Services	\$686,294	\$792,469	\$106,175	15.5%
452,400	Parking Services	228,439	14,430	-214,009	-93.7%
99,900	Department Non-Patient	58,847	52,837	-6,010	-10.2
1,023,100	CUHCC Grants	602,645	683,825	81,180	13.5
1,486,100	Reference Lab Income	875,375	865,683	-9,692	-1.1
1,119,800	Pro Fees - Net Revenue	659,352	763,867	104,515	15.9
0	Donations to Operations from Restricted Funds	0	24,978	24,978	
<u>\$5,346,400</u>	Total Other Revenue	<u>\$3,110,952</u>	<u>\$3,198,089</u>	<u>\$ 87,137</u>	<u>2.8%</u>
<u>\$173,572,900</u>	Total Revenue from Operations	<u>\$102,202,697</u>	<u>\$118,143,240</u>	<u>\$15,940,543</u>	<u>15.6%</u>
	Expenditures				
\$87,879,400	Salaries	\$52,290,771	\$56,422,550	\$4,131,779	7.9%
17,115,800	Fringe Benefits	10,161,117	10,589,097	427,980	4.2
1,875,700	Academic Contracts	1,094,156	1,089,773	-4,383	-0.4
4,685,500	Resident Contracts	2,733,206	2,733,206	0	0.0
2,208,200	Physician Compensation	1,288,119	1,318,808	30,689	2.4
<u>\$113,764,600</u>	Total Salary, F.B. & Fees	<u>\$67,567,369</u>	<u>\$72,153,434</u>	<u>\$4,586,065</u>	<u>6.8%</u>
2,079,600	Laundry & Linen	1,233,717	1,205,316	-28,401	-2.3%
1,392,200	Raw Food	825,980	949,339	123,359	14.9
13,975,900	Drugs	8,184,400	9,027,551	843,151	10.3
4,880,400	Blood & Blood Derivatives	2,858,004	3,140,773	282,769	9.9
11,136,100	Medical Supplies	6,521,390	7,732,932	1,211,542	18.6
3,055,900	Utilities	1,800,527	2,389,951	589,424	32.7
2,832,400	Insurance	1,235,606	984,248	-251,358	-20.3
2,335,200	Rental	1,392,200	1,344,353	-47,847	-3.4
3,349,300	Maintenance & Repair	1,972,875	1,934,864	-38,011	-1.9
1,312,800	Communications	773,292	831,999	58,707	7.6
0	Net Loss on Disposal of Assets	0	9,311	9,311	
6,222,500	Campus Administration Expense	3,665,307	3,665,307	0	
14,103,400	Depreciation and Amortization	8,307,483	9,331,347	1,023,864	12.3
14,001,200	Interest	8,247,283	6,157,319	-2,089,964	-25.3
14,177,500	General Supplies & Expense	8,351,128	8,371,272	20,144	0.2
<u>\$208,619,000</u>	Total Expenditures	<u>\$122,936,561</u>	<u>\$129,229,316</u>	<u>\$6,292,755</u>	<u>5.1%</u>
<u>-35,046,100</u>	Net Revenue from Operations	<u>\$ -20,733,864</u>	<u>\$ -11,086,076</u>	<u>\$9,647,788</u>	
	Non-Operating Revenue and Expenses				
\$13,638,900	Appropriations & Support	\$8,033,870	\$8,164,111	\$130,241	1.6%
511,500	Accrued Interest on Appropriation	425,115	467,129	42,014	9.9
7,187,600	Interest Income on Reserves	4,349,925	3,936,861	-413,064	-9.5
364,300	Shared Services	214,589	239,551	24,962	11.6
2,074,300	Investment Income Held by Trustee	1,221,845	1,074,951	-146,894	-12.0
<u>\$23,776,600</u>	Total Non-Operating Revenue and Expenses	<u>\$14,245,344</u>	<u>\$13,882,603</u>	<u>\$ -362,741</u>	<u>-2.5%</u>
<u>-\$11,269,500</u>	Revenue Over/-Under Expense	<u>\$ -6,488,520</u>	<u>\$2,796,527</u>	<u>\$9,285,047</u>	

(1) Variance equals 8.0% of total budgeted revenue.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

OPERATING CASH FLOW

FOR THE PERIOD JULY 1, 1986 TO JANUARY 31, 1987

Source of Funds

Beginning Operating Cash Balance		\$9,475
Net Income from Operations	-11,086,076	
Non-Operating Revenue	13,882,603	
	<hr/>	
Excess of Revenue over Expense		2,796,527
Items not Requiring the Outlay of Cash:		
Depreciation		9,331,347
University Support: G & A		3,665,307
University Support: KE Utilities		144,457
Decrease in Other Receivables		1,064,528
Decrease in Prepaid Expenses		794,763
Deferred Third Party Reimbursement		419,027
Renewal Project Interest Expense		5,496,525
Miscellaneous Sources		-26,689
		<hr/>
Total Funds Provided from Operations		\$23,695,267

Funds Applied

Transfers to Plant:		
Increase in Capital Expenditures	\$2,441,853	
Decrease in Capital Encumbrances	-23,904	
Total Transfers to Plant from Operations		\$2,417,949
Increase in Accounts Receivable		10,913,926
Decrease in Inventories		138,779
Third Party Liabilities Transfer		264,220
Decrease in Accrued Expenses		2,153,978
Investment Income - Trustee Held Assets		1,074,951
Transfer to Reserves - Bond Retirement		1,534,167
Transfer to Reserves - Bond Interest Payable		4,381,690
		<hr/>
Total Funds Applied		\$ 22,879,660
Operating Cash Made Available from Operations		<hr/>
		\$ 815,607
		<hr/>

- (1) Total Operating Cash Available of \$815,607; plus Transfers to Plant of \$2,417,949; plus Transfers to Reserves for debt retirement and interest payable of \$5,915,857 equals Cash Generated from Operations of \$9,149,413.

Current Cash Summary

Operating Cash	\$ 815,607
Reserve Cash for Liability to Third Party Payors	10,253,440
Unrealized Appropriation Cash	5,695,889
Reserve Cash for Short Term Debt Retirement	2,500,000
	<hr/>
	19,264,936
Less Interest Income on Reserves	-4,403,990
	<hr/>
Total Current Cash	\$14,860,946
	<hr/>

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE PERIOD JULY 1, 1986 TO JANUARY 31, 1987

	OPERATING FUND	BOARD DESIGNATED FUND	PLANT FUND	TOTAL UNRESTRICTED FUNDS
	-----	-----	-----	-----
UNRESTRICTED FUNDS				
<hr/>				
Beginning Balance	\$30,339,323	\$60,813,714	\$73,428,334	\$164,581,371
Net Income				
<hr/>				
Excess of Revenue over Expense	12,154,769			
Interest Income on Reserves		3,936,861		
Accrued Interest on Appropriations		467,129		
Depreciation Expense			-9,331,347	
Loss on Disposal of Assets			-9,311	
Interest Expense			-5,496,525	
Interest Income on Trustee Held Fund			1,074,951	
Total Income				2,796,527
Less Expense				
<hr/>				
Unrealized Appropriation Revenue	5,695,889			5,695,889
University Support: G & A	3,665,307			3,665,307
K/E Utilities	144,457			144,457
Transfers Between Funds				
<hr/>				
Major Building Projects- Hospital Only		-1,818,594	1,818,594	
Capital Expenditures	-2,441,853	-311,452	2,753,305	
Capital Encumbrance Change	23,904		-23,904	
IV Pump Leasing	-36,000		36,000	
Major Equipment Purchases		-787,543	787,543	
CT Scanner	-884,880	884,880		
Transfer to Trustee- Interest Payment		-2,216,546	2,216,546	
Transfer to Reserves- Debt Sinking Fund	-1,534,167	1,534,167		
Transfer to Reserves- Bond Interest	-4,381,690	4,381,690		
<hr/>				
Ending Balance	\$42,745,059	\$66,884,306	\$67,254,186	\$176,883,551
	=====	=====	=====	=====
RESTRICTED FUNDS		Gift	Endowment	Total
		-----	-----	-----
Beginning Balance		\$2,586,802	\$1,656,449	\$4,243,251
Income		257,960	49,791	307,751
<hr/>				
Ending Balance		\$2,844,762	\$1,706,240	\$4,551,002
		=====	=====	=====



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
1700 IDS Center
Minneapolis, Minnesota 55402

December 31, 1986

The Board of Governors
University of Minnesota Hospital and Clinic

Dear Board Members:

We are presenting, for your consideration, our comments and recommendations regarding internal accounting control. These came to our attention during the course of our examination of the financial statements of University of Minnesota Hospital and Clinic (the Hospital) for the year ended June 30, 1986 which we reported upon as of October 7, 1986.

As a result of our examination we have identified a condition that we believed to be a material weakness in internal accounting control. We believe that the circumstances described in Exhibit I under the caption "General Controls Environment" may lead to a situation in which errors or irregularities may occur and remain undetected for a significant amount of time.

The format of the additional sections of the letter is as follows:

Exhibit I - Comments and Recommendations

Exhibit II - Scope of Internal Accounting Control Review

The comments and recommendations presented in Exhibit I are intended to improve the system of internal accounting control. It should be noted that this letter, by its nature, primarily contains our comments and recommendations for improving such systems and does not include our observations on the many strong features of the Hospitals' financial systems. The factual accuracy of our comments has been discussed with the management personnel responsible for the areas impacted by our comments and recommendations.

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by your personnel during the course of our examination. In addition, we would be most pleased to provide assistance in implementing any of our recommendations.

Very truly yours,

Peat, Marwick, Mitchell & Co.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Comments and Recommendations

GENERAL CONTROLS ENVIRONMENT

In Peat, Marwick, Mitchell & Co.'s (Peat Marwick's) letter to you dated December 31, 1985, we commented on the Hospital's automated accounting and management reporting system. Our observations were the following:

- o Accounting for the Hospital's transactions through the University is complex;
- o Complicated monthly account analysis and reconciliations are required to ensure that transactions are recorded correctly in both the University of Minnesota (the University) and Hospital general ledger systems; and
- o Monthly closing procedures of the Hospital general ledger involve significant amounts of staff and management time.

The recommendations which resulted from our observations were that the Hospital and the University should work together to investigate alternatives to the current Hospital general ledger system.

During the audit of the Hospital's financial statements for the year ended June 30, 1986, we further observed that the increasing complexity of the operations of the Hospital's finance and accounting departments has outpaced the Hospital's development of operating procedures, support systems and effective internal controls necessary to ensure the reliability of financial information. Consequently, the general controls environment of the Hospital is weak. The existing operating procedures and system of accounting controls may not be sufficient to ensure that errors or irregularities which may occur would be efficiently detected.

Specific indicators to support our observations include the following:

- o The necessity to identify a significant number of post-closing adjustments to the Hospital general ledger after the year-end close of the University general ledger;
- o The lack of consistent and clear communications between the University and Hospital accounting departments and the apparent lack of understanding of the effects of transactions documents as they affect both general ledger systems;
- o The inability of Hospital personnel to reconcile Hospital general ledger accounts to University general ledger account balances; and
- o The inability of Hospital personnel to efficiently reconcile Hospital general ledger accounts to detail supporting subsidiary records.

(Continued)

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Comments and Recommendations, Continued

Failure to address each of the above circumstances may further lead to delayed and inaccurate financial information.

In light of the above observations and the Hospital's plans to replace its general ledger and subsidiary systems and computer equipment, the Hospital should review and evaluate its current financial accounting policies and procedures. Personnel requirements, responsibilities and training policies should also be reviewed and upgraded as necessary to ensure that accurate financial data is provided on a timely basis.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Scope of Internal Accounting Control Review

As part of an examination of the financial statements, we perform a study and evaluation of the Hospital's system of internal accounting control to the extent we consider necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which did not extend beyond October 17, 1986, was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

A study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, an expression of an opinion on the system of internal accounting control taken as a whole cannot be made.



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

February 18, 1987

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing
Senior Associate Director

SUBJECT: Response to auditor's letter of comments and
recommendations regarding internal control

The attached letter of comments and recommendations was provided by Peat, Marwick, Mitchell & Co. in conjunction with their audit of the June 30, 1986 financial statements. The following is our response to the letter. If you have questions or comments regarding the letter, they can be addressed at the Committee meeting on February 25, 1987.

The Hospital finance and accounting staff has long recognized the need to develop financial system controls and reconciliation reports that could replace manually prepared controls and reports.

The current University and Hospital systems do not allow for the posting of any activity in a current period until the prior period is closed. Because the University postings are the source of most of the Hospital's balance sheet and disbursements postings, analysis of the Hospital general ledger transactions and balances continues after the University year end close.

The finance division had begun last year a comprehensive analysis of the Hospital's reporting and control requirements for financial systems in our operating environment and had prepared a document of those requirements. A systematic evaluation of general ledger systems was begun to identify a system that would best satisfy our needs. In the evaluation and selection process, an emphasis was placed on system audit and control features and the audit and control reporting capabilities. A general ledger system has been purchased. An implementation team is currently developing the policies, procedures, management reports, documentation and control systems to be installed into the general ledger at the end of this fiscal year.



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

February 3, 1987

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing
Senior Associate Director
and Director of Finance

SUBJECT: Graduate Medical Education Survey

Enclosed for your review and information is the completed survey on graduate medical education funding. The participants in the survey were the members of the University Hospital Executive Council (UHEC).

UHEC is an organization of university teaching hospitals geographically located in the northern midwest region of the United States. The purpose of the group is to have a forum to discuss current issues in university hospitals and to share information for various purposes. For this reason we were able to gather concise information on most of our questions. The hospitals and their specific responses are shown on the attached survey summary.

The main purposes of the survey were to determine if UMHC was paying for a proportionate share of residents as compared to the other hospitals, in relation to both inpatient and outpatient volumes, to determine the extent to which the other hospitals paid for medical fellows, to determine the level of stipend payments and to determine the extent to which the other hospitals paid for graduate medical education supervision.

Findings

The following represent the major findings produced by the survey.

1. There is no consistent or agreed upon formula for supporting residents. The most common method is negotiation between hospital and individual clinical departments.
2. UMHC pays for fewer residents, adjusted for patient volumes, than the surveyed hospitals but pays approximately the same as the national average paid by university owned teaching hospitals, i.e. source 1985 AAMC, Coth Survey of House Staff Stipends Benefits and Funding. The following summarizes these findings:

	<u>UHEC Surveyed Hospitals</u>	<u>UMHC</u>
Patient Days Per Inpatient Funded Resident	908.47	987.44
Admissions Per Inpatient Funded Resident	112.37	119.92
Clinic Visits Per Out- patient Funded Resident	3,964.79	4,585.21
Ratio of Total Funded Residents Per Occupied Bed	.569	.492

In addition the AAMC Resident Survey indicates the following:

	<u>AAMC Surveyed Hospitals</u>	<u>UMHC</u>
Ratio of Total Funded Residents Per Occupied Bed	.571	.492
Percentage of Residents Funded from Hospitals General Appropriations and Operating Patient Revenue	67.23%	68.69%

3. The number of residents working at UMHC adjusted for patient volumes is higher at UMHC than at the surveyed hospitals. The following summarizes these findings.

	<u>UHEC Surveyed Hospitals</u>	<u>UMHC</u>
Patient Days Per Counted Inpatient Resident	830.12	680.83
Admissions Per Counted Inpatient Resident	102.93	82.68
Clinic Visits Per Out- patient Counted Resident	3,610.56	3,161.21
Ratio of Total Counted Residents Per Occupied Bed	.618	.714

4. Of the eight hospitals three (38%) paid for medical fellows. The total medical fellows paid by these hospitals was 25.18. This is less than 1% of the total 2750.45 residents included in the survey. The AAMC Resident Survey indicates that 18 of 51 (35%) hospitals paid for medical fellows and within the 18 hospitals 41.73% of the funding for the medical fellows was from hospital patient revenues or general hospital appropriations.
5. Of the eight surveyed hospitals all contracted with the individual clinical departments for specific residents and paid these residents at the stipend level the individual resident had attained.
6. Of the eight surveyed hospitals four paid the medical school or clinical departments for faculty salaries associated with the supervision of graduate medical education of other non-patient service functions. The percentage of total budgets that these payments represented ranged from .57% to 2.25% with an overall average for the eight hospitals of .59%. UMHC pays an average of 1.6% of its operating expenses for those services.

Based on the outcome of this survey UMHC has agreed to the following with the Clinical Chiefs:

1. Aggregate annual funding for residents by UMHC should be based on the larger of the following;
 - a. The national average of funded residents per occupied bed as derived from the annual AAMC House Staff Survey.
 - b. The average number of admissions per inpatient resident plus the average number of outpatient visits per outpatient resident at the surveyed hospitals.
 - c. The average number of inpatient days per inpatient resident plus the average number of outpatient visits per outpatient resident at the surveyed hospitals.

Based on July 1, 1986 to September 30, 1986 the national average of funded residents per bed provides the largest support at 227 residents.

2. The Hospital has agreed to increase its stipend support from the G-2 level to the midpoint level of the certification program in which the resident is enrolled, limited to six years.
3. Since medical fellows are included in the calculations above no specific funding for medical fellows will be provided.

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4. That the Clinical Development Fund will be reduced to partially offset the costs associated with this increased resident support. The exact amount to be reduced from the Clinical Development Fund will be determined when the cost increases are known. A broad estimate of the cost of these agreements is \$750,000 to \$1,000,000.
5. These new agreements will be effective July 1, 1987 and reviewed each January thereafter.

The above agreements are made assuming that present Federal reimbursement regulations remain intact and that current State appropriations to UMHC are not reduced. Should changes occur in either of these areas UMHC reserves the right to make appropriate changes in these support levels.

I have included for your review the financial analysis we prepared from the survey.

CPF:th

Attachment

University of Minnesota Hospital and Clinic
 Graduate Medical Education summary

File:GMESUMM3
 Version: 26-Nov-86

	Northwestern	Univ of Chicago	Univ of Wisconsin	Univ of Iowa	Univ of Michigan	Univ of Rochester	Indiana University	Univ of Cleveland	Non Minnesota Averages	Univ of Minnesota
Resident Count:										
Inpatient.....	209.00	275.00	277.00	334.00	353.59	175.00	190.00	287.00		214.00
Outpatient.....	70.00	92.00	40.00	63.00	117.86	76.00	101.00	90.00		71.00
Total.....	279.00	367.00	317.00	397.00	471.45	251.00	291.00	377.00		285.00
Resident Funding:										
Inpatient.....	209.00	275.00	277.00	294.00	251.84	175.00	165.84	259.00		147.55
Outpatient.....	70.00	92.00	40.00	56.00	83.95	76.00	88.16	81.00		48.95
Total.....	279.00	367.00	317.00	350.00	335.79	251.00	254.00	340.00		196.50
Medical Fellow Fundings:										
Medical Fellow FTEs.....	8.00	0.00	0.00	11.00	0.00	6.18	0.00	0.00		0.00
Annual Stipend.....	15,000	0	0	0	0	24,100	0	0		0
Annual Outlay.....	120,000	0	0	0	0	148,938	0	0		0
Academic contract Equivalent.....	None	None	700,000	None	2,100,000	3,118,900	1,632,623	None		2,983,681
Academic Contract as a percent of Total Hosp Expenditures.....	ERR	ERR	0.57%	ERR	0.75%	2.25%	1.14%	ERR		1.18%
Academic and Resident Contract as a percent of total Hospital Expenditures.....	3.08%	5.40%	7.02%	4.83%	3.91%	6.60%	5.07%	4.35%		5.03%
Hospital Revenue for Faculty Private Practice Office Space....	1,400,000	NA	Pending	4,800,000	Pending	531,018	NA	774,900		NA
Unreimbursed Office Space.....	0	NA				187,000	NA	469,560		NA

University of Minnesota Hospital and Clinic
Graduate Medical Education summary

File:GMESUMM3
Version: 26-Nov-86

	Northwestern	Univ of Chicago	Univ of Wisconsin	Univ of Iowa	Univ of Michigan	Univ of Rochester	Indiana University	Univ of Cleveland	Non Minnesota Averages	Univ of Minnesota
Hospital Statistics:										
Inpatient Admissions.....	26,000	23,321	15,618	37,120	30,000	26,987	18,608	31,500		17,694
Patient Days.....	202,000	169,619	127,846	263,092	263,379	235,479	166,539	241,500		145,697
Clinic Visits.....	240,000	232,602	299,084	368,032	464,000	132,557	225,000	153,000		224,446
Average Occupied Beds.....	553	523	350	721	722	608	456	651		399
Total Hospital Expenditures.....	220,000,000	175,904,000	121,797,000	165,000,000	281,875,000	138,815,000	142,864,000	201,000,000		184,000,000

Comparative Statistics:

Patient Days per Inpatient funded Resident.....	966.51	616.80	461.54	894.87	1,045.82	1,345.59	1,004.20	932.43	908.47	987.44
Admissions per Inpatient funded Resident.....	124.40	84.80	56.38	126.26	119.12	154.21	112.20	121.62	112.37	119.92
Clinic Visits per Outpatient funded Resident.....	3,428.57	2,528.28	7,477.10	6,572.00	5,527.10	1,744.17	2,552.23	1,888.89	3,964.79	4,585.21
Ratio of Total Counted Residents per Bed.....	0.505	0.702	0.906	0.351	0.653	0.413	0.638	0.579	0.618	0.714
Ratio of Total Funded Residents per Bed.....	0.505	0.702	0.906	0.485	0.465	0.413	0.557	0.522	0.569	0.492

Sensitivity Analysis:

Minnesota Inpatient funded Resident count if at Non-Minn "Admissions per Inpatient funded Resident" level of :	112.37	157.46	Minnesota Inpatient funded Resident count if at Non-Minn "Patient Days per Inpatient funded Resident" level of :	908.47	160.38	Minnesota Total funded Resident count if at Non-Minn "Ratio of Total funded Residents per Bed" level of :	0.569	227.18
Minnesota Outpatient funded Resident count if at Non-Minn "Clinic Visits per Outpatient funded Resident" level of :	3964.79	56.61	Minnesota Outpatient funded Resident count if at Non-Minn "Clinic Visits per Outpatient funded Resident" level of :	3964.79	56.61	Actual Funding Levels.....		196.50
Total Projected Funding.....	214.07		Total Projected Funding.....	216.99		Shortfall.....		30.68
Actual Funding Levels.....	196.50		Actual Funding Levels.....	196.50				
Shortfall.....	17.57		Shortfall.....	20.49				



UNIVERSITY OF MINNESOTA
TWIN CITIES

The University of Minnesota Hospital and Clinic
Harvard Street at East River Road
Minneapolis, Minnesota 55455

February 18, 1987

TO: Board of Governors
Finance Committee

FROM: Dan Rode *DIR / CPE*

SUBJECT: Receivable Reduction Project and Maintenance

I have briefly noted below some of the action that is being taken with regard to our receivable level.

While there is little we can do with the dollars and/or volume involved with IN HOUSE accounts, we are re-emphasizing our attention to procurement and maintenance of data and certifications necessary to receive payment.

UMHC's DISCHARGED NOT FINAL BILLED accounts have risen just under six days. Some accounts in the category are on hold awaiting charge accumulation (4 days minimum for inpatients; up to one month for outpatients). We are working with Medical Records to accelerate processing on regular claims as well as outliers for Medicare, Blue Cross and Medicaid. Additional personnel are being hired or assigned to enhance this coding process.

The COLLECTION and PATIENT FOLLOW-UP accounts have seen minimal change. As we push the patient to assist in collection of receivables, these categories could see an increase. We are the only institution in town that does not write off collection activity, therefore our receivable is showing at least 7.66 days more than others we can be compared with.

With THIRD PARTY RECEIVABLES we are attempting to cream or direct additional attention to accounts over 60 days in all categories but especially HMOs (including Medicare HMOs), CCS, Out of State Medicaid and CCS and other similar governmental and semi-governmental agencies. Contractual agreements or regulations prevent us from going to the patient for payment and none of these agreements have a required payment period. Our action therefore is to identify the claims and keep pushing the third party to payment.

We are initiating a special project to identify and resolve accounts over sixty days old in the INSURANCE, CHAMPUS, and OUT OF STATE BLUE CROSS categories. Our follow-up process on accounts under 60 days will be accelerated and we will be placing more demands on the patient and/or

February 18, 1987

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employer for assistance whenever possible. On all of these accounts we will be moving toward patient responsibility much earlier than in the past. This may create more patient complaints, but it is the only lever we currently have with insurance companies, TPAs, etc.

INDUSTRIAL COMPENSATION accounts will be followed similar to insurance claims but with greater use of the hearing process and legal counsel. Unfortunately the whole process at the State needs improvement and any attempt at patient collection has proven futile (and ill-advised, according to Counsel).

Special projects will be undertaken to identify older accounts with MEDICARE and BLUE CROSS (Minnesota and Federal). These projects are more for clean-up. The PIP payment process prevents us to some extent from accelerating payments and both systems are cumbersome, and becoming more so. We have sought a bump in our BCBSM PIP payment, even though it is not called for in the contract. Other than attempting to clean up our records, there is little we can do with Medicare except join with other hospitals to keep pushing the system.

MINNESOTA MEDICAL ASSISTANCE (Medicaid) and GAMC are a frustration that will not be readily resolved. Some relief should come once the new (retroactive) regulations are released in April, but their lack of systems has created a very slow 90 days + payment system. (Note MN-CCS is also processed by MA.)

We are taking a new look at accounts being AUDITED by outside third party agents. On a preliminary basis it appears that additional staff (with a nursing background) will be needed to both resolve our backlog as well as accelerate the ongoing process and eventually perhaps eliminate some of the auditing.

The above third party projects will be accomplished by increasing overtime, the hiring of a short-term, part-time student staff and/or the hiring of additional full-time personnel. Our initial goal is to direct attention to the 37% of third party receivables over 60 days old while not sacrificing the 0-60 day accounts. As the older accounts are completed we will turn our attention to the newer accounts. Unfortunately with the volume of Medicaid accounts, and some of the categories like HMOs, Blue Cross and Medicare, my conservative projection by June would be the reduction of 8 days, unless we can accelerate the processing by these latter groups and the insurance industry. Other changes in days will come about as third party systems improve, our systems improve, payment periods can be added to insurance and HMO contracts and we can restrict problem patients.