

Finance Committee

Board of Governors

Room 626 Campus Club - Coffman Union

10:00 A.M.

Wednesday, October 15, 1980

Agenda

- I. Approval of September 17, 1980 Minutes
- II. September YTD Financial Statements
- III. Analysis of Change in Average Length of Stay
for Psych & Rehab
- IV. Renewal Project Update
- V. Federal Cost Limit Pass-through Resolution
- VI. Other
- VII. Adjournment

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1980 TO SEPTEMBER 30, 1980

	Budgeted	Actual	Variance Over/(Under) Budget	Variance %
<u>PATIENT CARE CHARGES</u>				
Routine	\$13,329,308	\$13,160,935	\$(168,373)	(1.3)
Ancillary	18,426,974	19,117,238	690,264	3.7
Professional Fees	215,188	264,371	49,183	22.9
Gross Charges	<u>\$31,971,470</u>	<u>\$32,542,544</u>	<u>\$ 571,074</u>	1.8
<u>DEDUCTIONS FROM CHARGES</u>				
Pro Fees Paid	\$ 180,596	\$ 217,420	\$ 36,824	20.4
Third Party Contract Adj.	1,821,332	1,821,332	-0-	-
Billing Adjustments & Employee Benefits	539,885	418,454	(121,431)	(22.5)
Charitable Care	285,822	383,960	98,138	34.3
Other Contract Adj.	396,282	496,863	100,581	25.4
Allow for Uncoll Accts	351,686	357,963	6,277	1.8
Donations from Restricted Funds	-	-	-	-
Total Deductions	<u>\$ 3,575,603</u>	<u>\$ 3,695,992</u>	<u>\$ 120,389</u>	3.4
<u>OTHER OPERATING REVENUE</u>				
Food Services	\$ 248,259	\$ 243,933	\$ (4,326)	(1.7)
Powell Hall Motel	76,634	68,051	(8,583)	(11.2)
Departmental Non-Patient	36,227	32,032	(4,195)	(11.6)
Reference Lab Income	136,094	123,004	(13,090)	(9.6)
Donations to Operations from Restricted Funds	-0-	5,757	5,757	-
Total Other Revenue	<u>\$ 497,214</u>	<u>\$ 472,777</u>	<u>\$ (24,437)</u>	(4.9)
Total Revenue from Operations	\$28,893,081	\$29,319,329	\$ 426,248	1.5
<u>EXPENDITURES</u>				
Salaries	\$14,182,688	\$14,463,126	\$ 280,438	2.0
Fringe Benefits	2,532,363	2,507,471	(24,892)	(1.0)
Academic Contracts	345,892	345,892	-0-	-
Resident Contracts	870,254	870,254	-0-	-
Physician Compensation	1,117,310	1,105,318	(11,992)	(1.1)
Total Salaries, Wages F.B., and Fees	19,048,507	19,292,061	243,554	1.3
Laundry & Linens	449,909	423,533	(26,376)	(5.9)
Raw Food	353,575	340,654	(12,921)	(3.7)
Drugs	1,550,591	1,523,649	(26,942)	(1.7)
Blood & Blood Derivatives	730,305	807,561	77,256	10.6
Medical Supplies	2,001,708	1,720,280	(281,428)	(14.1)
Utilities	394,309	394,905	596	0.2
Insurance	336,253	335,970	(283)	0.1
Rental	174,064	160,465	(13,599)	(7.8)
Maintenance & Repair	436,666	334,841	(101,825)	(23.3)
Communications	255,605	188,648	(66,957)	(26.2)
Net Loss on Disposal of Assets				
Campus Adm. Exp.	1,049,934	1,049,934	-0-	-
Depreciation	983,164	877,922	(105,242)	(10.7)
General Supplies & Exp.	2,078,631	1,874,454	(204,177)	(9.8)
Total Expenditures	<u>\$29,843,221</u>	<u>\$29,324,877</u>	<u>\$ (518,344)</u>	(1.7)
Net Revenue from Operations	\$ (950,140)	\$ (5,548)	\$ 944,592	-
<u>NON-OPERATING REVENUE</u>				
Appropriations and Support	\$ 2,640,187	\$ 2,640,187	-0-	-
Accrued Interest on Approp.	95,007	95,007	-0-	-
Interest Income on Reserves	189,584	189,584	-0-	-
Shared Services	51,662	44,220	(7,442)	(14.4)
Total Non-Operating Revenue	<u>\$ 2,976,440</u>	<u>\$ 2,968,998</u>	<u>\$ (7,442)</u>	(0.3)
Revenue Over/(Under) Expenses	\$ 2,026,300	\$ 2,963,450	\$ 937,150 (1)	

(1) Variance equals 3.2% of Total Budgeted Revenue.

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
September 17, 1980

Members Present: David Cost, Chairman
John Quistgard, Vice Chairman
JoAnn Barr
David Brown
Al France
Debbie Gruye
Clint Johnson
Fannie Kakela
Virgil Moline
John Tiede
David Preston
Cliff Fearing
John Westerman

Absent: Seymour Levitt

Staff: Nels Larson
Terry Rosecke

Guests: Johnelle Foley
Kevin Moore
Don Van Hulzen

The meeting of the Finance Committee was called to order by Chairman Cost at 9:10 a.m. in Room 626 of the Campus Club.

I Approval August 20, 1980 Minutes

A motion to approve the minutes of the August 20 meeting was made by Ms. Barr, seconded by Mr. Johnson, and approved unanimously by the committee.

II June 30, 1980 Preliminary Financial Statements
Budgeted vs. Actual

Mr. Larson began by outlining the significant factors which have contributed to UMH&C's year end financial position. Admissions for the year declined 1.6% from the 1978-79 admissions level with the majority of the decline in the less acute medical/surgical areas. Patient days increased by 1.7% as a result of an increase in the average length of stay which was 9.5 days

for 1979-80 compared to 9.2 days for 1978-79. This change reflects a patient population with higher average acuity levels. Mr. Larson added that the outpatient census for the year was above the 1978-79 total census by 3.2%.

In continuing his report, Mr. Larson noted that total patient revenues increased approximately \$11,700,000 from 1978-79 to 1979-80 due to price increases approved by the Board of Governors and increased revenue resulting from changes in the mix and intensity of services. Operating expenses increased \$12,838,000 from the 1978-79 year to a total of \$105,444,560. This total is approximately \$1,969,000 below budget for the year and represents a favorable variance of 1.8%.

Mr. Larson reported that the balance in patient accounts receivable as of June 30, 1980, representing 77.0 days of revenue outstanding, was \$22,187,628. In the area of capital expenditures, Mr. Larson mentioned that the Hospital funded approximately \$8,351,000 for current capital obligations during the fiscal year 1979-80. In addition, \$1,318,000 was required from the Reserve Fund to finance total capital expenditures of \$9,669,000.

In conclusion, Mr. Larson stated that the planned financial objectives for 1979-80 were not achieved due to reductions in patient service utilization, unanticipated compensation increases, and write offs. These changes had the effect of reducing revenues over expenses from a planned position of \$4,402,000 to a final position of \$1,232,000. However, if the fiscal objectives for 1980-81 are achieved, UMH&C will remain on schedule in accumulating the resources for recurring capital needs and cash required for the Renewal Project.

In discussing employee compensation as it relates to the variance in net income, Mr. Quistgard proposed that consideration be given to providing

each employee with a yearly summary of actual salary and fringe benefit dollar amounts received. Mr. Cost suggested that he could provide

Mr. Johnson with examples used by Northwestern National Bank.

Ms. Gruye suggested that the committee be provided with periodic updates on the financial status of new programs which have been approved by the Board of Governors such as the Bone Marrow Transplant program.

III August Year to Date Financial Statements

Mr. Larson reported to the committee that the operating position of the Hospital for July and August of the 1980-81 fiscal year reflects a small change in the inpatient census mix, an increase in the utilization of some ancillary services, and the settlement of a malpractice suit. He stated that admissions, patient days, and average length of stay were slightly below budget and clinic visits were above budget by 8.2%. Ms. Barr asked if a determination could be made on the number of students who are patients at the outpatient clinics instead of using the Boynton Health Service which is their primary source of outpatient care. Mr. Larson will compile that information for presentation at a future meeting. Mr. France commented that the average length of stay in the Psych and Rehab areas has dropped significantly in comparison to prior year figures. A determination as to the reason for that change will be made by Mr. Larson.

The operating position through August showed year to date revenue over expense of \$1,229,852 which includes a \$964,000 settlement of a malpractice suit. The committee requested that Mr. Diehl be asked to inform them of future settlements on malpractice cases.

Mr. Larson continued by noting that the balance in patient accounts receivable at the end of August was \$27,139,465 which represents 82 days of outstanding revenue.

Mr. Larson added that the Hospitals overall operating position is positive and, at the November meeting, the committee will be presented with a projection of the June 30, 1981 position based on first quarter data.

IV Renewal Project Financial Update

Mr. Fearing explained that the financial alternatives were being developed which assume unfavorable forecasts in volume and interest rates regarding the Renewal Project. These forecasts will be presented at a future meeting of the Finance Committee.

He also noted that Mr. Jack Mason sent a letter to Mr. Cost expressing his concerns on financing the Renewal Project with patient revenues. Mr. Fearing and Mr. Cost will develop a response to Mr. Mason's letter clarifying the Finance Committee's understanding of his concerns. This letter will be shared with the committee prior to the October meeting.

V Federal Cost Limits Pass Through Resolution

At the request of the Finance Committee, Mr. Fearing drafted a resolution supporting the need for price transfers to non-federal payors. After review by the committee, it was decided that the resolution be redrafted for further consideration at next month's meeting. It was also requested that the committee be updated on the progress of the exception request at the October meeting.

VI Other

Mr. Preston noted that the effect on the Hospital of the \$14.1 million reduction from state appropriations to the University will be a cut in the Hospitals operations and maintenance fund and special appropriations of \$266,000.

Mr. Fearing stated that a letter has been received from the Director of Rate Review regarding the approval by the Rate Review Panel of a 25.4%

increase in gross acute patient charges on August 14 and copies of the letter were distributed to committee members for their information.

There being no further business, the meeting of the Finance Committee was adjourned at 11:50 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry Rosecke". The signature is written in dark ink and is positioned above the printed name.

Terry Rosecke



UNIVERSITY OF MINNESOTA
TWIN CITIES

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

October 15, 1980

TO: Board of Governors Finance Committee

FROM: Nels E. Larson *Nels E. Larson*
Assistant Controller

SUBJECT: Report of Operations for the Period July 1, 1980
through September 30, 1980

The operations for the first quarter of the fiscal year reflect a change in the inpatient census mix, an increase in the utilization of some ancillary services, and an accounting change in the reporting of the July malpractice settlement. To highlight our position:

Inpatient Census - During the month of September, admissions totaled 1,861 or 106 above projected admissions of 1,755. September length of stay was 9.8 days, which is 0.3 above the projected 9.5 days. Patient days for September totaled 17,450 days or 884 days above our projections. This favorable variance is due to increased census on the general service routine stations primarily within Pediatrics, Obstetrics, and general Medical/Surgical beds. The unfavorable variance in intensive care stations is primarily due to (1) the Septic ICU has not opened yet and (2) Bone Marrow Transplant census is down due to temporary staffing shortages. The average daily census for September was 580 which represents an occupancy rate of 79%. To recap our year-to-date inpatient census:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
Admissions	5,553	5,542	(11)	(0.2)
Avg Length of Stay	9.5	9.6	.1	1.1
Patient Days	51,957	52,638	681	1.3
Percent Occupancy	76.9	77.9	1.0	1.3

Outpatient Census - For September, clinic visits totaled 17,219 or 720 (4.4%) above projected visits of 16,499. Total clinic visits for the first quarter were 52,095. This is 1,229 visits (2.4%) above projected visits of 50,866. September YTD visits are 2,173 visits ahead of last year at this time.

Financial Operations - Our operating position through the first quarter shows revenues over expense of \$2,963,450, a favorable variance of \$937,150. This position is due to favorable variances both in patient care charges and operating expenses.

Patient care charges totaled almost \$32,543,000 through the first quarter and are approximately 1.8% above budgeted levels. This position is due largely to higher than anticipated ancillary service utilization, primarily within the Blood Bank, Central Supply, Pharmacy and outpatient clinics.

Operating expenses through the first quarter total almost \$29,325,000, a favorable variance of approximately 1.7%. The variance in expenses is largely due to the fact that we (1) have not yet incurred the cost of periodic purchases primarily within the general supply categories (i.e., forms and printing, office supplies, etc.), (2) have not recognized the expense associated with periodic equipment purchases and minor remodeling projects, and (3) have not yet experienced the anticipated price increases in some medical supplies (primarily x-ray film).

In addition, the financial statements reflect a change in the reporting of the malpractice settlement made during the current fiscal year. In conjunction with our public accountants, Touche Ross and Company, this settlement will be reflected in 1979-80 financial statements. Generally accepted accounting practice requires adjustment to the financial statements if the event or condition (in this case, litigation) existed at the balance sheet date and the outcome becomes known prior to the date of the audit report. As a result, the 1979-80 financial statements will be adjusted to reflect this settlement.

Accounts Receivable - The balance in accounts receivable at the end of September was \$27,304,538 which is a \$5,116,910 increase from June 30, 1980. The balance represents 77 days of outstanding revenue and is equal to the number of days revenue outstanding as of June 30, 1980.

Conclusion - The overall operating position of the Hospitals through the first quarter is positive. We will be presenting to the Finance Committee, in November, year end projections based on the changes in volume, mix and intensity experienced through September 30, 1980.

/tr

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
 INPATIENT CENSUS DATA BY MAJOR CATEGORY
 SEPTEMBER 30, 1980 Y.T.D.




	Available Beds	Inpatient Days		Admissions		% Occupancy		Average L.O.S.	
		Current Bud	Actual	Current Bud	Actual	Current Bud	Actual	Prior Yr	Current Actual
Medical/Surgical	408	30,185	30,382	3,696	3,639	79.4	80.0	8.5	8.5
Pediatrics	85	5,700	6,074	682	665	72.0	76.8	8.9	9.1
Obstetrics	24	1,476	1,802	300	332	66.9	81.6	5.0	5.4
Newborn	20	1,076	1,283	247	269	58.5	69.7	4.6	4.7
Psychiatry	59	4,396	4,278	128	130	79.6	77.5	35.0	36.0
Rehabilitation	40	2,125	2,388	69	89	57.7	64.9	30.9	27.8
Intensive Care-Adult	57	4,328	3,925	273	282	81.6	74.0	12.3	14.1
Intensive Care-Peds	<u>34</u>	<u>2,671</u>	<u>2,506</u>	<u>158</u>	<u>136</u>	<u>85.4</u>	<u>80.1</u>	<u>21.3</u>	<u>18.4</u>
Total	727	51,957	52,638	5,553	5,542	76.9	77.9	9.4	9.6
Total (excluding Psych and Rehab)	628	45,436	45,972	5,356	5,323	77.8	78.7	8.6	8.7

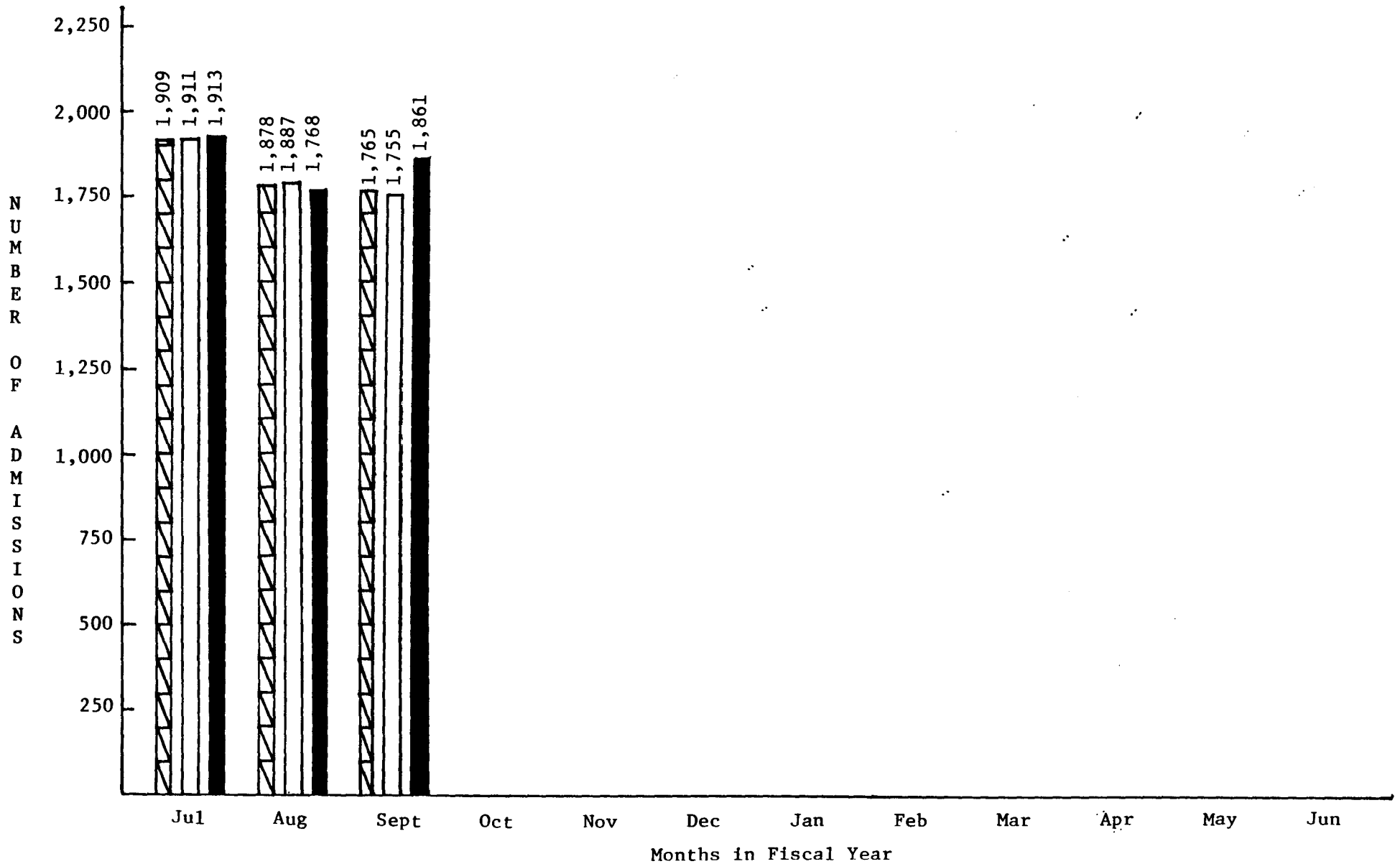
UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS

ADMISSIONS

MONTHLY AND YEAR TO DATE COMPARATIVE

1979-80 TO 1980-81

 PRIOR YEAR ACTUAL - 5,552
 CURRENT YEAR BUDGET - 5,553
 CURRENT YEAR ACTUAL - 5,542






UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS

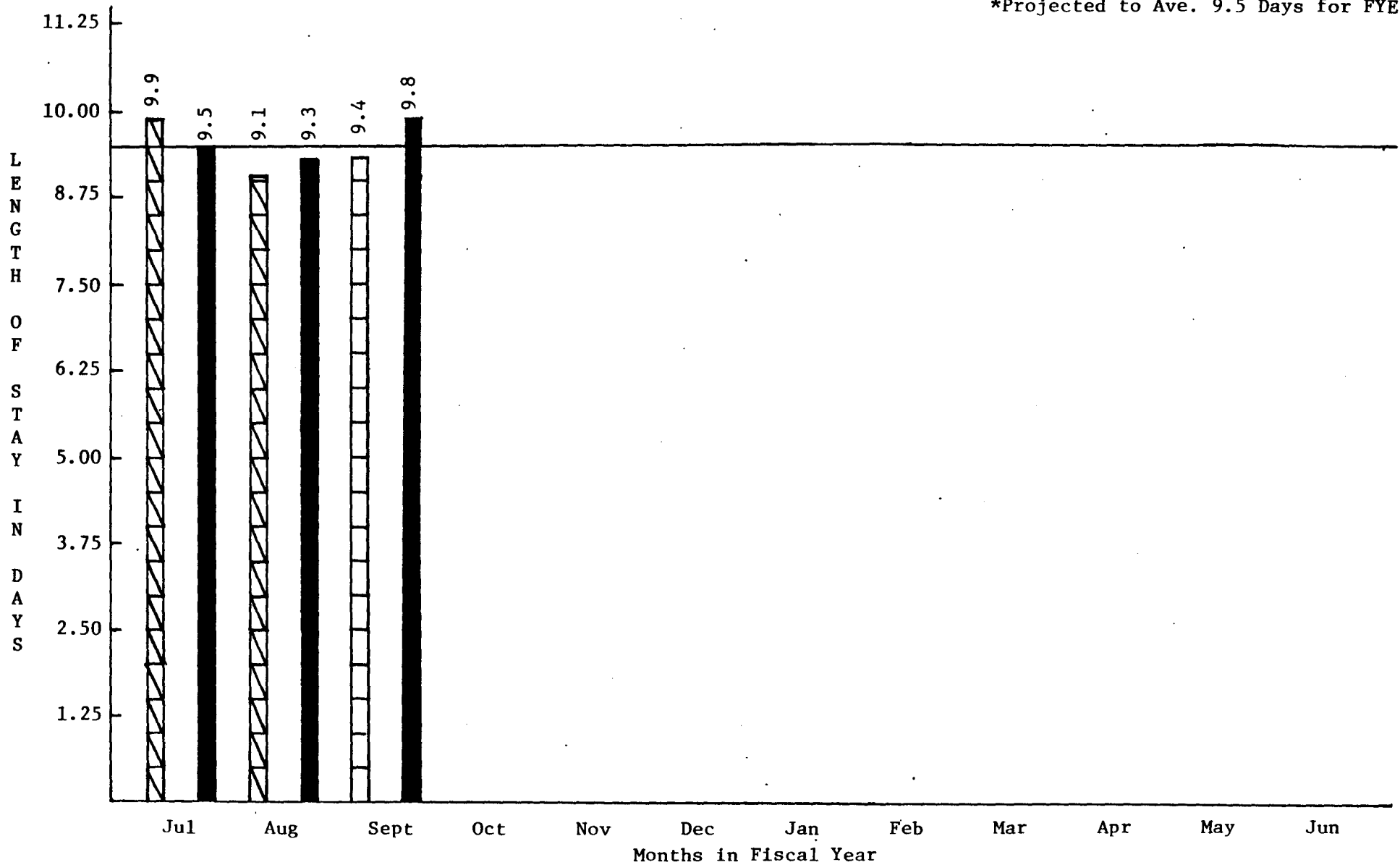
LENGTH OF STAY

MONTHLY AND YEAR TO DATE COMPARATIVE

1979-80 TO 1980-81

-  PRIOR YEAR ACTUAL - 9.4
-  CURRENT YEAR BUDGET - *
-  CURRENT YEAR ACTUAL - 9.6

*Projected to Ave. 9.5 Days for FYE 81.






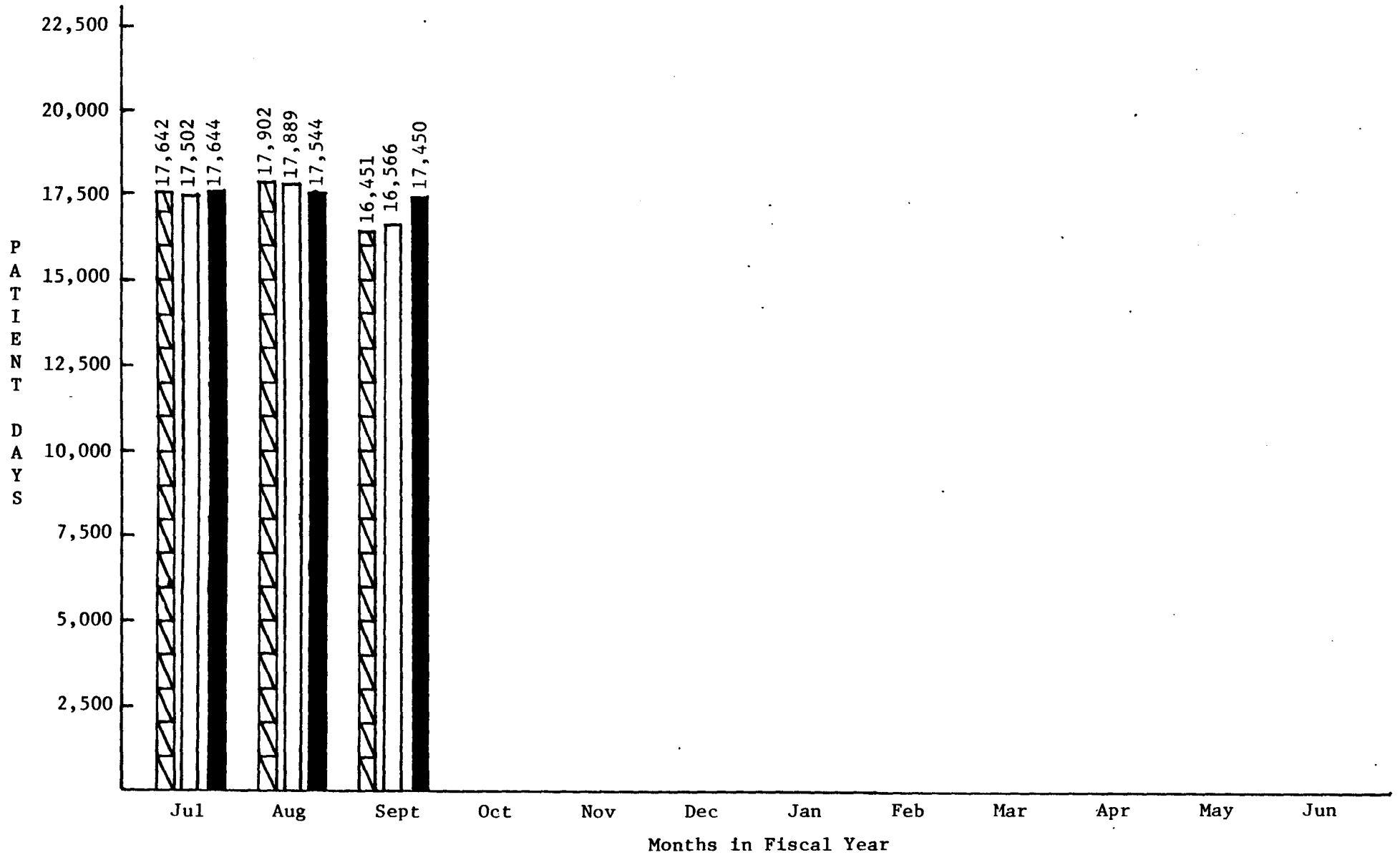
UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS

PATIENT DAYS

MONTHLY AND YEAR TO DATE COMPARATIVE

1979-80 TO 1980-81

-  PRIOR YEAR ACTUAL - 51,995
-  CURRENT YEAR BUDGET - 51,957
-  CURRENT YEAR ACTUAL - 52,638






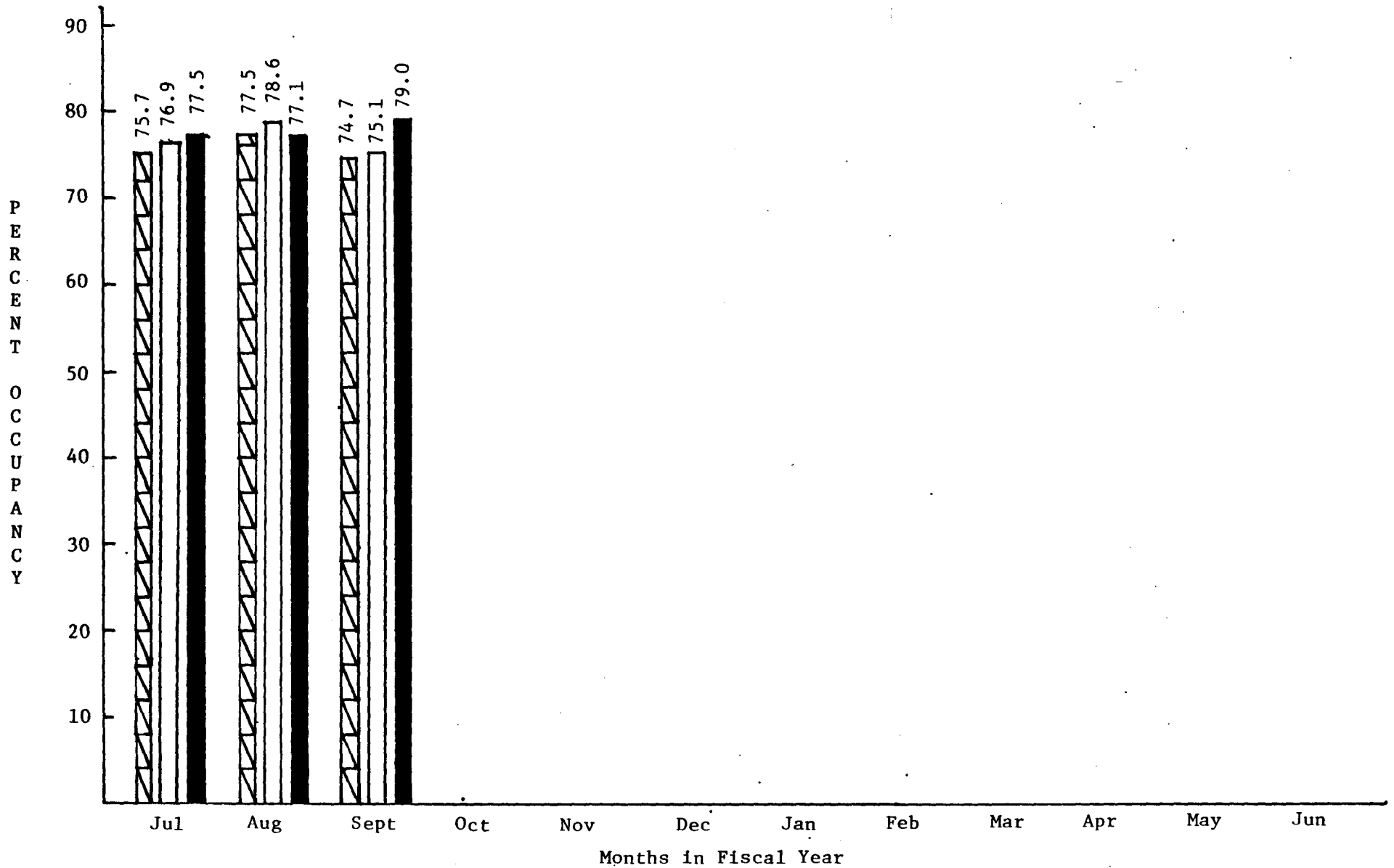
UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS

PERCENT OCCUPANCY

MONTHLY AND YEAR TO DATE COMPARATIVE

1979-80 TO 1980-81




-  PRIOR YEAR ACTUAL - 75.8
-  CURRENT YEAR BUDGET - 76.9
-  CURRENT YEAR ACTUAL - 77.9

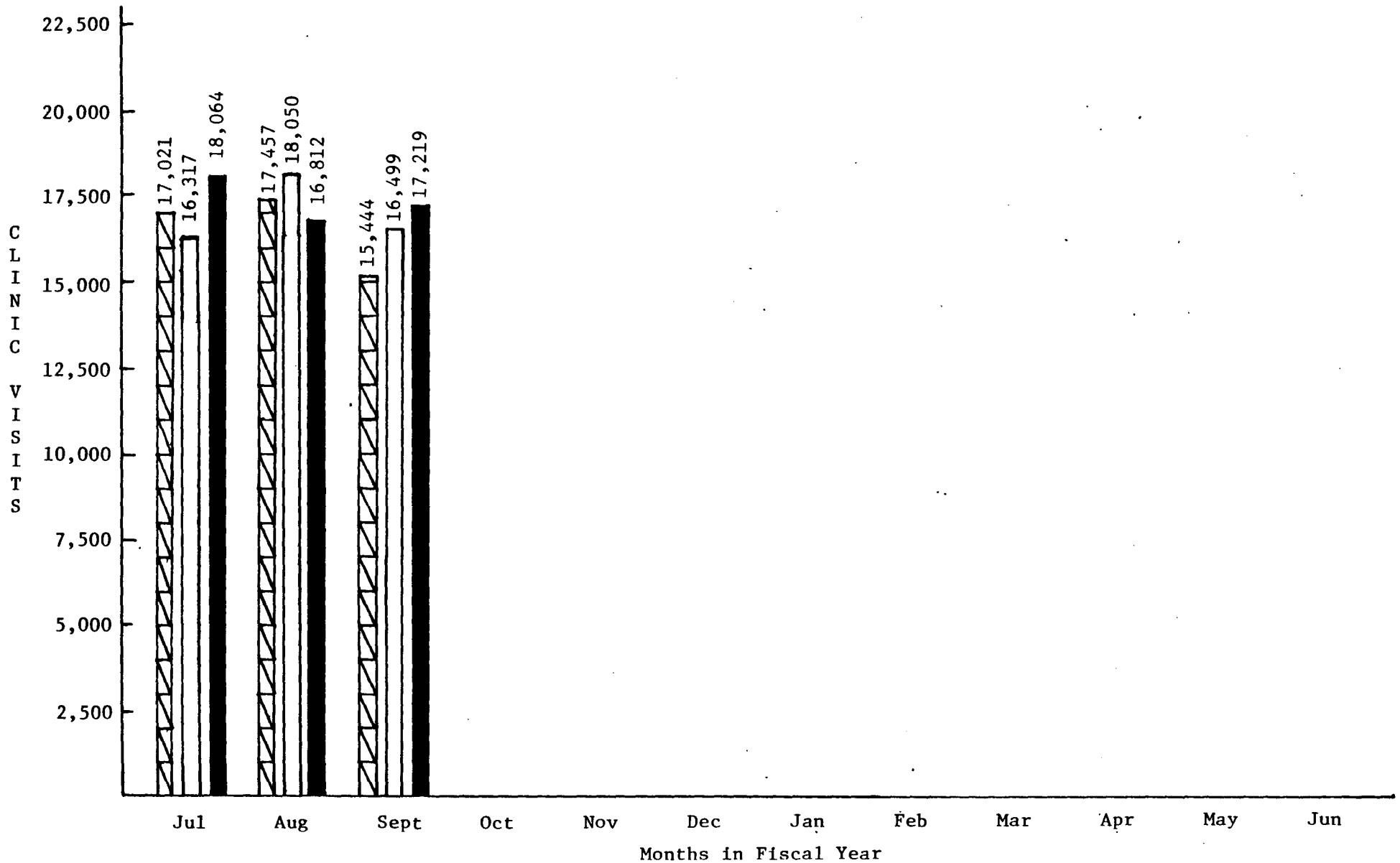


UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS

CLINIC VISITS

MONTHLY AND YEAR TO DATE COMPARATIVE
1979-80 TO 1980-81

 PRIOR YEAR ACTUAL - 49,922
 CURRENT YEAR BUDGET - 50,866
 CURRENT YEAR ACTUAL - 52,095



UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
 OPERATING CASH FLOW
 FOR PERIOD JULY 1, 1980 TO SEPTEMBER 30, 1980

Source of Funds		
Beginning Cash Balance		\$ 506,903
Loss from Operations	(5,548)	
Non-Operating Revenue	<u>2,968,998</u>	
Excess of Revenue over Expense		2,963,450
Items not Requiring the Outlay of Cash:		
Depreciation		877,922
University Support: G&A		1,049,934
K/E Utilities		20,581
Increase in Accrued Expenses		<u>3,394,947</u>
Total Funds Provided from Operations		\$8,813,737
Funds Applied		
Transfers to Plant:		
Capital Expenditures	418,231	
Increase in Capital Encumbrances	<u>1,207,577</u>	
Total Transfers to Plant		\$1,625,808
Increase in Accounts Receivable		4,943,951
Increase in Accrued Revenue		310,513
Increase in Inventory		<u>81,403</u>
Total Funds Applied		\$6,961,675
Total Net Operating Cash Available		<u>\$1,852,062</u> (1)
Projected YTD Total Net Operating Cash Available		\$1,904,000

(1) Available for offsetting future cash need of \$3,394,947 for increase in accrued expenses. The resulting net deficit of \$1,542,885 is offset by the increase in accounts receivable of \$4,943,951. The net working capital increase is \$3,401,066.

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
STATEMENT OF CHANGE IN FUND BALANCE
JULY 1, 1980 THROUGH SEPTEMBER 30, 1980

	Operating Fund	Board Designated Fund	Plant Fund	Total Unrestricted Funds
UNRESTRICTED FUNDS				
Beginning Balance	\$14,371,931	\$6,777,980	\$57,380,600	\$78,530,511
<u>Net Income</u>				
Excess of Revenue over Expense	3,556,781			
Interest Income on Reserves		189,584		
Accrued Interest on Approp.		95,007		
Depreciation Expense			(877,922)	
Total Unrestricted Income				2,963,450
<u>Less Expenses</u>				
Unrealized Approp Revenue	7,336,772			7,336,772
University Support: G&A	1,049,934			1,049,934
K/E Utilities	20,581			20,581
<u>Transfers to Plant</u>				
Major Building Projects (Hosp Only)		(807,451)	807,451	-0-
Capital Expenditures	(418,231)		418,231	-0-
Capital Encumbrance Change	(1,207,577)		1,207,577	-0-
Increase in Restricted Fund				
Commitment to Plant			41,085	41,085
Transfers to/from Shared Bldg. Projects		(167)		(167)
Contribution from Masons			100,000	100,000
Ending Balance	<u>\$24,710,191</u>	<u>\$6,254,953</u>	<u>\$59,077,022</u>	<u>\$90,042,166</u>
RESTRICTED FUNDS		<u>Gift</u>	<u>Endowment</u>	<u>Total</u>
Beginning Balance		\$873,138	\$8,914,742	\$9,787,880
<u>Net Income</u>				
Gifts		5,771		
Misc Expenses		(5,745)		
Total Restricted Net Income				26
Increase in Commitment to Plant		(40,079)	(1,006)	(41,085)
Contribution to CUHCC			(3,761)	(3,761)
Contribution to Dept of Pediatrics			(50,000)	(50,000)
Ending Balance		<u>\$833,085</u>	<u>\$8,859,975</u>	<u>\$9,693,060</u>

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
BALANCE SHEET
SEPTEMBER 30, 1980

Assets	1980		Liabilities and Fund Balances	1980	
	September 30	June 30		September 30	June 30
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash	\$ 9,111,538	\$ 538,748	Trade Accounts Payable	\$ 1,423,951	\$ 1,644,462
Accounts Receivable:			Insurance Payable	999,060	663,590
Patient Receivables	27,304,538	22,187,628	Accrued Salaries & Wages Payable	4,239,270	2,084,799
Other Receivables	509,632	573,400	Accrued Vacation Payable	2,906,788	2,992,380
	36,925,708	22,761,028	Accrued Professional Fees and Physician Compensation	880,393	666,093
Less Allowance for Losses in Collection	(3,025,518)	(2,961,700)	Contractual Adjustments Payable to Third Party Payors	1,764,691	-0-
	33,900,190	19,799,328	Contracts Payable	333,285	154,446
Contractual Adjustments Receivable from Third Party Payors	293,559	203,875	Current Portion Long Term Debt	227,848	224,396
Inventories of Drugs and Supplies	2,948,578	2,867,175	Notes Payable - Current	5,000,000	-0-
TOTAL CURRENT ASSETS	\$ 37,142,327	\$ 23,409,126	Malpractice Settlement Payable	964,000	964,000
				\$ 17,775,286	\$ 9,394,166
BOARD DESIGNATED ASSETS			LONG TERM DEBT, less Current Portion	\$ 1,051,523	\$ 1,110,555
Board Designated Assets Available for Assignment:					
Cash and Investments	\$ 10,657,514	\$ 6,465,140	FUND BALANCE		
Accrued Interest	597,437	312,840	Unrestricted	\$ 90,427,233	\$ 78,915,578
	11,254,951	6,777,980	Net Unrealized Loss on Marketable Debt and Equity Securities	(385,067)	(385,067)
Cash and Investments Assigned to Construction Projects	5,078,980	4,243,563		\$ 90,042,166	\$ 78,530,511
TOTAL BOARD DESIGNATED ASSETS	\$ 16,333,931	\$ 11,021,543			
BUILDINGS AND EQUIPMENT					
Buildings and Improvements	\$ 51,033,270	\$ 51,033,270			
Equipment	21,636,978	21,636,978			
	72,670,248	72,670,248			
Less Accumulated Depreciation	(27,340,209)	(26,462,246)			
	45,330,039	46,208,002			
Construction in Progress	10,062,678	8,396,561			
TOTAL BUILDINGS AND EQUIPMENT	\$ 55,392,717	\$ 54,604,563			
	\$108,868,975	\$ 89,035,232		\$108,868,975	\$ 89,035,232

Restricted Funds

Assets	1980		Liabilities and Fund Balances	1980	
	September 30	June 30		September 30	June 30
Cash and Investments - Current Account	\$ 833,085	\$ 873,138	Fund Balances:		
Cash and Investments - Principle Account	8,859,975	8,914,742	Gift Funds	\$ 859,016	\$ 899,059
			Endowment Funds	9,040,550	9,095,327
			Net Unrealized Loss on Marketable Debt and Equity Securities	(206,506)	(206,506)
	\$9,693,060	\$9,787,880		\$9,693,060	\$9,787,880

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
 COMPARATIVE AVERAGE LENGTH OF STAY
 PSYCHIATRIC/REHABILITATION STATIONS

	<u>September YTD</u>		<u>Month of August 1980</u>	<u>Month of September 1980</u>
	<u>Prior Yr 1979-80</u>	<u>Current Yr 1980-81</u>		
<u>Psychiatric</u>				
Patient Days	4,306	4,278	1,362	1,522
Discharges, Deaths, Transfers	123	119	46	38
Average Length of Stay	35.0	36.0	29.6	40.1
 <u>Rehabilitation</u>				
Patient Days	2,068	2,388	743	771
Discharges, Deaths, Transfers	67	86	39	29
Average Length of Stay	30.9	27.8	19.1	26.6

The variance in average length of stay (ALOS) is largely arithmetic and is due to the affect of the discharge pattern on a relatively small patient population. These variances beocme less pronounced through the year as the denominator (discharges, deaths, transfers) becomes larger and is more representative of an average.

The slight decline in the ALOS within Rehabilitation is associated with a small number of renal studies done in conjunction with Rehab patients where the ALOS is approximately four days.

Ernst & Whinney

1800 First National Bank Building
Minneapolis, Minnesota 55402

612/339-0771

September 12, 1980

Mr. Clifford P. Fearing
Controller
University of Minnesota Hospitals & Clinics
Minneapolis, Minnesota

Dear Mr. Fearing:

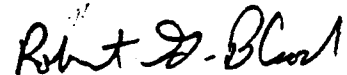
We have completed our analysis of the sensitivity of the Hospitals' project to a drop in the projected census in 1990 to 188,810 patient days from the most likely projection of 200,684 patient days. This drop in utilization would result in a cash short-fall of \$25,000,000.

Two variables, project costs, and state loan amounts were analyzed to determine appropriate changes which might prevent this short-fall. Based on this analysis either a decrease in the project size of \$14,500,000 or an increase in the state loan amount of \$20,000,000 would result in approximately the same cash position in 1989 as projected in the Certificate of Need application.

Another solution which would maintain the same cash position would be to increase rates by 2.5% in 1986 and 1.0% in 1987 through 1989 in excess of previously used rate increases.

Attached is a schedule summarizing an analysis. Please let us know if you have any questions.

Very truly yours,



Robert G. Blood
Manager

RGB:dsd
Enclosure

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS

	1990 Patient Days	Total State Loans	Project Cost	NOTES PAYABLE			EXCESS CASH			Coverage
				1987	1988	1989	1987	1988	1989	
A	200,684	\$206,600,000	\$232,934,000	\$12,336,383	\$ 9,398,577	\$ -0-	\$ -0-	\$ -0-	\$ 160,211	2.03
B	200,684	218,100,000	232,934,000	-0-	-0-	-0-	548,284	4,765,638	15,327,126	1.92
C	188,810	206,600,000	232,934,000	23,015,457	25,076,400	21,933,945	-0-	-0-	-0-	1.74
D	188,810	226,100,000	232,934,000	4,477,709	4,938,423	273,474	-0-	-0-	-0-	1.55
E	188,810	206,600,000	218,434,000	2,347,803	1,249,507	-0-	-0-	-0-	4,762,557	1.74
F	209,000	206,600,000	232,934,000	3,832,545	2,204,652	-0-	-0-	-0-	11,448,213	2.23

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
RENEWAL PROJECT, MAXIMUM INTEREST RATE EVALUATION

Using the 7/30/80 State G/O model and existing calculation techniques for debt coverage, what is the max interest expense rate we can absorb without dropping debt coverage ratio under 1.5 to 1 (1986 data)

1. Net income + appropriations available for debt service
in 1986 = \$30,901,933.

2. Maximum debt service to produce 1.5 to 1 coverage, i.e.,

$$\frac{\$30,901,933}{X} = 1.5$$

$$X = \$20,601,289 \text{ maximum debt service}$$

3. Given fixed bond size, life, and debt service, what is the corresponding interest rate?

$$\text{Interest Rate} = 9.046\%$$

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
BOARD OF GOVERNORS RESOLUTION

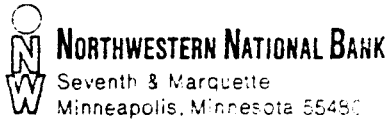
Topic - Non-Allowable Federal Government Patient Costs Transferred
to Non-Federal Patients (Price Transfers)

Background - Included in UMH&C's 18.5% price increase for 1980-81 is an increase of 3.3% or \$3,800,000 which is attributable to non-reimbursement by federal payors for costs in excess of their routine cost limits. The net price increase for 1980-81 due to inflation is 15.2%.

The University of Minnesota Hospitals & Clinics Board of Governors adopted a Statement of Financial Policies and Requirements on January 21, 1976. Two major emphases of this statement are that charges should be reasonably related to cost of providing the service and that costs should be recovered through their appropriate source, i.e., education, research, patient service (and service payor groups), although flexibility is provided in the statement to ensure that, when necessary, deviations from this direction can be made. The 1980-81 rate increase in effect transfers a portion of the costs from one payor group to others. Due to this price transfer, concerns have been raised regarding the effects of these price transfers on hospital public relations and hospital financial stability.

Exception - Federal Payor Price Transfers

Exception to the policy of pricing services at cost is made in the case of federal cost limits because elderly and indigent patients are dependent on care from UMH&C. In addition, they are also dependent on the federal government for payment of the majority of their medical costs. To restrict admission to UMH&C on the basis that full costs are not recoverable from federal payors would place a severe hardship on these federal beneficiaries. In addition, since a major segment of UMH&C's revenues are derived from federal payors, it will be necessary to distribute the revenues lost due to federal cost limits equally to all other payors. However, management should vigorously pursue an exception to the cost limits both by formal appeal mechanisms and with the assistance of Minnesota congressional representatives.



David W. Cost
Senior Vice President

October 8, 1980

Mr. Jack Mason
Attorney at Law
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2400 First National Bank Building
Minneapolis, MN 55402

Dear Jack,

Thank you for your letter of September 9 regarding the Renewal Project assumptions. I have met with Cliff Fearing and carefully reviewed the concerns which you outline in your letter. We agree with the basic premise of your letter that any assumptions we make in our project should be reasonable and supportable, and we feel that each of the assumptions that have been made in the debt capacity evaluation are the most reasonable and supportable assumptions we can make at this time. We have been reviewing the debt capacity evaluations since fall of 1978 and, although there have been numerous changes to basic premises used in each of the studies and probably will continue to be, we are comfortable with the assumptions in each of the studies at this time.

There are numerous factors which need to be considered, some of which are totally uncontrollable by University of Minnesota Hospitals and Clinics. Matters such as federal reimbursement regulations and interest rates indeed may, when the final decisions are made, negate the financial feasibility of the Renewal Project. However, we feel the assumptions used at this time are reasonable and supportable based on existing regulations and money/market conditions.

As Chairman of the Finance Committee, I work closely with Cliff Fearing and his staff to assure that we are staying on top of all the changes that would affect our abilities to self-finance the Renewal Project. In addition, the Finance Committee is thoroughly informed of your concerns. As you know, from time to time, complete updates of the studies are done and, at this point,

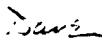
Mr. Jack Mason
October 8, 1980
Page Two

it is our opinion as well as the opinion of the external consultants, i.e., Ernst & Whinney and Dain, Bosworth, that the assumptions we have made are reasonable and supportable and the outcomes to these studies suggest we have the capacity to self-finance the Renewal Project. In addition, we are attempting to develop some worst case/contingency scenarios which will be part of our continuing monitoring of financial feasibility. Should at any time conditions change substantially where the feasibility of the project is in doubt, we will immediately bring these concerns to the Board of Governors.

In addition, prior to the issuance of the bonds, presumably next spring, we will have completed a total financial feasibility study which will indicate the reasonableness of all assumptions again predicated on a third party evaluation. At that time, we will be in a position to make our final recommendations to the Regents and the legislature regarding the project.

Thank you again for bringing your concerns to our attention and, if circumstances change, we will be bringing the changed conditions to the Board of Governors along with the outcomes of these changes for review and recommendation. If you wish to discuss some of the specifics beyond this letter, please give me or Cliff a call.

Sincerely,



David W. Cost
Chairman, Finance Committee
Board of Governors

cc: John Westerman
Albert Hanser
Clifford Fearing

BOARD OF GOVERNORS FINANCE COMMITTEE
OPEN ITEMS LIST

1. Committee members would appreciate being provided with any financial presentations made to the Board of Regents.
2. It was suggested that a semi-annual report be made to the Finance Committee by APMC on "no-show" problem and other pertinent issues and periodic updates on the E.R. financial agreement status.
3. Statement of Financial Policies and Requirements be discussed over the next year. (1980-81)
4. It was suggested that UMH&C consider the possibility of contacting the Insurance Commissioner regarding any recourse which could be taken on the Medicare/Medical Assistance payment processing time issue.
5. Mr. France suggested an article be prepared for publication explaining admission rate decreasing/length of stay increasing/patient mix/acuity of illnesses.
6. Dr. Levitt suggested that a breakdown on the number of patients in the various service categories of Medicine and Surgery be prepared for the committee's information and that it might also be useful to know the number of procedures being done in Ambulatory Surgery and its impact on Surgery admissions - currently being done.
7. Management give consideration to the use of a consultant on the Section 223 exception.
8. Continue pursuing exception and continue pursuing comparisons with other hospitals as well as emphasize to the federal government the wage scale issue.
9. Financial alternatives be developed in regard to the Renewal Project assuming unfavorable forecasts.
10. UMH&C's prices be compared with other hospitals and the impact of the Renewal project on our price comparability be presented to the committee.
11. The committee be provided with periodic updates on the financial status of new programs approved by the Board of Governors such as the Bone Marrow Transplant program.
12. Consideration be given to providing employees with salary and fringe benefit actual dollar figure on a yearly basis.
13. Mr. Diehl be requested to inform the committee of future settlements on malpractice cases.

14. A determination be made as to the reason for the decline in the average length of stay in the Psych and Rehab areas.
15. The committee would like to be presented with an update on the exception request progress.
16. A determination be made as to the number of students who are patients are the outpatient clinics instead of using the Boynton Health Service which is their primary source of outpatient care.