that these recommendations would move through the Finance Committee to the Board of Regents in the future. Bad debts represent about 2% of total revenue billed.

Mr. Van Hulzen and Mr. Fearing then discussed the Audited Financial Statements. An overview was given of main components of the financial structure. However it was noted that several meetings would be required before the Finance Committee is completely comfortable with the figures. The first matter of consideration was the balance sheet. Auditing procedures were discussed as instituted by Vice President Brinkerhoff and then an explanation of the various components was given.

1. Current Assets - The components were outlined. The receivables picture has greatly improved over recent years causing the reduction in the amount reserved for allowance for bad debts. The disposition of third-party receivables was explained and other receivables were discussed.

2. Long Term Investments - These were described as funds University Hospitals can commit to earn interest knowing that they will not have to be used for twelve (12) months. An exception is the Legislative Special for Psychiatry and Rehabilitation. The University invests these funds on July 1st and interest accrues to the benefit of the Hospitals. Investments of working capital funds was then outlined. University Hospitals does not participate in the interest income on working capital funds. If University Hospitals has money which is not needed for 12 months this will be invested and the interest accrues to the Hospitals. Endowment funds are part of the long-term investment pool. It was stated that buildings and improvements are based on historical cost less depreciation.

3. Liabilities - These were explained and one area of interest was the category of Accrued Professional Fees. The Hospitals bill for some hospital based physicians and have a contract with them whereby 15% is retained by the Hospitals as the fee for providing this financial service. It was stated that a long term note is now liquidated.

4. Fund Balances - These Funds Balances were explained.

The other statements were then reviewed briefly because time for adjournment was near and similar current statements in greater detail will be reviewed monthly.

Items 2 and 3 of the Agenda were deferred to the next meeting.

The findings of the Committee were summarized in the following manner:

1. The Committee has met and reviewed the Ernst & Ernst management letter and Audit Report of 1974. The Board of Governors will receive copies of the minutes of this meeting. Last year the financial posture of the University Hospitals improved. Suggestions of the auditor were anticipated and are being addressed. With the concurrence of the members of the Finance Committee, Chairman Holmquist set the next meeting for 10:00 A.M., Wednesday, May 21, 1975 directly before the next meeting of the Board of Governors.

Respectfully submitted,

Paul Rader

Paul Rader, Secretary

Minutes

Finance Committee

Board of Governors

University of Minnesota Hospitals & Clinics

April 16, 1975

Members Present:	Stanley Holmquist, Chairman John Quistgard Donald Brown Dave Preston Don Van Hulzen John Westerman
Members Absent:	Shelly Chou Charles Deegan Donald Shank
Staff:	Clifford Fearing, Controller Paul Rader, Secretary

Chairman Holmquist called the meeting to order at 11:12 a.m. and made introductory remarks regarding the purposes of the committee. Mr. Holmquist said that the function of the committee would be to contribute to the financial operations and policies of the Hospitals wherever such contributions can be made and to assist the full Board in dealing with financial matters.

I. Audited Financial Statements - Mr. Holmquist

Mr. Holmquist noted comments made by Ernst & Ernst in their management letter and responses to these comments by the University Hospitals staff. He asked for remarks from Mr. Van Hulzen. Mr. Van Hulzen said that the purpose of the meeting was one of orientation and familiarization with the financial statements. The purpose of the Ernst & Ernst audit was to evaluate and comment on the financial procedures and structure, and to present fair and accurate statements of financial operations. The staff was aware of most deficiencies noted in the management letter and steps are being taken to improve controls where costs/benefits are reasonable.

Mr. Holmquist then noted that some problems were noted in the billing procedures. He said that indications were that University Hospitals was doing something to improve its control. It was stressed that the charge systems must be as accurate as possible. There is a section in the Ernst & Ernst letter which deals with that specific topic. Mr. Fearing pointed out that University Hospitals does not control and account for each charge form on a pre-numbered basis for all ancillary services. About 8,000 to 10,000 ancillary charges are received per day so to try to control them at the point of service would be very expensive. Mr. Fearing then detailed the existing control systems. He said that when the systems are complete, University Hospitals will be controlling 90-95% of ancillary charges through these computer assisted systems. Mr. Fearing pointed out that the impressions people have about the Business Office when coming to University Hospitals are extremely important. Mr. VanHulzen stated that the Hospitals' policy is to satisfy any questionable errors in billing in favor of the patients. It was suggested that Ernst & Ernst be asked next year to write a statement to the effect that implementation of a perfect control system would not be a cost effective measure.

Another item of interest was the disposition of money received and how it is deposited in the bank. Mr. Fearing explained that monies which come in are primarily in the form of checks which are stamped to prevent unauthorized cashing. These are deposited in the Bursar's Office in the afternoon. There is a plan to secure the cashiering area and remodeling of that area will be done. All checks not deposited during the day are put in the safe overnight. It was further remarked that the auditor's report would be reviewed by the Finance Committee annually and it was asked that any corections called for be reviewed six months later. These items should be included on the calendar of the Finance Committee.

The reimbursement of room rates and services from third party payors was then discussed. Blue Cross's policy of paying the lesser of costs or charges and Medicare's similar policy were explained. The third party payors seem to be moving in the direction of a departmentally based reimbursement program i.e. the lower of costs or charges for each area of service. Mr. Van Hulzen then explained the direction University Hospitals is moving in terms of equity in the ratio of charges to costs for all revenue centers i.e., room rates lab, x-ray and pharmacy. The relationship of the rate structure to reimbursement was then explained.

Research expenditures for all health sciences are about 40 million dollars per year but these monies are channeled through the academic units, not the Hospitals. The total dollars increase every year but the purchasing power has decreased.

The AAMC (Association of American Medical Colleges) in its various sections was then discussed. This groups lobbys for the teaching hospitals whereas the AHA (American Hospital Association) seems to participate move in favor of the community hospitals. It was observed that computing room rates based on community hospital averages is unfavorable to University Hospitals.

In answer to a question it was explained that depreciation at University Hospitals is funded. Sources of funds for indigent patients were also explained. In general something can be arranged with Minnesota counties for patients unable to pay. In regard to uncollectable accounts, it was explained how such accounts occur, how settlements with patients are made, and how recommendations are made to the Regents for write-off of uncollectable accounts. It was explained

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ERNST & ERNST
FIRST NATIONAL BANK BLDG.
MINNEAPOLIS, MINN. 55402

ACCOUNTANTS' REPORT

Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have examined the statement of financial position of the University of Minnesota Hospitals as of June 30, 1974 and 1973 and the related statements of revenues and expenses of unrestricted funds, changes in fund balances and changes in financial position of unrestricted funds for the year ended June 30, 1974. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Third party reimbursement program receivables and payables are based upon billings at provisional rates as adjusted for cost reimbursement reports filed with the agencies involved or estimated through June 30, 1974. While preliminary retroactive settlements made by these agencies have been reflected in the accounts, final reimbursement under these programs has to be determined by each agency - see Note D.

In our opinion, except for the effect, if any, of the final determination of third party payor reimbursement programs, the accompanying financial statements present fairly the assets, liabilities and fund balances of the University of Minnesota Hospitals at June 30, 1974 and 1973 and the results of its operations, changes in fund balances and changes in financial position for the year ended June 30, 1974, in conformity with generally accepted accounting principles consistently applied.

Ernst & Ernst

Minneapolis, Minnesota
October 11, 1974

STATEMENT OF

UNIVERSITY OF

	June 30 1974	June 30 (Note A) 1973
ASSETS		
CURRENT ASSETS		
Cash working funds	$ 31,845	$ 31,855
Cash and investments - Note B	6,609,853	6,972,250
Patient receivables, less allowances for possible losses in collection (1974 - $2,500,000; 1973 - $2,800,000)	11,696,818	11,798,255
Receivable from third-party payor reimbursement programs - Note D	-	721,658
Other receivables	269,736	-
Inventories of drugs and supplies	880,132	744,485
TOTAL CURRENT ASSETS	$19,488,384	$20,268,503
LONG-TERM INVESTMENTS - Note B	8,500,000	3,000,000
PLANT AND EQUIPMENT - Notes A and C		
Pledge receivable for construction	$ 750,000	$ -
Cash and investments for construction - Note B	1,290,403	710,070
Construction in progress	1,253,225	2,256,766
Buildings and improvements	19,121,599	16,940,181
Equipment	9,235,643	8,452,513
Less allowances for depreciation	(15,443,229)	(14,210,826)
	$16,207,641	$14,148,704
RESTRICTED FUNDS - Note B		
Cash and investments - current accounts	$ 901,111	$ 1,122,287
Cash and investments - principal accounts	6,485,830	6,786,789
	$ 7,386,941	$ 7,909,076
	$51,582,966	$45,326,283

FINANCIAL POSITION

MINNESOTA HOSPITALS

	June 30 1974	(Note A) 1973
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Trade accounts payable	$ 734,623	$ 507,100
Accrued salaries and wages payable including amounts withheld and taxes thereon	534,264	406,227
Accrued vacation payable	1,116,143	1,016,610
Payable to third-party payor reimbursement programs - Note D	1,005,847	1,714,375
Accrued professional fees	303,302	222,598
Current portion of long-term note payable	163,875	28,500
TOTAL CURRENT LIABILITIES	$ 3,858,054	$ 3,895,410
LONG-TERM NOTE PAYABLE - University Health Service, 5% interest	-	163,875
FUND BALANCES		
Unrestricted funds:		
Operating funds	$ 9,681,636	$10,268,071
Reserve funds	14,448,694	8,941,147
Plant funds	16,207,641	14,148,704
	$40,337,971	$33,357,922
Restricted funds:		
Gift funds	$ 717,810	$ 713,883
Endowment and similar funds	6,669,131	7,195,193
	$ 7,386,941	$ 7,909,076
	$47,724,912	$41,266,998
CONTINGENT LIABILITIES AND COMMITMENTS - Notes C through F		
	$51,582,966	$45,326,283

See notes to financial statements.

STATEMENT OF REVENUES AND EXPENSES OF UNRESTRICTED FUNDS

UNIVERSITY OF MINNESOTA HOSPITALS

Year Ended June 30, 1974

Patient service revenue		$43,131,422
Less:		
Net professional fees billed by the Hospitals		$ 2,242,668
Allowances and adjustments (after deduction of related transfers from restricted funds - $122,513) - Notes A and D		1,413,970
		$ 3,656,638
	NET PATIENT SERVICE REVENUE	$39,474,784
Other operating revenue (including $157,323 from restricted funds)		1,328,323
	TOTAL OPERATING REVENUE	$40,803,107
Operating expenses:		
Salaries and wages including fringe benefits		$28,855,694
Drugs, supplies and other operating expenses		12,227,122
Provision for University administrative and general services - Note A		2,200,000
Provision for depreciation		1,213,357
	TOTAL OPERATING EXPENSES	$44,496,173
	LOSS FROM OPERATIONS	($ 3,693,066)
Nonoperating revenue:		
State appropriations and support		$ 5,621,076
Unrestricted investment income		798,900
	TOTAL NONOPERATING REVENUE	$ 6,419,976
	EXCESS OF REVENUES OVER EXPENSES	$ 2,726,910

See notes to financial statements.

STATEMENT OF CHANGES IN FUND BALANCES

UNIVERSITY OF MINNESOTA HOSPITALS

Year Ended June 30, 1974

UNRESTRICTED FUNDS		
Balance at beginning of year as previously reported		$39,394,397
Net reclassifications and adjustments to plant funds - Note A		(6,036,475)
Balance at beginning of year as restated		$33,357,922
Excess of revenues over expenses		2,726,910
Contribution of University administrative and general services - Note A		2,200,000
Transfers from restricted funds to plant funds		757,401
Addition to and increase in hospital shared plant, net of accumulated depreciation		1,295,738
	BALANCE AT END OF YEAR	$40,337,971
RESTRICTED FUNDS		
Balance at beginning of year		$ 7,909,076
Restricted gifts received		123,838
Restricted income from investments		373,074
Realized gain on investments		62,390
Transfers to operating funds		(279,836)
Transfers to plant funds		(757,401)
Transfers to non-hospital funds		(44,200)
	BALANCE AT END OF YEAR	$ 7,386,941

( ) Indicates deduction.

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION OF UNRESTRICTED FUNDS

UNIVERSITY OF MINNESOTA HOSPITALS

Year Ended June 30, 1974

FUNDS PROVIDED	
Loss from operations	($3,693,066)
Add items not requiring the outlay of working capital:	
Provision for University administrative and general expenses - Note A	$2,200,000
Provision for depreciation	1,213,357
	$3,413,357
FUNDS REQUIRED FOR OPERATIONS	($ 279,709)
Nonoperating revenue	6,419,976
FUNDS DERIVED FROM OPERATIONS AND NONOPERATING REVENUES	$6,140,267
Transfers from restricted funds to plant funds	757,401
Additions to and increase in Hospital shared facilities, net of accumulated depreciation	1,295,738
Decrease in working capital	742,763
	$8,936,169
FUNDS APPLIED	
Additions to long-term investments	$5,500,000
Additions to plant fund - net	3,272,294
Reduction of long-term debt	163,875
	$8,936,169
CHANGES IN COMPONENTS OF WORKING CAPITAL	
Increase (decrease) in current assets:	
Cash and investments	($ 362,407)
Patient receivables	(101,437)
Receivable from third-party payor reimbursement programs	(721,658)
Other receivables	269,736
Inventories of drugs and supplies	135,647
	($ 780,119)
Increase (decrease) in current liabilities:	
Trade accounts payable	$ 227,523
Accrued salaries and wages	128,037
Accrued vacation payable	99,533
Payable to third-party payor reimbursement programs	(708,528)
Accrued professional fees	80,704
Current portion of long-term note payable	135,375
	($ 37,356)
DECREASE IN WORKING CAPITAL	($ 742,763)

See notes to financial statements.

Note A - ACCOUNTING POLICIES

The University of Minnesota Hospitals consist of those hospitals established in connection with the medical school of the University of Minnesota and include Mayo Memorial Hospital, Variety Club Heart Hospital, Children's Rehabilitation Center and Masonic Memorial Hospital, all of which are located on the Minneapolis Campus of the University of Minnesota.

The financial statements have been prepared on an accrual basis of accounting which recognizes uncollected revenues or unpaid expenses as assets or liabilities. In order to conform to limitations or restrictions placed on the use of financial resources available to the University, the accounts are maintained by the University in accordance with the principles of fund accounting, by which net resources are classified for accounting and reporting purposes into funds in accordance with certain objectives with separate accounts maintained for each fund. However, in the accompanying financial statements, assets, liabilities and fund balances of funds that have similar characteristics have been combined.

Investments are carried at cost or fair market value as of the date acquired. All investments are managed by the University. Departments such as the Hospitals receive investment income from the University based on units of investment in the University investment pools, except for the temporary investment pool which does not allocate income to departments. Unrealized gains or losses are recognized by the University, but the departments do not recognize such gains or losses until they withdraw assets (units) from the pools.

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

Plant and equipment are carried at appraised values based on historical cost as of June 30, 1968 adjusted for additions and disposals at cost or fair market value as of the date acquired since that date. Depreciation is determined using an accelerated method on assets acquired by the University prior to July 1, 1969 and using the straight line method on additions since that date over the useful lives of the assets which are generally consistent with American Hospital Association guidelines:

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

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

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

Note A - ACCOUNTING POLICIES (Cont'd)

Patient service revenue is recorded at established rates including amounts billed for professional services where the Hospitals provide billing services under contract to professionals for a percentage of the professional fee charged. Adjustments thereto are made for uncollectible accounts, charitable care and third-party contractual allowances - see Note D.

The estimated allowance for doubtful patient accounts receivable has been provided based on an evaluation of the accounts as of June 30 and on the collection experience of the Hospitals.

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

The cost of general and administrative services of the University has been estimated and provided for in the operating expenses of the Hospitals. The cost of these services is not allocated to the Hospitals and is therefore shown as a contribution to the unrestricted funds of the Hospitals.

Certain amounts in the prior year statement of financial position have been restated to reflect classifications which are consistent with those used in the current year. Plant fund assets, including cash and investments, have also been adjusted for $6,036,475 to remove assets not controlled by the Hospitals.

Note B - INVESTMENTS MANAGED BY THE UNIVERSITY

Cash and investments reflected in the Hospitals' financial statements represent amounts encumbered by the Hospitals which are managed by the University and are invested in University investment pools as follows:

	June 30	
	1974	1973
Temporary investment pool	$ 8,801,367	$ 8,804,517
Group income pool	8,500,000	3,000,000
Endowment and similar funds investment pool	6,485,830	6,786,879
	$23,787,197	$18,591,396

Cost approximates market value of the temporary investment pool. The market values of the group income pool and the endowment and similar funds investment pool were approximately $8,100,000 and $6,100,000, respectively, at June 30, 1974 and $3,000,000 and $7,800,000, respectively, at June 30, 1973. The market value of investments has continued to decline through September 30, 1974.

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

	June 30 1974	June 30 1973
Pledges receivable for construction	$31,178,164	$21,587,911
Cash and investments for construction	4,086,322	1,241,549
Construction in progress	11,111,160	6,645,338
Buildings and improvements	26,554,959	24,905,421
Equipment	9,235,643	8,452,513
	$82,166,248	$62,832,732
Less accumulated depreciation	19,814,488	18,484,145
	$62,351,760	$44,348,587
Less that portion not controlled or occupied by the Hospitals	46,144,119	30,199,883
	$16,207,641	$14,148,704

The University pledges receivable for construction are from various governmental and private sources including $3,500,000 pledged by the Hospitals.

Note D - CONTRACTUAL ADJUSTMENTS AND SETTLEMENT WITH THIRD-PARTY REIMBURSEMENT PROGRAMS
The Hospitals provide care for certain patients under provisions of Title XVIII (Medicare) and Titles V and XIX (Medical assistance) of the Social Security Act of 1965 as amended and certain other grant programs. The agreements between the Hospitals and these agencies generally provide for payment for covered services at agreed interim rates with annual settlement based on charges or reimbursable costs. Reported costs relating to such services are subject to audit by these agencies.

Revenues under third-party cost reimbursement agreements totaling approximately $42,000,000 (for the current year $13,000,000) are subject to audit and retroactive adjustment by third-party payors. Retroactive adjustments under these agreements have not been estimated or provided in the accounts.

During the year ended June 30, 1974 the Hospitals received or recorded reimbursement for cost in excess of charges of approximately $450,000. Beginning July 1, 1974 cost reimbursement program formulas will be applied using the lower of cost or charges with limitations on charges. Certain of the charges of the Hospitals are currently in excess of these limitations and reimbursement received for services after July 1, 1974 may be less than received in prior years.

- PENSION EXPENSE

All employees of the Hospitals meeting the age and length of service requirements participate in civil service and academic pension plans of the Minnesota State Retirement System and the University of Minnesota. Both the employer and the employee make pension contributions to the plans. The total pension expense of the Hospitals for the year was approximately $1,285,000.

Note F - OTHER CONTRACTS AND COMMITMENTS

The Hospitals have contracts with the University Medical Schools for the salaries of residents and medical school staff for direct patient services, in service education and administrative duties within the Hospitals. Total expense for such services for the year ended June 30, 1974 was $2,227,000. The contract commitments are reviewed annually and have been estimated at approximately $2,542,000 for the year ended June 30, 1975.

STANDING COMMITTEES

Finance Committee

Section 1. Composition: The Finance Committee shall consist of a chairman, at least two other members of the Board of Governors, two members of the Medical Staff, two members of hospital management as designated by the General Director, the University Vice President for Finance, Planning and Operations or his designee, and the University Vice President for Health Sciences of his designee.

Section 2. Duties.

(a) The committee shall be responsible for the management of the finances of the hospital and for the examination of the monthly financial reports from the General Director of the hospital for any material variation from the budget.

(b) This committee shall be responsible for the preparation and submission to the Board of Governors at its last meeting before the end of the fiscal year, a budget showing the expected receipts, income and expenditures for the ensuing year for its review, recommendations, and transmittal to the Board of Regents. The committee shall be further responsible for the examination of the monthly financial reports, preparation of a quarterly report for submission to the Executive Committee and such other financial reports that may be required.

Section 3. Meetings. The committee shall meet at the call of the chairman as often as necessary to accomplish its functions.

Minutes

Finance Committee

University of Minnesota Hospitals and Clinics

Board of Governors

May 21, 1975

Members Present:	Stanley Holmquist, Chairman David Brown, M.D. Donald Brown Shelly Chou, M.D. John Quistgard Donald Shank Donald Van Hulzen John Westerman
Members Absent:	Charles Deegan David Preston
Staff:	Clifford Fearing, Controller Paul Rader, Secretary

The meeting of the Finance Committee of the Board of Governors of University of Minnesota Hospitals and Clinics was called to order at 10:20 a.m., by Chairman Holmquist. The minutes of the last meeting were approved. It was suggested that part of the Chairman's report to the Board make mention of the fact that the Finance Committee will be reviewing the Bad Debt Report before it is forwarded for Board of Regents approval.

I. Summary of Capital Projects/Sources of Funding - Mr. Van Hulzen

The Summary of Capital Projects and Sources of Funding is based on preplanning. Initiation of these programs will come from the Facilities Committee. The figures given are reasonable approximations of the projected needs. The individual items were considered by the Committee.

The Equipment Budget deals with equipment and minor remodeling which is part of the annual operating budget. Projects Approved includes the new ACTA Scanner. The non-normal, non-reoccuring items appear under this heading. The Carry Forward Projects were discussed. These are projects already approved, committed and funded. The largest item under this heading is Kidney Dialysis.

Priority Projects are those which are most important and for which commitment from the Facilities Committee is expected. The items were explained.

Pre-planning Projects items were discussed as high priority future needs. The Telelift System and the need for it in the B-C Building were explained. Medical Records and the Business Office are planned to be moved from the Main Hospitals into the B-C complex. Remodeling of vacated space for Labs, Radiology and Pharmacy was estimated to cost $2 million.

The Pediatrics facility proposed for the K-E Building would replace the antiquated quarters in the Main Hospital.

The funding of the B-C Building and the budget structure was explained. University Clinics will occupy 1/3 of the total building. The remaining space is assigned to the Medical School.

The responsibility of the Finance Committee is to relate to the planning process and the recommendations of the Facilities Committee so that financial planning can accommodate the schedule for needed capital financial commitments. The University Clinics Committee and the Medical Staff are part of this planning process. The functions and purposes for the formation of the University Clinics Committee were outlined. The report of that group will be presented to the Finance and Facilities Committees.

Under Sources of Funds, the Reserves component was discussed and the importance of maintaining an operating reserve was explained. The new requirements were underscored, along with the potential sources of funding these requirements. The need for University Hospitals and its physicians to remain at the frontiers of service was emphasized. Every Certificate of Need application submitted by University Hospitals has referred back to the Mission Statement for its justification.

It was suggested that joint meetings be held in the future with the Facilities Committee as needed.

2. April YTD Financial Reports - Mr. Clifford Fearing

These statements show University Hospitals' position from July 1, 1974 to April 30, 1975. The Hospitals operate on a planned budget. The various budgetary components and variances were considered. Increases in admissions, patient days and the availability of new ancillary services accounted for the significant variances. The Physician Compensation component was explained.

Reimbursement considerations under Medicare/Medicaid and Blue Cross were discussed in relation to the Third Party Contract Adjustment entry. The purpose of the Late Charges entry was explained.

It was stated that Salaries and Fringe Benefits were the largest categories of expenditure. In that regard, the Salary/Compensation Structure and Studies were discussed as they relate to the Legislative funding.

Those items which showed significant variances were considered individually. Resident Contracts, Campus Administration and the elements listed under Non-Operating Revenue were discussed.

Based on all factors, the Total Net Operating Revenue was said to be approximately where it should be. When inventory adjustments are made, the "bottom line" should be on budget.

The Operating Cash Flow Statement, YTD, was explained and the trends were pointed out. The Reserve Funds were differentiated.

Revenue Days in Accounts Receivable were presented graphically and the Analysis of Discharged Accounts Receivable was briefly explained. Income By Source, showing percentages was presented.

The meeting was adjourned by Chairman Holmquist at 1:50 p.m.

Respectfully submitted,

Paul Rader

Paul Rader, Secretary

Minutes

Finance Committee

University of Minnesota Hospitals and Clinics

BOARD OF GOVERNORS

June 18, 1975

Present: David Brown, M.D.
Donald Brown
Shelly Chou, M.D.
Stanley Holmquist, Chairman
David Preston
John Quistgard
Donald VanHulzen
John Westerman

Absent: James Brinkerhoff
Charles Deegan
Donald Shank

Staff: Clifford Fearing, Controller
Johnelle Foley

Guests: Robert Emmett
Dana Ramish

The meeting of the Finance Committee of the Board of Governors of University of Minnesota Hospitals and Clinics was called to order at 10:25 A.M., by Chairman Holmquist. The minutes of the last meeting were approved.

I. May 1975 YTD Financial Report

The May 1975 Year to Date Financial Report was reviewed by the committee. Mr. Fearing and Mr. VanHulzen explained certain variances and trends, such as the Third Party Contract Adjustment which is a one time occurrence, and Charitable Care which includes adjustments to billed revenue.

Reasons cited as pertinent to the increased expenditure for Laundry and Linen were the increasing costs of cotton products, the rise in charges for laundering and the provision of uniforms. Malpractice insurance premiums and workman's compensation, which is self-funded, were indicated as the sources for the increased expenditure on Insurance.

It was pointed out that petroleum dependent products will be increasingly more expensive and, because so many such products are used throughout the hospital, an employee campaign is being conducted to avoid waste. An inventory control system in the process of implementation, the Concerned Employees Neeed to Save program, and the upcoming new intern orientation session were cited as vehicles by which to carry the message to employees that supplies should be used with concern about costs.

Overall the May YTD Report was seen as appropriate with the actual to budget variances being small. Other financial statements which were reviewed were the Operating Cash Flow Statement and the Reserve Fund Statement.

It was decided by the Committee that Mr. Fearing would provide the full Board of Governors with a consolidated May YTD Financial Report at their meeting that afternoon.

II. Projected 1974-75 and Planned 1975-76 Financial Statements

The Projected and Planned Income Statement was reviewed by the Finance Committee. In the area of Allowance for Uncollectable Accounts it was agreed that the amount should be established at 3% of Gross Charges.

The three-part letter series of the Hospitals' collection process was explained. Credit and collection policies were reviewed by the Senate Finance Committee during the past session and found to be sound.

The Projected and Planned Income Statement was further studied and trends were highlighted in items such as Salaries where pay plans and added staff have necessitated an increase. It was pointed out that Utility costs reflect the increases in energy prices. Because of the expense in processing Blood and Blood Derivatives and because of increased volume in its usage, a large increase was indicated in this item as well. All major segments of the proposed expenditures budget were questioned and discussed.

The Projected and Planned Cash Flow Statement was also received, reviewed and accepted by the Committee as reflecting the financial requirements for 1975-76.

III. 1975-76 Budget Letter

Mr. Westerman presented and reviewed with the Finance Committee the 1975-76 Budget Letter. He stated that the Budget Letter had already been received by Vice President Brinkerhoff and accepted by him but would not be taken to the Board of Regents until their July meeting so that it would have been reviewed and commented upon by the Board of Governors.

It was explained that a 12% rate increase was needed to finance a 17.5% budget increase and could be done if the projected 6-7% patient services volume increase was accurate. The Committee accepted the Budget Letter as reasonable in lieu of a necessary 18% increase in Salaries which represents 66% of the total budget.

There was discussion of various departments and programs which required additional staff and also discussion of the methodology used in projecting these needs and formulating the budget. It was explained that the budget will be submitted to a voluntary rate review panel of the Minnesota Hospital Association. It was the hope of the Finance Committee that the budget would be seen as acceptable by the panel.

The meeting of the Finance Committee was adjourned by Chairman Holmquist at 1:35 p.m.

Respectfully submitted,

Johnelle Foley

Johnelle Foley, Secretary

UNIVERSITY OF MINNESOTA HOSPITALS
INCOME STATEMENT
MAY 31, 1975 YEAR TO DATE

	BUDGETED	ACTUAL	VARIANCE OVER/(UNDER) BUDGET	VARIANCE %
Gross Patient Charges	$ 43,946,733	$ 46,952,678	$ 3,005,945	6.84
Deductions from Charges	2,404,898	3,571,631	1,166,733	48.51
Other Operating Revenue	1,005,008	1,030,721	25,713	2.56
Total Revenue from Operations	$ 42,546,843	$ 44,411,768	$ 1,864,925	4.38
Expenditures				
Salaries	$ 25,190,698	$ 25,648,885	$ 458,187	1.82
Fringe Benefits	3,689,403	3,541,601	(147,802)	(4.01)
Contract Compensation	3,785,202	3,999,699	214,497	5.67
Medical Supplies, Drugs, Blood	5,541,146	6,518,113	976,967	17.63
Campus Admin. Expense	2,294,475	2,294,475	-0-	-0-
Depreciation	1,376,696	1,403,906	27,210	1.98
General Supplies & Expense	6,642,891	7,320.985	678,094	10.21
Total Expenditures	$ 48,520,511	$ 50,727,664	$ 2,207,153	4.55
Net Revenue from Operations	$ (5,973,668)	$ (6,315,896)	$ (342,228)	(5.73)
Non-Operating Revenue				
Appropriations/Univ. Support	$ 5,638,517	$ 5,638,517	-0-	-0-
Accrued Interest Income	856,556	856,556	-0-	-0-
Total Non-Operating Revenue	$ 6,495,073	$ 6,495,073	-0-	-0-
Total Net Operating Revenue	$ 521,405	$ 179,177	$ (342,228)	

Minutes
Finance Committee
University of Minnesota Hospitals & Clinics
Board of Governors
August 20, 1975

Present: David Brown, M.D.
Donald Brown
Stanley Holmquist, Chairman
John Quistgard
Donald Van Hulzen
John Westerman

Absent: James Brinkerhoff
Shelly Chou, M.D.
Charles Deegan
Donald Shank

Staff: Clifford Fearing, Controller
Johnelle Foley

Guests: Robert Emmett
Gregory Hart
Dana Ramish

The meeting of the Finance Committee of the Board of Governors of University of Minnesota Hospitals and Clinics was called to order at 10:30 A.M., by Chairman Holmquist. The minutes of the last meeting were approved.

I. Report on MHA Voluntary Rate Review

Mr. Fearing announced that the presentation of University Hospitals' rate increase before the MHA review panel went well. The 12% increase was accepted and approved.

II. 1974-1975 Preliminary Finance Statements

Mr. Van Hulzen explained that the 1974-75 financial statements were considered preliminary, as they had not as yet been audited. In reviewing the Statement of Operations, Mr. Fearing pointed out that due to an error in calculating Third Party Contractual Adjustments there was a significant variance in this item. He explained how such adjustments are projected using current cost and revenue data in relationship to cost reimbursement contract formula. New regulations affecting reimbursement of the kidney dialysis and transplant services plus errors in the presentation of pharmacy data were largely responsible for the overstatement of revenue deductions for Third Party Contract Adjustments. These accounting errors were noted in preparation of the June 30th Year-End Reports and were corrected to reflect the revised estimated adjustments. Until final settlement with third parties, all such adjustments are esimates only. Other variances to budget on the Statement of Operations were discussed and determined by the Committee not to be significantly material.

Mr. Van Hulzen suggested that discussion should be held on what application should be made of the $719,567 positive net revenue variance. It was his suggestion that the net revenue from operations be put into funded depreciation. Much discussion ensued. It was noted that historical cost depreciation was not now fully funded and that this would be the last opportunity to use such funds for depreciation under the voluntary rate regulations. It was also considered that such action would be consistent with planning for building projects and would not affect patient rates, as they have been increased for this year, which is not directly related to last year's situation. Further, such action was said to follow past practices.

After considerable deliberation on this issue, Mr. Quistgard moved that the Finance Committee recommend to the Board of Governors that net revenue from operations for 1974-75 be put into funded depreciation reserves to the extent permitted by cash flow. The motion was seconded and carried. Mr. Brown added that Mr. Brinkerhoff was aware of this situation and that the action of the Committee was consistent with his thinking on this matter.

III. Physician Compensation Contracts

The contractual arrangements of University Hospitals' with the departments of Clinical Psychology, Diagnostic Radiology and Nuclear Medicine, and Laboratory Medicine and Anatomical Pathology were reviewed by the Finance Committee. Mr. Westerman explained that payment to departments on a percentage of gross revenue basis was a usual and customary practice and that these particular contracts showed no significant change from prior years.

Having examined the data and seeing them as acceptable, the Committee passed Mr. Quistgard's motion. The motion stated that the Finance Committee recommend to the Board of Governors that Mr. Westerman, the General Director, be given the authority to negotiate such physician compensation contracts as seen as necessary to conduct the affairs of the hospital.

IV. Fourth Quarter and 1974-75 Summary of Uncollectible Accounts

Mr. Fearing explained to the committee the bad debt statements, indicating that the time periods they were studying were the dates when the accounts were written off. He further mentioned that the collection practices of University Hospitals were similar to those methods used throughout the community. The 2% rate of uncollectibles for University Hospitals was consistant with the budget and past experience. Mr. Van Hulzen noted that the Committee had recommended a 3% bad debt allowance for 1975-76. This along with charitable care and special contracts/billing adjustments allowances, represents a significant cost of operations common to all teaching hospitals which were reported to average 8% for uncollected revenue.

Dr. Brown moved that the staff recommendation to consider these accounts as uncollectib be accepted by the Finance Committee and that, following approval by the Board of Governors, they be transmitted to the Board of Regents. The motion was seconded and passed.

V. 1974-1975 Accounts Receivable Status

The Committee reviewed a graph indicating revenue days in accounts receivable. Staff was complimented on bringing down the number of days from 165.95 in 1971, to the present 95.93 days.

VI. July 1975 Financial Statements

Mr. Fearing indicated that there were no significant variances in the July financial statements. Although the net revenue was seen as considerable, the Committee was informed that this was due to a high census and a downward trend in inventory.

Having reviewed the July statements, the Committee determined that it would be premature to consider reducing rates at this point, with a base of only one month's information.

The Committee requested that all financial statements contained as a part of their August agenda be mailed to them for further study. Agenda items 6 and 9 were to be examined at a later date as time did not permit further consideration during the meeting.

The Finance Committee indicated their preference to meet at 9:30 instead of 10:00 on September 17th, the date of their next meeting.

The meeting of the Finance Committee was adjourned by Mr. Holmquist at 1:50 p.m.

Respectfully submitted,

Johnelle Foley

Johnelle Foley
Secretary

Minutes

Finance Committee

University of Minnesota Hospitals & Clinics

Board of Governors

September 17, 1975

Present: David Brown, M.D.
Donald Brown
Stanley Holmquist, Chairman
John Quistgard
Donald Van Hulzen
John Westerman

Absent: Shelly Chou, M.D. (Represented by Edward Seljeskog, M.D.)
Charles Deegan
Donald Shank

Staff: Clifford Fearing, Controller
Johnelle Foley

Guests: Gregory Hart
Dana Ramish

The meeting of the Finance Committee of the Board of Governors of University of Minnesota Hospitals and Clinics was called to order at 9:30 a.m., by Chairman Holmquist.

I. Approval of the August 20, 1975 Minutes

Following a motion by Mr. Quistgard which was seconded, the minutes of the last meeting of the Finance Committee were approved.

II. Statement of Financial Policies and Requirements - Draft II

Mr. Van Hulzen reviewed with the Committee members the second draft of the Statement of Financial Policies and Requirements. He explained that the idea for the statement originated with the Hospitals' Annual Plan. It was felt that such a plan would put the hospital mission statement in context and that a statement on financial policies would be of assistance to the Board of Governors and Administration.

During review of the statement, a discussion was initiated by Dr. Brown concerning difficulties encountered through arrangements with contractors and/or Plant Services. Comments were made on the constraints of the bid process, the elaborate network of University authority in such matters, and the time delays caused by such systems, with the resulting effect being increased costs for many projects. Mr. Westerman proposed that one individual with the assistance of an executive steering committee should be made entirely accountable for future hospital building projects and concluded that his proposal was now under consideration by central administration. Mr. Holmquist pointed out that this was a most important issue which should perhaps be considered at future meetings of the Finance Committee.

In continuing this examination of the financial statement draft, the Committee agreed to change the words "equitable for" on page 5, section B, number 2, to "reasonably related to". Also on page 5, section B, the committee asked that number 3 be re-worked for a clearer and more correct understanding of its meaning. On page 6 under topic II, the Committee decided that Mr. Van Hulzen should also re-examine that first paragraph. The Committee concluded its review of the draft statement on the bottom of page 7 and agreed to examine the statement further at its next meeting.

It was suggested that the Finance Committee recommend to the Board of Governors that the next meeting day for the Board be October 22nd, rather than October 15th, to accommodate the availability of first quarter financial statements.

III. August 1975 Financial Statements

Mr. Fearing assisted the Committee with its study of the August Financial statements. He discussed various trends which were indicated in August and commented that although total revenue was almost 2% over budget, the variance does not warrant a reduction of rates at this point.

Mr. Holmquist concluded that the next meeting of the Finance Committee should be devoted to an in-depth review of the first quarter financial statements.

Mr. Fearing and Mr. Van Hulzen explained that although a variance of 8.44% was indicated for net revenue from operations, this variance was really quite small as it represented less than 1% of the total budget.

Continuation of discussion of this topic was tabled in order that the Committee could get on with its discussion of the budget process schedule for the coming year.

IV. Budget Process for 1976-77

A handout was distributed by Mr. Fearing which outlined the proposed budget process for 1976-77. Special meetings of the Finance Committee may be necessary to facilitate the budget process. The process proposed includes the following steps:

1. Pre-planning by Budget Office. This includes the development of statistical utilization estimates, new program impact assessment, and Board input regarding broad policy. Time frame: October 15 - November 15.

2. Departmental personnel budgeting. It was noted that this process will not limit the departments' ability to make approved personnel changes during the year. The focus at this point is on personnel adjustments resulting from major programmatic or volume changes.
   Time frame: November 15 - December 15.

3. Administrative review of departmental personnel budgets and departmental revenue budgeting.
   Time frame: December 15 - January 15.

4. Update of volume projections based on 2nd Quarter data.

5. Department revenue and expense budgeting and approval thereof.
   Time frame: January 15 - February 8.

6. Preparation of projections by Budget Office.
   Time frame: February 8 through March 17.

7. Finance Committee Review. It is important that this step occur on time to facilitate review by the entire Board.

   March 17, 1976

8. Budget Office update of projections based on 3rd Quarter data.

   April 20, 1976

9. Approval of budget by Finance Committee of Board of Governors Full Board review should also occur at this time.

   April 21, 1976

10. Final Board of Governors approval at May Board meeting. This will occur one month after the initial review at the April meeting; thus the Board will have one full month to review the budget proposal.

11. Approval by the Vice President's office for the Board of Regents.

    June 1, 1976

12. MHA Rate Review

    June 30, 1976

The need for Budget planning involvement on the part of the Finance Committee and the Board of Governors will be important to the success of the budget process. Thus early definition of the imposition of a maximum rate level by the Board received considerable discussion. It was felt that adoption of such a philosophy might possibly interfere with the program development process at the Hospitals, thus hindering the ability of the Hospitals to be innovative in the accomplishment of its mission. It was suggested that specific reference to revenue maximums not be considered in the budget process, and that this should be addressed in the broader context of financial policy. The philosophy of not limiting rates in light of potentital programmatic development will thus be included in Draft III of the Statement of Financial Policies and Requirements.

In order to better educate the Board of Governors with regard to the financial impact of the Hospitals' unique programs and patient mix, it was suggested that Mr. Westerman be asked to investigate the possibility of developing a study to be presented to the Board which will indicate the uniqueness of the patient mix at the Hospitals.

A group of Clinical Chiefs might also be helpful in communicating the impact of the unique patient mix.

V. Other Business

The items remaining for discussion for the August 20, 1975 meeting - Summary of 1974-75 Charitable Care, Contract Allowances, Non-Billable Revenue, 1975-76 Special Appropriation and O and M Support, were reviewe for possible questions.

The next meeting of the Finance Committee will be at 9:30, October 22, 1975 if the Board agrees to this change in date for its meeting.

The meeting of the Finance Committee was adjourned by Mr. Holmquist at 1:00 p.m.

Respectfully submitted,

Johnelle Foley

Johnelle Foley
Secretary

Minutes

Finance Committee

Board of Governors

University of Minnesota Hospitals & Clinics

October 22, 1975

Present: David Brown, M.D.
Donald Brown
David Preston
John Quistgard, Vice Chairman
Donald Shank
Donald Van Hulzen
John Westerman

Absent: Shelly Chou, M.D.
Charles Deegan
Stanley Holmquist, Chairman

Staff: Clifford Fearing, Controller
Johnelle Foley

Guests Albert Hanser
Gregory Hart
Paul Rader

The meeting of the Finance Committee of the Board of Governors of University of Minnesota Hospitals and Clinics was called to order at 9:45 a.m., by John Quistgard, Vice Chairman.

I. Approval of the September 17, 1975 Minutes

Following a motion by Mr. Quistgard which was seconded, the minutes of the last meeting of the Finance Committee were approved.

II. First Quarter Financial Statements

The Committee began its review of the first quarter statements with an examination of YTD patient service experience compared to the annual plan. Positive variances were noted in admissions, patient days, and ancillary services. A small negative variance was seen in clinic visits. It was explained that these figures were adjusted for seasonal variation based on the three previous years of experience and were used as indicators of the Hospitals' standing in terms of its annual plan.

The Statement of Operations - September 30, 1975 Year to Date was then discussed. Mr. Fearing explained that higher utilization of more expensive areas were demonstrated in a positive variance to budgeted revenue. Due to a change in Medicare regulations concerning charges for living donors services, a one-time write-off of approximately $150,000 was recorded under Other Contract Adjustments. Mr. Fearing explained that without this significant variance the Contract Adjustments would be on budget.

Other variances which were cited dealt with such matters as the summer closing of the Powell Hall Cafeteria, the lower costs of fringe benefits for student employees, a new charging mechanism in Pharmacy and an increased utilization of blood. Mr. Fearing further explained that due to the placement of pacemakers within Medical Supplies, a variance was indicated which would be corrected by recording pacemakers expenses to the General Supplies classification where they were budgeted.

Mr. Shank requested that the Committee be provided with departmental figures for budgeted overtime.

In reviewing the Income Statement which would be presented to the full Board, Mr. Fearing noted that the variance in Depreciation was due to an overestimation of hospital square footage in Building K/E. Depreciation was then discussed in terms of the Minnesota Hospital Association's Voluntary Rate Review Requirements with reference to the allowed uses of price level depreciation and reserve fund interest. The advantages of the voluntary program over a state mandated program were delineated.

The remaining financial statements which were examined by the Finance Committee included the Statement of Changes in Fund Balance, the Depreciation Reserve Fund, and the Projected Cash Flow Statement. It was noted that the Net Revenue variance based on the annual plan was only 1.07% over budget.

Having reviewed all of the necessary financial statements for the first quarter, the Finance Committee stated that it found the hospitals' financial situation to be in accord with projected income and expenses.

III. Stateement of Financial Policies and Requirements - Draft III

Mr. Shank noted that the pages of the Financial Statement were mis-ordered and stated the corrected order to be 2, 3, 7, 6, 5, 4, 8, 9, 10.

Mr. Quistgard and Mr. VanHulzen reviewed for the Committee those changes which had been made at the last meeting. It was decided that the last sentence of item 3 on page 3 should be completely omitted.

In continuing their review of the draft statement, the Committee suggested that letter "a" under Expansion on page 8 be stated as simply "philanthrophy". The first line on page 10 was also changed to read "may be the primary funding...".

The point was raised during discussion of the Financial Statement that consideration should possibly be given to determining guidelines for administrative decisions related to unbudgeted equipment. Mr. Quistgard and Mr. Shank suggested that Mr. Westerman study this matter and provide the Committee with a recommendation at its next meeting.

The meeting of the Finance Committee was adjourned by Mr. Quistgard at 12:00 noon.

Respectfully submitted,

Johnelle Foley

Johnelle Foley
Secretary

University of Minnesota Hospitals and Clinics

Analysis of Income by Source

(Rounded to nearest $1,000 reported in millions)

	DOLLARS			PERCENT		
	1973-74 Oct. YTD	1974-75 Oct. YTD	1975-76 Oct. YTD	1973-74 Oct. YTD	1974-75 Oct. YTD	1975-76 Oct. YTD
Insurance	3.830	4.137	5.097	26.4	22.9	24.5
Blue Cross	1.911	2.564	3.176	13.1	14.2	15.3
Medicaid	1.931	2.015	1.901	13.3	11.2	9.1
Medicare	2.050	4.081	5.298	14.1	22.6	25.5
Patient Guarantor	1.687	1.712	1.661	11.6	9.5	8.0
Agency Accounts	.280	.391	.556	1.9	2.2	2.7
Crippled Children's Serv.	.189	.036	.012	1.3	0.2	-
Collection Agency	.159	.153	.086	1.1	0.8	0.4
Journal Vouchers	.184	.307	.219	1.3	1.7	1.1
Appropriations	1.744	1.925	2.250	12.0	10.7	10.8
State/County	.452	.646	.529	3.1	3.6	2.5
Univ. Health Serv.	.104	.130	.133	0.7	0.7	0.6
Other	.258	.293	.299	1.8	1.6	1.4
Refunds	(.264)	(.346)	(.424)	(1.8)	(1.9)	(2.0)
TOTAL	14.516	18.044	20.793	100%	100%	100%

Minutes

FINANCE COMMITTEE

Board of Governors

University of Minnesota Hospitals & Clinics

November 19, 1975

Present: David Brown, M.D.
Donald Brown
Stanley Holmquist, Chairman
David Preston
John Quistgard, Vice Chairman
Donald Van Hulzen
John Westerman

Absent: Shelly Chou, M.D.
Charles Deegan
Donald Shank

Staff: Clifford Fearing, Controller
Johnelle Foley

Guests: Harry Atwood
Gregory Hart
Paul Rader

The meeting of the Finance Committee of the Board of Governors of University of Minnesota Hospitals and Clinics was called to order at 9:50 a.m., by Chairman Holmquist.

I. Approval of the October 22, 1975 Minutes

Mr. Van Hulzen moved that the informal appointment made at the September meeting of Mr. John Quistgard as Vice Chairman of the Finance Committee be formalized today. The motion was seconded and approved.

Following a motion by Chairman Holmquist, the minutes of the last meeting of the Finance Committee were accepted.

II. Year to Date October Statements

Mr. Fearing pointed out that the October financial statements reflected an increased utilization of patient care services, especially the operating rooms, and admissions and days in excess of budget. Such activity was also reflected in departments such as laboratory medicine, radiology and the blood bank. It was noted that the overall October occupancy rate was 77.6% with unrestricted beds at full occupancy. Mr. Fearing stated that the result of the October experience showed a 2.65% variance to total operating revenue. He reminded the Committee that because labor negotiations were still in progress and a union contract had not been signed, the excess of revenue over expenses was somewhat inflated and would likely decrease once the contract is settled.

Mr. Fearing suggested to the Committee that the October YTD Income Statement be shown to the full Board as a summarization of the year to date experience. In discussing the Operating Cash Flow Statement, Mr. Fearing indicated the amount of money generated through October ($528,119) and the uses to which that money will apply, namely depreciation and capital expenditures.

The Committee then discussed the investment practices of the University. Mr. Brown explained that the hospital does not benefit from the daily investment of working capital balances. Rather, the hospital receives interest only when reserves are committed to the University for one year. Mr. Brown also explained that the University receives its legislative appropriations as needed, while the hospital's special appropriation is granted in a lump sum at the beginning of the year.

III. Analysis of Income by Source

Mr. Van Hulzen presented the statement analyzing income by source to the Committee. He explained that the statement shows the primary purchasers of the hospital's services and indicated the trends. In discussing this statement, the Committee mentioned the degree to which charitable care was provided in the hospital. It was pointed out that there were no financial barriers to access to the hospital. Mr. Van Hulzen concluded that generally money was coming into the hospital at a better rate this year than in the past.

IV. Receivables and Credit Losses

Mr. Fearing explained that he felt there was an internal delay in in the write-off of bad debts. He commented that this was under review. He stated that although the average experience for teaching hospitals was a 8% write-off, the hospital budgeted 3% with the current rate being only 1%. He further stated that the goal is to reduce patient revenue days from the present 95 to 75 days. The value of a revenue day in October was $170,815.

After the Committee reviewed all the statements relating to Receivable and Credit Losses, Mr. Quistgard moved that the Finance Committee recommend to the Board of Governors a first quarter write-off of $137,517.80 and that with approval by the Board of Governors, the recommendation be forwarded to the Board of Regents. The motion was seconded and passed.

V. Other

At this time, and with Chairman Atwood present, the Finance Committee discussed the University's loss of sovereign immunity. Mr. Brown described various mechanisms which were being considered to assure liability coverage for the hospital.

VI. Financial Management Systems Report

Mr. Fearing examined with the Committee the statement of operatio with overhead allocations. He explained how patient care areas vary as to their revenue capabilities and cited factors which influence this. He mentioned that rates were set below costs in areas where losses could be off-set with appropriations. He further reviewed the statement by pointing to Pharmacy as a customary hospital excess revenue center and to Radiology where heavy utilization of the Scanner has increased the revenue of this department over budget.

VII. Statement of Financial Policies and Requirements

The Finance Committee directed its discussion to Mr. Shank's suggestion as expressed at the last meeting, that consideration should be given to the idea of determining guidelines for adminis trative decisions relating to the unbudgeted equipment. Mr. Westerm suggested that a joint meeting of the Finance and Facilities Committees might be helpful in reviewing plans and programs which provide such guidelines.

Mr. Van Hulzen agreed to provide the Finance Committee with a fourth draft of the Statement of Financial Policies and Requirements as re-typed with corrections. This draft would be sent to the committe members prior to the December meeting with the agenda for that meeting. The statement could then be presented to the Board of Governors at the December meeting.

There being no further business, the meeting of the Finance Committe was adjourned by Chairman Holmquist at 12:35 p.m.

Respectfully submitted,

Johnelle Foley/oo

Johnelle Foley
Secretary

DRAFT IV
Recommended by the
Finance Committee
12/17/75

Statement of Financial Policies and Requirements

University of Minnesota Hospitals and Clinics

as adopted by

The Board of Governors

(date)

PURPOSE: It is the responsibility of the Board of Governors to recommend to the Board of Regents the annual budget of the hospital and major capital expenditures not included in such annual budget; and subject to controlling University policies, be charged with the operations of the hospital. The Board of Governors can be assisted in the discharge of these responsibilities by adopting a statement of financial policies and requirements. This statement provides direction to management in conducting the business affairs of the hospital; provides consistency and continuity in achieving hospital objectives; provides guidance to priority consideration of programmatic change; and provides a means of evaluating achievement in attaining current and future objectives.

MISSION REQUIREMENTS: The mission of the hospital is to 1) provide a broad range of quality health delivery programs 2) provide opportunities for clinical education in the health sciences 3) maintain an environment for advancement of biomedical research, health promotion, disease prevention and research in the delivery of medical care and health services and 4) advance the arts and skills of health services management. This mission and related goals are further articulated in the Annual Plan. Achievement of the mission and goals is dependent upon sound financial policies and concensus on financial requirements.

OVERALL FINANCIAL POLICIES: Programs and services of the hospital are a multifaceted matrix supportive of the mission requirements. A broad spectrum of health services are provided in an environment which is supportive of and dependent upon education and research. Any given program or service may help achieve one or all of the goals set forth in the Annual Plan. Simultaneous achievement of all goals is beyond the financial capabilities of the hospital. Therefore, there is a need to budget resources to achieve optimum overall results.

The annual financial plan commits resources to support the mission. As such, it reflects the relative priorities of the hospital in pursuit of the mission and its multiple goals. The revenue to support the plan is derived from multiple sources. Each source is intended to support either patient services, education or research as a primary objective although any one source may also contribute to other objectives, e.g. patient services revenue is used to achieve educational objectives, research funds support patient care and educational funds provide basic support to all activities of the hospital.

Recognizing the above matrix of expenditure objectives and sources of revenue, the following general policies are established. These policies are further articulated under the Financial Requirements section of this statement.

1. The annual operating budget of the hospital should optimize the achievement of the mission and reflect a concensus on the relative priority of goals to be pursued during that year.

    a. Preparation of this budget should permit meaningful participation by the Board, the Medical Staff and Hospital Management. This should be supported by a budgeting plan including a schedule showing dates and decision points.

b. The Finance Committee of the Board should monitor this budget and report regularly to the Board.

2. The annual projected revenue of the hospital, including any recommended changes in patient service rates or changes in other sources of revenue, should be sufficient to support the operating budget.

   a. Patient services rates should be reasonably related to the costs of providing such services in an efficient and effective manner.

   b. Revenue sources should be structured to correspond with their primary objective, i.e. the patient service charges should recover the costs of patient care and non-patient revenue should be sufficient to support other objectives or be used to reduce charges for services as appropriate.

3. The annual financial plan of the hospital should encompass a range of programs and services appropriate to the mission and roles of a major academic health center hospital organized to support and promote the health services delivery systems of Minnesota.

4. The annual financial plan should provide for reasonable self-sufficiency in maintaining, renovating and replacing capital assets.

FINANCIAL REQUIREMENTS: The hospital's financial plan should provide for four basic financial requirements, each of which should be accounted for in terms of costs, funding sources, and where appropriate, funded reserves. These requirements are 1) Costs of Providing Direct Patient Care Services 2) Costs of Educational Programs 3) Costs and Provisions for Capital Assets and 4) Costs of Health Services Delivery Research, Development and Community Service. The use of funds derived from Patient Services Revenue, State Appropriations, Endowment and Gifts Income, Earned Interest Income, and Revenue Surpluses from non-patient services activities should also be defined in the financial plan, i.e. each source of funding should be committed to its intended purpose.

The four requirements and their appropriate sources of funding as discussed below represent the philosophy and policies of the Board in discharging its financial responsibilities to the Board of Regents and the State of Minnesota.

I. Costs of Providing Direct Patient Care Services

A. These costs fall into the following major categories:

1. All necessary and proper costs which are appropriate in developing and maintaining the operations of the patient care facilities and activities, i.e. nursing costs, maintenance costs, administrative costs, costs of employee fringe benefit plans, normal standby costs, inservice education costs, supplies and other service costs.

2. Costs applicable to services, facilities, and supplies furnished to the hospital by organizations related to the hospital by 1) common ownership or control, and/ or 2) cooperative sharing programs when the cost is reasonably related to the price of comparable services, facilities, or supplies that could be purchased elsewhere.

3. Costs not specifically related to patient care which are incidental to providing care or employee fringe benefits such as food sold to visitors or employees,

drugs sold to other than patients, operations of gift shops or lodging facilities, provision of patient television, telephones, etc. if all revenue generated from these activities is used first to reduce their costs individually or as a class with any surplus used to reduce patient charge before contributing to any operating fund surplus.

4. Working capital from operating revenues to finance the payment for personnel and other expenses prior to collection for services rendered and for maintenance of inventories.

5. Credit losses, charity and revenue adjustments or allowances. These costs should be at levels consistant with sound credit and collection policies and practices; humane concern for financial hardship; fair and equitable recovery of costs from the benefiting recipients of service; and provision of services based on need.

B. Recovery of Direct Patient Services Costs should be attained as follows:

1. Rates and charges for specific services and benefits should be reasonably related to the recovery of actual costs; should maximize patient benefits from third-party reimbursement agencies; and comply with voluntary and legal constraints to which the hospital is subject.

2. Income from endowment funds or gifts, restricted by donors to provide services for designated recipients, should be used to reduce the payment for such services.

3. Unrestricted income from invested operating funds, from general endowment funds, from appropriations,

from unrestricted gifts or net income from non-patient services may be used to reduce the payment for patient services.

4. Unbudgeted gains resulting from productivity increased (improvement in efficiency) or utilization variances (unanticipated increase in the volume of services rendered) should be applied to the ongoing operational expenses of the institution and should be reflected by delay of rate increases or reduction of current rates; coversely losses should be made up from future rate increases or cost reductions.

II. Costs of Educational Programs

The hospital is organized as an academic support unit of the health sciences. It has large costs and benefits associated with this role. Costs can be categorized as direct (stipends, faculty support, insurance, supplies and services) or indirect maintenance of the educational milieu. These indirect costs include such things as 1) higher staffing ratios because of hospital personnel's participation in the clinical education experience 2) larger space requirements or space congestion inefficiencies 3) the need for a comprehensive range of services, some of which are provided at volumes inconsistent with efficiency 4) provision of services not limited to the patients' ability to pay and 5) developmental costs of new services. The benefits are manpower development, comprehensive tertiary care capability, application of research to clinical care, a referral resource in support of regional health services delivery and outreach community services.

Although it is not practical to clearly separate all educational costs from direct patient care costs, it is important to clearly account for all direct educational costs and to conduct periodic educational cost studies to provide reasonable approximation of total educational costs. Policy guidelines appropriate to costs of education programs are as follows:

1. To the extent practical, the cost of educational programs should be clearly delineated in the annual financial plan.

2. The philosophy of financing educational programs and other associated costs should be periodically discussed in terms of maintaining a proper balance between such costs and the total costs of the hospital and in terms of the community's needs and ability to finance such programs.

3. Non-patient revenue for educational costs should be diligently pursued.

4. Where financial needs for educational programs have not been met through non-patient revenue such as tuition, grants, appropriations, or other sources, these costs should be considered as patient service costs of the hospital if allowable for recovery from cost reimbursement agencies and/or rate regulation agencies.

5. The costs of educational programs and needed clinical services should be consistent with the benefits obtained without undue costs to patients not benefiting from the educational program.

6. There should be close coordination in achieving educational goals and patient service goals to assure a fair balance among funding sources.

III. <u>Costs and Provisions for Capital Assets</u>

The capital needs of the hospital should be continually evaluated by the Board of Governors (in collaboration with management and medical staff) in the context of the hospital's role in the regional health delivery system. Cooperation between the hospital and the responsible planning agencies and between the hospital and Minnesota Legislature is essential for best results. The following methods of financing provide for capital requirements with respect to Equipment and Minor Remodeling, and Expansion.

Equipment and Minor Remodeling A fund should be established to provide for these ongoing expenditures. This fund should be budgeted annually.

Expansion Capital expenditures and/or amortization of debt for 1) the acquisition of land 2) replacement and major modernization of buildings and 3) expansion of plant, equipment and services may be met by any or all of the following:

a. philanthropy
b. grants and appropriations
c. funded reserves accumulated from depreciation of capital assets at current price level replacement costs
d. income earned on investments of reserve funds, operating fund surpluses, endowments, gifts and grants when such income is not assigned for some other specific purposes by the Board of Governors and the Board of Regents or the donor

Policies which guide the financial management of capital assets include the following:

1. Capital costs in excess of $100,000 per project should be identified in a plan for the current and subsequent three year period.

2. A separate fund to finance approved projects should be maintained to cover full estimated costs.

3. A projected cash flow statement for capital expansion, replacement or modernization costs should be maintained. Source(s) of funds should be clearly identified.

4. Development and maintenance of the hospital's facilities plan and land use plan are a responsibility of the Facilities Committee of the Board. Commitments to capital development expenditures should result from concurrent involvement of the Finance Committee and the Facilities Committee for recommendation to the Board for its approval and recommendation to the Board of Regents.

IV. <u>Costs of Health Services Delivery Research, Development and Community Service</u>

The hospital is, in part, chartered by society to respond to changing social needs and desires. The goals contained in the Annual Plan stress the commitment to health services delivery research, development and community service for attainment of the mission. The following policies help identify the appropriate sources for funding the activities and programs approved by the Board:

1. Expenditures should be consistent with achievement of general community and hospital interests and not the interests of special groups.

2. Income from gifts, grants, endowments, appropriations and other sources if not restricted to a specific purpose, may be the primary funding sources for these programs and activities.