



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

**MEETING OF THE  
BOARD OF GOVERNORS FINANCE COMMITTEE  
Wednesday, August 24, 1988  
1:00 - 2:00 P.M.\*  
The Board Room (8-106) University Hospital**

**COMMITTEE MEMBERS**

Robert Nickoloff, Chairman  
Edward Ciriacy, M.D.  
Robert Dickler  
Clifford Fearing  
Elwin Fraley, M.D.  
Jerry Meilahn  
Barbara O'Grady  
Roger Paschke  
Vic Vikmanis

**A G E N D A**

- |  |                                    |
|--|------------------------------------|
| I. Opening of Meeting and Approval of Minutes of Finance Committee Meeting held 7/20/88 (Approval) pp. 1-3 | Mr. Robert Nickoloff               |
| II. University Hospital Renewal Project Phase II (Endorsement) p. 4 (Separate Attachment)                  | Mr. Robert Dickler                 |
| III. Capital Expenditure Policy (Information) pp. 5-14   | Mr. Robert Dickler                 |
| IV. CUHCC Facility Update (Information) p. 15  | Mr. Cliff Fearing                  |
| V. CUHCC - Health, Etc. Consolidation Proposal (Information) pp. 16-25                                     | Dr. Amos Deinard/<br>Ms. Sue Weber |
| VI. Other Business   |                                    |
| VII. Adjournment   |                                    |

\* A buffet lunch will be served at 12:30 P.M. in the Board Room.

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC  
Board of Governors Finance Committee  
July 20, 1988

MINUTES

**CALL TO ORDER:**

On July 20, 1988 the Finance Committee was called to order by Mr. Robert Nickoloff at 2:05 P.M.

**ATTENDANCE:**

Present: Edward Ciriacy, M.D.  
Robert Dickler  
Clifford Fearing  
Elwin Fraley, M.D.  
Jerry Meilahn  
Robert Nickoloff  
Barbara O'Grady  
Vic Vikmanis

Not Present: Roger Paschke

Staff: Kay Fuecker  
Greg Hart  
Nancy Janda  
Mark Koenig  
Nels Larson  
Dan Rode  
Barbara Tebbitt

Guest: Bruce Work, M.D.

**APPROVAL OF THE MINUTES:**

The Board of Governors Finance Committee seconded and passed a motion to approve the minutes of the June 22, 1988 meeting as written.

**FOURTH QUARTER BAD DEBTS:**

Mr. Dan Rode reviewed the Fourth Quarter, 1987-88 Bad Debts. The Bad Debts totalled \$1,203,301.07, representing 1778 accounts. Recoveries amounted to \$35,348.29, leaving a net charge-off of \$1,167,952.78. This amount represents 1.67% of gross charges and compares to a budgeted bad debt level of 1.33%.

Additionally, Mr. Rode reviewed the fiscal year-end bad debts. The Bad Debts totalled \$3,524,703.66, representing 6,426 accounts. Recoveries during the year amounted to \$64,625.42, leaving a fiscal year net charge-off of \$3,460,078.24. These figures represent 1.33% of gross charges and meet the budgeted bad debt level of 1.33% of gross charges.

The Board of Governors Finance Committee seconded and passed a motion to endorse the Fourth Quarter Bad Debts as submitted.

Mr. Rode reviewed the Accounts Receivable highlights for June, 1988. June ended with a 0.25 day revenue decrease and a \$1,327,871 increase. This is due, in part, to a continued high census, a number of high dollar accounts, Medical Assistance processing slowdown, and a number of high dollar "appeal" cases. Decreases were experienced in Blue Cross/Blue Shield and commercial insurance.

#### **UNIVERSITY HOSPITAL RENEWAL PROJECT, PHASE II:**

Mr. Robert Dickler presented a detailed review of the renewal project. The presentation was made for information with endorsement sought from the Committee in August. Mr. Dickler reported that Phase II consists of the Mayo renovation and the addition of two floors to Unit J. One of the floors is to be targeted to house the psychiatry program with the other floor as shell space to accommodate future programs. The shell space is to be constructed at the same time for economic reasons, to eliminate patient disruption in future construction and to increase facility flexibility. The estimated cost of Phase II is \$62 million. Of that sum, \$32 million is for the remodeling of existing hospital space, \$20 million to construct the two additional floors on Unit J and the remaining \$10 million for inflation. The project is to be financed by hospital reserves and the hospital cash flow, therefore requiring no additional financing. The issue regarding who is responsible for the payment of/or remodeling departmental office space was discussed. The project, if approved, is targeted for completion within 6 years. This project, Mr. Dickler emphasized, would not impact the number of licensed beds.

#### **MASONIC III AND SURGICAL PATHOLOGY REMODELING PROJECTS:**

The Committee reviewed the Masonic III and Surgical Pathology Remodeling Projects. The estimated cost of the Masonic III project is \$1,160,973. The estimated cost of the Surgical Pathology project is \$1,029,350.

The Board of Governors Finance Committee seconded and passed a motion to endorse both the Masonic III and Surgical Pathology Remodeling Projects as submitted.

#### **OTHER BUSINESS:**


Mr. Robert Nickoloff suggested that the Finance Committee meet with the auditors independent of the regularly scheduled meeting with hospital

administration. Mr. Fearing will schedule a meeting for the Committee to meet with the auditors without administration.

**ADJOURNMENT:**

There being no further business, the July 20, 1988 meeting of the Board of Governors Finance Committee was adjourned at 3:55 P.M.

Respectfully submitted,



Kay F. Fuecker  
Board of Governors Office



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

August 18, 1988

TO: Members of the Finance Committee

FROM: Robert Dickler  
General Director

On Wednesday, August 24, 1988 the Renewal Project, Phase II will be presented to you for endorsement. As you know, the project includes relocation and upgrading of inpatient units for Psychiatry, Obstetrics, Physical Medicine and Rehabilitation, upgrading of direct patient care programs that do not include beds, replacement space for clinical support departments and lastly, upgrading of space for general support and administrative departments.

The Phase II plan proposes meeting these long-standing needs through a utilization of existing facilities and a vertical expansion of the new hospital. The total project cost is estimated, with inflation, at \$62 million. The project is detailed in the separate booklet entitled University Hospital Renewal Project Phase II Proposal that is included in your mailing.

Any unanswered questions about Phase II can be discussed at the Finance Committee meeting or directed to me personally before then.

Thank you.

RD/kff



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The University of Minnesota Hospital and Clinic  
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DATE: August 18, 1988

TO: Finance Committee Members

FROM: Robert Dickler  
Hospital Director

REGARDING: Policy on Capital Expenditures

Attached is a proposed revision to the Capital Expenditure policy. This policy was last discussed at the April Finance Committee meeting. The attached revision represents two significant changes to the existing policy:

- 1) It includes a requirement for additional Board discussion of project costs which exceed original estimates by certain amounts.
- 2) It provides for more in depth Board review of Capital Expenditures between \$100,000 and \$600,000.

The University's revised policy on capital expenditure, "Guidelines for Presenting Projects to the Physical Planning and Operations Committee of the Board of Regents", is attached as approved by the Board of Regents. The policy is being presented for informational purposes this month. We will seek your approval of the policy at the next Finance Committee meeting.

RD/kff

Attachment

**BOARD OF GOVERNORS  
POLICY ON CAPITAL EXPENDITURES**

**DEFINITIONS**

Recurring Capital Expenditures are those construction or remodeling projects or equipment purchases/leases which involve expenditures of \$500 to \$100,000 and have a depreciable life of three years or longer.

Major Capital Expenditures are those construction or remodeling projects or equipment purchases/leases which involve expenditures of \$100,000 to \$600,000 and have a depreciable life of three years or longer.

Special Projects are those construction or remodeling projects or equipment purchase/leases which involve expenditures of over \$600,000 and have a depreciable life of three years or longer.

**LONG-RANGE CAPITAL PLAN**

Between April and June of each year the Hospital Director shall provide a long-range capital expenditure plan to the Board of Governors. This plan shall be reviewed by the Planning and Development Committee and the Finance Committee. The plan should identify total capital expenditures anticipated for each of the next five fiscal years, and should also identify anticipated special projects on an item-by-item basis.

The long-range capital plan is provided to the Board for use in financial and program planning. No specific action on the long range capital plan is required. Authorization to proceed with any element of the plan shall not be considered to have been provided until approval of the annual capital budget has occurred.

**ANNUAL CAPITAL BUDGET**

Between April and June of each year the Hospital Director shall recommend an annual capital budget. This capital budget shall be presented for endorsement to the Planning and Development Committee, the Finance Committee and to the full Board of Governors. The annual capital budget is a component of the total operating budget which is submitted annually to the Board of Regents for final approval.

The annual capital budget shall include all capital expenditures, and shall identify major capital expenditures and special projects on an item-by-item basis.

#### **APPROVAL OF RECURRING AND MAJOR CAPITAL EXPENDITURES**

Board of Governors endorsement of the annual capital budget shall authorize the expenditure of up to 105% of the approved budget limit for recurring and major capital expenditures in aggregate. The Board shall be informed of each major capital expenditure as it occurs during the fiscal year prior to the commitment of funds.

A report of year-to-date aggregate capital expenditures and projected year-end capital expenses shall be provided to the Planning and Development Committee and the full Board of Governors each quarter.

If quarterly trends indicate that the approved capital budget will be exceeded by more than 5%, a revised capital expense projection will be submitted for Board information.

#### **APPROVAL OF SPECIAL PROJECTS**

Board of Governors endorsement of the annual capital budget shall constitute conceptual approval only for all special projects. Each special project shall be presented individually to the Planning and Development Committee, the Finance Committee and the full Board of Governors for final approval. No commitment of funds for special projects, other than planning costs shall occur without final Board approval.

If quarterly trends indicate that a special project budget will be exceeded by the lesser of 10% or \$250,000, a revised special project budget will be submitted for Board information.

#### **GUIDELINES FOR PRESENTING PROJECTS TO THE BOARD OF REGENTS**

The Board of Governors shall comply fully with terms and conditions outlined in the "Guidelines for Presenting Projects to the Physical Planning and Operations Committee of the Board Regents." Those guidelines reaffirm the Board of Governors authority to review and approve capital projects for The University of Minnesota Hospital and Clinic with four categorical exceptions requiring approval by the Board of Regents. Categories of capital projects requiring approval by the Board of Regents include:

1. Projects with legislative funding



**GUIDELINES FOR PRESENTING PROJECTS  
TO THE  
PHYSICAL PLANNING AND OPERATIONS COMMITTEE  
OF THE  
BOARD OF REGENTS**

The Delegation of Authority policy approved by the Board of Regents of the University of Minnesota on October 17, 1980 and amended from time to time and the Purchasing Policy approved on July 7, 1978 and amended in 1984 are reaffirmed. In carrying out the authority thereby delegated, the appropriate administrators should follow the following guidelines for reporting capital, purchasing and physical plant projects to the Board:

1. Projects to be presented to the Board as separate items on the monthly agenda for prior approval

1. All capital projects with legislative funding. These projects shall be submitted for approval prior to submission of the capital request and again on completion of schematic drawings prior to contracting or implementation. The amount authorized for each project shall be the estimated total project cost of construction submitted to the Board with the schematic drawings.
2. All other capital projects (including physical plant), whether new construction, remodeling or maintenance, with an estimated cost in excess of \$100,000. Approval for these projects shall be obtained prior to contracting. The amount authorized shall be the estimated total project cost.

3. Design and planning work, including contracts for architectural and engineering services, may proceed prior to approval of the project under paragraphs 1 and 2, above.
4. All increases in the cost or scope of a project approved under paragraphs 1 and 2 where, even after appropriate bid deductions, the total cumulative increase is expected to exceed the amount approved by \$100,000. Increases in project cost of less than \$100,000 need not be separately approved but must be reported to the Regents and separately noted in the Monthly Report. Changes within a project (for example, shifts from equipment purchases to construction or changes in construction plans) which do not increase total project cost above these limits do not need prior Regents' approval.
5. Individual contracts which are part of a project approved under Parts I, II or IV do not need Regents' approval.
6. Where, because of time constraints, prior Regents' approval for increases in project costs under paragraph 4, above, would require that the project be slowed or stopped, or with respect to projects under paragraphs 1 and 2 above, delay for Regents' approval would cause a significant health or safety problem, the Chair of the Physical Plant and Operations Committee or, in his/her absence, the Chair or Vice-Chair of the Board, may give oral approval so that the project may proceed. In such

emergency cases, the matter will be brought to the next Regents' meeting for ratification.

7. Purchases of goods and services in excess of \$250,000 which are not part of approved capital projects. This provision includes, for example, contracts for medical equipment, computers and consultants but not construction contracts which are part of an approved capital project. If a contract for goods or services has no set dollar amount because it is an open or blanket contract (for example, contracts for personal computers, paper, chemicals, etc. under which units may make multiple individual purchases throughout the year), the Purchasing Department will require a pre-contract estimate of annual cost. The contract estimate will be used to determine the reporting and approval requirements under this Policy.

II. Projects to be reported to the Regents in the Vice President's Monthly Report

1. The status of all current projects which have been approved under Part I above.
2. All other capital projects (including those undertaken by Physical Plant), including new construction, remodeling and maintenance, in excess of \$50,000 but less than \$100,000. A project will be added to the Report whenever its initial cost is expected to exceed \$50,000 or, because of changes in cost or

scope or the addition of new but related projects, total project costs exceed \$50,000.

3. Non-routine sole source purchases. A list of categories of routine sole source purchases is attached as Exhibit A.
4. Cumulative change orders to a single contract over \$100,000. When the total cost of the project exceeds the amount approved by \$100,000 or more, then separate approval is required under Part 1.4.
5. Purchases of goods and services which are not part of an approved capital project in excess of \$100,000 but less than \$250,000.
6. Purchase awards to other than the low bidder.
7. The administrators with appropriate authority under the Delegation of Authority may proceed with the contracts and other commitments covered by this Part II reporting requirement prior to approval of the Monthly Report. In other words, the Monthly Report is for information.

Prior Regents' approval of items in the Monthly Report is not required.

III. University of Minnesota Hospital and Clinic

1. Authority to review and approve UMHC purchasing and contracting was delegated to the UMHC Board of Governors by resolution approved August 11, 1983. This resolution is reaffirmed.
  
2. Authority to review and approve capital projects (including new construction, remodeling and maintenance) for the UMHC is delegated to the Board of Governors to establish policies and procedures for review and approval, except that the following matters require Regents' approval:
  - a. Projects with legislative funding
  
  - b. Projects which require an increase in capital indebtedness (i.e., sale of bonds, bank loans, etc.).
  
  - c. Projects to construct new facilities with an estimated cost in excess of \$100,000.
  
  - d. Increases in project cost over \$100,000 for any projects approved pursuant to 2.a-2.c, above.
  
3. The full scope of aggregate anticipated UMHC annual capital activity shall be reported in the annual operating and capital budget submission to the Board of Regents.

IV. Definitions

1. "Project" is a construction, remodeling or maintenance of a University facility which is part of a single design plan or coordinated effort and is planned and executed in a fixed time period. "Project" should be given a broad interpretation to insure proper reporting and approval.
  
2. "Change order" is a contract modification after the execution of the initial contract which authorizes a change in work, price or time.



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August 18, 1988

TO: Members, Finance Committee

FROM: Greg Hart 

REGARDING: CUHCC Facility Update

In February 1988, the Board of Governors endorsed a resolution calling for the acquisition of land and the construction of a new facility for CUHCC at a total project cost of \$1,500,000. The City of Minneapolis has agreed to fund \$150,000 of the project.

This item was reviewed by the University Board of Regents in March and in April the Regents approved the acquisition of the land. Negotiations with the landowner were recently concluded, and the Regents will be asked to approve the purchase price of \$300,000. Since this amount is within the budget that was endorsed by the Board of Governors, no further action is needed by the Hospital.

We have selected the architect and we are currently in the design phase. We anticipate that construction bidding will occur in January, that building construction will begin in May, and that the facility will be ready for occupancy in the early fall.

Amos Deinard, M.D. from CUHCC will be available for your questions. Thank you.



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August 18, 1988

TO: Members of the Finance Committee  
FROM: Greg Hart   
REGARDING: Proposed Consolidation of CUHCC and Health Etc.

Following is a proposal that is being presented for information this month that calls for the consolidation of the Community University Health Care Center with Health Etc., a community clinic located on Lake Street in south Minneapolis. A financial and operational review of the two clinics has been conducted, and is summarized in the proposal.

Amos Deinard, M.D. and Susan Weber from CUHCC will be reviewing the proposal with you and will be available for any questions. We will be seeking Board of Governors approval of this proposal at its next meeting. Because this proposal involves the acquisition of assets and liabilities of another organization and the hiring of another organization's employees in a manner outside the normal process, this proposal will likely require Regents approval following Board of Governors action.

Thank you for your consideration of this proposal.



**Consolidation Proposal  
Community University Health Care Center  
and  
Health Etc.**

**I. INTRODUCTION**

Approximately twelve months ago, the Board of Directors of Health Etc., a community clinic that provides medical and dental services in south Minneapolis, contacted the CUHCC staff regarding their desire to explore a consolidation of Health Etc. into CUHCC. Their board believes the clinic cannot continue to operate independently and must affiliate with another provider. They believe CUHCC is the most attractive alternative and have asked that UMHC consider consolidating the programs. Mission compatibility, patient demographics, financial impact, legal considerations, employee status, facility needs, and public support have been studied. Following is a summary of the issues.

**II. HEALTH ETC. PROGRAM DESCRIPTION**

Health Etc. is a community clinic with a similar mission to CUHCC's of providing health care to the corridor poor of south Minneapolis. It is located in leased space on Lake Street near Bloomington Avenue, less than one mile south of CUHCC. Exhibit I identifies the number and types of patients who are served by Health Etc. and compares these figures to CUHCC's population.

The majority of Health Etc. patients are young, healthy, single individuals who use the clinic for episodic medical and dental care. Health Etc. has approximately one-third of CUHCC's medical visits, the same number of dental visits, and does not offer mental health services. 35% of Health Etc. patients have health insurance as compared to 3% of the CUHCC patients.

Although there are differences in the patient mix between the clinics, the programs are compatible and the health care needs of Health Etc. patients can be met by CUHCC.

**III. FINANCIAL ASSESSMENT**

Exhibit II summarizes Health Etc.'s 1988 projected operating budget. A deficit of \$42,701 has been budgeted, which will be covered by cash reserves of Health Etc. The organization's financial viability, in its current form, is obviously problematic given this operating deficit.

However, the 1989 figures (Exhibit III), reflecting Health Etc. remaining on Lake Street but managed through CUHCC, show savings realized in some personnel and purchasing reductions. The 1990 figures assume that the Lake Street location would close and that the patients would move to the new CUHCC facility, which can handle the new volume. Additional cost savings are incurred at the time of relocation to the new facility.

A patient survey was conducted to determine whether Health Etc. patients would transfer their care to the new site. Virtually all indicated they would continue. A 10% reduction in 1990 Health Etc. volume has been assumed in projecting the revenue and expenses.

The financial position of the consolidated clinic becomes favorable when all patients are seen in one site. The \$115,685 figure does not include an allowance for write off of outpatient or inpatient care which might be provided for the Health Etc. patient population at UMHC. Health Etc.'s patients have historically used referral services on a minimal basis, reflecting the relatively young, healthy nature of the Health Etc. population. It is possible, however, that we might in the future choose to open up the CUHCC pre-paid plan to what are now Health Etc. patients. Exhibit IV is a projection of the financial outcome under these circumstances. A net positive result remains.

#### **IV. EMPLOYEE CONSIDERATIONS**

Health Etc. currently employs 11.65 FTEs. CUHCC would need to employ 6.65 FTE with a consolidated program in one site. This reduction is part of the cost benefit of the consolidation. Health Etc. is aware of the staffing plans.

We would like to transfer the current Health Etc. employees to the UMHC payroll. Since a number of the positions would become union (AFSCME) positions at UMHC, we will be working with AFSCME to facilitate this process, perhaps requiring some agreement on suspending parts of the contract for this purpose.

Similarly, transfer of non-union personnel to UMHC payroll is best facilitated by not going through the usual process of job posting, advertisement, etc. This would be an exception to Hospital Personnel Policies and Procedures. Part of our recommendation for the process of consolidation is that the Board of Governors allow this exception.

## **V. LEGAL CONSIDERATIONS**

We have closely examined the assets and liabilities of Health Etc. They indicate that there are no outstanding liability claims. More definitive work in this area will occur in the next few weeks to ensure that there are no unknown exposures for the Hospital and University resulting from the consolidation.

## **VI. PUBLIC SUPPORT**

City representatives, neighborhood groups, and the Consortium of Community Clinics have been contacted regarding their views on this potential consolidation. All have responded positively, and view this effort as UMHC's continued commitment to the area. The agencies currently providing grants to CUHCC have been contacted. All have indicated that they would view the consolidation positively and that the consolidation would not threaten the status of grants.

## **VII. APPROVAL PROCESS**

because the consolidation involves the assumption of assets and liabilities, and because of the anticipated exceptions to usual employment practices, we would recommend that both the Board of Governors and the Board of Regents approve the consolidation. We plan on bringing a formal recommendation to the Board of Governors at the next meeting and would, presumably, follow-up with a request for approval from the Board of Regents.

EXHIBIT 1

Table 1

HEALTH ETC. PATIENT VISITS, 1984-1988

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	Projected <u>1988</u>
Medical	5,278	5,368	5,432	5,564	6,295
Dental	<u>4,299</u>	<u>5,396</u>	<u>5,581</u>	<u>4,347</u>	<u>4,500</u>
Sub-Total	9,577	10,764	11,013	9,911	10,795
Health Education	<u>2,360</u>	<u>1,899</u>	<u>2,446</u>	<u>1,924</u>	<u>2,000</u>
TOTAL	11,937	12,663	12,459	11,835	12,795

CUHCC PATIENT VISITS, 1984-1988

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	Projected <u>1988</u>
Medical	12,009	11,228	11,964	12,146	12,300
Dental	<u>3,556</u>	<u>3,808</u>	<u>3,651</u>	<u>4,269</u>	<u>4,400</u>
Sub-Total	15,565	15,036	15,615	16,415	16,700
Mental Health					
Scheduled	4,922	6,047	7,268	9,450	10,000
Unscheduled	<u>21,973</u>	<u>20,609</u>	<u>23,173</u>	<u>22,011</u>	<u>21,300</u>
TOTAL	42,460	41,692	46,056	47,876	48,000

EXHIBIT 1

Table 2

CUHCC/HEALTH ETC.

1987 PATIENTS BY AGE

<u>Age Group</u>	<u>Health Etc</u>	<u>%</u>	<u>CUHCC</u>	<u>%</u>
0 - 4	158	4%	819	17%
5 - 14	361	9%	924	19%
15 - 24	891	22%	796	16%
25 - 44	2,306	56%	1,876	38%
45 - 64	307	7%	435	9%
65 - 84	72	2%	37	1%
85 and over	4	-	2	-
Unknown	15	-	-	-
TOTAL	4,114	100%	4,889	100%

EXHIBIT 2

HEALTH ETC. OPERATING BUDGET  
JANUARY 1 - DECEMBER 31, 1988

Revenue

Grants

State of Minnesota \$21,480  
Hennepin County 59,952  
City of Mpls--CDBG 75,997  
United Way of Minneapolis 15,990  
Foundations/Corporations 3,000

TOTAL GRANTS

\$176,419

Patient Fees

306,444

Miscellaneous

12,500

Total Revenue

\$495,363

Expenses

Salaries 280,688

Fringe Benefits 39,196

Contract Services 18,200

TOTAL PERSONNEL

338,084

Staff Training 300

Accounting/Audit 5,900

Office Supplies 6,348

Medical Supplies 9,316

Medical Lab 19,010

Pharmacy 15,170

Dental Supplies 12,000

Dental Lab 25,000

Janitorial Supplies 1,677

Telephone 3,500

Office Rent 26,400

Dues 2,100

Insurance 12,000

Job Search 250

Equipment Maintenance 6,000

Depreciation 22,368

Ads/Promotion 500

Books, Subscriptions 200

Printing/Copying 1,500

Postage/Mailing 3,800

Meeting Expenses 700

Bad Debt 23,641

Local Travel 1,000

Bank Charges 1,500

Miscellaneous 500

TOTAL NON PERSONNEL

199,980

Total Expenses

\$538,064

EXCESS (DEFICIT)

\$(42,701)

EXHIBIT 3  
HEALTH ETC. PROFORMA BUDGETS  
1989 AND 1990

	1989: Two Sites	1990: One Site
<b>REVENUE</b>		
Patient Fees (Net)	\$293,378	\$264,040
Miscellaneous Income	12,500	12,500
Grants	159,970	162,600
<b>TOTAL REVENUE</b>	<b>\$465,848</b>	<b>\$439,140</b>
<b>EXPENSES</b>		
Salaries	\$279,563	\$206,995
Fringe Benefits	52,132	35,902
Non-Personnel	143,130	80,558
<b>TOTAL EXPENSES</b>	<b>\$474,825</b>	<b>\$323,455</b>
<b>EXCESS/(DEFICIT)</b>	<b>\$(8,977)</b>	<b>\$115,685</b>

**EXHIBIT 4**  
**HEALTH ETC. PROFORMA BUDGETS**  
**1989 AND 1990**

	1989: Two Sites	1990: One Site
<b>REVENUE</b>		
Patient Fees (Net)	\$293,378	\$333,496
Miscellaneous Income	12,500	12,500
Grants	159,970	162,600
<b>TOTAL REVENUE</b>	<b>\$465,848</b>	<b>\$508,596</b>
<b>EXPENSES</b>		
Salaries	\$279,563	\$206,995
Fringe Benefits	52,132	35,902
Non-Personnel	143,130	80,558
<b>TOTAL EXPENSES</b>	<b>\$474,825</b>	<b>\$323,455</b>
<b>EXCESS/(DEFICIT)</b>	<b>\$(8,977)</b>	<b>\$185,141</b>
<b>UMHC WRITE-OFF</b>		
- Inpatient	0	\$ 22,403
- Outpatient	0	110,818
Total Write Off	0	133,221
<b>EXCESS/(DEFICIT)</b>	<b>\$(8,977)</b>	<b>\$ 51,920</b>





# Peat Marwick

Certified Public Accountants

**Peat Marwick Main & Co.**

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Minneapolis, MN 55402

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The Board of Regents  
University of Minnesota:

We have audited the accompanying balance sheets of the University of Minnesota Hospital and Clinic as of June 30, 1988 and 1987, and the related statements of revenues and expenses of General Funds, changes in fund balances and changes in financial position of General Funds for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Minnesota Hospital and Clinic at June 30, 1988 and 1987, and the revenues and expenses of General Funds, changes in fund balances and changes in financial position of General Funds for the years then ended in conformity with generally accepted accounting principles.

*Peat Marwick Main & Co.*

October 26, 1988



Member Firm of  
Klynveld Peat Marwick Goerdeler

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Balance Sheets

June 30, 1988 and 1987

<u>Assets</u>	<u>1988</u>	<u>1987</u>
<u>General Funds</u>		
Current:		
Cash and short-term investments	\$ 16,286,371	21,053,854
Receivables:		
Patient receivables net of third party payor advances and contractual allow- ances of \$15,764,889 in 1988 and \$14,623,861 in 1987	65,330,053	58,904,023
Less estimated allowance for uncollectible accounts	<u>5,609,000</u>	<u>5,578,000</u>
	59,721,053	53,326,023
Other receivables	<u>1,946,003</u>	<u>2,018,472</u>
Net receivables	<u>61,667,056</u>	<u>55,344,495</u>
 Cash and investments held by bond trustee for construction retainages	 171,434	 918,370
Inventories	4,749,699	4,863,369
Prepaid expenses	<u>977,120</u>	<u>393,145</u>
Total current assets	<u>83,851,680</u>	<u>82,573,233</u>
 Assets whose use is limited:		
Board-designated cash and investments	78,212,122	65,556,194
Cash and investments held by bond trustee	<u>42,262,027</u>	<u>51,297,549</u>
	<u>120,474,149</u>	<u>116,853,743</u>
 Property, plant and equipment, net	 181,870,130	 188,937,299
 Other assets:		
Deferred third party reimbursement	8,520,626	10,172,239
Deferred finance charges	1,360,345	2,023,259
Deposits and other	<u>585,894</u>	<u>258,187</u>
	<u>10,466,865</u>	<u>12,453,685</u>
	\$ <u>396,662,824</u>	<u>400,817,960</u>
<u>Restricted Funds</u>		
Cash and investments	5,955,184	4,856,395
	<u>5,955,184</u>	<u>4,856,395</u>

See accompanying notes to financial statements.

<u>Liabilities and Fund Balances</u>	<u>1988</u>	<u>1987</u>
<u>General Funds</u>		
Current:		
Current installments of long-term debt	\$ 2,815,000	2,630,000
Notes payable	3,511,673	3,666,447
Accounts payable	8,034,429	6,101,918
Accrued expenses	18,172,904	19,674,956
Due to third party reimbursement programs	8,918,146	14,466,859
	<hr/>	<hr/>
Total current liabilities	<u>41,452,152</u>	<u>46,540,180</u>
Retainage and construction payable	606,428	920,738
Notes payable	4,588,208	8,102,079
Long-term debt, excluding current installments and unamortized discounts	170,081,279	174,794,822
Fund balance	179,934,757	170,460,141
	<hr/>	<hr/>
Commitments and contingencies	<u>\$ 396,662,824</u>	<u>400,817,960</u>
<u>Restricted Funds</u>		
Fund balances:		
Endowment funds	1,977,422	1,846,730
Specific purpose funds	<u>3,977,762</u>	<u>3,009,665</u>
	<hr/>	<hr/>
	<u>\$ 5,955,184</u>	<u>4,856,395</u>

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Statements of Revenues and Expenses of General Funds

Years ended June 30, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Operating revenues:		
Patient service revenue	\$ <u>260,613,482</u>	<u>238,045,425</u>
Deductions from patient service revenue:		
Contractual and other allowances	35,321,220	34,426,165
Provision for uncollectible accounts	<u>3,490,907</u>	<u>3,421,152</u>
Total deductions from patient service revenue	<u>38,812,127</u>	<u>37,847,317</u>
Net patient service revenue	221,801,355	200,198,108
Other operating revenues	<u>8,596,071</u>	<u>8,730,350</u>
Total operating revenues	<u>230,397,426</u>	<u>208,928,458</u>
Operating expenses:		
Wages, salaries, contract compensation and employee benefits	137,324,131	122,997,639
Food, drugs and supplies	48,982,079	42,799,687
Utilities and communications	5,554,625	5,402,442
Allocation of University general and administrative services	256,121	6,261,334
Depreciation	17,332,298	16,417,549
Interest	12,414,209	13,036,956
Other	<u>25,360,392</u>	<u>24,087,041</u>
Total operating expenses	<u>247,223,855</u>	<u>231,002,648</u>
Deficiency of operating revenues over operating expenses	(16,826,429)	(22,074,190)
Nonoperating revenues (expenses):		
State appropriations and support	14,409,152	13,860,002
Investment income	9,861,294	8,719,657
Other income	374,979	475,990
Loss on investment in subsidiaries	-	(1,083,286)
Nonoperating revenues	<u>24,645,425</u>	<u>21,972,363</u>
Excess (deficiency) of revenues over expenses before extraordinary items	7,818,996	(101,827)
Extraordinary item - gain on refinancing of long-term debt	<u>1,513,125</u>	<u>-</u>
Excess (deficiency) of revenues over expenses	\$ <u>9,332,121</u>	<u>(101,827)</u>

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Statements of Changes in Fund Balances

Years ended June 30, 1988 and 1987

	<u>1988</u>	<u>1987</u>
<b>General Funds:</b>		
Balance at beginning of year	\$ 170,460,141	164,581,371
Excess (deficiency) of revenues over expenses	9,332,121	(101,827)
Unreimbursed University general and administra- tive services	156,121	6,261,334
Capitalization of and adjust- ments to Hospital-shared facilities	94,532	(330,737)
Property, plant and equipment financed by Restricted Funds	155,560	-
Transfer to non-Hospital department Unrestricted donations	(313,718)	-
	<u>50,000</u>	<u>50,000</u>
Balance at end of year	\$ <u>179,934,757</u>	<u>170,460,141</u>
<b>Restricted Funds:</b>		
Balance at beginning of year	4,856,395	4,312,423
Restricted gifts and bequests	1,359,512	252,745
Investment income	396,730	327,492
Transfer to other operating revenue	(501,893)	(36,265)
Transfer to General Funds for financing of property, plant and equipment	<u>(155,560)</u>	<u>-</u>
Balance at end of year	\$ <u>5,955,184</u>	<u>4,856,395</u>

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Statements of Changes in Financial Position of  
General Funds

Years ended June 30, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Working capital provided (used):		
Deficiency of operating revenues over operating expenses	\$(16,826,429)	(22,074,190)
Add items included in operations not requiring an outlay of working capital:		
Unreimbursed University general and administrative services	156,121	6,261,334
Depreciation	<u>17,332,298</u>	<u>16,417,549</u>
Working capital provided by operations before extraordinary item	661,990	604,693
Nonoperating revenues	<u>24,645,425</u>	<u>21,972,363</u>
Working capital provided by operations and nonoperating revenues before extraordinary item	25,307,415	22,577,056
Extraordinary item - gain on refinancing of long-term debt	<u>1,513,125</u>	-
	26,820,540	22,577,056
Proceeds from issuance of long-term debt	62,971,365	-
Decrease in assets whose use is limited	-	2,276,014
Decrease in other assets, net	1,986,820	1,249,340
Proceeds from issuance of notes payable	-	818,475
Capitalization of and adjustments to Hospital-shared facilities	94,532	-
Property, plant and equipment financed by Restricted Funds	<u>155,560</u>	-
Total working capital provided	<u>92,028,817</u>	<u>26,920,885</u>
Working capital applied:		
Increase in assets whose use is limited	3,620,406	-
Additions to property, plant and equipment, net	10,215,129	14,269,818
Capitalization of and adjustments to Hospital-shared facilities	-	330,737
Transfer to non-Hospital department	313,718	-
Advance refunding of long-term debt	65,000,000	-
Current installments and repayments of long-term debt and notes payable	6,198,779	6,168,611
Decrease in retainage and construction payable	<u>314,310</u>	<u>1,391,821</u>
Total working capital applied	<u>85,662,342</u>	<u>22,160,987</u>
Increase in working capital	\$ <u>6,366,475</u>	<u>4,759,898</u>

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Statements of Changes in Financial Position of  
General Funds, Continued

	<u>1988</u>	<u>1987</u>
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash and short-term investments	\$(4,767,483)	11,515,353
Cash and investments held by bond trustee for construction retainages	(746,936)	(5,631,099)
Net receivables	6,322,561	10,231,280
Inventories	(113,670)	192,737
Prepaid expenses	<u>583,975</u>	<u>(486,872)</u>
	<u>1,278,447</u>	<u>15,821,399</u>
Decrease (increase) in current liabilities:		
Current installments of long-term debt	(185,000)	(160,000)
Notes payable	154,774	(2,481,390)
Accounts payable	(1,932,511)	(2,132,273)
Accrued expenses	1,502,052	(3,436,435)
Due to third party reimbursement programs	<u>5,548,713</u>	<u>(2,851,403)</u>
	<u>5,088,028</u>	<u>(11,061,501)</u>
Increase in working capital	\$ <u>6,366,475</u>	<u>4,759,898</u>

See accompanying notes to financial statements.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

Notes to Financial Statements

June 30, 1988 and 1987

(1) Organization and Summary of Significant Accounting Policies

The University of Minnesota Hospital and Clinic (the Hospital) is an accounting entity within the University of Minnesota (the University). The Board of Regents of the University has granted the Hospital Board of Governors the authority over matters involving patient care and medical staff affairs. The Hospital Board of Governors also has authority and provides policy review and recommendations in other areas of Hospital operations. The Board of Regents appoints members of the Hospital Board of Governors and retains authority for the Hospital's annual operating and capital budgets, appointment of the Hospital's General Director and approval of the Hospital's overall goals and objectives.

A summary of the significant accounting policies of the Hospital follows:

(a) Fund Accounting

The Hospital follows the accounting practice of segregating assets into funds according to their use with the funds being classified as general or restricted. General Funds are used to account for all transactions related to patient care and other operating activities and include any amounts which may be designated for a specific use by action of the Board of Governors or the Board of Regents. Restricted Funds relate to assets received from external sources which may only be used in accordance with the purposes established by the donors or grantors of such funds.

(b) Investments

All investments are managed by the University. All investments except for trustee-held funds are invested in the University short-term investment pools which consist primarily of foreign and domestic commercial paper, money market mutual funds and short-term U.S. Government and Agency securities. The Hospital receives investment income from the University based on its share of units in the investment pools. Trustee-held funds consist primarily of money market mutual funds and securities issued by U.S. Government Agencies. Investments are valued at cost which approximates market.

(c) Inventories

Inventories are valued at the lower of cost or market, cost being determined on a first-in, first-out basis.

(Continued)



## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

(d) Assets Whose Use is Limited

Certain of the Hospital's assets are limited to use under the terms of bond indentures or for specific purposes designated by the Hospital's Board of Governors or the Board of Regents. Board-designated assets are primarily to be used for new construction, replacement of plant and equipment, and retirement of debt.

Investment income from construction funds borrowed but held by trustees under debt agreements is reflected as other operating revenue. Investment income from other assets whose use is limited is reported as nonoperating revenue.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, or if donated, at fair market value at date of acquisition. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets which range from 3 years for certain equipment to 40 years for the buildings. Repairs and maintenance are charged to expense as incurred while renewals and betterments are capitalized.

The allocation of University property, plant and equipment and the related accumulated depreciation pertaining to the Hospital's operations is determined annually based on the square footage of University buildings occupied by the Hospital. Allocation adjustments to property, plant and equipment utilized by the Hospital are recorded through adjustments to the Hospital's General Fund balance.

(f) Deferred Finance Charges

Debt issuance expense is deferred and amortized using the effective-interest method over the term of the related indebtedness.

(g) Deferred Third Party Reimbursement

The estimated effects on third party reimbursement arising from timing differences in recognizing expenses for financial reporting purposes and reimbursement reporting purposes are recorded as deferred third party reimbursement in the accompanying financial statements. The amount of deferred third party reimbursement is determined according to the reimbursement rules currently in effect.

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

(h) Estimated Medicare and Medicaid Reimbursement

Certain amounts receivable or payable under Medicare and Medicaid reimbursement agreements are subject to examination and retroactive adjustments by these third party government payors. Provisions for estimated retroactive adjustments by Medicare and Medicaid are accrued in the period the related services are rendered and adjusted in future periods as settlements are determined.

(i) Patient Service Revenue

Patient service revenue is recorded at established rates with contractual and other allowances and the provision for uncollectible accounts deducted to arrive at net patient service revenue.

(j) University Services

The cost of certain general and administrative services provided to the Hospital by the University is accounted for as an operating expense of the Hospital. The Hospital has not been required to make a cash transfer to reimburse the University for the entire cost of these services. Accordingly, the unreimbursed costs are shown as an addition to the General Fund balance of the Hospital. The Hospital reimburses certain University departments for specific services and supplies purchased from them and such disbursements are included in the statements of revenues and expenses.

(k) Income Taxes

The University is exempt from federal income taxes as an instrumentality of the state of Minnesota and under Section 501(c)(3) of the Internal Revenue Code.

(l) Reclassifications

Certain reclassifications have been made to the 1987 financial statements to conform to classifications used in 1988.

(2) Third Party Reimbursement

Patient service revenue for the years ended June 30, 1988 and 1987 includes approximately \$57,000,000 and \$52,000,000, respectively, for patient billings under the Medicare Program (the Program). Approximately \$51,000,000 in 1988 and \$48,000,000 in 1987 of such revenue relates to the Medicare Prospective Payment System (PPS) for services rendered to inpatient Medicare beneficiaries under predetermined rates per discharge. Those rates vary according to a patient classification

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

system that is based on clinical, diagnostic and other factors. Under the provisions of PPS, documentation supporting the appropriateness of Medicare admissions and their classifications for determining payment rates is subject to retrospective review by the Program.

The remaining portion of revenue under the Program of approximately \$6,000,000 and \$4,000,000 during the years ended June 30, 1988 and 1987, respectively, relates to services rendered to Medicare beneficiaries which are paid based upon a cost reimbursement method. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

Patient service revenue also includes approximately \$23,000,000 and \$23,000,000 for the years ended June 30, 1988 and 1987, respectively, for patient billings under the Title XIX Medical Assistance and General Assistance (Medicaid) Programs. The Hospital is reimbursed for services rendered to Medicaid patients based on an amount determined by a formula rate defined by the Medicaid Programs. The rates are subject to audit and retroactive adjustment by the Medicaid Programs. The accounts have been adjusted to reflect the estimated amount to be reimbursed under these programs.

The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and other provider organizations. The basis for reimbursement under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per-diem rates.

The estimated effects on third party reimbursement which are recorded as deferred third party reimbursement in the accompanying financial statements amounted to \$8,520,626 in 1988 and \$10,172,239 in 1987. The principal timing differences giving rise to the deferred third party reimbursement relate to recognition of losses on refinancings of long-term debt occurring in 1985 and 1986 and recognition of the loss related to construction plans which were abandoned in 1983 and financing costs related to the abandoned plans.

Recognition of the deferred third party reimbursement related to the losses on refinancings of long-term debt will be made over the term of the related refunded debt issues. Recognition of the deferred third party reimbursement related to abandoned construction plans will be made over the estimated life of the new hospital facility.

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

(3) Assets Whose Use is Limited

The following is a summary of assets whose use is limited and the primary limitations on their use as of June 30, 1988 and 1987:

	<u>1988</u>	<u>1987</u>
Board-designated cash and investments primarily for new construction, replacement of plant and equipment, and retirement of debt	\$ <u>78,212,122</u>	<u>65,556,194</u>
Cash and investments held by bond trustee:		
Reserve fund	20,164,393	20,912,793
Construction fund	20,673,105	30,686,376
Bond fund	394	15,532
Cost of issuance fund	660	682
Sinking fund	<u>1,594,909</u>	<u>600,536</u>
	42,433,461	52,215,919
Less amounts available for construction retainages	<u>171,434</u>	<u>918,370</u>
	\$ <u>42,262,027</u>	<u>51,297,549</u>

The following is a summary of investment income from assets whose use is limited and current cash and short-term investments for the years ended June 30, 1988 and 1987:

	<u>1988</u>	<u>1987</u>
Investment income:		
Board-designated cash and investments	\$ 6,797,364	6,167,728
Cash and investments held by bond trustee	2,674,850	2,061,723
Current cash and short-term investment	<u>389,080</u>	<u>490,206</u>
	\$ <u>9,861,294</u>	<u>8,719,657</u>

Investment income in the amount of \$2,182,702 and \$3,061,432 for the years ended June 30, 1988 and 1987, respectively, earned on the unexpended proceeds of construction funds held by bond trustee, is included in other operating revenue in the accompanying financial statements.

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

(4) Property, Plant and Equipment

The following is a summary of property, plant and equipment as of June 30, 1988 and 1987:

	<u>1988</u>	<u>1987</u>
Land and land improvements	\$ 2,167,112	2,104,682
Buildings and building equipment	180,916,884	178,254,378
Furniture and equipment	77,311,403	68,008,620
Construction in progress	<u>5,249,789</u>	<u>8,210,280</u>
	265,645,188	256,577,960
Less accumulated depreciation	<u>83,775,058</u>	<u>67,640,661</u>
	<u>\$ 181,870,130</u>	<u>188,937,299</u>

In April 1986 the Hospital substantially completed a two-phase construction program to modernize the Hospital's inpatient facilities and replace several ancillary and support service facilities through construction of a new building. The total cost of the project was approximately \$125,000,000. In January 1987 the Hospital completed construction of a parking ramp. The total estimated cost of the project was approximately \$5,000,000. The projects were financed through the issuance of long-term debt and notes payable.

During 1988 and 1987 interest expense, net of interest income on bond trustee-held investments and amortization of deferred finance charges, of approximately \$0 and \$140,000, respectively, was capitalized as construction in progress.

(5) Notes Payable

Promissory notes with annual interest rates ranging from 6.0% to 8.5% in 1988 and 1987 are being used for interim construction financing and equipment purchases. Promissory notes payable include \$8,026,217 and \$11,582,041 of unsecured notes at June 30, 1988 and 1987, respectively, payable to the University in installments through 1991. The remaining notes amounting to \$73,664 and \$186,485 at June 30, 1988 and 1987, respectively, are secured by computer equipment and payable to the vendor in installments through 1990.

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

(6) Long-term Debt

The following is a summary of long-term debt as of June 30, 1988 and 1987:

	<u>1988</u>	<u>1987</u>
General Obligation Refunding Bonds, Series 1985A, due in installments through February 1, 1989 with interest at 6.50% to 9.68% payable semiannually	\$ 2,815,000	5,445,000
Variable Rate Demand Bonds, Series 1985B, 1985C and 1985D at annual interest rates from 4.35% to 6.13%	-	65,000,000
The Hospital's portion of the Univer- sity's variable rate demand bonds, Series 1985E, 1985F, 1985G, 1985H and 1985I due in installments through October 1, 2017, at annual interest rates from 4.90% to 5.625% in 1988	62,971,365	-
General Obligation Refunding Bonds, Series 1986A, due in installments through February 1, 2011 with interest at 6.00% to 7.75% payable semiannually	<u>109,210,000</u> 174,996,365	<u>109,210,000</u> 179,655,000
Less:		
Current installments	2,815,000	2,630,000
Unamortized discounts	<u>2,100,086</u>	<u>2,230,178</u>
	\$ <u>170,081,279</u>	<u>174,794,822</u>

A summary of principal payments required on long-term debt is as follows:

Year ending June 30

1989	\$ 2,815,000
1990	2,215,000
1991	2,345,000
1992	2,490,000
1993	2,650,000
Later years	<u>162,481,365</u>
	\$ <u>174,996,365</u>

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

During the year ended June 30, 1985 the Hospital issued General Obligation Refunding Bonds, Series 1985A and Variable Rate Demand Bonds, Series 1985B, 1985C and 1985D, for the purpose of early extinguishment and advance refunding of Series 1982 Term Bonds and Series 1982 Serial Bonds and to finance construction of a parking ramp. Series 1982 Bonds in the amount of \$43,705,000 were retired. Proceeds of the Series 1985A Bonds were deposited with a trustee in an amount sufficient, together with the interest earned thereon, to be used to meet debt service requirements of \$112,635,000 of the Series 1982 Bonds as they become due. The amount of defeased Series 1982 Bonds outstanding was \$111,705,000 and \$112,635,000 at June 30, 1988 and 1987, respectively.

During the year ended June 30, 1986 the Hospital issued General Obligation Refunding Bonds, Series 1986A, for the defeasance of \$89,236,139 of General Obligation Refunding Bonds, Series 1985A. Proceeds of the Series 1986A Bonds were deposited with a trustee in an amount sufficient, together with the interest earned thereon, to be used to meet debt service requirements of the defeased Series 1985A Bonds as they become due. The amount of defeased Series 1985A Bonds outstanding was \$87,285,723 and \$89,236,139 at June 30, 1988 and 1987, respectively. Included in the June 30, 1988 and 1987 defeased Series 1985A Bonds are \$6,345,723 and \$8,296,139, respectively, of capital appreciation bonds.

The full faith and credit of the University is pledged for payment of principal and interest related to the 1985 and 1986 bonds. The Variable Rate Demand Bonds are subject to optional tender and mandatory tender by the bondholders in certain circumstances. The Hospital expects that tendered bonds will be resold to the public by a remarketing agent. To provide for the purchase of tendered bonds which are not remarketed, the University has entered into a credit agreement with a bank.

On July 21, 1987 the University retired the Variable Rate Demand Bonds, Series 1985B, 1985C and 1985D, in the amount of \$65,000,000. The source of funds for retiring the Series 1985B, 1985C and 1985D bonds was a portion of the proceeds of the Variable Rate Demand Bonds, Series 1985E, 1985F, 1985G, 1985H and 1985I in the amount of \$170,000,000 which were issued on October 29, 1985 by the University and net investment income earned thereon from the date of issuance to July 21, 1987. The Hospital has recognized an extraordinary gain resulting from the retiring of the Series 1985B, 1985C and 1985D bonds in the amount of \$1,513,127.

The Hospital's long-term debt balance now reflects a portion of the University's Variable Rate Demand Bonds, Series 1985E, 1985F, 1985G, 1985H and 1985I in an amount proportionate to the amount needed when the Variable Rate Demand Bonds, Series 1985B, 1985C and 1985D were retired. The Hospital is indebted directly to the University for this amount and pays all principal and interest directly to the University as they come due under the terms of the bond indenture agreement.

(Continued)

## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

(7) Loss on Investment in Subsidiaries

Included in the loss on investment in subsidiaries in 1987 is approximately \$900,000 accrued for the Hospital's guarantee of a subsidiary's debt.

(8) Pension Expense

All employees of the Hospital meeting age and length of service requirements participate in Civil Service (Minnesota State Retirement System) or faculty (University of Minnesota) pension plans. The plans require contributions by both the employer and employee. Pension expense of the Hospital for the years ended June 30, 1988 and 1987, was \$3,971,214 and \$3,860,196, respectively, which includes amortization of prior service costs through 2009.

At June 30, 1987, the date of the latest actuarial valuation, net assets available for benefits were \$8,948,400 and \$1,585,971,000 for the Faculty Retirement Supplement and Minnesota State Retirement System plans, respectively. The actuarial present value of accumulated plan benefits was not calculated. Amounts specifically applicable to the Hospital were not determinable.

(9) Transactions Related to the University

The unreimbursed cost of general and administrative services provided to the Hospital by the University is accounted for as an operating expense and an addition to the General Fund balance of the Hospital. Unreimbursed University general and administrative services amounted to \$156,121 and \$6,261,334 for the years ended June 30, 1988 and 1987, respectively.

Allocation adjustments to property, plant and equipment utilized by the Hospital are recorded through adjustments to the Hospital's General Fund balance. The net adjustments to property, plant and equipment and the related accumulated depreciation for the years ended June 30, 1988 and 1987 amounted to \$94,532 and \$330,737, respectively.

(10) Commitments and Contingencies

The Hospital has professional liability insurance coverage provided on a claims-made basis. The coverage is provided through RUMINCO, Ltd., a wholly-owned subsidiary of the University which was principally established for the purpose of providing liability coverage for the University, including the Hospital. This policy provides coverage with a \$1,000,000 single claim, \$3,000,000 each occurrence and \$5,000,000 aggregate claim limitation. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrence during its term, but reported subsequently, will be uninsured.

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## UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

The Hospital has contracts with the University Medical Schools for the services and stipends of residents and medical school staff involved with direct patient care, in-service education and administrative duties within the Hospital. Total expense for such services and stipends for the years ended June 30, 1988 and 1987, which are included in contract compensation in the accompanying financial statements were approximately \$7,575,000 and \$6,512,000, respectively. The contract commitments are reviewed annually and are estimated at approximately \$8,000,000 for the year ending June 30, 1989.



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

**MEETING OF THE  
BOARD OF GOVERNORS FINANCE COMMITTEE  
Wednesday, September 28, 1988  
12:00 - 2:00 P.M.\*  
The Board Room (8-106) University Hospital**

**COMMITTEE MEMBERS**

Robert Nickoloff, Chairman  
Edward Ciriacy, M.D.  
Robert Dickler  
Clifford Fearing  
Elwin Fraley, M.D.  
Jerry Meilahn  
Barbara O'Grady  
Roger Paschke  
Vic Vikmanis

**A G E N D A**

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|------|--|--|
| I.   | <b>Opening of Meeting and Approval of Minutes of Finance Committee Meeting held 8/24/88 (Approval) pp. 1-3</b> | Mr. Robert Nickoloff                     |
| II.  | <b>June 30, 1988 Financial Statements (Information) pp. 4-28</b>   | Mr. Cliff Fearing                        |
| III. | <b>July, August, 1988 Financial Statements (Information) pp. 29-37</b>   | Mr. Cliff Fearing                        |
| IV.  | <b>Variable Rate Bond Rates (Information) pp. 38-40</b>  | Mr. Roger Paschke                        |
| V.   | <b>CUHCC - Health Etc. Proposal (Information) pp. 41-50</b>  | Mr. Greg Hart                            |
| VI.  | <b>1988 Peat Marwick Main Audit Scope (Information)</b>  | Mr. Robert Nickoloff<br>Mr. Steve Laible |

VII. **Capital Expenditure Policy**  
(Endorsement) pp. 51-54

Mr. Robert Dickler

VIII. **Dermatology Expansion Project**  
(Endorsement) pp. 55-57

Mr. Greg Hart

IX. **Other Business**

X. **Adjournment**

\* A buffet lunch will be served at 11:30 P.M. in the Board Room.

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC  
Board of Governors Finance Committee  
August 24, 1988

MINUTES

**ATTENDANCE:**

Present: Robert Dickler  
Clifford Fearing  
Elwin Fraley, M.D.  
Jerry Meilahn  
Robert Nickoloff  
Barbara O'Grady  
Roger Paschke  
Vic Vikmanis

Not Present: Edward Ciriacy, M.D.

Staff: Kay Fuecker  
Nancy Janda  
Barbara Tebbitt

Guests: Amos Deinard, M.D.  
Susan Weber  
Bruce Work, M.D.

**CALL TO ORDER:**

On August 24, 1988 the Finance Committee was called to order by Mr. Cliff Fearing at 1:05 P.M.

**ANNOUNCEMENT:**

Mr. Fearing reminded Board members that the August 24, 1988 Board of Governors meeting will be in the Regents Room in Morrill Hall. Mr. Jerry Meilahn assumed the Chair position.

**APPROVAL OF THE MINUTES:**

The Board of Governors Finance Committee seconded and passed a motion to approve the minutes of the July 20, 1988 meeting as written.

**CUHCC FACILITY UPDATE:**

Mr. Cliff Fearing reported that negotiations for the land acquisition have concluded with a price of \$300,000 and includes about \$35,000 of equipment and will be sold. This amount is within the budget endorsed by the Board of Governors. This information does not require further action by the Finance Committee.

**CUHCC - HEALTH ETC. CONSOLIDATION PROPOSAL:**

Mr. Robert Dickler reported that Health etc. approached CUHCC about a potential consolidation of Health Etc. with CUHCC approximately a year ago. This proposal has not been discussed with AFSCME members or the Internal Advisory Group from the Council of Clinical Chiefs due to timing. This will be done in the near future.

Dr. Amos Deinard, Director of CUHCC, reviewed the financial history and circumstances leading to this proposal. CUHCC and Health etc. serve the same population but Health etc. does not have pediatrics, OB/GYN, and psychiatry. Dr. Deinard emphasized several advantages of a consolidation. These are: 1) a greater percentage of the Health Etc. patient population is covered by insurance than within the CUHCC population; and 2) provides CUHCC access to up to \$135,000 in grants that are not now available to CUHCC. The legal issues regarding the type of consolidation have not been worked out as yet. Dr. Deinard emphasized that Health etc. must either consolidate or close in 2-3 months. Mr. Dickler reported that this item is for discussion only and will be brought back to the Committee for endorsement.

**UNIVERSITY HOSPITAL RENEWAL PROJECT:**

Mr. Robert Dickler presented the University Hospital Renewal Project, Phase II to the Committee for endorsement. This project includes relocation and upgrading of inpatient units for Psychiatry, Obstetrics, and Rehabilitation along with Cystoscopy renovation and replacement space for clinical and general support departments and administrative departments. This project proposes meeting these needs through a utilization of existing facilities and a vertical expansion of the new hospital. The total project cost is estimated, with inflation, at \$62 million.

The Finance Committee seconded and passed a motion to endorse the University Hospital Renewal Project, Phase II as presented.

**CAPITAL EXPENDITURE POLICY:**

Mr. Robert Dickler reviewed the proposed Capital Expenditure Policy. This policy divides our capital activity into three major segments: 1) those projects costing \$500 - \$100,000; projects costing \$100,000 - \$600,000; and 3)

projects costing over \$600,000. It also calls for additional reviews related to projects between \$100,00 - \$600,000 and those over \$600,000, referred to as special projects. The policy also identifies those types of capital expenditures to be forwarded to the Board of Regents.

The following changes were incorporated into the written policy at the meeting. Those changes include:

- 1) Change the phrase "will be submitted" to "shall be submitted" in the 4th paragraph on page 2;
- 2) Replacement of the second paragraph in the section entitled "Approval of Special Projects" with the following:

"Any expenditure that is expected to cause a special project budget to be exceeded by the lesser of 10% or \$250,000 will be presented to the Board for information. Where possible, that information will be presented prior to the authorization of expenditure. Consultation from the Chairman of the Board, the Chairman of the Planning and Development Committee, and the Chairman of the Finance Committee shall be sought when presentation to the full Board prior to expenditure authorization is not feasible."

Mr. Dickler reported that this policy is presented for information this month, endorsement will be sought in September.

**ADJOURNMENT:**

There being no further business, the August 24, 1988 meeting of the Board of Governors Finance Committee was adjourned.

Respectfully submitted,



Kay F. Fuecker  
Board of Governors Office



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

September 28, 1988

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing  
Senior Associate Director

SUBJECT: Report of Operations for the Period  
July 1, 1987 through June 30, 1988

The 1987-88 fiscal year for University of Minnesota Hospital and Clinic has shown an increase in inpatient admissions and outpatient clinic visits over the prior two years. Our levels of staffing and operating expenses increased during the year as the demand for services went up. Below is a brief summary of major factors which have contributed to our 1987-88 financial position.

Inpatient Census: Admissions for the 1987-88 fiscal year totaled 19,246 compared to 19,169 for the previous year, an increase of 77 (.4%). Patient days for the year totaled 154,537, up by 255 (.2%) from 154,282 days in 1986-87. The hospital overall average length of stay declined from 8.1 days last year to 8.0 days in the current year.

We budgeted for a decline in our inpatient census levels in 1987-88 which was consistent with industry trends. However, we experienced slightly higher than anticipated inpatient admissions and patient days. Areas in which admissions increased from the prior year were Medicine, Surgery, and Orthopedics. Contributing to this increase were factors such as additions to medical staff, increased efforts in the area of planning and marketing, and the start-up of new programs. Of the services with major increases, the most noteworthy continue to be in the areas of organ transplants and oncology. Average length-of-stay declined slightly as a result of our continuing efforts at better discharge planning and scheduling of same-day admissions.

Report of Operations - Year-End 1987-88

Page 2

To recap our inpatient census for the 1987-88 fiscal year:

	1986-87 <u>Actual</u>	1987-88 <u>Budget</u>	1987-88 <u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
Admissions	19,169	18,350	19,246	896	4.9
Avg. Lgth. of Stay	8.1	8.3	8.0	-.3	-3.6
Patient Days	154,282	153,000	154,537	1,537	1.0
Percent Occupancy	72.2	71.8	72.9	1.1	1.5
Avg. Daily Census	422.7	418.0	422.2	4.2	1.0

Outpatient Census: The Hospital's outpatient clinic census showed a significant increase over the 1986-87 levels, going from 248,137 visits in 1986-87 to 264,505 in 1987-88. This represents a 6.6% increase over the prior year levels and a 3.5% increase (8,845) over the budgeted 1987-88 total of 255,660. The increase in clinic census occurred in nearly all clinic areas. The most significant increases occurred within Medicine, Ophthalmology, Orthopedics, Therapeutic Radiology, and Clinical Psychology.

To recap our outpatient census for the 1987-88 fiscal year:

	1986-87 <u>Actual</u>	1987-88 <u>Budget</u>	1987-88 <u>Actual</u>	<u>Variance</u>	<u>% Variance</u>
Clinic Visits	248,137	255,660	264,505	8,845	3.5
CUHCC Visits	47,202	48,000	48,305	305	.6
HHA Visits	9,011	9,269	9,409	140	1.5

Operations - Revenue: Patient care revenue for the 1987-88 fiscal year totaled \$260,613,481 and is an increase of \$22,568,056 (9.5%) over the 1986-87 fiscal year. The increase in revenue is approximately \$10,995,700 above budget and results in an overall favorable variance of 4.4%. This overall variance is due to higher than anticipated patient days and higher than anticipated ancillary utilization for both inpatient and outpatient populations.

Routine revenue totaled \$70,192,099, and represents a favorable variance of approximately \$167,000. Ancillary service revenue totaled \$190,421,392, and was approximately \$10,829,100 (6.0%) above budget. The overall ancillary variance reflects a utilization level per patient that was higher than anticipated. Inpatient ancillary revenue per admission averaged \$7,270 compared to the budgeted average of \$7,220. Outpatient revenue per clinic visit averaged \$191 compared to the budgeted average of \$184. Nearly all ancillary areas experienced revenues above budget, with the greatest increases occurring in the operating room, clinical labs, cardio-respiratory



areas, patient monitoring and central sterile processing. In addition, we saw an increase in revenue as the result of new programs, specifically Home Nutrition and Wound-Healing.

Deductions from Charges: Deductions from charges totaled \$36,745,656 for the fiscal year and represent an overall favorable variance of \$8,555,744. This overall variance reflects a substantial favorable variance in third party deductions primarily due to better than anticipated reimbursement levels in both Medicare and Medical Assistance and favorably finalizing several prior period settlements for those programs. Offsetting this favorable variance is an unfavorable variance of almost \$4,000,000 for higher than anticipated write-offs for out-of-state Medical Assistance and Minnesota MA Outpatient.

Other Operating Revenues: Other operating revenue totaled \$6,413,368 for the 1987-88 fiscal year, an increase of \$744,500 (13.1%) over the prior year total of \$5,668,918. The increase is \$523,200 (8.9%) over the budgeted revenue of \$5,890,200, and reflects volume variances for food services and parking services. In addition, we've reported over \$250,000 for the salvage of silver from old radiology films.

Operations - Expenditures: Operating expenses for the 1987-88 fiscal year totaled \$250,842,729 and was an increase of \$22,901,513 (10.0%) over the 1986-87 fiscal year. The increase in expense was approximately \$11,545,800 over budget and resulted in an overall variance of 4.8%. Most of this variance was associated with the increase in demand for patient services.

Personnel costs (salaries and fringe benefits) were over budget by \$6,610,200. The increased salary costs were the result of higher staffing levels. During the 1987-88 fiscal year we averaged 4,002 full-time equivalents (FTE's), which was an increase of 205 over the budgeted total of 3,797. The increase in staffing levels is largely attributed to the increased census levels experienced throughout the year, with patient-related services accounting for 75% of the FTE increase. The unfavorable variance in fringe benefit expenses relates to the higher salary costs and a significant increase in our health insurance costs.

Supplies and expense directly related to patient care activities were \$3,609,500 over budget in aggregate. These expenses relate almost directly to the increase in ancillary revenues. They include such things as drugs, blood and blood derivatives, laboratory and medical supplies, laundry and food services, services related to kidney and bone marrow acquisitions, rental of patient care equipment, and patient care contracted services.

Report of Operations - Year-End 1987-88

Page 4

Expenses related to buildings, building services, and equipment were \$783,200 over budget. These costs include utilities, maintenance and repair, communications, building rental, and depreciation. Depreciation expense accounted for \$638,700 of the total variance. This is the result of accelerating our depreciation expense to provide for a more rapid recovery of capital costs by Medicare.

Insurance expense for 1987-88 totaled \$1,198,727 and was \$191,000 over budget. This variance is primarily the result of a one-time retroactive payment adjustment for completed operations coverage related to the Hospital Renewal Project insurance.

Finally, we experienced a net unfavorable variance in our general supply and expense categories totaling \$352,100. The major portion of this variance relates to payments for physician compensation due to ancillary volume increases and the hospital's share of the Emergency Room physicians' increased liability insurance.

Non-Operating Revenue: Non-operating revenues totaled \$26,158,549 in 1987-88 and represent a favorable variance from budget of \$4,035,849. The overall variance is primarily the result of three factors. First, higher than anticipated interest income was received on our reserve funds as a result of increasing interest rates early in the fiscal year. Secondly, we enjoyed a significant gain on the sale of a treasury bill. The third factor was the July refinancing of the 1985 BCD bonds by the University which resulted in increasing our income from invested bond proceeds.

Accounts Receivable: The balance in patient accounts receivable as of June 30, 1988 totaled \$79,340,120 and represents 98.7 days of revenue outstanding; this is a decrease of 2.7 days and an increase of \$6,973,344 from June 30, 1987. Factors contributing to this increase include the overall increase in patient volume coupled with the higher charge levels per patient, and continuing changes in third party billing requirements.

Capital Expenditures: During the 1987-88 fiscal year, UMHC expended \$11,719,700 from hospital operating funds, \$13,298,400 from our reserve funds, and \$2,931,900 from the hospital plant and trustee funds for current year capital expenditures. The major components of our capital spending were: (1) \$11,150,500 for recurring equipment, remodeling, and renovation, (2) \$1,001,100 in principal payments for computer hardware and the lithotripter, (3) \$2,500,000 in principal payments on short-term debt, and (4) \$13,298,400 in principal and interest payments on bonds.

Conclusion: The 1987-88 fiscal year was one of notable changes for University of Minnesota Hospital and Clinic. For the second

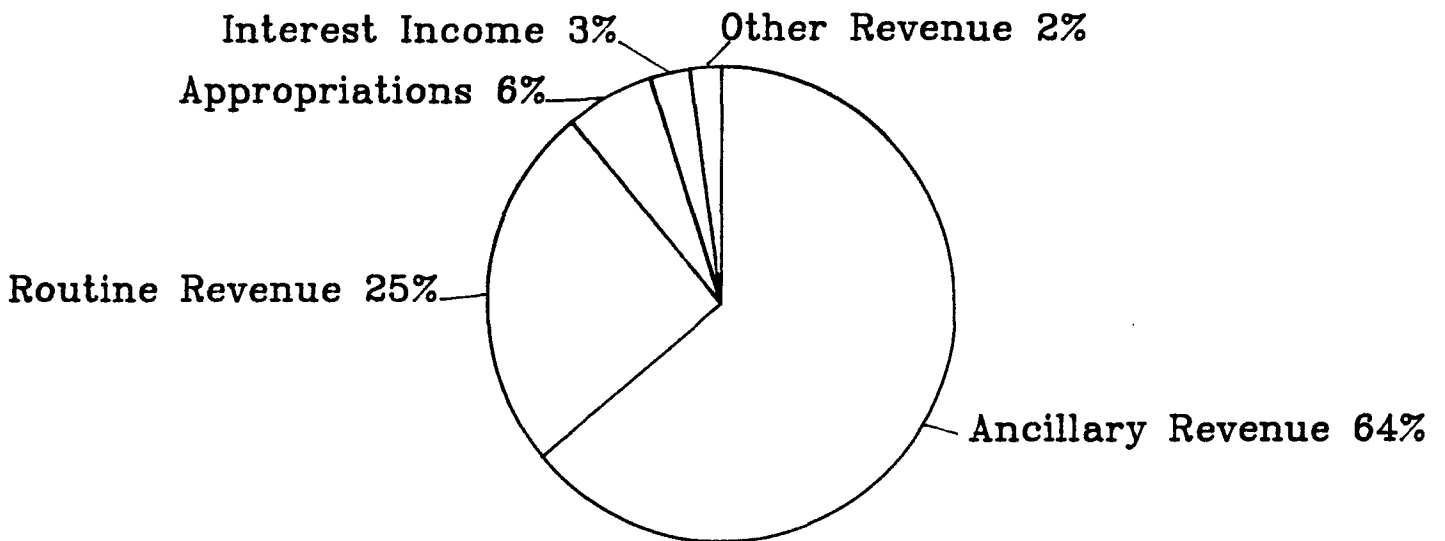
consecutive year we experienced increases in our admission levels and our patient days. These increases reflected our increased marketing efforts and the start-up or expansion of several programs and services. While our admissions and patient days went up, we saw a slight drop in the average length of stay. This can be attributed to our continuing efforts at cost reductions through greater use of same day surgery and improved discharge planning.

UMHC continued to experience increasing pressure from third party payors as HMO's, insurance companies, and self-insured companies moved to contract for specific services, and more governmental agencies moved towards prospective payment systems. These activities are continuing to force UMHC, as well as other providers, away from fee-for-service pricing and toward negotiated fixed fee pricing. UMHC must keep working with the HMO's, PPO's, and other insurers to develop pricing strategies which will enhance our competitive position while enabling us to meet our financial goals and objectives.

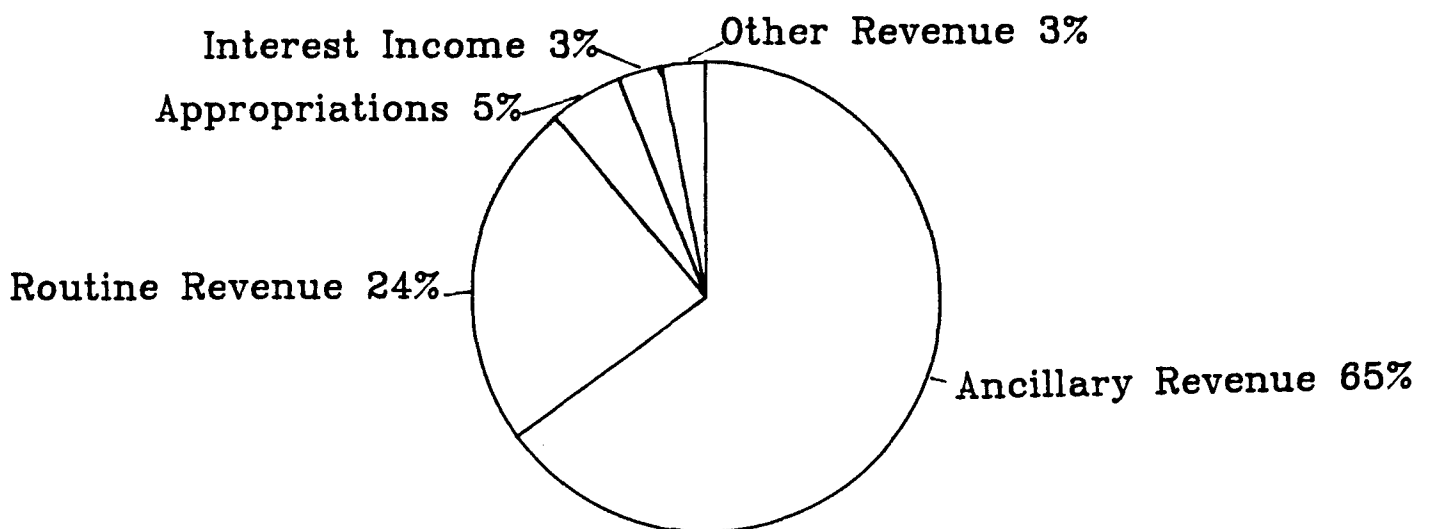
The competitive and cost conscious environment we are in will continue, and will challenge us to find new sources of revenue and ways to reduce costs. Market penetration, program diversification and expansion, program affiliation, and possible program divestiture, where appropriate, may be required for UMHC to sustain its mission of patient service, education, and research.

# University of Minnesota Hospital and Clinic

## 86/87 Revenue Summary

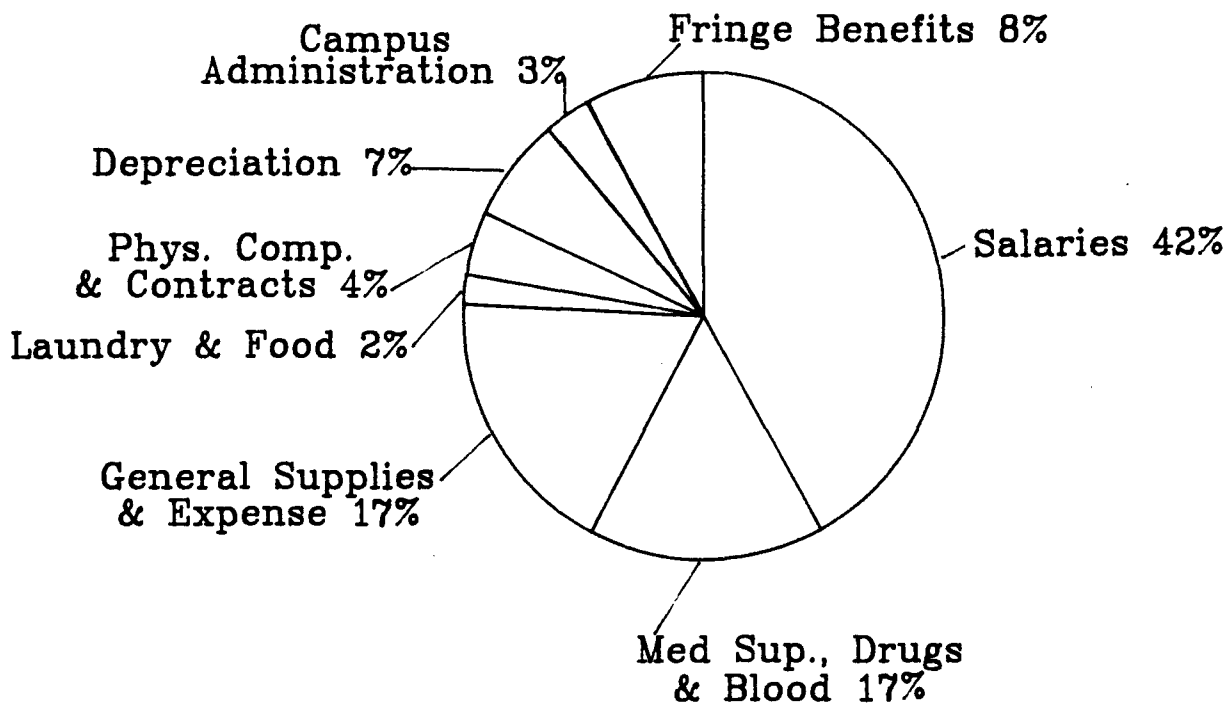


## 87/88 Revenue Summary

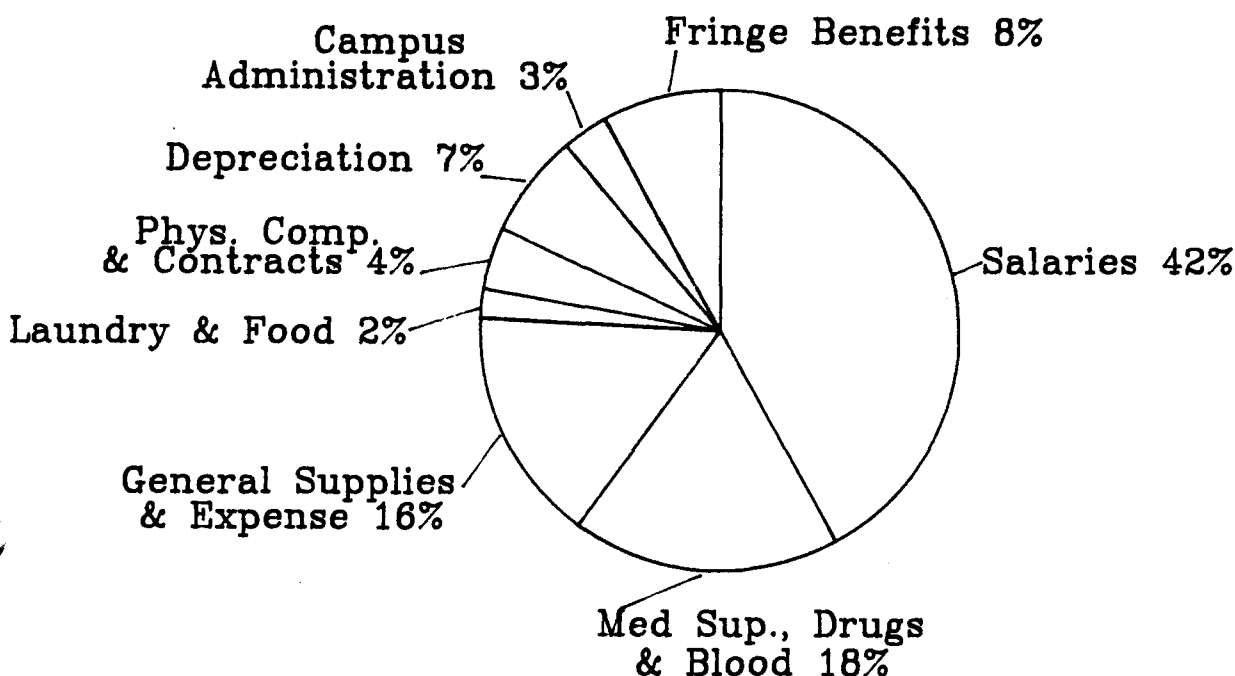


# University of Minnesota Hospital and Clinic

## 86/87 Expense Summary



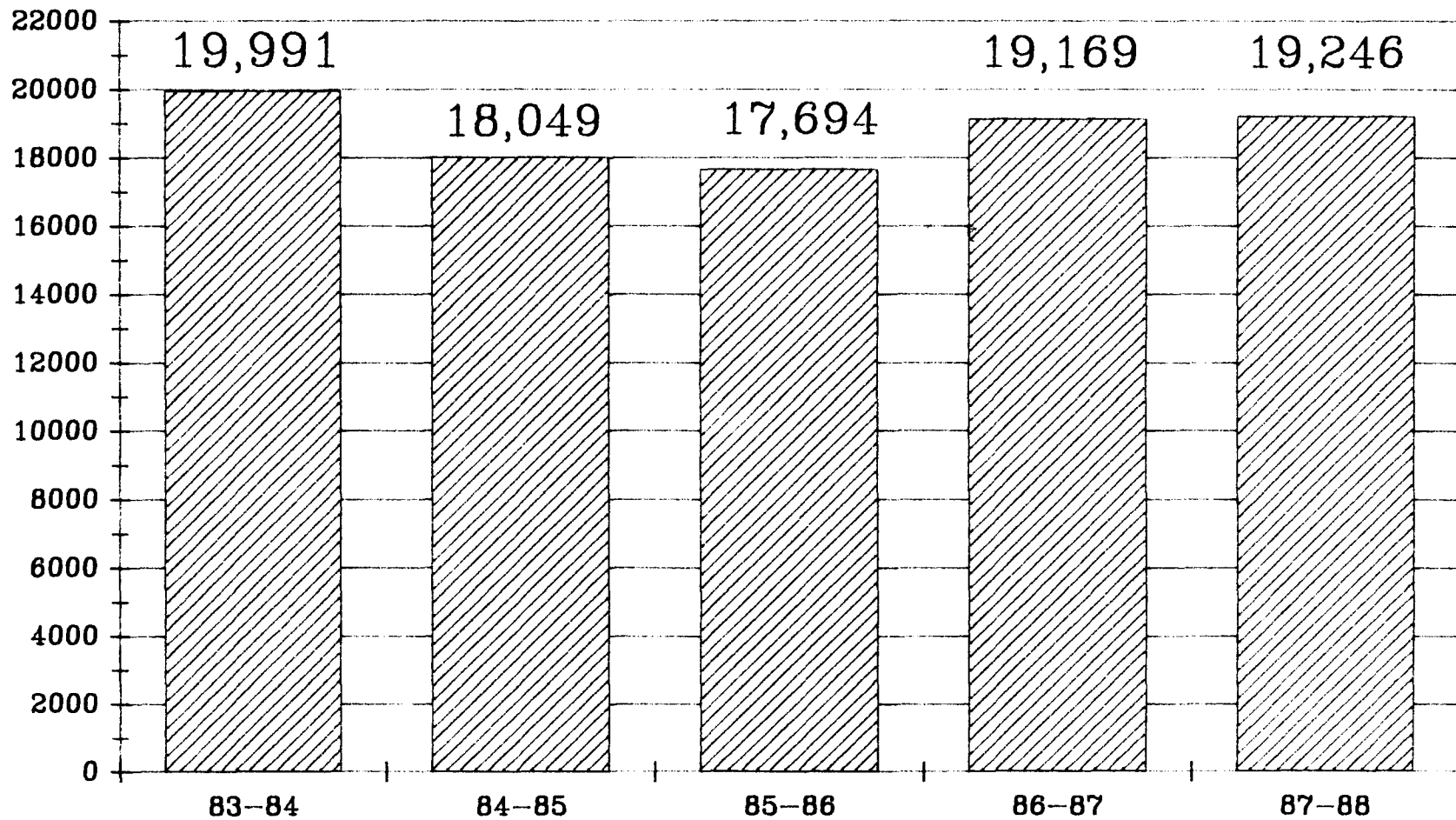
## 87/88 Expense Summary



# University of Minnesota Hospital and Clinic

## Admissions

1983-84 through 1987-88



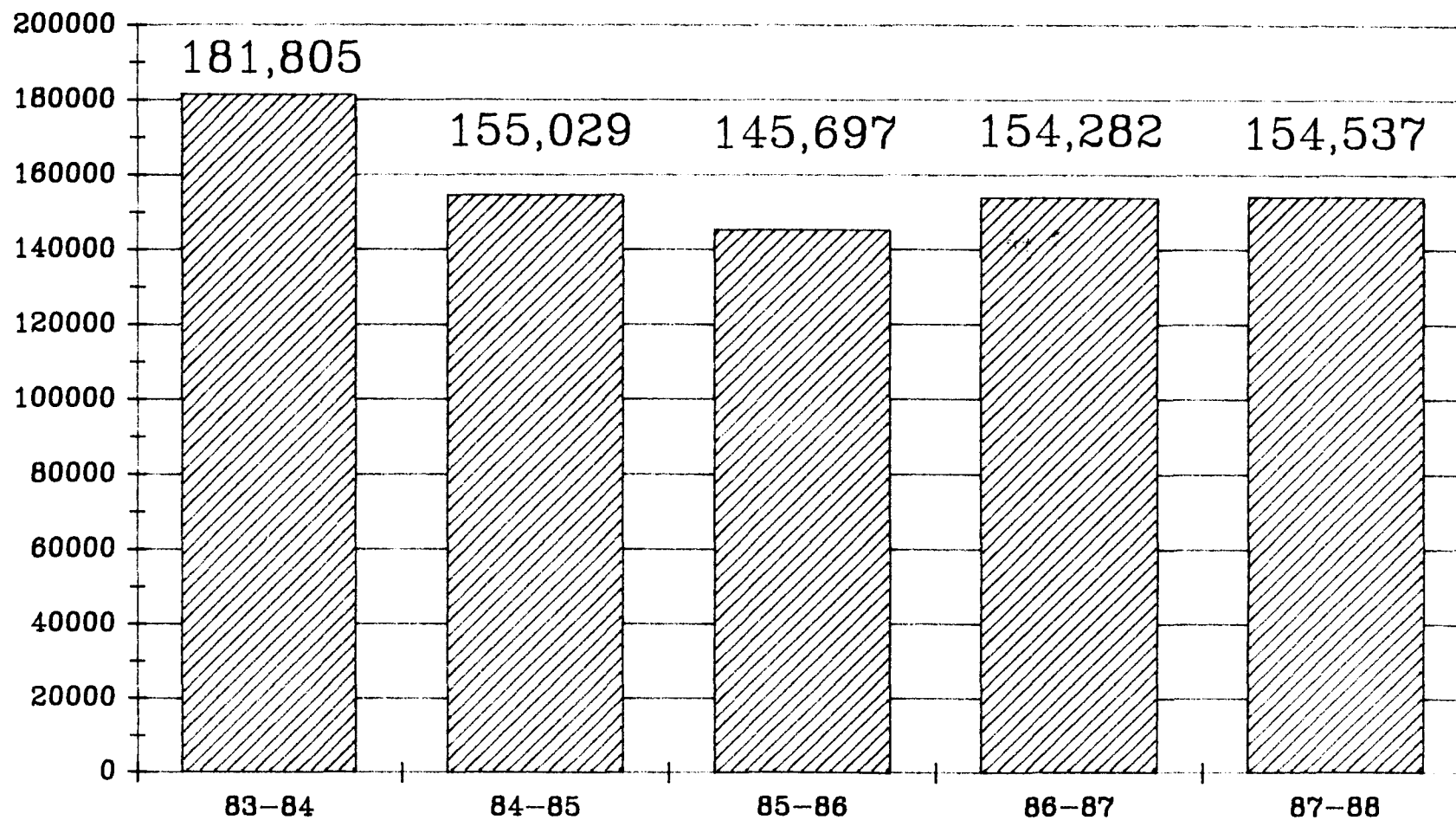
University of Minnesota Hospital and Clinic  
 Inpatient Admissions by Clinical Service  
 For FY 1983-84 through 1987-88

Admissions	1983-84	1984-85	1985-86	1986-87	1987-88
Clinical Research	409	370	359	482	434
Dentistry	165	97	74	70	56
Dermatology	105	52	30	23	24
Family Practice	57	49	33	27	27
Gynecology	1,368	1,390	1,325	1,476	1,336
Medicine	3,597	3,473	3,297	3,981	4,354
Neurology	772	627	634	431	367
Neurosurgery	1,068	996	919	878	898
Newborn	787	453	318	346	345
Obstetrics	1,083	654	508	594	575
Ophthalmology	876	1,015	994	990	968
Orthopaedics	1,017	1,057	979	1,020	1,193
Otolaryngology	941	569	502	459	447
Pediatrics	3,423	3,075	3,097	3,322	3,080
PM & R	246	300	197	163	173
Psychiatry - Adult	615	619	728	783	827
Psychiatry - Child	85	91	83	90	95
Surgery	2,594	2,456	2,678	2,931	3,093
Urology	776	697	933	1,099	943
Other	7	9	6	4	11
<b>Total</b>	<b>19,991</b>	<b>18,049</b>	<b>17,694</b>	<b>19,169</b>	<b>19,246</b>

# University of Minnesota Hospital and Clinic

## Patient Days

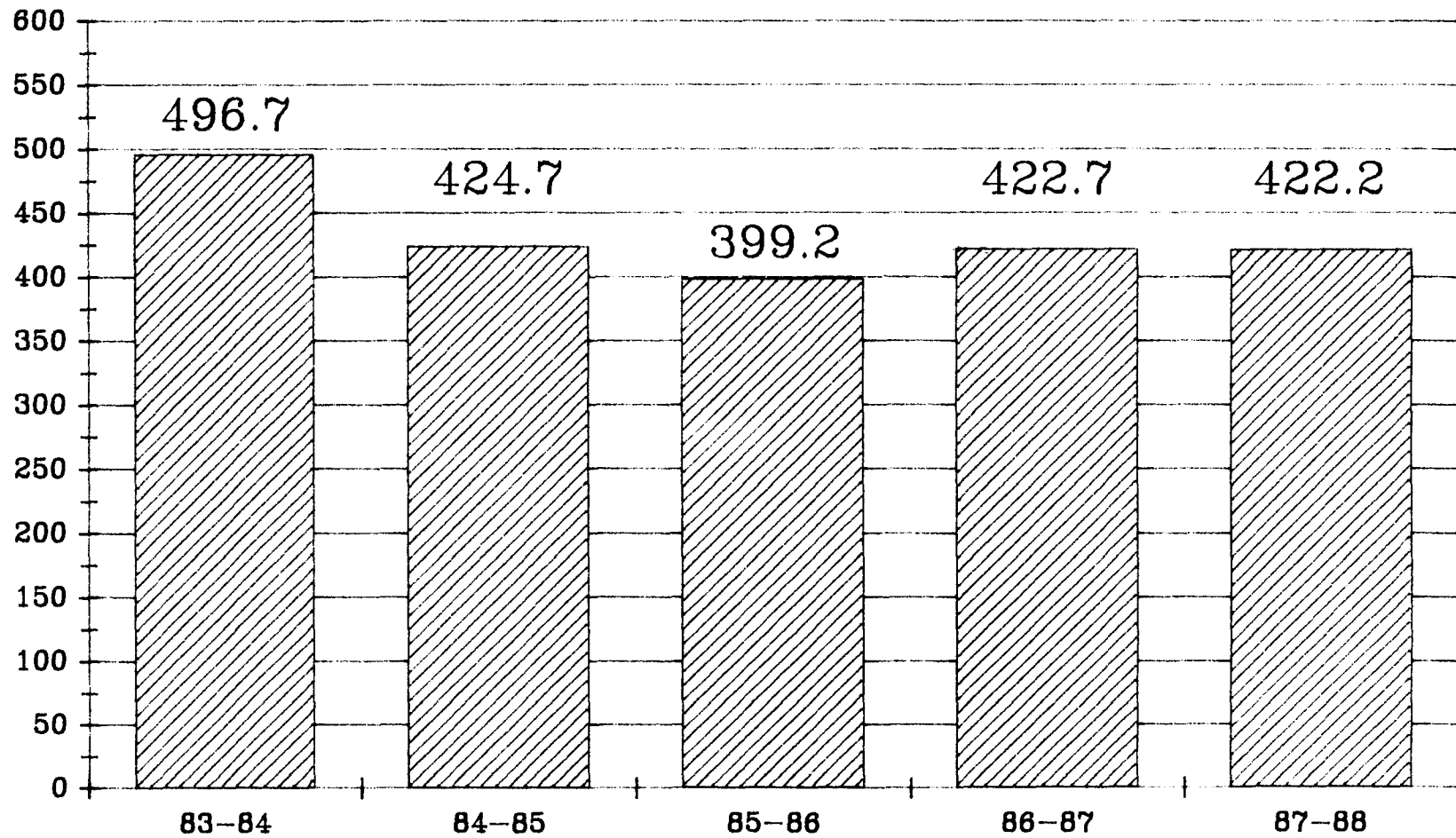
1983-84 through 1987-88



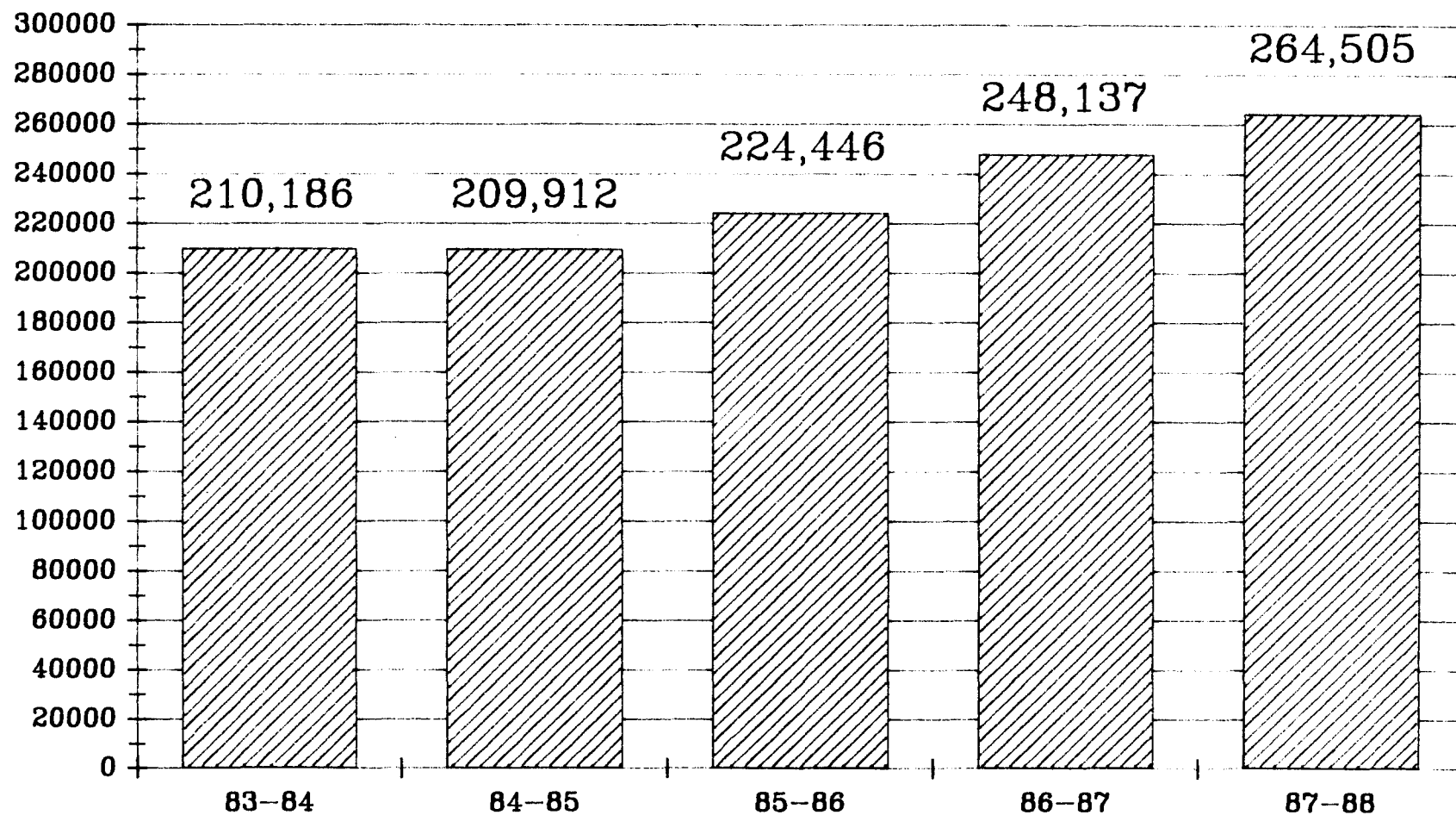


# University of Minnesota Hospital and Clinic

## Average Daily Census 1983-84 through 1987-88



# University of Minnesota Hospital and Clinic Outpatient Clinic Visits 1983-84 through 1987-88



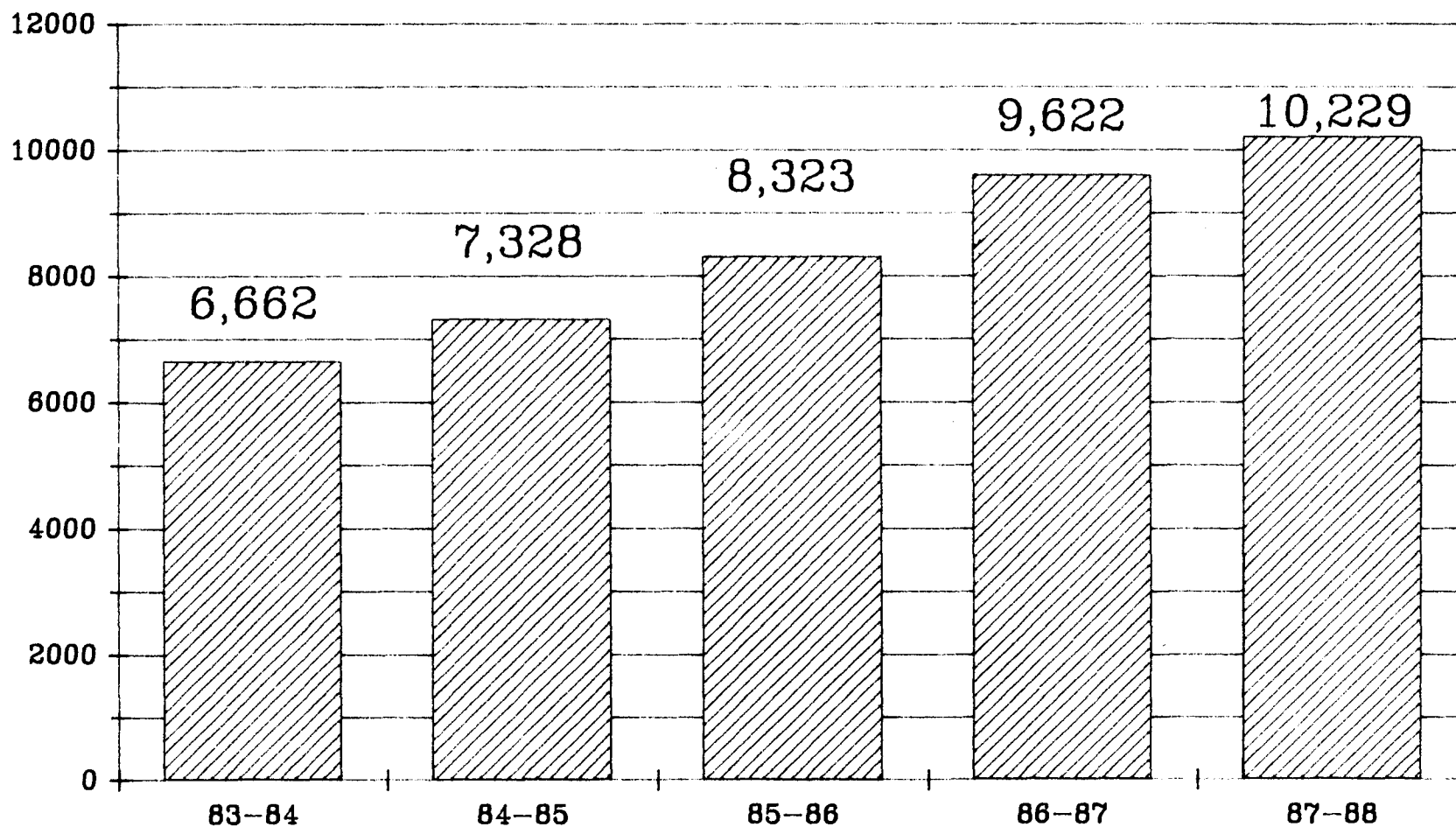
University of Minnesota Hospital and Clinic  
 Outpatient Clinic Visits by Clinical Services  
 for FY 1983-84 through 1987-88

<u>Clinic Visits</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>
Ambulatory Surgery	2,786	3,136	3,725	3,750	3,631
Dentistry	5,827	4,096	3,941	4,102	5,270
Dermatology	12,874	11,742	11,922	13,517	13,854
Emergency Room	14,884	13,396	14,551	16,119	15,401
Family Practice	7,405	8,737	8,779	8,970	9,882
Gynecology	17,438	17,284	16,713	17,328	17,886
Medicine	24,104	25,988	28,923	38,623	45,400
Neurology	4,884	4,848	4,833	4,667	4,595
Neurosurgery	3,341	3,283	3,425	3,373	3,982
Obstetrics	3,473	2,681	2,316	2,303	2,595
Ophthalmology	22,478	23,340	23,950	25,526	26,905
Orthopaedics	8,519	10,983	14,597	15,187	16,640
Otolaryngology	15,755	11,984	10,296	10,651	9,985
Pediatrics	13,909	13,732	13,863	14,593	14,600
PM & R	2,088	1,505	1,459	1,512	2,039
Psychiatry	17,314	20,107	22,715	24,793	24,405
Clinical Psych	2,851	1,822	2,609	3,173	4,215
Radiation Therapy	15,943	16,345	17,031	16,728	18,953
Surgery	9,445	10,285	12,465	14,041	14,731
Urology	4,868	4,618	6,333	9,181	9,536
<b>Total</b>	<b>210,186</b>	<b>209,912</b>	<b>224,446</b>	<b>248,137</b>	<b>264,505</b>

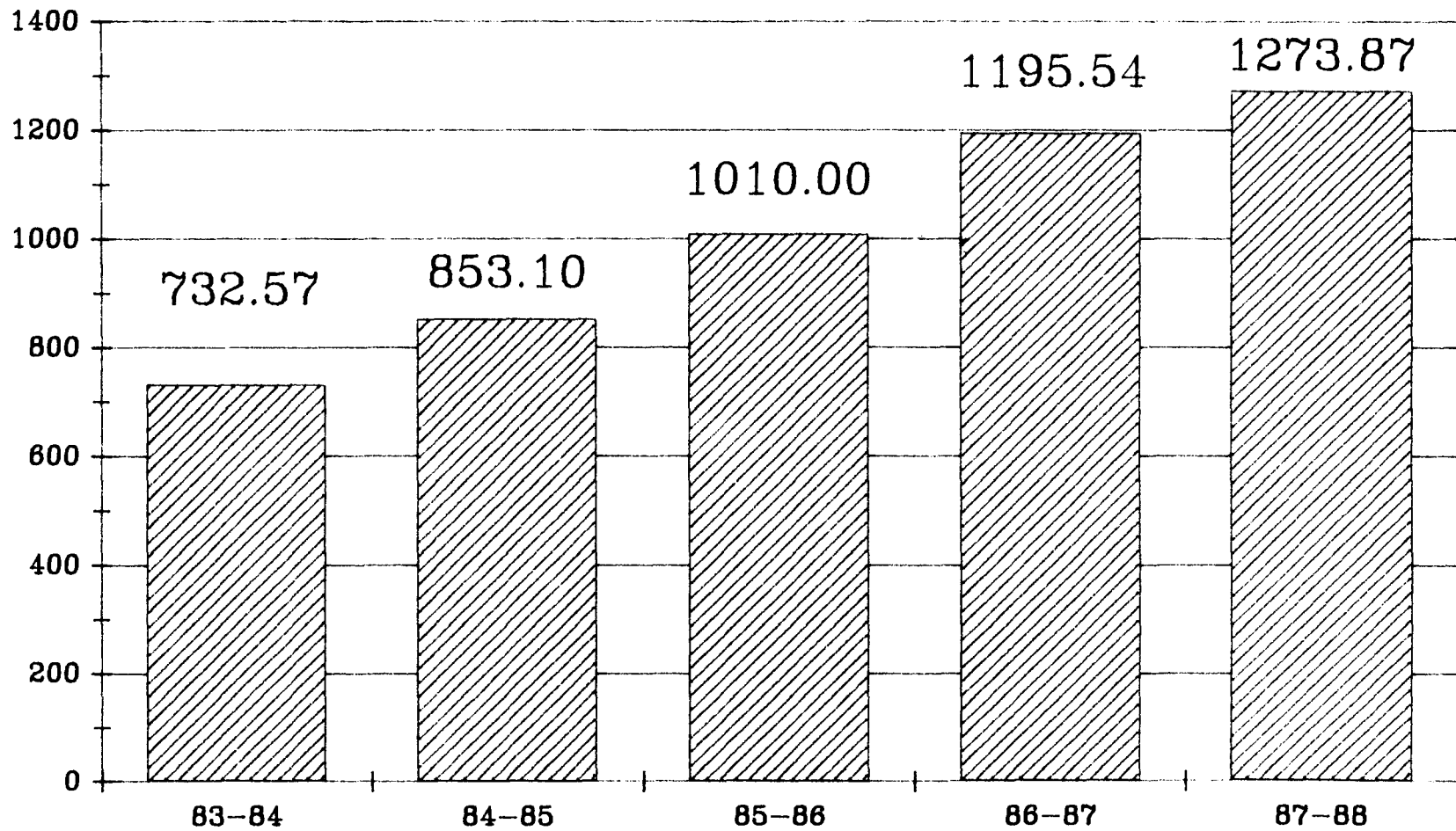
# University of Minnesota Hospital and Clinic

## Inpatient Cost Per Admission

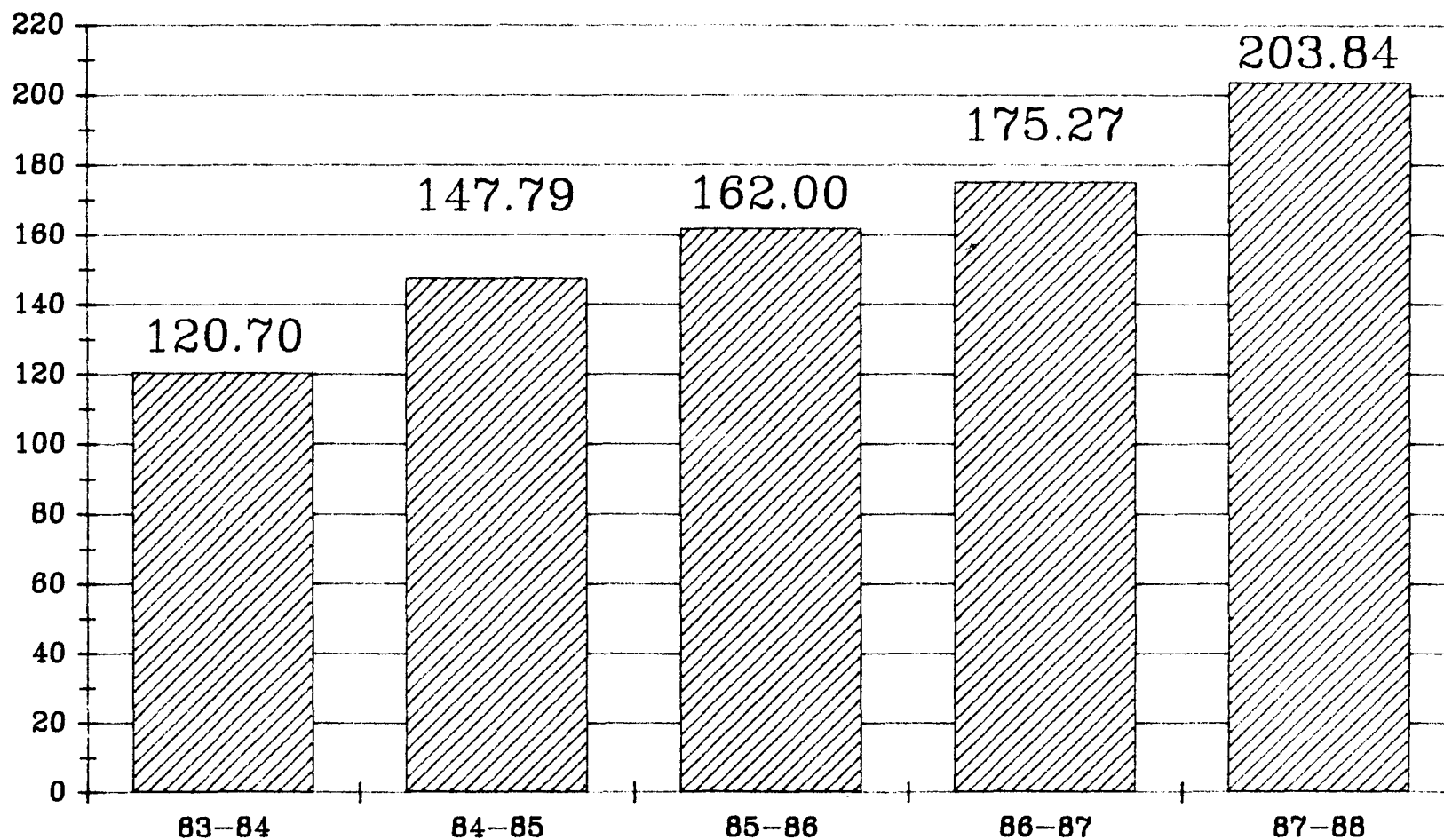
1983-84 through 1987-88



# University of Minnesota Hospital and Clinic Inpatient Cost Per Patient Day 1983-84 through 1987-88



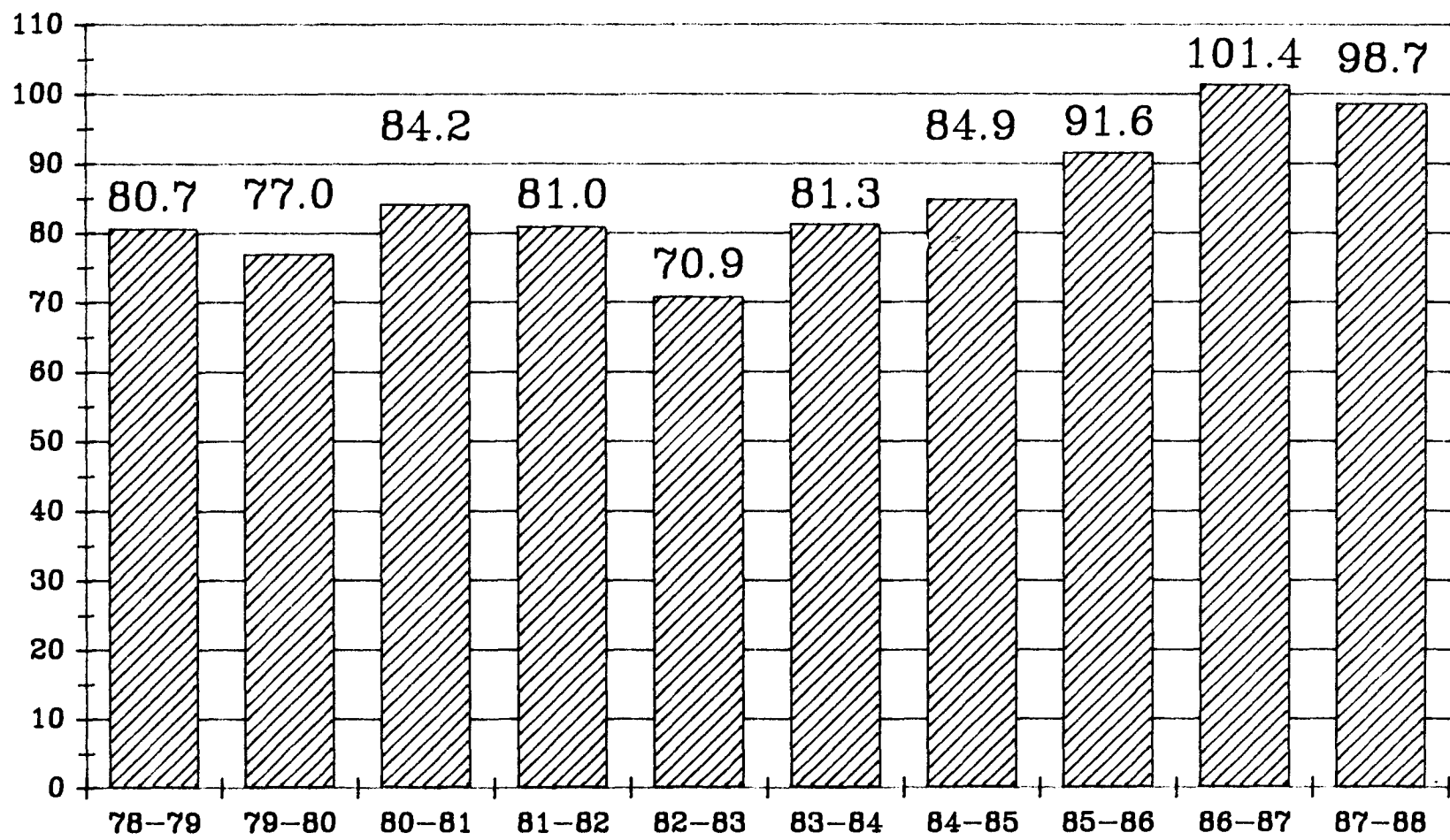
# University of Minnesota Hospital and Clinic Outpatient Cost Per Visit 1983-84 through 1987-88



# University of Minnesota Hospital and Clinic

## Revenue Days in Accounts Receivable

1978-79 through 1987-88



UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

SOURCE OF RECEIPTS

1984 TO 1988

	1984		1985		1986		1987		1988	
	AMT. IN	% OF	AMT. IN	% OF	AMT. IN	% OF	AMT. IN	% OF	AMT. IN	% OF
	1,000'S	TOTAL	1,000'S	TOTAL	1,000'S	TOTAL	1,000'S	TOTAL	1,000'S	TOTAL
MEDICARE	\$36,437	19.8	\$39,556	20.7	\$39,984	20.5	\$44,949	19.7	\$47,513	18.5
MEDICAL ASSISTANCE & FEDERAL CRIPPLED CHILDREN	15,227	8.3	12,983	6.8	12,181	6.2	19,526	8.6	26,883	10.5 *
BLUE CROSS	19,281	10.5	20,203	10.6	18,185	9.3	28,578	12.5	28,385	11.0
OTHER COMMERCIAL INSURANCE	70,545	38.4	71,879	37.5	78,602	40.1	89,312	39.2	93,167	36.2
HMO	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12,556	4.9 **
PATIENT LIABILITY	8,897	4.8	9,567	5.0	9,288	4.8	9,817	4.3	8,657	3.4
MISC. AGENCY ACCOUNTS	10,435	5.7	12,383	6.5	10,144	5.2	9,182	4.0	11,488	4.5
COUNTY	1,647	0.9	994	0.5	1,318	0.7	825	0.4	779	0.3
STUDENT HEALTH SERVICE	118	0.1	36	0.0	12	0.0	N/A	N/A	N/A	N/A
COLLECTION AGENCIES	557	0.3	687	0.4	729	0.4	811	0.4	776	0.3
OTHER	1,303	0.7	1,040	0.5	261	0.1	810	0.4	885	0.3
REFUNDS	(4,531)	(2.5)	(3,948)	(2.1)	(3,340)	(1.7)	(4,860)	(2.1)	(4,925)	(1.9)
<b>SUBTOTAL: PATIENT CARE RECEIPTS</b>	<b>\$159,916</b>	<b>87.0</b>	<b>\$165,380</b>	<b>86.4</b>	<b>\$167,364</b>	<b>85.6</b>	<b>\$198,950</b>	<b>87.4</b>	<b>\$226,164</b>	<b>88.0</b>
APPROPRIATIONS/SUPPORT	12,421	6.8	12,939	6.7	13,106	6.7	13,860	6.1	14,409	5.6
INVESTMENT INCOME	7,600	4.1	8,580	4.5	9,756	5.0	8,771	3.8	9,861	3.8
OTHER INCOME	3,830	2.1	4,549	2.4	5,201	2.7	6,145	2.7	6,788	2.6
<b>TOTAL</b>	<b>\$183,767</b>	<b>100.0</b>	<b>\$191,448</b>	<b>100.0</b>	<b>\$195,427</b>	<b>100.0</b>	<b>\$227,726</b>	<b>100.0</b>	<b>\$257,222</b>	<b>100.0</b>

\* In 1987-88, Crippled Children receipts were recorded in the Misc. Agency Accounts.

\*\* In 1987-88, the HMO receipts were removed from Commercial Insurance and Blue Cross into a separate category.



UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

EXECUTIVE SUMMARY OF FINANCIAL ACTIVITY

FOR THE PERIOD JULY 1, 1987 TO JUNE 30, 1988

	1986-87 Actual	1987-88 Budgeted	1987-88 Actual	Variance Over/-Under Budget	Variance %
Patient Care Charges	\$238,045,425	\$249,617,800	\$260,613,481	\$10,995,681	4.4%
Deductions from Charges	37,847,317	45,301,400	36,745,656	(\$8,555,744)	-18.9%
Other Operating Revenue	5,668,918	5,890,200	6,413,368	\$523,168	8.9%
Total Operating Revenue	205,867,026	210,206,600	230,281,193	20,074,593	9.5%
Total Expenditures	227,941,216	239,297,000	250,842,729	11,545,729	4.8%
Net Operating Revenue	(22,074,190)	(29,090,400)	(20,561,536)	8,528,864	29.3%
Non-Operating Revenue and Expenses	21,972,363	22,122,700	26,158,549	4,035,849	18.2%
Revenue Over/Under Expense	(\$101,827)	(\$6,967,700)	\$5,597,013	\$12,564,713	

	1986-87 Actual	1987-88 Budgeted	1987-88 Actual	Variance Over/-Under Budget	Variance %
Admissions	19,169	18,350	19,246	896	4.9%
Patient Days	154,282	153,000	154,537	1,537	1.0%
Average Daily Census	422.7	418.0	422.2	4.2	1.0%
Average Length of Stay	8.1	8.3	8.0	-0.3	-3.6%
Percentage Occupancy	72.2	71.8	72.9	1.1	1.5%
Outpatient Clinic Visits	248,137	255,660	264,505	8,845	3.5%

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

STATEMENT OF OPERATIONS

FOR THE PERIOD JULY 1, 1987 TO JUNE 30, 1988

	1986-87 ACTUAL	1987-88 BUDGETED	1987-88 ACTUAL	VARIANCE OVER/UNDER BUDGET	VARIANCE %
Gross Patient Charges	\$238,045,425	\$249,617,800	\$260,613,481	\$10,995,681	4.4%
Deductions From Charges	37,847,317	45,301,400	36,745,656	(8,555,744)	-18.9%
Other Operating Revenue	5,668,918	5,890,200	6,413,368	523,168	8.9%
<b>Total Revenue From Operations</b>	<b>\$205,867,026</b>	<b>\$210,206,600</b>	<b>\$230,281,193</b>	<b>\$20,074,593</b>	<b>9.5%</b>
<b>Expenditures</b>					
Salaries	\$95,950,578	\$101,075,300	\$105,504,268	\$4,428,968	4.4%
Fringe Benefits	17,987,902	19,139,500	21,320,749	2,181,249	11.4%
Contract Compensation	9,059,159	10,176,700	10,499,114	322,414	3.2%
Medical Supplies, Drugs, Blood	39,097,778	42,191,500	45,022,622	2,831,122	6.7%
Campus Administration Expense	6,261,334	6,471,400	6,471,400	0	0.0%
Depreciation and Amortization	16,417,549	16,693,600	17,332,299	638,699	3.8%
General Supplies and Expense	43,166,916	43,549,000	44,692,277	1,143,277	2.6%
<b>Total Expenditures</b>	<b>\$227,941,216</b>	<b>\$239,297,000</b>	<b>\$250,842,729</b>	<b>\$11,545,729</b>	<b>4.8%</b>
<b>Net Revenue From Operations</b>	<b>(\$22,074,190)</b>	<b>(\$29,090,400)</b>	<b>(\$20,561,536)</b>	<b>\$8,528,864</b>	<b>29.3%</b>
<b>Non-Operating Revenues and Expenses</b>					
Appropriations	\$14,618,233	\$14,414,300	\$14,733,171	\$318,871	2.2%
Interest Income on Reserves	6,167,728	5,517,900	6,797,364	1,279,464	23.2%
Shared Services	475,990	382,500	374,978	(7,522)	-2.0%
Investment Income on Trustee Held Assets	1,793,698	1,808,000	2,674,850	866,850	47.9%
Loss on Writeoff of Other Assets	(1,083,286)	0	0	0	0.0%
Extraordinary and Other Investment Income	0	0	1,578,186	1,578,186	100.0%
<b>Total Non-Operating Revenue and Expenses</b>	<b>\$21,972,363</b>	<b>\$22,122,700</b>	<b>\$26,158,549</b>	<b>\$4,035,849</b>	<b>18.2%</b>
<b>Revenue Over/ - Under Expenses</b>	<b>(\$101,827)</b>	<b>(\$6,967,700)</b>	<b>\$5,597,013</b>	<b>\$12,564,713</b>	

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC  
 DETAIL INCOME STATEMENT  
 FOR THE PERIOD JULY 1, 1987 TO JUNE 30, 1988

	1986-87 ACTUAL	1987-88 BUDGETED	1987-88 ACTUAL	OVER/(UNDER) BUDGET	%
<b>PATIENT CARE CHARGES</b>					
ROUTINE	\$67,354,752	\$70,025,500	\$70,192,099	\$166,599	0.2%
ANCILLARY	170,690,673	179,592,300	190,421,382	10,829,082	6.0%
<b>GROSS CHARGES</b>	<b>\$238,045,425</b>	<b>\$249,617,800</b>	<b>\$260,613,481</b>	<b>\$10,995,681</b>	<b>4.4%</b>
<b>DEDUCTIONS FROM CHARGES</b>					
THIRD PARTY CONTRACTUAL ADJUSTMENTS	\$18,897,961	\$27,750,800	\$13,716,469	(\$14,034,331)	-50.6%
BILLING ADJUSTMENTS AND EMPLOYEE BENEFITS	9,644,292	9,219,200	13,169,790	3,950,590	42.9%
CHARITABLE CARE	713,871	663,800	608,930	(54,870)	-8.3%
OTHER CONTRACTUAL ADJUSTMENTS	5,170,041	4,355,300	5,759,560	1,404,260	32.2%
PROVISIONS FOR UNCOLLECTABLES	3,421,152	3,312,300	3,490,907	178,607	5.4%
<b>TOTAL DEDUCTIONS</b>	<b>\$37,847,317</b>	<b>\$45,301,400</b>	<b>\$36,745,656</b>	<b>(\$8,555,744)</b>	<b>-18.9%</b>
<b>OTHER OPERATING REVENUE</b>					
FOOD SERVICES	\$1,396,893	\$1,348,500	\$1,479,399	\$130,899	9.7%
PARKING SERVICES	223,973	500,000	628,679	128,679	25.7%
DEPARTMENT NON-PATIENT	181,910	78,700	18,896	(59,804)	-76.0%
CUHCC GRANTS	1,160,856	1,066,700	1,091,904	25,204	2.4%
REFERENCE LAB INCOME	1,358,564	1,543,700	1,459,628	(84,072)	-5.4%
PRO FEES - NET REVENUE	1,311,613	1,352,600	1,472,219	119,619	8.8%
X-RAY SILVER SALVAGE	0	0	262,643	262,643	100.0%
DONATIONS TO OPERATIONS FROM RESTRICTED FUNDS	35,109	0	0	0	100.0%
<b>TOTAL OTHER REVENUE</b>	<b>\$5,668,918</b>	<b>\$5,890,200</b>	<b>\$6,413,368</b>	<b>\$523,168</b>	<b>8.9%</b>
<b>TOTAL REVENUE FROM OPERATIONS</b>	<b>\$205,867,026</b>	<b>\$210,206,600</b>	<b>\$230,281,193</b>	<b>\$20,074,593</b>	<b>9.5%</b>
<b>EXPENDITURES</b>					
SALARIES	\$95,950,578	\$101,075,300	\$105,504,268	\$4,428,968	4.4%
FRINGE BENEFITS	17,987,902	19,139,500	21,320,749	2,181,249	11.4%
ACADEMIC CONTRACTS	1,868,150	1,960,300	2,041,424	81,124	4.1%
RESIDENT CONTRACTS	4,644,141	5,533,100	5,533,848	748	0.0%
PHYSICIAN COMPENSATION	2,546,868	2,683,300	2,923,842	240,542	9.0%
<b>TOTAL SALARY, F.B., &amp; FEES</b>	<b>\$122,997,639</b>	<b>\$130,391,500</b>	<b>\$137,324,131</b>	<b>\$6,932,631</b>	<b>5.3%</b>
LAUNDRY & LINEN	2,080,423	2,106,000	2,192,921	86,921	4.1%
RAW FOOD	1,621,696	1,688,200	1,653,426	(34,774)	-2.1%
DRUGS	15,637,904	18,560,100	16,597,698	(1,962,402)	-10.6%
BLOOD & BLOOD DERIVATIVES	5,748,524	5,853,500	7,430,189	1,576,689	26.9%
MEDICAL SUPPLIES	17,711,350	17,777,900	20,994,735	3,216,835	18.1%
UTILITIES	5,402,442	5,730,300	5,554,639	(175,661)	-3.1%
INSURANCE	2,115,636	1,007,900	1,198,727	190,827	18.9%
RENTAL	2,640,762	2,902,200	3,450,512	548,312	18.9%
MAINTENANCE & REPAIR	4,242,258	4,252,100	4,463,721	211,621	5.0%
NET LOSS ON DISPOSAL OF ASSETS	161,408	0	(3,662)	(3,662)	-100.0%
CAMPUS ADMINISTRATION EXPENSE	6,261,334	6,471,400	6,471,400	0	0.0%
DEPRECIATION AND AMORTIZATION	16,417,549	16,693,600	17,332,299	638,699	3.8%
INTEREST	9,975,524	10,428,000	10,231,507	(196,493)	-1.9%
GENERAL SUPPLIES AND EXPENSE	14,926,767	15,434,300	15,950,486	516,186	3.3%
<b>TOTAL EXPENDITURES</b>	<b>\$227,941,216</b>	<b>\$239,297,000</b>	<b>\$250,842,729</b>	<b>\$11,545,729</b>	<b>4.8%</b>
<b>NET REVENUE FROM OPERATIONS</b>	<b>(\$22,074,190)</b>	<b>(\$29,090,400)</b>	<b>(\$20,561,536)</b>	<b>\$8,528,864</b>	<b>29.3%</b>
<b>NON-OPERATING REVENUE AND EXPENSES</b>					
APPROPRIATIONS & SUPPORT	\$13,860,002	\$14,414,300	\$14,409,152	(\$5,148)	0.0%
ACCRUED INTEREST ON APPROPRIATION	758,231	0	324,019	324,019	100.0%
INTEREST INCOME ON RESERVES	6,167,728	5,517,900	6,797,364	1,279,464	23.2%
SHARED SERVICES	475,990	382,500	374,978	(7,522)	-2.0%
INVESTMENT INCOME HELD BY TRUSTEE	1,793,698	1,808,000	2,674,850	866,850	47.9%
EXTRAORDINARY INCOME (LOSS)	0	0	1,513,125	1,513,125	100.0%
OTHER INVESTMENT INCOME	0	0	65,061	65,061	100.0%
LOSS ON WRITE-OFF OF OTHER ASSETS	(1,083,286)	0	0	0	0.0%
<b>TOTAL NON-OPERATING REVENUE AND EXPENSES</b>	<b>\$21,972,363</b>	<b>\$22,122,700</b>	<b>\$26,158,549</b>	<b>\$4,035,849</b>	<b>18.2%</b>
<b>REVENUE OVER/-UNDER EXPENSE</b>	<b>(\$101,827)</b>	<b>(\$6,967,700)</b>	<b>\$5,597,013</b>	<b>\$12,564,713</b>	

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

OPERATING CASH FLOW

FOR THE PERIOD JULY 1, 1987 TO JUNE 30, 1988

Source of Funds

Beginning Operating Cash Balance		\$34,475
Net Income from Operations	(20,561,536)	
Non-Operating Revenue	26,158,549	
	-----	
Excess of Revenue over Expense		5,597,013
Items not Requiring the Outlay of Cash		
Depreciation		17,332,299
University Support: G & A		6,371,400
Disposal of Assets		25,459
Decrease in Other Receivables		642,472
Third Party Liability Transfer		6,791,534
Deferred Third Party Reimbursement		1,651,613
Renewal Project Interest Expense		9,648,555
Transfer for PCN Liability Payment		1,058,268
Prior Year CIP Expensed in Current Year		40,586
Extraordinary Loss on Bonds		515,510
		-----
Total Funds Provided from Operations		\$49,709,184

Funds Applied

Transfers to Plant:		
Increase in Capital Expenditures	\$9,386,096	
Decrease in Capital Encumbrances	(338,755)	
Total transfers to Plant from Operations		9,047,341
Increase in Accounts Receivable		7,218,674
Increase in Inventory		214,034
Increase in Prepaid Expenses		583,975
Decrease in Accrued Expenses		7,456,606
Gain on Disposal of Assets		3,662
Investment Income - Trustee-held Assets		2,674,850
Transfers to Reserves - Bond Retirement		2,707,083
Transfers to Reserves - Bond Interest		9,371,059
Year End Closing Transfer to Reserve		1,073,076
Extraordinary Gain on Bonds		2,028,635
		-----
Total Funds Applied		\$42,378,996
		-----
Operating Cash Made Available from Operations		\$7,330,188
		=====

Total Operating Cash Available of \$7,330,188 plus Transfers for Bond Retirement of \$2,707,083; plus Transfers for Bond Interest Payment of \$9,371,059; plus Transfers to Plant of \$9,047,341 equals Cash Generate from Operations of \$28,455,672.

Current Cash Summary

Operating Cash	\$7,330,188
Reserve Cash for Liability to Third Party Payors	7,514,214
Unrealized Appropriation Cash	0
Reserve Cash for Short Term Debt Retirement	2,500,000
Reserve Cash for Bond Principal & Interest Payment	6,063,351
	-----
	23,407,753
Less Interest Income on Reserves	(7,121,383)
	-----
Total Current Cash	\$16,286,370
	=====

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC  
BALANCE SHEETS

JUNE 30, 1988 AND JUNE 30, 1987

ASSETS	6/30/88	6/30/87	LIABILITIES AND FUND BALANCES	6/30/88	6/30/87
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Operating Cash	\$208,805	\$34,475	Accounts payable	\$7,620,725	\$6,107,767
Reserve Cash- Third Party Payable	7,514,214	14,305,751	Payable to Third Party Contr. Payors	7,514,214	14,305,751
Unrealized Appropriation Cash	0	0	Salaries, Wages and Payroll Taxes	4,550,262	7,080,113
Reserve Cash- Short Term Debt	2,500,000	2,500,000	Accrued Vacation	7,359,638	6,706,162
Reserve Cash- Bond Int. & Prin. Pay.	6,063,351	4,214,376	Accrued Professional Fees and Physician Compensation	1,335,461	1,619,648
Accounts Receivable			Contracts Payable	434,993	2,369
Patient Receivables	79,340,120	72,366,775	Construction Retainages	171,434	918,366
Other Receivables	1,946,002	2,018,472	Interest Payable	4,927,542	4,263,163
	81,286,122	74,385,247	Current Portion of Long-Term Debt	3,826,673	3,796,447
Less Allowances for Losses in Collection	(5,608,829)	(5,578,000)	Promissory Notes Payable	2,500,000	2,500,000
	-----	-----		-----	-----
Less Allowances for Discounts to Third Party Payors	(13,347,702)	(13,623,861)			
	62,329,591	55,183,386			
	-----	-----			
Trustee Held Assets	0	1,020,755			
Inventories of Drugs & Supplies	4,749,698	4,863,369			
Prepaid Expenses	977,119	393,145			
Silver Deposits	262,643	0			
	-----	-----			
<b>TOTAL CURRENT ASSETS</b>	<b>\$84,605,421</b>	<b>\$82,515,257</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$40,240,942</b>	<b>\$47,299,786</b>
	-----	-----		-----	-----
<b>BOARD DESIGNATED ASSET:</b>					
Board Designated Assets Available for Assignment					
Cash & Investments	\$67,965,416	\$56,442,424			
Accrued Interest	148,240	605,020			
	-----	-----			
	68,113,656	57,047,444			
Assigned Cash & Investments	10,098,464	8,508,004			
	-----	-----			
<b>TOTAL BOARD DESIGNATED ASSETS</b>	<b>\$78,212,120</b>	<b>\$65,555,448</b>			
	-----	-----			
<b>DEFERRED THIRD PARTY REIMBURSEMENT</b>	<b>\$8,520,626</b>	<b>\$10,172,239</b>			
	-----	-----			
<b>OTHER ASSETS</b>	<b>\$323,251</b>	<b>\$258,189</b>			
	-----	-----			
<b>LAND, BUILDINGS &amp; EQUIPMENT</b>					
Land, Buildings & Improvements	\$183,083,996	\$180,359,060			
Equipment	77,311,402	68,008,620			
	-----	-----			
	260,395,398	248,367,680			
Less Accumulated Depreciation	(83,775,058)	(67,640,664)	<b>UNRESTRICTED FUND BALANCE</b>	<b>\$182,414,924</b>	<b>\$170,460,153</b>
	-----	-----		-----	-----
	176,620,340	180,727,016			
Construction in Progress	5,249,789	8,210,281			
	-----	-----			
<b>TOTAL LAND, BUILDINGS &amp; EQUIPMENT</b>	<b>\$181,870,129</b>	<b>\$188,937,297</b>			
	-----	-----			
<b>TRUSTEE HELD ASSETS</b>	<b>\$42,433,460</b>	<b>\$51,195,164</b>			
	-----	-----			
<b>DEFERRED DEBT EXPENSE</b>	<b>\$1,360,345</b>	<b>\$2,023,259</b>			
	-----	-----			
	\$397,325,352	\$400,656,853		\$397,325,352	\$400,656,853
	=====	=====		=====	=====
	-----	-----			
<b>RESTRICTED ASSETS</b>			<b>RESTRICTED FUND BALANCES</b>		
			Fund Balances		
Cash and Investments	\$5,955,185	\$4,856,396	Endowment Funds	\$1,977,422	\$1,846,730
	-----	-----	Gift Funds	3,977,763	3,009,666
	=====	=====		-----	-----
				\$5,955,185	\$4,856,396
				=====	=====

University of Minnesota Hospital & Clinic  
Statement of Changes in Fund Balance  
For the Period July 1, 1987 to June 30, 1988

	OPERATING FUND	BOARD DESIGNATED FUND	TRUSTEE & PLANT FUND	TOTAL UNRESTRICTED FUNDS
<b>UNRESTRICTED FUNDS</b>				
Beginning Balance	\$33,976,173	\$57,047,446	\$79,436,534	\$170,460,153
<b>Net Income</b>				
Excess of Revenue over Expense	11,224,110			
Interest Income on Reserves		6,797,364		
Accrued Interest on Appropriations		324,019		
Depreciation Expense			(17,332,299)	
Gain on Disposal of Assets			1,154	
Interest Expense			1,905,307	
Interest Income on Trustee Held Fund			2,674,850	
Total Income				5,597,013
<b>Less Expense</b>				
University Support: G & A	6,371,400			6,371,400
<b>Transfers Between Funds</b>				
Major Building Projects- Hospital Only	(98,500)	(4,904,597)	5,003,097	0
Capital Expenditures	(8,557,334)	0	8,557,334	0
Capital Encumbrance Change	338,755		(338,755)	0
Major Equipment Requisition	(1,001,158)	7,225,366	(6,224,208)	0
Bond Interest Payment	10,877,804	(10,668,397)	(209,407)	0
Bond Principal Sinking Fund	(1,534,166)	1,534,166		0
Short Term Note Funding	2,500,000		(2,500,000)	0
Bond Interest Expense Funding	(4,480,624)	4,480,624		0
Prior Year End Bond Interest Transfer	(4,214,376)	4,214,376		0
Reimbursement from Trustee- Bond Interest			(4,841,928)	0
PCN liability payment	1,058,268	(1,058,268)		0
Increase in Restricted Gift Fund				0
Commitment to Plant			155,560	155,560
Unrestricted Donation			50,000	50,000
Adjustments to Hospital Shared Buildings	0	271	(53,247)	(52,976)
Orthopaedic Surgery loan	570,000		(570,000)	0
Bond Principal Payment	0	(2,630,000)	2,630,000	0
Year End Closing Transfer	(1,073,076)	1,073,076		0
Lipid Research Space		(163,718)		(163,718)
Ending Balance	\$45,957,276	\$68,113,656	\$68,343,992	\$182,414,924

	GIFT	ENDOWMENT	TOTAL
<b>RESTRICTED FUNDS</b>			
Beginning Balance	3,009,666	1,846,730	4,856,396
Income	1,602,370	153,873	1,756,243
Disbursement	(634,274)	(23,180)	(657,454)
Ending Balance	\$3,977,762	\$1,977,423	\$5,955,185

UMHC Board Designated Fund Activity  
6-30-87 through 6-30-88

	<u>Unspecified</u>	<u>Specified</u>	<u>Total</u>
Balance at 6-30-87	\$57,047,444	\$ 8,508,004	\$65,555,448
Interest Income on Reserves and Appropriations	7,121,382	-0-	7,121,382
Net Transfers from Trustee for Equipment, Renovation Expenses, and Debt Service Costs	9,874,425	-0-	9,874,425
Payment of Primary Care Network Loan Guarantees	<1,058,268>	-0-	<1,058,268>
Reimburse Campus for Lipid Research Space	< 163,718>	-0-	< 163,718>
Refund of Insurance Premium Cost for Unit J Construction	174,521	-0-	174,521
Transfer of Cash for Abandonment Cost Note Payable	-0-	<2,500,000>	<2,500,000>
Transfers for:			
Community University Health Care Center	<1,350,000>	1,350,000	-0-
MRI-2	<3,600,000>	3,600,000	-0-
Dermatology Clinic	< 630,000>	630,000	-0-
Eye Clinic	< 40,000>	40,000	-0-
Architect Fees	< 490,000>	490,000	-0-
Orthopaedic Surgery Loan	-0-	< 570,000>	< 570,000>
Closed Plant Funds	154,794	< 154,794>	-0-
Transfer from Operations - Capital Encumb.	-0-	56,436	56,436
Expenditures Against Equipment Rollforward Reserve	-0-	< 490,064>	< 490,064>
Expenditures Against Plant Funds	-0-	< 861,118>	< 861,118>
Year End Closing from Operations	1,073,076	-0-	1,073,076
Balance at 6-30-88	\$68,113,656	\$10,098,464	\$78,212,120



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

September 28, 1988

**TO:** Board of Governors - Finance Committee  
**FROM:** Clifford P. Fearing  
**SUBJECT:** Report of Operations for the Period  
July 1, 1988 through August 31, 1988

The Hospital's operations through the month of August reflect both inpatient admissions and outpatient visit activity that were above budgeted levels. Ancillary and routine revenue were also above budgeted levels.

**INPATIENT CENSUS:** For the month of August, inpatient admissions totaled 1,683, which was 107 above budgeted admissions of 1,576. Our overall average length of stay for the month was 8.5 days. Patient days for August totaled 14,106 and were 1,682 days over budget. The increase in admission levels over budget was primarily in the area of Medicine.

To recap our year-to-date inpatient census:

	1987-88	1988-89	1988-89		%
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Var</u>
Admissions	3,401	3,194	3,307	113	3.5
Patient Days	26,949	24,935	27,882	2,947	11.8
Avg Length of Stay	7.9	7.8	8.4	0.6	7.7
Avg Daily Census	434.7	402.2	449.7	47.5	11.8
Percent Occupancy	74.7	69.7	77.5	7.8	11.2

**OUTPATIENT CENSUS:** Clinic visits for the month of August totaled 25,147 which was 3,286 or 15.0% above budgeted visits of 21,861. Areas which experienced actual visits with large increases over budget were Dermatology, Ophthalmology, Orthopedic and Adult Psych. Community University Health Care Center (CUHCC) visits for the month of August totaled 3,930 which was 633 or 13.9% under budgeted visits of 4,563 while Home Health visits of 910 for the month were 95 or 11.7 % above budgeted visits of 815.



REPORT OF OPERATIONS  
 AUGUST 1988  
 PAGE 2

To recap our year-to-date outpatient census:

	1987-88 <u>Actual</u>	1988-89 <u>Budget</u>	1988-89 <u>Actual</u>	<u>Variance</u>	<u>% Var</u>
Clinic Visits	44,183	44,581	46,955	2,374	5.3
CUHCC Visits	8,503	8,532	7,291	(1,241)	(14.6)
HHA Visits	1,219	1,631	1,733	102	6.3

**FINANCIAL OPERATIONS:** The Hospital's Statement of Operations shows total revenue over expense of \$5,169,076 a favorable variance of \$3,839,478.

Patient care charges through August totaled \$53,296,031 which was 10.9% over budget. Routine revenue was 15.4% over budget and reflects our year-to-date favorable patient day variance.

Ancillary revenue was \$3,295,523 above budget (9.3%) and reflected the favorable variance in both admissions and clinic visits. Inpatient ancillary revenue has averaged \$8,742 per admission compared to the budgeted average of \$7,982 per admission. Outpatient revenue per clinic visit has averaged \$217 compared to the budgeted average of \$225.

Operating expenditures through August totaled \$43,861,385 and were \$189,793 (.4%) over budgeted levels.

**ACCOUNTS RECEIVABLE:** The balance in patient accounts receivable as of August 31, 1988, totaled \$86,565,819 and represented 99.0 days of revenue outstanding. The overall days of revenue outstanding increased by .3 from June. The majority of the increase reflects the July price increase on patient charges.

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

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

EXECUTIVE SUMMARY OF FINANCIAL ACTIVITY

FOR THE PERIOD JULY 1, 1988 TO AUGUST 31, 1988

	1987-88 Budgeted	1987-88 Actual	Variance Over/-Under Budget	Variance %
Patient Care Charges	\$48,067,215	\$53,296,031	\$5,228,816	10.9%
Deductions from Charges	8,313,234	9,560,183	\$1,246,949	15.0%
Other Operating Revenue	1,474,915	1,401,547	(\$73,368)	-5.0%
<b>Total Operating Revenue</b>	<b>41,228,896</b>	<b>45,137,395</b>	<b>3,908,499</b>	<b>9.5%</b>
Total Expenditures	43,671,592	43,861,385	189,793	0.4%
<b>Net Operating Revenue</b>	<b>(2,442,696)</b>	<b>1,276,010</b>	<b>3,718,706</b>	<b>152.2%</b>
 Non-Operating Revenue and Expenses	 3,772,294	 3,893,066	 120,772	 3.2%
 Revenue Over/Under Expense	 \$1,329,598	 \$5,169,076	 \$3,839,478	

	1987-88 Budgeted	1987-88 Actual	Variance Over/-Under Budget	Variance %
Admissions	3,194	3,307	113	3.5%
Patient Days	24,935	27,882	2,947	11.8%
Average Daily Census	402.2	449.7	47.5	11.8%
Average Length of Stay	7.8	8.4	0.6	7.7%
Percentage Occupancy	69.7	77.5	7.8	11.2%
Outpatient Clinic Visits	44,581	46,955	2,374	5.3%

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

STATEMENT OF OPERATIONS

FOR THE PERIOD JULY 1, 1988 TO AUGUST 31, 1988

	Budgeted	Actual	Variance Over/-Under Budget	Variance %
Gross Patient Charges	\$48,067,215	\$53,296,031	\$5,228,816	10.9%
Deductions from Charges	8,313,234	9,560,183	1,246,949	15.0%
Other Operating Revenue	1,474,915	1,401,547	(73,368)	-5.0%
<b>Total Operating Revenue</b>	<b>\$41,228,896</b>	<b>\$45,137,395</b>	<b>\$3,908,499</b>	<b>9.5%</b>
<b>Expenditures</b>				
Salaries	\$17,993,618	\$18,710,559	\$716,941	4.0%
Fringe Benefits	4,144,613	4,131,550	(13,063)	-0.3%
Contract Compensation	1,835,037	1,821,814	(13,223)	-0.7%
Medical Supplies, Drugs, Blood	7,942,543	7,952,538	9,995	0.1%
Campus Administration Expense	43,505	44,821	1,316	3.0%
Depreciation and Amortization	3,058,048	2,884,066	(173,982)	-5.7%
General Supplies & Expense	8,654,228	8,316,037	(338,191)	-3.9%
<b>Total Expenditures</b>	<b>\$43,671,592</b>	<b>\$43,861,385</b>	<b>\$189,793</b>	<b>0.4%</b>
<b>Net Revenue from Operations</b>	<b>(\$2,442,696)</b>	<b>\$1,276,010</b>	<b>\$3,718,706</b>	<b>152.2%</b>
<b>Non-Operating Revenue and Expenses</b>				
Appropriations	\$2,501,159	\$2,470,935	(\$30,224)	-1.2%
Interest Income on Reserves	1,070,018	1,161,789	91,771	8.6%
Shared Services	17,090	9,011	(8,079)	-47.3%
Investment Income on Trustee Held Assets	184,027	251,331	67,304	36.6%
<b>Total Non-Operating Revenues and Expenses</b>	<b>\$3,772,294</b>	<b>\$3,893,066</b>	<b>\$120,772</b>	<b>3.2%</b>
<b>Revenue Over Expense</b>	<b>\$1,329,598</b>	<b>\$5,169,076</b>	<b>\$3,839,478</b>	

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC  
STATEMENT OF OPERATIONS  
FOR THE PERIOD ENDED JULY 1, 1988 TO AUGUST 31, 1988

ANNUAL BUDGET		BUDGETED	ACTUAL	OVER/(UNDER) BUDGET	VARIANCE %
	<b>PATIENT CARE CHARGES</b>				
\$72,148,888	ROUTINE	\$12,519,484	\$14,452,777	\$1,933,293	15.44%
209,270,173	ANCILLARY	35,547,731	38,843,254	3,295,523	9.27%
\$281,419,061	GROSS CHARGES	\$48,067,215	\$53,296,031	\$5,228,816	10.88%
	<b>DEDUCTIONS FROM CHARGES</b>				
\$8,692,095	BILLING ADJUSTMENTS	\$1,484,636	\$1,790,076	\$305,440	20.57%
7,473,912	HMO/PPO DISCOUNTS	1,276,566	1,487,818	211,252	16.55%
27,963,161	GOVERNMENTAL CONTRACTUAL ADJUST	4,776,191	5,455,854	679,663	14.23%
550,000	CHARITABLE CARE	93,941	81,324	(12,617)	-13.43%
3,992,314	PROVISION FOR UNCOLLECTABLES	681,899	745,111	63,212	9.27%
\$48,671,482	TOTAL DEDUCTIONS	\$8,313,234	\$9,560,183	\$1,246,949	15.00%
	<b>OTHER OPERATING REVENUE</b>				
\$1,527,908	FOOD SERVICES	\$259,622	\$252,699	(\$6,923)	-2.67%
576,362	PARKING SERVICES	97,935	116,450	18,515	18.90%
47,629	DEPARTMENT NON-PATIENT	8,090	16,795	8,705	107.59%
1,105,610	CUHCC GRANTS	204,598	187,141	(17,457)	-8.53%
1,486,653	REFERENCE LAB INCOME	252,531	203,521	(49,010)	-19.41%
1,532,981	PRO FEES--NET REVENUE	261,838	298,685	36,847	14.07%
	SILVER SALVAGE	0	(6,487)	(6,487)	
2,407,080	INCOME FROM BOND PROCEEDS	390,301	332,743	(57,558)	-14.75%
\$8,684,223	TOTAL OTHER REVENUE	\$1,474,915	\$1,401,547	(\$73,368)	-4.97%
\$241,431,802	TOTAL REVENUE FROM OPERATIONS	\$41,228,897	\$45,137,395	\$3,908,498	9.48%
	<b>EXPENDITURES</b>				
\$106,820,505	SALARIES	\$17,993,618	\$18,710,559	\$716,941	3.98%
24,605,212	FRINGE BENEFITS	4,144,613	4,131,550	(13,063)	-0.32%
2,128,516	ACADEMIC CONTRACTS	354,753	352,491	(2,262)	-0.64%
5,907,211	RESIDENT CONTRACTS	970,953	970,956	3	0.00%
3,055,988	PHYSICIAN COMPENSATION	509,331	498,367	(10,964)	-2.15%
142,517,432		23,973,267	24,663,923	690,656	2.88%
2,417,579	LAUNDRY & LINEN	416,501	383,076	(33,425)	-8.03%
1,759,639	RAW FOOD	302,102	317,333	15,231	5.04%
18,139,783	DRUGS	3,082,311	3,234,338	152,027	4.93%
1,441,478	BLOOD & BLOOD DERIVATIVES	1,402,730	1,166,307	(236,423)	-16.85%
3,553,007	MEDICAL SUPPLIES & SERVICES	3,457,502	3,551,893	94,391	2.73%
5,923,278	UTILITIES	987,213	824,003	(163,210)	-16.53%
1,383,089	INSURANCE	225,748	230,082	4,334	1.92%
3,699,773	RENTAL	633,875	784,305	150,430	23.73%
4,475,024	MAINTENANCE & REPAIR	760,141	998,240	238,099	31.32%
0	NET LOSS ON DISPOSAL OF ASSETS	0	0	0	
256,121	CAMPUS ADMINISTRATION EXPENSE	43,505	44,821	1,316	3.02%
17,918,520	DEPRECIATION	3,058,048	2,884,066	(173,982)	-5.69%
12,004,781	INTEREST	2,036,990	2,082,104	45,114	2.21%
19,378,313	GENERAL SUPPLIES & EXPENSE	3,291,659	2,696,894	(594,765)	-18.07%
\$234,867,817	TOTAL EXPENDITURES	\$43,671,592	\$43,861,385	\$189,793	0.43%
\$6,563,985	NET REVENUE FROM OPERATIONS	(\$2,442,696)	\$1,276,010	\$3,718,706	152.24%
	<b>NON-OPERATING REVENUE</b>				
\$14,724,568	APPROPRIATIONS & SUPPORT	\$2,501,159	\$2,470,935	(\$30,224)	-1.21%
0	ACCRUED INTEREST ON APPROP	0	0	0	
5,257,858	INTEREST INCOME ON RESERVES	1,070,018	1,161,789	91,771	8.58%
100,608	SHARED SERVICES	17,090	9,011	(8,079)	-47.27%
1,094,568	INVESTMENT INCOME HELD BY TRUSTEE	184,027	251,331	67,304	36.57%
\$21,177,602	TOTAL NON-OPERATING REVENUE	\$3,772,294	\$3,893,066	\$120,772	3.20%
\$27,741,587	REVENUE OVER/(UNDER) EXPENSE	\$1,329,598	\$5,169,076	\$3,839,478	

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

OPERATING CASH FLOW

FOR THE PERIOD JULY 1, 1988 TO AUGUST 31, 1988

Source of Funds

Beginning Operating Cash Balance		\$208,805
Net Income from Operations	1,276,010	
Non-Operating Revenue	3,893,066	
	-----	
Excess of Revenue over Expense		5,169,076
Items not Requiring the Outlay of Cash		
Depreciation		2,884,066
University Support: G & A		44,821
Decrease in Other Receivables		622,597
Deferred Third Party Reimbursement		113,536
Renewal Project Interest Expense		1,669,505
Decrease in Inventory		22,855
Decrease in Prepaid Expenses		839,051
Increase in Accrued Expenses		2,309,469
		-----
Total Funds Provided from Operations		\$13,883,781

Funds Applied

Capital Expenditures		833,000
Increase in Accounts Receivable		7,148,833
Investment Income - Trustee-held Assets		251,331
Transfers to Reserves - Bond Retirement		469,167
Transfers to Reserves - Bond Interest		1,623,431
Third Party Liability Transfer		112,708
		-----
Total Funds Applied		\$10,438,470
		-----
Operating Cash Made Available from Operations		\$3,445,311
		=====

Total Operating Cash Available of \$3,445,311 plus Transfers for Bond Retirement of \$469,167; plus Transfers for Bond Interest Payment of \$1,623,431; plus Transfers to Plant of \$833,000 equals Cash Generate from Operations of \$6,370,909.

Current Cash Summary

Operating Cash	\$3,445,311
Reserve Cash for Liability to Third Party Payors	7,626,922
Unrealized Appropriation Cash	12,354,676
Reserve Cash for Short Term Debt Retirement	2,500,000
Reserve Cash for Bond Principal & Interest Payment	2,620,171
	-----
	28,547,080
Less Interest Income on Reserves	(1,161,789)
	-----
Total Current Cash	\$27,385,291
	=====

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC  
BALANCE SHEETS

AUGUST 31, 1988 AND JUNE 30, 1988

ASSETS	8/31/88	6/30/88	LIABILITIES AND FUND BALANCES	8/31/88	6/30/88
	-----	-----		-----	-----
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Operating Cash	\$2,283,522	\$208,805	Accounts payable	\$6,681,969	\$7,620,725
Reserve Cash- Third Party Payable	7,626,922	7,514,214	Payable to Third Party Contr. Payors	7,626,922	7,514,214
Unrealized Appropriation Cash	12,354,676	0	Salaries, Wages and Payroll Taxes	6,689,386	4,550,262
Reserve Cash- Short Term Debt	2,500,000	2,500,000	Accrued Vacation	7,008,696	7,359,638
Reserve Cash- Bond Int. & Prin. Pay.	2,620,171	6,063,351	Accrued Professional Fees and Physician Compensation	1,762,404	1,335,461
Accounts Receivable			Contracts Payable	1,363,444	434,993
Patient Receivables	86,565,819	79,340,120	Construction Retainages	0	171,434
Other Receivables	1,323,405	1,946,002	Interest Payable	1,007,136	4,927,542
	-----	-----	Current Portion of Long-Term Debt	3,724,870	3,826,673
Less Allowances for Losses in Collection	(5,955,070)	(5,608,829)	Promissory Notes Payable	2,500,000	2,500,000
	-----	-----		-----	-----
Less Allowances for Discounts to Third Party Payors	(13,078,327)	(13,347,702)			
	-----	-----			
	68,855,827	62,329,591			
Trustee Held Assets	0	0			
Inventories of Drugs & Supplies	4,733,331	4,749,698			
Prepaid Expenses	138,068	977,119			
Silver Deposits	256,155	262,643			
	-----	-----			
<b>TOTAL CURRENT ASSETS</b>	<b>\$101,368,672</b>	<b>\$84,605,421</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>\$38,364,827</b>	<b>\$40,240,942</b>
<b>BOARD DESIGNATED ASSET:</b>					
Board Designated Assets Available for Assignment					
Cash & Investments	\$67,960,318	\$67,965,416			
Accrued Interest	1,310,516	148,240			
	-----	-----			
	69,270,834	68,113,656			
Assigned Cash & Investments	7,565,561	10,098,464			
	-----	-----			
<b>TOTAL BOARD DESIGNATED ASSETS</b>	<b>\$76,836,395</b>	<b>\$78,212,120</b>			
DEFERRED THIRD PARTY REIMBURSEMENT	\$8,407,090	\$8,520,626			
OTHER ASSETS	\$323,251	\$323,251			
LAND, BUILDINGS & EQUIPMENT					
Land, Buildings & Improvements	\$183,083,996	\$183,083,996			
Equipment	79,326,465	77,311,402			
	-----	-----			
	262,410,461	260,395,398			
Less Accumulated Depreciation	(86,659,123)	(83,775,058)	<b>UNRESTRICTED FUND BALANCE</b>	<b>\$199,999,184</b>	<b>\$182,414,924</b>
	-----	-----		-----	-----
	175,751,338	176,620,340			
Construction in Progress	3,788,355	5,249,789			
	-----	-----			
<b>TOTAL LAND, BUILDINGS &amp; EQUIPMENT</b>	<b>\$179,539,693</b>	<b>\$181,870,129</b>			
TRUSTEE HELD ASSETS	\$42,659,132	\$42,433,460			
DEFERRED DEBT EXPENSE	\$1,335,953	\$1,360,345			
	-----	-----			
	\$410,470,186	\$397,325,352		\$410,470,186	\$397,325,352
	=====	=====		=====	=====
<b>RESTRICTED ASSETS</b>			<b>RESTRICTED FUND BALANCES</b>		
			Fund Balances		
Cash and Investments	\$6,081,692	\$5,955,185	Endowment Funds	\$1,977,087	\$1,977,422
	-----	-----	Gift Funds	4,104,605	3,977,763
	=====	=====		-----	-----
				\$6,081,692	\$5,955,185
				=====	=====

University of Minnesota Hospital & Clinic  
Statement of Changes in Fund Balance  
For the Period July 1, 1988 to August 31, 1988

	OPERATING FUND	BOARD DESIGNATED FUND	TRUSTEE & PLANT FUND	TOTAL UNRESTRICTED FUNDS
<b>UNRESTRICTED FUNDS</b>				
Beginning Balance	\$45,957,275	\$68,113,656	\$68,343,993	\$182,414,924
<b>Net Income</b>				
Excess of Revenue over Expense	6,353,353			
Interest Income on Reserves		1,161,789		
Accrued Interest on Appropriations		0		
Depreciation Expense			(2,884,066)	
Gain on Disposal of Assets			0	
Interest Expense			286,669	
Interest Income on Trustee Held Fund			251,331	
<b>Total Income</b>				<b>5,169,076</b>
<b>Less Expense</b>				
Unrealized Appropriation Revenue	12,354,675			12,354,675
University Support: G & A	44,821			44,821
<b>Transfers Between Funds</b>				
Major Building Projects- Hospital Only	0	(30,272)	30,272	0
Capital Expenditures	(645,750)	0	645,750	0
Major Equipment Requisition	(157,697)	0	157,697	0
Bond Interest Payment	5,868,521	(5,510,118)	(358,403)	0
Short Term Note Funding	2,500,000		(2,500,000)	0
Bond Interest Expense Funding	(5,535,778)	5,535,778		0
Increase in Restricted Gift Fund				
Commitment to Plant			15,688	15,688
<b>Ending Balance</b>	<b>\$66,739,420</b>	<b>\$69,270,833</b>	<b>\$63,988,931</b>	<b>\$199,999,184</b>
<b>RESTRICTED FUNDS</b>				
Beginning Balance		3,977,762	1,977,422	5,955,184
Income		156,939	0	156,939
Disbursement		(30,096)	(335)	(30,431)
<b>Ending Balance</b>		<b>\$4,104,605</b>	<b>\$1,977,087</b>	<b>\$6,081,692</b>

## ACCOUNTS RECEIVABLE HIGHLIGHTS

August 31, 1988

Category	Amount	+ or (-) Prev. Mo.	% Change	+ or (-) 6/30/88	% Change	8/31/88 <sup>C</sup> Days
Total	\$86,294,694 <sup>a</sup>	\$2,256,458	2.69%	\$7,228,243	9.14%	98.98 <sup>a</sup>
Inhouse	14,700,523 <sup>a</sup>	1,510,976	11.46%	1,848,510	14.38%	16.86 <sup>a</sup>
DNFB <sup>b</sup>	12,296,296 <sup>a</sup>	1,150,786	10.33%	3,065,734	33.21%	14.10 <sup>a</sup>
		-2,888,888				
		-2,570,788				
		-6,495,487				
		- 341,133				
Collections	5,641,354	222,008	4.10%	371,559	7.05%	6.47
Follow-up	6,115,395	(32,179)	(0.52)%	628,515	11.45%	7.01
Net DAR	47,541,126 <sup>a</sup>	(595,133)	(1.24)%	1,313,925	2.84%	54.53 <sup>a</sup>

a. Figures shown are gross dollars or days and do not reflect contractual allowances or discounts. (i.e. Net DAR after adjustment would be approximately \$39,500,000 or 45.26 days.)

b. Discharged Not Final Billed.

c. Three month average daily revenue = \$871,869 (a 8.86% increase from 6/30/88).

### Significant Changes:

- August receivables ended with a 0.27 day increase over June 30, up \$7,228,243. Approximately 68% of this increase reflects the July 1 price increase, the high census and a two day increase in the inpatient DNFB<sup>b</sup> hold (This change will resolve some operation problems related to late charges.). The \$300T increase in the miscellaneous hold reflects a number of accounts that cannot be billed until the PRO completes their review.
- Significant increases in the Net DAR from June included Blue Cross/Blue Shield, \$1.3M; Out-of-State MA, \$506T; External Audits, \$440T; Workers Comp., \$251T; Out-of-State CCS, \$248T; Transplant Contracts, \$228T; Medicare, \$184T; Special Contracts, \$143T; and Agency Pending, \$127T.
- Significant decreases in Net DAR were reflected by Minnesota MA, \$1M; Veterans Administration, \$940T; Out-of-State Blue Cross, \$452T; Commercial Insurance, \$295T; G.A., \$173T; P.H.S., \$115T; Misc. HMO/PPO, \$105T; and N.I.H., \$97T.





UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

September 22, 1988

TO: Members of the Board of Governors Finance Committee

FROM: Clifford P. Fearing  
Senior Associate Director

REGARDING: Variable Rate Bond Interest Rates

The attached document showing the current variable rate interest expense will be discussed with the Committee by Roger Paschke at the September 25th Committee meeting.

CPF/kff

Attachment

UNIVERSITY OF MINNESOTA  
SCHEDULE OF BONDED DEBT  
FOR THE MONTH OF SEPTEMBER, 1988

I. FIXED RATE BONDS  
=====

ISSUE	FINAL MATURITY	RATE	AMOUNT
Series 1986A General Obligation Refunding Bonds	2011	7.520%(avg)	\$109,210,000
Series 1985A General Obligation Refunding Bonds	1989	7.250%	\$2,815,000
Various Auxiliary Enterprise Bonds	2013	3.000%	\$18,795,000
			=====
TOTAL FIXED RATE BONDS		6.860% *	\$130,820,000 (44%)

II. VARIABLE RATE BONDS (Final Maturity - 2017)  
=====

ISSUE	RATE	AMOUNT
Annual Interest Mode: Series 1985 F and G		
		\$70,000,000
Commercial Paper (Flexible) Mode: Series 1985 E, H, and I		
Due Date On All	02-Nov-88	\$2,000,000
Outstanding Issues	03-Nov-88	\$3,100,000
	17-Oct-88	\$500,000
	17-Oct-88	\$2,000,000
	11-Oct-88	\$4,000,000
	24-Oct-88	\$500,000
	24-Oct-88	\$2,000,000
	22-Sep-88	\$10,000,000
	26-Sep-88	\$3,000,000
	23-Sep-88	\$480,000
	23-Sep-88	\$1,175,000
	05-Oct-88	\$2,745,000
	24-Oct-88	\$500,000
	20-Oct-88	\$20,000,000
	18-Oct-88	\$5,000,000
	22-Nov-88	\$5,000,000
	28-Oct-88	\$300,000
	07-Nov-88	\$2,000,000
	03-Oct-88	\$2,500,000
	28-Oct-88	\$25,700,000
	14-Nov-88	\$5,000,000
TOTAL VARIABLE RATE BONDS		\$167,500,000 (56%)
GRAND TOTAL BONDED DEBT		\$298,320,000 (100%)
		=====

\* Weighted average rate; an additional fee of .625% for remarketing, line of credit, and internal administration is charged to units borrowing from the Variable Rate Bonds.

CUMULATIVE HISTORY OF UNIVERSITY OF MINNESOTA TAX EXEMPT COMMERCIAL PAPER DAILY RATES


DATE	RATE	DATE	RATE	DATE	RATE
07/01/88	5.000%	08/01/88	5.984%	09/01/88	5.974%
07/02/88	5.000%	08/02/88	5.930%	09/02/88	5.974%
07/03/88	5.000%	08/03/88	5.940%	09/03/88	5.974%
07/04/88	5.000%	08/04/88	5.939%	09/04/88	5.974%
07/05/88	5.000%	08/05/88	5.939%	09/05/88	5.974%
07/06/88	5.000%	08/06/88	5.939%	09/06/88	5.974%
07/07/88	5.000%	08/07/88	5.939%	09/07/88	5.974%
07/08/88	5.000%	08/08/88	5.935%	09/08/88	5.972%
07/09/88	5.000%	08/09/88	5.915%	09/09/88	5.972%
07/10/88	5.000%	08/10/88	5.915%	09/10/88	5.972%
07/11/88	5.000%	08/11/88	5.944%	09/11/88	5.972%
07/12/88	5.000%	08/12/88	5.944%	09/12/88	5.972%
07/13/88	5.000%	08/13/88	5.944%	09/13/88	5.969%
07/14/88	5.000%	08/14/88	5.944%	09/14/88	5.969%
07/15/88	5.000%	08/15/88	5.944%	09/15/88	5.969%
07/16/88	5.000%	08/16/88	5.944%	09/16/88	5.969%
07/17/88	5.000%	08/17/88	5.944%	09/17/88	5.969%
07/18/88	5.000%	08/18/88	5.944%	09/18/88	5.969%
07/19/88	5.000%	08/19/88	5.944%	09/19/88	5.969%
07/20/88	5.000%	08/20/88	5.944%	09/20/88	5.969%
07/21/88	5.000%	08/21/88	5.944%	09/21/88	5.969%
07/22/88	5.000%	08/22/88	5.944%	09/22/88	
07/23/88	5.000%	08/23/88	5.944%	09/23/88	
07/24/88	5.000%	08/24/88	5.951%	09/24/88	
07/25/88	5.000%	08/25/88	5.951%	09/25/88	
07/26/88	5.000%	08/26/88	5.973%	09/26/88	
07/27/88	5.000%	08/27/88	5.973%	09/27/88	
07/28/88	5.000%	08/28/88	5.973%	09/28/88	
07/29/88	5.000%	08/29/88	5.973%	09/29/88	
07/30/88	5.000%	08/30/88	5.974%	09/30/88	
07/31/88	5.000%	08/31/88	5.974%		
AVERAGE	5.000%	AVERAGE	5.948%	AVERAGE	5.971%
FEES	0.625%	FEES	0.625%	FEES	0.625%
NET RATE	5.625%	NET RATE	6.573%	NET RATE	6.596%
				QTR AVG	5.668%
				FEES	0.625%
				NET RATE	6.293%



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

September 22, 1988

**MEMO TO:** Members, Finance Committee  
**FROM:** Greg Hart   
**REGARDING:** Community University Health Care Center and  
Health Etc.

Last month, the Board of Governors reviewed a proposal that calls for the consolidation of Health Etc., a neighborhood clinic in south Minneapolis, with the Community University Health Care Center (CUHCC). Based on the questions raised by the Board, we would like to further review and discuss this proposal with the Finance Committee at your September meeting before presenting it for approval, presumably in October.

Attached is the proposal that was presented last month. This proposal was discussed with the Planning and Development Committee on September 15th. If appropriate, we will present this for committee and Board of Governors approval in October. Mary Ellen Wells and Amos Deinard, M.D. will be presenting this information and will be available for questions.

Thank you for your consideration of this proposal.

Attachment

**Consolidation Proposal  
Community University Health Care Center  
and  
Health Etc.**

**I. INTRODUCTION**

Approximately twelve months ago, the Board of Directors of Health Etc., a community clinic that provides medical and dental services in south Minneapolis, contacted the CUHCC staff regarding their desire to explore a consolidation of Health Etc. into CUHCC. Their board believes the clinic cannot continue to operate independently and must affiliate with another provider. They believe CUHCC is the most attractive alternative and have asked that UMHC consider consolidating the programs. Mission compatibility, patient demographics, financial impact, legal considerations, employee status, facility needs, and public support have been studied. Following is a summary of the issues.

**II. HEALTH ETC. PROGRAM DESCRIPTION**

Health Etc. is a community clinic with a similar mission to CUHCC's of providing health care to the corridor poor of south Minneapolis. It is located in leased space on Lake Street near Bloomington Avenue, less than one mile south of CUHCC. Exhibit I identifies the number and types of patients who are served by Health Etc. and compares these figures to CUHCC's population.

The majority of Health Etc. patients are young, healthy, single individuals who use the clinic for episodic medical and dental care. Health Etc. has approximately one-third of CUHCC's medical visits, the same number of dental visits, and does not offer mental health services. 35% of Health Etc. patients have health insurance as compared to 3% of the CUHCC patients.

Although there are differences in the patient mix between the clinics, the programs are compatible and the health care needs of Health Etc. patients can be met by CUHCC.

**III. FINANCIAL ASSESSMENT**

Exhibit II summarizes Health Etc.'s 1988 projected operating budget. A deficit of \$42,701 has been budgeted, which will be covered by cash reserves of Health Etc. The organization's financial viability, in its current form, is obviously problematic given this operating deficit.

However, the 1989 figures (Exhibit III), reflecting Health Etc. remaining on Lake Street but managed through CUHCC, show savings realized in some personnel and purchasing reductions. The 1990 figures assume that the Lake Street location would close and that the patients would move to the new CUHCC facility, which can handle the new volume. Additional cost savings are incurred at the time of relocation to the new facility.

A patient survey was conducted to determine whether Health Etc. patients would transfer their care to the new site. Virtually all indicated they would continue. A 10% reduction in 1990 Health Etc. volume has been assumed in projecting the revenue and expenses.

The financial position of the consolidated clinic becomes favorable when all patients are seen in one site. The \$115,685 figure does not include an allowance for write off of outpatient or inpatient care which might be provided for the Health Etc. patient population at UMHC. Health Etc.'s patients have historically used referral services on a minimal basis, reflecting the relatively young, healthy nature of the Health Etc. population. It is possible, however, that we might in the future choose to open up the CUHCC pre-paid plan to what are now Health Etc. patients. Exhibit IV is a projection of the financial outcome under these circumstances. A net positive result remains.

#### **IV. EMPLOYEE CONSIDERATIONS**

Health Etc. currently employs 11.65 FTEs. CUHCC would need to employ 6.65 FTE with a consolidated program in one site. This reduction is part of the cost benefit of the consolidation. Health Etc. is aware of the staffing plans.

We would like to transfer the current Health Etc. employees to the UMHC payroll. Since a number of the positions would become union (AFSCME) positions at UMHC, we will be working with AFSCME to facilitate this process, perhaps requiring some agreement on suspending parts of the contract for this purpose.

Similarly, transfer of non-union personnel to UMHC payroll is best facilitated by not going through the usual process of job posting, advertisement, etc. This would be an exception to Hospital Personnel Policies and Procedures. Part of our recommendation for the process of consolidation is that the Board of Governors allow this exception.

## **V. LEGAL CONSIDERATIONS**

We have closely examined the assets and liabilities of Health Etc. They indicate that there are no outstanding liability claims. More definitive work in this area will occur in the next few weeks to ensure that there are no unknown exposures for the Hospital and University resulting from the consolidation.

## **VI. PUBLIC SUPPORT**

City representatives, neighborhood groups, and the Consortium of Community Clinics have been contacted regarding their views on this potential consolidation. All have responded positively, and view this effort as UMHC's continued commitment to the area. The agencies currently providing grants to CUHCC have been contacted. All have indicated that they would view the consolidation positively and that the consolidation would not threaten the status of grants.

## **VII. APPROVAL PROCESS**

because the consolidation involves the assumption of assets and liabilities, and because of the anticipated exceptions to usual employment practices, we would recommend that both the Board of Governors and the Board of Regents approve the consolidation. We plan on bringing a formal recommendation to the Board of Governors at the next meeting and would, presumably, follow-up with a request for approval from the Board of Regents.

EXHIBIT 1

Table 1

HEALTH ETC. PATIENT VISITS, 1984-1988

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	Projected <u>1988</u>
Medical	5,278	5,368	5,432	5,564	6,295
Dental	<u>4,299</u>	<u>5,396</u>	<u>5,581</u>	<u>4,347</u>	<u>4,500</u>
Sub-Total	9,577	10,764	11,013	9,911	10,795
Health Education	<u>2,360</u>	<u>1,899</u>	<u>2,446</u>	<u>1,924</u>	<u>2,000</u>
TOTAL	11,937	12,663	12,459	11,835	12,795

CUHCC PATIENT VISITS, 1984-1988

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	Projected <u>1988</u>
Medical	12,009	11,228	11,964	12,146	12,300
Dental	<u>3,556</u>	<u>3,808</u>	<u>3,651</u>	<u>4,269</u>	<u>4,400</u>
Sub-Total	15,565	15,036	15,615	16,415	16,700
Mental Health					
Scheduled	4,922	6,047	7,268	9,450	10,000
Unscheduled	<u>21,973</u>	<u>20,609</u>	<u>23,173</u>	<u>22,011</u>	<u>21,300</u>
TOTAL	42,460	41,692	46,056	47,876	48,000



EXHIBIT 1

Table 2

CUHCC/HEALTH ETC.

1987 PATIENTS BY AGE

<u>Age Group</u>	<u>Health Etc</u>	<u>%</u>	<u>CUHCC</u>	<u>%</u>
0 - 4	158	4%	819	17%
5 - 14	361	9%	924	19%
15 - 24	891	22%	796	16%
25 - 44	2,306	56%	1,876	38%
45 - 64	307	7%	435	9%
65 - 84	72	2%	37	1%
85 and over	4	-	2	-
Unknown	15	-	-	-
TOTAL	4,114	100%	4,889	100%

EXHIBIT 1

Table 3

CUHCC/HEALTH ETC. PAYOR MIXES

<u>Payor</u>	<u>Health Etc.</u>	<u>CUHCC</u>
Self-Pay		
Pre-Paid	---	48%
Uninsured	40%	11%
Medical Assistance	25%	38%
HMO's	15%	---
Insurance	20%	3%
TOTAL	100%	100%

EXHIBIT 2

HEALTH ETC. OPERATING BUDGET  
JANUARY 1 - DECEMBER 31, 1988

Revenue

Grants

State of Minnesota	\$21,480
Hennepin County	59,952
City of Mpls--CDBG	75,997
United Way of Minneapolis	15,990
Foundations/Corporations	3,000

TOTAL GRANTS

\$176,419

Patient Fees

306,444

Miscellaneous

12,500

Total Revenue

\$495,363

Expenses

Salaries	280,688
Fringe Benefits	39,196
Contract Services	18,200

TOTAL PERSONNEL

338,084

Staff Training	300
Accounting/Audit	5,900
Office Supplies	6,348
Medical Supplies	9,316
Medical Lab	19,010
Pharmacy	15,170
Dental Supplies	12,000
Dental Lab	25,000
Janitorial Supplies	1,677
Telephone	3,500
Office Rent	26,400
Dues	2,100
Insurance	12,000
Job Search	250
Equipment Maintenance	6,000
Depreciation	22,368
Ads/Promotion	500
Books, Subscriptions	200
Printing/Copying	1,500
Postage/Mailing	3,800
Meeting Expenses	700
Bad Debt	23,641
Local Travel	1,000
Bank Charges	1,500
Miscellaneous	500

TOTAL NON PERSONNEL

199,980

Total Expenses

\$538,064

EXCESS (DEFICIT)

\$(42,701)

EXHIBIT 3  
HEALTH ETC. PROFORMA BUDGETS  
1989 AND 1990

	1989: Two Sites	1990: One Site
<b>REVENUE</b>		
Patient Fees (Net)	\$293,378	\$264,040
Miscellaneous Income	12,500	12,500
Grants	159,970	162,600
<b>TOTAL REVENUE</b>	<b>\$465,848</b>	<b>\$439,140</b>
<b>EXPENSES</b>		
Salaries	\$279,563	\$206,995
Fringe Benefits	52,132	35,902
Non-Personnel	143,130	80,558
<b>TOTAL EXPENSES</b>	<b>\$474,825</b>	<b>\$323,455</b>
<b>EXCESS/(DEFICIT)</b>	<b>\$(8,977)</b>	<b>\$115,685</b>

**EXHIBIT 4**  
**HEALTH ETC. PROFORMA BUDGETS**  
**1989 AND 1990**

	1989: Two Sites	1990: One Site
<b>REVENUE</b>		
Patient Fees (Net)	\$293,378	\$333,496
Miscellaneous Income	12,500	12,500
Grants	159,970	162,600
<b>TOTAL REVENUE</b>	<b>\$465,848</b>	<b>\$508,596</b>
<b>EXPENSES</b>		
Salaries	\$279,563	\$206,995
Fringe Benefits	52,132	35,902
Non-Personnel	143,130	80,558
<b>TOTAL EXPENSES</b>	<b>\$474,825</b>	<b>\$323,455</b>
<b>EXCESS/(DEFICIT)</b>	<b>\$(8,977)</b>	<b>\$185,141</b>
<b>UMHC WRITE-OFF</b>		
- Inpatient	0	\$ 22,403
- Outpatient	0	110,818
Total Write Off	0	133,221
<b>EXCESS/(DEFICIT)</b>	<b>\$(8,977)</b>	<b>\$ 51,920</b>



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

DATE: September 20, 1988

TO: Members of the Finance Committee

FROM: Robert Dickler  
General Director

REGARDING: Board of Governors Policy on Capital Expenditures

At the August 24, 1988 Board of Governors meeting some changes were made to the Policy on Capital Expenditures. Changes were made primarily to the section on approval of special projects. The need to provide the Board of Governors with timely information on expected overages to special project budgets was emphasized.

This policy was endorsed by the Planning and Development Committee on September 15, 1988 and will be presented for endorsement by the Finance Committee on September 28, 1988.

RD/kff

Attachment

**BOARD OF GOVERNORS  
POLICY ON CAPITAL EXPENDITURES**

**DEFINITIONS**

Recurring Capital Expenditures are those construction or remodeling projects or equipment purchases/leases which involve expenditures of \$500 to \$100,000 and have a depreciable life of three years or longer.

Major Capital Expenditures are those construction or remodeling projects or equipment purchases/leases which involve expenditures of \$100,000 to \$600,000 and have a depreciable life of three years or longer.

Special Projects are those construction or remodeling projects or equipment purchase/leases which involve expenditures of over \$600,000 and have a depreciable life of three years or longer.

**LONG-RANGE CAPITAL PLAN**

Between April and June of each year the Hospital Director shall provide a long-range capital expenditure plan to the Board of Governors. This plan shall be reviewed by the Planning and Development Committee and the Finance Committee. The plan should identify total capital expenditures anticipated for each of the next five fiscal years, and should also identify anticipated special projects on an item-by-item basis.

The long-range capital plan is provided to the Board for use in financial and program planning. No specific action on the long range capital plan is required. Authorization to proceed with any element of the plan shall not be considered to have been provided until approval of the annual capital budget has occurred.

**ANNUAL CAPITAL BUDGET**

Between April and June of each year the Hospital Director shall recommend an annual capital budget. This capital budget shall be presented for endorsement to the Planning and Development Committee, the Finance Committee and to the full Board of Governors. The annual capital budget is a component of the total operating budget which is submitted annually to the Board of Regents for final approval.

The annual capital budget shall include all capital expenditures, and shall identify major capital expenditures and special projects on an item-by-item basis.

#### **APPROVAL OF RECURRING AND MAJOR CAPITAL EXPENDITURES**

Board of Governors endorsement of the annual capital budget shall authorize the expenditure of up to 105% of the approved budget limit for recurring and major capital expenditures in aggregate. The Board shall be informed of each major capital expenditure as it occurs during the fiscal year prior to the commitment of funds.

A report of year-to-date aggregate capital expenditures and projected year-end capital expenses shall be provided to the Planning and Development Committee and the full Board of Governors each quarter.

If quarterly trends indicate that the approved capital budget will be exceeded by more than 5%, a revised capital expense projection shall be submitted for Board information.

#### **APPROVAL OF SPECIAL PROJECTS**

Board of Governors endorsement of the annual capital budget shall constitute conceptual approval only for all special projects. Each special project shall be presented individually to the Planning and Development Committee, the Finance Committee and the full Board of Governors for final approval. No commitment of funds for special projects, other than planning costs, shall occur without final Board approval.

Any expenditure that is expected to cause a special project budget to be exceeded by the lesser of 10% or \$250,000 will be presented to the Board for information. Where possible, that information will be presented prior to the authorization of expenditure. Consultation from the Chair of the Board, the Chair of the Planning and Development Committee, and the Chair of the Finance Committee shall be sought when presentation to the full Board prior to expenditure authorization is not feasible.

#### **GUIDELINES FOR PRESENTING PROJECTS TO THE BOARD OF REGENTS**

The Board of Governors shall comply fully with terms and conditions outlined in the "Guidelines for Presenting Projects to the Physical Planning and Operations Committee of the Board Regents." Those guidelines reaffirm the Board of Governors authority to review and approve capital projects for The University of Minnesota Hospital and Clinic with four categorical exceptions



requiring approval by the Board of Regents. Categories of capital projects requiring approval by the Board of Regents include:

1. Projects with legislative funding
2. Projects which require an increase in capital indebtedness (i.e., sale of bonds, bank loans, etc.)
3. Projects to construct new facilities with an estimated cost in excess of \$100,000
4. Increases in project cost over \$100,000 for any projects approved pursuant to the above.



UNIVERSITY OF MINNESOTA  
TWIN CITIES

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

September 20, 1988

**MEMO TO:** Members of the Finance Committee  
**FROM:** Robert Dickler, *RD*  
General Director  
**REGARDING:** Dermatology Clinic Expansion Project

In February 1988, the Board of Governors reviewed plans for construction of a Dermatology Clinic addition in the fourth floor shell space of the Phillips-Wangensteen Building. This addition will be used primarily for dermatology micrographic removal of cancer, laser procedures, and other dermatologic surgery.

At the time of the last presentation, the architects estimated the Hospital's portion of the project to cost \$631,629. We thought the estimate to perhaps be on the high side; because the estimate was so near the \$600,000 approval threshold for capital projects, we indicated we would return to the Board for information or endorsement as appropriate, dependent on the project bids.

Bids for the project have been received and the cost for construction is now known to be \$19,206 less than estimated. This reduces the total estimated project cost to \$612,410. Attached is a breakdown of costs and the project schematic.

Since the project is above the \$600,000 threshold, Board approval is required. The Planning and Development Committee endorsed the project at its September 15, 1988 meeting. Board approval will be requested at their October 4, 1988 Business meeting. We are therefore requesting Finance Committee endorsement to proceed with the project at a cost not to exceed \$612,410.

Mary Ellen Wells will present this material and will be available for any questions. Thank you.

Attachment

