Minutes of the University of Kentucky Board of Trustees
University Health Care Committee
May 8, 2014

The University of Kentucky Board of Trustees University Health Care Committee met on May 8, 2014 in conference room 127 of the Charles T. Wethington, Jr. Building. The meeting was called to order and by Barbara Young, Chair of the University Health Care Committee, at 4:00 pm.

A. ATTENDANCE

University HealthCare Committee Members: Chair-Barbara Young, Bill Britton, Bill Farish, and Dr. Keith Gannon

Additional University of Kentucky Board of Trustee Members: Dr. C. B. Akins, Sheila Brothers, Jo Hern Curris, Kelly Sullivan Holland, and John F. Wilson

University Healthcare Committee Advisory Members: Mira Ball, Luther Deaton, and Myra Leigh Tobin

Ex-Officio Members of the University HealthCare Committee: Dr. Bernard Boulanger, Dr. Frederick de Beer, Dr. Michael Karpf, and Dr. Colleen Swartz

Guests: Jay Blanton, Shannon Carroll, Murray Clark, Dr. Michael Dobbs, Leigh Donald, Rob Edwards, Dr. Peter Giannone, Amy Hisel, Cliff Iler, Susan Krauss, Kristi Lopez, Shea Luna, Mary Meehan, Brett Short, Ann Smith, Bill Thro, Tim Tracy, Dr. Carmel Wallace, and Kim Wilson.

B. APPROVAL OF MINUTES

Minutes from the March 31, 2014 meeting were presented for approval by Chair Young. The minutes were approved unanimously.

C. NEONATOLOGY AND PEDIATRIC RESEARCH

Dr. Peter Giannone, Neonatologist at the Kentucky Children's Hospital, gave an overview of the Neonatology Program in the Neonatal Intensive Care Unit (NICU). Neonatology is a branch of medicine concerned with the care, development and diseases of newborn infants, specifically very ill and preterm infants. UK has a 66 bed Level IV NICU. Our unit is one of only two Level IV units in the state of

Kentucky. He discussed an example of an NIH funding research program that studies the variance of times in clamping the placental cord after birth and the effects on the baby. Our goal is to build a NICU with linked data collection so we can learn from every patient admitted to the NICU and future admissions will benefit from babies currently there.

D. FINANCIAL REPORT

Murray Clark, Chief Financial Officer, gave the UK HealthCare Financial Report by discussing the FY TD March 2014 Financials. Inpatient discharges for March were below budget by 181. Year-to-date we are 1,535 discharges below budget and 439 below the prior year. Adult discharges are up compared to the prior year whereas children's are well below the prior year. Adult discharges are 728 below budget for the year but 469 higher than the same period last year. Children's discharges are 769 below budget and 793 below the prior year. Neonatology discharges are 106 above budget and 24 above the prior year. Adult, Neonatology and Psychiatric activity continued the same general trend as we have seen in the prior months this year. The decline in children's discharges, however, was lesser than in prior months.

The year-to-date occupancy rate for the combined facilities was 82.97%. Occupancy year-to-date at Chandler was 90.21% for adults, 58.41% for children and 84.49% for Neonatology. Good Samaritan occupancy was 74.41% for adults and the Psychiatric occupancy was 49.86%. The occupancy includes a daily average of 53.56 patients awaiting a bed in a holding location primarily at Chandler. The number of patients awaiting a bed in March however averaged 67.52, well above the year-to-date average.

Both the average length of stay for the month and for year-to-date exceeds budget and the prior year. The average length of stay is 6.50 compared to a budget of 5.85, an increase of 0.65 days. The increase in LOS is in the adult and Neonatology services. There has been an overall increase in case mix in the Hospitals. The case mix has increased from a budget of 1.8267 to 1.9058/4.33% increase and from prior year of 1.8215/4.62%. At Chandler the case mix is 2.0604 year-to-date, 5.22% above budget and 5.07% above the prior year. This change in case mix is a significant factor in our increase in LOS and the resulting total patient days. Patient days in the system are 8,086 higher than budget on 1,535 discharges less than budgeted. As compared to last year we have provided 11,240 more bed days on 439 less discharges.

Inpatient Activity Summary: The trend of the first six months continued into March. Our inpatient discharges remain below budget expectations however the adult and Neonatal discharges remain above

the prior year. Additionally, case mix has increased pushing our patient days higher. The change in case mix will be discussed further in the section on revenue.

Observation cases are above budget for the month by 94 cases and above year-to-date budget by 167. Additionally these cases are now ahead of the prior year by 477. This increase in observation cases has been consistent since the Medicare rules changed regarding this type of patient stay in October. This increase in observation cases also accounts for a portion of the negative variance to budget in adult inpatient admissions.

Emergency Room cases were under budget by 533 cases for the month. Chandler is below budget and prior year whereas Good Samaritan is above budget and prior year. Year to date we are under budget by 5,249/7.25% above the prior year by one visit. The Chandler ED continues to be impacted by the high number of patients it must hold who are awaiting an inpatient bed. During March the number of patients awaiting a bed in the Chandler ED exceeded the average for the prior months.

Operating Room cases for the month were 2,400 compared to a budget of 2,586, a negative variance of 186 cases. Year-to-date inpatient cases of 10,740 are above budget by 459 and above the prior year of 371. Outpatient cases of 11,357 are below the budget of 12,283 by (926) however the outpatient cases this year exceed the prior year by 165.

Outpatient cases with a hospital charge were 7,455 above budget for the month and are 20,652 above budget for the year. The months of January, February and March have all been strong outpatient volume months.

FTEs per adjusted occupied bed for the month are below budget and slightly ahead of the year-to-date budget and prior year. It is notable however that the total FTEs have risen to manage the increase in patient days. Although our FTEs are tracking with our budget and activity we are continually working to move our FTE numbers closer to benchmark in all areas.

The percentage of discharges by payor mix for year-to-date continued to show the same trend seen since January. Medicare and Commercial stayed relatively stable whereas Medicaid increased and Patient/Charity declined. This shift in patients into Medicaid is significant and will have a major positive effect on the hospital income. This will be discussed further in the income statement below.

Although none of the Medical Service discharges are at budget, the Medicine and Surgery discharges continue to exceed prior year activity.

In summary, the level of activity for inpatient discharges is well below budget and slightly below the prior year. However, activity in the system is higher than prior years due to an increase in case mix and the resulting increase in LOS/inpatient patient days. This level of activity has created capacity constraints which have kept adult total admissions from being accepted. The outpatient activity is above budget. FTEs are greater but in line with activity, however we will see some increase as we prepare for new bed openings throughout the year. The payor mix has shifted as compared to budget and the prior year as we have seen the positive impact of the Medicaid Expansion program.

Although discharges are below budget, net revenue for the month and year-to-date are higher than budget and significantly higher than the prior year. Net revenue for March exceeded budget by $3.7 million. This brought net revenue for the year-to-date above budget by $42.2 million. Throughout the year, we have seen an increase in revenue from the higher case mix and the outlier cases. During the third quarter of the fiscal year, we have seen a significant shift in our payor mix from patient/charity to Medicaid. This shift from patient/charity has reduced both our charity and bad debt write offs. As a result of the change in case mix, the positive change in payor mix and an increase in outpatient services, we have seen both inpatient and outpatient revenue per case increase.

Inpatient net revenue per case has been increased by $1,944 or 11.5% over budget. Outpatient per case revenue has increased $12 or 1.8% over budget. These increases in per case revenue have offset our reduction of inpatient cases compared to budget.

Personnel expenses are above budget for the month and year-to-date primarily driven by the increased CMI and LOS of patients. The skill mix of personnel is in line with budget as measured by the overall hourly cost of personnel which is only slightly above budget.

Variable supplies for the month were over the budget as it has been in previous months. This variance generally reflects the change in case mix/ services rendered to patients and the increase in length of stay creating significantly more patient days. Although above budget, the cost of variable supplies per CMI adjusted discharges are consistent with what we have been experiencing throughout the year.

Fixed expenses are lower than budget for the month and slightly below budget for year to-date by 1.3%. These expenses will vary up or down against budget monthly but over the year they should be in line with budget.

Medical Center transfers/EIRs are over budget for the month. We have brought the transfers up to budget and added additional dollars to the transfer for the year in realization that additional funds will be required to support the College Departments. These additional transfers are based on additional program expenses incurred at the department level in support of the system as well as needs in some departments as the result of volume changes. We may be adding additional dollars throughout the remainder of the year.

Depreciation is under budget for the year and will likely remain so throughout the year. Most of our capital purchases for the year will occur in the later part of the fiscal year and will be reflected in FY 15 depreciation expense.

Non-operating revenues (expenses) were below budget for the month driven by less than anticipated investment income. However, investment income of $26.9 million for the year exceeds budget expectations and the prior year and puts non-operating revenues above budget by $9.6 million year to date.

The Eastern State revenues reflect the net effect of our management fee year-to-date of $1,346,094. This level of revenue is consistent with our overall agreement, however the operation is still in its startup and a steady state of expenses has not been reached. The contract also calls for additional units to be opened this fiscal year which will again change the operating expense.

Income Statement Summary: Net revenues for the year have significantly exceeded expectations driven by not only the case mix and outliers as well as the Medicaid expansion program. Expenses exceeded net revenues for the month contributing to a slightly lower margin than budgeted. However, the margin also reflects our decision to transfer additional dollars within the system to the College of Medicine. The month's results brought the year-to-date operating margin to $68.3 million, $14.1 million above budget and $7.9 million above the prior year. Income from operations coupled with strong non-operating revenues has exceeded budget for the year. The results of future periods could change significantly in the case mix, volume or payor mix.

Current Assets: Cash at $58.6 million includes $50.6 million in unrestricted funds, $5.2 million in restricted funds and $2.6 million in the plant fund. The unrestricted fund includes $8.2 million in funds advanced for Eastern State which will be used for operations in May and June.

The Patient Accounts Receivables as of March are higher than year-end by $20.6 million. The majority of the increase, however, is related to the overall increase in the net revenue. Days in Accounts Receivable have increased to five days since December due primarily to the rapid increase in revenue in January through March. This is coupled with the fact that three new Medicaid MCOs started up in January. This will be managed very tightly and it will come back in line over time. Prepaid expenses are up in comparison to year end but in line with what would be expected at this point in the year.

Due to the recent changes in the funds due from Medicare and Medicaid, we now have a total third party receivable due us of $4.1 million. The increase in restricted cash is from funds set aside to carry out projects currently underway. The change in long-term investments in March reflects the movement of funds to the Trustees for the April Bond payment. The $23.1 million increase in board designated investments reflects the earnings for the year from funds invested.

Due to an accounting standards change, there was a reclassification in February of $11.6 million from other assets to Capital assets, net. The amount reclassified is the book value that was established for the Good Samaritan Hospital CON when it was purchased by UK. Current liabilities in total are lower than year end. Payables have increased reflecting the increased expenses from operations. Accrued expenses are higher primarily due to higher accrued interest payable. Estimated third party liabilities have been eliminated and we now have a third party receivable. Unearned income reflects the receipt in October of our annual DSH payment and the Eastern State Contract advance. The current portion of long-term debt and capital leases have been reduced as a result of payments to the debt holders.

Day's cash on hand has declined since year end by 3.3 days. Note, however, total cash on hand has increased. The day's cash on hand is lower because operating expenses per day have increased. Operating margin and EBIDA exceed target. Debt to capitalization has improved slightly since year end. Cash to debt has improved.

E. CONSENT ITEMS

FCR 1: Authorization of Lease between the University of Kentucky College of Dentistry and Kentucky Medical Services Foundation, Inc. Chair Young called for a vote to endorse FCR 1 and it passed without dissent.

FCR 3: Expansion of Purpose of Central Kentucky Management Services, Inc. Chair Young called for a vote to endorse FCR 3 and it passed without dissent.

FCR 6: 2013-14 Budget Revisions. Murray Clark explained that FCR 6 was placed in the University Health Care Committee meeting materials for informative reasons only and a vote was not necessary.

F. OPERATING ROOM EFFICIENCY

Dr. Bernard Boulanger, Chief Medical Officer, reviewed the operating room efficiency at UK HealthCare. The OR management team is working to maximize efficiency and eliminate waste, with a constant eye on providing high quality and safe surgical care. Our current constraint is outflow from the Chandler OR to adult hospital beds, due to high bed occupancy.

G. PRIVILEGES AND APPOINTMENTS

Dr. Michael Dobbs presented for approval the current list of privileges and credentials. The Health Care Committee made a motion to accept the privileges and credentials brought before them. The motion carried and was approved by the committee.

H. DISMISSAL

Seeing no other business, Chair Young adjourned the meeting at 5:44pm