



THE UNIVERSITY OF KANSAS HEALTH SYSTEM

**FY2017:
4th Quarter
(April – June 2017)
Financial Report
(Unaudited)**

Executive Summary

FY 2017: Fourth Quarter

Transaction

As of January 1, 2017 the University of Kansas Hospital Authority (Authority) became the sole corporate member of Hays Medical Center, Inc. (HaysMed). HaysMed owns and operates a 206-bed acute care hospital that provides healthcare services on its campus in Hays, Kansas, a city of about 21,000 residents four hours west of Kansas City. HaysMed is the sole member of The Hays Medical Center Foundation (HMCF).

Both HaysMed and HMCF became members of the Obligated Group on May 10, 2017, joining the Authority, Jayhawk Primary Care, Inc., Mid-America Cardiology Associates, Inc., Kansas University Physicians, Inc. and the University of Kansas Physicians as the members of the Obligated Group under the Master Trust Indenture.

Executive Summary

FY 2017: Fourth Quarter

Statistics

- Patient Days increased 17.0% (8.0% pre HaysMed), Discharges increased 20.5% (7.5% pre HaysMed) from the prior year same quarter.
- The Case Mix Index (CMI) decreased from 1.8985 in the prior year same quarter to 1.8305. Pre HaysMed was a decrease of 2.0% to 1.8609.
- The Average Length of Stay (ALOS) decreased to 5.35 from 5.51 from the prior year same quarter. The pre HaysMed figure was 5.54 this quarter.

Net Patient Revenue

- Net Patient Revenue increased by 15.8%, or \$70.6 million, from the previous year's same quarter. Bad debt/charity was 2.3% percent of gross charges which was lower than the previous year's same quarter figure of 3.9%.
- The increase in Net Patient Revenue was primarily driven by the addition of HaysMed, which added \$42.4 million, as well as growth in the KC Division.
- Other Operating Revenue increased by \$7.5 million. HaysMed accounted for \$3.4 million of that. The remaining \$4.2 million was driven specialty by pharmacy growth.

Operating Expenses

- Total operating expenses increased by 25.4%, or \$111.8 million, from the previous year's same quarter. The addition of HaysMed accounts for \$47.2 million and the remaining \$64.6 million was growth in the KC Division.

Executive Summary

FY 2017: Fourth Quarter

Operating Results

- The Authority's fourth quarter GASB operating margin was \$9.7 million, or 1.7% (0.8% FASB), which was \$33.7 million less than the prior year's same quarter GASB operating margin of \$43.4 million, or 9.0% (8.3% FASB).

Non-Operating Results

- Fourth quarter investment gains were \$12.8 million (\$3.8 million related to HaysMed), compared to gains of \$8.8 million in the prior year same quarter.
- The Authority reported a combined Net Income for the fourth quarter of \$21.5 million, which was \$27.0 million lower than the prior year same quarter net income of \$48.5 million.

Executive Summary

FY 2017: June 2017 YTD

Balance Sheet

- Unrestricted cash increased \$215.5 million during the twelve months. The change in cash included the following major components:
 - Cash flow from operations of \$144.9 million.
 - Acquisition of assets of \$(196.0) million.
 - Debt issuance increased project funds by \$150.0 million
 - Debt service of \$(29.1) million.
 - Special item: Hays \$131.1 million
- FY 2017 fourth quarter EBIDA was \$46.1 million.
- Equities were approximately 17.6% of the total portfolio at June 30, 2017 (12.8% pre HaysMed). The Authority had no swaps at June 30, 2017.

Operating Statistics

First Quarter

Sep-16 YTD Actual	Sep-15 YTD Actual	FY 17 to FY 16 % Variance
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Workload

Discharges	9,503	9,294	2.2%
Patient Days	54,525	50,884	7.2%
ER Visits - Inpatient	3,357	3,640	-7.8%
ER Visits - Outpatient	10,031	10,303	-2.6%
Outpatient Encounters	199,305	192,957	3.3%

Acuity

ALOS	5.74	5.47	4.9%
Case Mix Index	1.8908	1.8132	4.3%
CMI Adj. Equiv. Dischgs.	44,110	37,349	18.1%

Operating Statistics

Second Quarter

Oct-Dec 16 Actual	Oct-Dec 15 Actual	FY 17 to FY 16 % Variance
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Workload

Discharges	9,875	9,514	3.8%
Patient Days	54,719	51,638	6.0%
ER Visits - Inpatient	3,523	3,633	-3.0%
ER Visits - Outpatient	9,286	9,354	-0.7%
Outpatient Encounters	202,207	193,118	4.7%

Acuity

ALOS	5.54	5.43	2.0%
Case Mix Index	1.8329	1.8442	-0.6%
CMI Adj. Equiv. Dischgs.	45,695	38,698	18.1%

Operating Statistics

Third Quarter

Jan-Mar 17 Actual *	Jan-Mar 16 Actual	FY 17 to FY 16 % Variance
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Workload

Discharges	11,047	9,286	19.0%
Patient Days	60,863	51,439	18.3%
ER Visits - Inpatient	4,100	3,518	16.5%
ER Visits - Outpatient	12,885	9,762	32.0%
Outpatient Encounters	263,017	194,492	35.2%

Acuity

ALOS	5.51	5.54	-0.5%
Case Mix Index	1.8315	1.8308	0.0%
CMI Adj. Equiv. Dischgs.	50,191	42,026	19.4%

* Includes HaysMed

Operating Statistics

Fourth Quarter

Apr-Jun 17 Actual *	Apr-Jun 16 Actual	FY 17 to FY 16 % Variance
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Workload

Discharges	11,398	9,456	20.5%
Patient Days	60,953	52,112	17.0%
ER Visits - Inpatient	4,402	3,432	28.3%
ER Visits - Outpatient	13,052	9,911	31.7%
Outpatient Encounters	270,714	200,944	34.7%

Acuity

ALOS	5.35	5.51	-2.9%
Case Mix Index	1.8305	1.8985	-3.6%
CMI Adj. Equiv. Dischgs.	53,422	44,622	19.7%

* Includes HaysMed

Patient Revenue (In \$000's)

First Quarter

	Jul-Sep 16 Actual	Jul-Sep 15 Actual	Variance Actual
<u>Gross Patient Revenue</u>			
Inpatient	\$ 725,203	\$ 634,828	14.2%
Outpatient	852,975	743,966	14.7%
Physician	<u>202,104</u>	<u>28,184</u>	617.1%
Total	1,780,282	1,406,978	26.5%
Contractual Allowances	(1,254,742)	(989,776)	-26.8%
Bad Debts	(11,996)	(8,175)	-46.7%
Charity	<u>(51,983)</u>	<u>(50,277)</u>	-3.4%
Net Patient Revenue	<u>\$ 461,561</u>	<u>\$ 358,750</u>	28.7%
CMI Adj. Equiv. Dischgs.	44,110	37,349	18.1%
Gross Revenue/CMIAED	\$ 40,360	\$ 37,671	7.1%
Net Revenue/CMIAED	\$ 10,464	\$ 9,605	8.9%
Net Revenue as % of Gross	25.9%	25.5%	1.6%
Bad Debt & Charity as a % of Gross	3.6%	4.2%	14.3%

Patient Revenue (In \$000's)

Second Quarter

	Oct-Dec 16 Actual	Oct-Dec 15 Actual	Variance Actual
<u>Gross Patient Revenue</u>			
Inpatient	\$ 723,928	\$ 650,343	11.3%
Outpatient	890,086	754,020	18.0%
Physician	<u>210,940</u>	<u>28,373</u>	643.5%
Total	1,824,954	1,432,736	27.4%
Contractual Allowances	(1,285,402)	(1,009,909)	-27.3%
Bad Debts	(17,993)	(6,346)	-183.5%
Charity	<u>(47,871)</u>	<u>(46,505)</u>	-2.9%
Net Patient Revenue	<u>\$ 473,688</u>	<u>\$ 369,976</u>	28.0%
CMI Adj. Equiv. Dischgs.	45,695	38,698	18.1%
Gross Revenue/CMIAED	\$ 39,938	\$ 37,024	7.9%
Net Revenue/CMIAED	\$ 10,366	\$ 9,561	8.4%
Net Revenue as % of Gross	26.0%	25.8%	0.8%
Bad Debt & Charity as a % of Gross	3.6%	3.7%	2.7%

Patient Revenue (In \$000's)

Third Quarter

	Jan-Mar 17 Actual *	Jan-Mar 16 Actual	Variance Actual
<u>Gross Patient Revenue</u>			
Inpatient	\$ 789,034	\$ 637,973	23.7%
Outpatient	968,430	756,223	28.1%
Physician	<u>179,944</u>	<u>181,340</u>	-0.8%
Total	1,937,408	1,575,536	23.0%
Contractual Allowances	(1,361,333)	(1,100,761)	-23.7%
Bad Debts	(30,344)	(13,379)	-126.8%
Charity	<u>(34,301)</u>	<u>(46,426)</u>	26.1%
Net Patient Revenue	<u>\$ 511,430</u>	<u>\$ 414,970</u>	23.2%
CMI Adj. Equiv. Dischgs.	50,191	42,026	19.4%
Gross Revenue/CMIAED	\$ 38,601	\$ 37,490	3.0%
Net Revenue/CMIAED	\$ 10,190	\$ 9,874	3.2%
Net Revenue as % of Gross	26.4%	26.3%	0.4%
Bad Debt & Charity as a % of Gross	3.3%	3.8%	13.2%

* Includes HaysMed

Patient Revenue (In \$000's)

Fourth Quarter

	Apr-Jun 17 Actual *	Apr-Jun 16 Actual	Variance Actual
<u>Gross Patient Revenue</u>			
Inpatient	\$ 788,481	\$ 663,340	18.9%
Outpatient	1,016,413	792,693	28.2%
Physician	<u>181,365</u>	<u>192,584</u>	-5.8%
Total	1,986,259	1,648,617	20.5%
Contractual Allowances	(1,425,219)	(1,138,580)	-25.2%
Bad Debts	(22,281)	(12,391)	-79.8%
Charity	<u>(22,762)</u>	<u>(52,225)</u>	56.4%
Net Patient Revenue	<u>\$ 515,997</u>	<u>\$ 445,421</u>	15.8%
CMI Adj. Equiv. Dischgs.	53,472	44,622	19.8%
Gross Revenue/CMIAED	\$ 37,146	\$ 36,946	0.5%
Net Revenue/CMIAED	\$ 9,650	\$ 9,982	-3.3%
Net Revenue as % of Gross	26.0%	27.0%	-3.7%
Bad Debt & Charity as a % of Gross	2.3%	3.9%	41.0%

* Includes HaysMed

Combined Statement of Operations (In \$000's)

First Quarter

	Sep-16 YTD	Sep-15 YTD	\$ Variance	% Variance
Net Patient Revenue	\$ 461,561	\$ 358,750	\$ 102,811	28.7%
Other Operating Revenue	<u>40,974</u>	<u>33,872</u>	<u>7,102</u>	21.0%
Total Operating Revenue	502,535	392,622	109,913	28.0%
Operating Expenses				
Salaries & Benefits	254,620	143,682	110,938	77.2%
Contract Labor	6,993	5,119	1,874	36.6%
Supplies	118,086	98,809	19,277	19.5%
Other Operating Expenses	81,956	95,417	(13,461)	-14.1%
Depreciation and amortization	<u>16,563</u>	<u>14,928</u>	<u>1,635</u>	11.0%
Total Operating Expenses	<u>478,218</u>	<u>357,955</u>	<u>120,263</u>	33.6%
Operating Income (Loss)	24,317	34,667	(10,350)	-29.9%
Interest Expense	(3,534)	(3,004)	(530)	17.6%
Non Operating Gains, net	<u>7,709</u>	<u>(13,610)</u>	<u>21,319</u>	156.6%
Excess of Revenues over Expenses	<u>\$ 28,492</u>	<u>\$ 18,053</u>	<u>\$ 10,439</u>	57.8%
Operating Margin	4.8%	8.8%		
Total Margin	5.7%	4.6%		

Combined Statement of Operations (In \$000's)

Second Quarter

	Oct - Dec 16	Oct - Dec 15	\$ Variance	% Variance
Net Patient Revenue	\$ 473,688	\$ 369,976	\$ 103,712	28.0%
Other Operating Revenue	<u>39,912</u>	<u>36,184</u>	<u>3,728</u>	10.3%
Total Operating Revenue	513,600	406,160	107,440	26.5%
Operating Expenses				
Salaries & Benefits	260,691	144,808	115,883	80.0%
Contract Labor	7,277	5,196	2,081	40.1%
Supplies	122,280	101,592	20,688	20.4%
Other Operating Expenses	85,485	98,844	(13,359)	-13.5%
Depreciation and amortization	<u>16,255</u>	<u>15,022</u>	<u>1,233</u>	8.2%
Total Operating Expenses	<u>491,988</u>	<u>365,462</u>	<u>126,526</u>	34.6%
Operating Income (Loss)	21,612	40,698	(19,086)	-46.9%
Interest Expense	(2,713)	(3,252)	539	-16.6%
Non Operating Gains, net	<u>(1,841)</u>	<u>1,240</u>	<u>(3,081)</u>	-248.5%
Excess of Revenues over Expenses	<u>\$ 17,058</u>	<u>\$ 38,686</u>	<u>\$ (21,628)</u>	-56.0%
Operating Margin	4.2%	10.0%		
Total Margin	3.3%	9.5%		

Combined Statement of Operations (In \$000's)

Third Quarter

	Jan - Mar 17 *	Jan - Mar 16	\$ Variance	% Variance
Net Patient Revenue	\$ 511,430	\$ 414,971	\$ 96,459	23.2%
Other Operating Revenue	<u>46,849</u>	<u>37,024</u>	<u>9,825</u>	26.5%
Total Operating Revenue	558,279	451,995	106,284	23.5%
Operating Expenses				
Salaries & Benefits	288,411	233,154	55,257	23.7%
Contract Labor	6,679	6,899	(220)	-3.2%
Supplies	131,598	103,192	28,406	27.5%
Other Operating Expenses	94,628	76,246	18,382	24.1%
Depreciation and amortization	<u>19,501</u>	<u>15,400</u>	<u>4,101</u>	26.6%
Total Operating Expenses	<u>540,817</u>	<u>434,891</u>	<u>105,926</u>	24.4%
Operating Income (Loss)	17,462	17,104	358	2.1%
Interest Expense	(3,236)	(3,139)	(97)	3.1%
Non Operating Gains, net	<u>18,538</u>	<u>8,004</u>	<u>10,534</u>	131.6%
Excess of Revenues over Expenses	<u>\$ 32,764</u>	<u>\$ 21,969</u>	<u>\$ 10,795</u>	49.0%
Operating Margin	3.1%	3.8%		
Total Margin	5.9%	4.9%		

* Includes HaysMed

Combined Statement of Operations (In \$000's)

Fourth Quarter

	Apr - Jun 17 *	Apr - Jun 16	\$ Variance	% Variance
Net Patient Revenue	\$ 515,995	\$ 445,420	\$ 70,575	15.8%
Other Operating Revenue	<u>46,318</u>	<u>38,775</u>	<u>7,543</u>	19.5%
Total Operating Revenue	562,313	484,195	78,118	16.1%
Operating Expenses				
Salaries & Benefits	298,802	241,602	57,200	23.7%
Contract Labor	6,951	6,816	135	2.0%
Supplies	130,050	105,373	24,677	23.4%
Other Operating Expenses	97,352	70,098	27,254	38.9%
Depreciation and amortization	<u>19,506</u>	<u>16,937</u>	<u>2,569</u>	15.2%
Total Operating Expenses	<u>552,661</u>	<u>440,826</u>	<u>111,835</u>	25.4%
Operating Income (Loss)	9,652	43,369	(33,717)	-77.7%
Interest Expense	(5,158)	(3,177)	(1,981)	62.4%
Non Operating Gains, net	<u>17,038</u>	<u>8,313</u>	<u>8,725</u>	105.0%
Excess of Revenues over Expenses	<u>\$ 21,532</u>	<u>\$ 48,505</u>	<u>\$ (26,973)</u>	-55.6%
Operating Margin	1.7%	9.0%		
Total Margin	3.8%	10.0%		

* Includes HaysMed

Combined Statement of Operations (In \$000's)

June YTD

	Jun-17 YTD *	Jun-16 YTD	\$ Variance	% Variance
Net Patient Revenue	\$ 1,962,674	\$ 1,589,117	\$ 373,557	23.5%
Other Operating Revenue	<u>174,053</u>	<u>145,855</u>	<u>28,198</u>	19.3%
Total Operating Revenue	2,136,727	1,734,972	401,755	23.2%
Operating Expenses				
Salaries & Benefits	1,102,524	763,246	339,278	44.5%
Contract Labor	27,900	24,030	3,870	16.1%
Supplies	502,014	408,966	93,048	22.8%
Other Operating Expenses	359,421	340,605	18,816	5.5%
Depreciation and amortization	<u>71,825</u>	<u>62,287</u>	<u>9,538</u>	15.3%
Total Operating Expenses	<u>2,063,684</u>	<u>1,599,134</u>	<u>464,550</u>	29.1%
Operating Income (Loss)	73,043	135,838	(62,795)	-46.2%
Interest Expense	(14,641)	(12,572)	(2,069)	16.5%
Non Operating Gains, net	<u>41,444</u>	<u>3,947</u>	<u>37,497</u>	950.0%
Excess of Revenues over Expenses	<u>\$ 99,846</u>	<u>\$ 127,213</u>	<u>\$ (27,367)</u>	-21.5%
Operating Margin	3.4%	7.8%		
Total Margin	4.7%	7.3%		

* Includes HaysMed for six months

Combined Expense Ratio Comparison

(Percent of Total Operating Revenue)

	FY 2017 YTD ***	FY 2016	FY 2015
Total Operating Revenue (\$000's)	\$ 2,136,727	\$ 1,734,972	\$ 1,514,836
Salary/Fringe *	51.6%	44.0%	35.2%
Contract Labor	1.3%	1.4%	1.0%
Total Compensation	52.9%	45.4%	36.2%
Supplies	23.5%	23.6%	24.7%
Other Operating Expenses **	16.8%	19.6%	23.7%
Depreciation and Amortization	3.4%	3.6%	4.0%
Total Expense	96.6%	92.2%	88.6%
Operating Margin	3.4%	7.8%	11.4%

* Includes new physician entity salary dollars.

** No longer includes PSA payments to physicians

*** Includes six months of HaysMed

Combined Balance Sheet (In \$000's)

	30-Jun-17 *	31-Mar-17 *	31-Dec-16	30-Sep-16	30-Jun-16
Assets					
Cash and cash equivalents	\$ 168,411	\$ 136,272	\$ 147,359	\$ 126,655	\$ 267,988
Assets limited or restricted as to use, current	7,733	8,200	1	1	-
Patient accounts receivable, net of allowance	240,389	237,601	193,908	196,096	186,349
Estimated amounts due from third-party payors	15,209	30,703	18,875	28,297	18,647
Other receivables	8,814	12,163	7,725	9,928	16,427
Inventory	39,566	34,901	29,973	29,059	28,832
Prepaid expenses	24,710	21,390	18,143	14,702	19,503
Total Current Assets	504,832	481,230	415,984	404,738	537,746
Noncurrent Investments	806,013	761,185	627,511	628,766	490,964
Held by trustee under bond indenture agreement	92,373	5,251	14,316	51,642	71,467
Donor restricted assets	25,236	24,430	5,685	5,300	4,789
Property plant & equipment - gross	1,592,502	1,528,108	1,244,528	1,198,605	1,176,841
Accumulated depreciation	(689,169)	(672,110)	(503,624)	(490,263)	(480,759)
Property plant & equipment - net	903,333	855,998	740,904	708,342	696,082
Other assets	148,003	138,373	109,593	106,797	107,593
Total Assets	\$ 2,479,790	\$ 2,266,467	\$ 1,913,993	\$ 1,905,585	\$ 1,908,641

* Includes HaysMed

Combined Balance Sheet (In \$000's)

	30-Jun-17 *	31-Mar-17 *	31-Dec-16	30-Sep-16	30-Jun-16
Liabilities & Unrestricted Fund Balance					
Accounts payable	\$ 79,162	\$ 54,384	\$ 47,505	\$ 49,970	\$ 64,187
Accrued salaries, wages, and benefits	136,014	134,476	119,810	120,431	128,519
Estimated amounts due to third-party payors	18,950	15,866	5,756	16,500	10,930
Current portion of long-term debt	13,797	13,005	10,473	10,467	9,455
Other	27,328	20,553	9,872	5,834	14,008
Total current liabilities	275,251	238,284	193,416	203,202	227,099
MOB Lease Revenue Bonds	50,323	51,186	51,190	51,194	51,198
Net Pension Liability	38,374	31,798	31,798	31,798	31,798
Promissory note/ capital leases payable	407	466	531	595	659
Bonds payable	675,371	521,222	477,045	477,388	485,893
Long Term Debt	675,778	521,688	477,576	477,983	486,552
Deferred Inflows of Resources	-	6,503	7,090	7,676	8,262
Total Liabilities and deferred inflows of resources	1,039,726	849,459	761,070	771,853	804,909
Fund balance restricted or limited as to use	87,068	86,434	63,785	62,459	59,499
Restricted-nonexpendable	-	-	-	-	-
Unrestricted fund balance	1,352,996	1,330,574	1,089,138	1,071,273	1,044,233
Total Liabilities/Fund Balance	\$ 2,479,790	\$ 2,266,467	\$ 1,913,993	\$ 1,905,585	\$ 1,908,641

* Includes HaysMed

Combined Statement of Cash Flows (In \$000's)

June YTD

Sources of Cash

	Jun-17 YTD *	Jun-16 YTD
Operating income	\$ 73,054	\$ 92,469
Depreciation and amortization	71,815	45,350
Cash flow from operations	144,869	137,819
Non-Operating Gain, net	41,374	(4,365)
EBIDA	186,243	133,454
Endowment and other donations	9,366	4,621
Distributions To and Contributions From Minority Owners, Net	-	(2,759)
Special Item: Clinical Integration	-	58,690
Special Item: Financing	251,450	-
Special Item: HaysMed	131,062	-
(Increase) decrease in other funds	(1,598)	-
(Increase) decrease in trustee funds	(20,906)	31,686
Total Sources of Cash	555,617	225,692

Uses of Cash

Acquisition of assets \ Investments (cash basis)	195,960	74,496
Change in working capital	1,901	18,770
Change in other assets/liabilities	17,163	13,642
Debt retirement	95,990	-
Debt service (principal & interest)	29,131	28,104
Total Uses of Cash	340,145	135,012
Total Cash Provided (Used)	\$ 215,472	\$ 90,680

* Includes 6 months of HaysMed

