

II. Director's Report - Executive Summary

This report highlights key issues to date in the first quarter of FY 2004-05, as well as a summary of those in FY 2003-04.

During the first quarter, work progressed on the development of the 2005-2009 strategic plan for clinical service in close collaboration with the Carver College of Medicine. Fact-finding included market research and input from hundreds of staff, physicians, patients and community members in face-to-face interviews, focus groups, forums and on-line surveys. Phase II of the Changing Medicine, Changing Lives campaign was launched with four areas of emphasis: oncology, heart, neurosciences and children's services. The television and print ads featured physicians, nurses, patients and family members from UIHC. Work continued on leadership development with a retreat for managers and supervisors and training for that same group was held on producing departmental score cards. Focused efforts on the revenue cycle continue to produce financial benefits. Staff throughout the organization continued preparation for the upcoming JCAHO site survey.

The institutional scorecard for FY 2003-04 summarizes measurable improvements in the four major areas of focus. The report features one or two areas in each portion of the scorecard quadrants. Much of the effort on becoming a better workplace of choice in FY 2003-04 revolved around communication and recognition. The nursing vacancy rate dropped dramatically and several new physician leaders were named. The entire institution savored its recognition by the American Nursing Association as the nation's 101st Magnet-designated hospital.

Other accolades were received for pursuing excellence in FY 2003-04. U.S. News and World Report cited UIHC and its medical staff for excellence, as did the Best Doctors in America database. Several new services were offered to UIHC patients in FY 2003-04. Beautiful new neonatal and pediatrics intensive care units, a family-focused maternity center, an emergency chest pain center, and an off-site cardiology clinic opened. More patient and family amenities were started, such as pet visitation and the "A La Carte" meals room service.

Efforts to continually improve efficiencies resulted in the ratio of observed to expected length of stay exceeding the targeted University HealthSystem Consortium 50th percentile. The UIHC's first Lean Sigma project, supported generously by members of the Iowa Business Council, reduced patient wait times in radiology. A new system for assigning patient rooms when patients are admitted contributed to lower average length of stay.

The UIHC's financial strength was validated by the reaffirmation of very high credit ratings by both Moody's and Standard and Poor's rating agencies. Donations through the Children's Miracle Network increased. More financial controls were put in place with a managed care and revenue integrity unit, a procurement services department, and productivity based budgeting.

II. Director's Report

Key Issues

First Quarter 2004-05 Issues

- Strategic Planning
- JCAHO survey preparation
- Leadership development
- Departmental Score Cards
- Revenue Cycle Improvement
- Marketing Campaign
- Recruitment
- Community Activities

Strategic planning

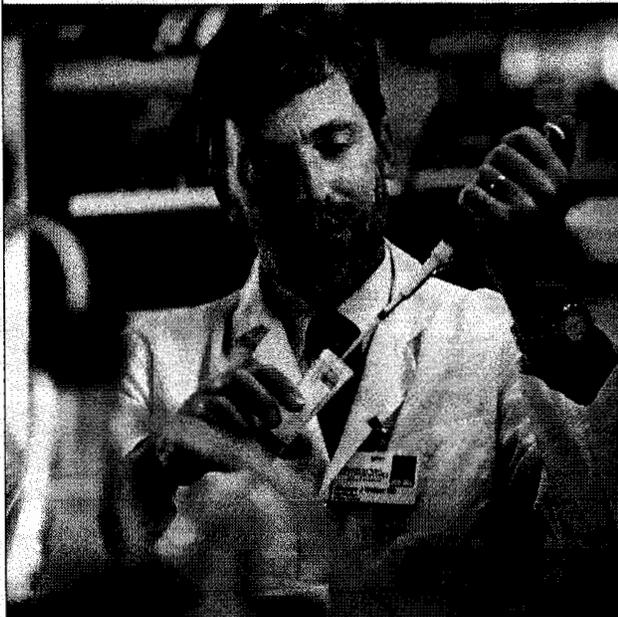
- Strategic plan for 2005-2009 under development - Clinical services plan being developed jointly with CCOM
- Development of strategic plan is crucial: it sets out broad goals by analyzing external and internal environments, existing or potential competitive advantages, areas for improvement
- These potential broad goals may be translated into these tactical goals:
 - **Quality of care/patient safety**
 - **Patient satisfaction**
 - **Service lines/financial-clinical outcomes**
 - **New lines of business**
 - **Resource allocation**
 - **Economic development**
 - **Community relations**

Strategic planning

- Fact-finding of internal and external trends started in Spring 2004 including:
 - **Board of Regents**
 - **Community Leaders**
 - **Friends of UIHC**
 - **44 individual interviews at UIHC**
 - **160 management staff and 105 employees/clinical faculty participated in focus groups at UIHC**
 - **Online survey**
 - **Open Forums**
- May be close to 1,000 people involved upon completion of this part of process
- Presentation of vision, mission and strategic goals to Hospital Executive Board Committee
- Complete all detailed tactical plans by February, 2005

Phase II Advertising Campaign

From prostate to breast, lung and colon...



George Weiner, M.D., at work on research that explores the possibility of using a patient's own defense system to attack lymphoma cancer cells.

**Only one Iowa hospital
offers more treatment options
for more types of cancers.**

It's rare to have an institution nearby that's considered worthy of the National Cancer Institute's designation of "comprehensive cancer center." But there's one not far from where you live. University of Iowa's Holden Comprehensive Cancer Center.

It's more than just a hospital with quality cancer care; it's where cancer breakthroughs are born. Researchers here are leading the development of a promising vaccine for men with prostate cancer. And UI specialists are among the first in the nation to offer MammoSite[®], an effective and less invasive new breast cancer therapy that targets tumors with greater precision, minimizing the damage to healthy tissue.

In fact, an extraordinary development in cancer treatment is just around the corner with the completion of our new Radiation Oncology Center. Here, the most advanced radiation therapy and imaging technologies will be linked by computers to treat tumors more accurately—with better results—than ever before.

From the lab to the bedside, we're simply doing more to challenge cancer on every front. And we're determined in our goal: to offer our patients more treatment options...and more hope. That's the academic difference.

For more information, call 1-800-777-8442, or visit uihealthcare.com/changinglives.

Changing Medicine. Changing Lives.[®]

Year-End Report 2003-2004

UNIVERSITY OF IOWA HOSPITALS AND CLINICS
Institutional Quarterly Score Card Definitions

WORKPLACE OF CHOICE

Indicator	Source/Description	Benchmark
On-time appraisals	Human Resources - % evaluations completed less than 30 days after due date.	JCAHO Target
Overtime FTEs as a % of Reg FTEs	FTE Sched FAS - (avg qtrly overtime FTE)/(avg qtrly regular, part-time and wage FTEs). FTEs calculated on 2080 per year. Excludes Agency staffing.	no utilization
Agency FTEs as a % of Reg FTEs	FTE Sched FAS - Qtrly agency hired staff full time equivalents based on 2080 hours per year	no utilization
Benefits as a % of total salaries	FAS - (fringe benefits+self-funded health)/(salary, wages and overtime). Does not include Agency staff costs. Quarterly data.	2004 CHIPS (2002 reporting)
Employee vacancy rate	Human Resources - # of active recruited positions over the total number of allocated positions, for the quarter	Institutional target
Employee sat out of 4	Human Resources - Annual survey 1 - 4, 1 = Strongly dissatisfied, 2 = Dissatisfied, 3 = Satisfied, 4 = Strongly Satisfied	Hospital Salary & Benefits Report
Days to fill vacancies	Human Resources-Elapsed time between filing of Recruitment Plan until Recruitment Summary Approval is received, for the quarter	Hospital Salary & Benefits Report

PURSUING EXCELLENCE

Indicator	Source/Description	Benchmark
Satisfied with overall care	CORM - Patient Satisfaction Survey % of patients responding agree or strongly agree (Outpatient), good or very good (Inpatient, ETC), 4 or 5 on 1 - 5 scale	Institutional target
Recommend to others	CORM - Patient Satisfaction Survey % of patients responding probably yes or definitely yes (Outpatient), 3 or 4 on 1 - 4 scale; good or very good (Inpatient, ETC), 4 or 5 on 1 - 5 scale	Institutional target
Satisfied with care coordination	CORM - Patient Satisfaction Survey % of patients responding good or very good (Inpatient), 4 or 5 on 1 - 5 scale	Institutional target
Clinic reception wait times < 15 min	CORM - Patient Satisfaction Survey % patients responding wait times in reception < 15 minutes	Amb Care FY2003 Report Card
Appt sched < 14 days or desired	CORM - Patient Satisfaction Survey % patients responding appt sched times < 14 days or as desired	Amb Care FY2003 Report Card
% completion advance directives	JCAHO Compliance Audits, quarterly data	JCAHO Target
% verbal med orders signed < 4 days	JCAHO Compliance Audits, quarterly data	JCAHO Target
Avg ETC OP check-in to check-out time	ETC - Avg check-in to check-out time in minutes of outpatients for that quarter	Institutional target

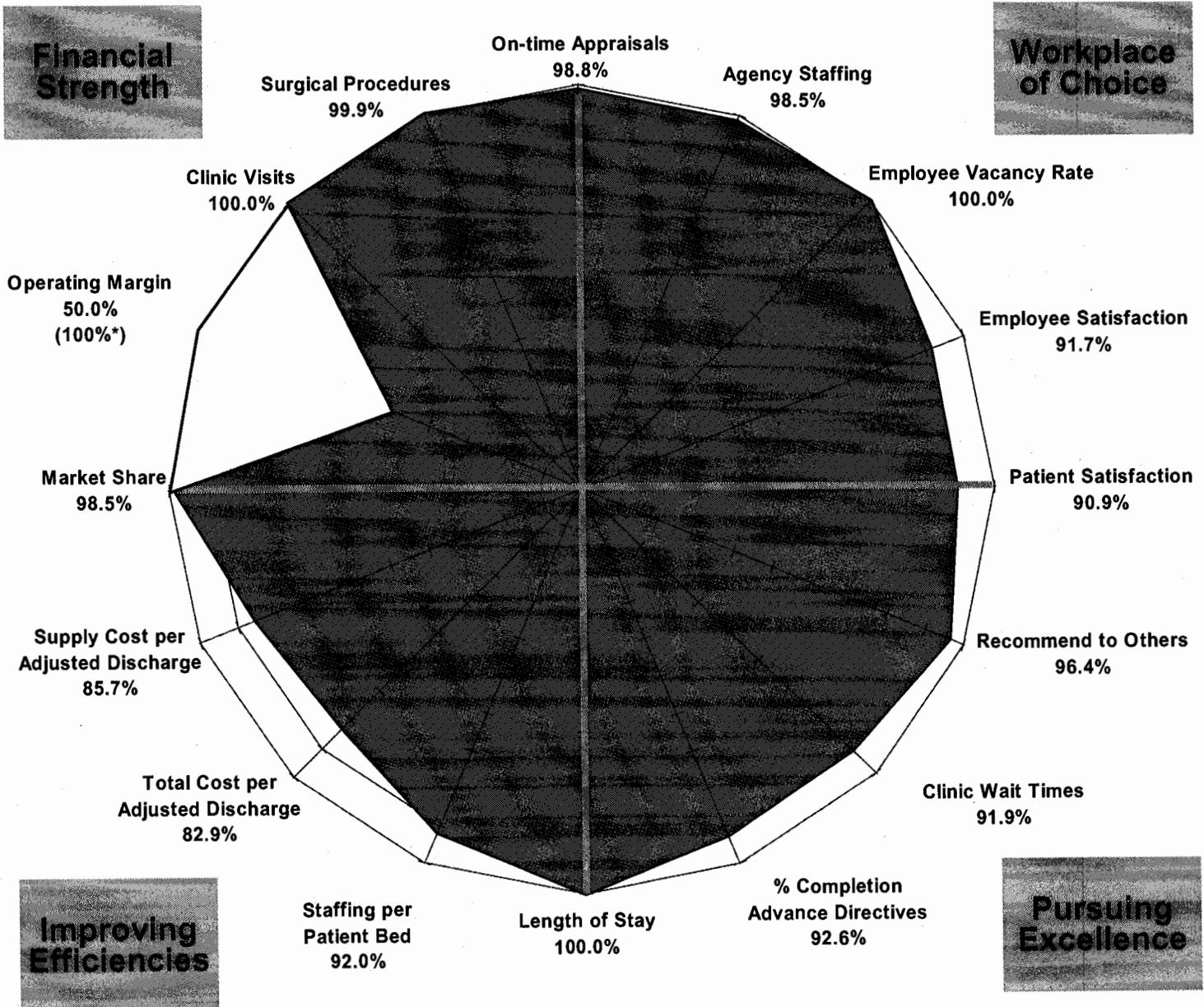
IMPROVING EFFICIENCIES

Indicator	Source/Description	Benchmark
Observed/expected LOS ratio	CORM - UHC observed LOS including outliers & early deaths for 100% acute discharges divided by UHC benchmark expected LOS. Ob, Rec, and Cust Days not included.	UHC
% patients discharged by 11:00 AM	CORM - % of inpatients discharged by 11 AM. Excludes deaths and patients leaving against medical advice.	Bed mgt Task Force
FTEs per adj occupied bed (QTRLY)	FAS - # of adjusted occupied beds/by FTE, on a quarterly basis	ACTION 50th percentile
OR hours per OR patient	FAS - Operating room hours/total or patients (ASC and Main OR combined)	ACTION 50th percentile
Cost (excl bad debt) per adjusted discharge	FAS - Qtrly operating costs/((gross patient charges/total gross inpatient charges) *(total patient discharges excluding newborns))	ACTION 50th percentile
Payroll cost per adj discharge	FAS - Qtrly payroll costs/((gross patient charges/total gross inpatient charges) *(total patient discharges excluding newborns))	ACTION 50th percentile
Supply cost per adjusted discharge	FAS - Qtrly supply costs/((gross patient charges/total gross inpatient charges) *(total patient discharges excluding newborns))	ACTION 50th percentile
Total costs per clinic visit (QTRLY)	FAS - Average cost per clinic visit on a quarterly basis	Budget

FINANCIAL STRENGTH

Indicator	Source/Description	Benchmark
Market share (inpatient)	JOMC - Qtrly market share of Acute inpatient discharges excluding MDC 19 (mental disease, 20 (alcohol/drug) and 25 (HIV). Source Iowa Hosp Assoc. Lagged six months.	Institutional target
Operating margin	FAS - Qtrly Operating income divided by net operating revenue	Current qtrly budget
Acute admissions	Regent's Report FAS - Qtrly # of acute adult & pediatric patients admitted. Includes normal newborns.	Current qtrly budget
Acute inpatient days	Regent's Report FAS - Qtrly # of adult, pediatric, & newborn patients at midnight census	Current qtrly budget
Clinic visits (UIHC only)	Regent's Report FAS - Qtrly # of UIHC clinic visits; a patient may have multiple appointments. Excludes Outreach and CMS	Current qtrly budget
Major surgical procedures	Regent's Report FAS - Qtrly # of surgical procedures in Main OR, ASC and Urology Procedure Suite	Current qtrly budget
ETC visits	Regent's Report FAS - Qtrly # of Emergency Treatment Center visits	Current qtrly budget
Debt service coverage ratio	Financial Ratios Report FAS - (Excess of Rev over Exp + Deprec + Int Exp)/(Prin Pymt + Int Pymt)	Moody's AA2 rating requirement

UNIVERSITY OF IOWA HOSPITALS AND CLINICS
Institutional Score Card
7/1/03 - 6/30/04



* Revised forecast for FY 04 is 1.6%; YTD performance is 100% of revised forecast.

University of Iowa Hospitals and Clinics Institutional Score Card

WORKPLACE OF CHOICE

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2004 Benchmark
On-time completed appraisals	97.9%	98.5%	98.8%	100.0%
Overtime FTEs as a % of Regular FTEs	2.8%	2.7%	2.8%	0.0%
Agency FTEs as % of Regular FTEs	3.2%	2.9%	1.5%	0.0%
Benefits as a % of total salaries	34.5%	32.0%	34.3%	23.9%
Employee vacancy rate	n/a	9.2%	7.4%	8.0%
Employee satisfaction out of 4	3.31	3.33	3.21	3.50
Days to fill vacancies	n/a	78.7	72.4	56.1

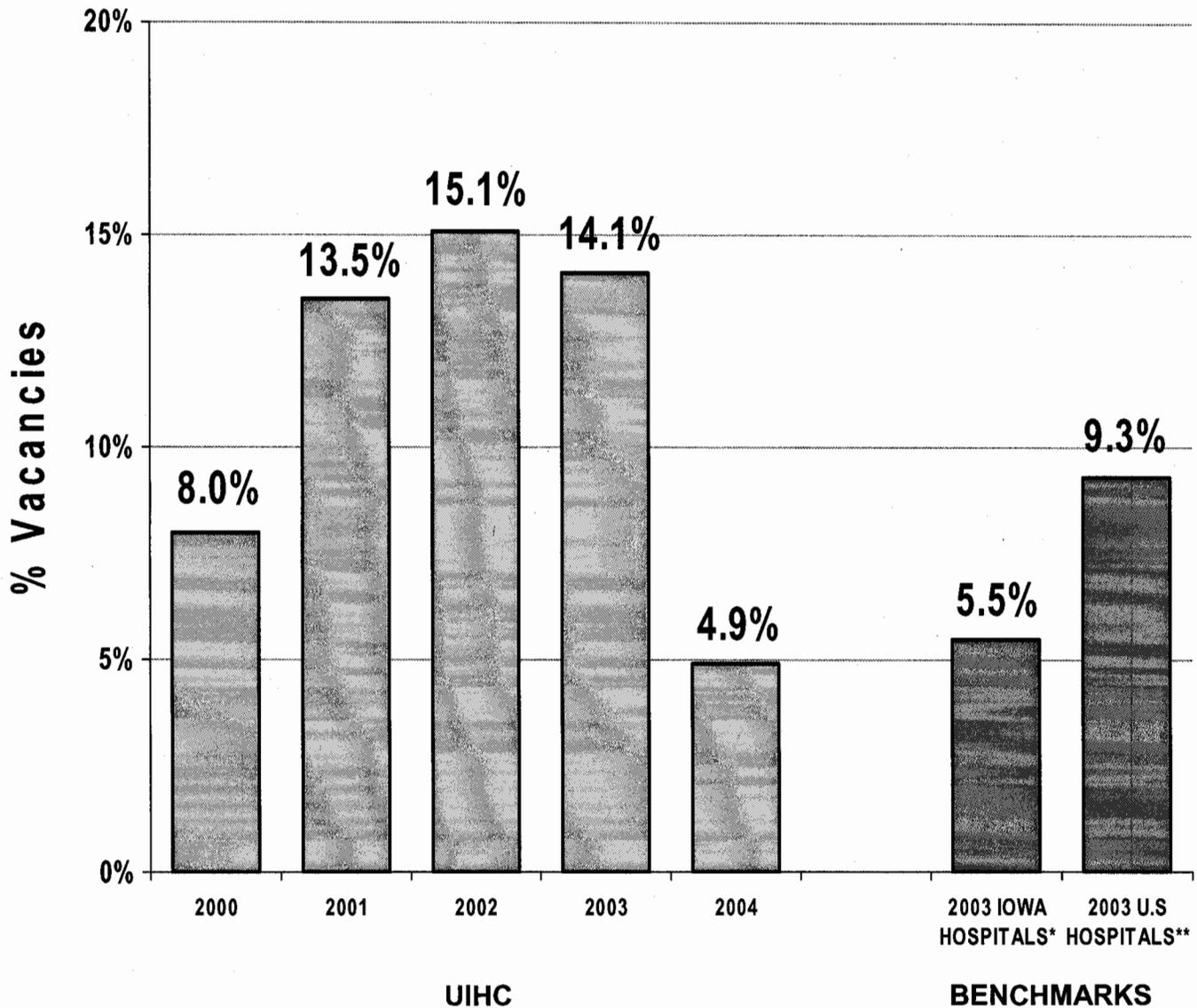
* FTE = full time equivalent of 2,080
hours per year

Benchmark Sources: University Hospital Consortium, Ambulatory Care Score Card, JCAHO Standards, UIHC
Budget, Moody's Investors Service, Institutional Targets

Workplace of Choice

- Enhanced communications mechanisms
- Principles of Working Together
- Service Recognition teas/dinners
- New Departments Chairs/Directors:
 - Dr. Paul Rothman (Internal Medicine),
 - Dr. Mark Iannettoni (Cardiothoracic Surgery),
 - Dr. Eric Dickson (Emergency Treatment Center),
 - Dr. Mark Wilson (Graduate Medical Education)
- Magnet Designation
- Behavioral interview training
- Management performance expectations and evaluation tool
- 360 degree development tool - Senior Leadership
- Lowered vacancy rate in nursing
- New Manager Orientation

Nursing Vacancies



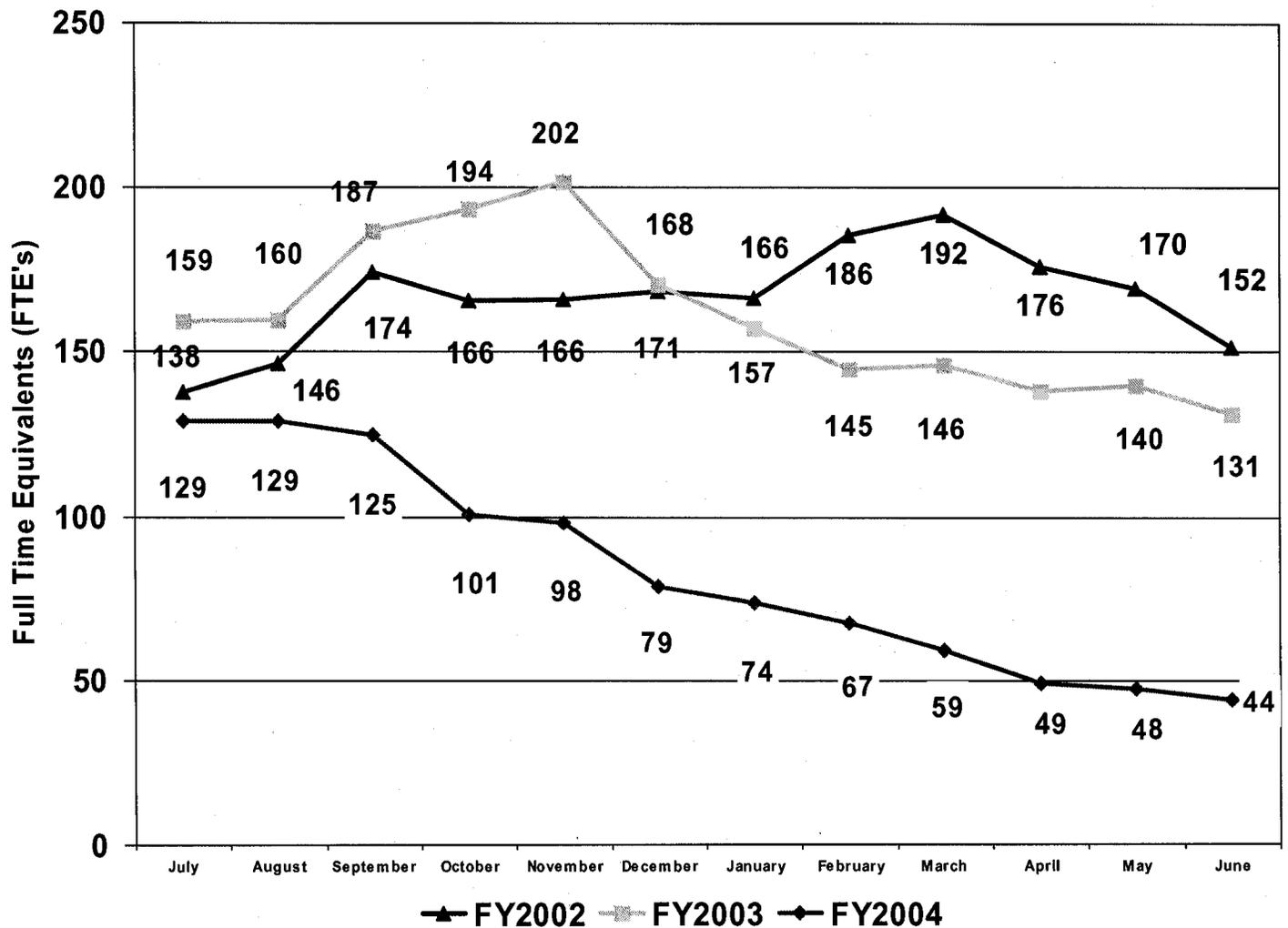
*Source: Iowa Hospital Association, 2004.

**Source: Labor Management Institute, "Perspectives on Staffing and Scheduling" July, 2003.

Reducing Agency Staff Use

Total Monthly Agency Staff FTE's

FY 2002 - 2004



University of Iowa Hospitals and Clinics Institutional Score Card

PURSuing EXCELLENCE

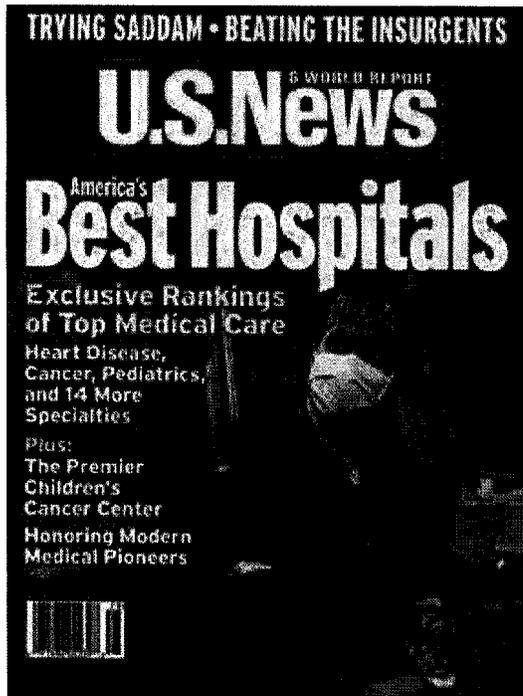
	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2004 Benchmark
Satisfied with overall care	89.6%	90.2%	90.9%	100.0%
Recommend to others	95.5%	96.3%	96.4%	100.0%
Clinic reception wait times < 15 min	72.4%	72.7%	73.5%	80.0%
Appt. schedule < 14 days or desired	75.9%	74.5%	78.7%	80.0%
% completion advance directives	47.5%	69.9%	83.3%	90.0%
% verbal med orders signed < 4 days	75.0%	73.3%	78.6%	90.0%
Avg. ETC OP check-in to check-out time	121	134	149	120

* ETC OP = Emergency Treatment Center Outpatient

Benchmark Sources: University Hospital Consortium, Ambulatory Care Score Card, JCAHO Standards, UIHC Budget, Moody's Investors Service, Institutional Targets

Pursuing Excellence

- U.S. News and World Report continued recognition
- Quality Indicators and Centers for Medicare and Medicaid Services (CMS) measures
- Enhanced patient amenities-room service dining concept, pet visitation, hospital clowns
- NICU, PICU, Perinatal & Obstetrical patient care units
- New marketing agency - emphasis on marketing specialty services
- First hospital in Iowa to offer MammoSite Radiation Therapy®
- 160 University of Iowa Health Care physicians selected for inclusion in 2003 Best Doctors in America® database
- New Chest Pain Center within the ETC at UIHC
- New Cardiology Clinic at UI Family Care in southeast Iowa City
- National accreditation for Pediatric Echocardiography Laboratory, only fetal echocardiography program accredited in Iowa
- Strategic Alliance with Siemens Medical Solutions assuring worldwide diagnostic imaging leadership for the future



Building upon Momentum: *Champions of Excellence*

- 2nd Otolaryngology
- 6th Ophthalmology & Visual Sciences
- 6th Orthopaedic Surgery
- 16th Urology
- 17th Psychiatry
- 21st Respiratory Disorders
- 33rd Digestive Disorders
- 36th Hormone Disorders
- 39th Gynecology
- 40th Cancer
- 42nd Geriatrics
- 45th Kidney Disease

First "Magnet" Hospital in Iowa



To receive the Magnet Award for nursing excellence is a huge achievement. To be first in Iowa is even more impressive.

Talent. Teamwork. Respect. Integrity. Compassion.
Many qualities make up an outstanding nursing staff.
Ours was just recognized for having them all. The prestigious Magnet Award from the American Nurses Credentialing Center symbolizes the highest caliber of nursing. It's a tribute to exceptional practice, innovative nursing research, a supportive professional environment, as well as a level of dedication to patient care and safety that's unsurpassed.

For more information, call
319-384-6442 or 800-777-6442.
Or visit uhealthcare.com/nursing.



Changing Medicine. Changing Lives

Magnet Hospital Designation

- Good for our patients
- Good for the community
- Good for Iowa

University of Iowa Hospitals and Clinics Institutional Score Card

IMPROVING EFFICIENCIES

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2004 Benchmark
Observed/expected LOS* ratio	1.14	1.09	0.98	1.00
% patients discharged by 11:00 a.m.	20.6%	21.5%	22.8%	40.0%
FTES per adjusted occupied bed	6.74	6.87	6.94	6.43
OR hours per OR patient (a)	2.68	2.76	2.79	2.58
Cost per adjusted discharge (b)	\$14,284	\$14,221	\$14,522	\$12,407
Payroll cost per adjusted discharge	\$7,141	\$7,215	\$7,603	\$6,593
Supply cost per adjusted discharge	\$3,237	\$3,175	\$3,141	\$2,749
Total cost per clinic visit	\$382	\$389	\$427	\$431

(a) Main OR and ASC combined

(b) Restated to reflect presentation change of bad debt expense from an operating expense to a reduction in gross patient revenue

* LOS = Length of Stay

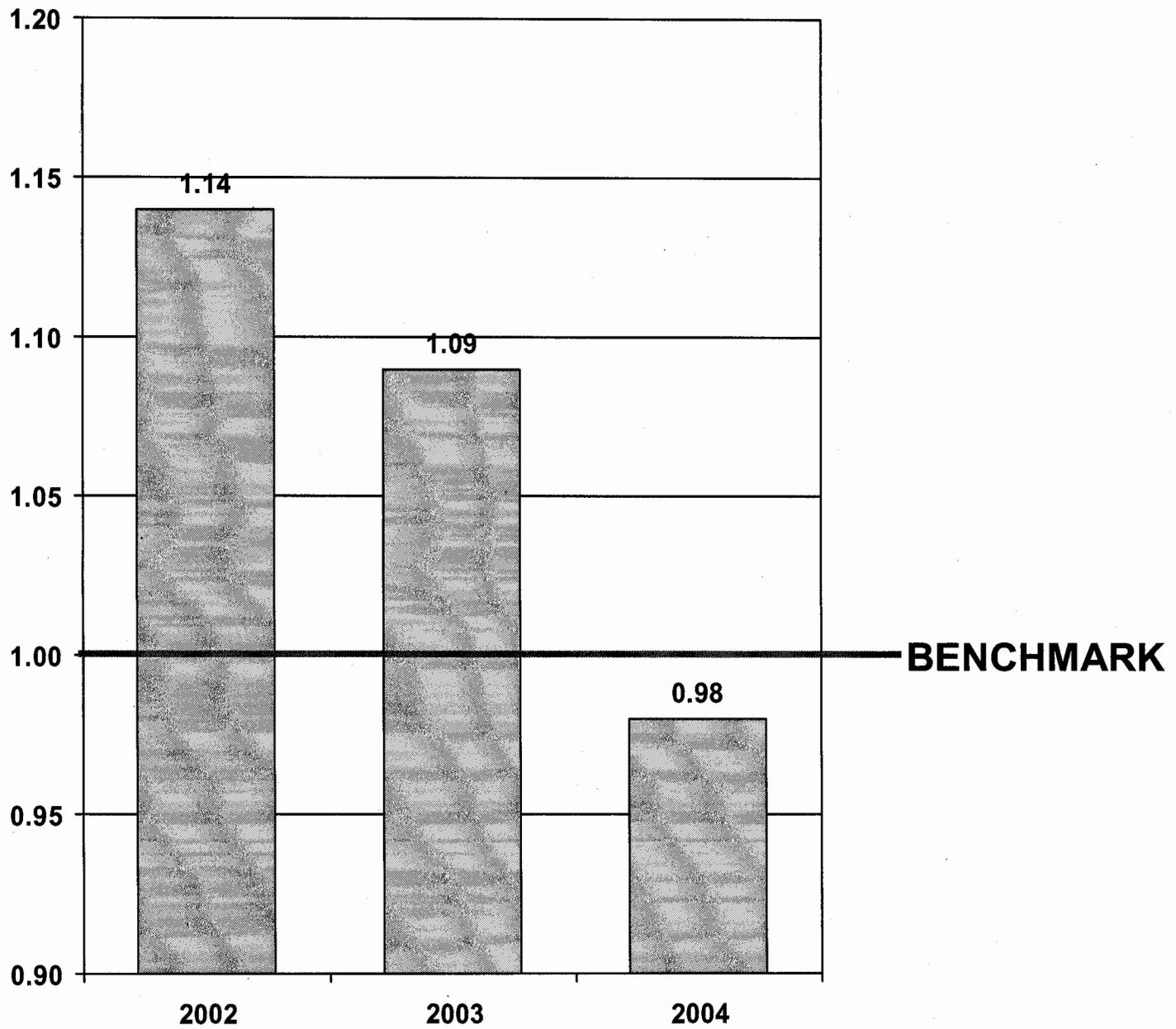
All FY04 financial numbers are based on preliminary, unaudited statements and are subject to change.

Benchmark Sources: University Hospital Consortium, Ambulatory Care Score Card, JCAHO Standards, UIHC Budget, Moody's Investors Service, Institutional Targets

Improving Efficiencies

- Continuum of Care Management (CCM)
- Operating Room Capacity Task Force
- Bed Control and Transfer Office/Bed Board System
- Consolidated billing and collections through billing system
- Lean Sigma Project
- Delta Group Project
- Integrated Call Center nursing staff triaged 11,618 contacts to help callers with health care decisions
- Countywide emergency preparedness and Emergency Management coordinated with the office of Johnson County
- Plans developed for treating mass casualty victims of chemical, biological, nuclear, radiological or explosive incident

Observed/Expected Length Of Stay Ratio



Lean Sigma Radiology Project

- Appointment wait time decreased from 23 days to 1 day
- Added approximately 20 CT appointments per day
- Procedure volume for June & July 03-04 (7055) increased compared to June & July 02-03 (5779)
- Charges generated are approximately \$400,000 ahead of budget projections after 2 months

University of Iowa Hospitals and Clinics Institutional Score Card

FINANCIAL STRENGTH

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2004 Benchmark
Market share (inpatient)	6.2%	6.7%	6.9%(a)	7.0%
Operating margin	2.0%	1.4%	1.6%(b)	3.2%(b)
Acute admissions (excludes newborn)	24,511	25,264	25,384	25,200
Acute inpatient days (excludes newborn)	179,992	177,252	176,188	170,100
Clinic visits (main campus)	615,242	655,476	669,045	649,800
Major surgical procedures	19,814	20,269	20,644	20,661
Emergency Treatment Center visits	30,587	30,875	31,626	32,801
Debt service coverage ratio	15.3	14.8	11.3	6.6

(a) Calendar year 2003 due to data lag

(b) Benchmark was revised to 1.6%; revised goal met 100%

All FY04 financial numbers are based on preliminary, unaudited statements and are subject to change.

Benchmark Sources: University Hospital Consortium, Ambulatory Care Score Card, JCAHO Standards, UIHC Budget, Moody's Investors Service, Institutional Targets

Financial Strength

- Rating agencies reaffirmed Aa2 rating (Moody's)
- New ROI model/expectations for return on investment for new capital requests/new clinical initiatives
- Reduction of agency costs
- Supply Chain Optimization Program
- Productivity-based budgeting
- Improved Revenue Cycle
- Managed Care & Revenue Integrity Department
- Children's Miracle Network donations over \$2.2 million (Includes \$625,758 collected through UI Dance Marathon)

Children's Miracle Network Donations

