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UNIVERSITY OF IOWA HOSPITALS AND CLINICS AUDIT REPORT

Action Requested: Receive the external audit report for the University of Iowa Hospitals and Clinics (UIHC) for the years ended June 30, 2012, and June 30, 2011.

http://www.regents.iowa.gov/Meetings/DocketMemos/13Memos/February2013/0213_uihc.pdf

Executive Summary: The UIHC report includes the audit of the basic financial statements on an accrual basis for the fiscal years ended June 30, 2012, and June 30, 2011, as conducted by KPMG LLP, an independent auditing firm, and management's discussion and analysis of the financial activities of UIHC based on currently known facts, decisions, and conditions. (This section is to be read in conjunction with the UIHC audited financial statements and notes to the financial statements.)

For reporting purposes, UIHC includes the following University of Iowa health care units: (1) University Hospital; (2) Psychiatric Hospital; and (3) Center for Disabilities and Development.

The audit indicated that the financial statements present fairly, in all material respects, the financial position of UIHC as of June 30, 2012, and June 30, 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

A representative from KPMG LLP will be available via phone to present the report and answer questions.

Additional Information: Annual audited financial statements of the UIHC are required by Regent Policy Manual §7.09 and by bond covenants.

KPMG LLP conducted the UIHC audit for the fiscal years ended June 30, 2012, and June 30, 2011, in accordance with auditing standards generally accepted in the United States.

UIHC financial statements include substantially all of the health care provider activities for patient care associated with the University other than the physician and dentist services and research activities, which are provided by the faculties of the University's Colleges of Medicine and Dentistry. Student Health Services, Specialized Child Health Services outreach programs, and the University of Iowa Health System, a UIHC affiliate, are not included in this report.

The financial statements were prepared in accordance with governmental accounting principles generally accepted in the United States. UIHC uses enterprise fund accounting and recognizes revenue and expenses on the accrual basis of accounting using the economic resources measurement focus.

- ◆ As of June 30, 2012, net assets totaled \$1.2 billion, an increase of \$54.9 million (5.0%) over the \$1.1 billion from the prior year. The increase is primarily due to net income from operations of \$46.7 million.
- ◆ For FY 2012, operating revenues totaled \$1.1 billion and operating expenses were \$1.0 billion, for an operating income of \$46.7 million. Increases in net patient service revenue were driven by increased patient volumes and pricing. Increases in expenses are attributed to personnel expenses (salaries and wages and employee benefits) and drugs.
- ◆ Nonoperating revenues netted \$21.4 million, which included investment income of \$24.2 million.
- ◆ The majority of long-term debt is from the issuance of hospital revenue bonds and the UIHC share of telecommunications facilities revenue bonds totaling \$174.8 million and \$151.9 million as of June 30, 2012, and 2011, respectively. These bonds are payable solely out of UIHC income.

Related Party Transactions

- ◆ The UIHC purchases certain administrative services, utilities, and other general services from the University. These services are purchased at the approximate cost incurred by the University. For the years ended June 30, 2012, and June 30, 2011, UIHC expensed approximately \$135.6 million and \$133.0 million, respectively, for these services, utilities, and other services and support requirements.
- ◆ The UIHC also provides certain administrative services to units of the University. These services include billing, collection, and other physician practice-related clinic overhead expenses. For FY 2012 and FY 2011, the UIHC received revenue of approximately \$31.3 million and \$30.5 million, respectively, for these services.

UIHC and the University's College of Medicine formed a nonprofit corporation, University of Iowa Health System (UIHS), to enhance and support the educational missions of the UIHC and the College of Medicine, particularly as these missions apply to clinical activities and statewide/multi-state network development activities. UIHC supported clinical programs of the University's College of Medicine through transfers of funds of \$1.6 million for the years ended June 30, 2012 and 2011.

Revenue from Medicare and Medicaid programs accounted for approximately 24% and 12%, respectively, of UIHC's net patient revenue for the year ended 2012, and 24% and 14%, respectively, for the year ended 2011. A reasonable possibility exists that recorded estimates will change by a material amount in the near term due to interpretation of the complex laws and regulations governing the Medicare and Medicaid programs.

UIHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. These amounts totaled \$28.7 million and \$32.4 million for 2012 and 2011, respectively, and are not reported as revenues in the accompanying statements.

The UIHC annual financial report also includes a section on management's discussion and analysis, which provides an objective analysis of the financial activities of the UIHC based on currently known facts, decisions, and conditions. It is presented to be read in conjunction with the audited financial statements and includes the following sections:

- ◆ Financial Highlights
- ◆ Overview of the Financial Statements
- ◆ Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets
- ◆ Net Patient Service Revenue
- ◆ Operating Expenses
- ◆ Nonoperating Revenues and Expenses, Net
- ◆ Statement of Cash Flows
- ◆ Capital Assets and Debt Administration
- ◆ Debt
- ◆ Contacting UIHC's Financial Management

Bonds Issued

- ◆ In September 2011, the Board approved the sale of \$26.8 million in Hospital Revenue Bonds for construction of the Iowa River Landing medical office building.
- ◆ In October 2011, the Board approved the sale of \$20.4 million in Hospital Revenue Refunding Bonds to refund the Series S.U.I. 2002 bonds.
- ◆ In September 2012, the Board approved the sale of \$190.0 million in Hospital Revenue Bonds for construction of a new children's hospital.