UIHC AUDIT REPORT

Action Requested: Discuss and receive the external audit report for the University of Iowa Hospitals and Clinics (UIHC) for the years ended June 30, 2006, and June 30, 2005.

Executive Summary: The UIHC report includes:

- The audit of the basic financial statements on an accrual basis of UIHC for the fiscal years ended June 30, 2006, and June 30, 2005, as conducted by KPMG LLP, an independent auditing firm, and management’s discussion and analysis of the financial activities of the 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, the UIHC includes the following health care units of the University of Iowa:

- University Hospital
- Psychiatric Hospital
- Center for Disabilities and Development (formerly the Hospital School)

The audit indicated that the financial statements present fairly, in all material respects, the financial position of UIHC as of June 30, 2006, and June 30, 2005, and the changes in its net assets and its cash flows for the years then ended. No significant audit adjustments or findings were reported.

- Auditor’s letter related to the conduct of the audit. No significant issues or concerns were reported.

A representative from KPMG LLP will be available to answer questions at the Committee meeting.

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

KPMG LLP conducted the UIHC audit for the fiscal years ended June 30, 2006 and June 30, 2005, 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 recognizes revenue and expenses on the accrual basis of accounting using the economic resources measurement focus.

- As of June 30, 2006, net assets totaled $869.2 million, which represent an increase of $50.1 million (6.1%) over the $819.1 million from the prior year.

- For FY 2006, operating revenues were $773.8 million and operating expenses were $737.0 million, for an operating income of $36.8 million (4.8% of operating revenues).

- Non-operating revenues, expenses, gains, and losses netted $13.3 million, which included investment income of $10.3 million.

- Outstanding debt from the 2002 issuance of hospital revenue bonds totaled $23.9 million and $24.4 million as of June 30, 2006, and 2005, respectively.
Related Part Transactions

- The UIHC purchases certain administrative services, utilities, and other general services from the University. These services are charged at the approximate cost incurred by the University. For the years ended June 30, 2006 and June 30, 2005, UIHC expensed approximately $110.3 million and $79.5 million, for the services from the University.

- 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 2006 and FY 2005, the UIHC received revenue of approximately $26.3 million and $27.3 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 $0.9 million and $0.7 million for the years ended June 30, 2006, and June 30, 2005, respectively.

Revenue from Medicare and Medicaid programs accounted for approximately 22% and 13%, respectively, of UIHC’s net patient revenue for the year ended 2006, and 26% and 16%, respectively, of UIHC’s net patient revenue for the year ended 2005. 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.

The UIHC provided charity care at established hospital rates for the years ended June 30:

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<thead>
<tr>
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<th>2006</th>
<th>2005</th>
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<tbody>
<tr>
<td>Indigent patient care</td>
<td>$106.5 million</td>
<td>$91.3 million</td>
</tr>
<tr>
<td>Other charity care</td>
<td>$12.4 million</td>
<td>$4.4 million</td>
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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:

- Overview of the Financial Statements
- Overall Financial Position and Operations
- Debt
- Operating Results and Changes in Net Assets
- Net Patient Service Revenue
- Operating Expenses
- Transactions with Related Parties
- Non-operating Revenues and Expenses
- Contacting UIHC’s Financial Management