

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: External Audit Report – University of Iowa Hospitals and Clinics
Date: March 4, 2002

Recommended Action:

Receive the external audit report for the University of Iowa Hospitals and Clinics for the years ended June 30, 2000, and 2001.

Executive Summary:

KPMG LLP conducted an independent audit on the University of Iowa Hospitals and Clinics (UIHC) accrual basis financial statements for the fiscal years ended June 30, 2001 and 2000. The annual audit is required by revenue bond resolutions and includes operations of the University Hospitals and Clinics, the Psychiatric Hospital, and the UIHC Center for Disabilities and Development.

No significant audit adjustments or findings were reported.

The Board of Regents, in its role as Trustees of the University of Iowa Hospitals and Clinics, will be provided a quarterly report on operations of the UIHC at the March Board meeting. (See docket item SUI B-4.)

Background and Analysis:

The University of Iowa Hospitals and Clinics (UIHC) is required by bond covenant to provide annual audited financial statements. The audit of the UIHC includes the operations of the University Hospital, the Psychiatric Hospital, and the UIHC Center for Disabilities and Development (formerly the Hospital School).

KPMG LLP conducted the UIHC audit for the fiscal years ended June 30, 2001 and 2000 in accordance with generally accepted auditing standards. The audit indicated that the financial statements present fairly, in all material respects, the financial position of UIHC as of June 30, 2001 and 2000. The financial statements were prepared in accordance with generally accepted governmental accounting principles applicable to health care proprietary funds of a governmental entity.

Financials	<p>The UIHC unrestricted assets as of June 30, 2001, total \$806.3 million with total liabilities of \$98.5 million. As of June 30, 2000, the unrestricted assets were \$786.5 million and liabilities were 118.7 million.</p> <p>For FY 2001, revenues were \$564.7 million, expenses were \$544.7 million, and investment income totaled \$22.7 million, leaving an excess of revenue over expenses of \$42.7 million.</p> <p>For FY 2000, revenues were \$518.7 million, expenses were \$492.2 million, and investment income totaled \$14.4 million, leaving an excess of revenue over expenses of \$40.8 million.</p> <p>UIHC hospital revenue bonds outstanding at June 30, 2001, totaled \$8.0 million.</p>
Related Party Transactions	<p>The UIHC receives certain administrative services, utilities, and other general services from the University. These services and support costs include amounts due to the University's College of Medicine under an agreement for support for graduate medical education, specific clinical services, and other services. For the years ended June 30, 2001 and 2000, UIHC expensed approximately \$78.2 million and \$67.2 million.</p> <p>The UIHC also provides certain administrative services to units of the University. These include billing, collection, and other physician practice-related clinic overhead expenses. For FY 2001 and 2000, the UIHC received approximately \$18.5 million and \$18.3 million, respectively, for these services.</p> <p>The Faculty Practice Plan is a clinical component of the University College of Medicine. The UIHC performs billing and collection services for this plan.</p>
University of Iowa Health System	<p>UIHC and the University's College of Medicine formed a nonprofit corporation, University of Iowa Health System (UIHS), to enhance the educational missions of the UIHC and the College of Medicine, particularly as these missions apply to clinical activities and statewide and multi-state network development activities. UIHC provided capitalization of UIHS through transfers of funds totaling \$2.0 million and \$4.3 million for the years ended June 30, 2001 and 2000, respectively.</p> <p>The UIHC has committed to additional funding of UIHS, as needed, of approximately \$7.6 million, to be used primarily for community practice development. UIHC also transferred \$1.0 million to the University College of Medicine in support of clinical programs for the year ended June 30, 2001.</p>
Medicare	<p>As a result of Medicare reimbursement issues related primarily to medical education, UIHC has not finalized settlements. The financial statements for the last several years have included a liability for estimated settlements. The estimated liabilities for FY 2001 and FY 2000 were not identified in this report.</p>
Medicaid	<p>UIHC receives supplemental disproportionate share and indirect medical education patient care reimbursement allowances from the State of Iowa Medicaid program. UIHC is obligated to transfer these supplemental receipts to the state general fund; these transfers amounted to approximately \$31.6 million for FY 2001 and \$31.7 million for FY 2000.</p>
