

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: External Audit Report – University of Iowa Hospitals and Clinics
Date: May 12, 2003

Recommended Action:

Receive the external audit report for the University of Iowa Hospitals and Clinics (UIHC) for the years ended June 30, 2002, and 2001.

Executive Summary:

KPMG LLP conducted an independent audit on the UIHC accrual basis financial statements for the fiscal years ended June 30, 2002 and 2001. The annual audit is required by revenue bond resolutions and includes operations of the University Hospital, the Psychiatric Hospital, and the Center for Disabilities and Development.

No significant audit adjustments or findings were reported.

The Board of Regents will meet this month in its role as Trustees of UIHC (See docket item SUI-3).

Background and Analysis:

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

KPMG LLP conducted the UIHC audit for the fiscal years ended June 30, 2002 and 2001 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, 2002 and 2001 and the results of its financial position and its cash flows for the years then ended.

The financial statements were prepared in accordance with generally accepted governmental accounting principles applicable to health care proprietary funds of a governmental entity. They are reported using the economic resources measurement focus. UIHC recognizes revenue and expenses on the accrual basis of accounting.

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.

Financials	<p>Based on the changes and provisions in generally accepted governmental accounting standards, the financial statements for the year ended June 30, 2001 have been reclassified to conform with the presentation for June 30, 2002.</p> <p>Net assets of \$740.5 million represent an increase of \$25.5 million over the prior year.</p> <p>For FY 2002, revenues were \$592.0 million, expenses were \$579.3 million, and investment income totaled \$13.7 million.</p> <p>UIHC hospital revenue bonds outstanding at June 30, 2001, totaled \$5.5 million.</p> <p>In November 2002, the Board sold Hospital Revenue Bonds of \$25,000,000 to pay, in part, the costs of constructing, improving, remodeling, repairing, furnishing, and equipping inpatient and outpatient facilities and patient care facilities, including facilities for image-guided radiation therapy services and mechanical and other supporting facilities at UIHC.</p>
Related Party Transactions	<p>The UIHC purchases certain administrative and supervisory services, utilities, and other general services from the University. These services 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, 2002 and 2001, UIHC expensed approximately \$68.3 million and \$78.2 million, respectively.</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 2002 and 2001, the UIHC received revenues of approximately \$20.0 million and \$18.5 million, respectively, for these services.</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 and support 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 \$0.8 million and \$2.0 million for the years ended June 30, 2002 and 2001, respectively.</p> <p>UIHC also transferred \$1.0 million per year to the College of Medicine in support of clinical programs for the years ended June 30, 2002, and June 30, 2001.</p>
Faculty Practice Plan	<p>The Faculty Practice Plan is a clinical component of the College of Medicine. The UIHC performs billing and collection services for this plan. Outstanding accounts receivable of the Faculty Practice Plan at June 30, 2002, and 2001, were \$19.0 and \$17.3 million, respectively.</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 \$46.5 million for FY 2002 and \$31.6 million for FY 2001 and have been excluded from revenues and expenses.</p>