

Contact: Andrea Anania

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, 2015, and June 30, 2014.

http://www.regents.iowa.gov/Meetings/DocketMemos/16Memos/February2016/0216_uihc.pdf

Executive Summary: The UIHC report includes the audit of the basic financial statements for the fiscal years ended June 30, 2015, and June 30, 2014, 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 the University of Iowa and UIHC as of June 30, 2015, and June 30, 2014, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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

Background and Analysis: 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, 2015, and June 30, 2014, in accordance with auditing standards generally accepted in the United States.

UIHC includes 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's statements have been prepared on an accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred without regard to receipt or disbursement of cash.

- ◆ As of June 30, 2015, net position totaled nearly \$1.3 billion, an increase of \$37.4 million (3.0%) (inclusive of cumulative effect of adoption of new accounting standard) from the prior year. The increase is primarily due to net income from operations of \$84.1 million.
- ◆ For FY 2015, operating revenues totaled \$1,314,267 billion and operating expenses totaled \$1,230,182 billion, for an operating income of \$84,085 million. Increases in net patient service revenue resulted from increases in patient volumes and pricing increases during the same periods. Increases in expenses are primarily attributed to medical supplies and drugs.
- ◆ Nonoperating revenues netted \$287,000, which included investment income of nearly \$7.6 million.
- ◆ The adoption of GASB 68 required UIHC to record its proportionate share of pension liability related to its employees' participation in Iowa Public Employee Retirement System (IPERS). The standard was adopted effective July 1, 2014, due to the availability of information from IPERS. The statement of net position will include a liability for UIHC's portion of IPERS and other similar pension plans. FY 2015 is the first year for reporting the cumulative effect of adoption of this accounting standard (see page 5 of the report.)

- ◆ The majority of long-term debt is from the issuance of hospital revenue bonds and the UIHC share of telecommunications facilities revenue bonds totaling \$369.6 million and \$383.9 million as of June 30, 2015, and 2014, 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 and support costs are purchased at the approximate cost incurred by the University. For the years ended June 30, 2015, and June 30, 2014, UIHC expensed approximately \$165.0 million and \$148.7 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 2015 and FY 2014, the UIHC received revenue of approximately \$16.0 million and \$16.1 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 and multi-state network development activities. UIHC paid UIHS for certain administrative and other general services in the amount of \$1.9 million and \$1.6 million, respectively, for the years ended June 30, 2015 and 2014.

Revenue from Medicare and Medicaid programs accounted for approximately 26% and 18%, respectively, of UIHC's net patient revenue for the year ended 2015, and 27% and 18%, respectively, for the year ended 2014. 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 \$32.7 million and \$44.0 million for 2015 and 2014, 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 UIHC based on currently known facts, decisions, and conditions. It is presented to be read in conjunction with the audited financial statements and accompanying notes to the financial statements. The report includes the following sections:

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

BONDS ISSUED

In September 2012, the Board approved the sale of \$190.0 million in Hospital Revenue Bonds for construction of a new children's hospital, which is slated for completion in late 2016. No other hospital bonds have been sold since then.