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, 2018, and June 30, 2017.

Executive Summary: The UIHC report includes the audit of the basic financial statements for the fiscal years ended June 30, 2018, and June 30, 2017, as conducted by KPMG LLP, an independent auditing firm; and management’s discussion and analysis of the financial activities of UIHC.

For reporting purposes, UIHC includes the following University of Iowa Health Care units: (1) University Hospital, (2) Psychiatric Hospital, (3) Stead Family Children’s Hospital, and (4) Center for Disabilities and Development.

The audit concluded that the financial statements present fairly, in all material respects, the financial position of UIHC as of June 30, 2018, and June 30, 2017, and the results of its operations and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Representatives 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 UIHC are required by Regent Policy Manual §2.2(9)(b)(iii) and by bond covenants.

UIHC includes substantially all health care provider activities for patient care associated with the university other than 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 have been prepared: (1) in accordance with governmental accounting principles generally accepted in the United States and (2) 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, 2018, net position totaled $1.54 billion, an increase of $152.3 million (11%) from the prior year. The increase is primarily due to operating income, exclusive of a postemployment benefit change, of $61.1 million and transfers of $80.7 million from the university net.

- For FY 2018, operating revenues totaled over $1.66 billion and operating expenses totaled nearly $1.61 billion, for an operating income of $61.1 million. Increases in net patient service revenue resulted from increases in patient volumes and pricing increases during the same period. Increases in expenses are primarily attributed to increased patient volumes and inflation. The largest dollar increase in expenses was in medical supplies and drugs.

- Nonoperating revenues netted $11.3 million, which included investment income of $24.4 million offset by interest expense of $11 million.

- At June 30, 2018, UIHC had $360.2 million in bonds and capital lease outstanding. UIHC issued nearly $32.67 million of Series S.U.I 2018 Hospital Revenue Bonds, which will be used to finance capital improvements.
**Related Party Transactions:** 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, 2018, and June 30, 2017, UIHC expensed approximately $200.2 million and $181.4 million, respectively, for these services, utilities, and other services and support requirements.

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 2018 and FY 2017, the UIHC received revenue of approximately $9.3 million each year 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 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 $0 million and $1.7 million, respectively, for the years ended June 30, 2018 and 2017.

Revenue from Medicare and Medicaid programs accounted for approximately 29.1% and 15.2%, respectively, of UIHC’s net patient revenue for the year ended 2018, and 29.7% and 15.5%, respectively, for the year ended 2017.

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 $37.2 million and $35.7 million for 2018 and 2017, 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. Please read in conjunction with the audited financial statements and accompanying notes to the financial statements.

Management’s discussion and analysis includes the following sections:

- Financial Highlights
- Overview of the Financial Statements
- Statements of Net Position and Statements of Revenue, 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 the University of Iowa Stead Family Children’s Hospital, which opened in 2017.

In April 2016, the Board approved the sale of $29.0 million in Hospital Revenue Refunding Bonds to refund the Series S.U.I. 2007 and S.U.I. Series 2007A bonds.

In June 2016, the Board approved the sale of $23.9 million in Hospital Revenue Refunding Bonds to refund the Series S.U.I. 2009 bonds.

No hospital bonds were issued in 2017.

In June, 2018, the Board approved the sale of $32.7 million in Hospital Revenue Bonds to finance capital improvements.