

Contact: Chad Sharp

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Action Requested: Receive the external audit report for the University of Iowa Hospitals and Clinics (UIHC) for the years ended June 30, 2024, and June 30, 2023.

Executive Summary: The UIHC report includes the audit of the basic financial statements for the fiscal years ended June 30, 2024, and June 30, 2023, as conducted by KPMG LLP, an independent auditing firm; and management's discussion and analysis of the financial activities of UIHC.

On January 31, 2024, UIHC successfully completed its acquisition of Mercy Hospital, Iowa City, Iowa (Mercy), which owned a 194-bed facility in Iowa City, Iowa, and primary and specialty care clinics in southeastern Iowa, in exchange for \$37.4 million following Mercy's filing of chapter 11 bankruptcy in August 2023.

For reporting purposes, UIHC includes the following UI Health Care units: (1) University campus, which includes the medical center at Hawkins Drive in Iowa City, (2) the Downtown campus, which includes the medical center at 500 East Market Street in Iowa City and connected medical office building that were acquired from Mercy, (3) the University of Iowa Community Clinics, and (4) various off-campus outpatient hospital departments of the medical center at Hawkins Drive.

The audit concluded that the financial statements present fairly, in all material respects, the financial position of UIHC as of June 30, 2024, and June 30, 2023, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Andrew Lanik from KPMG LLP will be available via video 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, 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, 2024, net position totaled \$3.2 billion, an increase of \$508.6 million (18.8%) from the prior year.
- For FY 2024, operating revenues totaled \$3.0 billion and operating expenses totaled over \$2.67 billion, for an operating income of \$417.4 million. The increase in net patient service revenue was primarily driven by continued high demand and growth in UIHC's core services at the University campus as well as the inclusion of activity at the Downtown Campus (former Mercy facilities), into UIHC's financial statements, effective January 31, 2024. Total operating expenses increased by 264.2 million, or 11% compared to FY 2023. This growth was due to increased patient volumes as well as price inflation in the cost of labor, professional services, medical supplies, and drugs at the University campus.

- Nonoperating net revenues increased by \$61.0 million, largely due to improved investment returns.
- At June 30, 2024, UIHC's bond debt decreased \$23.8 million, or 3.4% to \$672.3 million.

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, 2024, and June 30, 2023, UIHC expensed approximately \$289.8 million and \$285.1 million respectively, for these administrative services, utilities, and other services and support requirements.

UIHC also provides certain administrative services to units of the university. These services include billing, collection, legal, compliance and other physician practice-related clinic overhead expenses. For FY 2024 and FY 2023, UIHC received revenue of approximately \$12.7 million and \$11.1 million, respectively, for these services.

Revenue from Medicare and Medicaid programs accounted for approximately 27.7% and 24.7%, respectively, of UIHC's net patient revenue for the year ended 2024, and 26.2% and 23.0%, respectively, for the year ended 2023.

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 \$70.2 million and \$66.1 million for 2024 and 2023, 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
- Statements of Revenue, Expenses and Changes in Net Position
- Net Patient Service Revenue
- Operating Expenses
- Nonoperating Revenue and Expenses, Net
- Statements of Cash Flows
- Capital Assets
- Debt
- Contacting UIHC's Financial Management

Subsequent Events: On October 8, 2024, the Iowa Board of Regents unanimously approved an asset purchase agreement between UIHC and Mission Cancer + Blood, PLLC, (Mission) to create a comprehensive cancer care network uniquely positioned to tackle Iowa's elevated cancer rates. The agreement between Mission and UIHC, valued at \$280.0 million, seeks to address Iowa's growing cancer rates by providing opportunities for oncology specialists to work together to keep care local and increase access to cancer detection and treatment across Iowa. The transaction closed December 31, 2024.