

Contact: Andrea Anania

UIHC AUDIT

Action Requested: Receive and discuss the external audit report for the University of Iowa Hospitals and Clinics (UIHC) for the years ended June 30, 2010, and June 30, 2009.
<http://auditor.iowa.gov/reports/1061-9999-C000.pdf>

Executive Summary: The UIHC report includes the audit of the basic financial statements on an accrual basis for the fiscal years ended June 30, 2010, and June 30, 2009, 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 UIHC as of June 30, 2010, and June 30, 2009, and the changes in its net assets and its cash flows for the years then ended.

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

Additional Information: 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, 2010, and June 30, 2009, in accordance with auditing standards generally accepted in the United States.

UIHC financial statements include 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 uses enterprise fund accounting and recognizes revenue and expenses on the accrual basis of accounting using the economic resources measurement focus.

- ◆ As of June 30, 2010, net assets totaled \$1.0 billion, which represents an increase of \$52.5 million (5.4%) over the \$968.6 million from the prior year. A significant component of the change in UIHC's assets is due to the construction or purchase of capital assets totaling \$55.5 million and \$98.8 million during 2010 and 2009, respectively.
- ◆ For FY 2010, operating revenues were \$943.5 million and operating expenses were \$917.4 million, for an operating income of \$26.1 million. Increases in net patient service revenue were driven by increased patient volumes and pricing. Decreases in expenses are attributed to salaries and benefits, benefit expenses, and medical supplies and drugs.
- ◆ Non-operating revenues, expenses, gains, and losses netted \$29.1 million, which included investment income of \$28.6 million.
- ◆ The majority of long-term debt is from the issuance of hospital revenue bonds and telecommunications facilities revenue bonds totaling \$118.4 million and \$110.1 million as of June 30, 2010, and 2009, respectively; UIHC issued \$30.0 million in revenue bonds during 2010. 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 are purchased at the approximate cost incurred by the University. For the years ended June 30, 2010, and June 30, 2009, UIHC expensed approximately \$127.4 million and \$122.5 million, respectively, for these services.
- ◆ 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 2010 and FY 2009, the UIHC received revenue of approximately \$30.0 million and \$29.0 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 / multi-state network development activities.

- ◆ UIHC supported clinical programs of the University's College of Medicine through transfers of funds of \$2.5 million and \$0.9 million for the years ended June 30, 2010, and June 30, 2009, respectively.

Revenue from Medicare and Medicaid programs accounted for approximately 25% and 13%, respectively, of UIHC's net patient revenue for the year ended 2010, and 24% and 13%, respectively, for the year ended 2009. 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 \$260.4 million and \$232.5 million for 2010 and 2009, 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 the UIHC based on currently known facts, decisions, and conditions. It is presented to be read in conjunction with the audited financial statements and includes the following sections:

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

Bonds Issued Subsequent to FY 2010

At its October 2010 meeting, the Board approved the sale of \$30,000,000 in Hospital Revenue Bonds for the Iowa River Landing Ambulatory Care Clinic Facility Development (the "Medical Office Building".) The sale was the first series of bonds issued to finance the construction of the Medical Office Building, which will provide space for the relocation of a number of outpatient clinics to the off-site ambulatory care facility.