



**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 300
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1248 O Street
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Independent Auditors' Report

The Board of Regents
State of Iowa:

We have audited the accompanying financial statements of the State University of Iowa, University of Iowa Hospitals and Clinics (UIHC), which comprise the statements of net position as of June 30, 2021 and 2020, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State University of Iowa, University of Iowa Hospitals and Clinics, as of June 30, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1, the financial statements of UIHC are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State University of Iowa that is attributable to the transactions of UIHC. UIHC is a department of the State University



of Iowa for financial reporting purposes. The financial statements of UIHC do not purport to, and do not, present fairly the financial position of the State University of Iowa as of June 30, 2021 and 2020, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–7 and the schedules of proportionate share in net pension liability and contributions on pages 49–50 and the schedule of changes in UIHC's total OPEB liability and related ratios on pages 51–55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Omaha, Nebraska
November 19, 2021

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Management's Discussion and Analysis

June 30, 2021 and 2020

Introduction

This section of the State University of Iowa, University of Iowa Hospitals and Clinics' (UIHC) annual financial report presents management's discussion and analysis of UIHC's financial performance during the years ended June 30, 2021 and 2020. The purpose is to provide an objective analysis of the financial activities of UIHC based on currently known facts, decisions, and conditions. Please read it in conjunction with UIHC's financial statements and the accompanying notes to the financial statements.

Financial Highlights

UIHC demonstrated financial success in 2021 with an increase in net position of \$201.2 million, or 11.5%, compared to an increase of \$99.2 million, or 6.0%, in 2020. Operating income increased \$29.1 million, or 50.3% when compared to 2020. Nonoperating revenue, net increased \$85.3 million when compared to 2020 mainly driven by investment performance.

In 2020, operating income was \$57.9 million, a decrease of \$41.6 million, or 41.8%, when compared to 2019. Nonoperating revenue, net increased \$22.2 million driven mainly by government funding from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) Provider Relief Funds. Although the government funding is accounted for as a nonoperating grant, the associated expenses of treating patients affected with Coronavirus 2019 (COVID-19) are classified as operating expenses.

Overview of the Financial Statements

This annual report consists of two parts—management's discussion and analysis and the basic financial statements.

The financial statements consist of three statements—statements of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of UIHC and have been prepared on an accrual basis in accordance with Governmental Accounting Standards Board (GASB) accounting principles.

Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position

In 2021, net position increased by \$201.2 million, or approximately 11.5%, to \$1.95 billion. This is primarily due to investment income of \$116.4 million and operating income of \$87.0 million. In 2020, net position increased by \$99.2 million, or approximately 6.0%, to \$1.75 billion. This is primarily due to operating income of \$57.9 million and investment income of \$35.4 million. Table 1 provides a summary of UIHC's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2021, 2020, and 2019.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Management's Discussion and Analysis

June 30, 2021 and 2020

Table 1

Condensed Statements of Net Position

(In thousands)

Assets and Deferred Outflows	2021	2020	2019
Current assets	\$ 477,686	378,385	388,476
Noncurrent cash and investments	1,232,678	990,795	920,718
Capital assets, net	1,087,636	1,101,983	1,103,635
Other assets	1,574	1,747	1,620
Total assets	2,799,574	2,472,910	2,414,449
Deferred outflows:			
Clinic acquisition costs	167	404	642
Pension-related deferred outflows	25,693	21,104	22,551
OPEB-related deferred outflows	33,569	27,120	18,457
Debt refunding loss	2,092	2,626	3,201
Total deferred outflows	61,521	51,254	44,851
Total assets and deferred outflows	\$ 2,861,095	2,524,164	2,459,300
Liabilities, Deferred Inflows, and Net Position			
Current liabilities	\$ 353,707	250,993	283,668
Long-term debt	338,663	354,701	373,846
Other long-term liabilities	191,647	133,194	116,535
Total liabilities	884,017	738,888	774,049
Deferred inflows:			
Pension-related deferred inflows	1,673	7,664	2,488
OPEB-related deferred inflows	24,938	28,488	32,877
Debt refunding gain	160	36	—
Total deferred inflows	26,771	36,188	35,365
Net position:			
Net investment in capital assets	733,831	732,321	743,043
Restricted	5,981	5,207	6,825
Unrestricted	1,210,495	1,011,560	900,018
Total net position	1,950,307	1,749,088	1,649,886
Total liabilities, deferred inflows, and net position	\$ 2,861,095	2,524,164	2,459,300

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Management's Discussion and Analysis

June 30, 2021 and 2020

Table 2 shows the changes in net position for 2021 compared to 2020 and 2019.

Table 2

Statements of Revenue, Expenses, and Changes in Net Position

(In thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenue:			
Net patient service revenue	\$ 2,111,156	1,888,420	1,781,510
Other revenue	<u>47,727</u>	<u>51,209</u>	<u>53,419</u>
Total operating revenue	<u>2,158,883</u>	<u>1,939,629</u>	<u>1,834,929</u>
Operating expenses:			
Salaries and benefits	869,745	820,953	777,689
Medical supplies and drugs	663,162	565,162	496,260
Other supplies and general expenses	432,504	392,155	359,628
Depreciation and amortization	<u>106,483</u>	<u>103,483</u>	<u>101,856</u>
Total operating expenses	<u>2,071,894</u>	<u>1,881,753</u>	<u>1,735,433</u>
Operating income	<u>86,989</u>	<u>57,876</u>	<u>99,496</u>
Nonoperating revenue (expense):			
Loss on disposal of capital assets	(1,522)	(1,318)	(10,969)
Noncapital gifts	205	9	2
Investment income	116,428	35,391	56,141
Government funding	35,451	31,128	—
Interest expense	<u>(12,212)</u>	<u>(12,141)</u>	<u>(14,319)</u>
Total nonoperating revenue, net	<u>138,350</u>	<u>53,069</u>	<u>30,855</u>
Excess of revenue over expenses before transfers	225,339	110,945	130,351
Capital gifts and grants	1,147	963	1,230
Net transfers out	<u>(25,267)</u>	<u>(12,706)</u>	<u>(20,357)</u>
Increase in net position	201,219	99,202	111,224
Net position, beginning of year	<u>1,749,088</u>	<u>1,649,886</u>	<u>1,538,662</u>
Net position, end of year	<u>\$ 1,950,307</u>	<u>1,749,088</u>	<u>1,649,886</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Management's Discussion and Analysis

June 30, 2021 and 2020

Net Patient Service Revenue

Net patient service revenue increased from 2020 to 2021 by \$222.7 million, or 11.8%, and from 2019 to 2020 by \$106.9 million, or 6.0%. The increase in net patient service revenue in 2021 was driven by both pricing increases and volume increases in certain areas, including transplants, outpatient visits, outpatient surgeries, and outpatient pharmacy. The increase in net patient service revenue in 2020 was driven by both pricing increases and volume increases in certain outpatient areas, specifically retail and contract pharmacy. There was an increase in outpatient clinic visits from 2020 to 2021 by 74,297, or 7.7%, with an increase in outpatient surgeries of 3,205, or 15.8%. On the inpatient side, the case mix index was 2.38, up 6.8% from 2020, and inpatient surgeries decreased by 405, or 3.2%. There was a decrease in outpatient clinic visits from 2019 to 2020 by 37,478, or 3.7%, with a decrease in outpatient surgeries of 654, or 3.1%. On the inpatient side, the case mix index was 2.23, up 3.6% from 2019, and inpatient surgeries decreased by 1,275, or 9.3%.

The provision for bad debts (a deduction from gross patient charges) decreased \$0.5 million from \$35.9 million in 2020 to \$35.4 million in 2021. The provision for bad debts (a deduction from gross patient charges) decreased by \$26.1 million from \$62.1 million in 2019 to \$36.0 million in 2020. The decrease in the provision for bad debts from 2019 to 2020 was driven by an increase in up-front self-pay contractual discounts implemented during 2020 and a return to more normal levels of write-offs after a change in the self-pay write-off rates during 2019.

Operating Expenses

In 2021, total operating expenses increased by \$190.1 million, or 10.1%, compared to 2020. The increase was primarily driven by medical supplies and drugs, which increased by \$98.0 million, or 17.3%, and salaries and benefits, which increased by \$48.8 million, or 5.9%, when compared to 2020. The growth in operating expenses can be attributed to increased patient volumes and inflation in the cost of supplies and drugs.

In 2020, total operating expenses increased by \$146.3 million, or 8.4%, compared to 2019. The increase was primarily driven by medical supplies and drugs, which increased by \$68.9 million, or 13.9%, and salaries and benefits, which increased by \$43.3 million, or 5.6%, when compared to 2019. The growth in operating expenses can be attributed to inflation in the cost of supplies and drugs and increased volumes in contract and retail pharmacy.

Nonoperating Revenue and Expenses, Net

Nonoperating revenue and expenses primarily consist of investment income, government funding, and interest expense. In 2021, total nonoperating revenue and expense, net increased by \$85.3 million, or 160.7%, compared to 2020. UIHC recorded net unrealized gains on investments of \$103.3 million and overall earnings on endowment and operating pools of \$13.1 million, which contributed to increased investment income of \$81.0 million, or 229%, compared to 2020. Additionally, UIHC received \$35.5 million of government funding in response to the COVID-19 pandemic, an increase of \$4.3 million, or 13.9%, compared to 2020.

In 2020, total nonoperating revenue and expenses, net increased \$22.2 million, or 72.0%, compared to 2019. University of Iowa Health System, a UIHC affiliate, recorded net unrealized gains on investments of \$23.3 million and overall earnings on endowment and operating pools of \$12.1 million, which contributed to decreased investment income of \$20.7 million, or 37.0%, compared to 2019. Additionally, UIHC received \$31.1 million of government funding from the CARES Act Provider Relief Fund.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Management's Discussion and Analysis

June 30, 2021 and 2020

Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. UIHC's overall liquidity decreased during 2021, with a net decrease in cash and cash equivalents of \$4.1 million. In 2021, net cash provided by operating activities provided cash inflows of \$281.7 million and net cash provided by noncapital financing activities was \$10.4 million. Net cash used in capital and investing activities was \$119.1 million. UIHC's overall liquidity decreased during 2020, with a net decrease in cash and cash equivalents of \$5.8 million. In 2020, net cash provided by operating activities provided cash inflows of \$125.2 million and net cash provided by noncapital financing activities was \$18.4 million. Net cash used in capital and investing activities was \$129.1 million.

Capital Assets and Debt Administration

Capital Assets

At the end of 2021, UIHC had \$1.088 billion invested in capital assets, net of accumulated depreciation. This is a \$14.4 million decrease when compared to capital assets, net in 2020 of \$1.102 billion. Capital assets, net of accumulated depreciation decreased \$1.7 million in 2020 compared to capital assets, net in 2019 of \$1.104 billion.

Debt

As of June 30, 2021, and 2020, UIHC had \$355.7 million and \$372.3 million, respectively, in bonds and capital leases outstanding. During 2021 and 2020, payments of long-term debt were \$17.6 million and \$15.2 million, respectively.

In 2021, UIHC issued \$20.9 million of Series S.U.I 2020 Revenue Refunding Bond and \$3.7 million of Series S.U.I 2020 Telecom Refunding Bond. The proceeds of the bonds were used to refund the Series S.U.I. 2010 Revenue Bond and 2011 Telecom Bond. In 2020, UIHC issued \$9.1 million of Series S.U.I 2020 Telecom Bonds. The proceeds of the bonds refinanced the 2009 Telecom Bonds. The proceeds of the bonds will be used to pay a portion of the costs of constructing, equipping, installing, and expanding certain hospital and clinic facilities. In 2019, UIHC issued \$42.475 million of Series S.U.I 2019 Hospital Revenue Bonds.

Contacting UIHC's Financial Management

This financial report provides the citizens of Iowa, UIHC patients, bondholders, and creditors with a general overview of UIHC's finances and operations. If you have questions about this report, please contact Mr. Mark Henrichs, Associate Vice President for Finance, UI Healthcare and CFO, University of Iowa Hospitals and Clinics, 318 CMAB, Iowa City, Iowa 52242.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Statements of Net Position

June 30, 2021 and 2020

(In thousands)

Assets and Deferred Outflows	2021	2020
Current assets:		
Cash and cash equivalents	\$ 6,978	11,032
Short-term investments	108,747	58,703
Patient accounts receivable, net of estimated uncollectible of \$32,649 in 2021 and \$43,751 in 2020	280,114	237,771
Inventories and supplies	61,837	50,353
Current investments for debt service – restricted	601	1,077
Other current assets	19,409	19,449
Total current assets	477,686	378,385
Noncurrent cash and investments:		
Limited by bond resolutions	29,404	30,161
Designated by the Board of Regents	1,197,576	956,184
Restricted by donors	5,698	4,450
Total noncurrent cash and investments	1,232,678	990,795
Capital assets, net	1,087,636	1,101,983
Other assets	1,574	1,747
Total assets	2,799,574	2,472,910
Deferred outflow of resources:		
Clinic acquisition costs	167	404
Pension-related deferred outflows	25,693	21,104
OPEB-related deferred outflows	33,569	27,120
Debt refunding loss	2,092	2,626
Total deferred outflows	61,521	51,254
Total assets and deferred outflows	\$ 2,861,095	2,524,164
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 17,074	17,551
Accounts payable and accrued expenses	190,311	162,110
Estimated third-party payor settlements	16,314	13,162
Due to related parties	99,958	36,343
Other current liabilities	25,757	17,207
Accrued interest	4,293	4,620
Total current liabilities	353,707	250,993
Long-term debt, net of current maturities	338,663	354,701
Other long-term liabilities	191,647	133,194
Total liabilities	884,017	738,888
Deferred inflow of resources:		
Pension-related deferred inflows	1,673	7,664
OPEB-related deferred inflows	24,938	28,488
Debt refunding gain	160	36
Total deferred inflows	26,771	36,188
Net position:		
Net investment in capital assets	733,831	732,321
Restricted by donors for specific purposes	5,380	4,130
Restricted for debt service	601	1,077
Unrestricted	1,210,495	1,011,560
Total net position	1,950,307	1,749,088
Total liabilities, deferred inflows, and net position	\$ 2,861,095	2,524,164

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Operating revenue:		
Net patient service revenue, net of provision for bad debts of \$35,438 in 2021 and \$35,942 in 2020	\$ 2,111,156	1,888,420
Other revenue	<u>47,727</u>	<u>51,209</u>
Total operating revenue	<u>2,158,883</u>	<u>1,939,629</u>
Operating expenses:		
Salaries and benefits	869,745	820,953
Medical supplies and drugs	663,162	565,162
Other supplies and general expenses	432,504	392,155
Depreciation and amortization	<u>106,483</u>	<u>103,483</u>
Total operating expenses	<u>2,071,894</u>	<u>1,881,753</u>
Operating income	<u>86,989</u>	<u>57,876</u>
Nonoperating revenue (expenses):		
Loss on disposal of capital assets	(1,522)	(1,318)
Noncapital gifts	205	9
Investment income	116,428	35,391
Government funding	35,451	31,128
Interest expense	<u>(12,212)</u>	<u>(12,141)</u>
Total nonoperating revenue, net	<u>138,350</u>	<u>53,069</u>
Excess of revenue over expenses before transfers	225,339	110,945
Capital gifts and grants	1,147	963
Net transfers out	<u>(25,267)</u>	<u>(12,706)</u>
Increase in net position	201,219	99,202
Net position, beginning of year	<u>1,749,088</u>	<u>1,649,886</u>
Net position, end of year	<u>\$ 1,950,307</u>	<u>1,749,088</u>

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 2,071,965	1,857,473
Other receipts	47,727	49,306
Payments to employees	(816,002)	(806,978)
Payments to suppliers and contractors	<u>(1,021,965)</u>	<u>(974,586)</u>
Net cash provided by operating activities	<u>281,725</u>	<u>125,215</u>
Cash flows from noncapital financing activities:		
Net transfers	(25,267)	(12,706)
Noncapital gifts	205	9
Government funding	<u>35,451</u>	<u>31,128</u>
Net cash provided by noncapital financing activities	<u>10,389</u>	<u>18,431</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(90,019)	(101,607)
Proceeds from the sale of capital assets	42	14
Capital gifts and grants received	1,147	963
Proceeds from the issuance of long-term debt	24,625	9,062
Premium received on the issuance of long-term debt	3,744	691
Principal paid on long-term debt	(44,733)	(24,785)
Interest paid on long-term debt	<u>(13,953)</u>	<u>(13,429)</u>
Net cash used in capital and related financing activities	<u>(119,147)</u>	<u>(129,091)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	375,339	340,434
Purchase of investments	(565,417)	(372,959)
Interest and dividends received on investments	<u>13,057</u>	<u>12,213</u>
Net cash used in investing activities	<u>(177,021)</u>	<u>(20,312)</u>
Net decrease in cash and cash equivalents	(4,054)	(5,757)
Cash and cash equivalents at beginning of year	<u>11,032</u>	<u>16,789</u>
Cash and cash equivalents at end of year	<u>\$ 6,978</u>	<u>11,032</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 86,989	57,876
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	106,483	103,483
Provision for bad debts	35,438	35,942
Changes in assets and liabilities:		
Accounts receivable	(77,781)	(32,621)
Inventories and supplies	(11,484)	(13,133)
Other assets	(10,350)	(8,889)
Accounts payable and accrued expenses	28,201	(789)
Other liabilities	57,462	19,517
Due to (from) related parties	63,615	(1,903)
Estimated third-party payor settlements	<u>3,152</u>	<u>(34,268)</u>
Net cash provided by operating activities	<u>\$ 281,725</u>	<u>125,215</u>

Noncash investing activity:

During 2021 and 2020, the net appreciation in fair value of investments was \$103,275 and \$23,279, respectively.

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(1) Summary of Significant Accounting Policies and Related Matters

(a) Reporting Entity

For purposes of this report, the State University of Iowa, University of Iowa Hospitals and Clinics (UIHC) includes the healthcare units of the State University of Iowa (the University), which are generally referred to as the University Hospital, Stead Family Children's Hospital, the Psychiatric Hospital, and the Center for Disabilities and Development. UIHC is part of the University, which is a component unit of the State of Iowa (the State) and operating under the supervision of the Board of Regents of the State of Iowa (the Board). UIHC is a department of the University for financial reporting purposes.

UIHC includes substantially all of the healthcare provider activities for patient care associated with the University other than the physician and dentist services and research activities 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 (UIHS), a UIHC affiliate, are not included in these financial statements.

UIHC is a comprehensive tertiary care referral center located in Iowa City, Iowa, offering a full range of clinical services in substantially all specialties and subspecialties of medicine and dentistry. UIHC serves as a resource for the State's primary and secondary healthcare providers. Patients are primarily from Iowa.

(b) Basis of Presentation

UIHC's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred without regard to receipt or disbursement of cash.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash and Investments

Cash and investments of UIHC include specific investments and other cash and investments that are pooled with the cash and investments of the University and held in the name of the University. UIHC's share of pooled investments and income thereon is determined on a pro rata basis reflecting UIHC's amounts available for investment as compared with the amounts for the overall University.

For purposes of the statement of net position and statement of cash flows, cash and cash equivalents are reported in accordance with Board policy Chapter 2.2, section 4.C.ix

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(<http://www.iowaregents.edu/plans-and-policies/board-policy-manual/22-business-procedures/%23Investment%20Policy>), which states in part, to appropriately reflect the Board's overall investment strategy and as outlined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, paragraph 11 that all funds held by external investment managers, as defined in section 2.2.4.C.iv of the Board's investment policy, shall be reported on the audited financial statements of the Regent institutions as investments. Investments purchased by the institutions through Board-authorized brokerage firms that meet the definition of cash equivalents, investments with original purchase dates to maturity of three months or less shall be reported on the audited financial statements of the Regent institutions as cash equivalents.

Investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*; GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*; and GASB Statement No. 72, *Fair Value Measurement and Application*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position. Please see note 2 for further discussion.

Undesignated cash equivalents totaling \$7.0 million and \$11.0 million at June 30, 2021 and 2020, respectively, represent money market funds and other short-term investments not held by external investment managers that mature in three months or less from date of purchase.

(e) Inventories and Supplies

Inventories consist primarily of medical, surgical, pharmaceutical, dietary, and other supplies. Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out or weighted average basis.

(f) Capital Assets, Net

UIHC's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized using the straight-line method of depreciation using the following asset lives:

Buildings and leasehold improvements	5–40 years
Infrastructure and land improvements	5–20 years
Equipment and software	3–10 years

(g) Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent consumptions of net position that apply to future periods and will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent acquisitions of net position that apply to future periods and will not be recognized as an inflow of resources (revenue) until then.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(h) Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest costs capitalized for the years ended June 30, 2021 and 2020 were \$0 and \$1.0 million, respectively.

(i) Gifts and Grants

UIHC receives grants as well as gifts from individuals and private organizations. During 2021 and 2020, this included government funding in response to the COVID-19 pandemic (note 16). Gifts and grants may be restricted for either specific operating purposes or capital purposes.

(j) Restricted Resources

When UIHC has both restricted and unrestricted resources available to finance a particular program, it is UIHC's policy to use restricted resources before unrestricted resources.

(k) Net Position

Net position of UIHC is classified in four components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Net position restricted by donors for specific purposes is noncapital net position that must be used for a particular purpose, as specified by grantors, or contributors external to UIHC. Net position restricted for debt service is amounts deposited with trustees as required by bond indentures. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

(l) Operating Revenue and Expenses

UIHC's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services, UIHC's principal activity. Nonexchange revenue, including investment income, government funding, and gifts received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

(m) Net Patient Service Revenue

UIHC has agreements with third-party payors that provide for payments to UIHC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and estimated uncollectible amounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(n) Charity Care

UIHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UIHC does not pursue collection of amounts once determined to qualify as charity care, they are not reported as revenue in the accompanying statements of revenue, expenses, and changes in net position.

(o) Compensated Absences

UIHC employees accumulate vacation and sick leave under the provisions of the Code of Iowa. Under the state's policy, accrued vacation benefits are paid at an employee's regular hourly rate when used or are paid upon retirement, death, or termination, with certain exceptions. Sick leave is paid in a similar manner when used or to a maximum of \$2,000 upon retirement, death, or termination with certain exceptions. These benefits are accrued in the financial statements as earned by UIHC employees.

(p) Pension – Iowa Public Employees Retirement System

For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the fiduciary net position of the Iowa Public Employees Retirement System (IPERS) and additions to/deductions from IPERS's fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

(q) Income Taxes

UIHC, as part of the University, is exempt from federal income taxes, pursuant to Section 115 of the Internal Revenue Code. As such, UIHC is subject to income taxes only on unrelated business income under the provisions of Section 511 of the Internal Revenue Code.

(2) Deposits and Investments

UIHC's cash and investments include specific investments and amounts pooled with cash and investments of the University and held in the University's name.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

Noncurrent cash and investments limited by bond resolutions or designated by the Board were held for the following purposes at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Limited by bond resolutions:		
Debt service reserve	\$ 29,404	30,161
Designated by the Board:		
Capital projects and equipment and other needs	770,520	636,265
Surplus	660	536
Improvement, extension, repair, operation, and maintenance funds	426,396	319,383
Restricted by donors	5,698	4,450
	<u>\$ 1,232,678</u>	<u>990,795</u>

Cash and cash equivalents and short-term investments specifically identified or pooled with the cash and investments of the University totaled \$115.7 million and \$69.7 million at June 30, 2021 and 2020, respectively. Cash equivalents designated by the Board totaled \$126.6 million and \$127.8 million at June 30, 2021 and 2020, respectively.

UIHC's investments are recorded at fair value. As of June 30, 2021, UIHC had the following investments and quality credit ratings:

Fixed income	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
U.S. government agencies	2.28	\$ —	13,878	—	—	—	—	—	13,878
Mutual funds and fixed income funds at net asset value (NAV)	4.71	—	242,025	287,249	67,535	29,041	96,832	—	722,682
		<u>\$ —</u>	<u>255,903</u>	<u>287,249</u>	<u>67,535</u>	<u>29,041</u>	<u>96,832</u>	<u>—</u>	<u>736,560</u>
Other investments:									
Cash and cash equivalents									242,136
Common stock									3,833
Mutual funds and equity funds at NAV									267,338
Private equity									31,056
Real assets									68,081
Total cash and investments									<u>\$ 1,349,004</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

UIHC's investments are recorded at fair value. As of June 30, 2020, UIHC had the following investments and quality credit ratings:

Fixed income	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
U.S. government agencies	1.08	\$ —	16,512	—	—	—	—	—	16,512
U.S. Treasury obligations	7.66	—	516	—	—	—	—	—	516
Mutual funds and fixed income funds at NAV	4.96	—	375,785	31,522	67,461	34,732	61,384	—	570,884
		\$ —	392,813	31,522	67,461	34,732	61,384	—	587,912
Other investments:									
Cash and cash equivalents									197,436
Common stock									2,601
Mutual funds and equity funds at NAV									190,716
Private equity									21,838
Real assets									61,104
Total cash and investments									\$ 1,061,607

(a) Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is measured using effective duration. At the time of purchase, the effective maturity of direct investment purchases by the University in the operating portfolio cannot exceed 63 months. There is no explicit limit on the average maturity of fixed-income securities in the endowment portfolios. Each fixed-income portfolio is managed to an appropriate benchmark.

(b) Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation to the University. Each fixed-income portfolio is managed to an appropriate benchmark.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. Except for Treasury or agency debentures, no more than 5% of the University's direct investments are invested in securities of a single issuer at the time of purchase. All direct investment purchases by the University in the operating portfolio are U.S. Treasury and agency securities.

(d) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. generally accepted accounting principles provide a hierarchy that prioritizes the inputs to fair value measurements based on the extent inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that would reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Fair value

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

measurements should maximize the use of observable inputs and minimize the use of the unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Unobservable inputs for the asset or liability that are used to measure fair value when observable inputs are not available. These inputs are developed based upon the best information available in such circumstances.

The categorization of fair value measurements by level of the hierarchy is based upon the lowest-level input that is significant to the overall fair value measurement for a given asset or liability.

In the event that changes in the inputs used in the fair value measurement of an asset or liability result in a transfer into a different level, such transfers are recognized at the end of the reporting period.

University investments that do not have a readily determinable fair value, such as ownership interest in partners' capital, are reported using NAV per share. Used as a practical expedient for the estimated fair value, NAV per share or its equivalent is provided by the fund manager and reviewed by the University. Investment holdings using the NAV as a practical expedient consist of University interests in funds investing in nonmarketable private equity and real assets, as well as indirect holdings of publicly traded assets in fixed-income and international equity commingled funds.

Due to the nature of the investments held by the funds, changes in market conditions, economic environment, regulatory environment, currency exchange rates, interest rates, and commodity price fluctuations may significantly impact the NAV of the funds and, consequently, the fair value of the University's interest in the funds and could materially affect the amounts reported in the financial statements. The University attempts to manage these risks through diversification, ongoing due diligence of fund managers, maintaining adequate liquidity, and continuously monitoring economic and market conditions.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

The following table reflects fair value measurements of investment assets at June 30, 2021, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV:

	2021			NAV	Total
	Level 1	Level 2	Level 3		
Fixed income:					
U.S. government agencies	\$ —	13,878	—	—	13,878
Mutual funds	380,380	—	—	—	380,380
Fixed-income funds at NAV				342,302	342,302
Equity and other:					
Common stock	3,713	120	—	—	3,833
Mutual funds	191,583	—	—	—	191,583
Real assets	—	—	—	68,081	68,081
Private equity	—	—	—	31,056	31,056
Equity funds at NAV				75,755	75,755
	<u>\$ 575,676</u>	<u>13,998</u>	<u>—</u>	<u>517,194</u>	<u>1,106,868</u>
Money market/cash equivalents					<u>242,136</u>
Total cash and investments					<u>\$ 1,349,004</u>

The following table summarizes UIHC's investments at June 30, 2021 for which NAV was used as a practical expedient to estimate fair value.

Asset class	Fair value determined using NAV 2021	Unfunded commitments at June 30, 2021	Redemption frequency	Redemption notice period
Fixed-income funds at NAV	\$ 342,302	—	Daily-monthly	5–60 days
Equity funds at NAV	75,755	—	Daily-monthly	2–30 days
Real assets:				
Redeemable	63,557	—	Quarterly	60–90 days
Nonredeemable	4,524	641	N/A	N/A
Private equity:				
Redeemable	—	—		
Nonredeemable	<u>31,056</u>	<u>31,752</u>	N/A	N/A
Investments measured at NAV	<u>\$ 517,194</u>	<u>32,393</u>		

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

The following table reflects fair value measurements of investment assets at June 30, 2020, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV:

	2020				
	Level 1	Level 2	Level 3	NAV	Total
Fixed income:					
U.S. government agencies	\$ —	16,512	—	—	16,512
U.S. Treasury obligations	516	—	—	—	516
Mutual funds	292,625	—	—	—	292,625
Fixed-income funds at NAV				278,259	278,259
Equity and other:					
Common stock	2,514	87	—	—	2,601
Mutual funds	137,542	—	—	—	137,542
Real assets	—	—	—	61,104	61,104
Private equity	—	—	—	21,838	21,838
Equity funds at NAV				53,174	53,174
	<u>\$ 433,197</u>	<u>16,599</u>	<u>—</u>	<u>414,375</u>	<u>864,171</u>
Money market/cash equivalents					<u>197,436</u>
Total cash and investments					<u>\$ 1,061,607</u>

The following table summarizes UIHC's investments at June 30, 2020 for which NAV was used as a practical expedient to estimate fair value.

Asset class	Fair value determined using NAV 2020	Unfunded commitments at June 30, 2020	Redemption frequency	Redemption notice period
Fixed-income funds at NAV	\$ 278,259	—	Daily-monthly	5–60 days
Equity funds at NAV	53,174	—	Daily-monthly	2–30 days
Real assets:				
Redeemable	54,995	—	Quarterly	60–90 days
Nonredeemable	6,109	1,594	N/A	N/A
Private equity:				
Redeemable	—	—		
Nonredeemable	<u>21,838</u>	<u>10,335</u>	N/A	N/A
Investments measured at NAV	<u>\$ 414,375</u>	<u>11,929</u>		

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

The following information is provided for investments that are valued using the NAV per share as a practical expedient:

- **Fixed-income funds** – This category includes investments in mutual funds holding assets that provide stability, generate income, and diversify market risk.
- **Equity funds** – This category includes investments in global equities, including both developed and emerging markets.
- **Real assets** – This category includes investments in private real estate and natural resource equities funds. Capital is committed during the course of the investment period, typically four years, of each fund, after which point capital commitments stop. The University's interest in the nonredeemable funds is considered illiquid in that distributions from liquidation of the underlying asset of the fund are at the discretion of the general partner per the terms of the limited partnership agreement. Funds are typically liquidated over a period of five to ten years, and include a mechanism to extend the length of the partnership with approval from the limited partners.
- **Private equity** – This category includes funds that invest in strategies, such as venture capital, leveraged buyouts, and mezzanine debt. Capital is committed during the course of the investment period, typically four years, of each fund, after which point capital commitments stop. The University's interest in the nonredeemable funds is considered illiquid in that distributions from liquidation of the underlying asset of the fund are at the discretion of the general partner per the terms of the limited partnership agreement. Funds are typically liquidated over a period of five to ten years, and include a mechanism to extend the length of the partnership with approval from the limited partners.

(3) Capital Assets

Capital assets at June 30, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 22,430	22,430
Land improvements	4,637	4,637
Infrastructure	65,473	62,268
Buildings and leasehold improvements	1,673,915	1,600,954
Equipment and software	598,161	585,727
Construction in progress (nondepreciable)	<u>26,576</u>	<u>52,347</u>
	2,391,192	2,328,363
Less accumulated depreciation	<u>1,303,556</u>	<u>1,226,380</u>
	<u>\$ 1,087,636</u>	<u>1,101,983</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

Capital asset additions, retirements, and balances as of and for the years ended June 30, 2021 and 2020 were as follows:

Cost basis summary	June 30, 2020 balances	Additions	Sales retirements and transfers	June 30, 2021 balances
Land (nondepreciable)	\$ 22,430	—	—	22,430
Land improvements	4,637	—	—	4,637
Infrastructure	62,268	3,205	—	65,473
Buildings and leasehold improvements	1,600,954	73,344	(383)	1,673,915
Equipment and software	585,727	43,574	(31,140)	598,161
Construction in progress (nondepreciable)	52,347	57,130	(82,901)	26,576
Total at historical cost	2,328,363	177,253	(114,424)	2,391,192
Less accumulated depreciation for:				
Land improvements	1,962	387	—	2,349
Infrastructure	51,510	2,149	—	53,659
Buildings and leasehold improvements	775,840	50,682	(382)	826,140
Equipment and software	397,068	53,265	(28,925)	421,408
Total accumulated depreciation	1,226,380	106,483	(29,307)	1,303,556
Total capital assets, net	\$ 1,101,983	70,770	(85,117)	1,087,636

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

Cost basis summary	June 30, 2019 balances	Additions	Sales retirements and transfers	June 30, 2020 balances
Land (nondepreciable)	\$ 22,923	—	(493)	22,430
Land improvements	4,637	—	—	4,637
Infrastructure	61,821	447	—	62,268
Buildings and leasehold improvements	1,551,311	50,335	(692)	1,600,954
Equipment and software	573,004	48,036	(35,313)	585,727
Construction in progress (nondepreciable)	47,447	65,821	(60,921)	52,347
Total at historical cost	<u>2,261,143</u>	<u>164,639</u>	<u>(97,419)</u>	<u>2,328,363</u>
Less accumulated depreciation for:				
Land improvements	1,574	388	—	1,962
Infrastructure	49,439	2,071	—	51,510
Buildings and leasehold improvements	727,945	48,270	(375)	775,840
Equipment and software	<u>378,550</u>	<u>52,754</u>	<u>(34,236)</u>	<u>397,068</u>
Total accumulated depreciation	<u>1,157,508</u>	<u>103,483</u>	<u>(34,611)</u>	<u>1,226,380</u>
Total capital assets, net	<u>\$ 1,103,635</u>	<u>61,156</u>	<u>(62,808)</u>	<u>1,101,983</u>

At June 30, 2021, construction in progress is related to various projects throughout the UIHC. The estimated cost to complete the current phase of equipment and projects under construction at June 30, 2021 is \$102.6 million. Other projects at June 30, 2021, with an estimated cost of \$667.0 million, have been committed to by the Board and/or UIHC; however, construction contracts had not been signed as of June 30, 2021. These projects are anticipated to be funded through existing designated funds, cash provided by future operations, and/or the issuance of additional long-term debt.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(4) Long-term Debt

Long-term debt outstanding at June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Hospital Revenue Bonds:		
Series S.U.I. 2010 – 3.375% to 4.500%; maturing serially on September 1 through 2037	\$ —	23,300
Series S.U.I. 2011 – 3.000% to 4.000%; maturing serially on September 1 through 2032	18,400	19,575
Series S.U.I. 2011A – 4.000% to 4.125%; maturing serially on September 1 through 2028	10,880	12,045
Series S.U.I. 2012 – 4.000%; maturing serially on September 1 through 2038	152,050	157,900
Series S.U.I. 2016 – 1.250% to 5.000%; maturing serially on September 1 through 2038	19,695	22,180
Series S.U.I. 2016A – 3.000%; maturing serially on September 1 through 2038	16,695	18,590
Series S.U.I. 2018 – 3.000% to 5.000%; maturing serially on September 1 through 2043	31,515	32,340
Series S.U.I. 2019 – 3.000% to 5.000%; maturing serially on September 1 through 2039	41,125	42,475
Series S.U.I. 2020 – 2.000% to 5.000%; maturing serially on September 1 through 2036	20,910	—
Net unamortized premium on hospital revenue bonds	16,232	14,561
Telecommunications Facilities Revenue Bonds:		
Series S.U.I. 2009 – 3.300%; maturing serially on July 1 through 2036	—	405
Series S.U.I. 2011 – 3.000% to 4.500%; maturing serially on July 1 through 2032	340	5,501
Series S.U.I. 2020 – 2.000% to 5.000%; maturing serially on July 1 through 2037	9,062	9,062
Series S.U.I. 2021 – 2.000% to 5.000%; maturing serially on July 1 through 2032	3,715	—
Total long-term bonds	<u>340,619</u>	<u>357,934</u>
Capital lease obligation	<u>15,118</u>	<u>14,318</u>
Total long-term debt	<u>355,737</u>	<u>372,252</u>
Long-term debt, current portion	<u>(17,074)</u>	<u>(17,551)</u>
	<u>\$ 338,663</u>	<u>354,701</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

Activity in long-term debt for the years ended June 30, 2021 and 2020 was as follows:

	June 30, 2020 balance	Additions	Reductions	June 30, 2021 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2010	\$ 23,300	—	(23,300)	—	—
Hospital Revenue Bonds, Series 2011	19,575	—	(1,175)	18,400	1,225
Hospital Revenue Bonds, Series 2011A	12,045	—	(1,165)	10,880	1,200
Hospital Revenue Bonds, Series 2012	157,900	—	(5,850)	152,050	6,025
Hospital Revenue Bonds, Series 2016	22,180	—	(2,485)	19,695	2,490
Hospital Revenue Bonds, Series 2016A	18,590	—	(1,895)	16,695	1,930
Hospital Revenue Bonds, Series 2018	32,340	—	(825)	31,515	875
Hospital Revenue Bonds, Series 2019	42,475	—	(1,350)	41,125	1,420
Hospital Revenue Bonds, Series 2020	—	20,910	—	20,910	—
Net unamortized bond premium	14,561	3,744	(2,073)	16,232	—
Telecommunications Facilities					
Revenue Bonds:					
Series 2009	406	—	(406)	—	—
Series 2011	5,500	—	(5,160)	340	340
Series 2020	9,062	—	—	9,062	—
Series 2021	—	3,715	—	3,715	—
Total long-term bonds	357,934	28,369	(45,684)	340,619	15,505
Capital lease obligations	14,318	1,921	(1,121)	15,118	1,569
Total long-term debt	\$ 372,252	30,290	(46,805)	355,737	17,074

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

	June 30, 2019 balance	Additions	Reductions	June 30, 2020 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2010	\$ 24,225	—	(925)	23,300	950
Hospital Revenue Bonds, Series 2011	20,700	—	(1,125)	19,575	1,175
Hospital Revenue Bonds, Series 2011A	13,165	—	(1,120)	12,045	1,165
Hospital Revenue Bonds, Series 2012	163,575	—	(5,675)	157,900	5,850
Hospital Revenue Bonds, Series 2016	24,590	—	(2,410)	22,180	2,485
Hospital Revenue Bonds, Series 2016A	20,450	—	(1,860)	18,590	1,895
Hospital Revenue Bonds, Series 2018	32,665	—	(325)	32,340	825
Hospital Revenue Bonds, Series 2019	42,475	—	—	42,475	1,350
Net unamortized bond premium	15,668	691	(1,798)	14,561	
Telecommunications Facilities					
Revenue Bonds:					
Series 2009	10,345	—	(9,939)	406	405
Series 2011	5,817	—	(317)	5,500	330
Series 2020	—	9,062	—	9,062	—
Total long-term bonds	373,675	9,753	(25,494)	357,934	16,430
Capital lease obligations	15,407	—	(1,089)	14,318	1,121
Total long-term debt	\$ 389,082	9,753	(26,583)	372,252	17,551

(a) Long-Term Bonds

The hospital revenue bonds are special obligations of the Board payable solely out of hospital income, the general purpose of which is to expand and improve UIHC facilities. "Hospital income" is defined as the gross income and funds received by the Hospital System at the University, including the proceeds of rates, fees, charges, and payments for healthcare provider activities for patient care services rendered by the University's hospitals, clinics, laboratories, and ancillary facilities, less current expenses (as defined in the resolution authorizing the issuance of the bonds, the Bond Resolution). Hospital income does not include State appropriations to the University. So long as the bonds or parity bonds remain outstanding, the entire hospital income shall be deposited to the revenue fund and shall be disbursed to the following funds in the following order: (1) the operation and maintenance fund, (2) the sinking fund, (3) the reserve fund, and (4) the system fund. The reserve fund requirement is at least equal to the maximum annual amount of the principal and interest coming due on the bonds and

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

any parity bonds, or \$28.5 million. The maximum amount of hospital income pledged representing the undiscounted principal and interest on the bonds is \$436.5 million.

The Telecommunications Facilities Revenue Bonds (Telecommunications Bonds) represent UIHC's share of the remaining outstanding bonds that were issued by the University to pay costs of constructing and installing communications facilities and equipment on the University's campus. No specific revenue stream of UIHC has been pledged to service the Telecommunications Bonds. Monthly payments are required to be made to various sinking funds for payment of principal and interest. A portion of the monthly payments are supported by UIHC.

During 2021, UIHC issued \$20.9 million of Series S.U.I. 2020 Revenue Refunding Bond. The proceeds of the bond were used by UIHC to refund the Series S.U.I. 2010 Revenue Bond.

During 2021, UIHC issued \$3.7 million of Series S.U.I. 2020 Telecom Refunding Bond. The proceeds of the bond were used by UIHC to refund the Series S.U.I. 2011 Telecom Bond.

During 2020, UIHC issued \$9 million of Series S.U.I. 2020 Telecom Refunding Bond. The proceeds of the bond were used by UIHC to refund the Series S.U.I. 2009 Telecom Bond.

Scheduled principal and interest payments on the bonds for the next five years and five-year increments thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2022	\$ 15,505	12,176	27,681
2023	16,083	11,627	27,710
2024	17,744	10,919	28,663
2025	18,775	10,146	28,921
2026	19,585	9,335	28,920
2027 through 2031	91,817	34,505	126,322
2032 through 2036	83,047	18,565	101,612
2037 through 2041	56,169	4,581	60,750
2042 through 2044	5,662	301	5,963
	<u>\$ 324,387</u>	<u>112,155</u>	<u>436,542</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

The following are deferred outflows of resources and deferred inflows of resources related to debt refundings as of June 30, 2021 and 2020:

	2021 Deferred outflows of resources	2021 Deferred inflows of resources
Deferred outflows and inflows from debt refunding:		
Revenue Bonds Series 2011A refunding loss	\$ 145	—
Revenue Bonds Series 2016 refunding loss	817	—
Revenue Bonds Series 2016A refunding loss	1,130	—
Revenue Bonds Series 2020 refunding gain	—	106
Telecom Bonds Series 2020 refunding gain	—	33
Telecom Bonds Series 2021 refunding gain	—	21
	<u>\$ 2,092</u>	<u>160</u>

	2020 Deferred outflows of resources	2020 Deferred inflows of resources
Deferred outflows and inflows from debt refunding:		
Revenue Bonds Series 2011A refunding loss	\$ 182	—
Revenue Bonds Series 2016 refunding loss	1,024	—
Revenue Bonds Series 2016A refunding loss	1,420	—
Telecom Bonds Series 2020 refunding gain	—	36
	<u>\$ 2,626</u>	<u>36</u>

(b) Capital Lease Obligations

The following is a schedule by year of future minimum payments required:

	Principal	Interest	Total
Year(s) ending June 30:			
2022	\$ 1,569	441	2,010
2023	1,613	642	2,255
2024	1,624	570	2,194
2025	1,663	496	2,159
2026	1,572	422	1,994
2027 through 2031	7,077	1,082	8,159
	<u>\$ 15,118</u>	<u>3,653</u>	<u>18,771</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(5) Retirement Benefit Plans

(a) Teachers Insurance and Annuity Association

Substantially, all UIHC employees meeting eligibility requirements participate in the University of Iowa Retirement Plan (the Plan), which is a defined-contribution retirement plan providing benefits through the Teachers Insurance and Annuity Association (TIAA). During fiscal years 2021 and 2020, UIHC's contributions amount to \$41.5 million and \$41.6 million, respectively. UIHC contributions to the Plan are 10.00% of employee compensation after the first five years of employment. During the first five years of employment, UIHC's contribution is 6.67% of the first \$4,800 of compensation and 10.00% of the remaining balance of employee compensation. Employees are required to contribute an amount equal to 50.00% of UIHC's contribution. All contributions to the Plan are immediately 100.00% vested.

(b) Iowa Public Employees Retirement System

Plan description – Eligible employees not electing to participate in the Plan are required to participate in the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing, multiple-employer defined-benefit pension plan administered by the State. IPERS issues a stand-alone financial report, which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org. IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first (these qualifications must be met on the member's first month of entitlement to benefits). Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary (for members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary).

If a member retires before normal retirement age, then the member's monthly retirement benefit will be permanently reduced by an early retirement reduction, which is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and death benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS's Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to one percentage point. IPERS's Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2021 and 2020, pursuant to the required rates, members and UIHC contributed the following percentages of pay to the respective membership groups:

Fiscal year	Membership group	Member	UIHC	Total
2021	Regular	6.29 %	9.44 %	15.73 %
2021	Protection occupations	6.41	9.61	16.02
2020	Regular	6.29	9.44	15.73
2020	Protection occupations	6.61	9.91	16.52

UIHC's contributions to IPERS for the years ended June 30, 2021 and 2020 were \$8.4 million and \$7.3 million, respectively.

Net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2021 and 2020, UIHC reported a liability in other long-term liabilities on the statements of net position of \$70.1 million and \$51.2 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. UIHC's proportion of the net pension liability was based on UIHC's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2020, UIHC's proportion was 0.99744%, which was an increase of 0.11341% from its proportion measured as of June 30, 2019 of 0.88403%. At June 30, 2019, UIHC's proportion

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

was 0.88403%, which was an increase of 0.10593% from its proportion measured as of June 30, 2018 of 0.77810%.

For the years ended June 30, 2021 and 2020, UIHC recognized pension expense of \$16.7 million and \$15.8 million, respectively. At June 30, 2021 and 2020, UIHC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021 Deferred outflows of resources	2021 Deferred inflows of resources
Difference between expected and actual experience	\$ 83	(1,660)
Changes of assumptions	3,613	(1)
Net difference between projected and actual earnings on pension plan investments	3,968	—
Changes in proportion and differences between contributions and proportionate share of contributions	9,598	(12)
Contributions subsequent to the measurement date	8,431	—
Total	<u>\$ 25,693</u>	<u>(1,673)</u>
	2020 Deferred outflows of resources	2020 Deferred inflows of resources
Difference between expected and actual experience	\$ 144	(1,843)
Changes of assumptions	5,512	(1)
Net difference between projected and actual earnings on pension plan investments	—	(5,809)
Changes in proportion and differences between contributions and proportionate share of contributions	8,174	(11)
Contributions subsequent to the measurement date	7,274	—
Total	<u>\$ 21,104</u>	<u>(7,664)</u>

At June 30, 2021, the \$8.4 million reported as deferred outflows of resources related to pensions resulting from UIHC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. At June 30, 2021, amounts

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:		
2022	\$	4,624
2023		3,949
2024		3,011
2025		3,519
2026		486
	\$	15,589

There are no nonemployer contributing entities at IPERS.

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum
Salary increase (effective June 30, 2017)	3.25% per annum
Investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2020 and the June 30, 2019 valuations were based on the results of an actuarial experience study performed in March 2017 and a demographic assumption study dated June 2018.

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Tables adjusted to 2006 and 2017 with MP-2017 generational adjustments.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Asset allocation	Long-term expected real rate of return
Domestic equity	22.0 %	4.43 %
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core-plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	100.0 %	

Discount rate – The discount rate used to measure the total pension liability was 7.0% at both measurement periods. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from UIHC will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of UIHC's proportionate share of the net pension liability to changes in the discount rate – The following presents UIHC's proportionate share of the net pension liability calculated using the discount rate of 7.0% at June 30, 2021, as well as what UIHC's proportionate share of the net pension liability would be if it was calculated using a discount rate that is one-percentage-point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

	<u>1% decrease 6.0%</u>	<u>Discount rate 7.0%</u>	<u>1% increase 8.0%</u>
UIHC's proportionate share of the net pension liability	\$ 117,111	70,067	30,623

The following presents UIHC's proportionate share of the net pension liability calculated using the discount rate of 7.0% at June 30, 2020, as well as what UIHC's proportionate share of the net pension liability would be if it was calculated using a discount rate that is one-percentage-point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate.

	<u>1% decrease 6.0%</u>	<u>Discount rate 7.0%</u>	<u>1% increase 8.0%</u>
UIHC's proportionate share of the net pension liability	\$ 91,148	51,191	17,678

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report, which is available on IPERS's website at www.ipers.org.

Payables to the pension plan – At June 30, 2021 and 2020, UIHC reported payables to the defined-benefit pension plan of \$725,000 and \$617,000, respectively, for legally required employer contributions and \$483,000 and \$411,000, respectively, for legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

(6) Other Postemployment Benefits

(a) Plan Description

The University operates two single-employer, defined-benefit health benefit plans, which provide medical/prescription drug benefits for employees, retirees, and their spouses. The two plans are the Professional and Scientific and Faculty Plan (PSF) and the Merit Employee Plan (Merit Plan). Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting of Postemployment Benefits other than Pensions*.

At June 30, 2021 and 2020, UIHC recognized a total other postemployment benefits (OPEB) liability of \$57.1 million and \$49.0 million, respectively, for its PSF and a liability of \$17.0 million and \$14.1 million for its Merit Plan, for a total OPEB liability of \$74.1 million and \$63.1 million, respectively. At June 30, 2021 and 2020, \$69.6 million and \$58.8 million, respectively, of the total liability was recorded in other long-term liabilities while \$4.5 million and \$4.3 million, respectively, was recorded in other current liabilities.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(b) Funding Policy

The contribution requirements of plan members are established and may be amended by the University. Benefits are financed centrally by the University on a pay-as-you-go basis. Total expenditures for fiscal years 2021 and 2020 were \$2.1 million each year.

(c) OPEB Benefits

Individuals who are employed by the University and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical, prescription drug, and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability. For postemployment benefits of retirees, the University contributes toward the cost of University health insurance and, for those who qualified for the benefit and retired prior to July 1, 2013, the entire cost to purchase a paid-up life insurance policy, which varies in amounts from \$2,000 to \$4,000, depending upon length of service.

Retired participants must be age 55 or older at retirement. At June 30, 2021 and 2020, the following UIHC employees were covered by the benefit terms:

	<u>2021</u>	<u>2020</u>
PSF:		
Inactive employees or beneficiaries currently receiving benefits	882	872
Active employees	<u>5,091</u>	<u>5,033</u>
Total	<u><u>5,973</u></u>	<u><u>5,905</u></u>
Merit Plan:		
Inactive employees or beneficiaries currently receiving benefits	126	125
Active employees	<u>1,700</u>	<u>1,681</u>
Total	<u><u>1,826</u></u>	<u><u>1,806</u></u>

(d) Total OPEB Liability

UIHC's total OPEB liability for June 30, 2021 and 2020 was determined by an actuarial valuation with a measurement date of June 30, 2020 and 2019, respectively. UIHC's actuary produced OPEB calculations for the PSF positions and for the Merit positions. UIHC's merit employees were participants in the State of Iowa Postretirement Medical Plan (OPEB Plan) until December 31, 2017. Beginning January 1, 2018, Merit Plan employees are included in UIHC's OPEB Plan.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(e) Actuarial Assumptions

The June 30, 2021 and 2020 liabilities were determined using the following actuarial assumptions and the entry-age normal actuarial cost method, applied to all periods included in the measurements.

	<u>2020</u>	<u>2019</u>
Rate of inflation	2.50 %	2.50 %
Rates of salary increase	3.00	3.00
Discount rate	2.21	3.50
Healthcare cost trend rate pre-65 (decreasing to an ultimate rate of 4.50%)	6.42	6.65
Healthcare cost trend rate post-65 (decreasing to an ultimate rate of 4.50%)	7.33	7.61

Discount rate – The June 30, 2020 and 2019 discount rate used to measure the total OPEB liability was 2.21% and 3.50%, respectively, which reflects the index rate for bond Buyer 20 Year GO Index as of the measurement date.

The 2020 and 2019 mortality rates are from the Pub-2010 aggregate mortality table projected using Scale MP-2018. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used for IPERS.

The actuarial assumptions used in the determination of the liabilities as of June 30, 2021 and 2020 were based on the results of actuarial experience studies with dates from 2014 to 2018.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

The following tables reflect the changes in the total PSF and Merit OPEB liability as required by GASB Statement No. 75:

Changes in total PSF OPEB liability	2021 total OPEB liability	2020 total OPEB liability
Total OPEB liability, beginning of year, July 1	\$ 48,965	42,410
Changes for the year:		
Service cost	1,806	971
Interest	1,737	1,582
Changes in benefit terms	—	—
Differences between expected and actual experiences	(27)	1,278
Changes of assumptions	7,480	6,895
Benefit payments	(3,459)	(3,323)
Other	561	(848)
Net changes	8,098	6,555
Total OPEB liability, end of year, June 30	\$ 57,063	48,965

Changes in total merit OPEB liability	2021 total OPEB liability	2020 total OPEB liability
Total OPEB liability, beginning of year, July 1	\$ 14,088	10,893
Changes for the year:		
Service cost	735	408
Interest	510	421
Changes in benefit terms	—	—
Differences between expected and actual experiences	(39)	305
Changes of assumptions	2,385	2,707
Benefit payments	(854)	(429)
Other	162	(217)
Net changes	2,899	3,195
Total OPEB liability, end of year, June 30	\$ 16,987	14,088

The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 2.21% as of June 30, 2020, from 3.50%.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

Sensitivity of UIHC's total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of UIHC as of June 30, 2021, as well as what UIHC's total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower (1.21%) or one-percentage-point higher (3.21%) than the current discount rate.

	1% decrease 1.21%	Discount rate 2.21%	1% increase 3.21%
UIHC's PSF OPEB liability	\$ 62,163	57,063	52,411
UIHC's Merit OPEB liability	18,607	16,987	15,556
	<u>\$ 80,770</u>	<u>74,050</u>	<u>67,967</u>

The following presents the total OPEB liability of UIHC as of June 30, 2020, as well as what UIHC's total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower (2.5%) or one-percentage-point higher (4.5%) than the current discount rate.

	1% decrease 2.50%	Discount rate 3.50%	1% increase 4.50%
UIHC's PSF OPEB liability	\$ 53,178	48,965	45,163
UIHC's Merit OPEB liability	15,370	14,088	12,933
	<u>\$ 68,548</u>	<u>63,053</u>	<u>58,096</u>

Sensitivity of UIHC's total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of UIHC as of June 30, 2021, as well as what UIHC's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is one-percentage-point lower (5.19%) or one-percentage-point higher (7.19%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) higher than the current healthcare cost trend rate for post-65 participants.

	1% decrease 5.42%	Healthcare cost trend rate 6.42%	1% increase 7.42%
Pre-65 participants		▼	▼
Post-65 participants	6.33%	7.33%	8.33%
UIHC's PSF OPEB liability	\$ 52,282	57,063	63,156
UIHC's Merit OPEB liability	15,426	16,987	19,006
	<u>\$ 67,708</u>	<u>74,050</u>	<u>82,162</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

The following presents the total OPEB liability of UIHC as of June 30, 2020, as well as what UIHC's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is one-percentage-point lower (5.65%) or one-percentage-point higher (7.65%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (6.61%) or one-percentage-point higher (8.61%) higher than the current healthcare cost trend rate for post-65 participants.

	Healthcare cost		
	1% decrease	trend rate	1% increase
Pre-65 participants	5.65%	6.65%	7.65%
Post-65 participants	6.61%	7.61%	8.61%
UIHC's PSF OPEB liability	\$ 45,418	48,965	53,362
UIHC's Merit OPEB liability	12,899	14,088	15,550
	<u>\$ 58,317</u>	<u>63,053</u>	<u>68,912</u>

OPEB expense and deferred outflows and inflows of resources related to OPEB – For the years ended June 30, 2021 and 2020, UIHC recognized OPEB expense of \$3.5 million and \$1.7 million, respectively, for the PSF and \$1.2 million and \$600,000, respectively, for the Merit Plan.

At June 30, 2021 and 2020, UIHC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

PSF	2021 Deferred outflows of resources	2021 Deferred inflows of resources
Difference between expected and actual experience	\$ 11,585	(138)
Changes of assumptions	12,430	(20,617)
Contributions subsequent to the measurement date	3,521	—
Total	<u>\$ 27,536</u>	<u>(20,755)</u>

Merit Plan	2021 Deferred outflows of resources	2021 Deferred inflows of resources
Difference between expected and actual experience	\$ 578	(206)
Changes of assumptions	4,521	(3,977)
Contributions subsequent to the measurement date	934	—
Total	<u>\$ 6,033</u>	<u>(4,183)</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

PSF	2020 Deferred outflows of resources	2020 Deferred inflows of resources
Difference between expected and actual experience	\$ 13,251	(85)
Changes of assumptions	6,335	(23,720)
Contributions subsequent to the measurement date	3,420	—
Total	<u>\$ 23,006</u>	<u>(23,805)</u>

Merit Plan	2020 Deferred outflows of resources	2020 Deferred inflows of resources
Difference between expected and actual experience	\$ 642	(185)
Changes of assumptions	2,628	(4,498)
Contributions subsequent to the measurement date	844	—
Total	<u>\$ 4,114</u>	<u>(4,683)</u>

The amount reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

	PSF
Year ending June 30:	
2022	\$ (71)
2023	(71)
2024	(71)
2025	(71)
2026	(71)
Total thereafter	<u>3,615</u>
Total	<u>\$ 3,260</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

	<u>Merit Plan</u>
Year ending June 30:	
2022	\$ (1)
2023	(1)
2024	(1)
2025	5
2026	45
Total thereafter	<u>869</u>
Total	\$ <u><u>916</u></u>

(7) Risk Management

The University, or the State on behalf of UIHC, self-insures workers' compensation, unemployment, medical, and dental benefits for eligible employees, automobile liability, professional liability, and general (tort) liability. UIHC pays the employer portion of the costs related to workers' compensation, unemployment, medical, and dental benefits. UIHC purchases commercial property insurance for its facilities, including business interruption insurance. UIHC also purchases commercial life and disability insurance for eligible employees as part of the University's benefit program.

UIHC's portion of the health insurance liability, which is included in accounts payable and accrued expenses of \$13.2 million and \$12.7 million as of June 30, 2021 and 2020, respectively, is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Liability for unpaid healthcare claims at beginning of year	\$ 12,733	11,121	8,362
Healthcare expenses incurred during the year	161,496	148,738	138,998
Healthcare payments to the University during the year	<u>(160,996)</u>	<u>(147,126)</u>	<u>(136,239)</u>
Liability for unpaid healthcare claims at end of year	\$ <u><u>13,233</u></u>	<u><u>12,733</u></u>	<u><u>11,121</u></u>

The University and other Board institutions are self-insured for automobile liability up to \$250,000. Losses in excess of \$250,000 are paid by the State provided in Chapter 669 of the Code of Iowa.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

UIHC is an agency of the State and is covered by the State's self-insurance for tort liability. Tort claims against the State are handled as provided in the Iowa Tort Claims Act (Iowa Code, Chapter 669), which also sets forth the procedures by which tort claims may be brought. Claims under Chapter 669 may be filed against the State on account of wrongful death, personal injury, or property damage incurred by reason of the negligence of the UIHC or its employees while acting within the scope of employment. By interagency agreement, tort liability claims under \$5,000 may be administered by the University subject to a maximum expenditure of \$100,000 per year. All other tort claims may be paid from the State's general fund.

The State maintains an employee fidelity bond where the first \$250,000 in losses is the responsibility of UIHC. Under the state coverage, losses in excess of the \$250,000 are insured up to \$2 million.

(8) Transactions with Related Parties

UIHC receives certain administrative services, utilities, and other general services from the University. The services and support costs include amounts due to the University's Carver College of Medicine for support of graduate medical education, specific clinical services, and other services. These services are charged to UIHC at the approximate cost incurred by the servicing unit. For the years ended June 30, 2021 and 2020, UIHC expensed approximately \$254.7 million and \$232.9 million, respectively, for these administrative services, utilities, and other services and support requirements. At June 30, 2021 and 2020, approximately \$99.9 million and \$36.3 million, respectively, were due to the University and Carver College of Medicine.

UIHC also provides certain administrative services to units of the University. These services include billing, collection, and other physician practice-related clinic overhead expenses. These services are charged to units of the University at the approximate cost incurred by the servicing unit. For the years ended June 30, 2021 and 2020, UIHC received revenue from these units of approximately \$9.5 million and \$9.4 million, respectively, for these services, which is recorded in other revenue in the statements of revenue, expenses, and changes in net position.

UIHC transfers to and receives transfers from non-UIHC University of Iowa units and UIHS. Net transfers to these units totaled \$(25.3 million) and \$(12.7 million) for the years ended June 30, 2021 and 2020, respectively.

UIHS was incorporated under the provisions of the Iowa Nonprofit Corporations Act on December 2, 1994. UIHS was formed 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 multistate network development activities. For the years ended June 30, 2021 and 2020, UIHC transferred \$1.0 million and \$5.0 million, respectively, which is recorded in net transfers in the statements of revenue, expenses, and changes in net position.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(9) Net Patient Service Revenue

Net patient service revenue, as reflected in the accompanying statements of revenue, expenses, and changes in net position, consists of the following:

	<u>2021</u>	<u>2020</u>
Gross patient charges:		
Inpatient charges	\$ 3,058,446	2,731,183
Outpatient charges	<u>3,986,894</u>	<u>3,301,230</u>
Total gross patient charges	7,045,340	6,032,413
Less deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	4,898,746	4,108,051
Provision for bad debts	<u>35,438</u>	<u>35,942</u>
Net patient service revenue	<u>\$ 2,111,156</u>	<u>1,888,420</u>

The provision for uncollectible patient accounts is based on UIHC management's assessment of expected net collections considering the accounts receivable aging, historical collections experience, economic conditions, trends in healthcare coverage, and other collection indicators. Management periodically assesses the adequacy of the allowances for uncollectible accounts and contractual adjustments based on historical write-off experience. The results of these reviews are used to establish the net realizable value of patient accounts receivable. UIHC follows established guidelines for placing certain patient balances with collection agencies. Self-pay accounts are written off as bad debt at the time of transfer to the collection agency. Remaining balances after the primary payor has adjudicated an account (if any) are categorized as either self-pay after insurance or secondary insurance after insurance to estimate the collectability of the remaining accounts receivable.

Patient service cash receipts (net of adjustments), received in 2021 and 2020 from the major payor sources, are as follows:

	<u>2021</u>	<u>2020</u>
Patient (self-pay)	\$ 18,289	15,007
Medicaid	338,170	282,673
Medicare	571,505	522,337
Commercial insurance and other third-party payors	<u>1,144,001</u>	<u>1,037,456</u>
Patient service receipts, net of adjustments	2,071,965	1,857,473
Changes to accounts receivable balance, late charges reserve, and other third-party reserves	<u>39,191</u>	<u>30,947</u>
Patient service revenue, net of contractual allowance, discounts, and provision for bad debts	<u>\$ 2,111,156</u>	<u>1,888,420</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

UIHC has agreements with third-party payors that provide for payments to UIHC at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2021 net patient service revenue from third-party payors decreased approximately \$900,000 and 2020 net patient service revenue increased approximately \$9.5 million due to prior year retroactive adjustments being different than amounts previously estimated.

A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Receipts from Medicare accounted for approximately 27.7% and 27.8% of UIHC's net patient receipts for the years ended 2021 and 2020, respectively.

(b) Iowa Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are primarily paid at prospectively determined rates per discharge. Physician clinical services are paid based on fee schedule amounts.

Receipts from Medicaid programs accounted for approximately 16.4% and 15.1% of UIHC's net patient receipts for the years ended 2021 and 2020, respectively.

(c) Commercial

UIHC has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to UIHC under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(10) Charity Care and Uncompensated Cost of Services

UIHC provides care to patients who meet certain criteria under its charity care policy by adjusting off charges either in full or by adjusting off an approved percentage of the self-pay balance. State Institution accounts are automatically classified as charity care and, therefore, the patient charges are written off as

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

charity care in full. Patient charges written off for services and supplies furnished under UIHC's charity policy for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Charity care	\$ 16,747	15,629
Charity care for State Institution patients	<u>47,720</u>	<u>35,187</u>
Charity care charges forgone	<u>\$ 64,467</u>	<u>50,816</u>

The cost of charges forgone for services and supplies furnished under UIHC's charity policy approximated \$18.3 million and \$15.2 million for the years ended June 30, 2021 and 2020, respectively.

UIHC also provides reduced price services and free programs throughout the year. The total uncompensated costs of services other than charity care, for the years ended June 30, 2021 and 2020, approximate the following:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 122,110	125,160
Medicaid	67,375	59,353
Medicaid out of state	5,816	5,808
State Institution	<u>10,597</u>	<u>8,810</u>
Uncompensated costs of services	<u>\$ 205,898</u>	<u>199,131</u>

(11) Concentrations of Credit Risk

UIHC grants credit without collateral to its patients, most of whom are Iowa residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors based on primary payor at June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Blue Cross Blue Shield	30 %	28 %
Commercial pay	29	27
Medicare	25	26
Medicaid	12	15
Self-pay	1	1
Other	<u>3</u>	<u>3</u>
	<u>100 %</u>	<u>100 %</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(12) Operating Leases

UIHC uses certain capital assets under noncancelable operating leases. In most cases, management expects that, in the normal course of operations, the leases will be renewed or replaced by other leases. Total rent expense under operating leases for the years ended June 30, 2021 and 2020 was \$21.2 million and \$18.3 million, respectively.

The following is a schedule by year of future minimum rental payments required under noncancelable operating leases as of June 30, 2021:

Year(s) ending June 30:	
2022	\$ 13,182
2023	12,939
2024	12,816
2025	9,555
2026	8,577
2027–2031	38,429
2032–2036	13,963
2037–2041	437
Total	\$ <u>109,898</u>

(13) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses reported as current liabilities at June 30, 2021 and 2020 consisted of the following amounts:

	<u>2021</u>	<u>2020</u>
Payable to employees (including payroll taxes)	\$ 122,170	106,524
Payable to suppliers	59,917	52,532
Other	<u>8,224</u>	<u>3,054</u>
Total accounts payable and accrued expenses	\$ <u>190,311</u>	<u>162,110</u>

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(14) Other Long-term Liabilities

Other long-term liabilities at June 30, 2021 and 2020 consisted of the following amounts (in thousands):

	<u>2021</u>	<u>2020</u>
Pension liability	\$ 70,067	51,191
OPEB liability	69,595	58,789
Payable to employees (compensated absences)	31,735	23,214
Unearned revenue	<u>20,250</u>	<u>—</u>
Total other long-term liabilities	<u>\$ 191,647</u>	<u>133,194</u>

(15) Law and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that UIHC is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made that are expected to have a material effect on UIHC's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory action unknown or unasserted at this time.

(16) Government Funding in Response to the COVID-19 Pandemic

On March 11, 2020, the World Health Organization designated Coronavirus 2019 (COVID-19) as a global pandemic. Patient activity and related revenues for most services were significantly impacted starting in mid-March as various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic that caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspension of elective surgical procedures. UIHC's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Precautionary steps to enhance operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to the business, included the following:

- Implemented certain cost reduction initiatives.
- Reduced certain planned projects and capital expenditures.
- Assessed the various federal and state stimulus options available to UIHC as noted below.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law, providing temporary and limited relief to hospitals and healthcare providers during the COVID-19 outbreak, making appropriations for hospitals and healthcare providers to cover expenses and lost revenue associated with the treatment of COVID-19 patients, expanding the Medicare Advanced and Accelerated payment program, providing employee retention tax credits to employers affected by COVID-19, eliminating the 2% reduction in Medicare payments from sequestration through 2020, creating an add-on payment for inpatient hospitals treating COVID-19 patients, and delaying a reduction in Medicaid funding for Medicare disproportionate share hospitals.

Through June 30, 2020, UIHC received \$31.1 million in Provider Relief Fund General Distributions under the CARES Act. For the year ended June 30, 2021, UIHC received additional funds as follows: \$9.8 million in Provider Relief Fund General Distributions, \$13.8 million in Provider Relief Fund Targeted Distributions, \$7.1 million in Coronavirus Relief Fund, and \$4.8 million in FEMA Public Assistance Disaster Program funds. These funds are not subject to repayment, provided UIHC is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met and the funds are received. Based on analysis of the compliance and reporting requirements of the CARES Act and the impact of the pandemic on operating results through the end of 2020 and 2021, UIHC has recorded \$31.1 million and \$35.5 million, respectively, of coronavirus relief funds as nonoperating revenue in the statements of revenue, expenses, and changes in net position.

In November 2021, UIHC received additional funding of \$3.0 in Provider Relief Funds.

The COVID-19 pandemic has affected commerce and financial markets globally. Although COVID-19 initially produced market conditions that adversely affected the fair value of UIHC's investments, the fair value substantially recovered by June 30, 2021.

The extent of the COVID-19 pandemic's adverse impact on the operating results and financial condition of UIHC has been and will continue to be driven by many factors, most of which are beyond UIHC's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines on patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, changes in professional and general liability exposure, and volatility of global financial markets. Because of these and other uncertainties, UIHC cannot estimate the length or severity of the impact of the COVID-19 pandemic on the business and the results of operations.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in tables in thousands)

(17) Subsequent Events

UIHC has reviewed subsequent events through November 19, 2021 and concluded that there were no events or transactions during this period that would require recognition or disclosure in the financial statements, except as follows:

In August 2021, UIHC issued \$112.3 million of Series S.U.I 2021A Revenue and Refunding Bond. The proceeds of the bond were used by UIHC to refund the Series S.U.I. 2011 Revenue Bond; refund the Series S.U.I 2011A Revenue Bond; and pay for the costs of constructing, equipping, installing, and expanding certain hospital and clinic facilities.

In August 2021, UIHC issued \$148.7 million of Series S.U.I 2021B Refunding Bond. The proceeds of the bond were used by UIHC to advance refund the Series S.U.I. 2012 Revenue Bond.

In August 2021, the Iowa Department of Public Health's State Health Facilities Council approved UIHC's request to build a new 300,000 square-foot, 48-bed extension of the hospital less than 10 miles from the main campus in Iowa City. The facility will be funded by three sources: hospital revenue bonds, gifts, and university building usage funds.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Schedule of Proportionate Share of the Net Pension Liability and Contributions

Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2021

(Unaudited)

For the year ended	UIHC's proportion of the net pension liability	UIHC's proportionate share of the net pension liability	UIHC's covered- employee payroll	UIHC's proportionate share of the net pension liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
June 30, 2021	0.99744 % \$	70,067	77,106	90.9 %	82.9 %
June 30, 2020	0.88403	51,191	62,910	81.4	85.5
June 30, 2019	0.77810	49,240	59,251	83.1	83.6
June 30, 2018	0.70459	46,934	52,104	90.1	82.2
June 30, 2017	0.59455	37,417	40,665	92.0	81.8
June 30, 2016	0.47349	23,539	29,902	78.7	85.2
June 30, 2015	0.38388	15,536	25,706	60.4	87.6

The amounts presented for each fiscal year were determined as of June 30.

* Note: GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, UIHC will present information for those years for which information is available.

See accompanying independent auditors' report.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Schedule of Proportionate Share of the Net Pension Liability and Contributions

Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2021

(Unaudited)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Statutorily required contribution	\$ 8,417	7,260	5,921	5,224	4,623	3,603	2,660	2,299	1,896	1,528
Contributions in relation to the statutorily required contribution	(8,417)	(7,260)	(5,921)	(5,224)	(4,623)	(3,603)	(2,660)	(2,299)	(1,896)	(1,528)
Contribution deficiency	\$ —	—	—	—	—	—	—	—	—	—
UIHC's covered-employee payroll	\$ 89,374	77,106	62,910	59,251	52,104	40,665	29,902	25,706	21,965	18,748
Contributions as a percentage of the covered-employee payroll	9.4 %	9.4 %	9.4 %	8.8 %	8.9 %	8.9 %	8.9 %	8.9 %	8.6 %	8.1 %

See accompanying independent auditors' report.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Schedule of Changes in UIHC's Total OPEB Liability and Related Ratios

Last ten fiscal years ended June 30, 2021

(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
PSF Plan:			
Service cost	\$ 1,806	971	970
Interest	1,737	1,582	1,535
Changes in benefit terms	—	—	—
Differences between expected and actual experience	(27)	1,278	—
Changes of assumptions	7,480	6,895	(308)
Benefit payments	(3,459)	(3,323)	(3,369)
Other	561	(848)	5,170
Net change in total OPEB liability	8,098	6,555	3,998
Total OPEB liability, beginning of year	48,965	42,410	38,412
Total OPEB liability, end of year	57,063	48,965	42,410
Covered-employee payroll	\$ 435,350	430,413	411,270
Total OPEB liability as a percentage of covered employee payroll	<u>13.11 %</u>	<u>11.38 %</u>	<u>10.31 %</u>
Merit Plan:			
Service cost	\$ 735	408	559
Interest	510	421	278
Changes in benefit terms	—	—	7,848
Differences between expected and actual experience	(39)	305	—
Changes of assumptions	2,385	2,707	(4,786)
Benefit payments	(854)	(429)	(421)
Contributions from the employer	—	—	—
Other	162	(217)	(2,404)
Net change in total OPEB liability	2,899	3,195	1,074
Total OPEB liability, beginning of year	14,088	10,893	9,819
Total OPEB liability, end of year	16,987	14,088	10,893
Covered-employee payroll	\$ 65,089	64,351	65,863
Total OPEB liability as a percentage of covered employee payroll	<u>26.10 %</u>	<u>21.89 %</u>	<u>16.54 %</u>

* Note: GASB Statement No. 75 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, UIHC will present information for those years for which information is available.

See accompanying independent auditors' report.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Required Supplementary Information

June 30, 2021

(Unaudited)

(1) Pension Liability

(a) Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

(b) Changes of Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement:

- Assumed investment return: 7%
- Projected salary increases: 3.25%-16.25% depending upon years of service
- Mortality tables: RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments
- Inflation rate: 2.6%
- Payroll increase assumption: 3.25%

The 2018 valuation, which is used to determine the contribution rates effective July 1, 2019, incorporated the following refinements after a demographic assumption study:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of a March 2017 experience study:

- Decreased the inflation assumption from 3.00% to 2.60% per year.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Required Supplementary Information

June 30, 2021

(Unaudited)

- Decreased the long-term rate of return assumption from 7.50% to 7.00% per year.
- Decreased the wage growth and payroll growth assumptions from 4.00% to 3.25% per year.
- Decreased the salary increase assumption by 0.75%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the unfunded actuarial liability (UAL) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

(2) OPEB Liability

(a) Changes in the University's Total OPEB Liability and Related Ratios

- The 2020 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 2.21% as of June 30, 2020
 - A removal of the excise tax on high-cost plans from the future trend rates.
- The 2019 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 3.50% as of June 30, 2019

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Required Supplementary Information

June 30, 2021

(Unaudited)

- A change in the mortality assumption for healthy lives from the RP-2014 Aggregate Mortality Table projected using the Scale MP-2016 to Pub-2010 Aggregate Mortality Table projected using the Scale MP-2018 by classification.
- A change in the mortality assumption for disabled lives from the CIA 1988-94 LTD table to the Pub-2010 Disable Mortality Table projected using Scale MP-2018.
- The health care trend rate assumption was updated to a schedule of rates beginning at 6.65% in 2019, grading down to 4.50% in 2028 and beyond for pre-65 participants and 7.61% in 2019 grading down to 4.50% in 2029 and beyond for post-65 participants.
- The marginal cost adjustment factors were changed from 60.1% to 62.9% for pre-65 participants and from 87.6% to 89.5% for post-65 participants.
- The impact of the excise tax on high-cost plans due to healthcare reform was updated, based on current claims and medical trend assumptions.
- The 2018 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation
- The financial accounting valuation reflects the following assumption changes:
 - A change in the discount rate to 3.87% as of June 30, 2018. The discount rate was 3.58% as of June 30, 2017.
 - A change in demographic assumptions for the Merit employees from the State assumptions to the University staff assumptions.
- The 2017 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - A change in the actuarial cost method from Projected Unit Credit to Entry Age Normal.
 - The financial accounting valuation reflects the following assumptions changes:
 - A change in the discount rate to 3.58% as of June 30, 2017. The discount rate was 6.75% as of June 30, 2016.
 - A change in the withdrawal rates for staff to better anticipate future experience

**STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS**

Notes to Required Supplementary Information

June 30, 2021

(Unaudited)

- A change in the mortality assumption from the RP-2014 Aggregate Mortality Table projected using Scale MP-2014 to the RP-2014 Aggregate Mortality Table projected using Scale MP-2016
- The health care trend rate assumption factors were changes from 59.4% to 60.1% for pre-65 participants and from 86.8% to 87.6% for post-65 participants.
- The impact of the Excise Tax on high-cost plans due to healthcare reform was updated, based on current claims and medical trend assumptions.
- A change in demographic assumptions for the Merit employees from the State assumptions to the University staff assumptions.