STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements of UIHC are intended to present the financial position and 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, 2018 and 2017, the changes in its financial position, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

As discussed in note 1 to the financial statements, effective July 1, 2017, UIHC adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. 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 to 8 and the schedules of proportionate share in net pension liability and UIHC contributions on pages 49-51 and the schedule of changes in UIHC's total Other Postemployment Benefit (OPEB) liability and related ratios on pages 52 to 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 inquires 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

Des Moines, Iowa
December 13, 2018

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, 2018 and 2017. 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 2018 with an increase in net position of $152.3 million, or 11.0%, as compared to an increase in net position in 2017 by $47.5 million, or 3.6%. Inclusive of a postemployment benefit change, operating income in 2018 was $200.6 million. Operating income less the postemployment benefit change was $61.1 million, an increase of $34.4 million when compared to 2017. Nonoperating revenue, net decreased $4.6 million driven mainly by higher interest expense. Operating income in 2017 was $26.7 million, a decrease of $74.4 million when compared to 2016. Nonoperating revenue, net increased $9.1 million driven mainly by investment performance.

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.

During 2018, UIHC adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Upon adoption, UIHC recorded a cumulative effect on net position of $144 million. Also during 2018, UIHC adopted plan changes in benefit terms resulting in a $139 million reduction in the Other Postemployment Benefit (OPEB) liability.

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

In 2018, net position increased by $152.3 million, or approximately 11.0%, to $1.54 billion. This is primary due to operating income, exclusive of a postemployment benefit change, of $61.1 million and transfers of $80.7 million from the University net. In 2017, net position increased by $47.5 million, or approximately 3.6%, to $1.39 billion. This is primarily due to net income from operations of $26.7 million. Table 1 provides a summary of UIHC's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2018, 2017, and 2016.

(Continued)

Table 1

Condensed Statements of Net Position

(In thousands)

Assets and Deferred Outflows		2018	2017	2016
Current assets	$	375,981	356,482	349,817
Noncurrent cash and investments		736,685	574,001	658,584
Capital assets, net		1,102,002	1,093,211	973,850
Other assets		1,525	1,614	1,356
Total assets		2,216,193	2,025,308	1,983,607
Deferred outflows:				
Clinic acquisition costs		879	1,116	—
Pension-related deferred outflows		23,395	18,216	8,750
OPEB-related deferred outflows		17,616	—	—
Debt refunding loss		3,815	4,465	4,998
Total deferred outflows		45,705	23,797	13,748
Total assets and deferred outflows	$	2,261,898	2,049,105	1,997,355
Liabilities, Deferred Inflows, and Net Position				
Current liabilities	$	240,775	223,940	223,513
Long-term debt		345,633	328,608	343,797
Other long-term liabilities		108,368	109,739	89,272
Total liabilities		694,776	662,287	656,582
Deferred inflows:				
Pension-related deferred inflows		914	447	1,959
OPEB-related deferred inflows		27,546	—	—
Total deferred inflows		28,460	447	1,959
Net position:				
Net investment in capital assets		750,890	750,916	620,211
Restricted		8,314	4,876	6,771
Unrestricted		779,458	630,579	711,832
Total net position		1,538,662	1,386,371	1,338,814
Total liabilities, deferred inflows, and net position	$	2,261,898	2,049,105	1,997,355

Table 2 shows the changes in net position for 2018 compared to 2017 and 2016.

Table 2

Statements of Revenue, Expenses, and Changes in Net Position

(In thousands)

	2018	2017	2016
Operating revenue:			
Net patient service revenue	$ 1,618,729	1,450,400	1,410,009
Other revenue	47,708	52,010	46,656
Total operating revenue	1,666,437	1,502,410	1,456,665
Operating expenses:			
Salaries and benefits	745,931	708,556	655,019
Medical supplies and drugs	418,208	353,340	323,219
Other supplies and general expenses	339,837	323,387	298,277
Depreciation and amortization	101,324	90,411	78,993
Total operating expenses	1,605,300	1,475,694	1,355,508
Operating income before postemployment benefit adjustment	61,137	26,716	101,157
Postemployment benefit adjustment	139,494	—	—
Operating income after postemployment benefit adjustment	200,631	26,716	101,157
Nonoperating revenue (expenses):			
Loss on disposal of capital assets	(2,071)	(874)	(2,818)
Noncapital gifts	1	2	2
Investment income	24,413	24,100	15,669
Interest expense	(11,046)	(7,322)	(6,054)
Total nonoperating revenue, net	11,297	15,906	6,799
Excess of revenue over expenses before transfers	211,928	42,622	107,956
Capital gifts and grants	3,739	29,360	—
Net transfers in (out)	80,744	(24,425)	(32,042)
Increase in net position	296,411	47,557	75,914
Net position, beginning of year	1,386,371	1,338,814	1,262,900
Cumulative effect of adoption of accounting standard – postemployment benefit	(144,120)	—	—
Net position, beginning of year, as restated	1,242,251	1,338,814	1,262,900
Net position, end of year	$ 1,538,662	1,386,371	1,338,814

(Continued)

Net Patient Service Revenue

Net patient service revenue increased from 2017 to 2018 by $168.3 million, or 11.6%, and $40.4 million, or 2.9%, from 2016 to 2017. The increases in net patient service revenue were driven by both increases in patient volumes and pricing increases during the same periods. The increase in 2018 resulted from increases in both inpatient and outpatient areas. There was an increase in outpatient clinic visits from 2017 to 2018 by 51,651, or 5.5%, with an increase in outpatient surgeries of 91, or 0.5%. On the inpatient side, acute admissions were up 858, or 2.5%, over 2017 and inpatient surgeries increased by 1,028, or 6.8%. There was an increase in outpatient clinic visits from 2016 to 2017 by 61,532, or 7.1%, with an increase in outpatient surgeries of 982, or 6.2%. On the inpatient side, acute admissions were up 1,099, or 3.3%, over 2016 and inpatient surgeries increased by 133, or 0.9%. The increase in 2016 resulted from increases in both inpatient and outpatient areas.

The provision for bad debts (a deduction from gross patient charges) increased $14.4 million from $34.7 million in 2017 to $49.1 million in 2018. The provision for bad debts (a deduction from gross patient charges) increased $2.3 million from $32.4 million in 2016 to $34.7 million in 2017. The increase in the provision for bad debts in 2018 was caused by an increase in self-pay revenue earned during 2018.

Operating Expenses

Total operating expenses increased 8.8% from $1.48 billion in 2017 to $1.61 billion in 2018. The largest dollar increase in expenses in 2018 was in medical supplies and drugs, which increased $64.9 million, or 18.4%, when compared to 2017. In 2018, this growth was due to increased patient volumes and inflation.

Total operating expenses increased 8.9% from $1.36 billion in 2016 to $1.48 billion in 2017. The largest dollar increase in expenses in 2017 was in medical supplies and drugs, which increased $30.1 million, or 9.3%, when compared to 2016. In 2017, this growth was due to increased patient volumes and inflation.

Nonoperating Revenue and Expenses, Net

Nonoperating revenue consists primarily of gains (losses) on disposals of capital assets, investment income, interest expense, and noncapital gifts. Investment income increased from 2017 to 2018 by $0.3 million, or 1.3%, and increased from 2016 to 2017 by $8.4 million, or 53.8%. During 2018, UIHC recorded overall earnings on the endowment and operating pools of $26.6 million and a net unrealized loss on investments of $2.2 million, which increased investment income accordingly. This compares to the overall earnings on the endowment and operating pools of $20.6 million and a net unrealized gain on investments of $3.5 million in the previous year. The increases in these investments follow overall investment markets. Interest expense increased $3.7 million in 2018 as a result of increased long-term debt.

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 2018, with a net decrease in cash and cash equivalents of $3.4 million. In 2018, net cash provided by operating activities provided cash inflows of $164.3 million and net cash provided by noncapital financing activities was $80.7 million. Net cash used in capital and investing activities was $248.5 million. UIHC's overall liquidity increased during 2017, with a net increase in cash and cash equivalents of $8.0 million. In 2017, net cash provided by operating activities provided cash inflows of $113.3 million and net cash used in noncapital financing activities was $24.4 million.

(Continued)

Capital Assets and Debt Administration

Capital Assets

At the end of 2018, UIHC had $1.10 billion invested in capital assets, net of accumulated depreciation. This is a $8.8 million increase when compared to capital assets, net in 2017 of $1.09 billion. This increase is primarily due to the UIHC Children's Hospital. Capital assets, net of accumulated depreciation increased to $1.1 billion in 2017 compared to capital assets, net in 2016 of $973.9 million. This increase is primarily due to the UIHC Children's Hospital construction.

The major capital asset additions in 2017 and 2018 included the following:

- Stead Family Children's Hospital
- Pediatric specialty clinic expansion
- Heart and vascular center relocation and expansion
- IRL East 2nd floor renovation
- Children's Hospital equipment replacement
- Emergency generator facility
- HCIS blood bank software
- Pediatric inpatient to adult renovation
- Old Town Village Family Clinic renovation
- PFP Linear Acc C D Vlt W addition renovation
- Iowa River Landing II facility
- Neuro Neo offices relocation.

Debt

At June 30, 2018 and 2017, UIHC had $360.2 million and $342.3 million, respectively, in bonds and capital lease outstanding. During 2018 and 2017, payments of long-term debt were $13.7 million and $9.8 million, respectively. During 2018, UIHC issued $32.665 million of Series S.U.I 2018 Hospital Revenue Bonds. The proceeds of the bonds will be used to finance capital improvements. During 2017, UIHC issued no Hospital Revenue Bonds. During 2016, UIHC issued $29 million of Series S.U.I. 2016 Hospital Revenue Refunding Bonds and $23.86 million of Series S.U.I. 2016A Hospital Revenue Refunding Bonds. The proceeds of the bonds were used by UIHC to refund the Series S.U.I. 2007 Hospital Revenue Bonds, Series S.U.I. 2007A Hospital Revenue Bonds, and Series S.U.I. 2009 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. Bradley Haws, 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, 2018 and 2017

(In thousands)

Assets and Deferred Outflows		2018	2017
Current assets:			
Cash and cash equivalents	$	20,624	24,058
Short-term investments		74,213	64,746
Patient accounts receivable, net of estimated uncollectibles $17,103 in 2018 and $16,233 in 2017		229,617	210,781
Inventories		35,851	33,113
Current investments for debt service – restricted		1,100	1,007
Other current assets		14,576	22,777
Total current assets		375,981	356,482
Noncurrent cash and investments:			
Limited by bond resolutions		36,214	25,110
Designated by the Board of Regents		692,952	544,721
Restricted by donors		7,519	4,170
		736,685	574,001
Capital assets, net		1,102,002	1,093,211
Other assets		1,525	1,614
Total assets		2,216,193	2,025,308
Deferred outflow of resources:			
Clinic acquisition costs		879	1,116
Pension-related deferred outflows		23,395	18,216
OPEB-related deferred outflows		17,616	—
Debt refunding loss		3,815	4,465
Total deferred outflows		45,705	23,797
Total assets and deferred outflows	$	2,261,898	2,049,105
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	14,556	13,687
Accounts payable and accrued expenses		142,537	143,137
Estimated third-party payor settlements		47,406	41,309
Due to related parties		20,219	16,172
Other current liabilities		12,041	5,588
Accrued interest		4,016	4,047
Total current liabilities		240,775	223,940
Long-term debt, net of current maturities		345,633	328,608
Other long-term liabilities		108,368	109,739
Total liabilities		694,776	662,287
Deferred inflow of resources:			
Pension-related deferred inflows		914	447
OPEB-related deferred inflows		27,546	—
Total deferred inflows		28,460	447
Net position:			
Net investment in capital assets		750,890	750,916
Restricted by donors for specific purposes		7,214	3,870
Restricted for debt service		1,100	1,006
Unrestricted		779,458	630,579
Total net position		1,538,662	1,386,371
Total liabilities, deferred inflows, and net position	$	2,261,898	2,049,105

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, 2018 and 2017

(In thousands)

	2018	2017
Operating revenue:		
Net patient service revenue, net of provision for bad debts of $49,118 in 2018 and $34,680 in 2017	$ 1,618,729	1,450,400
Other revenue	47,708	52,010
Total operating revenue	1,666,437	1,502,410
Operating expenses:		
Salaries and benefits	745,931	708,556
Medical supplies and drugs	418,208	353,340
Other supplies and general expenses	339,837	323,387
Depreciation and amortization	101,324	90,411
Total operating expenses	1,605,300	1,475,694
Operating income before postemployment benefit adjustment	61,137	26,716
Postemployment benefit adjustment	139,494	—
Operating income after postemployment benefit adjustment	200,631	26,716
Nonoperating revenue (expenses):		
Loss on disposal of capital assets	(2,071)	(874)
Noncapital gifts	1	2
Investment income	24,413	24,100
Interest expense	(11,046)	(7,322)
Total nonoperating revenue, net	11,297	15,906
Excess of revenue over expenses before transfers	211,928	42,622
Capital gifts and grants	3,739	29,360
Net transfers in (out)	80,744	(24,425)
Increase in net position	296,411	47,557
Net position, beginning of year	1,386,371	1,338,814
Cumulative effect of adoption of accounting standard – postemployment benefit	(144,120)	—
Net position, beginning of year, as restated	1,242,251	1,338,814
Net position, end of year	$ 1,538,662	1,386,371

See accompanying notes to financial statements.

STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Receipts from and on behalf of patients	$	1,605,990	1,446,918
Other receipts		51,756	51,281
Payments to employees		(739,901)	(693,379)
Payments to suppliers and contractors		(753,542)	(691,519)
Net cash provided by operating activities		164,303	113,301
Cash flows from noncapital financing activities:			
Net transfers		80,744	(24,425)
Noncapital gifts		1	2
Net cash provided by (used in) noncapital financing activities		80,745	(24,423)
Cash flows from capital and related financing activities:			
Purchase of capital assets		(109,904)	(210,917)
Proceeds from the sale of capital assets		25	30
Capital gifts and grants received		3,736	29,360
Proceeds from the issuance of long-term debt		32,665	—
Premium received on the issuance of long-term debt		537	—
Principal paid on long-term debt		(13,687)	(9,842)
Interest paid on long-term debt		(12,048)	(8,048)
Net cash used in capital and related financing activities		(98,676)	(199,417)
Cash flows from investing activities:			
Proceeds from sale of investments		440,121	236,214
Purchase of investments		(616,461)	(138,332)
Interest and dividends received on investments		26,534	20,614
Net cash (used in) provided by investing activities		(149,806)	118,496
Net (decrease) increase in cash and cash equivalents		(3,434)	7,957
Cash and cash equivalents at beginning of year		24,058	16,101
Cash and cash equivalents at end of year	$	20,624	24,058
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	200,631	26,716
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		101,324	90,411
Provision for bad debts		49,118	34,680
Postemployment benefit adjustment		(139,494)	—
Changes in assets and liabilities:			
Accounts receivable		(67,954)	(34,737)
Inventories		(2,738)	(5,498)
Other assets		(14,598)	(13,564)
Accounts payable and accrued expenses		(601)	1,362
Other liabilities		28,471	18,085
Due to (from) related parties		4,047	(729)
Estimated third-party payor settlements		6,097	(3,425)
Net cash provided by operating activities	$	164,303	113,301

Noncash investing activity:

During 2018 and 2017, the net (depreciation) appreciation in fair value of investments was $(2,178) and $3,454, respectively.

See accompanying notes to financial statements.

(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 and operating under the supervision of the Board of Regents of the state of Iowa (the Board). UIHC is a University department 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 statements of net position and statements of cash flows, cash and cash equivalents are reported in accordance with Board of Regents, State of Iowa policy Chapter 2.2, section 4.C.ix

(Continued)

(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 the 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 statements of revenue, expenses, and changes in net position. Please see note 2 for further discussion.

Undesignated cash equivalents totaling $20.6 million and $24.1 million at June 30, 2018 and 2017, 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

Inventories consist primarily of medical and 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

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	10 – 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.

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(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, 2018 and 2017 were $0.0 million and $4.1 million, respectively.

(i) Gifts and Grants

From time to time, UIHC receives grants as well as gifts from individuals and private organizations. Gifts and grants may be restricted either for specific operating purposes or for 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 and gifts received for purposes other than capital asset acquisition, are 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.

(Continued)

(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' 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.

(r) Adoption of New Accounting Standard

During 2018, the UIHC adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The adoption resulted in a cumulative effect adjustment of $(144,120) to net position as of July 1, 2017. The standard was adopted effective July 1, 2017 due to the availability of information from the State of Iowa.

(Continued)

(Dollars in tables in thousands)

(2) Deposits and Investments

Investments are made in accordance with Chapter 12B.10, of the Code of Iowa, and Board of Regents, State of Iowa policy. (http://www.iowaregents.edu/plans-and-policies/board-policy-manual/22-business-procedures/#Investment Policy).

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.

Noncurrent cash and investments limited by bond resolutions or designated by the Board were held for the following purposes at June 30, 2018 and 2017:

		2018	2017
Limited by bond resolutions:			
Debt service reserve	$	27,137	25,110
Unspent Bond Proceeds		9,077	
Designated by the Board of Regents:			
Capital projects and equipment and other needs		435,099	293,421
Surplus		458	672
Improvement, extension, repair, operation, and maintenance funds		257,395	250,628
Restricted by donors		7,519	4,170
	$	736,685	574,001

Cash and cash equivalents and short-term investments specifically identified or pooled with the cash and investments of the University totaled $94.8 million and $88.8 million at June 30, 2018 and 2017, respectively. Cash equivalents designated by the Board totaled $61.1 million and $154.7 million at June 30, 2018 and 2017, respectively.

UIHC's investments are recorded at fair value. As of June 30, 2018, UIHC had the following investments and quality credit ratings (in thousands):

Fixed income	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
Corporate notes and bonds	—	$ —	—	—	—	—	—	—	—
U.S. government agencies	1.33	—	18,989	—	—	—	—	—	18,989
U.S. Treasury obligations	1.29	—	87	—	—	—	—	—	87
Mutual funds and fixed income funds at Net Asset Value (NAV)	4.53	—	259,753	67,735	23,226	37,183	36,782	—	424,679
		$ —	278,829	67,735	23,226	37,183	36,782	—	443,755
Other investments:									
Cash and cash equivalents									155,770
Common stock									2,970
Mutual funds and equity funds at NAV									159,892
Private equity									14,768
Real assets									55,467
Total cash and investments									$ 832,622

UIHC's investments are recorded at fair value. As of June 30, 2017, UIHC had the following investments and quality credit ratings (in thousands):

Fixed income	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
Corporate notes and bonds	2.08	$ 570	417	1,380	1,672	17	10	—	4,066
U.S. government agencies	2.38	42	23,918	—	—	—	—	—	23,960
U.S. Treasury obligations	1.96	—	19,908	—	—	—	—	—	19,908
Mutual funds and fixed income funds at NAV	4.26	—	80,365	9,982	45,367	29,507	30,466	—	195,687
		$ 612	124,608	11,362	47,039	29,524	30,476	—	243,621
Other investments:									
Cash and cash equivalents									243,355
U.S. equity mutual funds									45,789
Non-U.S. equity mutual funds									46,013
Real assets									74,264
Private equity									10,770
Total cash and investments									$ 663,812

(Continued)

(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 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 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.

The University's investments that do not have a readily determinable fair value, such as ownership interest in partners' capital, are reported using NAV. 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 the University's interest 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 consolidated 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.

The following table reflects fair value measurements of investment assets at June 30, 2018, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV (in thousands):

	2018				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Fixed income:					
U.S. government agencies	$ —	18,989	—	—	18,989
U.S. Treasury obligations	87	—	—	—	87
Mutual funds	189,439	—	—	—	189,439
Fixed-income funds at NAV	—	—	—	235,240	235,240
Equity and other:					
Common stock	2,846	124	—	—	2,970
Mutual funds	57,571	—	—	—	57,571
Real assets	—	—	—	55,467	55,467
Private equity	—	—	—	14,768	14,768
Equity funds at NAV	—	—	—	102,321	102,321
	$ 249,943	19,113	—	407,796	676,852
Money market/cash equivalents					155,770
Total cash and investments					$ 832,622

The following table summarizes UIHC's investments at June 30, 2018 for which NAV was used as a practical expedient to estimate fair value.

Asset class		Fair value determined using NAV 2018	Unfunded commitments at June 30, 2018	Redemption frequency	Redemption notice period
Fixed-income funds at NAV	$	235,240	—	Daily–Monthly	5–60 days
Equity funds at NAV		102,321	—	Daily–thrice-monthly	2–30 days
Real assets:					
Redeemable		47,342	—	Quarterly	90 days
Nonredeemable		8,125	12,584	N/A	N/A
Private equity:					
Redeemable		—	—		
Nonredeemable		14,768	5,648	N/A	N/A
Investments measured at NAV	$	407,796	18,232		

The following table reflects fair value measurements of investment assets at June 30, 2017, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV (in thousands):

		2017				
		Level 1	Level 2	Level 3	NAV	Total
Fixed income:						
Corporate notes and bonds	$	—	4,045	21	—	4,066
U.S. government agencies		—	23,960	—	—	23,960
U.S. Treasury obligations		19,908	—	—	—	19,908
Mutual funds		136,808	—	—	—	136,808
Fixed-income funds at NAV		—	—	—	58,879	58,879
U.S. equity		45,625	164	—	—	45,789
Non-U.S. equity		15,719	—	—	30,294	46,013
Real assets		61,831	—	—	12,433	74,264
Private equity		—	—	—	10,770	10,770
	$	279,891	28,169	21	112,376	420,457
Money market/cash equivalents						243,355
Total cash and investments						$ 663,812

(Dollars in tables in thousands)

The following table summarizes UIHC's investments at June 30, 2017 for which NAV was used as a practical expedient to estimate fair value.

Asset class		Fair value determined using NAV 2017	Unfunded commitments at June 30, 2017	Redemption frequency	Redemption notice period
Fixed-income funds at NAV	$	58,879	—	Daily–Monthly	5–30 days
Non-U.S. equity		30,294	—	Monthly–semimonthly	2–30 days
Real assets:					
Redeemable		5,086	—	Quarterly	90 days
Nonredeemable		7,347	13,821	N/A	N/A
Private equity:					
Redeemable		—	—		
Nonredeemable		10,770	8,459	N/A	N/A
Investments measured at NAV	$	112,376	22,280		

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

Fixed Income Funds at NAV – This category includes investments in funds holding assets that provide stability, generate income, and diversify market risk with readily determinable fair values.

Equity Funds at NAV – This category includes investments in funds holding global equities, including both developed and emerging markets with readily determinable fair values.

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, 2018 and 2017 are summarized as follows (in thousands):

		2018	2017
Land	$	22,923	21,240
Land improvements		4,637	1,159
Infrastructure		56,791	56,095
Buildings and leasehold improvements		1,481,525	1,395,549
Equipment and software		568,878	569,061
Construction in progress (nondepreciable)		60,820	77,797
		2,195,574	2,120,901
Less accumulated depreciation		1,093,572	1,027,690
	$	1,102,002	1,093,211

Capital asset additions, retirements, and balances as of and for the years ended June 30, 2018 and 2017 were as follows (in thousands):

Cost basis summary		June 30, 2017 balances	Additions	Sales retirements and transfers	June 30, 2018 balances
Land (nondepreciable)	$	21,240	1,683	—	22,923
Land improvements		1,159	3,478	—	4,637
Infrastructure		56,095	696	—	56,791
Buildings and leasehold improvements		1,395,549	86,370	(394)	1,481,525
Equipment and software		569,061	36,205	(36,388)	568,878
Construction in progress (nondepreciable)		77,797	81,718	(98,695)	60,820
Total at historical cost		2,120,901	210,150	(135,477)	2,195,574
Less accumulated depreciation for:					
Land improvements		856	330	—	1,186
Infrastructure		46,074	1,672	—	47,746
Buildings and leasehold improvements		634,650	47,004	(249)	681,405
Equipment and software		346,110	52,318	(35,193)	363,235
Total accumulated depreciation		1,027,690	101,324	(35,442)	1,093,572
Total capital assets, net	$	1,093,211	108,826	(100,035)	1,102,002

(Dollars in tables in thousands)

Cost basis summary		June 30, 2016 balances	Additions	Sales retirements and transfers	June 30, 2017 balances
Land (nondepreciable)	$	19,228	2,012	—	21,240
Land improvements		1,138	21	—	1,159
Infrastructure		55,123	972	—	56,095
Buildings and leasehold improvements		1,005,535	390,688	(674)	1,395,549
Equipment and software		486,661	100,312	(17,912)	569,061
Construction in progress (nondepreciable)		360,998	155,335	(438,536)	77,797
Total at historical cost		1,928,683	649,340	(457,122)	2,120,901
Less accumulated depreciation for:					
Land improvements		815	41	—	856
Infrastructure		44,391	1,683	—	46,074
Buildings and leasehold improvements		595,118	40,227	(695)	634,650
Equipment and software		314,509	48,460	(16,859)	346,110
Total accumulated depreciation		954,833	90,411	(17,554)	1,027,690
Total capital assets, net	$	973,850	558,929	(439,568)	1,093,211

At June 30, 2018, 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, 2018 is $61 million. Other projects at June 30, 2018, with an estimated cost of $373 million, have been committed to by the Board and/or UIHC; however, construction contracts had not been signed as of June 30, 2018. 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.

(4) Long-Term Debt

Long-term debt outstanding at June 30, 2018 and 2017 was as follows (in thousands):

	2018	2017
Hospital Revenue Bonds:		
Series S.U.I. 2010 – 3.000% to 4.500%; maturing serially on September 1 through 2037	$ 25,125	26,000
Series S.U.I. 2011 – 2.000% to 4.000%; maturing serially on September 1 through 2032	21,800	22,850
Series S.U.I. 2011A – 2.000% to 4.125%; maturing serially on September 1 through 2028	14,255	15,325
Series S.U.I. 2012 – 4.000% to 4.000%; maturing serially on September 1 through 2038	169,100	174,475
Series S.U.I. 2016 – 1.250% to 5.000%; maturing serially on September 1 through 2038	26,975	29,000
Series S.U.I. 2016A – 3.000% to 3.000%; maturing serially on September 1 through 2038	22,265	23,860
Series S.U.I. 2018 – 3.000% to 5.000%; maturing serially on September 1 through 2043	32,665	—
Net unamortized premium on Hospital Revenue Bonds	14,694	15,778
Telecommunications Facilities Revenue Bonds:		
Series S.U.I. 2009 – 3.000% to 4.250%; maturing serially on July 1 through 2036	10,725	11,094
Series S.U.I. 2011 – 2.500% to 4.500%; maturing serially on July 1 through 2032	6,121	6,422
Total long-term bonds	343,725	324,804
Capital lease obligation	16,464	17,491
Total long-term debt	360,189	342,295
Long-term debt, current portion	14,556	13,687
	$ 345,633	328,608

Activity in long-term debt for the years ended June 30, 2018 and 2017 was as follows (in thousands):

	June 30, 2017 balance	Additions	Reductions	June 30, 2018 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2010	$ 26,000	—	(875)	25,125	900
Hospital Revenue Bonds, Series 2011	22,850	—	(1,050)	21,800	1,100
Hospital Revenue Bonds, Series 2011A	15,325	—	(1,070)	14,255	1,090
Hospital Revenue Bonds, Series 2012	174,475	—	(5,375)	169,100	5,525
Hospital Revenue Bonds, Series 2016	29,000	—	(2,025)	26,975	2,385
Hospital Revenue Bonds, Series 2016A	23,860	—	(1,595)	22,265	1,815
Hospital Revenue Bonds, Series 2018	—	32,665	—	32,665	—
Net unamortized bond premium	15,778	537	(1,621)	14,694	
Telecommunications Facilities Revenue Bonds:					
Series 2009	11,094	—	(369)	10,725	380
Series 2011	6,422	—	(301)	6,121	304
Total long-term bonds	324,804	33,202	(14,281)	343,725	13,499
Capital lease obligations	17,491	—	(1,027)	16,464	1,057
Total long-term debt	$ 342,295	33,202	(15,308)	360,189	14,556

(Continued)

(Dollars in tables in thousands)

	June 30, 2016 balance	Additions	Reductions	June 30, 2017 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2010	$ 26,850	—	(850)	26,000	875
Hospital Revenue Bonds, Series 2011	23,875	—	(1,025)	22,850	1,050
Hospital Revenue Bonds, Series 2011A	16,365	—	(1,040)	15,325	1,070
Hospital Revenue Bonds, Series 2012	179,750	—	(5,275)	174,475	5,375
Hospital Revenue Bonds, Series 2016	29,000	—	—	29,000	2,025
Hospital Revenue Bonds, Series 2016A	23,860	—	—	23,860	1,595
Net unamortized bond premium	17,280	—	(1,502)	15,778	—
Telecommunications Facilities Revenue Bonds:					
Series 2009	11,453	—	(359)	11,094	369
Series 2011	6,717	—	(295)	6,422	301
Total long-term bonds	335,150	—	(10,346)	324,804	12,660
Capital lease obligations	18,489	—	(998)	17,491	1,027
Total long-term debt	$ 353,639	—	(11,344)	342,295	13,687

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 authorization 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 any parity bonds, or $25.7 million. The maximum amount of Hospital Income pledged representing the undiscounted principal and interest on the bonds is $465.9 million.

In June 2018, the UIHC issued $32.7 million of Series S.U.I. 2018 Hospital Revenue 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 related to the Hospital System of The State University of Iowa; fund a reserve fund and pay the costs of issuing the Bonds.

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.

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

	Principal	Interest	Total
Year(s) ending June 30:			
2019	$ 13,499	12,112	25,611
2020	14,147	11,985	26,132
2021	15,080	11,514	26,594
2022	15,505	11,005	26,510
2023	15,968	10,428	26,396
2024 through 2028	89,307	41,833	131,140
2029 through 2033	73,393	25,373	98,766
2034 through 2038	69,393	11,233	80,626
2039 through 2041	20,790	1,373	22,163
2044	1,949	33	1,982
	$ 329,031	136,889	465,920

The following are deferred outflows of resources and deferred inflows of resources related to debt refundings as of June 30, 2018 and 2017:

	2018 Deferred outflows of resources	2018 Deferred inflows of resources
Deferred outflows and inflows from debt refunding:		
Revenue Bonds 2011A Series refunding loss	$ 263	—
Revenue Bonds 2016 Series refunding loss	1,459	—
Revenue Bonds 2016A Series refunding loss	2,093	—
	$ 3,815	—

(Dollars in tables in thousands)

		2017 Deferred outflows of resources	2017 Deferred inflows of resources
Deferred outflows and inflows from debt refunding:			
Revenue Bonds 2011A Series refunding loss	$	308	—
Revenue Bonds 2016 Series refunding loss		1,686	—
Revenue Bonds 2016A Series refunding loss		2,471	—
	$	4,465	—

Capital Lease Obligations

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

		Principal	Interest	Total
Year(s) ending June 30:				
2019	$	1,057	486	1,543
2020		1,089	455	1,544
2021		1,121	422	1,543
2022		1,154	389	1,543
2023		1,188	602	1,790
2024 through 2028		6,486	2,084	8,570
2029 through 2033		4,369	441	4,810
	$	16,464	4,879	21,343

(5) Retirement Benefit Plans

Teachers Insurance and Annuity Association

Substantially, all UIHC employees meeting eligibility requirements participate in the University of Iowa Retirement Plan (the Plan). The Plan is a defined-contribution retirement plan providing benefits through the Teachers Insurance and Annuity Association and the College Retirement Equity Fund (TIAA-CREF). During fiscal years 2018 and 2017, UIHC's contributions amount to $39,815,000 and $38,468,000, 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.

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 of Iowa (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, the member's monthly retirement benefit will be permanently reduced by an early retirement reduction. The early retirement reduction 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.

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' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1% age point. IPERS 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 2018 and 2017, pursuant to the required rate, regular members contributed 5.95% of pay and UIHC contributed 8.93% for a total rate of 14.88%.

UIHC's contributions to IPERS for the years ended June 30, 2018 and 2017 were $5.2 million and $4.6 million, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018 and 2017, UIHC reported a liability in other long-term liabilities on the statements of net position of $46.9 million and $37.4 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2017, UIHC's proportion was 0.70459%, which was an increase of 0.11004 from its proportion measured as of June 30, 2016 of 0.59455%. At June 30, 2016, UIHC's proportion was 0.59455%, which was an increase of 0.12107% from its proportion measured as of June 30, 2015 of 0.47348%.

For the years ended June 30, 2018 and 2017, UIHC recognized pension expense of $10.0 million and $7.5 million, respectively. At June 30, 2018 and 2017, UIHC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

		2018 Deferred outflows of resources	2018 Deferred inflows of resources
Difference between expected and actual experience	$	432	410
Changes of assumptions		8,185	—
Net difference between projected and actual earnings on pension plan investments		—	493
Changes in proportion and differences between contributions and proportionate share of contributions		9,554	11
Contributions subsequent to the measurement date		5,224	—
Total	$	23,395	914

		2017 Deferred outflows of resources	2017 Deferred inflows of resources
Difference between expected and actual experience	$	331	447
Changes of assumptions		571	—
Net difference between projected and actual earnings on pension plan investments		5,331	—
Changes in proportion and differences between contributions and proportionate share of contributions		7,360	—
Contributions subsequent to the measurement date		4,623	—
Total	$	18,216	447

$5.2 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, 2019. At June 30, 2018, amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending June 30:		
2019	$	4,282
2020		6,337
2021		4,254
2022		1,533
2023		851
	$	17,257

There are no nonemployer contributing entities at IPERS.

The June 30, 2017 valuation's economic assumptions were based on the results of an actuarial experience study performed in March 2017, and the June 30, 2016 valuation's economic assumptions were based on the results of an actuarial experience study performed in June 2014.

While there have been no changes to the plan provisions or actuarial methods since the June 30, 2014 valuation, an experience study of the economic assumptions was performed in March 2017. As a result, management adopted a new set of economic assumptions, based on the recommendations of the external actuary for the June 30, 2017 valuation:

- Price inflation assumption decreased from 3.00% to 2.60%

(Dollars in tables in thousands)

- Investment return assumption decreased from 7.50% to 7.00%
- Wage growth assumption decreased from 4.00% to 3.25%
- Payroll increase assumption decreased from 4.00% to 3.25%
- Interest credited on contribution balances decreased from 3.75% to 3.50%

Mortality rates were based on the RP-2000 Generational Mortality Tables, as appropriate, with adjustments for mortality improvements based on Scale AA.

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
Core plus fixed income	27.0 %	2.25 %
Domestic equity	24.0	6.25
International equity	16.0	6.71
Private equity	11.0	11.15
Private real assets	7.5	4.18
Public real assets	7.0	3.27
Public credit	3.5	3.46
Private credit	3.0	4.25
Cash	1.0	(0.31)
Total	100 %	

Discount Rate – The discount rate used to measure the total pension liability was 7.00% at June 30, 2017 and 7.50% at June 30, 2016. 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 7.00% at June 30, 2017, 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 (6.00%) or one-percentage-point higher (8.00%) than the current rate (in thousands).

		1% Decrease (6.0)%	Discount rate (7.0)%	1% Increase (8.0)%
UIHC's proportionate share of the net pension liability	$	77,463	46,935	21,285

The following presents UIHC's proportionate share of the net pension liability calculated using the discount rate of 7.50% at June 30, 2016, 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 (6.50%) or one-percentage-point higher (8.50%) than the current rate (in thousands).

		1% Decrease (6.5)%	Discount rate (7.5)%	1% Increase (8.5)%
UIHC's proportionate share of the net pension liability	$	60,535	37,417	17,904

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' website at www.ipers.org.

Payables to the Pension Plan – At June 30, 2018 and 2017, respectively, UIHC reported payables to the defined-benefit pension plan of $447,000 and $410,000, for legally required employer contributions and $296,000 and $273,000, for legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

(6) Other Postemployment Benefits

Plan Description

The University operates two single-employer, defined-benefit health benefit plans, which provides 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. 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 75.

For fiscal year 2017, UIHC's allocated annual OPEB cost as measured under GASB Statement 45 for UIHC's Professional and Scientific and Faculty plan was $10.1 million, of which $2.3 million was contributed to the plan. The net allocated OPEB obligation at June 30, 2017 was $37.9 million and was recorded in other long term liabilities. Plan members receiving benefits contributed 77% of the premium costs in fiscal year 2017. In fiscal year 2017, total member contributions were $5.3 million.

For fiscal year 2017, UIHC's allocated annual OPEB cost as measured under GASB Statement 45 for UIHC's Merit employee plan was $2.5 million, of which $1.1 million was contributed to the plan. The net allocated OPEB obligation at June 30, 2017 was $17.4 million which represents UIHC's portion of the State's net OPEB liability and was recorded in other long term liabilities. UIHC's portion of the net OPEB liability was calculated using the ratio of full-time equivalent UIHC Merit employees compared to all full-time equivalent employees to the State of Iowa.

Effective July 1, 2017, UIHC adopted GASB 75, *Accounting and Financial Reporting of Postemployment Benefits other than Pensions*. Upon adoption, UIHC recorded a cumulative effect on net position of $144 million. Also during 2018, UIHC adopted plan changes in benefit terms resulting in a $139 million reduction in the OPEB liability. Information related to previous plan years was not available.

At June 30, 2018, UIHC recognized a net OPEB liability of $38.4 million for its PSF plan and a liability of $9.8 million for its Merit employee plan, for a total net OPEB liability of $48.2 million. At June 30, 2018, $44.6 million of the total liability was recorded in other long term liabilities and $3.6 million was recorded in other short term liabilities.

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 2018 and 2017 were $2,217,000 and $2,146,000, respectively.

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 of Iowa 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.

(Dollars in tables in thousands)

Retired participants must be age 55 or older at retirement. At June 30, 2018, the following UIHC employees were covered by the benefit terms:

Professional and Scientific and Faculty Plan (PSF):		
Inactive employees or beneficiaries currently receiving benefits	$	1,067
Active employees		4,136
Total	$	5,203
Merit Plan:		
Inactive employees or beneficiaries currently receiving benefits	$	75
Active employees		2,114
Total	$	2,189

Total OPEB Liability

UIHC's total OPEB liability for June 30, 2018 and 2017 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that June 30, 2017. 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 employees are included in UIHC's OPEB plan.

Actuarial Assumptions

The June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurements. With the exception of the termination and retirement assumptions, the Merit calculations were based on all actuarial assumptions and methods used in the development of the PSF calculations (including a 3.58% discount rate at the June 30, 2017 measurement date). These calculations reflect the Iowa Public Employees' Retirement System (IPERS) termination and retirement assumptions for state employees in effect at the June 30, 2017 measurement date.

Rate of inflation (effective June 30, 2017)	2.50%
Rates of salary increase (effective June 30, 2017)	3.00
Discount rate (effective June 30, 2017)	3.58
Healthcare cost trend rate Pre-65	7.55
Healthcare cost trend rate Post-65 (effective June 30, 2017)	9.17

Discount Rate – The discount rate used to measure the total OPEB liability was 3.58% which reflects the index rate for S&P Municipal Bond 20-Year High Grade index as of the measurement date.

Mortality rates are from the RP-2014 aggregate mortality table projected using Scale MP-2016. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used for IPERS.

(Continued)

(Dollars in tables in thousands)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

The following tables reflect the changes in the total PSF and Merit OPEB liability as required by GASB 75.

Changes in Total PSF OPEB Liability		OPEB Liability
Total OPEB liability beginning of year, July 1, 2017	$	37,976
Adoption of GASB 75		151,676
Total OPEB liability beginning of year, July 1, 2017, as restated		189,652
Changes for the year:		
Service cost		10,283
Interest		5,609
Changes in benefit terms		(148,291)
Differences between expected and actual experiences		15,488
Changes of assumptions		(30,070)
Benefit payments		(2,217)
Other		(2,041)
Net changes		(151,240)
Total OPEB liability end of year, June 30, 2018	$	38,412

Changes in Total Merit OPEB Liability		OPEB Liability
Total OPEB liability beginning of year, July 1, 2017	$	17,370
Adoption of GASB 75		(7,556)
Total OPEB liability beginning of year, July 1, 2017, as restated		9,814
Changes for the year:		
Service cost		755
Interest		293
Changes in benefit terms		—
Differences between expected and actual experiences		—
Changes of assumptions		(512)
Benefit payments		
Contributions from the employer		(531)
Net changes		5
Total OPEB liability end of year, June 30, 2018	$	9,819

(Continued)

(Dollars in tables in thousands)

The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 3.58% as of June 30, 2017, from 6.75%.
- A change in the withdrawal rates for staff to better anticipate future experience.
- 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 healthcare trend rate assumption as updated to a schedule of rates beginning at 7.55% in 2017, grading down to 4.50% in 2026 and beyond for pre-65 participants and 9.17% in 2017 grading down to 4.50% in 2026 and beyond for post-65 participants.
- The marginal cost adjustment factors were changed 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.

In addition, the University has capped contributions to retiree health at the current $288 per month for both current and future retirees, resulting in a $148 million decrease in the liability.

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, 2018, 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 (2.58%) or one-percentage-point higher (4.58%) than the current discount rate.

		1% Decrease (2.58)%	Discount rate (3.58)%	1% Increase (4.58)%
UIHC's PSF OPEB Liability	$	40,406	38,412	34,380
UIHC's Merit OPEB Liability		10,526	9,820	9,157
	$	50,932	48,232	43,537

(Continued)

(Dollars in tables in thousands)

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, 2018, 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 (6.55%) or one-percentage-point higher (8.55%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (8.17%) or one-percentage-point higher (10.17%) higher than the current healthcare cost trend rate for post-65 participants.

		1% Decrease	**Discount rate**	**1% Increase**
Pre-65 Participants		**(6.55)%**	**(7.55)%**	**(8.55)%**
Post-65 Participants		**(8.17)%**	**(9.17)%**	**(10.17)%**
UIHC's PSF OPEB Liability	$	37,756	38,412	38,215
UIHC's Merit OPEB Liability		8,824	9,820	10,996
	$	46,580	48,232	49,211

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB – For the year ended June 30, 2018, UIHC recognized OPEB expense of ($133,837,000) for the PSF plan and $983,000 for the Merit plan. At June 30, 2018, UIHC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

PSF Plan		**2018 Deferred outflows of resources**	**2018 Deferred inflows of resources**
Difference between expected and actual experience	$	13,954	—
Changes of assumptions		—	(27,099)
Contributions subsequent to the measurement date		2,980	—
Total	$	16,934	(27,099)

Merit Plan		**2018 Deferred outflows of resources**	**2018 Deferred inflows of resources**
Difference between expected and actual experience	$	—	—
Changes of assumptions		—	(447)
Contributions subsequent to the measurement date		682	—
Total	$	682	(447)

(Continued)

(Dollars in tables in thousands)

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

		PSF Plan
Year ending June 30:		
2019	$	(1,437)
2020		(1,437)
2021		(1,437)
2022		(1,437)
2023		(1,437)
Total thereafter		(5,960)
Total	$	(13,145)

		Merit Plan
Year ending June 30:		
2019	$	(65)
2020		(65)
2021		(65)
2022		(65)
2023		(65)
Total thereafter		(122)
Total	$	(447)

(7) Risk Management

The University, or the State of Iowa 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, is $8.3 million and $5.6 million as of June 30, 2018, 2017, respectively, is as follows (in thousands):

		2018	2017
Liability for unpaid healthcare claims at beginning of year	$	5,571	6,277
Healthcare expenses incurred during the year		116,659	89,456
Healthcare payments to the University during the year		(113,868)	(90,162)
Liability for unpaid healthcare claims at end of year	$	8,362	5,571

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

UIHC is an agency of the State of Iowa and is covered by the State's self-insurance for tort liability. Tort claims against the State of Iowa 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 UIHC 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 $2,000,000. The University maintains separate fidelity and crime coverage that extends to all employees and includes coverage for robbery and theft. The University's crime policy provides an additional $8,000,000 in coverage over the state bond.

(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, 2018 and 2017, UIHC expensed approximately $200.2 million and $181.4 million, respectively, for these administrative services, utilities, and other services and support requirements. At June 30, 2018 and 2017, approximately $12.3 million and $8.6 million, respectively, were due to the Carver College of Medicine. At June 30, 2018 and 2017, $3.8 million and $3.9 million, respectively, was due to the University of Iowa for services and support.

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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, 2018 and 2017, UIHC received revenue from these units of approximately $9.3 each year for these services, which is recorded in other revenue in the statements of revenue, expense, and changes in net position.

UIHC transfers to and receives transfers from non-UIHC University of Iowa units. Net transfers from (to) these units totaled $87.6 million and ($18.9) million for the years ended June 30, 2018 and 2017, 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. UIHC paid UIHS for certain administrative and other general services in the amount of $0 million and $1.7 million for the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, UIHC transferred $6.9 million and $5.5 million, respectively, which is recorded in net transfers in the statements of revenue, expenses, and changes in net position.

(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 (in thousands):

		2018	2017
Gross patient charges:			
Inpatient charges	$	2,432,712	2,183,505
Outpatient charges		2,522,164	2,154,042
Total gross patient charges		4,954,876	4,337,547
Less deductions from gross patient charges:			
Contractual adjustments – Medicare, Medicaid, and other		3,287,029	2,852,467
Provision for bad debt		49,118	34,680
Net patient service revenue	$	1,618,729	1,450,400

The provision for uncollectible patient accounts is based on UIHC's 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

(Continued)

(Dollars in tables in thousands)

transfer to the collection agency. Deductibles and coinsurance are classified as either third party or self-pay receivables on the basis of which party has the primary financial responsibility, while the total gross revenue remains classified based on the primary payor at the time of service. Net patient accounts receivable have been adjusted to the estimated amounts expected to be collected.

Patient service cash receipts (net of adjustments), received in 2018 and 2017 from the major payor sources, are as follows:

		2018	2017
Patient (self pay)	$	12,705	12,034
Medicaid		242,656	224,219
Medicare		466,102	430,221
Commercial insurance and other third-party payors		878,033	796,289
Patient service receipts (net of adjustments)		1,599,496	1,462,763
Changes to A/R balance, late charges reserve, and other third-party reserves		19,233	(12,363)
Patient service revenue (net of contractual allowance, discounts, and provision for bad debts)	$	1,618,729	1,450,400

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 2018 and 2017 net patient service revenue from third-party payors increased approximately $2.4 million and $10.4 million, respectively, due to prior year retroactive adjustments being less 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 29.1% and 29.7% of UIHC’s net patient receipts for the years ended 2018 and 2017, 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.

(Dollars in tables in thousands)

Receipts from Medicaid programs accounted for approximately 15.2% and 15.5% of UIHC's net patient receipts for the years ending 2018 and 2017, 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 without charge or at amounts less than established rates. Certain accounts are classified as charity care and, therefore, are not reported as revenue. Charges forgone for services and supplies furnished under UIHC's charity policy for the years ended June 30, 2018 and 2017 are as follows:

		2018	2017
Charity care	$	29,165	27,636
Charity care for state institution patients		8,008	8,075
Charity care charges forgone	$	37,173	35,711

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, 2018 and 2017, approximate the following:

		2018	2017
Medicare	$	82,213	78,462
Medicaid		71,513	66,328
Medicaid out of state		4,007	4,749
Uncompensated costs of services	$	157,733	149,539

(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 at June 30, 2018 and 2017 was as follows:

	2018	2017
Blue Cross Blue Shield	29 %	30 %
Commercial pay	29	29
Medicare	26	23
Medicaid	12	15
Self pay	1	1
Other	3	2
	100 %	100 %

(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, 2018 and 2017 was $14.8 million and $12.6 million, respectively.

The following is a schedule by year of future minimum rental payments required under noncancelable operating leases as of June 30, 2018 (in thousands):

Year(s) ending June 30:	
2019	$ 13,064
2020	13,033
2021	12,369
2022	8,284
2023	8,064
2024–2028	37,172
2029–2033	20,857
2034–2038	7,583
Total	$ 120,426

(13) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses reported as current liabilities at June 30, 2018 and 2017 consisted of the following amounts (in thousands):

		2018	2017
Payable to employees (including payroll taxes)	$	100,899	97,711
Payable to suppliers		39,232	39,228
Other		2,406	6,198
Total accounts payable and accrued expenses	$	142,537	143,137

(14) Other long Term Liabilities

Other long term liabilities at June 30, 2018 and 2017 consisted of the following amounts (in thousands):

		2018	2017
Pension liability	$	46,934	37,417
OPEB liability		44,570	55,346
Payable to employees (compensated absences)		16,864	16,976
Total other long term liabilities	$	108,368	109,739

(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) Subsequent Events

UIHC has reviewed subsequent events through December 13, 2018 and concluded that there were no events or transactions during this period that would require recognition or disclosure in the financial statements other than those already disclosed and listed below.

In connection with two large construction projects on the University of Iowa campus, a prime contractor filed claims against the Board of Regents, State of Iowa, on behalf of The University of Iowa, for additional compensation. Arbitration proceedings were held in September 2017 which awarded $17.3 million to the contractor. The District Court affirmed the arbitration award in August 2018. The Iowa Attorney General's Office filed an appeal with the Iowa Supreme Court on August 31, 2018. No accruals have been included in the accompanying financial statements and any amount ultimately awarded would be capitalized to the original building construction projects.

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, 2018

(Unaudited)

		2018	2017	2016	2015
UIHC's proportion of the net pension liability		0.70459 %	0.59455 %	0.47349 %	0.38388 %
UIHC's proportionate share of the net pension liability	$	46,935	37,417	23,539	15,536
UIHC's covered-employee payroll		59,251	52,104	32,763	29,902
UIHC's proportionate share of the net pension liability as a percentage of its covered-employee payroll		79.2 %	71.8 %	71.8 %	52.0 %
Plan fiduciary net position as a percentage of the total pension liability		82.2	81.8	85.2	87.6

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

* Note:

GASB Statement No. 68 requires ten 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.

(Continued)

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, 2018

(Unaudited)

		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	$	5,224	4,623	3,603	2,660	2,299	1,896	1,528	976	665	587
Contributions in relation to the statutorily required contribution		(5,224)	(4,623)	(3,603)	(2,660)	(2,299)	(1,896)	(1,528)	(976)	(665)	(587)
Contribution deficiency	$	—	—	—	—	—	—	—	—	—	—
UIHC's covered-employee payroll	$	59,251	52,104	40,665	29,902	25,706	21,965	18,748	13,521	9,854	9,159
Contributions as a percentage of the covered-employee payroll		8.8 %	8.9 %	8.9 %	8.9 %	8.9 %	8.6 %	8.1 %	7.2 %	6.7 %	6.4 %

See accompanying independent auditors' report.

(1) 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.

In 2008, legislative action transferred four groups—emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers—from regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

(2) Changes of Assumptions

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

- Price inflation assumption decreased from 3.00% to 2.60%.
- Investment return assumption decreased from 7.50% to 7.00%.
- Wage growth assumption decreased from 4.00% to 3.25%.
- Payroll increase assumption decreased from 4.00% to 3.25%.
- Interest credited on contribution balances decreased from 3.75% to 3.50%.

(Continued)

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
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.

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.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions
- Modified retirement rates to reflect fewer retirements
- Lowered disability rates at most ages
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit
- Modified salary increase assumptions based on various service duration.

STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Schedule of Changes in UIHC's

Total OPEB Liability and Related Ratios

Year ended June 30, 2018 (in thousands)

Required Supplementary Information

(Unaudited)

		PSF Plan 2018
Service cost	$	10,283
Interest		5,609
Changes in benefit terms		(148,291)
Differences between expected and actual experience		15,488
Changes of assumptions		(30,071)
Benefit payments		(2,217)
Net change in total OPEB liability	$	(149,199)
Total OPEB liability beginning of year, as restated	$	187,611
Total OPEB liability end of year		38,412
Covered-employee payroll		354,814
Total OPEB liability as a percentage of covered employee payroll		10.83%

		Merit Plan 2018
Year ending June 30:		
Service cost	$	755
Interest		293
Changes in benefit terms		—
Differences between expected and actual experience		—
Changes of assumptions		(512)
Benefit payments		—
Contributions from the employer		(531)
Net change in total OPEB liability	$	5
Total OPEB liability beginning of year, as restated	$	9,814
Total OPEB liability end of year		9,820
Covered-employee payroll		90,752
Total OPEB liability as a percentage of covered employee payroll		10.82%

See accompanying independent auditors' report.

STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Notes to Required Supplementary Information

Changes in UIHC's Total OPEB Liability and Related Ratios

Year ended June 30, 2018

(Unaudited)

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 assumption 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
- 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 healthcare trend rate assumption was updated to a schedule of rates beginning at 7.55% in 2017, grading down to 4.50% in 2026 and beyond for pre-65 participants and 9.17% in 2017 grading down to 4.50% in 2026 and beyond for post-65 participants.
- The marginal cost adjustment factors were changed 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.