



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

Financial Statements

June 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



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, 2019 and 2018, 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 7 and the schedules of proportionate share in net pension liability and contributions on pages 46 to 49 and the schedule of changes in UIHC's total OPEB liability and related ratios on pages 50 to 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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
November 13, 2019

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

Management's Discussion and Analysis

June 30, 2019 and 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, 2019 and 2018. 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 2019 with an increase in net position of \$111.2 million, or 7.2%, as compared to an increase in net position in 2018 by \$152.3 million, or 11.0%. Operating income in 2019 when compared to 2018 operating income less the postemployment benefit change shows an increase of \$38.4 million. Nonoperating revenue, net increased \$19.6 million driven mainly by investment performance. Operating income less the postemployment benefit change in 2018 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.

Overview of the Financial Statements

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

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

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

In 2019, net position increased by \$111.2 million, or approximately 7.2%, to \$1.65 billion. This is primary due to net income from operations of \$99.5 million. In 2018, net position increased by \$152.3 million, or approximately 11.0%, to \$1.54 billion. This is primarily due to operating income, exclusive of a postemployment benefit change, of \$61.1 million and transfers of \$80.7 million from the University. Table 1 provides a summary of UIHC's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2019, 2018, and 2017.

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Management's Discussion and Analysis

June 30, 2019 and 2018

Table 1

Condensed Statements of Net Position

(In thousands)

| Assets and Deferred Outflows | 2019 | 2018 | 2017 |
|--|---------------------|------------------|------------------|
| Current assets | \$ 388,476 | 375,981 | 356,482 |
| Noncurrent cash and investments | 920,718 | 736,685 | 574,001 |
| Capital assets, net | 1,103,635 | 1,102,002 | 1,093,211 |
| Other assets | 1,620 | 1,525 | 1,614 |
| Total assets | <u>2,414,449</u> | <u>2,216,193</u> | <u>2,025,308</u> |
| Deferred outflows: | | | |
| Clinic acquisition costs | 642 | 879 | 1,116 |
| Pension-related deferred outflows | 22,551 | 23,395 | 18,216 |
| OPEB-related deferred outflows | 18,457 | 17,616 | — |
| Debt refunding loss | 3,201 | 3,815 | 4,465 |
| Total deferred outflows | <u>44,851</u> | <u>45,705</u> | <u>23,797</u> |
| Total assets and deferred outflows | <u>\$ 2,459,300</u> | <u>2,261,898</u> | <u>2,049,105</u> |
| Liabilities, Deferred Inflows, and Net Position | | | |
| Current liabilities | \$ 283,668 | 240,775 | 223,940 |
| Long-term debt | 373,846 | 345,633 | 328,608 |
| Other long-term liabilities | 116,535 | 108,368 | 109,739 |
| Total liabilities | <u>774,049</u> | <u>694,776</u> | <u>662,287</u> |
| Deferred inflows: | | | |
| Pension-related deferred inflows | 2,488 | 914 | 447 |
| OPEB-related deferred inflows | 32,877 | 27,546 | — |
| Total deferred inflows | <u>35,365</u> | <u>28,460</u> | <u>447</u> |
| Net position: | | | |
| Net investment in capital assets | 743,043 | 750,890 | 750,916 |
| Restricted | 6,825 | 8,314 | 4,876 |
| Unrestricted | 900,018 | 779,458 | 630,579 |
| Total net position | <u>1,649,886</u> | <u>1,538,662</u> | <u>1,386,371</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 2,459,300</u> | <u>2,261,898</u> | <u>2,049,105</u> |

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June 30, 2019 and 2018

Table 2 shows the changes in net position for 2019 compared to 2018 and 2017.

Table 2
Statements of Revenue, Expenses, and Changes in Net Position
(In thousands)

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|---------------------|------------------|------------------|
| Operating revenue: | | | |
| Net patient service revenue | \$ 1,781,510 | 1,618,729 | 1,450,400 |
| Other revenue | 53,419 | 47,708 | 52,010 |
| Total operating revenue | <u>1,834,929</u> | <u>1,666,437</u> | <u>1,502,410</u> |
| Operating expenses: | | | |
| Salaries and benefits | 777,689 | 745,931 | 708,556 |
| Medical supplies and drugs | 496,260 | 418,208 | 353,340 |
| Other supplies and general expenses | 359,628 | 339,837 | 323,387 |
| Depreciation and amortization | 101,856 | 101,324 | 90,411 |
| Total operating expenses | <u>1,735,433</u> | <u>1,605,300</u> | <u>1,475,694</u> |
| Operating income before postemployment benefit adjustment | 99,496 | 61,137 | 26,716 |
| Postemployment benefit adjustment | <u>—</u> | <u>139,494</u> | <u>—</u> |
| Operating income after postemployment benefit adjustment | <u>99,496</u> | <u>200,631</u> | <u>26,716</u> |
| Nonoperating revenue (expenses): | | | |
| Loss on disposal of capital assets | (10,969) | (2,071) | (874) |
| Noncapital gifts | 2 | 1 | 2 |
| Investment income | 56,141 | 24,413 | 24,100 |
| Interest expense | (14,319) | (11,046) | (7,322) |
| Total nonoperating revenue, net | <u>30,855</u> | <u>11,297</u> | <u>15,906</u> |
| Excess of revenue over expenses before transfers | 130,351 | 211,928 | 42,622 |
| Capital gifts and grants | 1,230 | 3,739 | 29,360 |
| Net transfers in (out) | <u>(20,357)</u> | <u>80,744</u> | <u>(24,425)</u> |
| Increase in net position | 111,224 | 296,411 | 47,557 |
| Net position, beginning of year | 1,538,662 | 1,386,371 | 1,338,814 |
| Cumulative effect of adoption of accounting standard-post employment benefit | — | (144,120) | — |
| Net position, beginning of year, as restated | <u>—</u> | <u>1,242,251</u> | <u>—</u> |
| Net position, end of year | <u>\$ 1,649,886</u> | <u>1,538,662</u> | <u>1,386,371</u> |

**STATE UNIVERSITY OF IOWA,
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Management's Discussion and Analysis

June 30, 2019 and 2018

Net Patient Service Revenue

Net patient service revenue increased from 2018 to 2019 by \$162.8 million, or 10.1%, and \$168.3 million, or 11.6%, from 2017 to 2018. 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 2019 resulted from increases in both inpatient and outpatient areas. There was an increase in outpatient clinic visits from 2018 to 2019 by 41,893, or 4.3%, with an increase in outpatient surgeries of 1,181, or 6.9%. On the inpatient side, the case mix index was 2.15, up 1.8% from 2018, and inpatient surgeries increased by 444, or 2.8%. 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%.

The provision for bad debts (a deduction from gross patient charges) increased \$13.0 million from \$49.1 million in 2018 to \$62.1 million in 2019. 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 increase in the provision for bad debts in 2019 was mainly caused by an increase in the self-pay write-off rates during 2019.

Operating Expenses

Total operating expenses increased 8.1% from \$1.61 billion in 2018 to \$1.74 billion in 2019. The largest dollar increase in expenses in 2019 was in medical supplies and drugs, which increased \$78.1 million, or 18.7%, when compared to 2018. In 2019, this growth was due to increased patient volumes and inflation.

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.

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Management's Discussion and Analysis

June 30, 2019 and 2018

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 2018 to 2019 by \$31.7 million, or 130%, and increased from 2017 to 2018 by \$0.3 million, or 1.3%. During 2019, UIHC recorded overall earnings on the endowment and operating pools of \$15.7 million and a net unrealized gain on investments of \$40.4 million, which increased investment income accordingly. This compares to the overall earnings on the endowment and operating pools of \$26.6 million and a net unrealized loss on investments of \$2.2 million in the previous year. The increases in these investments follow overall investment markets. Interest expense increased \$3.3 million in 2019 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 2019, with a net decrease in cash and cash equivalents of \$3.8 million. In 2019, net cash provided by operating activities provided cash inflows of \$241.7 million and net cash used by noncapital financing activities was \$20.4 million. Net cash used in capital and investing activities was \$225.1 million. 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.

Capital Assets and Debt Administration

Capital Assets

At the end of 2019, UIHC had \$1.103 billion invested in capital assets, net of accumulated depreciation. This is a \$.001 million increase when compared to capital assets, net in 2018 of \$1.102 billion. Capital assets, net of accumulated depreciation increased \$8.8 million in 2018 compared to capital assets, net in 2017 of \$1.093 billion. The increase is primarily due to the UIHC Children's Hospital construction.

Debt

At June 30, 2019 and 2018, UIHC had \$389.1 million and \$360.2 million, respectively, in bonds and capital lease outstanding. During 2019 and 2018, payments of long-term debt were \$14.6 million and \$13.7 million, respectively. During 2019, UIHC issued \$42.475 million of Series S.U.I 2019 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. During 2018, UIHC issued \$32.665 million of Series S.U.I 2018 Hospital Revenue Bonds. During 2017, UIHC issued no Hospital Revenue 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, 2019 and 2018

(In thousands)

| Assets and Deferred Outflows | 2019 | 2018 |
|--|---------------------|------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 16,789 | 20,624 |
| Short-term investments | 74,397 | 74,213 |
| Patient accounts receivable, net of estimated uncollectibles \$38,440 in 2019 and \$17,103 in 2018 | 241,092 | 229,617 |
| Inventories | 37,220 | 35,851 |
| Current investments for debt service – restricted | 1,146 | 1,100 |
| Other current assets | 17,832 | 14,576 |
| Total current assets | <u>388,476</u> | <u>375,981</u> |
| Noncurrent cash and investments: | | |
| Limited by bond resolutions | 58,667 | 36,214 |
| Designated by the Board of Regents | 856,090 | 692,952 |
| Restricted by donors | 5,961 | 7,519 |
| | <u>920,718</u> | <u>736,685</u> |
| Capital assets, net | 1,103,635 | 1,102,002 |
| Other assets | 1,620 | 1,525 |
| Total assets | <u>2,414,449</u> | <u>2,216,193</u> |
| Deferred outflow of resources: | | |
| Clinic acquisition costs | 642 | 879 |
| Pension-related deferred outflows | 22,551 | 23,395 |
| OPEB-related deferred outflows | 18,457 | 17,616 |
| Debt refunding loss | 3,201 | 3,815 |
| Total deferred outflows | <u>44,851</u> | <u>45,705</u> |
| Total assets and deferred outflows | <u>\$ 2,459,300</u> | <u>2,261,898</u> |
| Liabilities, Deferred Inflows, and Net Position | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 15,236 | 14,556 |
| Accounts payable and accrued expenses | 162,899 | 142,537 |
| Estimated third-party payor settlements | 47,430 | 47,406 |
| Due to related parties | 38,246 | 20,219 |
| Other current liabilities | 15,137 | 12,041 |
| Accrued interest | 4,720 | 4,016 |
| Total current liabilities | <u>283,668</u> | <u>240,775</u> |
| Long-term debt, net of current maturities | 373,846 | 345,633 |
| Other long-term liabilities | 116,535 | 108,368 |
| Total liabilities | <u>774,049</u> | <u>694,776</u> |
| Deferred inflow of resources: | | |
| Pension-related deferred inflows | 2,488 | 914 |
| OPEB-related deferred inflows | 32,877 | 27,546 |
| Total deferred inflows | <u>35,365</u> | <u>28,460</u> |
| Net position: | | |
| Net investment in capital assets | 743,043 | 750,890 |
| Restricted by donors for specific purposes | 5,679 | 7,214 |
| Restricted for debt service | 1,146 | 1,100 |
| Unrestricted | 900,018 | 779,458 |
| Total net position | <u>1,649,886</u> | <u>1,538,662</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 2,459,300</u> | <u>2,261,898</u> |

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, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|---|--------------|-------------|
| Operating revenue: | | |
| Net patient service revenue, net of provision for bad debts of \$62,090 in 2019 and \$49,118 in 2018 | \$ 1,781,510 | 1,618,729 |
| Other revenue | 53,419 | 47,708 |
| Total operating revenue | 1,834,929 | 1,666,437 |
| Operating expenses: | | |
| Salaries and benefits | 777,689 | 745,931 |
| Medical supplies and drugs | 496,260 | 418,208 |
| Other supplies and general expenses | 359,628 | 339,837 |
| Depreciation and amortization | 101,856 | 101,324 |
| Total operating expenses | 1,735,433 | 1,605,300 |
| Operating income before postemployment benefit adjustment | 99,496 | 61,137 |
| Postemployment benefit adjustment | — | 139,494 |
| Operating income after postemployment benefit adjustment | 99,496 | 200,631 |
| Nonoperating revenue (expenses): | | |
| Loss on disposal of capital assets | (10,969) | (2,071) |
| Noncapital gifts | 2 | 1 |
| Investment income | 56,141 | 24,413 |
| Interest expense | (14,319) | (11,046) |
| Total nonoperating revenue, net | 30,855 | 11,297 |
| Excess of revenue over expenses before transfers | 130,351 | 211,928 |
| Capital gifts and grants | 1,230 | 3,739 |
| Net transfers in (out) | (20,357) | 80,744 |
| Increase in net position | 111,224 | 296,411 |
| Net position, beginning of year | 1,538,662 | 1,242,251 |
| Net position, end of year | \$ 1,649,886 | 1,538,662 |

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

| | 2019 | 2018 |
|---|--------------|-------------|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | \$ 1,770,060 | 1,605,990 |
| Other receipts | 71,447 | 51,756 |
| Payments to employees | (760,159) | (739,901) |
| Payments to suppliers and contractors | (839,657) | (753,542) |
| Net cash provided by operating activities | 241,691 | 164,303 |
| Cash flows from noncapital financing activities: | | |
| Net transfers | (20,357) | 80,744 |
| Noncapital gifts | 2 | 1 |
| Net cash provided by (used in) noncapital financing activities | (20,355) | 80,745 |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | (103,269) | (109,904) |
| Proceeds from the sale of capital assets | 19 | 25 |
| Capital gifts and grants received | 1,232 | 3,736 |
| Proceeds from the issuance of long-term debt | 42,475 | 32,665 |
| Premium received on the issuance of long-term debt | 2,562 | 537 |
| Principal paid on long-term debt | (14,556) | (13,687) |
| Interest paid on long-term debt | (14,589) | (12,048) |
| Net cash used in capital and related financing activities | (86,126) | (98,676) |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 225,623 | 440,121 |
| Purchase of investments | (380,389) | (616,461) |
| Interest and dividends received on investments | 15,721 | 26,534 |
| Net cash used in investing activities | (139,045) | (149,806) |
| Net decrease in cash and cash equivalents | (3,835) | (3,434) |
| Cash and cash equivalents at beginning of year | 20,624 | 24,058 |
| Cash and cash equivalents at end of year | \$ 16,789 | 20,624 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 99,496 | 200,631 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 101,856 | 101,324 |
| Provision for bad debts | 62,090 | 49,118 |
| Postemployment benefit adjustment | — | (139,494) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (73,564) | (67,954) |
| Inventories | (1,369) | (2,738) |
| Other assets | (3,397) | (14,598) |
| Accounts payable and accrued expenses | 20,362 | (601) |
| Other liabilities | 18,166 | 28,471 |
| Due to (from) related parties | 18,027 | 4,047 |
| Estimated third-party payor settlements | 24 | 6,097 |
| Net cash provided by operating activities | \$ 241,691 | 164,303 |

Noncash investing activity:

During 2019 and 2018, the net appreciation (depreciation) in fair value of investments was \$40,408 and \$(2,178), respectively.

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,
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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in tables in thousands)

(1) Summary of Significant Accounting Policies and Related Matters

(a) Reporting Entity

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

UIHC includes substantially all of the healthcare provider activities for patient care associated with the University other than the physician and dentist services and research activities provided by the faculties of the University's Colleges of Medicine and Dentistry. Student Health Services, Specialized Child Health Services outreach programs, and the University of Iowa Health System (UIHS), a UIHC affiliate, are not included in these financial statements.

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

(b) Basis of Presentation

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

(c) Use of Estimates

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

(d) Cash and Investments

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

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in tables in thousands)

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

(<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 Governmental Accounting Standards Board (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 2.4.C.iv of the Board's investment policy, shall be reported on the audited financial statements of the Board's institutions as investments. Investments purchased by the institutions through Board-authorized brokerage firms that meet the definition of cash equivalents and investments with original purchase dates to maturity of three months or less shall be reported on the audited financial statements of the Board's 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 \$16.8 million and \$20.6 million at June 30, 2019 and 2018, 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 |

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(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.

(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, 2019 and 2018 were \$0.9 million and \$0.0 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, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

(m) *Net Patient Service Revenue*

UIHC has agreements with third-party payors that provide for payments to UIHC at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for

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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.

(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.

(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/#InvestmentPolicy>).

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.

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Noncurrent cash and investments limited by bond resolutions or designated by the Board were held for the following purposes at June 30, 2019 and 2018:

| | 2019 | 2018 |
|--|-------------|-------------|
| Limited by bond resolutions: | | |
| Debt service reserve | \$ 30,177 | 27,137 |
| Unspent bond proceeds | 28,490 | 9,077 |
| Designated by the Board of Regents: | | |
| Capital projects and equipment and other needs | 556,251 | 435,099 |
| Surplus | 847 | 458 |
| Improvement, extension, repair, operation, and maintenance funds | 298,992 | 257,395 |
| Restricted by donors | 5,961 | 7,519 |
| | \$ 920,718 | 736,685 |

Cash and cash equivalents and short-term investments specifically identified or pooled with the cash and investments of the University totaled \$91.2 million and \$94.8 million at June 30, 2019 and 2018, respectively. Cash equivalents designated by the Board totaled \$78.9 million and \$61.1 million at June 30, 2019 and 2018, respectively.

UIHC's investments are recorded at fair value. As of June 30, 2019, UIHC had the following investments and quality credit ratings:

| Fixed income | Effective duration (years) | TSY/AGY AAA | AA | A | BBB | BB | B | NA | Total market value |
|--|----------------------------|-------------|---------|--------|--------|--------|--------|----|--------------------|
| Corporate notes and bonds | — | \$ — | — | — | — | — | — | — | — |
| U.S. government agencies | 0.45 | — | 27,542 | — | — | — | — | — | 27,542 |
| U.S. Treasury obligations | 0.89 | — | 1,129 | — | — | — | — | — | 1,129 |
| Mutual funds and fixed income funds at net asset value (NAV) | 4.52 | — | 338,631 | 79,415 | 28,637 | 55,379 | 36,110 | — | 538,172 |
| | | \$ — | 367,302 | 79,415 | 28,637 | 55,379 | 36,110 | — | 566,843 |
| Other investments: | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | 169,850 |
| Common stock | | | | | | | | | 2,755 |
| Mutual funds and equity funds at NAV | | | | | | | | | 191,348 |
| Private equity | | | | | | | | | 19,294 |
| Real assets | | | | | | | | | 62,960 |
| Total cash and investments | | | | | | | | | \$ 1,013,050 |

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

| Fixed income | Effective duration (years) | TSY/AGY AAA | AA | A | BBB | BB | B | N/A | Total market value |
|--|----------------------------|-------------|---------|--------|--------|--------|--------|-----|--------------------|
| 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 |

(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

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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.

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

Due to the nature of the investments held by the funds, changes in market conditions, economic environment, regulatory environment, currency exchange rates, interest rates, and commodity price fluctuations may significantly impact the NAV of the funds and, consequently, the fair value of the University's interest in the funds and could materially affect the amounts reported in the 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.

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The following table reflects fair value measurements of investment assets at June 30, 2019, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV:

| | 2019 | | | NAV | Total |
|-------------------------------|-------------------|---------------|----------|----------------|---------------------|
| | Level 1 | Level 2 | Level 3 | | |
| Fixed income: | | | | | |
| U.S. government agencies | \$ — | 27,542 | — | — | 27,542 |
| U.S. Treasury obligations | 1,129 | — | — | — | 1,129 |
| Mutual funds | 285,546 | — | — | — | 285,546 |
| Fixed-income funds at NAV | — | — | — | 252,626 | 252,626 |
| Equity and other: | | | | | |
| Common stock | 2,609 | 146 | — | — | 2,755 |
| Mutual funds | 136,947 | — | — | — | 136,947 |
| Real assets | — | — | — | 62,960 | 62,960 |
| Private equity | — | — | — | 19,294 | 19,294 |
| Equity funds at NAV | — | — | — | 54,401 | 54,401 |
| | <u>\$ 426,231</u> | <u>27,688</u> | <u>—</u> | <u>389,281</u> | <u>843,200</u> |
| Money market/cash equivalents | | | | | <u>169,850</u> |
| Total cash and investments | | | | | <u>\$ 1,013,050</u> |

The following table summarizes UIHC's investments at June 30, 2019 for which NAV was used as a practical expedient to estimate fair value.

| Asset class | Fair value determined using NAV 2019 | Unfunded commitments at June 30, 2019 | Redemption frequency | Redemption notice period |
|-----------------------------|--------------------------------------|---------------------------------------|----------------------|--------------------------|
| Fixed-income funds at NAV | \$ 252,626 | — | Daily-monthly | 5-60 days |
| Equity funds at NAV | 54,401 | — | Daily-thrice monthly | 2-30 days |
| Real assets: | | | | |
| Redeemable | 55,145 | — | Quarterly | 60-90 days |
| Nonredeemable | 7,815 | 12,164 | N/A | N/A |
| Private equity: | | | | |
| Redeemable | — | — | | |
| Nonredeemable | 19,294 | 2,126 | N/A | N/A |
| Investments measured at NAV | <u>\$ 389,281</u> | <u>14,290</u> | | |

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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:

| | 2018 | | | NAV | Total |
|-------------------------------|-------------------|---------------|----------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | | |
| 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 |
| | <u>\$ 249,943</u> | <u>19,113</u> | <u>—</u> | <u>407,796</u> | 676,852 |
| Money market/cash equivalents | | | | | <u>155,770</u> |
| Total cash and investments | | | | | <u>\$ 832,622</u> |

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 | <u>\$ 407,796</u> | <u>18,232</u> | | |

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

Fixed-income mutual funds – This category includes investments in funds holding assets that provide stability, generate income, and diversify market risk.

Equity mutual funds – This category includes investments in global equities, including both developed and emerging markets.

Real assets – This category includes investments in private real estate and natural resource equities funds. Capital is committed during the course of the investment period, typically four years, of each fund, after which point capital commitments stop. The University's interest in the nonredeemable funds is considered illiquid in that distributions from liquidation of the underlying asset of the fund are at the discretion of the general partner per the terms of the limited partnership agreement. Funds are typically liquidated over a period of five to ten years, and include a mechanism to extend the length of the partnership with approval from the limited partners.

Private equity – This category includes funds that invest in strategies, such as venture capital, leveraged buyouts and mezzanine debt. Capital is committed during the course of the investment period, typically four years, of each fund, after which point capital commitments stop. The University's interest in the nonredeemable funds is considered illiquid in that distributions from liquidation of the underlying asset of the fund are at the discretion of the general partner per the terms of the limited partnership agreement. Funds are typically liquidated over a period of five to ten years, and include a mechanism to extend the length of the partnership with approval from the limited partners.

(3) Capital Assets

Capital assets at June 30, 2019 and 2018 are summarized as follows:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|------------------|
| Land | \$ 22,923 | 22,923 |
| Land improvements | 4,637 | 4,637 |
| Infrastructure | 61,821 | 56,791 |
| Buildings and leasehold improvements | 1,551,311 | 1,481,525 |
| Equipment and software | 573,004 | 568,878 |
| Construction in progress (nondepreciable) | 47,447 | 60,820 |
| | <u>2,261,143</u> | <u>2,195,574</u> |
| Less accumulated depreciation | 1,157,508 | 1,093,572 |
| | <u>\$ 1,103,635</u> | <u>1,102,002</u> |

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Capital asset additions, retirements, and balances as of and for the years ended June 30, 2019 and 2018 were as follows:

| <u>Cost basis summary</u> | <u>June 30, 2018 balances</u> | <u>Additions</u> | <u>Sales retirements and transfers</u> | <u>June 30, 2019 balances</u> |
|---|---------------------------------------|------------------|--|---------------------------------------|
| Land (nondepreciable) | \$ 22,923 | — | — | 22,923 |
| Land improvements | 4,637 | — | — | 4,637 |
| Infrastructure | 56,791 | 5,094 | (64) | 61,821 |
| Buildings and leasehold improvements | 1,481,525 | 72,760 | (2,974) | 1,551,311 |
| Equipment and software | 568,878 | 39,810 | (35,684) | 573,004 |
| Construction in progress (nondepreciable) | 60,820 | 81,560 | (94,933) | 47,447 |
| Total at historical cost | <u>2,195,574</u> | <u>199,224</u> | <u>(133,655)</u> | <u>2,261,143</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 1,186 | 388 | — | 1,574 |
| Infrastructure | 47,746 | 1,724 | (31) | 49,439 |
| Buildings and leasehold improvements | 681,405 | 49,503 | (2,963) | 727,945 |
| Equipment and software | 363,235 | 50,241 | (34,926) | 378,550 |
| Total accumulated depreciation | <u>1,093,572</u> | <u>101,856</u> | <u>(37,920)</u> | <u>1,157,508</u> |
| Total capital assets, net | <u>\$ 1,102,002</u> | <u>97,368</u> | <u>(95,735)</u> | <u>1,103,635</u> |

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| <u>Cost basis summary</u> | <u>June 30, 2017 balances</u> | <u>Additions</u> | <u>Sales retirements and transfers</u> | <u>June 30, 2018 balances</u> |
|---|---------------------------------------|------------------|--|---------------------------------------|
| 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 | <u>2,120,901</u> | <u>210,150</u> | <u>(135,477)</u> | <u>2,195,574</u> |
| 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 | <u>1,027,690</u> | <u>101,324</u> | <u>(35,442)</u> | <u>1,093,572</u> |
| Total capital assets, net | <u>\$ 1,093,211</u> | <u>108,826</u> | <u>(100,035)</u> | <u>1,102,002</u> |

At June 30, 2019, 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, 2019 is \$78.4 million. Other projects at June 30, 2019, with an estimated cost of \$476.6 million, have been committed to by the Board and/or UIHC; however, construction contracts had not been signed as of June 30, 2019. 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.

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(4) Long-Term Debt

Long-term debt outstanding at June 30, 2019 and 2018 was as follows:

| | 2019 | 2018 |
|---|-------------|-------------|
| Hospital revenue bonds: | | |
| Series S.U.I. 2010 – 3.125% to 4.500%; maturing serially on September 1 through 2037 | \$ 24,225 | 25,125 |
| Series S.U.I. 2011 – 2.500% to 4.000%; maturing serially on September 1 through 2032 | 20,700 | 21,800 |
| Series S.U.I. 2011A – 3.000% to 4.125%; maturing serially on September 1 through 2028 | 13,165 | 14,255 |
| Series S.U.I. 2012 – 4.000% to 4.000%; maturing serially on September 1 through 2038 | 163,575 | 169,100 |
| Series S.U.I. 2016 – 1.250% to 5.000%; maturing serially on September 1 through 2038 | 24,590 | 26,975 |
| Series S.U.I. 2016A – 3.000% to 3.000%; maturing serially on September 1 through 2038 | 20,450 | 22,265 |
| Series S.U.I. 2018 – 3.000% to 5.000%; maturing serially on September 1 through 2043 | 32,665 | 32,665 |
| Series S.U.I. 2019 – 3.000% to 5.000%; maturing serially on September 1 through 2039 | 42,475 | — |
| Net unamortized premium on hospital revenue bonds | 15,667 | 14,694 |
| Telecommunications Facilities Revenue Bonds: | | |
| Series S.U.I. 2009 – 3.150% to 4.250%; maturing serially on July 1 through 2036 | 10,345 | 10,725 |
| Series S.U.I. 2011 – 3.000% to 4.500%; maturing serially on July 1 through 2032 | 5,818 | 6,121 |
| Total long-term bonds | 373,675 | 343,725 |
| Capital lease obligation | 15,407 | 16,464 |
| Total long-term debt | 389,082 | 360,189 |
| Long-term debt, current portion | 15,236 | 14,556 |
| | \$ 373,846 | 345,633 |

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Activity in long-term debt for the years ended June 30, 2019 and 2018 was as follows:

| | <u>June 30, 2018 balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2019 balance</u> | <u>Amounts due within one year</u> |
|---|--------------------------------------|------------------|-------------------|--------------------------------------|--|
| Hospital Revenue Bonds, Series 2010 | \$ 25,125 | — | (900) | 24,225 | 925 |
| Hospital Revenue Bonds, Series 2011 | 21,800 | — | (1,100) | 20,700 | 1,125 |
| Hospital Revenue Bonds, Series 2011A | 14,255 | — | (1,090) | 13,165 | 1,120 |
| Hospital Revenue Bonds, Series 2012 | 169,100 | — | (5,525) | 163,575 | 5,675 |
| Hospital Revenue Bonds, Series 2016 | 26,975 | — | (2,385) | 24,590 | 2,410 |
| Hospital Revenue Bonds, Series 2016A | 22,265 | — | (1,815) | 20,450 | 1,860 |
| Hospital Revenue Bonds, Series 2018 | 32,665 | — | — | 32,665 | 325 |
| Hospital Revenue Bonds, Series 2019 | — | 42,475 | — | 42,475 | — |
| Net unamortized bond premium | 14,694 | 2,562 | (1,588) | 15,668 | — |
| Telecommunications facilities Revenue Bonds: | | | | | |
| Series 2009 | 10,725 | — | (380) | 10,345 | 390 |
| Series 2011 | 6,121 | — | (304) | 5,817 | 317 |
| Total long-term bonds | <u>343,725</u> | <u>45,037</u> | <u>(15,087)</u> | <u>373,675</u> | <u>14,147</u> |
| Capital lease obligations | <u>16,464</u> | <u>—</u> | <u>(1,057)</u> | <u>15,407</u> | <u>1,089</u> |
| Total long-term debt | <u>\$ 360,189</u> | <u>45,037</u> | <u>(16,144)</u> | <u>389,082</u> | <u>15,236</u> |

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| | <u>June 30, 2017 balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2018 balance</u> | <u>Amounts due within one year</u> |
|---|--------------------------------------|------------------|-------------------|--------------------------------------|--|
| 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 | <u>324,804</u> | <u>33,202</u> | <u>(14,281)</u> | <u>343,725</u> | <u>13,499</u> |
| Capital lease obligations | <u>17,491</u> | <u>—</u> | <u>(1,027)</u> | <u>16,464</u> | <u>1,057</u> |
| Total long-term debt | <u>\$ 342,295</u> | <u>33,202</u> | <u>(15,308)</u> | <u>360,189</u> | <u>14,556</u> |

Long-Term Bonds

The hospital revenue bonds are special obligations of the Board payable solely out of hospital income, the general purpose of which is to expand and improve UIHC facilities. "Hospital income" is defined as the gross income and funds received by the Hospital System at the University, including the proceeds of rates, fees, charges, and payments for healthcare provider activities for patient care services rendered by the University's hospitals, clinics, laboratories, and ancillary facilities, less current expenses (as defined in the resolution authorizing the issuance of the bonds, the Bond Resolution). Hospital income does not include state appropriations to the University. So long as the bonds or parity bonds remain outstanding, the entire hospital income shall be deposited to the revenue fund and shall be disbursed to the following funds in the following order: (1) the operation and maintenance fund, (2) the sinking fund, (3) the reserve fund, and (4) the system fund. The reserve fund requirement is at least equal to the maximum annual amount of the principal and interest coming due on the bonds and any parity bonds, or \$28.7 million. The maximum amount of hospital income pledged representing the undiscounted principal and interest on the bonds is \$501.0 million.

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In June 2019, the UIHC issued \$42.475 million of Series S.U.I. 2019 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 University; 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:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------|-------------------|-----------------|----------------|
| Year(s) ending June 30: | | | |
| 2020 | \$ 14,147 | 13,622 | 27,769 |
| 2021 | 16,430 | 13,117 | 29,547 |
| 2022 | 16,925 | 12,539 | 29,464 |
| 2023 | 17,463 | 11,890 | 29,353 |
| 2024 | 18,117 | 11,163 | 29,280 |
| 2025 through 2029 | 98,469 | 43,890 | 142,359 |
| 2030 through 2034 | 81,327 | 25,955 | 107,282 |
| 2035 through 2039 | 83,105 | 9,996 | 93,101 |
| 2040 through 2044 | 12,024 | 866 | 12,890 |
| | <u>\$ 358,007</u> | <u>143,038</u> | <u>501,045</u> |

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The following are deferred outflows of resources and deferred inflows of resources related to debt refundings as of June 30, 2019 and 2018:

| | 2019 Deferred outflows of resources | 2019 Deferred inflows of resources |
|--|--|---|
| Deferred outflows and inflows from debt refunding: | | |
| Revenue Bonds Series 2011A refunding loss | \$ 221 | — |
| Revenue Bonds Series 2016 refunding loss | 1,238 | — |
| Revenue Bonds Series 2016A refunding loss | 1,742 | — |
| | \$ 3,201 | — |
| | | |
| | 2018 Deferred outflows of resources | 2018 Deferred inflows of resources |
| Deferred outflows and inflows from debt refunding: | | |
| Revenue Bonds Series 2011A refunding loss | \$ 263 | — |
| Revenue Bonds Series 2016 refunding loss | 1,459 | — |
| Revenue Bonds Series 2016A refunding loss | 2,093 | — |
| | \$ 3,815 | — |

Capital Lease Obligations

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

| | Principal | Interest | Total |
|-------------------------|------------------|-----------------|--------------|
| Year(s) ending June 30: | | | |
| 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 | 1,223 | 543 | 1,766 |
| 2025 through 2029 | 6,677 | 1,760 | 8,437 |
| 2030 through 2034 | 2,955 | 222 | 3,177 |
| | \$ 15,407 | 4,393 | 19,800 |

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(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 2019 and 2018, UIHC's contributions amount to \$40,316,000 and \$39,815,000, 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. 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.

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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 2019 and 2018, pursuant to the required rates, members and UIHC contributed the following percentages of pay to the respective membership groups:

| Fiscal year | Membership Group | <u>Member</u> | <u>UIHC</u> | <u>Total</u> |
|-------------|------------------------|---------------|-------------|--------------|
| 2019 | Regular | 6.29 % | 9.44 % | 15.73 % |
| 2019 | Protection Occupations | 6.81 | 10.21 | 17.02 |
| 2018 | Regular | 5.95 | 8.93 | 14.88 |
| 2018 | Protection Occupations | 6.56 | 9.84 | 16.40 |

UIHC's contributions to IPERS for the years ended June 30, 2019 and 2018 were \$5.9 million and \$5.2 million, respectively.

Net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2019 and 2018, UIHC reported a liability in other long-term liabilities on the statements of net position of \$49.2 million and \$46.9 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2019, UIHC's proportion was 0.77810%, which was an increase of

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0.07351% from its proportion measured as of June 30, 2018 of 0.70459%. At June 30, 2018, UIHC's proportion was 0.70459%, which was an increase of 0.11004 from its proportion measured as of June 30, 2017 of 0.59455%.

For the years ended June 30, 2019 and 2018, UIHC recognized pension expense of \$10.6 million and \$10.0 million, respectively. At June 30, 2019 and 2018, UIHC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2019 Deferred outflows of resources | 2019 Deferred inflows of resources |
|---|--|---|
| Difference between expected and actual experience | \$ 271 | (1,115) |
| Changes of assumptions | 7,052 | (1) |
| Net difference between projected and actual earnings on pension plan investments | — | (1,361) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 9,307 | (11) |
| Contributions subsequent to the measurement date | 5,921 | — |
| Total | <u>\$ 22,551</u> | <u>(2,488)</u> |

| | 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 | <u>\$ 23,395</u> | <u>(914)</u> |

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At June 30, 2019, the \$5.9 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, 2020. At June 30, 2019, amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | | |
|----------------------|--|----|--------|
| Year ending June 30: | | | |
| 2020 | | \$ | 6,784 |
| 2021 | | | 4,556 |
| 2022 | | | 1,649 |
| 2023 | | | 992 |
| 2024 | | | 161 |
| | | | 14,142 |
| | | \$ | 14,142 |

There are no nonemployer contributing entities at IPERS.

The June 30, 2018 and 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%
- 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-2014 Generational Mortality Tables.

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

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target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset class | Asset allocation | Long-term expected real rate of return |
|--------------------------|-----------------------------|---|
| Domestic equity | 22.0 % | 6.01 % |
| International equity | 15.0 | 6.48 |
| Global smart beta equity | 3.0 | 6.23 |
| Core-plus fixed income | 27.0 | 1.97 |
| Public credit | 3.5 | 3.93 |
| Public real assets | 7.0 | 2.91 |
| Cash | 1.0 | (0.25) |
| Private equity | 11.0 | 10.81 |
| Private real assets | 7.5 | 4.14 |
| Private Credit | 3.0 | 3.11 |
| Total | <u>100 %</u> | |

Discount rate – The discount rate used to measure the total pension liability was 7.00% at June 30, 2018 and 2017. 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, 2018, 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.

| | 1% Decrease (6.0)% | Discount rate (7.0)% | 1% Increase (8.0)% |
|---|-------------------------------|---------------------------------|-------------------------------|
| UIHC’s proportionate share of the net pension liability | \$ 83,739 | 49,240 | 20,301 |

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

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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).

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

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, 2019 and 2018, respectively, UIHC reported payables to the defined-benefit pension plan of \$525,000 and \$447,000 for legally required employer contributions and \$350,000 and \$296,000 for legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

(6) Other Postemployment Benefits

(a) Plan Description

The University operates two single-employer, defined-benefit health benefit plans, which 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 No. 75, *Accounting and Financial Reporting of Postemployment Benefits other than Pensions*.

Effective July 1, 2017, UIHC adopted GASB 75. 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, 2019 and 2018, UIHC recognized a net OPEB liability of \$42.4 million and 38.4 million, respectively, for its PSF plan and a liability of \$10.9 million and 9.8 million for its Merit employee plan, respectively, for a total net OPEB liability of \$53.3 million and 48.2 million. At June 30, 2019 and 2018, \$49.5 million and \$44.6 million of the total liability was recorded in other long-term liabilities while \$3.8 million and \$3.6 million was recorded in other short-term liabilities.

(b) Funding Policy

The contribution requirements of plan members are established and may be amended by the University. Benefits are financed centrally by the University on a pay-as-you-go basis. Total expenditures for fiscal years 2019 and 2018 were \$2,097,000 and \$2,217,000, respectively.

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(c) OPEB Benefits

Individuals who are employed by the University and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical, prescription drug, and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability. For postemployment benefits of retirees, the University contributes toward the cost of University 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.

Retired participants must be age 55 or older at retirement. At June 30, 2019 and June 30, 2018, the following UIHC employees were covered by the benefit terms:

| | 2019 | 2018 |
|--|-------------|-------------|
| Professional and Scientific and Faculty Plan (PSF): | | |
| Inactive employees or beneficiaries currently receiving benefits | 1,220 | 1,067 |
| Active employees | 4,730 | 4,136 |
| Total | 5,950 | 5,203 |
| Merit Plan: | | |
| Inactive employees or beneficiaries currently receiving benefits | 54 | 75 |
| Active employees | 1,824 | 2,114 |
| Total | 1,878 | 2,189 |

(d) Total OPEB Liability

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

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(e) Actuarial Assumptions

The June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions and the entry-age normal actuarial cost method, applied to all periods included in the measurements.

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|-------------|-------------|
| Rate of inflation | 2.50 % | 2.50 % |
| Rates of salary increase | 3.00 | 3.00 |
| Discount rate | 3.87 | 3.58 |
| Healthcare cost trend rate Pre-65 | 7.29 | 7.55 |
| Healthcare cost trend rate Post-65 | 8.88 | 9.17 |

Discount rate – The June 30, 2018 and 2017 discount rate used to measure the total OPEB liability was 3.87% and 3.58%, respectively, 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.

The actuarial assumptions used in the June 30, 2018 and 2017 were based on the results of actuarial experience studies with dates corresponding to those listed above.

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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 | 2019 total OPEB liability | 2018 total OPEB liability |
|---|--|--|
| Total OPEB liability beginning of year, July 1 | \$ 38,412 | 189,652 |
| Changes for the year: | | |
| Service cost | 970 | 10,283 |
| Interest | 1,535 | 5,609 |
| Changes in benefit terms | — | (148,291) |
| Differences between expected and actual experiences | — | 15,488 |
| Changes of assumptions | (308) | (30,070) |
| Benefit payments | (3,369) | (2,217) |
| Other | 5,170 | (2,041) |
| Net changes | <u>3,998</u> | <u>(151,240)</u> |
| Total OPEB liability end of year, June 30 | <u>\$ 42,410</u> | <u>38,412</u> |

| Changes in total merit OPEB liability | 2019 total OPEB liability | 2018 total OPEB liability |
|---|--|--|
| Total OPEB liability beginning of year, July 1 | \$ 9,819 | 9,814 |
| Changes for the year: | | |
| Service cost | 559 | 755 |
| Interest | 278 | 293 |
| Changes in benefit terms | 7,848 | — |
| Differences between expected and actual experiences | — | — |
| Changes of assumptions | (4,786) | (512) |
| Benefit payments | (421) | — |
| Contributions from the employer | — | (531) |
| Other | (2,404) | — |
| Net changes | <u>1,074</u> | <u>5</u> |
| Total OPEB liability end of year, June 30 | <u>\$ 10,893</u> | <u>9,819</u> |

The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 3.87% as of June 30, 2018, from 3.58%.

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In addition, a plan provision was made to the Merit plan in 2018, and the University will contribute \$288 per month to retiree health for both current and future retirees, which resulted in a \$7.8 million increase 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, 2019, 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 (2.87%) or one-percentage-point higher (4.87%) than the current discount rate.

| | 1% Decrease (2.87)% | Discount rate (3.87)% | 1% Increase (4.87)% |
|-----------------------------|--------------------------------|----------------------------------|--------------------------------|
| UIHC's PSF OPEB Liability | \$ 45,918 | 42,410 | 39,262 |
| UIHC's Merit OPEB Liability | 11,882 | 10,893 | 10,002 |
| | <u>\$ 57,800</u> | <u>53,303</u> | <u>49,264</u> |

Sensitivity of UIHC's total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of UIHC as of June 30, 2019, 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 (6.29%) or one-percentage-point higher (8.29%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (7.88%) or one-percentage-point higher (9.88%) higher than the current healthcare cost trend rate for post-65 participants.

| Pre-65 participants | 1% Decrease (6.29)% | Discount rate (7.29)% | 1% Increase (8.29)% |
|-----------------------------|--------------------------------|----------------------------------|--------------------------------|
| Post-65 participants | (7.88)% | (8.88)% | (9.88)% |
| UIHC's PSF OPEB liability | \$ 38,015 | 42,410 | 47,382 |
| UIHC's Merit OPEB liability | 9,413 | 10,893 | 12,587 |
| | <u>\$ 47,428</u> | <u>53,303</u> | <u>59,969</u> |

OPEB expense and deferred outflows and inflows of resources related to OPEB – For the years ended June 30, 2019 and 2018, UIHC recognized OPEB expense of \$847,000 and \$(133,837,000), respectively, for the PSF plan and \$8,142,000 and \$983,000, respectively, for the Merit plan.

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At June 30, 2019 and 2018, UIHC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| PSF Plan | 2019 Deferred outflows of resources | 2019 Deferred inflows of resources |
|---|--|---|
| Difference between expected and actual experience | \$ 14,090 | (96) |
| Changes of assumptions | 129 | (27,609) |
| Contributions subsequent to the measurement date | 3,391 | — |
| Total | <u>\$ 17,610</u> | <u>(27,705)</u> |
| Merit Plan | 2019 Deferred outflows of resources | 2019 Deferred inflows of resources |
| Difference between expected and actual experience | \$ 209 | — |
| Changes of assumptions | 201 | (5,172) |
| Contributions subsequent to the measurement date | 437 | — |
| Total | <u>\$ 847</u> | <u>(5,172)</u> |
| 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 | <u>\$ 16,934</u> | <u>(27,099)</u> |
| 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 | <u>\$ 682</u> | <u>(447)</u> |

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Notes to Financial Statements

June 30, 2019 and 2018

(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: | |
| 2020 | \$ (1,659) |
| 2021 | (1,659) |
| 2022 | (1,659) |
| 2023 | (1,659) |
| 2024 | (1,659) |
| Total thereafter | (5,193) |
| Total | \$ (13,488) |

| | Merit Plan |
|----------------------|-------------------|
| Year ending June 30: | |
| 2020 | \$ (543) |
| 2021 | (543) |
| 2022 | (543) |
| 2023 | (543) |
| 2024 | (543) |
| Total thereafter | (2,047) |
| Total | \$ (4,762) |

(7) Risk Management

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

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June 30, 2019 and 2018

(Dollars in tables in thousands)

UIHC's portion of the health insurance liability, which is included in accounts payable and accrued expenses, is \$11.1 million and \$8.3 million as of June 30, 2019, 2018, respectively, is as follows:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|-----------------|
| Liability for unpaid healthcare claims at beginning of year | \$ 8,362 | 5,571 | 6,277 |
| Healthcare expenses incurred during the year | 138,998 | 116,659 | 89,456 |
| Healthcare payments to the University during the year | <u>(136,239)</u> | <u>(113,868)</u> | <u>(90,162)</u> |
| Liability for unpaid healthcare claims at end of year | <u>\$ 11,121</u> | <u>8,362</u> | <u>5,571</u> |

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

UIHC is an agency of the State and is covered by the State's self-insurance for tort liability. Tort claims against the State are handled as provided in the Iowa Tort Claims Act (Iowa Code, Chapter 669), which also sets forth the procedures by which tort claims may be brought. Claims under Chapter 669 may be filed against the State on account of wrongful death, personal injury, or property damage incurred by reason of the negligence of the UIHC or its employees while acting within the scope of employment. By interagency agreement, tort liability claims under \$5,000 may be administered by the 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, 2019 and 2018, UIHC expensed approximately \$213.4 million and \$200.2 million, respectively, for these administrative services, utilities, and other services and support requirements. At June 30, 2019 and 2018, approximately \$7.2 million and \$12.3 million, respectively, were due to the Carver College of Medicine. At June 30, 2019 and 2018, \$26.7 million and \$3.8 million, respectively, was due to the University for services and support.

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, 2019 and 2018, UIHC received revenue from these units of approximately \$9.3 each year for these

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in tables in thousands)

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 (to) from these units totaled \$(20.4) million and \$80.7 million for the years ended June 30, 2019 and 2018, respectively.

UIHS was incorporated under the provisions of the Iowa Nonprofit Corporations Act on December 2, 1994. UIHS was formed to enhance and support the educational missions of the UIHC and the College of Medicine, particularly as these missions apply to clinical activities and statewide and multistate network development activities. For the years ended June 30, 2019 and 2018, UIHC transferred \$6.5 million and \$6.9 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:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|------------------|
| Gross patient charges: | | |
| Inpatient charges | \$ 2,657,795 | 2,432,712 |
| Outpatient charges | <u>2,996,666</u> | <u>2,522,164</u> |
| Total gross patient charges | 5,654,461 | 4,954,876 |
| Less deductions from gross patient charges: | | |
| Contractual adjustments – Medicare, Medicaid, and other | 3,810,861 | 3,287,029 |
| Provision for uncollectible accounts | <u>62,090</u> | <u>49,118</u> |
| Net patient service revenue | <u>\$ 1,781,510</u> | <u>1,618,729</u> |

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 transfer to the collection agency. Remaining balances after the primary payor has adjudicated an account (if any) are categorized as either self-pay after insurance or secondary insurance after insurance to estimate the collectibility of the remaining accounts receivable. Net patient accounts receivable have been adjusted to the estimated amounts expected to be collected.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in tables in thousands)

Patient service cash receipts (net of adjustments), received in 2019 and 2018 from the major payor sources, are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Patient (self-pay) | \$ 13,328 | 12,705 |
| Medicaid | 266,428 | 242,656 |
| Medicare | 513,589 | 466,102 |
| Commercial insurance and other third-party payors | <u>976,715</u> | <u>884,527</u> |
| Patient service receipts (net of adjustments) | 1,770,060 | 1,605,990 |
| Changes to A/R balance, late charges reserve, and other third-party reserves | <u>11,450</u> | <u>12,739</u> |
| Patient service revenue (net of contractual allowance, discounts, and provision for bad debts) | <u>\$ 1,781,510</u> | <u>1,618,729</u> |

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 2019 and 2018 net patient service revenue from third-party payors increased approximately \$15.1 million and \$2.4 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 29.2% and 29.1% of UIHC's net patient receipts for the years ended 2019 and 2018, respectively.

(b) Iowa Medicaid

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

Receipts from Medicaid programs accounted for approximately 15.1% and 15.2% of UIHC's net patient receipts for the years ended 2019 and 2018, respectively.

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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in tables in thousands)

(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, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|---|------------------|---------------|
| Charity care | \$ 45,901 | 29,165 |
| Charity care for state institution patients | 9,704 | 8,008 |
| Charity care charges forgone | <u>\$ 55,605</u> | <u>37,173</u> |

The cost of charges forgone for services and supplies furnished under UIHC's charity policy approximated \$16.6 million and \$11.4 million for the years ended June 30, 2019 and 2018, respectively.

UIHC also provides reduced price services and free programs throughout the year. The total uncompensated costs of services other than charity care, for the years ended June 30, 2019 and 2018, approximate the following:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------|-------------------|----------------|
| Medicare | \$ 90,719 | 82,213 |
| Medicaid | 63,396 | 71,513 |
| Medicaid out of state | 4,150 | 4,007 |
| Uncompensated costs of services | <u>\$ 158,265</u> | <u>157,733</u> |

**STATE UNIVERSITY OF IOWA,
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Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in tables in thousands)

(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, 2019 and 2018 was as follows:

| | 2019 | 2018 |
|------------------------|-------------|-------------|
| Blue Cross Blue Shield | 29 % | 29 % |
| Commercial pay | 28 | 29 |
| Medicare | 27 | 26 |
| Medicaid | 13 | 12 |
| Self-pay | 1 | 1 |
| Other | 2 | 3 |
| | 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, 2019 and 2018 was \$19.7 million and \$14.8 million, respectively.

The following is a schedule by year of future minimum rental payments required under noncancelable operating leases as of June 30, 2019 (in thousands):

| | | |
|-------------------------|----|---------|
| Year(s) ending June 30: | | |
| 2020 | \$ | 13,092 |
| 2021 | | 12,473 |
| 2022 | | 8,361 |
| 2023 | | 8,149 |
| 2024 | | 8,188 |
| 2025–2029 | | 38,945 |
| 2030–2034 | | 19,242 |
| 2035–2039 | | 5,935 |
| Total | \$ | 114,385 |

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

Notes to Financial Statements

June 30, 2019 and 2018

(Dollars in tables in thousands)

(13) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses reported as current liabilities at June 30, 2019 and 2018 consisted of the following amounts (in thousands):

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| Payable to employees (including payroll taxes) | \$ 103,218 | 100,899 |
| Payable to suppliers | 56,681 | 39,232 |
| Other | <u>3,000</u> | <u>2,406</u> |
| Total accounts payable and accrued expenses | <u>\$ 162,899</u> | <u>142,537</u> |

(14) Other Long-Term Liabilities

Other long-term liabilities at June 30, 2019 and 2018 consisted of the following amounts (in thousands):

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|----------------|
| Pension liability | \$ 49,240 | 46,934 |
| OPEB liability | 49,475 | 44,570 |
| Payable to employees (compensated absences) | <u>17,820</u> | <u>16,864</u> |
| Total other long term liabilities | <u>\$ 116,535</u> | <u>108,368</u> |

(15) Law and Regulations

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

(16) Subsequent Events

UIHC has reviewed subsequent events through November 13, 2019 and concluded that there were no events or transactions during this period that would require recognition or disclosure in the financial statements.

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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, 2019

(Unaudited)

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| UIHC's proportion of the net pension liability | 0.77810 % | 0.70459 % | 0.59455 % | 0.47349 % | 0.38388 % |
| UIHC's proportionate share of the net pension liability | \$ 49,240 | 46,934 | 37,417 | 23,539 | 15,536 |
| UIHC's covered-employee payroll | 59,535 | 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 | 82.7 % | 79.2 % | 71.8 % | 71.8 % | 52.0 % |
| Plan fiduciary net position as a percentage of the total pension liability | 83.6 | 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 10 years of information to be presented in this table.

However, until a full 10-year trend is compiled, UIHC will present information for those years for which information is available.

See accompanying independent auditors' report.

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

Schedule of Proportionate Share of the Net Pension Liability and Contributions

Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2019

(Unaudited)

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|
| Statutorily required contribution | \$ 5,921 | 5,224 | 4,623 | 3,603 | 2,660 | 2,299 | 1,896 | 1,528 | 976 | 665 |
| Contributions in relation to the statutorily required contribution | <u>(5,921)</u> | <u>(5,224)</u> | <u>(4,623)</u> | <u>(3,603)</u> | <u>(2,660)</u> | <u>(2,299)</u> | <u>(1,896)</u> | <u>(1,528)</u> | <u>(976)</u> | <u>(665)</u> |
| Contribution deficiency | <u>\$ —</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| UHC's covered-employee payroll | \$ 62,910 | 59,251 | 52,104 | 32,763 | 29,902 | 25,706 | 21,965 | 18,748 | 13,521 | 9,854 |
| Contributions as a percentage of the covered-employee payroll | 8.8 % | 8.8 % | 8.9 % | 8.9 % | 8.9 % | 8.9 % | 8.6 % | 8.1 % | 7.2 % | 6.7 % |

See accompanying independent auditors' report.

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

Notes to Required Supplementary Information

June 30, 2019

(Unaudited)

(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 2018 valuation implemented the following refinements as a result of a June 2018 experience study:

- Mortality assumption was changed to the family of RP-2014 Mortality Tables for all groups, with mortality improvements modeled using Scale MP-2017.
- Retirement rates for Regular members were lowered to better reflect actual experience. For the Protection Occupation group, retirement rates were modified with both higher and lower across the age ranges.
- Disability rates were lowered for all groups to better reflect the actual experience.
- Termination rates for Regular members were adjusted to better reflect actual experience. Separate termination assumptions were adopted for the two Special Service groups and the assumptions were changed to be service based rather than age based.
- The probability of a vested member electing to receive a deferred benefit was adjusted for Regular members to better reflect actual experience.
- The merit component of the salary increase assumption was adjusted to better reflect actual salary increases.

**STATE UNIVERSITY OF IOWA,
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Notes to Required Supplementary Information

June 30, 2019

(Unaudited)

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%.

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

Last ten fiscal years ended June 30, 2019

(Unaudited)

| | 2019 | 2018 |
|---|-------------|-------------|
| PSF Plan: | | |
| Service cost | \$ 970 | 10,283 |
| Interest | 1,535 | 5,609 |
| Changes in benefit terms | — | (148,291) |
| Differences between expected and actual experience | — | 15,488 |
| Changes of assumptions | (308) | (30,071) |
| Benefit payments | (3,369) | (2,217) |
| Other | 5,170 | — |
| Net change in total OPEB liability | 3,998 | (149,199) |
| Total OPEB liability beginning of year | 38,412 | 187,611 |
| Total OPEB liability end of year | 42,410 | 38,412 |
| Covered-employee payroll | 411,270 | 354,814 |
| Total OPEB liability as a percentage of covered employee payroll | \$ 10.31 % | 10.83 % |
| | 2019 | 2018 |
| Merit Plan: | | |
| Service cost | \$ 559 | 755 |
| Interest | 278 | 293 |
| Changes in benefit terms | 7,848 | — |
| Differences between expected and actual experience | — | — |
| Changes of assumptions | (4,786) | (512) |
| Benefit payments | (421) | — |
| Contributions from the employer | — | (531) |
| Other | (2,404) | — |
| Net change in total OPEB liability | 1,074 | 5 |
| Total OPEB liability beginning of year | 9,819 | 9,814 |
| Total OPEB liability end of year | 10,893 | 9,819 |
| Covered-employee payroll | 65,863 | 90,752 |
| Total OPEB liability as a percentage of covered employee payroll | \$ 16.54 % | 10.82 % |

* Note:

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

See accompanying independent auditors' report.

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

Last ten fiscal years ended June 30, 2019

(Unaudited)

The financial accounting valuation reflects the following method changes:

- There were no method changes in the financial accounting valuation.

The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 3.87% as of June 30, 2018; the discount rate was 3.58% as of June 30, 2017.
- A change in the demographic assumption for the Merit employees from the State assumptions to the University staff assumptions.