



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

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 300  
1212 N. 96th Street  
Omaha, NE 68114-2274

Suite 1120  
1248 O Street  
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## Independent Auditors' Report

The Board of Regents  
State of Iowa:

We have audited the accompanying financial statements of the State University of Iowa, University of Iowa Hospitals and Clinics (UIHC), which comprise the statements of net position as of June 30, 2020 and 2019, 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 opinions 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 (UIHC) as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

### *Emphasis of Matter*

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



of Iowa for financial reporting purposes. The financial statements of UIHC do not purport to, and do not, present fairly the financial position of the State University of Iowa as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

*Other Matters*

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–8 and the schedules of proportionate share in net pension liability and contributions on pages 50–51 and the schedule of changes in UIHC's total OPEB liability and related ratios on pages 52–54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Omaha, Nebraska  
November 16, 2020

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

Management's Discussion and Analysis

June 30, 2020 and 2019

**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, 2020 and 2019. 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 2020 with an increase in net position of \$99.2 million, or 6.0%, as compared to an increase in net position in 2019 by \$111.2 million, or 7.2%. Operating income in 2020 when compared to 2019 operating income shows a decrease of \$41.6 million. Nonoperating revenue, net increased \$22.2 million driven mainly by government funding from the CARES Act Provider Relief Funds and a decrease in investment income. Although the government funding is accounted for as a nonoperating grant, the associated expenses of treating patients affected with COVID-19 are classified as operating expenses. Operating income less the postemployment benefit change in 2019 was \$99.5 million, an increase of \$38.4 million when compared to 2018. Nonoperating revenue, net increased \$19.6 million driven mainly by investment performance.

**Overview of the Financial Statements**

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

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

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

In 2020, net position increased by \$99.2 million, or approximately 6.0%, to \$1.75 billion. This is primarily due to operating income of \$57.9 million. In 2019, net position increased by \$111.2 million, or approximately 7.2%, to \$1.65 billion. This is primarily due to operating income of \$99.5 million. Table 1 provides a summary of UIHC's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2020, 2019, and 2018.

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

June 30, 2020 and 2019

**Table 1**

Condensed Statements of Net Position

(In thousands)

<b>Assets and Deferred Outflows</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Current assets	\$ 378,385	388,476	375,981
Noncurrent cash and investments	990,795	920,718	736,685
Capital assets, net	1,101,983	1,103,635	1,102,002
Other assets	1,747	1,620	1,525
Total assets	<u>2,472,910</u>	<u>2,414,449</u>	<u>2,216,193</u>
Deferred outflows:			
Clinic acquisition costs	404	642	879
Pension-related deferred outflows	21,104	22,551	23,395
OPEB-related deferred outflows	27,120	18,457	17,616
Debt refunding loss	2,626	3,201	3,815
Total deferred outflows	<u>51,254</u>	<u>44,851</u>	<u>45,705</u>
Total assets and deferred outflows	<u>\$ 2,524,164</u>	<u>2,459,300</u>	<u>2,261,898</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>			
Current liabilities	\$ 250,993	283,668	240,775
Long-term debt	354,701	373,846	345,633
Other long-term liabilities	133,194	116,535	108,368
Total liabilities	<u>738,888</u>	<u>774,049</u>	<u>694,776</u>
Deferred inflows:			
Pension-related deferred inflows	7,664	2,488	914
OPEB-related deferred inflows	28,488	32,877	27,546
Debt refunding gain-noncurrent	36	—	—
Total deferred inflows	<u>36,188</u>	<u>35,365</u>	<u>28,460</u>
Net position:			
Net investment in capital assets	732,321	743,043	750,890
Restricted	5,207	6,825	8,314
Unrestricted	1,011,560	900,018	779,458
Total net position	<u>1,749,088</u>	<u>1,649,886</u>	<u>1,538,662</u>
Total liabilities, deferred inflows, and net position	<u>\$ 2,524,164</u>	<u>2,459,300</u>	<u>2,261,898</u>

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June 30, 2020 and 2019

Table 2 shows the changes in net position for 2020 compared to 2019 and 2018.

**Table 2**

Statements of Revenue, Expenses, and Changes in Net Position

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenue:			
Net patient service revenue	\$ 1,888,420	1,781,510	1,618,729
Other revenue	51,209	53,419	47,708
Total operating revenue	<u>1,939,629</u>	<u>1,834,929</u>	<u>1,666,437</u>
Operating expenses:			
Salaries and benefits	820,953	777,689	745,931
Medical supplies and drugs	565,162	496,260	418,208
Other supplies and general expenses	392,155	359,628	339,837
Depreciation and amortization	103,483	101,856	101,324
Total operating expenses	<u>1,881,753</u>	<u>1,735,433</u>	<u>1,605,300</u>
Operating income before postemployment benefit adjustment	57,876	99,496	61,137
Postemployment benefit adjustment	<u>—</u>	<u>—</u>	<u>139,494</u>
Operating income after postemployment benefit adjustment	<u>57,876</u>	<u>99,496</u>	<u>200,631</u>
Nonoperating revenue (expenses):			
Loss on disposal of capital assets	(1,318)	(10,969)	(2,071)
Noncapital gifts	9	2	1
Investment income	35,391	56,141	24,413
Government funding	31,128	—	—
Interest expense	(12,141)	(14,319)	(11,046)
Total nonoperating revenue, net	<u>53,069</u>	<u>30,855</u>	<u>11,297</u>
Excess of revenue over expenses before transfers	110,945	130,351	211,928
Capital gifts and grants	963	1,230	3,739
Net transfers in (out)	<u>(12,706)</u>	<u>(20,357)</u>	<u>80,744</u>
Increase in net position	99,202	111,224	296,411

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Management's Discussion and Analysis

June 30, 2020 and 2019

**Table 2**

Statements of Revenue, Expenses, and Changes in Net Position

(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net position, beginning of year	\$ 1,649,886	1,538,662	1,386,371
Cumulative effect of adoption of accounting standard-postemployment benefit	—	—	(144,120)
Net position, beginning of year, as restated	<u>—</u>	<u>—</u>	<u>1,242,251</u>
Net position, end of year	<u>\$ 1,749,088</u>	<u>1,649,886</u>	<u>1,538,662</u>

**Net Patient Service Revenue**

Net patient service revenue increased from 2019 to 2020 by \$106.9 million, or 6.0%, and \$162.8 million, or 10.1%, from 2018 to 2019. The increase in net patient service revenue in 2020 was driven by both pricing increases and volume increases in certain outpatient areas, specifically retail and contract pharmacy. The increase in net patient service revenue in 2019 was driven by both increases in patient volumes and pricing increases. There was a decrease in outpatient clinic visits from 2019 to 2020 by 37,478, or 3.7%, with a decrease in outpatient surgeries of 654, or 3.1%. On the inpatient side, the case mix index was 2.23, up 3.6% from 2019, and inpatient surgeries decreased by 1,275, or 9.3%. 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%.

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

**Operating Expenses**

Total operating expenses increased 8.4% from \$1.74 billion in 2019 to \$1.88 billion in 2020. The largest dollar increases in expenses in 2020 were in medical supplies and drugs, which increased \$68.9 million, or 13.9%, when compared to 2019. In 2020, this growth was due to increased inflation in the cost of supplies and drugs and increased volumes in contract and retail pharmacy.

Total operating expenses increased 8.1% from \$1.61 billion in 2018 to \$1.74 billion in 2019. The largest dollar increases in expenses in 2019 were 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.

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**Nonoperating Revenue and Expenses, Net**

Nonoperating revenue consists primarily of gains (losses) on disposals of capital assets, investment income, interest expense, government funding, and noncapital gifts. Investment income decreased from 2019 to 2020 by \$20.7 million, or 37%, and increased from 2018 to 2019 by \$31.7 million, or 130%. During 2020, UIHC recorded overall earnings on the endowment and operating pools of \$12.1 million and a net unrealized gain on investments of \$23.3 million, which increased investment income accordingly. This compares to the overall earnings on the endowment and operating pools of \$15.7 million and a net unrealized loss on investments of \$40.4 million in the previous year. The increases in these investments follow overall investment markets. Interest expense decreased \$2.2 million in 2020 as a result of decreased long-term debt. In addition, during 2020 UIHC received government funding from the CARES Act Provider Relief Fund of \$31.1 million.

**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 2020, with a net decrease in cash and cash equivalents of \$5.8 million. In 2020, net cash provided by operating activities provided cash inflows of \$125.2 million and net cash provided by noncapital financing activities was \$18.4 million. Net cash used in capital and investing activities was \$149.4 million. 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 in 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.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2020, UIHC had \$1.102 billion invested in capital assets, net of accumulated depreciation. This is a \$1.65 million decrease when compared to capital assets, net in 2019 of \$1.103 billion. Capital assets, net of accumulated depreciation increased \$.001 million in 2019 compared to capital assets, net in 2018 of \$1.102 billion.

**Debt**

At June 30, 2020 and 2019, UIHC had \$372.3 million and \$389.1 million, respectively, in bonds and capital lease outstanding. During 2020 and 2019, payments of long-term debt were \$14.1 million and \$14.6 million, respectively. During 2020, UIHC issued \$9.1 million of Series S.U.I 2020 Telecom Bonds. The proceeds of the bonds refinanced the 2009 Telecom Bonds. 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.



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Management's Discussion and Analysis

June 30, 2020 and 2019

**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, 2020 and 2019

(In thousands)

<b>Assets and Deferred Outflows</b>	<b>2020</b>	<b>2019</b>
Current assets:		
Cash and cash equivalents	\$ 11,032	16,789
Short-term investments	58,703	74,397
Patient accounts receivable, net of estimated uncollectibles of \$43,751 in 2020 and \$38,440 in 2019	237,771	241,092
Inventories and supplies	50,353	37,220
Current investments for debt service – restricted	1,077	1,146
Other current assets	19,449	17,832
Total current assets	<u>378,385</u>	<u>388,476</u>
Noncurrent cash and investments:		
Limited by bond resolutions	30,161	58,667
Designated by the Board of Regents	956,184	856,090
Restricted by donors	4,450	5,961
Total noncurrent cash and investments	<u>990,795</u>	<u>920,718</u>
Capital assets, net	1,101,983	1,103,635
Other assets	1,747	1,620
Total assets	<u>2,472,910</u>	<u>2,414,449</u>
Deferred outflow of resources:		
Clinic acquisition costs	404	642
Pension-related deferred outflows	21,104	22,551
OPEB-related deferred outflows	27,120	18,457
Debt refunding loss	2,626	3,201
Total deferred outflows	<u>51,254</u>	<u>44,851</u>
Total assets and deferred outflows	<u>\$ 2,524,164</u>	<u>2,459,300</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 17,551	15,236
Accounts payable and accrued expenses	162,110	162,899
Estimated third-party payor settlements	13,162	47,430
Due to related parties	36,343	38,246
Other current liabilities	17,207	15,137
Accrued interest	4,620	4,720
Total current liabilities	<u>250,993</u>	<u>283,668</u>
Long-term debt, net of current maturities	354,701	373,846
Other long-term liabilities	133,194	116,535
Total liabilities	<u>738,888</u>	<u>774,049</u>
Deferred inflow of resources:		
Pension-related deferred inflows	7,664	2,488
OPEB-related deferred inflows	28,488	32,877
Debt refunding gain-noncurrent	36	—
Total deferred inflows	<u>36,188</u>	<u>35,365</u>
Net position:		
Net investment in capital assets	732,321	743,043
Restricted by donors for specific purposes	4,130	5,679
Restricted for debt service	1,077	1,146
Unrestricted	1,011,560	900,018
Total net position	<u>1,749,088</u>	<u>1,649,886</u>
Total liabilities, deferred inflows, and net position	<u>\$ 2,524,164</u>	<u>2,459,300</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, 2020 and 2019

(In thousands)

	<b>2020</b>	<b>2019</b>
Operating revenue:		
Net patient service revenue, net of provision for bad debts of \$35,942 in 2020 and \$62,090 in 2019	\$ 1,888,420	1,781,510
Other revenue	51,209	53,419
Total operating revenue	1,939,629	1,834,929
Operating expenses:		
Salaries and benefits	820,953	777,689
Medical supplies and drugs	565,162	496,260
Other supplies and general expenses	392,155	359,628
Depreciation and amortization	103,483	101,856
Total operating expenses	1,881,753	1,735,433
Operating income	57,876	99,496
Nonoperating revenue (expenses):		
Loss on disposal of capital assets	(1,318)	(10,969)
Noncapital gifts	9	2
Investment income	35,391	56,141
Government funding	31,128	—
Interest expense	(12,141)	(14,319)
Total nonoperating revenue, net	53,069	30,855
Excess of revenue over expenses before transfers	110,945	130,351
Capital gifts and grants	963	1,230
Net transfers-out	(12,706)	(20,357)
Increase in net position	99,202	111,224
Net position, beginning of year	1,649,886	1,538,662
Net position, end of year	\$ 1,749,088	1,649,886

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 1,857,473	1,770,060
Other receipts	49,306	71,447
Payments to employees	(806,978)	(760,159)
Payments to suppliers and contractors	(974,586)	(839,657)
Net cash provided by operating activities	125,215	241,691
Cash flows from noncapital financing activities:		
Net transfers	(12,706)	(20,357)
Noncapital gifts	9	2
Government funding	31,128	—
Net cash provided by (used in) noncapital financing activities	18,431	(20,355)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(101,607)	(103,269)
Proceeds from the sale of capital assets	14	19
Capital gifts and grants received	963	1,232
Proceeds from the issuance of long-term debt	9,062	42,475
Premium received on the issuance of long-term debt	691	2,562
Principal paid on long-term debt	(24,785)	(14,556)
Interest paid on long-term debt	(13,429)	(14,589)
Net cash used in capital and related financing activities	(129,091)	(86,126)
Cash flows from investing activities:		
Proceeds from sale of investments	340,434	225,623
Purchase of investments	(372,959)	(380,389)
Interest and dividends received on investments	12,213	15,721
Net cash used in investing activities	(20,312)	(139,045)
Net decrease in cash and cash equivalents	(5,757)	(3,835)
Cash and cash equivalents at beginning of year	16,789	20,624
Cash and cash equivalents at end of year	\$ 11,032	16,789
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 57,876	99,496
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	103,483	101,856
Provision for bad debts	35,942	62,090
Changes in assets and liabilities:		
Accounts receivable	(32,621)	(73,564)
Inventories	(13,133)	(1,369)
Other assets	(8,889)	(3,397)
Accounts payable and accrued expenses	(789)	20,362
Other liabilities	19,517	18,166
Due to (from) related parties	(1,903)	18,027
Estimated third-party payor settlements	(34,268)	24
Net cash provided by operating activities	\$ 125,215	241,691

Noncash investing activity:

During 2020 and 2019, the net appreciation (depreciation) in fair value of investments was \$23,279 and \$40,408, respectively.

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,  
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Notes to Financial Statements

June 30, 2020 and 2019

(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, 2020 and 2019

(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>), 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 Regent 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 Regent institutions as cash equivalents.

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

Undesignated cash equivalents totaling \$11.0 million and \$16.8 million at June 30, 2020 and 2019, respectively, represent money market funds and other short-term investments not held by external investment managers that mature in three months or less from date of purchase.

**(e) Inventories and Supplies**

Inventories consist primarily of medical 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, Net**

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

Buildings and leasehold improvements	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, 2020 and 2019 were \$1.0 million and \$0.9 million, respectively.

**(i) *Gifts and Grants***

From time to time, UIHC receives grants as well as gifts from individuals and private organizations. During 2020, this included government funding related to the CARES Act Provider Relief Fund. See note 16. Gifts and grants may be restricted for either specific operating purposes or capital purposes.

**(j) *Restricted Resources***

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

**(k) *Net Position***

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

**(l) *Operating Revenue and Expenses***

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

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***(m) Net Patient Service Revenue***

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

***(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>).



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

Noncurrent cash and investments limited by bond resolutions or designated by the Board were held for the following purposes at June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Limited by bond resolutions:		
Debt service reserve	\$ 30,161	30,177
Unspent bond proceeds	—	28,490
Designated by the Board:		
Capital projects and equipment and other needs	636,265	556,251
Surplus	536	847
Improvement, extension, repair, operation, and maintenance funds	319,383	298,992
Restricted by donors	4,450	5,961
	\$ 990,795	920,718

Cash and cash equivalents and short-term investments specifically identified or pooled with the cash and investments of the University totaled \$69.7 million and \$91.2 million at June 30, 2020 and 2019, respectively. Cash equivalents designated by the Board totaled \$127.8 million and \$78.9 million at June 30, 2020 and 2019, respectively.

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

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

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	N/A	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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**(a) Interest Rate Risk**

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

**(b) Credit Risk**

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

**(c) Concentration of Credit Risk**

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

**(d) Fair Value Measurements**

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

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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 financial statements. The University attempts to manage these risks through diversification, ongoing due diligence of fund managers, maintaining adequate liquidity, and continuously monitoring economic and market conditions.

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

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

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

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

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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>	843,200
Money market/cash equivalents					<u>169,850</u>
Total cash and investments				<u>\$ 1,013,050</u>	

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

<u>Asset class</u>	<u>Fair value determined using NAV 2019</u>	<u>Unfunded commitments at June 30, 2019</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
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>		

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

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

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

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

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**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, 2020 and 2019 are summarized as follows:

	<b>2020</b>	<b>2019</b>
Land	\$ 22,430	22,923
Land improvements	4,637	4,637
Infrastructure	62,268	61,821
Buildings and leasehold improvements	1,600,954	1,551,311
Equipment and software	585,727	573,004
Construction in progress (nondepreciable)	52,347	47,447
	2,328,363	2,261,143
Less accumulated depreciation	1,226,380	1,157,508
	\$ 1,101,983	1,103,635

Capital asset additions, retirements, and balances as of and for the years ended June 30, 2020 and 2019 were as follows:

<b>Cost basis summary</b>	<b>June 30, 2019 balances</b>	<b>Additions</b>	<b>Sales retirements and transfers</b>	<b>June 30, 2020 balances</b>
Land (nondepreciable)	\$ 22,923	—	(493)	22,430
Land improvements	4,637	—	—	4,637
Infrastructure	61,821	447	—	62,268
Buildings and leasehold improvements	1,551,311	50,335	(692)	1,600,954
Equipment and software	573,004	48,036	(35,313)	585,727
Construction in progress (nondepreciable)	47,447	65,821	(60,921)	52,347
Total at historical cost	2,261,143	164,639	(97,419)	2,328,363



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<u>Cost basis summary</u>	<u>June 30, 2019 balances</u>	<u>Additions</u>	<u>Sales retirements and transfers</u>	<u>June 30, 2020 balances</u>
Less accumulated depreciation for:				
Land improvements	\$ 1,574	388	—	1,962
Infrastructure	49,439	2,071	—	51,510
Buildings and leasehold improvements	727,945	48,270	(375)	775,840
Equipment and software	378,550	52,754	(34,236)	397,068
Total accumulated depreciation	<u>1,157,508</u>	<u>103,483</u>	<u>(34,611)</u>	<u>1,226,380</u>
Total capital assets, net	<u>\$ 1,103,635</u>	<u>61,156</u>	<u>(62,808)</u>	<u>1,101,983</u>

<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>

At June 30, 2020, 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, 2020 is \$45.2 million. Other projects at June 30, 2020, with an estimated cost of \$588.6 million, have been committed to by the Board and/or UIHC; however, construction contracts had not been signed as of June 30, 2020. 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, 2020 and 2019 was as follows:

	<b>2020</b>	<b>2019</b>
Hospital revenue bonds:		
Series S.U.I. 2010 – 3.375% to 4.500%; maturing serially on September 1 through 2037	\$ 23,300	24,225
Series S.U.I. 2011 – 3.000% to 4.000%; maturing serially on September 1 through 2032	19,575	20,700
Series S.U.I. 2011A – 4.000% to 4.125%; maturing serially on September 1 through 2028	12,045	13,165
Series S.U.I. 2012 – 4.000% to 4.000%; maturing serially on September 1 through 2038	157,900	163,575
Series S.U.I. 2016 – 1.250% to 5.000%; maturing serially on September 1 through 2038	22,180	24,590
Series S.U.I. 2016A – 3.000% to 3.000%; maturing serially on September 1 through 2038	18,590	20,450
Series S.U.I. 2018 – 3.000% to 5.000%; maturing serially on September 1 through 2043	32,340	32,665
Series S.U.I. 2019 – 3.000% to 5.000%; maturing serially on September 1 through 2039	42,475	42,475
Net unamortized premium on hospital revenue bonds	14,561	15,667
Telecommunications Facilities Revenue Bonds:		
Series S.U.I. 2009 – 3.300% to 3.300%; maturing serially on July 1 through 2036	405	10,345
Series S.U.I. 2011 – 3.000% to 4.500%; maturing serially on July 1 through 2032	5,501	5,818
Series S.U.I. 2020 – 2.500% to 5.000%; maturing serially on July 1 through 2032	9,062	—
Total long-term bonds	357,934	373,675
Capital lease obligation	14,318	15,407
Total long-term debt	372,252	389,082
Long-term debt, current portion	17,551	15,236
	\$ 354,701	373,846

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Activity in long-term debt for the years ended June 30, 2020 and 2019 was as follows:

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

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	<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>

*Long-Term Bonds*

The hospital revenue bonds are special obligations of the Board payable solely out of hospital income, the general purpose of which is to expand and improve UIHC facilities. "Hospital income" is defined as the gross income and funds received by the Hospital System at the University, including the proceeds of rates, fees, charges, and payments for healthcare provider activities for patient care services rendered by the University's hospitals, clinics, laboratories, and ancillary facilities, less current expenses (as defined in the resolution authorization the issuance of the bonds, the Bond Resolution). Hospital income does not include state appropriations to the University. So long as the bonds or parity bonds remain outstanding, the entire hospital income shall be deposited to the revenue fund and shall be disbursed to the following funds in the following order: (1) the operation and maintenance fund, (2) the sinking fund, (3) the reserve fund, and (4) the system fund. The reserve fund requirement is at least equal to the maximum annual amount of the principal and interest coming due on the bonds and any parity bonds, or \$28.7 million. The maximum amount of hospital income pledged representing the undiscounted principal and interest on the bonds is \$470.3 million.

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2021	\$ 16,430	12,730	29,160
2022	16,504	12,318	28,822
2023	17,027	11,683	28,710
2024	17,832	10,972	28,804
2025	18,843	10,224	29,067
2026 through 2030	95,408	39,146	134,554
2031 through 2035	82,375	22,327	104,702
2036 through 2040	71,540	7,000	78,540
2041 through 2044	7,414	530	7,944
	<u>\$ 343,373</u>	<u>126,930</u>	<u>470,303</u>

The following are deferred outflows of resources and deferred inflows of resources related to debt refundings as of June 30, 2020 and 2019:

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

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	<b>2019 Deferred outflows of resources</b>	<b>2019 Deferred inflows of resources</b>
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	—

*Capital Lease Obligations*

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year(s) ending June 30:			
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	1,259	482	1,741
2026 through 2030	6,874	1,426	8,300
2031 through 2035	1,499	75	1,574
	\$ 14,318	3,939	18,257

**(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 2020 and 2019, UIHC's contributions amount to \$41.6 million and \$40.3 million, respectively. UIHC contributions to the Plan are 10.00% of employee compensation after the first five years of employment. During the first five years of employment, UIHC's contribution is 6.67% of the first \$4,800 of compensation and 10.00% of the remaining balance of employee compensation. Employees are required to contribute an amount equal to 50.00% of UIHC's contribution. All contributions to the Plan are immediately 100.00% vested.

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*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](http://www.ipers.org). IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

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

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

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

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

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

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*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 2020 and 2019, pursuant to the required rates, members and UIHC contributed the following percentages of pay to the respective membership groups:

<u>Fiscal year</u>	<u>Membership group</u>	<u>Member</u>	<u>UIHC</u>	<u>Total</u>
2020	Regular	6.29 %	9.44 %	15.73 %
2020	Protection occupations	6.61	9.91	16.52
2019	Regular	6.29	9.44	15.73
2019	Protection occupations	6.81	10.21	17.02

UIHC’s contributions to IPERS for the years ended June 30, 2020 and 2019 were \$7.3 million and \$5.9 million, respectively.

*Net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions* – At June 30, 2020 and 2019, UIHC reported a liability in other long-term liabilities on the statements of net position of \$51.2 million and \$49.2 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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, 2020, UIHC’s proportion was 0.88403%, which was an increase of 0.10593% from its proportion measured as of June 30, 2019 of 0.77810%. At June 30, 2019, UIHC’s proportion was 0.77810%, which was an increase of 0.07351% from its proportion measured as of June 30, 2018 of 0.70459%.



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For the years ended June 30, 2020 and 2019, UIHC recognized pension expense of \$15.8 million and \$10.6 million, respectively. At June 30, 2020 and 2019, UIHC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2020</b>	<b>2020</b>
	<b>Deferred</b>	<b>Deferred</b>
	<b>outflows of</b>	<b>inflows of</b>
	<b>resources</b>	<b>resources</b>
	<u>                    </u>	<u>                    </u>
Difference between expected and actual experience	\$ 144	(1,843)
Changes of assumptions	5,512	(1)
Net difference between projected and actual earnings on pension plan investments	—	(5,809)
Changes in proportion and differences between contributions and proportionate share of contributions	8,174	(11)
Contributions subsequent to the measurement date	<u>7,274</u>	<u>—</u>
Total	<u>\$ 21,104</u>	<u>(7,664)</u>
	<b>2019</b>	<b>2019</b>
	<b>Deferred</b>	<b>Deferred</b>
	<b>outflows of</b>	<b>inflows of</b>
	<b>resources</b>	<b>resources</b>
	<u>                    </u>	<u>                    </u>
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	<u>5,921</u>	<u>—</u>
Total	<u>\$ 22,551</u>	<u>(2,488)</u>

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At June 30, 2020, the \$7.3 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, 2021. At June 30, 2020, 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:			
2021	\$	4,521	
2022		1,279	
2023		586	
2024		(313)	
2025		93	
		93	
	\$	6,166	

There are no nonemployer contributing entities at IPERS.

The June 30, 2019 and the June 30, 2018 actuarial 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.

There were no changes in economic assumptions for the June 30, 2019 and June 30, 2018 valuations.

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

<u>Asset class</u>	<u>Asset allocation</u>	<u>Long-term expected real rate of return</u>
Domestic equity	22.0 %	5.60 %
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core-plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100 %</u>	

*Discount rate* – The discount rate used to measure the total pension liability was 7.0% at June 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from UIHC will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease (6.0)%</u>	<u>Discount rate (7.0)%</u>	<u>1% Increase (8.0)%</u>
UIHC’s proportionate share of the net pension liability	\$ 91,148	51,191	17,678

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The following presents UIHC's proportionate share of the net pension liability calculated using the discount rate of 7.00% at June 30, 2019, 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.

	<b>1% Decrease (6.0)%</b>	<b>Discount rate (7.0)%</b>	<b>1% Increase (8.0)%</b>
UIHC's proportionate share of the net pension liability	\$ 83,739	49,240	20,301

*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](http://www.ipers.org).

*Payables to the pension plan* – At June 30, 2020 and 2019, respectively, UIHC reported payables to the defined-benefit pension plan of \$617,000 and \$525,000 for legally required employer contributions and \$411,000 and \$350,000 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 provide medical/prescription drug benefits for employees, retirees, and their spouses. The two plans are the Professional and Scientific and Faculty Plan (PSF) and the Merit Employee Plan. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting of Postemployment Benefits other than Pensions*.

At June 30, 2020 and 2019, UIHC recognized a total OPEB liability of \$49.0 million and \$42.4 million, respectively, for its PSF and a liability of \$14.1 million and \$10.9 million for its Merit Employee Plan, respectively, for a total OPEB liability of \$63.1 million and \$53.3 million. At June 30, 2020 and 2019, respectively, \$58.8 million and \$49.5 million of the total liability was recorded in other long-term liabilities while \$4.3 million and \$3.8 million was recorded in other current 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 2020 and 2019 were \$2.1 million each year.

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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, 2020 and 2019, the following UIHC employees were covered by the benefit terms:

	2020	2019
Professional and Scientific and Faculty Plan (PSF):		
Inactive employees or beneficiaries currently receiving benefits	872	1,220
Active employees	5,033	4,730
Total	5,905	5,950
Merit Plan:		
Inactive employees or beneficiaries currently receiving benefits	125	54
Active employees	1,681	1,824
Total	1,806	1,878

**(d) Total OPEB Liability**

UIHC's total OPEB liability for June 30, 2020 and 2019 was determined by an actuarial valuation with a measurement date of June 30, 2019 and 2018, 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, 2020 and 2019 liabilities were determined using the following actuarial assumptions and the entry-age normal actuarial cost method, applied to all periods included in the measurements.

	<u>2019</u>	<u>2018</u>
Rate of inflation	2.50 %	2.50 %
Rates of salary increase	3.00	3.00
Discount rate	3.50	3.87
Healthcare cost trend rate Pre-65 (decreasing to an ultimate rate of 4.50%)	6.65	7.29
Healthcare cost trend rate Post-65 (decreasing to an ultimate rate of 4.50%)	7.61	8.88

*Discount rate* – The June 30, 2019 and 2018 discount rate used to measure the total OPEB liability was 3.50% and 3.87%, respectively, which reflects the index rate for S&P Municipal Bond 20-Year High Grade index as of the measurement date.

2019 mortality rates are from the Pub-2010 aggregate mortality table projected using Scale MP-2018 and 2018 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 determination of the liabilities as of June 30, 2020 and 2019 were based on the results of actuarial experience studies with dates from 2014 – 2018 and 2012 – 2016, respectively.

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

<b>Changes in total PSF OPEB liability</b>	<b>2020 total OPEB liability</b>	<b>2019 total OPEB liability</b>
Total OPEB liability, beginning of year, July 1	\$ 42,410	38,412
Changes for the year:		
Service cost	971	970
Interest	1,582	1,535
Changes in benefit terms	—	—
Differences between expected and actual experiences	1,278	—
Changes of assumptions	6,895	(308)
Benefit payments	(3,323)	(3,369)
Other	(848)	5,170
Net changes	<u>6,555</u>	<u>3,998</u>
Total OPEB liability, end of year, June 30	<u>\$ 48,965</u>	<u>42,410</u>
<b>Changes in total merit OPEB liability</b>	<b>2020 total OPEB liability</b>	<b>2019 total OPEB liability</b>
Total OPEB liability, beginning of year, July 1	\$ 10,893	9,819
Changes for the year:		
Service cost	408	559
Interest	421	278
Changes in benefit terms	—	7,848
Differences between expected and actual experiences	305	—
Changes of assumptions	2,707	(4,786)
Benefit payments	(429)	(421)
Other	(217)	(2,404)
Net changes	<u>3,195</u>	<u>1,074</u>
Total OPEB liability, end of year, June 30	<u>\$ 14,088</u>	<u>10,893</u>

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The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 3.50% as of June 30, 2019, from 3.87%

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

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

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.

	<b>1% Decrease (2.87)%</b>	<b>Discount rate (3.87)%</b>	<b>1% Increase (4.87)%</b>
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, 2020, as well as what UIHC's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is one-percentage-point lower (5.65%) or one-percentage-point higher (7.65%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (6.61%) or one-percentage-point higher (8.61%) higher than the current healthcare cost trend rate for post-65 participants.

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



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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.

<b>Pre-65 participants</b>	<b>1% Decrease (6.29)%</b>	<b>Discount rate (7.29)%</b>	<b>1% Increase (8.29)%</b>
<b>Post-65 participants</b>	<b>(7.88)%</b>	<b>(8.88)%</b>	<b>(9.88)%</b>
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, 2020 and 2019, UIHC recognized OPEB expense of \$1,729,120 and \$846,558, respectively, for the PSF and \$590,516 and \$8,141,720, respectively, for the Merit plan.

At June 30, 2020 and 2019, UIHC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

  

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

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<b>PSF</b>	<b>2019 Deferred outflows of resources</b>	<b>2019 Deferred inflows of resources</b>
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>

  

<b>Merit Plan</b>	<b>2019 Deferred outflows of resources</b>	<b>2019 Deferred inflows of resources</b>
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>

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

	<b>PSF</b>
Year ending June 30:	
2021	\$ (825)
2022	(825)
2023	(825)
2024	(824)
2025	(824)
Total thereafter	<u>(96)</u>
Total	<u>\$ (4,219)</u>

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	<b>Merit Plan</b>
Year ending June 30:	
2021	\$ (238)
2022	(238)
2023	(238)
2024	(239)
2025	(233)
Total thereafter	(227)
Total	\$ (1,413)

**(7) Risk Management**

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

UIHC's portion of the health insurance liability, which is included in accounts payable and accrued expenses of \$12.7 million and \$11.1 million as of June 30, 2020 and 2019, respectively, is as follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Liability for unpaid healthcare claims at beginning of year	\$ 11,121	8,362	5,571
Healthcare expenses incurred during the year	148,738	138,998	116,659
Healthcare payments to the University during the year	(147,126)	(136,239)	(113,868)
Liability for unpaid healthcare claims at end of year	\$ 12,733	11,121	8,362

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

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

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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.

**(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, 2020 and 2019, UIHC expensed approximately \$232.9 million and \$213.4 million, respectively, for these administrative services, utilities, and other services and support requirements. At June 30, 2020 and 2019, approximately \$8.9 million and \$7.2 million, respectively, were due to the Carver College of Medicine. At June 30, 2020 and 2019, \$27.5 million and \$26.7 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, 2020 and 2019, UIHC received revenue from these units of approximately \$9.4 million and \$9.3 million, respectively, for these services, which is recorded in other revenue in the statements of revenue, expenses, and changes in net position.

UIHC transfers to and receives transfers from non-UIHC University of Iowa units and UIHS. Net transfers to these units totaled \$(12.7) million and \$(20.4) million for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, UIHC transferred \$5.0 million and \$6.5 million, respectively, which is recorded in net transfers in the statements of revenue, expenses, and changes in net position.

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**(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:

	<b>2020</b>	<b>2019</b>
Gross patient charges:		
Inpatient charges	\$ 2,731,183	2,657,795
Outpatient charges	3,301,230	2,996,666
Total gross patient charges	6,032,413	5,654,461
Less deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	4,108,051	3,810,861
Provision for bad debts	35,942	62,090
Net patient service revenue	\$ 1,888,420	1,781,510

The provision for uncollectible patient accounts is based on UIHC management’s assessment of expected net collections considering the accounts receivable aging, historical collections experience, economic conditions, trends in healthcare coverage, and other collection indicators. Management periodically assesses the adequacy of the allowances for uncollectible accounts and contractual adjustments based on historical write-off experience. The results of these reviews are used to establish the net realizable value of patient accounts receivable. UIHC follows established guidelines for placing certain patient balances with collection agencies. Self-pay accounts are written off as bad debt at the time of transfer to the collection agency. Remaining balances after the primary payor has adjudicated an account (if any) are categorized as either self-pay after insurance or secondary insurance after insurance to estimate the collectibility of the remaining accounts receivable. During 2019, UIHC revised its methodology for estimating bad debt resulting in a one time increase in the provision for bad debts as a result of the change in estimate.

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Patient service cash receipts (net of adjustments), received in 2020 and 2019 from the major payor sources, are as follows:

	<u>2020</u>	<u>2019</u>
Patient (self-pay)	\$ 15,007	13,328
Medicaid	282,673	266,428
Medicare	537,428	513,589
Commercial insurance and other third-party payors	<u>1,022,365</u>	<u>976,715</u>
Patient service receipts (net of adjustments)	1,857,473	1,770,060
Changes to A/R balance, late charges reserve, and other third-party reserves	<u>30,947</u>	<u>11,450</u>
Patient service revenue (net of contractual allowance, discounts, and provision for bad debts)	<u>\$ 1,888,420</u>	<u>1,781,510</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 2020 and 2019 net patient service revenue from third-party payors increased approximately \$9.5 million and \$15.1 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 28.6% and 29.2% of UIHC's net patient receipts for the years ended 2020 and 2019, 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% of UIHC's net patient receipts for each of the years ended 2020 and 2019.

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**(c) Commercial**

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

**(10) Charity Care and Uncompensated Cost of Services**

UIHC provides care to patients who meet certain criteria under its charity care policy by adjusting off charges either in full or by adjusting off an approved percentage of the self-pay balance. State Institution accounts are automatically classified as charity care and, therefore, the patient charges are written off as charity care in full. Patient charges written off for services and supplies furnished under UIHC's charity policy for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Charity care	\$ 15,629	9,674
Charity care for State Institution patients	<u>35,187</u>	<u>45,931</u>
Charity care charges forgone	<u>\$ 50,816</u>	<u>55,605</u>

The cost of charges forgone for services and supplies furnished under UIHC's charity policy approximated \$15.2 million and \$16.6 million for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, approximate the following:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 125,160	90,719
Medicaid	59,353	63,396
Medicaid out of state	5,808	4,150
State Institution	<u>8,810</u>	<u>9,704</u>
Uncompensated costs of services	<u>\$ 199,131</u>	<u>167,969</u>

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**(11) Concentrations of Credit Risk**

UIHC grants credit without collateral to its patients, most of whom are Iowa residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors based on primary payor at June 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Blue Cross Blue Shield	28 %	29 %
Commercial pay	27	28
Medicare	26	27
Medicaid	15	13
Self-pay	1	1
Other	3	2
	<u>100 %</u>	<u>100 %</u>

**(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, 2020 and 2019 was \$18.3 million and \$19.7 million, respectively.

The following is a schedule by year of future minimum rental payments required under noncancelable operating leases as of June 30, 2020:

Year(s) ending June 30:	
2021	\$ 13,513
2022	9,319
2023	9,090
2024	9,014
2025	8,515
2026–2030	37,650
2031–2035	15,701
2036–2040	<u>2,976</u>
Total	<u>\$ 105,778</u>



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**(13) Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses reported as current liabilities at June 30, 2020 and 2019 consisted of the following amounts:

	<u>2020</u>	<u>2019</u>
Payable to employees (including payroll taxes)	\$ 106,524	103,218
Payable to suppliers	52,532	56,681
Other	<u>3,054</u>	<u>3,000</u>
Total accounts payable and accrued expenses	<u>\$ 162,110</u>	<u>162,899</u>

**(14) Other Long-Term Liabilities**

Other long-term liabilities at June 30, 2020 and 2019 consisted of the following amounts (in thousands):

	<u>2020</u>	<u>2019</u>
Pension liability	\$ 51,191	49,240
OPEB liability	58,789	49,475
Payable to employees (compensated absences)	<u>23,214</u>	<u>17,820</u>
Total other long-term liabilities	<u>\$ 133,194</u>	<u>116,535</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.

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**(16) COVID-19 CARES Act Provider Relief Funds**

In early 2020, the spread of COVID-19 reached the United States, including the State of Iowa. The pandemic affected operations driven by actions taken to help respond to the public health emergency. In order to ensure the safety of patients and staff, as well as comply with requests by federal and state entities, UIHC began modifying clinical operations in mid-March, which included stopping elective surgical cases and reducing clinic volumes to only those cases requiring immediate in-person care. In response to the COVID-19 pandemic, the United States congress passed the Coronavirus Aid, Relief, and Economic Security or CARES Act on March 27, 2020. As a result, UIHC received \$31.1 million for healthcare-related expenses or lost revenues attributable to the coronavirus, which is recorded as nonoperating revenue in the statements of revenue, expenses, and changes in net position.

**(17) Subsequent Events**

UIHC has reviewed subsequent events through November 16, 2020 and concluded that there were no events or transactions during this period that would require recognition or disclosure in the financial statements.

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

UIHC received additional funding from the Department of Health and Human Services (HHS) for the CARES Act Provider Relief Funds totaling \$19.65 million related to the COVID-19 pandemic.

Due to the recent enactment of the CARES Act and the PPPHCE Act, there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. In September 2020, HHS issued reporting requirements that provided information on how UIHC should report it used the funds received under these programs. The requirements changed the calculations to be based on unreimbursed healthcare-related expenses attributable to the coronavirus and the year-over-year change in net patient care operating income as defined. UIHC believes that such new guidance is a nonrecognized subsequent event as of June 30, 2020 and any changes will be accounted for during the year ended June 30, 2021. UIHC continues to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition, and cash flows.

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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, 2020

(Unaudited)

<b>For the year ended</b>	<b>UIHC's proportion of the net pension liability</b>	<b>UIHC's proportionate share of the net pension liability</b>	<b>UIHC's covered- employee payroll</b>	<b>UIHC's proportionate share of the net pension liability as a percentage of its covered- employee payroll</b>	<b>Plan fiduciary net position as a percentage of the total pension liability</b>
June 30, 2020	0.88403 %	\$ 51,191	67,921	75.4 %	85.5 %
June 30, 2019	0.77810	49,240	59,535	82.7	83.6
June 30, 2018	0.70459	46,934	53,187	79.2	82.2
June 30, 2017	0.59455	37,417	42,998	71.8	81.8
June 30, 2016	0.47349	23,539	32,763	71.8	85.2
June 30, 2015	0.38388	15,536	25,706	60.4	87.6

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

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

See accompanying independent auditors' report.

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Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2020

(Unaudited)

	<u>2020</u>	<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>
Statutorily required contribution	\$ 7,274	5,921	5,224	4,623	3,603	2,660	2,299	1,896	1,528	976
Contributions in relation to the statutorily required contribution	<u>(7,274)</u>	<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>
Contribution deficiency \$	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
UIHC's covered-employee payroll	\$ 77,106	62,910	59,251	52,104	32,763	29,902	25,706	21,965	18,748	13,521
Contributions as a percentage of the covered-employee payroll	9.4 %	8.8 %	8.8 %	8.9 %	8.9 %	8.9 %	8.9 %	8.6 %	8.1 %	7.2 %

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, 2020

(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>PSF Plan:</b>			
Service cost	\$ 971	970	10,283
Interest	1,582	1,535	5,609
Changes in benefit terms	—	—	(148,291)
Differences between expected and actual experience	1,278	—	15,488
Changes of assumptions	6,895	(308)	(30,071)
Benefit payments	(3,323)	(3,369)	(2,217)
Other	(848)	5,170	—
Net change in total OPEB liability	6,555	3,998	(149,199)
Total OPEB liability, beginning of year	42,410	38,412	187,611
Total OPEB liability, end of year	48,965	42,410	38,412
Covered-employee payroll	\$ 430,413	411,270	354,814
Total OPEB liability as a percentage of covered employee payroll	<u>11.38 %</u>	<u>10.31 %</u>	<u>10.83 %</u>
<b>Merit Plan:</b>			
Service cost	\$ 408	559	755
Interest	421	278	293
Changes in benefit terms	—	7,848	—
Differences between expected and actual experience	305	—	—
Changes of assumptions	2,707	(4,786)	(512)
Benefit payments	(429)	(421)	—
Contributions from the employer	—	—	(531)
Other	(217)	(2,404)	—
Net change in total OPEB liability	3,195	1,074	5
Total OPEB liability, beginning of year	10,893	9,819	9,814
Total OPEB liability, end of year	14,088	10,893	9,819
Covered-employee payroll	\$ 64,351	65,863	90,752
Total OPEB liability as a percentage of covered employee payroll	<u>21.89 %</u>	<u>16.54 %</u>	<u>10.82 %</u>

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

See accompanying independent auditors' report.

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June 30, 2020

(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**

There were no changes in economic assumptions for the June 30, 2019 and June 30, 2018 valuations.

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.

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%.

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(Unaudited)

- 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.

The financial accounting valuation reflects the following method changes:

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

The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 3.50% as of June 30, 2019; the discount rate was 3.87% as of June 30, 2018.
- A change in the demographic assumption for the Merit employees from the State assumptions to the University staff assumptions.
- Mortality assumption was changed to the family of Pub-2010 Mortality Tables for all groups, with mortality improvements modeled using the Scale MP-2018.