



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

Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

The Board of Regents
State University of Iowa:

Opinion

We have audited the financial statements of the State University of Iowa, University of Iowa Hospitals and Clinics (UIHC), a department of the State University of Iowa, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise UIHC's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of UIHC as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of UIHC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

Reporting Entity

As discussed in note 1(a), the financial statements of UIHC are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the State University of Iowa that is attributable to the transactions of UIHC. They do not purport to, and do not, present fairly the financial position of the State University of Iowa, as of June 30, 2022 and 2021, 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.

Adoption of New Accounting Pronouncement

As discussed in note 1(g), in 2022, UIHC adopted Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not



a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 UIHC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions, and the schedule of changes in UIHC's total OPEB liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits 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 11, 2022

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

Management's Discussion and Analysis

June 30, 2022 and 2021

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, 2022 and 2021. 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 fiscal year 2022 with an increase in net position of \$315.1 million, or 16.2%, to \$2.26 billion, compared to an increase of \$202.6 million, or 11.6%, in fiscal year 2021. Operating income increased \$319.4 million, or 352.4% when compared to fiscal year 2021, primarily due to 22.1% growth in net patient service revenue relative to fiscal year 2021. In fiscal year 2022, UIHC in partnership with Iowa Medicaid Enterprise and the State of Iowa received approval to establish a program that provides federal funds for the State's Medicaid program. The new program is designed to ensure Medicaid patients have access to high-quality specialty care in Iowa and is largely responsible for the year-over-year increase in net patient service revenue. Nonoperating revenue, net decreased \$215.2 million when compared to fiscal year 2021 largely due to investment performance.

In fiscal year 2021 operating income increased \$32.8 million, or 56.6%, when compared to fiscal year 2020, primarily due to fewer disruptions to patient volumes and net patient service revenue in response to the COVID-19 pandemic. Nonoperating revenue, net increased \$83.0 million largely due to investment performance.

UIHC implemented the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87) in fiscal year 2022. This standard improves accounting and financial reporting for leases by governments. UIHC adopted GASB 87 effective July 1, 2021, with an initial application date of July 1, 2020. As a result, fiscal year 2021 has been restated. Adoption of GASB 87 resulted in the recognition of an intangible right-to-use lease asset (lease asset) and related lease liability of approximately \$117 million as of July 1, 2020 but did not materially impact UIHC's earnings or cash flows for the year ended.

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 fiscal year 2022, net position increased by \$315.1 million, or 16.2%, to \$2.26 billion. The increase in net position is primarily the result of operating income of \$410.0 million and investment losses of \$93.9 million. Operating income increased \$319.4 million, or 352.4% relative to fiscal year 2021, primarily due to growth in net patient service revenue of \$466.5 million, or 22.1%. The increase in net patient service revenue is the result

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of continued high occupancy, an increased case mix index, and additional funding received through participation in a federal program in partnership with Iowa Medicaid Enterprise and the State of Iowa that is designed to ensure Medicaid patients have access to high-quality specialty care in Iowa.

In fiscal year 2021, net position increased by \$202.6 million, or 11.6%, to \$1.95 billion. The increase in net position was primarily due to investment income of \$116.4 million and operating income of \$90.6 million.

Table 1 provides a summary of UIHC's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2022, 2021, and 2020.

Table 1

Condensed Statements of Net Position

(In thousands)

Assets and Deferred Outflows	2022	2021 Restated	2020 Not Restated
Current assets	\$ 760,989	478,148	378,385
Noncurrent cash and investments	1,588,849	1,232,678	990,795
Capital assets, net	1,215,388	1,191,105	1,101,983
Other assets	2,229	1,798	1,747
Total assets	<u>3,567,455</u>	<u>2,903,729</u>	<u>2,472,910</u>
Deferred outflows	53,614	61,521	51,254
Total assets and deferred outflows	<u>\$ 3,621,069</u>	<u>2,965,250</u>	<u>2,524,164</u>
Liabilities, Deferred Inflows, and Net Position			
Current liabilities	\$ 516,769	364,193	250,993
Long-term debt	651,265	432,989	354,701
Other long-term liabilities	100,804	191,647	133,194
Total liabilities	<u>1,268,838</u>	<u>988,829</u>	<u>738,888</u>
Deferred inflows	88,156	27,457	36,188
Net position:			
Net investment in capital assets	713,622	732,488	732,321
Restricted	17,834	5,981	5,207
Unrestricted	1,532,619	1,210,495	1,011,560
Total net position	<u>2,264,075</u>	<u>1,948,964</u>	<u>1,749,088</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,621,069</u>	<u>2,965,250</u>	<u>2,524,164</u>

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Management's Discussion and Analysis

June 30, 2022 and 2021

Table 2 shows the changes in net position for fiscal year 2022 compared to fiscal years 2021 and 2020.

Table 2

Statements of Revenue, Expenses, and Changes in Net Position

(In thousands)

	<u>2022</u>	<u>2021 Restated</u>	<u>2020 Not Restated</u>
Operating revenue:			
Net patient service revenue	\$ 2,577,624	2,111,156	1,888,420
Other revenue	53,909	47,716	51,209
Total operating revenue	<u>2,631,533</u>	<u>2,158,872</u>	<u>1,939,629</u>
Operating expenses:			
Salaries and benefits	874,701	869,745	820,953
Medical supplies and drugs	723,159	663,162	565,162
Other supplies and general expenses	500,482	419,054	392,155
Depreciation and amortization	123,167	116,282	103,483
Total operating expenses	<u>2,221,509</u>	<u>2,068,243</u>	<u>1,881,753</u>
Operating income	<u>410,024</u>	<u>90,629</u>	<u>57,876</u>
Nonoperating revenue (expense):			
Loss on disposal of capital assets	(108)	(1,522)	(1,318)
Noncapital gifts	362	205	9
Investment income	(93,896)	116,428	35,391
Government funding	29,152	35,451	31,128
Interest expense	(14,668)	(14,471)	(12,141)
Total nonoperating revenue, net	<u>(79,158)</u>	<u>136,091</u>	<u>53,069</u>
Excess of revenue over expenses before transfers	330,866	226,720	110,945
Capital gifts and grants	1,215	1,147	963
Net transfers out	(16,970)	(25,267)	(12,706)
Increase in net position	315,111	202,600	99,202
Net position, beginning of year	1,948,964	1,749,088	1,649,886
Cumulative effect of adoption of accounting standard	—	(2,724)	—
Net position, beginning of year, as restated	—	1,746,364	—
Net position, end of year	<u>\$ 2,264,075</u>	<u>1,948,964</u>	<u>1,749,088</u>

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Net Patient Service Revenue

In fiscal year 2022, net patient service revenue increased by \$466.5 million, or 22.1%, compared to fiscal year 2021. The increase was largely driven by an increased number of outpatient clinic visits, an increased case mix index, and additional funding received through participation in a federal program in partnership with Iowa Medicaid Enterprise and the State of Iowa that is designed to ensure Medicaid patients have access to high-quality specialty care in Iowa. Outpatient clinic visits increased by 113,831, or 10.8%, relative to the previous year and the case mix index increased 1.6% to 2.42.

In fiscal year 2021, net patient service revenue increased by \$222.7 million, or 11.8%, compared to fiscal year 2020. The increase was primarily driven by volume increases from transplants, outpatient visits, outpatient surgeries, and outpatient pharmacy services. Outpatient clinic visits increased by 74,297, or 7.7%, relative to the previous year, total surgeries increased by 2,800, or 8.5%, and the case mix index increased 6.8% to 2.38.

The provision for bad debts (a deduction from gross patient charges) increased by \$8.0 million to \$43.5 million in fiscal year 2022. The increase is primarily due to the increased in gross patient revenue. In fiscal year 2021, bad debts decreased \$0.5 million to \$35.4 million. The decrease was largely the result of a return to a normal level of write-offs after fiscal year 2020 experienced an increase in up-front self-pay contractual discounts.

Operating Expenses

In fiscal year 2022, total operating expenses increased by \$153.3 million, or 7.4%, compared to fiscal year 2021. Medical supplies and drugs increased by \$60.0 million, or 9.0%, while other supplies and general expenses increased by \$81.4 million, or 19.4%, relative to fiscal year 2021. The growth in operating expenses is largely the result of increased patient volumes as well as price inflation in the cost of labor, professional services, medical supplies, and drugs.

In fiscal year 2021, total operating expenses increased by \$186.5 million, or 9.9%, compared to fiscal year 2020. The increase was primarily driven by medical supplies and drugs, which increased by \$98.0 million, or 17.3%, and salaries and benefits, which increased by \$48.8 million, or 5.9%, compared to fiscal year 2020. The growth in operating expenses is primarily due to increased patient volumes and as well as price inflation in the cost of supplies and drugs.

Nonoperating Revenue and Expenses, Net

Nonoperating revenue and expenses primarily consist of investment income, government funding, and interest expense. In fiscal year 2022, total nonoperating revenue and expense, net decreased by \$215.2 million, or 158.2%, relative to fiscal year 2021. UIHC recorded net unrealized losses on investments of \$109.2 million and overall earnings on endowment and operating pools of \$15.3 million, which contributed to decreased investment income of \$210.3 million relative to fiscal year 2021. UIHC received \$29.2 million of government funding in response to the COVID-19 pandemic, a decrease of \$6.3 million compared to fiscal year 2021.

In fiscal year 2021, total nonoperating revenue and expense, net increased by \$83.0 million, or 156.4%, compared to fiscal year 2020. UIHC recorded net unrealized gains on investments of \$103.3 million and overall earnings on endowment and operating pools of \$13.1 million, which contributed to increased investment income of \$81.0 million compared to fiscal year 2020. UIHC received \$35.5 million of government funding in response to the COVID-19 pandemic, an increase of \$4.3 million compared to fiscal year 2020.

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Management's Discussion and Analysis

June 30, 2022 and 2021

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 increased during fiscal year 2022, with a net increase in cash and cash equivalents of \$8.5 million. In fiscal year 2022, net cash provided by operating activities provided cash inflows of \$303.6 million and net cash provided by noncapital financing activities was \$12.5 million. Net cash provided by capital and related financing activities was \$207.0 million while net cash used in investing activities was \$514.6 million.

UIHC's overall liquidity decreased during fiscal year 2021, with a net decrease in cash and cash equivalents of \$4.1 million. In fiscal year 2021, net cash provided by operating activities provided cash inflows of \$294.4 million and net cash provided by noncapital financing activities was \$10.4 million. Net cash used in capital and related financing activities was \$131.9 million. Net cash used in investing activities was \$177.0 million.

Capital Assets

As of June 30, 2022, UIHC had \$1.22 billion invested in capital assets, net of accumulated depreciation and amortization. This is a \$24.3 million, or 2.0%, increase when compared to capital assets, net in fiscal year 2021 of \$1.19 billion.

Capital assets, net of accumulated depreciation and amortization increased \$89.1 million, or 8.1%, in fiscal year 2021 compared to capital assets, net in fiscal year 2020 of \$1.10 billion. The year-over-year increase is primarily due to adoption of GASB Statement No. 87, *Leases* effective July 1, 2020.

Debt

As of June 30, 2022, and 2021, UIHC had \$825.0 million and \$460.5 million, respectively, in bonds and lease obligations. During fiscal years 2022 and 2021, principal payments on long-term debt and other obligations were \$21.8 million and \$30.9 million, respectively, excluding reductions in refunded bonds.

In fiscal year 2022, UIHC issued \$112.4 million of Series S.U.I 2021A Revenue Refunding Bond. The proceeds of the bonds were used to refund the Series S.U.I. 2011 Revenue Bond, Series S.U.I 2011A Revenue Bond, and new construction. UIHC issued \$148.7 million of Series S.U.I 2021B Refunding Bond Anticipation Note Bond to refund the Series S.U.I 2012 Revenue Bond. UIHC issued \$181.7 million of Series S.U.I 2022A Bond for new construction of the North Liberty Hospital. UIHC issued \$100.2 million of Series S.U.I 2022B Bond for new construction of the North Liberty Hospital.

In fiscal year 2021, UIHC issued \$20.9 million of Series S.U.I 2020 Revenue Refunding Bond and \$3.7 million of Series S.U.I 2020 Telecom Refunding Bond. The proceeds of the bonds were used to refund the Series S.U.I. 2010 Revenue Bond and 2011 Telecom Bond.

Contacting UIHC's Financial Management

This financial report provides the citizens of Iowa, UIHC patients, bondholders, and creditors with a general overview of UIHC's finances and operations. If you have questions about this report, please contact Mr. Mark Henrichs, Associate Vice President for Finance and Chief Financial Officer.

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Statements of Net Position

June 30, 2022 and 2021

(In thousands)

Assets and Deferred Outflows	2022	2021 Restated
Current assets:		
Cash and cash equivalents	\$ 15,469	6,978
Short-term investments	173,186	108,747
Patient accounts receivable, net of estimated uncollectible of \$44,856 in 2022 and \$32,649 in 2021	282,136	280,114
Inventories, at cost	62,717	61,837
Current investments for debt service – restricted	9,514	601
Due from government agencies	196,849	—
Prepaid expenses and other current assets	<u>21,118</u>	<u>19,871</u>
Total current assets	<u>760,989</u>	<u>478,148</u>
Noncurrent assets:		
Capital assets, net	1,215,388	1,191,105
Noncurrent cash and investments:	1,588,849	1,232,678
Other noncurrent assets	<u>2,229</u>	<u>1,798</u>
Total noncurrent assets	<u>2,806,466</u>	<u>2,425,581</u>
Total assets	<u>3,567,455</u>	<u>2,903,729</u>
Deferred outflow of resources:		
Clinic acquisition costs	—	167
Pension-related deferred outflows	22,824	25,693
OPEB-related deferred outflows	29,301	33,569
Debt refunding loss	<u>1,489</u>	<u>2,092</u>
Total deferred outflows	<u>53,614</u>	<u>61,521</u>
Total assets and deferred outflows	<u>\$ 3,621,069</u>	<u>2,965,250</u>
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current maturities of long-term debt and other obligations	\$ 173,700	27,560
Accounts payable and accrued expenses	223,202	190,311
Estimated third-party payor settlements	28,432	16,314
Due to related parties	41,170	99,958
Other current liabilities	43,334	25,757
Accrued interest	<u>6,931</u>	<u>4,293</u>
Total current liabilities	<u>516,769</u>	<u>364,193</u>
Long-term debt and other obligations, net of current maturities	651,265	432,989
Other long-term liabilities	<u>100,804</u>	<u>191,647</u>
Total liabilities	<u>1,268,838</u>	<u>988,829</u>
Deferred inflow of resources:		
Pension-related deferred inflows	57,024	1,673
OPEB-related deferred inflows	30,214	24,938
Leases	380	686
Debt refunding gain	<u>538</u>	<u>160</u>
Total deferred inflows	<u>88,156</u>	<u>27,457</u>
Net position:		
Net investment in capital assets	713,622	732,488
Restricted by donors for specific purposes	8,320	5,380
Restricted for debt service	9,514	601
Unrestricted	<u>1,532,619</u>	<u>1,210,495</u>
Total net position	<u>2,264,075</u>	<u>1,948,964</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,621,069</u>	<u>2,965,250</u>

See accompanying notes to financial statements.

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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021 Restated
Operating revenue:		
Net patient service revenue, net of provision for bad debts of \$43,456 in 2022 and \$35,438 in 2021	\$ 2,577,624	2,111,156
Other revenue	53,909	47,716
Total operating revenue	2,631,533	2,158,872
Operating expenses:		
Salaries and benefits	874,701	869,745
Medical supplies and drugs	723,159	663,162
Other supplies and general expenses	500,482	419,054
Depreciation and amortization	123,167	116,282
Total operating expenses	2,221,509	2,068,243
Operating income	410,024	90,629
Nonoperating revenue (expenses):		
Loss on disposal of capital assets	(108)	(1,522)
Noncapital gifts	362	205
Investment income	(93,896)	116,428
Government funding	29,152	35,451
Interest expense	(14,668)	(14,471)
Total nonoperating (expenses) revenue , net	(79,158)	136,091
Excess of revenue over expenses before transfers	330,866	226,720
Capital gifts and grants	1,215	1,147
Net transfers out	(16,970)	(25,267)
Increase in net position	315,111	202,600
Net position, beginning of year	1,948,964	1,749,088
Cumulative effect of adoption of accounting standard	—	(2,724)
Net position, beginning of year, as restated	—	1,746,364
Net position, end of year	\$ 2,264,075	1,948,964

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021 Restated</u>
Cash flows from operating activities:		
Receipts from patient services	\$ 2,390,872	2,071,965
Other receipts	53,909	47,715
Payments to employees	(890,007)	(816,002)
Payments to suppliers and contractors	(1,251,205)	(1,009,200)
Net cash provided by operating activities	<u>303,569</u>	<u>294,478</u>
Cash flows from noncapital financing activities:		
Net transfers	(16,970)	(25,267)
Noncapital gifts	362	205
Government funding	29,152	35,451
Net cash provided by noncapital financing activities	<u>12,544</u>	<u>10,389</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(141,971)	(91,719)
Proceeds from the sale of capital assets	54	42
Capital gifts and grants received	1,215	1,147
Proceeds from the issuance of long-term debt	542,995	24,625
Premium received on the issuance of long-term debt	34,238	3,744
Principal paid on long-term debt and lease obligations	(203,149)	(54,225)
Interest paid on long-term debt and lease obligations	(26,389)	(15,514)
Other capital and related financing receipts	10	—
Net cash provided by (used in) capital and related financing activities	<u>207,003</u>	<u>(131,900)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	308,005	375,339
Purchase of investments	(837,774)	(565,417)
Interest and dividends received on investments	15,144	13,057
Net cash used in investing activities	<u>(514,625)</u>	<u>(177,021)</u>
Net increase (decrease) in cash and cash equivalents	8,491	(4,054)
Cash and cash equivalents at beginning of year	<u>6,978</u>	<u>11,032</u>
Cash and cash equivalents at end of year	<u>\$ 15,469</u>	<u>6,978</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 410,024	90,629
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	123,167	116,282
Provision for bad debts	43,456	35,438
Changes in assets and liabilities:		
Accounts receivable	(45,478)	(77,782)
Inventories and supplies	(880)	(11,484)
Other assets	(3,452)	(11,035)
Accounts payable and accrued expenses	32,891	28,201
Other liabilities	(12,640)	57,462
Due to (from) related parties	(58,788)	63,615
Estimated third-party payor settlements and due from government agencies	(184,731)	3,152
Net cash provided by operating activities	<u>\$ 303,569</u>	<u>294,478</u>

Noncash investing activity:

During 2022 and 2021, the net appreciation (depreciation) in fair value of investments was \$(109,218) and \$103,275, respectively.

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in tables in thousands)

(1) Summary of Significant Accounting Policies and Related Matters

(a) Reporting Entity

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

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

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

(b) Basis of Presentation

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

(c) Use of Estimates

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

(d) Cash and Investments

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

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

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

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

Undesignated cash equivalents totaling \$15.5 million and \$7.0 million at June 30, 2022 and 2021, respectively, represent money market funds and other short-term investments not held by external investment managers that mature in three months or less from date of purchase.

(e) Inventories and Supplies

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

(f) Capital Assets, Net

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

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

(g) Leases

UIHC is a lessee for various noncancellable leases of building and equipment. UIHC is also a lessor of building space to external parties. During fiscal year 2022, UIHC adopted Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87) effective July 1, 2021, with an initial application date of July 1, 2020.

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The adoption of GASB 87 resulted in the recognition of an intangible right-to-use lease asset and related lease liability of approximately \$117 million as of July 1, 2020 but did not materially impact UIHC's earnings or cash flows for the year ended. The adjustment to net position, net investment in capital assets, of \$2.7 million that has been retrospectively applied to the previously reported July 1, 2020 balance.

Short-term leases – Leases with a maximum possible term of 12 months or less at commencement, UIHC recognizes expense based on the provisions of the lease contract.

Lease arrangements other than short-term – All other leases (i.e. those that are not short-term), UIHC recognizes a lease liability, and an intangible right-to-use lease asset (lease asset). As a lessor, UIHC recognizes a lease receivable and deferred inflow of resources.

Measurement of lease amounts – At lease commencement, UIHC initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If UIHC is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Key estimates and judgments – Key estimates and judgments include how UIHC determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- UIHC generally uses published rates from United States Department of Treasury's State and Local Government Series (SLGS) as a proxy for its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor/vendor charges is known. The SLGS rate is determined based on the start date and length of the lease term. UIHC's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease under similar terms at the commencement or remeasurement date.
- The lease term includes the noncancellable period of the lease, plus any additional periods covered by either UIHC or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both UIHC and the lessor/vendor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.
- Payments are evaluated by UIHC to determine if they should be included in the measurement of the lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as variable payments, payments for termination penalties, and residual value guarantees.

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Remeasurement of lease amounts – UIHC monitors changes in circumstances that may require remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease.

Presentation in statements of net position – Lease assets are reported with capital assets, net and lease liabilities are reported with current maturities of long-term debt and other obligations in addition to long-term debt and other obligations, net of current maturities in the statement of net position. Lease receivables are reported in other noncurrent assets and lease deferred inflow is reported in the deferred inflow section in the statement of net position.

Lease revenue – Similar accounting is performed when UIHC is the lessor however the UIHC lessor activity is not material.

Variable lease revenue – Variable lease revenue is excluded from the measurement of the lease receivable. Such amounts are recognized as lease revenue in the period earned.

(h) *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.

(i) *Gifts and Grants*

UIHC receives grants as well as gifts from individuals and private organizations. During fiscal years 2022 and 2021, this included government funding in response to the COVID-19 pandemic (note 16). Gifts and grants may be restricted for either specific operating purposes or capital purposes.

(j) *Restricted Resources*

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

(k) *Net Position*

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

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(l) Operating Revenue and Expenses

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

(m) Net Patient Service Revenue

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

(n) Charity Care

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

(o) Compensated Absences

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

(p) Pension – Iowa Public Employees Retirement System

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

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(q) Income Taxes

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

(2) Deposits and Investments

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

Noncurrent cash and investments limited by bond resolutions or designated by the Board were held for the following purposes at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Limited by bond resolutions:		
Debt service reserve	\$ 13,022	29,404
Unspent Bond Proceeds	322,097	—
Designated by the Board:		
Capital projects and equipment and other needs	907,181	770,520
Surplus	1,131	660
Improvement, extension, repair, operation, and maintenance funds	336,802	426,396
Restricted by donors	8,616	5,698
	<u>\$ 1,588,849</u>	<u>1,232,678</u>

Cash and cash equivalents and short-term investments specifically identified or pooled with the cash and investments of the University totaled \$188.7 million and \$115.7 million at June 30, 2022 and 2021, respectively. Cash equivalents designated by the Board totaled \$195.7 million and \$126.4 million at June 30, 2022 and 2021, respectively.

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UIHC's investments are recorded at fair value. As of June 30, 2022, UIHC had the following investments and quality credit ratings:

<u>Fixed income</u>	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
U.S. government agencies	3.87	\$ —	72,039	—	—	—	—	—	72,039
U.S. government treasuries	3.31	—	191,337	—	—	—	—	—	191,337
Mutual funds and fixed income funds at net asset value (NAV)	5.07	—	293,840	334,987	—	30,444	94,188	—	753,459
		\$ —	557,216	334,987	—	30,444	94,188	—	1,016,835
Other investments:									
Cash and cash equivalents									384,406
Common stock									2,993
Mutual funds and equity funds at NAV									254,010
Private market									38,501
Real estate									90,273
Total cash and investments									\$ <u>1,787,018</u>

As of June 30, 2021, UIHC had the following investments and quality credit ratings:

<u>Fixed income</u>	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
U.S. government agencies	2.28	\$ —	13,878	—	—	—	—	—	13,878
Mutual funds and fixed income funds at net asset value (NAV)	4.71	—	242,025	287,249	67,535	29,041	96,832	—	722,682
		\$ —	255,903	287,249	67,535	29,041	96,832	—	736,560
Other investments:									
Cash and cash equivalents									242,136
Common stock									3,833
Mutual funds and equity funds at NAV									267,338
Private markets									35,580
Real estate									63,557
Total cash and investments									\$ <u>1,349,004</u>

(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.

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(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 U.S. Treasury or agency debentures, no more than 5% of University's direct investments are invested in securities of a single issuer at the time of purchase. All direct investment purchases by the University in the operating portfolio are U.S. Treasury and agency securities.

(d) Fair Value Measurements

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

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

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

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

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

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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, 2022, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV:

	2022			NAV	Total
	Level 1	Level 2	Level 3		
Fixed income:					
U.S. government agencies	\$ 16,057	55,982	—	—	72,039
U.S. government treasuries	191,337	—	—	—	191,337
Mutual funds	388,947	—	—	—	388,947
Fixed-income funds at NAV	—	—	—	364,512	364,512
Equity and other:					
Common stock	2,898	95	—	—	2,993
Mutual funds	178,751	—	—	—	178,751
Real estate	—	—	—	90,273	90,273
Private markets	—	—	—	38,501	38,501
Equity funds at NAV	—	—	—	75,259	75,259
	<u>\$ 777,990</u>	<u>56,077</u>	<u>—</u>	<u>568,545</u>	1,402,612
Money market/cash equivalents					<u>384,406</u>
Total cash and investments				<u>\$ 1,787,018</u>	

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The following table summarizes UIHC's investments at June 30, 2022 for which NAV was used as a practical expedient to estimate fair value.

<u>Asset class</u>	<u>Fair value determined using NAV 2022</u>	<u>Unfunded commitments at June 30, 2022</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed-income funds at NAV	\$ 364,512		Daily-monthly	5-60 days
Equity funds at NAV	75,259		Daily-monthly	2-30 days
Real estate:				
Redeemable	90,273		Quarterly	60-90 days
Nonredeemable	—		N/A	N/A
Private markets:				
Redeemable	—	—		
Nonredeemable	38,501	138,915	N/A	N/A
Investments measured at NAV	<u>\$ 568,545</u>	<u>138,915</u>		

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

	<u>2021</u>				<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	
Fixed income:					
U.S. government agencies	\$ —	13,878	—	—	13,878
Mutual funds	380,380	—	—	—	380,380
Fixed-income funds at NAV				342,302	342,302
Equity and other:					
Common stock	3,713	120	—	—	3,833
Mutual funds	191,583	—	—	—	191,583
Real estate	—	—	—	63,557	63,557
Private markets	—	—	—	35,580	35,580
Equity funds at NAV				75,755	75,755
	<u>\$ 575,676</u>	<u>13,998</u>	<u>—</u>	<u>517,194</u>	1,106,868
Money market/cash equivalents					<u>242,136</u>
Total cash and investments					<u>\$ 1,349,004</u>

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

<u>Asset class</u>	<u>Fair value determined using NAV 2021</u>	<u>Unfunded commitments at June 30, 2021</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed-income funds at NAV	\$ 342,302	—	Daily-monthly	5–60 days
Equity funds at NAV	75,755	—	Daily-monthly	2–30 days
Real assets:				
Redeemable	63,557	—	Quarterly	60–90 days
Nonredeemable	—	—	N/A	N/A
Private equity:				
Redeemable	—	—		
Nonredeemable	35,580	32,392	N/A	N/A
Investments measured at NAV	\$ <u>517,194</u>	<u>32,392</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 mutual funds holding assets that provide stability, generate income, and diversify market risk.
- **Equity funds** – This category includes investments in global equities, including both developed and emerging markets.
- **Real estate** – This category includes funds that invest in open-end real estate. The University subscribes to purchase interests in the funds, which may be called up to 18 months after subscription date, based on the fund contribution queue. The University's interest in the funds is redeemable on a quarterly or semi-annual basis following an additional lock period, with withdrawals dependent on each fund's redemption queue per the terms of the limited partnership agreement.
- **Private markets** – This category includes funds that invest in strategies such as private equity, private real estate, and private resource investments. 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 to be illiquid in that 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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(3) Capital Assets

Capital assets at June 30, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Land (nondepreciable)	\$ 23,356	22,431
Land improvements	3,895	4,637
Infrastructure	27,458	65,473
Buildings and leasehold improvements	1,579,506	1,652,601
Equipment and software	621,569	596,087
Construction in progress (nondepreciable)	<u>84,049</u>	<u>26,576</u>
	2,339,833	2,367,805
Less accumulated depreciation	<u>1,235,748</u>	<u>1,296,631</u>
Total capital assets, net excluding lease assets	<u>1,104,085</u>	<u>1,071,174</u>
Lease assets, net (Note 12)	<u>111,303</u>	<u>119,931</u>
Total capital assets, net	<u>\$ 1,215,388</u>	<u>1,191,105</u>

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Capital asset additions, retirements, and balances as of and for the years ended June 30, 2022 and 2021 were as follows:

<u>Cost basis summary</u>	<u>June 30, 2021 balances</u>	<u>Additions</u>	<u>Sales retirements and transfers</u>	<u>June 30, 2022 balances</u>
Land (nondepreciable)	\$ 22,431	925	—	23,356
Land improvements	4,637	—	(742)	3,895
Infrastructure	65,473	1,378	(39,393)	27,458
Buildings and leasehold improvements	1,652,601	21,858	(94,953)	1,579,506
Equipment and software	596,087	62,000	(36,518)	621,569
Construction in progress (nondepreciable)	26,576	84,687	(27,214)	84,049
Total at historical cost	<u>2,367,805</u>	<u>170,848</u>	<u>(198,820)</u>	<u>2,339,833</u>
Less accumulated depreciation for:				
Land improvements	2,349	388	(742)	1,995
Infrastructure	53,660	2,427	(39,393)	16,694
Buildings and leasehold improvements	819,250	51,531	(94,951)	775,830
Equipment and software	421,372	54,827	(34,970)	441,229
Total accumulated depreciation	<u>1,296,631</u>	<u>109,173</u>	<u>(170,056)</u>	<u>1,235,748</u>
Total capital assets, net excluding lease assets	<u>\$ 1,071,174</u>	<u>61,675</u>	<u>(28,764)</u>	<u>1,104,085</u>
Lease assets, net (Note 12)				<u>111,303</u>
Total capital assets, net				<u><u>1,215,388</u></u>

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<u>Cost basis summary</u>	<u>June 30, 2020 balances</u>	<u>Additions</u>	<u>Sales retirements and transfers</u>	<u>June 30, 2021 balances</u>
Land (nondepreciable)	\$ 22,431	—	—	22,431
Land improvements	4,637	—	—	4,637
Infrastructure	62,268	3,206	(1)	65,473
Buildings and leasehold improvements	1,579,641	73,343	(383)	1,652,601
Equipment and software	585,727	41,500	(31,140)	596,087
Construction in progress (nondepreciable)	52,346	57,130	(82,900)	26,576
Total at historical cost	<u>2,307,050</u>	<u>175,179</u>	<u>(114,424)</u>	<u>2,367,805</u>
Less accumulated depreciation for:				
Land improvements	1,961	388	—	2,349
Infrastructure	51,510	2,150	—	53,660
Buildings and leasehold improvements	769,803	49,829	(382)	819,250
Equipment and software	397,067	53,229	(28,924)	421,372
Total accumulated depreciation	<u>1,220,341</u>	<u>105,596</u>	<u>(29,306)</u>	<u>1,296,631</u>
Total capital assets, net excluding lease assets	<u>\$ 1,086,709</u>	<u>69,583</u>	<u>(85,118)</u>	<u>1,071,174</u>
Lease assets, net				<u>119,931</u>
Total capital asset, net				<u>1,191,105</u>

At June 30, 2022, construction in progress is related to various projects throughout UIHC. The estimated cost to complete the current phase of equipment and projects under construction at June 30, 2022 is \$221.2 million. Other projects at June 30, 2022, with an estimated cost of \$688.5 million, have been committed to by the Board and/or UIHC; however, construction contracts had not been signed as of June 30, 2022. 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 and Other Obligations

Long-term debt and other obligations outstanding as of June 30, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Hospital Revenue Bonds:		
Series S.U.I. 2011 – 3.000% to 4.000%; maturing serially on September 1 through 2032	\$ —	18,400
Series S.U.I. 2011A – 4.000% to 4.125%; maturing serially on September 1 through 2028	—	10,880
Series S.U.I. 2012 – 4.000%; maturing serially on September 1 through 2038	—	152,050
Series S.U.I. 2016 – 5.000% to 5.000%; maturing serially on September 1 through 2038	17,205	19,695
Series S.U.I. 2016A – 3.000%; maturing serially on September 1 through 2038	14,765	16,695
Series S.U.I. 2018 – 3.000% to 5.000%; maturing serially on September 1 through 2043	30,640	31,515
Series S.U.I. 2019 – 3.000% to 5.000%; maturing serially on September 1 through 2039	39,705	41,125
Series S.U.I. 2020 – 2.000% to 5.000%; maturing serially on September 1 through 2036	20,910	20,910
Series S.U.I. 2021A – 2.000% to 5.000%; maturing serially on September 1 through 2036	110,080	—
Series S.U.I. 2021B – 0.200% to 0.200%; maturing serially on September 1 through 2036	148,725	—
Series S.U.I. 2022A – 2.375% to 5.000%; maturing serially on September 1 through 2036	181,705	—
Series S.U.I. 2022B – 3.000% to 3.000%; maturing serially on September 1 through 2036	100,220	—
Net unamortized premium on hospital revenue bonds	35,436	16,231
Telecommunications Facilities Revenue Bonds:		
Series S.U.I. 2011 – 3.000% to 4.500%; maturing serially on July 1 through 2032	—	340
Series S.U.I. 2020 – 2.000% to 5.000%; maturing serially on July 1 through 2037	9,062	9,062
Series S.U.I. 2021 – 2.000% to 5.000%; maturing serially on July 1 through 2032	3,715	3,715
Total long-term bonds	<u>712,168</u>	<u>340,618</u>
Lease obligations (Note 12)	<u>112,797</u>	<u>119,931</u>
Total long-term debt	824,965	460,549
Long-term debt, current portion	<u>(173,700)</u>	<u>(27,560)</u>
	<u>\$ 651,265</u>	<u>432,989</u>

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Activity in long-term debt and other obligations for the years ended June 30, 2022 and 2021 was as follows:

	June 30, 2021 balance	Additions	Reductions	June 30, 2022 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2011	\$ 18,400	—	(18,400)	—	—
Hospital Revenue Bonds, Series 2011A	10,880	—	(10,880)	—	—
Hospital Revenue Bonds, Series 2012	152,050	—	(152,050)	—	—
Hospital Revenue Bonds, Series 2016	19,695	—	(2,490)	17,205	2,520
Hospital Revenue Bonds, Series 2016A	16,695	—	(1,930)	14,765	1,985
Hospital Revenue Bonds, Series 2018	31,515	—	(875)	30,640	925
Hospital Revenue Bonds, Series 2019	41,125	—	(1,420)	39,705	1,495
Hospital Revenue Bonds, Series 2020	20,910	—	—	20,910	200
Hospital Revenue Bonds, Series 2021A	—	112,345	(2,265)	110,080	3,545
Hospital Revenue Bonds, Series 2021B	—	148,725	—	148,725	148,725
Hospital Revenue Bonds, Series 2022A	—	181,705	—	181,705	1,000
Hospital Revenue Bonds, Series 2022B	—	100,220	—	100,220	—
Telecommunications Facilities Revenue Bonds:					
Series 2011	340	—	(340)	—	—
Series 2020	9,062	—	—	9,062	—
Series 2021	3,715	—	—	3,715	234
Net unamortized bond premium	16,232	34,238	(15,034)	35,436	—
Total bonds payable	<u>340,619</u>	<u>577,233</u>	<u>(205,684)</u>	<u>712,168</u>	<u>160,629</u>
Lease obligations (Note 12)				<u>112,797</u>	<u>13,071</u>
Total long-term obligations	<u>\$ 340,619</u>	<u>577,233</u>	<u>(205,684)</u>	<u>824,965</u>	<u>173,700</u>

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	June 30, 2020 balance	Additions	Reductions	June 30, 2021 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2010	\$ 23,300	—	(23,300)	—	—
Hospital Revenue Bonds, Series 2011	19,575	—	(1,175)	18,400	1,225
Hospital Revenue Bonds, Series 2011A	12,045	—	(1,165)	10,880	1,200
Hospital Revenue Bonds, Series 2012	157,900	—	(5,850)	152,050	6,025
Hospital Revenue Bonds, Series 2016	22,180	—	(2,485)	19,695	2,490
Hospital Revenue Bonds, Series 2016A	18,590	—	(1,895)	16,695	1,930
Hospital Revenue Bonds, Series 2018	32,340	—	(825)	31,515	875
Hospital Revenue Bonds, Series 2019	42,475	—	(1,350)	41,125	1,420
Hospital Revenue Bonds, Series 2020	—	20,910	—	20,910	—
Telecommunications Facilities Revenue Bonds:					
Series 2009	406	—	(406)	—	—
Series 2011	5,500	—	(5,160)	340	340
Series 2020	9,062	—	—	9,062	—
Series 2021	—	3,715	—	3,715	—
Net unamortized bond premium	14,561	3,744	(2,073)	16,232	—
Total bonds payable	<u>357,934</u>	<u>28,369</u>	<u>(45,684)</u>	<u>340,619</u>	<u>15,505</u>
Lease obligations (Note 12)				<u>119,931</u>	<u>12,055</u>
Total long-term obligations	<u>\$ 357,934</u>	<u>28,369</u>	<u>(45,684)</u>	<u>460,550</u>	<u>27,560</u>

(a) Long-Term Bonds

Hospital revenue bonds are special obligations of the Board payable solely out of hospital income, the general purpose of which is to expand and improve UIHC facilities. "Hospital income" is defined as the gross income and funds received by the Hospital System at the University, including the proceeds of rates, fees, charges, and payments for healthcare provider activities for patient care services rendered by the University's hospitals, clinics, laboratories, and ancillary facilities, less current expenses (as defined in the resolution authorizing the issuance of the bonds, the Bond Resolution). Hospital income does not include State appropriations to the University. So long as the bonds or parity bonds remain outstanding, the entire hospital income shall be deposited to the revenue fund and shall be disbursed to the following funds in the

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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 \$12.2 million. Bonds issued beginning in fiscal year 2022 do not have a debt service requirement. The maximum amount of hospital income pledged representing the undiscounted principal and interest on the bonds is \$967.9 million.

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

In 2022, UIHC issued \$112.3 million of Series S.U.I 2021A Revenue Refunding Bond. The proceeds of the bonds were used to refund the Series S.U.I. 2011 Revenue Bond, Series S.U.I 2011A Revenue Bond, and new construction.

In 2022, UIHC issued \$148.7 million of Series S.U.I 2021B Refunding Bond Anticipation Note Bond to refund the Series S.U.I 2012 Revenue Bond.

In 2022, UIHC issued \$181.7 million of Series S.U.I 2022A Bond for new construction of the North Liberty Hospital.

In 2022, UIHC issued \$100.2 million of Series S.U.I 2022B Bond for new construction of the North Liberty Hospital.

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

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

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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:			
2023	160,629	18,595	179,224
2024	13,454	17,042	30,496
2025	14,345	16,387	30,732
2026	17,620	15,635	33,255
2027	18,442	14,787	33,229
2028 through 2032	80,137	62,350	142,487
2033 through 2037	76,899	48,019	124,918
2038 through 2042	67,790	35,923	103,713
2043 through 2047	61,655	27,232	88,887
2048 through 2052	65,540	19,374	84,914
2053 through 2057	46,360	11,639	57,999
2055 through 2062	53,861	4,137	57,998
	<u>\$ 676,732</u>	<u>291,120</u>	<u>967,852</u>

The following are deferred outflows of resources and deferred inflows of resources related to debt refundings as of June 30, 2022 and 2021:

	<u>2022 Deferred outflows of resources</u>	<u>2022 Deferred inflows of resources</u>
Deferred outflows and inflows from debt refunding:		
Revenue Bonds Series 2016 refunding loss	\$ 617	—
Revenue Bonds Series 2016A refunding loss	872	—
Revenue Bonds Series 2020 refunding gain	—	93
Revenue Bonds Series 2021A refunding gain	—	62
Revenue Bonds Series 2021B refunding gain	—	337
Telecom Bonds Series 2020 refunding gain	—	29
Telecom Bonds Series 2021 refunding gain	—	17
	<u>\$ 1,489</u>	<u>538</u>

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

(5) Retirement Benefit Plans

(a) Teachers Insurance and Annuity Association

Substantially, all UIHC employees meeting eligibility requirements participate in the University of Iowa Retirement Plan (the Plan), which is a defined-contribution retirement plan providing benefits through the Teachers Insurance and Annuity Association (TIAA). During fiscal years 2022 and 2021, UIHC's contributions amount to \$42.9 million and \$41.5 million, respectively. UIHC contributions to the Plan are 10.00% of employee compensation after the first five years of employment. During the first five years of employment, UIHC's contribution is 6.67% of the first \$4,800 of compensation and 10.00% of the remaining balance of employee compensation. Employees are required to contribute an amount equal to 50.00% of UIHC's contribution. All contributions to the Plan are immediately 100.00% vested.

(b) Iowa Public Employees Retirement System

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

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

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retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

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

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

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

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

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

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In fiscal years 2022 and 2021, 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>
2022	Regular	6.29 %	9.44 %	15.73 %
2022	Protection occupations	6.21	9.31	15.52
2021	Regular	6.29	9.44	15.73
2021	Protection occupations	6.41	9.61	16.02

UIHC's contributions to IPERS for the years ended June 30, 2022 and 2021 were \$10.1 million and \$8.4 million, respectively.

Net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2022 and 2021, UIHC reported a liability in other long-term liabilities on the statements of net position of \$1.1 million and \$70.1 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. UIHC's proportion of the net pension liability was based on UIHC's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2021, UIHC's proportion of the collective net pension asset was negative 0.34013%. At June 30, 2020, UIHC's proportion of the collective net pension liability was 0.99744%.

For the years ended June 30, 2022 and 2021, UIHC recognized pension expense (benefit) of (\$0.7) million and positive \$16.7 million, respectively. At June 30, 2022 and 2021, UIHC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2022 Deferred outflows of resources</u>	<u>2022 Deferred inflows of resources</u>
Difference between expected and actual experience	\$ 1,196	(1,171)
Changes of assumptions	1,006	(1)
Net difference between projected and actual earnings on pension plan investments	—	(55,846)
Changes in proportion and differences between contributions and proportionate share of contributions	10,569	(6)
Contributions subsequent to the measurement date	10,053	—
Total	<u>\$ 22,824</u>	<u>(57,024)</u>

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	2021 Deferred outflows of resources	2021 Deferred inflows of resources
Difference between expected and actual experience	\$ 83	(1,660)
Changes of assumptions	3,613	(1)
Net difference between projected and actual earnings on pension plan investments	3,968	—
Changes in proportion and differences between contributions and proportionate share of contributions	9,598	(12)
Contributions subsequent to the measurement date	8,431	—
Total	\$ 25,693	(1,673)

At June 30, 2022, the \$10.1 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, 2023. At June 30, 2022 amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (benefit) as follows:

Year ending June 30:	
2023	\$ (9,967)
2024	(10,911)
2025	(10,322)
2026	(13,555)
2027	502
	\$ (44,253)

There are no nonemployer contributing entities at IPERS.

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum
Salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group
Investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2021 and the June 30, 2020 valuations were based on the results of an actuarial experience study performed in March 2017 and a demographic assumption study dated June 2018.

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Mortality rates were based on the RP-2014 Generational Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Projection Scale MP-2017. Different adjustments apply to pre-retirement, postretirement, and post-disability mortality tables. See Appendix C for more detailed descriptions.

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

Asset class	Asset allocation	Long-term expected real rate of return
Domestic equity	22.0 %	4.43 %
International equity	17.5	6.01
Global smart beta equity	6.0	5.10
Core-plus fixed income	26.0	0.29
Public credit	4.0	2.08
Cash	1.0	(0.25)
Private equity	13.0	9.51
Private real assets	7.5	4.63
Private credit	3.0	2.87
Total	100.0 %	

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

Sensitivity of UIHC’s proportionate share of the net pension liability to changes in the discount rate – The following presents UIHC’s proportionate share of the net pension liability calculated using the discount rate of 7.0% at June 30, 2022, 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.

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	1% decrease 6.0%	Discount rate 7.0%	1% increase 8.0%
UIHC's proportionate share of the net pension liability	\$ 54,124	1,145	(43,255)

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

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

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

Payables to the pension plan – At June 30, 2022 and 2021, UIHC reported payables to the defined-benefit pension plan of \$863,000 and \$725,000, respectively, for legally required employer contributions and \$575,000 and \$483,000, respectively, for legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

(6) Other Postemployment Benefits

(a) Plan Description

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

At June 30, 2022 and 2021, UIHC recognized a total other postemployment benefits (OPEB) liability of \$49.8 million and \$57.1 million, respectively, for its PSF and a liability of \$13.4 million and \$17.0 million for its Merit Plan, for a total OPEB liability of \$63.2 million and \$74.1 million, respectively. At June 30, 2022 and 2021, \$59.4 million and \$69.6 million, respectively, of the total liability was recorded in other long-term liabilities while \$3.8 million and \$4.5 million, respectively, was recorded in other current liabilities.

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(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 2022 and 2021 were \$2.1 million each year.

(c) OPEB Benefits

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

Retired participants must be age 55 or older at retirement. At June 30, 2022 and 2021, the following UIHC employees were covered by the benefit terms:

	2022	2021
PSF:		
Inactive employees or beneficiaries currently receiving benefits	801	882
Active employees	5,184	5,091
Total	5,985	5,973
Merit Plan:		
Inactive employees or beneficiaries currently receiving benefits	124	126
Active employees	1,605	1,700
Total	1,729	1,826

(d) Total OPEB Liability

UIHC's total OPEB liability for June 30, 2022 and 2021 was determined by an actuarial valuation with a measurement date of June 30, 2021 and 2020, respectively.

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(e) Actuarial Assumptions

The June 30, 2022 and 2021 liabilities were determined using the following actuarial assumptions and the entry-age normal actuarial cost method, applied to all periods included in the measurements.

	2022	2021
Rate of inflation	2.50 %	2.50 %
Rates of salary increase	3.00	3.00
Discount rate	2.16	2.21
Healthcare cost trend rate pre-65 (decreasing to an ultimate rate of 4.50%)	6.12	6.42
Healthcare cost trend rate post-65 (decreasing to an ultimate rate of 4.50%)	6.57	7.33

Discount rate – The June 30, 2021 and 2020 discount rate used to measure the total OPEB liability was 2.16% and 2.21%, respectively, which reflects the index rate for bond Buyer 20 Year GO Index as of the measurement date.

Mortality rates are from the Pub-2010 Aggregate Mortality Table projected using Scale MP-2020 and Scale MP-2018 for measurement dates of June 30, 2021 and 2020, respectively.

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, 2022 were based on the results of an actuarial experience studies with dates from 2014 to 2018 while the determination of liabilities as of June 30, 201 were based on the results of actuarial experience studies with dates from 2016 to 2020.

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

<u>Changes in total PSF OPEB liability</u>	<u>2022 total OPEB liability</u>	<u>2021 total OPEB liability</u>
Total OPEB liability, beginning of year, July 1	\$ 57,063	48,965
Changes for the year:		
Service cost	2,301	1,806
Interest	1,248	1,737
Changes in benefit terms	—	—
Differences between expected and actual experiences	(1,082)	(27)
Changes of assumptions	(5,153)	7,480
Benefit payments	(3,449)	(3,459)
Other	(1,168)	561
Net changes	<u>(7,303)</u>	<u>8,098</u>
Total OPEB liability, end of year, June 30	<u>\$ 49,760</u>	<u>57,063</u>

<u>Changes in total merit OPEB liability</u>	<u>2022 total OPEB liability</u>	<u>2021 total OPEB liability</u>
Total OPEB liability, beginning of year, July 1	\$ 16,987	14,088
Changes for the year:		
Service cost	927	735
Interest	378	510
Changes in benefit terms	—	—
Differences between expected and actual experiences	(1,725)	(39)
Changes of assumptions	(1,917)	2,385
Benefit payments	(915)	(854)
Other	(347)	162
Net changes	<u>(3,599)</u>	<u>2,899</u>
Total OPEB liability, end of year, June 30	<u>\$ 13,388</u>	<u>16,987</u>

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The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 2.16% as of June 30, 2021, from 2.21%.
- A change in the retirement rates for Staff employees to better reflect recent experience.
- A change in the mortality projection scale from MP-2018 to Scale MP-2020.
- The health care trend rate assumption was updated to a schedule of rates beginning at 6.12% in 2021, grading down to 4.50% in 2030 and beyond for pre-65 participants and 6.57% in 2021, grading down to 4.50% in 2030 and beyond for post-65 participants.
- The marginal cost adjustment factors were changed from 62.9% to 65.2% for pre-65 participants and from 89.5% to 90.3% for post-65 participants.

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, 2022, as well as what UIHC's total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower (1.16%) or one-percentage-point higher (3.16%) than the current discount rate.

	1% decrease 1.16%	Discount rate 2.16%	1% increase 3.16%
UIHC's PSF OPEB liability	\$ 54,031	49,760	45,861
UIHC's Merit OPEB liability	14,600	13,388	12,288
	\$ 68,631	63,148	58,149

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

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

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, 2022, 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 (5.12%) or one-percentage-point higher (7.12%) than the current healthcare cost trend rate for

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pre-65 participants, and one-percentage-point lower (5.57%) or one-percentage-point higher (7.57%) higher than the current healthcare cost trend rate for post-65 participants.

	1% decrease	Healthcare cost trend rate	1% increase
Pre-65 participants	5.12%	6.12%	7.12%
Post-65 participants	5.57%	6.57%	7.57%
UIHC's PSF OPEB liability	\$ 54,669	49,760	46,327
UIHC's Merit OPEB liability	14,903	13,388	12,280
	<u>\$ 69,572</u>	<u>63,148</u>	<u>58,607</u>

The following presents the total OPEB liability of UIHC as of June 30, 2021, as well as what UIHC's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is one-percentage-point lower (5.42%) or one-percentage-point higher (7.42%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (6.33%) or one-percentage-point higher (8.33%) higher than the current healthcare cost trend rate for post-65 participants.

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

OPEB expense and deferred outflows and inflows of resources related to OPEB – For the years ended June 30, 2022 and 2021, UIHC recognized OPEB expense of \$2.8 million and \$3.5 million, respectively, for the PSF and \$0.9 million and \$1.2 million, respectively, for the Merit Plan.

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At June 30, 2022 and 2021, UIHC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

PSF	2022 Deferred outflows of resources	2022 Deferred inflows of resources
Difference between expected and actual experience	\$ 9,692	(1,257)
Changes of assumptions	11,010	(21,775)
Contributions subsequent to the measurement date	<u>2,945</u>	<u>—</u>
Total	<u>\$ 23,647</u>	<u>(23,032)</u>

Merit Plan	2022 Deferred outflows of resources	2022 Deferred inflows of resources
Difference between expected and actual experience	\$ 850	(2,079)
Changes of assumptions	3,967	(5,103)
Contributions subsequent to the measurement date	<u>837</u>	<u>—</u>
Total	<u>\$ 5,654</u>	<u>(7,182)</u>

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

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

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

		<u>PSF</u>
Year ending June 30:		
2023	\$	(713)
2024		(713)
2025		(714)
2026		(714)
2027		(714)
Total thereafter		<u>1,238</u>
Total	\$	<u><u>(2,330)</u></u>
		<u>Merit Plan</u>
Year ending June 30:		
2023	\$	(379)
2024		(379)
2025		(374)
2026		(334)
2027		(333)
Total thereafter		<u>(566)</u>
Total	\$	<u><u>(2,365)</u></u>

(7) Risk Management

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

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UIHC's portion of the health insurance liability, which is included in accounts payable and accrued expenses of \$14.5 million and \$13.2 million as of June 30, 2022 and 2021, respectively, is as follows:

	<u>2022</u>	<u>2021</u>
Liability for unpaid healthcare claims at beginning of year	\$ 13,233	12,733
Healthcare expenses incurred during the year	171,737	161,496
Healthcare payments to the University during the year	<u>(170,432)</u>	<u>(160,996)</u>
Liability for unpaid healthcare claims at end of year	\$ <u>14,538</u>	<u>13,233</u>

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

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

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

(8) Transactions with Related Parties

UIHC receives certain administrative services, utilities, and other general services from the University. The services and support costs include amounts due to the University's Carver College of Medicine for support of graduate medical education, specific clinical services, and other services. These services are charged to UIHC at the approximate cost incurred by the servicing unit. For the years ended June 30, 2022 and 2021, UIHC expensed approximately \$258.1 million and \$254.7 million, respectively, for these administrative services, utilities, and other services and support requirements. At June 30, 2022 and 2021, approximately \$41.2 million and \$99.9 million, respectively, were due to the University and Carver College of Medicine.

UIHC also provides certain administrative services to units of the University. These services include billing, collection, and other physician practice-related clinic overhead expenses. These services are charged to units of the University at the approximate cost incurred by the servicing unit. For the years ended June 30, 2022 and 2021, UIHC received revenue from these units of approximately \$10.0 million and \$9.5 million, respectively, for these services, which is recorded in other revenue in the statements of revenue, expenses, and changes in net position.

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UIHC transfers to and receives transfers from non-UIHC University of Iowa units and UIHS. Net transfers to these units totaled negative \$16.9 million and negative \$25.3 million for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, UIHC transferred \$0 and \$1.0 million, respectively, which is recorded in net transfers in the statements of revenue, expenses, and changes in net position.

(9) Net Patient Service Revenue

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

	<u>2022</u>	<u>2021</u>
Gross patient charges:		
Inpatient charges	\$ 3,252,587	3,058,446
Outpatient charges	<u>4,361,796</u>	<u>3,986,894</u>
Total gross patient charges	7,614,383	7,045,340
Less deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	4,993,303	4,898,746
Provision for bad debts	<u>43,456</u>	<u>35,438</u>
Net patient service revenue	<u>\$ 2,577,624</u>	<u>2,111,156</u>

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

With partnership from the State, UIHC participates in a federal directed payment program. The primary use of the supplemental funding will be to expand access and increase capacity for Iowa Medicaid beneficiaries through modernization and expansion of health care facilities. In fiscal years 2022 and 2021, the program generated \$332.1 million and \$0 of net patient service revenue, respectively. As of June 30, 2022 and

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2021, UIHC recognized a \$196.8 million and \$0 due from government agency, reflected in current assets on the statements of net position, related to the program.

Patient service cash receipts (net of adjustments), received in fiscal years 2022 and 2021 from the major payor sources, are as follows:

	<u>2022</u>	<u>2021</u>
Patient (self-pay)	\$ 22,495	18,289
Medicaid	470,281	338,170
Medicare	613,217	571,505
Commercial insurance and other third-party payors	<u>1,284,879</u>	<u>1,144,001</u>
Patient service receipts, net of adjustments	2,390,872	2,071,965
Changes to accounts receivable balance, late charges reserve, and other third-party reserves	<u>186,752</u>	<u>39,191</u>
Patient service revenue, net of contractual allowance, discounts, and provision for bad debts	<u>\$ 2,577,624</u>	<u>2,111,156</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 fiscal year 2022 net patient service revenue from third-party payors increased approximately \$21.2 million and fiscal year 2021 net patient service revenue decreased approximately \$0.9 million due to prior year retroactive adjustments being different than amounts previously estimated.

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

(a) Medicare

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

Receipts from Medicare accounted for approximately 25.9% and 27.7% of UIHC's net patient receipts for the years ended 2022 and 2021, 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 19.9% and 16.4% of UIHC's net patient receipts for the years ended 2022 and 2021, respectively.

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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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Charity care	\$ 16,373	16,747
Charity care for State Institution patients	<u>51,697</u>	<u>47,720</u>
Charity care charges forgone	<u>\$ 68,070</u>	<u>64,467</u>

The cost of charges forgone for services and supplies furnished under UIHC's charity policy approximated \$17.4 million and \$18.3 million for the years ended June 30, 2022 and 2021, respectively.

UIHC also provides reduced price services and free programs throughout the year. Medicaid uncompensated costs of services decreased in fiscal year 2022 due to additional funding received through participation in a federal program in partnership with Iowa Medicaid Enterprise and the State of Iowa. The total uncompensated costs of services other than charity care, for the years ended June 30, 2022 and 2021, approximate the following:

	<u>2022</u>	<u>2021</u>
Medicare	\$ 106,143	122,110
Medicaid	5,061	67,375
Medicaid out of state	4,411	5,816
State Institution	<u>10,249</u>	<u>10,597</u>
Uncompensated costs of services	<u>\$ 125,864</u>	<u>205,898</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, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Blue Cross Blue Shield	31 %	30 %
Commercial pay	27	29
Medicare	26	25
Medicaid	13	12
Self-pay	1	1
Other	2	3
	<u>100 %</u>	<u>100 %</u>

(12) Leases (Lessee and Lessor) Arrangements

UIHC is a lessee for various noncancellable leases of buildings and equipment, and lessor for buildings.

Lease asset activity during the years ended June 30, 2022 and 2021 are summarized as follows:

	<u>June 30, 2021 balances</u>	<u>Additions</u>	<u>Retirements and Remeasurements</u>	<u>June 30, 2022 balances</u>
Lease assets:				
Building	\$ 118,256	558	(8,179)	110,635
Leasehold Improvements	907	1,888	(489)	2,306
Equipment	11,454	2,919	(2,522)	11,851
Total lease assets	<u>130,617</u>	<u>5,365</u>	<u>(11,190)</u>	<u>124,792</u>
Less accumulated amortization:				
Lease assets:				
Buildings	7,962	10,082	(8,179)	9,865
Leasehold Improvements	202	530	(489)	243
Equipment	2,522	3,381	(2,522)	3,381
Total accumulated amortization	<u>10,686</u>	<u>13,993</u>	<u>(11,190)</u>	<u>13,489</u>
Total lease assets, net	<u>\$ 119,931</u>	<u>(8,628)</u>	<u>—</u>	<u>111,303</u>

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	<u>July 1, 2020 balances</u>	<u>Additions</u>	<u>Retirements and Remeasurements</u>	<u>June 30, 2021 balances</u>
Lease assets:				
Building	\$ 105,926	10,625	1,705	118,256
Leasehold Improvements	875	—	32	907
Equipment	8,566	2,773	115	11,454
Total lease assets	<u>115,367</u>	<u>13,398</u>	<u>1,852</u>	<u>130,617</u>
Less accumulated amortization:				
Lease assets:				
Buildings	—	7,962	—	7,962
Leasehold Improvements	—	202	—	202
Equipment	—	2,522	—	2,522
Total accumulated amortization	<u>—</u>	<u>10,686</u>	<u>—</u>	<u>10,686</u>
Total lease assets, net	<u>\$ 115,367</u>	<u>2,712</u>	<u>1,852</u>	<u>119,931</u>

Lease liability activity during the years ended June 30, 2022 and 2021 are summarized as follows:

	<u>June 30, 2021 balances</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2022 balances</u>
Lease liabilities	\$ 119,931	5,365	(12,499)	112,797

	<u>July 1, 2020 balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2021 balances</u>
Lease liabilities	\$ 117,146	13,398	(10,613)	119,931

At July 1, 2020, the leased assets and liabilities were recognized with the adoption of GASB 87, resulting in an adjustment to net position of \$2.7 million, as a result of certain adjustments to existing lease liabilities due to remeasurement.

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Future annual lease payments are as follows:

	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
Year(s) ending June 30:			
2023	13,071	2,510	15,581
2024	12,214	2,258	14,472
2025	10,597	2,013	12,610
2026	8,494	1,807	10,301
2027	7,975	1,614	9,589
2028 - 2032	34,033	5,333	39,366
2033 - 2037	15,463	2,511	17,974
2038 - 2042	8,088	1,019	9,107
2043 - 2047	2,862	72	2,934
Total	<u>112,797</u>	<u>19,137</u>	<u>\$ 131,934</u>

Variable lease payments – Lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease liability. Such amounts are recognized as lease expense in the period in which the obligation for those payments is incurred.

The amounts recognized as outflows (expense) for variable lease payments not included in the measurement of the lease liabilities were \$1.3 million and \$1.3 million during the years ended June 30, 2022 and 2021, respectively.

Residual value guarantees of leases – As of June 30, 2022, the UIHC current has no leases with residual value guarantees.

(13) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses reported as current liabilities at June 30, 2022 and 2021 consisted of the following amounts:

	<u>2022</u>	<u>2021</u>
Payable to employees (including fringe benefits)	\$ 123,827	122,170
Payable to suppliers	90,824	59,917
Other	8,551	8,224
Total accounts payable and accrued expenses	<u>\$ 223,202</u>	<u>190,311</u>

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(14) Other Long-term Liabilities

Other long-term liabilities at June 30, 2022 and 2021 consisted of the following amounts (in thousands):

	2022	2021
Pension liability	\$ 1,145	70,067
OPEB liability	59,366	69,595
Payable to employees (compensated absences)	26,793	31,735
Unearned revenue	13,500	20,250
Total other long-term liabilities	\$ 100,804	191,647

(15) Law and Regulations

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

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

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

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

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

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June 30, 2022 and 2021

(Dollars in tables in thousands)

inpatient hospitals treating COVID-19 patients, and delaying a reduction in Medicaid funding for Medicare disproportionate share hospitals.

For the year ended June 30, 2021, UIHC received additional funds as follows: \$9.8 million in Provider Relief Fund General Distributions, \$13.8 million in Provider Relief Fund Targeted Distributions, \$7.1 million in Coronavirus Relief Fund, and \$4.8 million in FEMA Public Assistance Disaster Program funds.

For the year ended June 30, 2022, UIHC received additional funds as follows: \$10.1 million in Provider Relief Fund General Distributions, \$14.8 million in Provider Relief Fund Targeted Distributions, \$3.0 million in Coronavirus Relief Fund, and \$1.3 million in FEMA Public Assistance Disaster Program funds.

These funds are not subject to repayment, provided UIHC is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met and the funds are received. Based on analysis of the compliance and reporting requirements of the CARES Act and the impact of the pandemic on operating results through the end of 2021 and 2022, UIHC has recorded \$35.5 million and \$29.2 million, respectively, of coronavirus relief funds as nonoperating revenue in the statements of revenue, expenses, and changes in net position.

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

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

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Notes to Financial Statements

June 30, 2022 and 2021

(Dollars in tables in thousands)

(17) Subsequent Events

UIHC has reviewed subsequent events through November 11, 2022 and concluded that there were no events or transactions during this period that would require recognition or disclosure in the financial statements, except as follows:

In August 2022, UIHC issued \$130.7 million of Series S.U.I 2022C Revenue Refunding Bond. The proceeds of the bond were used by UIHC to refund the Series S.U.I. 2021B Bond Anticipation Note Revenue Bond.

In October 2022, the Board of Regents, State of Iowa reached agreement with plaintiffs to settle the claims brought in the Myers, et al. v. Iowa Board of Regents. The settlement is subject to court approval. As a result of the tentative settlement with plaintiffs UIHC recognized \$15 million within other current liabilities on the statement of net position as of June 30, 2022.

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

Schedule of Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2022

(Unaudited)

For the year ended	UIHC's proportion of the net pension liability (asset)	UIHC's proportionate share of the net pension liability	UIHC's covered- employee payroll	UIHC's proportionate share of the net pension liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
June 30, 2022	(0.34013)%	\$ 1,145	89,374	1.3 %	100.8 %
June 30, 2021	0.99744	70,067	77,106	90.9	82.9
June 30, 2020	0.88403	51,191	62,910	81.4	85.5
June 30, 2019	0.77810	49,240	59,251	83.1	83.6
June 30, 2018	0.70459	46,934	52,104	90.1	82.2
June 30, 2017	0.59455	37,417	40,665	92.0	81.8
June 30, 2016	0.47349	23,539	29,902	78.7	85.2
June 30, 2015	0.38388	15,536	25,706	60.4	87.6

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

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

See accompanying independent auditors' report.

**STATE UNIVERSITY OF IOWA,
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Schedule of Contributions

Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2022

(Unaudited)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 10,053	8,431	7,260	5,921	5,224	4,623	3,603	2,660	2,299	1,896
Contributions in relation to the statutorily required contribution	<u>(10,053)</u>	<u>(8,431)</u>	<u>(7,260)</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>
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	\$ 106,669	89,374	77,106	62,910	59,251	52,104	40,665	29,902	25,706	21,965
Contributions as a percentage of the covered-employee payroll	9.4 %	9.4 %	9.4 %	9.4 %	8.8 %	8.9 %	8.9 %	8.9 %	8.9 %	8.6 %

See accompanying independent auditors' report.

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

Schedule of Changes in UIHC's Total OPEB Liability

Last ten fiscal years ended June 30, 2022

(Unaudited)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
PSF Plan:					
Service cost	\$ 2,301	1,806	971	970	10,283
Interest	1,248	1,737	1,582	1,535	5,609
Changes in benefit terms	—	—	—	—	(148,291)
Differences between expected and actual experience	(1,082)	(27)	1,278	—	15,488
Changes of assumptions	(5,153)	7,480	6,895	(308)	(30,071)
Benefit payments	(3,449)	(3,459)	(3,323)	(3,369)	(2,217)
Other	(1,168)	561	(848)	5,170	—
Net change in total OPEB liability	(7,303)	8,098	6,555	3,998	(149,199)
Total OPEB liability, beginning of year	57,063	48,965	42,410	38,412	187,611
Total OPEB liability, end of year	<u>\$ 49,760</u>	<u>57,063</u>	<u>48,965</u>	<u>42,410</u>	<u>38,412</u>
Merit Plan:					
Service cost	\$ 927	735	408	559	755
Interest	378	510	421	278	293
Changes in benefit terms	—	—	—	7,848	—
Differences between expected and actual experience	(1,725)	(39)	305	—	—
Changes of assumptions	(1,917)	2,385	2,707	(4,786)	(512)
Benefit payments	(915)	(854)	(429)	(421)	—
Contributions from the employer	—	—	—	—	(531)
Other	(347)	162	(217)	(2,404)	—
Net change in total OPEB liability	(3,599)	2,899	3,195	1,074	5
Total OPEB liability, beginning of year	16,987	14,088	10,893	9,819	9,814
Total OPEB liability, end of year	<u>\$ 13,388</u>	<u>16,987</u>	<u>14,088</u>	<u>10,893</u>	<u>9,819</u>

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

See accompanying independent auditors' report.

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

Notes to Required Supplementary Information

June 30, 2022

(Unaudited)

(1) Pension Liability

(a) Changes of Benefit Terms

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

(b) Changes of Assumptions

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

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

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

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

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

- Decreased the inflation assumption from 3.00% to 2.60% per year.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the long-term rate of return assumption from 7.50% to 7.00% per year.
- Decreased the wage growth and payroll growth assumptions from 4.00% to 3.25% per year.
- Decreased the salary increase assumption by 0.75%.

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

June 30, 2022

(Unaudited)

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

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

(2) OPEB Liability

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

- The 2021 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 2.16% as of June 30, 2021
 - A change in the retirement rates for Staff employees to better reflect recent experience
 - A change in the mortality projection scale from Scale MP-2018 to Scale MP-2020
 - The health care trend rate assumption was updated to a schedule of rates beginning at 6.12% in 2021, grading down to 4.5% in 2030 and beyond for pre-65 participants and 6.57% in 2021, grading down to 4.5% in 2030 and beyond for post-65 participants
 - The marginal cost adjustment factors were changed from 62.9% to 65.2% for pre-65 participants and from 89.5% to 90.3% for post-65 participants

A removal of the excise tax on high-cost plans from the future trend

- The 2020 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 2.21% as of June 30, 2020

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

June 30, 2022

(Unaudited)

- A removal of the excise tax on high-cost plans from the future trend rates.
- The 2019 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
 - The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 3.50% as of June 30, 2019
 - A change in the mortality assumption for healthy lives from the RP-2014 Aggregate Mortality Table projected using the Scale MP-2016 to Pub-2010 Aggregate Mortality Table projected using the Scale MP-2018 by classification.
 - A change in the mortality assumption for disabled lives from the CIA 1988-94 LTD table to the Pub-2010 Disable Mortality Table projected using Scale MP-2018.
 - The health care trend rate assumption was updated to a schedule of rates beginning at 6.65% in 2019, grading down to 4.50% in 2028 and beyond for pre-65 participants and 7.61% in 2019 grading down to 4.50% in 2029 and beyond for post-65 participants.
 - The marginal cost adjustment factors were changed from 60.1% to 62.9% for pre-65 participants and from 87.6% to 89.5% for post-65 participants.
 - The impact of the excise tax on high-cost plans due to healthcare reform was updated, based on current claims and medical trend assumptions.
- The 2018 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation
 - The financial accounting valuation reflects the following assumption changes:
 - A change in the discount rate to 3.87% as of June 30, 2018. The discount rate was 3.58% as of June 30, 2017.
 - A change in demographic assumptions for the Merit employees from the State assumptions to the University staff assumptions.

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Notes to Required Supplementary Information

June 30, 2022

(Unaudited)

- The 2017 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - A change in the actuarial cost method from Projected Unit Credit to Entry Age Normal.
 - The financial accounting valuation reflects the following assumptions changes:
 - A change in the discount rate to 3.58% as of June 30, 2017. The discount rate was 6.75% as of June 30, 2016.
 - A change in the withdrawal rates for staff to better anticipate future experience
 - A change in the mortality assumption from the RP-2014 Aggregate Mortality Table projected using Scale MP-2014 to the RP-2014 Aggregate Mortality Table projected using Scale MP-2016
 - The health care trend rate assumption factors were changes from 59.4% to 60.1% for pre-65 participants and from 86.8% to 87.6% for post-65 participants.
 - The impact of the Excise Tax on high-cost plans due to healthcare reform was updated, based on current claims and medical trend assumptions.
 - A change in demographic assumptions for the Merit employees from the State assumptions to the University staff assumptions.