STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 300
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Omaha, NE 68114-2274

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1248 O Street
Lincoln, NE 68508-1493

Independent Auditors' Report

The Board of Regents
State of Iowa:

We have audited the accompanying financial statements of the State University of Iowa, University of Iowa Hospitals and Clinics (UIHC), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State University of Iowa, University of Iowa Hospitals and Clinics as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

As discussed in note 1 to the financial statements, the financial statements of UIHC are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State University of Iowa that is attributable to the transactions of UIHC. UIHC is a department of the State University of Iowa for financial reporting purposes. The financial statements of UIHC do not purport to, and do not present fairly, the financial position of the State University of Iowa as of June 30, 2017 and 2016, the changes in its financial position, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–8 and the schedules of proportionate share in net pension liability and UIHC contributions on pages 42-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Des Moines, Iowa
November 7, 2017

STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Management's Discussion and Analysis

June 30, 2017 and 2016

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, 2017 and 2016. 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 2017 with an increase in net position of $47.5 million, or 3.6%, as compared to an increase in net position in 2016 by $75.9 million, or 6.0%. Operating income in 2017 was $26.7 million, a decrease of $74.4 million when compared to 2016. Nonoperating revenue, net increased $9.1 million driven mainly by investment performance. Operating income in 2016 was $101.2 million, an increase of $17.1 million when compared to 2015. Nonoperating revenue, net increased $6.5 million from 2015 to 2016 driven mainly by investment performance.

Overview of the Financial Statements

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

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

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

In 2017, net position increased by $47.5 million, or approximately 3.6%, to $1.39 billion. This is primarily due to net income from operations of $26.7 million. In 2016, net position increased by $75.9 million, or approximately 6.0%, to $1.34 billion. This is primarily due to net income from operations of $101.2 million. Table 1 provides a summary of UIHC's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2017, 2016, and 2015.

Table 1

Condensed Statements of Net Position

(In thousands)

Assets and Deferred Outflows		2017	2016	2015
Current assets	$	356,482	349,817	343,237
Noncurrent cash and investments		574,001	658,584	737,817
Capital assets, net		1,093,211	973,850	820,650
Other assets		1,614	1,356	1,013
Total assets		2,025,308	1,983,607	1,902,717
Deferred outflows				
Clinic acquisition costs		1,116	—	—
Pension related deferred outflows		18,216	8,750	5,703
Debt refunding loss		4,465	4,998	402
Total deferred outflows		23,797	13,748	6,105
Total assets and deferred outflows	$	2,049,105	1,997,355	1,908,822
Liabilities, Deferred Inflows, and Net Position				
Current liabilities	$	223,940	223,513	213,955
Long-term debt		328,608	343,797	356,212
Other long-term liabilities		109,739	89,272	69,827
Total liabilities		662,287	656,582	639,994
Deferred inflows				
Pension related deferred inflows		447	1,959	5,928
Total deferred inflows		447	1,959	5,928
Net position:				
Net investment in capital assets		750,916	620,211	486,161
Restricted		4,876	6,771	5,633
Unrestricted		630,579	711,832	771,106
Total net position		1,386,371	1,338,814	1,262,900
Total liabilities, deferred inflows, and net position	$	2,049,105	1,997,355	1,908,822

(Continued)

Table 2 shows the changes in net position for 2017 compared to 2016 and 2015.

Table 2

Statements of Revenue, Expenses, and Changes in Net Position

(In thousands)

	2017	2016	2015
Operating revenue:			
Net patient service revenue	$ 1,450,400	1,410,009	1,261,432
Other revenue	52,010	46,656	52,835
Total operating revenue	1,502,410	1,456,665	1,314,267
Operating expenses:			
Salaries and benefits	708,556	655,019	600,713
Medical supplies and drugs	353,340	323,219	282,719
Other supplies and general expenses	323,387	298,277	272,038
Depreciation and amortization	90,411	78,993	74,712
Total operating expenses	1,475,694	1,355,508	1,230,182
Operating income	26,716	101,157	84,085
Nonoperating revenue (expenses):			
Gain (loss) on disposal of capital assets	(874)	(2,818)	212
Noncapital gifts	2	2	2
Investment income	24,100	15,669	7,563
Interest expense	(7,322)	(6,054)	(7,490)
Total nonoperating revenue, net	15,906	6,799	287
Excess of revenue over expenses before transfers	42,622	107,956	84,372
Capital gifts and grants	29,360	—	163
Net transfers out	(24,425)	(32,042)	(30,415)
Increase in net position	47,557	75,914	54,120
Net position, beginning of year	1,338,814	1,262,900	1,208,780
Net position, end of year	$ 1,386,371	1,338,814	1,262,900

(Continued)

Net Patient Service Revenue

Net patient service revenue increased from 2016 to 2017 by $40.4 million, or 2.9%, and $148.6 million, or 11.8%, from 2015 to 2016. The increases in net patient service revenue were driven by both increases in patient volumes and pricing increases during the same periods. The increase in 2017 resulted from increases in both inpatient and outpatient areas. There was an increase in outpatient clinic visits from 2016 to 2017 by 61,532, or 7.1%, with an increase in outpatient surgeries of 982, or 6.2%. On the inpatient side, acute admissions were up 1,099, or 3.3%, over 2016 and inpatient surgeries increased by 133, or 0.9%. There was an increase in outpatient clinic visits from 2015 to 2016 by 49,792, or 5.6%, with a decrease in outpatient surgeries of 1,675, or 9.5%. On the inpatient side, acute admissions were up 1,369, or 4.3%, over 2015, and inpatient surgeries increased by 2,594, or 21.0%. The increase in 2015 resulted from increases in both inpatient and outpatient areas.

The provision for bad debts (a deduction from gross patient charges) increased $2.3 million from $32.4 million in 2016 to $34.7 million in 2017. The provision for bad debts (a deduction from gross patient charges) increased $16.6 million from $15.8 million in 2015 to $32.4 million in 2016. The increase in the provision for bad debts in 2017 was caused by an increase in self pay revenue earned during 2017.

Operating Expenses

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

Total operating expenses increased 10.2% from $1.23 billion in 2015 to $1.36 billion in 2016. The largest dollar increase in expenses in 2016 was in medical supplies and drugs, which increased $40.5 million, or 14.3%, when compared to 2015. In 2016, there was a continued effort to expand the outpatient pharmacy specialty drug program, which along with increased volumes and inflation, increased drug expense.

Nonoperating Revenue and Expenses, Net

Nonoperating revenue consists primarily of gains (losses) on disposals of capital assets, investment income, interest expense, and noncapital gifts. Investment income increased from 2016 to 2017 by $8.4 million, or 53.8%, and increased from 2015 to 2016 by $8.1 million, or 107.2%. During 2017, UIHC recorded overall earnings on the endowment and operating pools of $20.6 million and a net unrealized gain on investments of $3.5 million, which increased investment income accordingly. This compares to the overall earnings on the endowment and operating pools of $9.3 million and a net unrealized gain on investments of $6.3 million in the previous year. The increases in these investments follow overall investment markets.

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 2017, with a net increase in cash and cash equivalents of $8.0 million. In 2017, net cash provided by operating activities provided cash inflows of $113.3 million and net cash used in noncapital financing activities was $24.4 million. UIHC's overall liquidity increased during 2016, with a net increase in cash and cash equivalents of $2.7 million. In 2016, net cash provided by operating activities provided cash inflows of $221.4 million and net cash used in noncapital financing was $32.0 million.

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Capital Assets and Debt Administration

Capital Assets

At the end of 2017, UIHC had $1.1 billion invested in capital assets, net of accumulated depreciation. This is a $119.4 million increase when compared to capital assets, net in 2016 of $973.9 million. This increase is primarily due to the UIHC Children's Hospital. Capital assets, net of accumulated depreciation increased to $973.9 million in 2016 compared to capital assets, net in 2015 of $820.7 million. This increase is primarily due to the UIHC Children's Hospital construction.

The major capital asset additions in 2016 and 2017 included the following:

- Stead Family Children's Hospital
- Pediatric specialty clinic expansion and conference center development
- Health Care Support Services Building leasehold improvement and equipment
- Main operating room expansion
- Emergency generator facility
- Pediatric cardiac catheterization laboratory relocation and expansion
- Heart and vascular center relocation and expansion
- Pediatric and Psychiatry Departmental offices relocation

Debt

At June 30, 2017 and 2016, UIHC had $342.3 million and $353.6 million, respectively, in bonds and capital lease outstanding. During 2017 and 2016, payments of long-term debt were $9.8 million and $74.0 million, respectively. During 2017, UIHC issued no Hospital Revenue Bonds. During 2016, UIHC issued $29 million of Series S.U.I. 2016 Hospital Revenue Refunding Bonds and $23.86 million of Series S.U.I. 2016A Hospital Revenue Refunding Bonds. The proceeds of the bonds were used by UIHC to refund the Series S.U.I. 2007 Hospital Revenue Bonds, Series S.U.I. 2007A Hospital Revenue Bonds, and Series S.U.I. 2009 Hospital Revenue Bonds.

During 2015, UIHC issued no Hospital Revenue Bonds.

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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. Doug True, Interim Associate Vice President for Finance, UI Healthcare and CFO, University of Iowa Hospitals and Clinics, 318 CMAB, Iowa City, Iowa 52242.

STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Statements of Net Position

June 30, 2017 and 2016

(In thousands)

Assets and Deferred Outflows		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	24,058	16,101
Short-term investments		64,746	75,435
Patient accounts receivable, net of estimated uncollectibles $16,233 in 2017 and $18,216 in 2016		210,781	210,724
Inventories		33,113	27,615
Current investments for debt service – restricted		1,007	1,230
Other current assets		22,777	18,712
Total current assets		356,482	349,817
Noncurrent cash and investments:			
Limited by bond resolutions		25,110	25,123
Designated by the Board of Regents		544,721	627,611
Restricted by donors		4,170	5,850
		574,001	658,584
Capital assets, net		1,093,211	973,850
Other assets		1,614	1,356
Total assets		2,025,308	1,983,607
Deferred outflow of resources:			
Clinic acquisition costs		1,116	—
Pension related deferred outflows		18,216	8,750
Debt refunding loss		4,465	4,998
Total deferred outlows		23,797	13,748
Total assets and deferred outflows	$	2,049,105	1,997,355
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	13,687	9,842
Accounts payable and accrued expenses		143,137	141,776
Estimated third-party payor settlements		41,309	44,734
Due to related parties		16,172	16,900
Other current liabilities		5,588	6,458
Accrued interest		4,047	3,803
Total current liabilities		223,940	223,513
Long-term debt, net of current maturities		328,608	343,797
Other long-term liabilities		109,739	89,272
Total liabilities		662,287	656,582
Deferred inflow of resources:			
Pension related deferred inflows		447	1,959
Total deferred inflows		447	1,959
Net position:			
Net investment in capital assets		750,916	620,211
Restricted by donors for specific purposes		3,870	5,541
Restricted for debt service		1,006	1,230
Unrestricted		630,579	711,832
Total net position		1,386,371	1,338,814
Total liabilities, deferred inflows, and net position	$	2,049,105	1,997,355

See accompanying notes to financial statements.

STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Operating revenue:			
Net patient service revenue, net of provision for bad debts of $34,680 in 2017 and $32,399 in 2016	$	1,450,400	1,410,009
Other revenue		52,010	46,656
Total operating revenue		1,502,410	1,456,665
Operating expenses:			
Salaries and benefits		708,556	655,019
Medical supplies and drugs		353,340	323,219
Other supplies and general expenses		323,387	298,277
Depreciation and amortization		90,411	78,993
Total operating expenses		1,475,694	1,355,508
Operating income		26,716	101,157
Nonoperating revenue (expenses):			
Gain (loss) on disposal of capital assets		(874)	(2,818)
Noncapital gifts		2	2
Investment income		24,100	15,669
Interest expense		(7,322)	(6,054)
Total nonoperating revenue, net		15,906	6,799
Excess of revenue over expenses before transfers		42,622	107,956
Capital gifts and grants		29,360	—
Net transfers out		(24,425)	(32,042)
Increase in net position		47,557	75,914
Net position, beginning of year		1,338,814	1,262,900
Net position, end of year	$	1,386,371	1,338,814

See accompanying notes to financial statements.

STATE UNIVERSITY OF IOWA,
UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

		2017	2016
Cash flows from operating activities:			
Receipts from and on behalf of patients	$	1,446,918	1,429,043
Other receipts		51,281	53,816
Payments to employees		(693,379)	(626,583)
Payments to suppliers and contractors		(691,519)	(634,845)
Net cash provided by operating activities		113,301	221,431
Cash flows from noncapital financing activities:			
Net transfers		(24,425)	(32,042)
Noncapital gifts		2	2
Net cash used in noncapital financing activities		(24,423)	(32,040)
Cash flows from capital and related financing activities:			
Purchase of capital assets		(210,917)	(232,202)
Proceeds from the sale of capital assets		30	9
Capital gifts and grants received		29,360	—
Proceeds from the issuance of long-term debt		—	52,860
Premium received on the issuance of long-term debt		—	6,495
Principal paid on long-term debt		(9,842)	(73,965)
Interest paid on long-term debt		(8,048)	(8,406)
Net cash used in capital and related financing activities		(199,417)	(255,209)
Cash flows from investing activities:			
Proceeds from sale of investments		236,214	246,242
Purchase of investments		(138,332)	(187,064)
Interest and dividends received on investments		20,614	9,358
Net cash provided by investing activities		118,496	68,536
Net increase in cash and cash equivalents		7,957	2,718
Cash and cash equivalents at beginning of year		16,101	13,383
Cash and cash equivalents at end of year	$	24,058	16,101
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	26,716	101,157
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		90,411	78,993
Provision for bad debts		34,680	32,399
Changes in assets and liabilities:			
Accounts receivable		(34,737)	(6,348)
Inventories		(5,498)	(3,917)
Other assets		(13,564)	(10,434)
Accounts payable and accrued expenses		1,362	12,898
Other liabilities		18,085	16,540
Due to (from) related parties		(729)	7,160
Estimated third-party payor settlements		(3,425)	(7,017)
Net cash provided by operating activities	$	113,301	221,431

Noncash investing activity:

During 2017 and 2016, the net appreciation (depreciation) in fair value of investments was $3,454 and $6,346, respectively.

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies and Related Matters

(a) Reporting Entity

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

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

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

(b) Basis of Presentation

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

(c) Use of Estimates

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

(d) Cash and Investments

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

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(Dollars in tables in thousands)

For purposes of the Statement of Net Position and Statement of Cash Flows, cash and cash equivalents are reported in accordance with Board of Regents, State of Iowa policy Chapter 2.2, Section 4.C.ix (http://www.iowaregents.edu/plans-and-policies/board-policy-manual/22-business-procedures/%23Investment%20Policy), which states in part: to appropriately reflect the Board's overall investment strategy and as outlined in the Government Accounting Standards Board (GASB) Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, paragraph 11, that all funds held by external investment managers, as defined in Section 2.2.4.C.iv of the Board's investment policy, shall be reported on the audited financial statements of the Regent institutions as investments. Investments purchased by the institutions through board-authorized brokerage firms that meet the definition of cash equivalents and investments with original purchase dates to maturity of three months or less shall be reported on the audited financial statements of the Regent institutions as cash equivalents.

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

Undesignated cash equivalents totaling $24.1 million and $16.1 million at June 30, 2017 and 2016, respectively, represent money market funds and other short-term investments not held by external investment managers that mature in three months or less from date of purchase.

(e) Inventories

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

(f) Capital Assets

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

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

(g) Deferred Outflows and Inflows of Resources

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

(h) Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest costs capitalized for the years ended June 30, 2017 and 2016 were $4.1 million and $6.3 million, respectively.

(i) Gifts and Grants

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

(j) Restricted Resources

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

(k) Net Position

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

(l) Operating Revenue and Expenses

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

(m) Net Patient Service Revenue

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

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estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(n) Charity Care

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

(o) Compensated Absences

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

(p) Pension – Iowa Public Employees Retirement System

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

(q) Income Taxes

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

(r) Adoption of New Accounting Standard

During 2016, the UIHC adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. Fair value is 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. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investment and disclosures related to all fair value measurements. The adoption of this statement had no effect on net position or on revenue or expenses.

(2) Deposits and Investments

Investments are made in accordance with Chapter 12B.10 of the Code of Iowa, and the Board of Regents, State of Iowa policy (http://www.iowaregents.edu/plans-and-policies/board-policy-manual/22-business-procedures/%23Investment%20Policy).

(Dollars in tables in thousands)

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, 2017 and 2016:

		2017	2016
Limited by bond resolutions:			
Debt service reserve	$	25,110	25,123
Designated by the Board of Regents:			
Capital projects and equipment and other needs		293,421	389,464
Surplus		672	579
Improvement, extension, repair, operation, and maintenance funds		250,628	237,568
Restricted by donors		4,170	5,850
	$	574,001	658,584

Cash and cash equivalents and short-term investments specifically identified or pooled with the cash and investments of the University totaled $88.8 million and $91.5 million at June 30, 2017 and 2016, respectively. Cash equivalents designated by the Board totaled $154.7 million and $173.7 million at June 30, 2017 and 2016, respectively.

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

Fixed income	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
Corporate notes and bonds	2.08	$ 570	417	1,380	1,672	17	10	—	4,066
U.S. government agencies	2.38	42	23,918	—	—	—	—	—	23,960
U.S. Treasury obligations	1.96	—	19,908	—	—	—	—	—	19,908
Mutual funds	4.26	—	80,365	9,982	45,367	29,507	30,466	—	195,687
		$ 612	124,608	11,362	47,039	29,524	30,476	—	243,621
Other investments:									
Cash and cash equivalents									243,356
U.S. equity mutual funds									45,789
Non-U.S. equity mutual funds									46,013
Real assets									74,264
Private equity									10,770
Total cash and investments									$ 663,813

UIHC's investments are recorded at fair value. As of June 30, 2016, UIHC had the following investments and quality credit ratings (in thousands):

Fixed income	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	N/A	Total market value
Corporate notes and bonds	1.48	$ 698	321	1,494	1,245	75	29	—	3,862
U.S. government agencies	1.03	170	21,856	—	—	—	—	—	22,026
U.S. Treasury obligations	1.48	—	19,355	—	—	—	—	—	19,355
Mutual funds	3.98	—	96,806	13,832	52,583	38,561	41,845	—	243,627
		$ 868	138,338	15,326	53,828	38,636	41,874	—	288,870
Other investments:									
Cash and cash equivalents									265,182
U.S. equity mutual funds									50,120
Non-U.S. equity mutual funds									41,918
Real assets									97,500
Private equity									7,760
Total cash and investments									$ 751,350

(a) Interest Rate Risk

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

(b) Credit Risk

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

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. Except for Treasury or Agency debentures, pass-throughs or REMICs, no more than 5% of University investment portfolios are invested in securities of a single issuer. All direct investment purchases by the University in the operating portfolio are US 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. 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 UIHC’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.

(Continued)

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

Due to the nature of the investments held by the funds, changes in market conditions, economic environment, regulatory environment, currency exchange rates, interest rates, and commodity price fluctuations may significantly impact the NAV of the funds and, consequently, the fair value of the UIHC's interest in the funds, and could materially affect the amounts reported in the financial statements. UIHC 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, 2017, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV (in thousands):

			2017		
	Level 1	Level 2	Level 3	NAV	Total
Fixed income:					
Corporate notes and bonds	$ —	4,045	21	—	4,066
U.S. government agencies	—	23,960	—	—	23,960
U.S. Treasury obligations	19,908	—	—	—	19,908
Mutual funds	136,808	—	—	58,879	195,687
U.S. equity	45,625	164	—	—	45,789
Non-U.S. equity	15,719	—	—	30,294	46,013
Real assets	61,831	—	—	12,433	74,264
Private equity	—	—	—	10,770	10,770
	$ 279,891	28,169	21	112,376	420,457
Money market/cash equivalents					243,356
Total cash and investments					$ 663,813

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

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

The following table reflects fair value measurements of investment assets at June 30, 2016, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV (in thousands):

	2016 Level 1	Level 2	Level 3	NAV	Total
Fixed income:					
Corporate notes and bonds	$ —	3,862	—	—	3,862
U.S. government agencies	—	22,026	—	—	22,026
U.S. Treasury obligations	19,355	—	—	—	19,355
Mutual funds	174,932	—	—	68,695	243,627
U.S. equity	50,120	—	—	—	50,120
Non-U.S. equity	15,698	—	—	26,220	41,918
Real assets	86,692	—	—	10,808	97,500
Private equity	—	—	—	7,760	7,760
	$ 346,797	25,888	—	113,483	486,168
Money market/cash equivalents					265,182
Total cash and investments					$ 751,350

(Continued)

(Dollars in tables in thousands)

The following tables summarize UIHC's investments at June 30, 2016 for which NAV was used as a practical expedient to estimate fair value.

Asset class	Fair value determined using NAV 2016	Unfunded commitments at June 30, 2016	Redemption frequency	Redemption notice period
Fixed-income mutual funds	$ 68,695	—	Daily–monthly	5–30 days
Non-U.S. equity	26,220	—	Monthly–semimonthly	2–30 days
Real assets:				
Redeemable	4,614	—	Quarterly	90 days
Nonredeemable	6,194	—	N/A	N/A
Private equity:				
Redeemable	—	—		
Nonredeemable	7,760	—	N/A	N/A
Investment measured at NAV	$ 113,483	—		

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

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

Non-U.S. Equity Funds – This category includes investments in international equities including both developed and emerging markets.

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

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

(3) Capital Assets

Capital assets at June 30, 2017 and 2016 are summarized as follows (in thousands):

		2017	2016
Land	$	21,240	19,228
Land improvements		1,159	1,138
Infrastructure		56,095	55,123
Buildings and leasehold improvements		1,395,549	1,005,535
Equipment and software		569,061	486,661
Construction in progress (nondepreciable)		77,797	360,998
		2,120,901	1,928,683
Less accumulated depreciation		1,027,690	954,833
	$	1,093,211	973,850

Capital asset additions, retirements, and balances as of and for the years ended June 30, 2017 and 2016 were as follows (in thousands):

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

(Continued)

(Dollars in tables in thousands)

Cost basis summary		June 30, 2015 balances	Additions	Sales retirements and transfers	June 30, 2016 balances
Land (nondepreciable)	$	17,835	1,393	—	19,228
Land improvements		925	213	—	1,138
Infrastructure		54,686	437	—	55,123
Buildings and leasehold improvements		944,851	60,832	(148)	1,005,535
Equipment and software		448,450	53,575	(15,364)	486,661
Construction in progress (nondepreciable)		244,329	197,291	(80,622)	360,998
Total at historical cost		1,711,076	313,741	(96,134)	1,928,683
Less accumulated depreciation for:					
Land improvements		793	22	—	815
Infrastructure		42,751	1,640	—	44,391
Buildings and leasehold improvements		562,342	32,890	(114)	595,118
Equipment and software		284,540	44,441	(14,472)	314,509
Total accumulated depreciation		890,426	78,993	(14,586)	954,833
Total capital assets, net	$	820,650	234,748	(81,548)	973,850

At June 30, 2017, construction in progress is related to various projects throughout the UIHC. The estimated cost to complete the current phase of equipment and projects under construction at June 30, 2017 is $80.7 million. Other projects at June 30, 2017, with an estimated cost of $220.5 million, have been committed to by the Board and/or UIHC; however, construction contracts had not been signed as of June 30, 2017. These projects are anticipated to be funded through existing designated funds, cash provided by future operations, and/or the issuance of additional long-term debt.

(4) Long-Term Debt

Long-term debt outstanding at June 30, 2017 and 2016 was as follows (in thousands):

	2017	2016
Hospital Revenue Bonds:		
Series S.U.I. 2010 – 3.000% to 4.500%; maturing serially on September 1 through 2037	$ 26,000	26,850
Series S.U.I. 2011 – 2.000% to 4.000%; maturing serially on September 1 through 2032	22,850	23,875
Series S.U.I. 2011A – 2.000% to 4.125%; maturing serially on September 1 through 2028	15,325	16,365
Series S.U.I. 2012 – 4.000% to 4.000%; maturing serially on September 1 through 2038	174,475	179,750
Series S.U.I. 2016 – 1.250% to 5.000%; maturing serially on September 1 through 2038	29,000	29,000
Series S.U.I. 2016A – 3.000% to 3.000%; maturing serially on September 1 through 2038	23,860	23,860
Net unamortized premium on Hospital Revenue Bonds	15,778	17,280
Telecommunications Facilities Revenue Bonds:		
Series S.U.I. 2009 – 3.000% to 4.250%; maturing serially on July 1 through 2036	11,094	11,453
Series S.U.I. 2011 – 2.500% to 4.500%; maturing serially on July 1 through 2032	6,422	6,717
Total long-term bonds	324,804	335,150
Capital lease obligation	17,491	18,489
Total long-term debt	342,295	353,639
Long-term debt, current portion	13,687	9,842
	$ 328,608	343,797

Activity in long-term debt for the years ended June 30, 2017 and 2016 was as follows (in thousands):

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

(Dollars in tables in thousands)

	June 30, 2015 balance	Additions	Reductions	June 30, 2016 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2007	$ 18,675	—	(18,675)	—	—
Hospital Revenue Bonds, Series 2007A	18,850	—	(18,850)	—	—
Hospital Revenue Bonds, Series 2009	26,525	—	(26,525)	—	—
Hospital Revenue Bonds, Series 2010	27,675	—	(825)	26,850	850
Hospital Revenue Bonds, Series 2011	24,875	—	(1,000)	23,875	1,025
Hospital Revenue Bonds, Series 2011A	17,375	—	(1,010)	16,365	1,040
Hospital Revenue Bonds, Series 2012	184,925	—	(5,175)	179,750	5,275
Hospital Revenue Bonds, Series 2016	—	29,000	—	29,000	—
Hospital Revenue Bonds, Series 2016A	—	23,860	—	23,860	—
Net unamortized bond premium	12,164	6,495	(1,379)	17,280	—
Telecommunications Facilities Revenue Bonds:					
Series 2008	297	—	(297)	—	—
Series 2009	11,804	—	(351)	11,453	359
Series 2011	7,005	—	(288)	6,717	295
Total long-term bonds	350,170	59,355	(74,375)	335,150	8,844
Capital lease obligations	19,458	—	(969)	18,489	998
Total long-term debt	$ 369,628	59,355	(75,344)	353,639	9,842

Long-Term Bonds

The Hospital Revenue Bonds are special obligations of the Board payable solely out of Hospital Income, the general purpose of which is to expand and improve UIHC facilities. “Hospital Income” is defined as the gross income and funds received by the Hospital System at the University, including the proceeds of rates, fees, charges, and payments for healthcare provider activities for patient care services rendered by the University’s hospitals, clinics, laboratories, and ancillary facilities, less current expenses (as defined in the resolution authorization the issuance of the bonds, the Bond Resolution). Hospital Income does not include state appropriations to the University. So long as the bonds or parity bonds remain outstanding, the entire Hospital Income shall be deposited to the revenue fund and shall be disbursed to the following funds in the following order: (1) the operation and maintenance fund, (2) the sinking fund, (3) the reserve fund, and (4) the system fund. The reserve fund requirement is at least equal to the maximum annual amount of the principal and interest coming due on the bonds and any parity bonds, or $23.7 million. The maximum amount of Hospital Income pledged representing the undiscounted principal and interest on the bonds is $440.1 million.

During 2017, UIHC issued no Hospital Revenue Bonds.

In May 2016, the UIHC issued $29 million of Hospital Revenue Refunding Bonds, Series S.U.I. 2016, with an average interest rate of 4.3% to advance refund $35.4 million outstanding Hospital Revenue Refunding Bonds, Series S.U.I. 2007 and 2007A, with interest rates ranging between 4.00% and 5.50%. The University chose to early fund principal of $2.3 million. As a result, the outstanding amount of the bonds at time of closing was $33.1 million. Net bond proceeds of $33.5 million were placed in an irrevocable escrow account. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Hospital Revenue Refunding Bonds, Series S.U.I. 2007 and 2007A will be called on September 1, 2017. The refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of $4.1 million; and reduced the aggregate debt service payments by $4.4 million over the next 11 years.

In June 2016, the UIHC issued $23.9 million of Hospital Revenue Refunding Bonds, Series S.U.I. 2016A, with an average interest rate of 3.0% to advance refund $25.2 million of outstanding Hospital Revenue Refunding Bonds, Series S.U.I. 2009, with interest rates ranging between 5.50 and 6.125%. The University chose to early fund principal of $1.4 million. As a result, the outstanding amount of the bonds at time of closing was $23.8 million. Net bond proceeds of $25.7 million were placed in an irrevocable escrow account. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Hospital Revenue Refunding Bonds, Series S.U.I. 2009 will be called on September 1, 2018. The refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of $4 million; and reduced the aggregate debt service payments by $4.3 million over the next 12 years.

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

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

		Principal	Interest	Total
Year(s) ending June 30:				
2018	$	12,660	11,613	24,273
2019		13,499	11,217	24,716
2020		13,822	10,799	24,621
2021		14,255	10,357	24,612
2022		14,630	9,890	24,520
2023 through 2027		81,006	40,483	121,489
2028 through 2032		71,382	24,508	95,890
2033 through 2037		64,397	11,287	75,684
2038 through 2040		23,375	946	24,321
	$	309,026	131,100	440,126

The following are deferred outflows of resources and deferred inflows of resources related to debt refundings as of June 30, 2017 and 2016:

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

(Dollars in tables in thousands)

	2016 Deferred outflows of resources	2016 Deferred inflows of resources
Deferred outflows and inflows from debt refunding:		
Revenue Bonds 2011A Series refunding loss	$ 354	—
Revenue Bonds 2016 Series refunding loss	1,878	—
Revenue Bonds 2016A Series refunding loss	2,766	—
	$ 4,998	—

Capital Lease Obligations

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

	Principal	Interest	Total
Year(s) ending June 30:			
2018	$ 1,027	516	1,543
2019	1,057	486	1,543
2020	1,089	455	1,544
2021	1,121	422	1,543
2022	1,154	389	1,543
2023 through 2027	6,300	2,399	8,699
2028 through 2032	5,743	728	6,471
	$ 17,491	5,395	22,886

(5) Retirement Benefit Plans

Teachers Insurance and Annuity Association

Substantially, all UIHC employees meeting eligibility requirements participate in the University of Iowa Retirement Plan (the Plan). The Plan is a defined-contribution retirement plan providing benefits through the Teachers Insurance and Annuity Association and the College Retirement Equity Fund (TIAA-CREF). UIHC contributions to the Plan are 10% 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% of the remaining balance of employee compensation. Employees are required to contribute an amount equal to 50% of UIHC's contribution. All contributions to the Plan are immediately 100% vested.

Iowa Public Employees Retirement System

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

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

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

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

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

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

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

The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2017 and 2016, pursuant to the required rate, regular members contributed 5.95% of pay and UIHC contributed 8.93% for a total rate of 14.88%.

UIHC's contributions to IPERS for the years ended June 30, 2017 and 2016 were $4.6 million and $3.6 million, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017 and 2016, UIHC reported a liability in other long-term liabilities on the statements of net position of $37.4 million and $23.5 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. UIHC's proportion of the net pension liability was based on UIHC's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, UIHC's proportion was 0.59455%, which was an increase of 0.12106% from its proportion measured as of June 30, 2015 of 0.47349%.

For the year ended June 30, 2017 and 2016, UIHC recognized pension expense of $7.5 million and $4.6 million, respectively. At June 30, 2017 and 2016, UIHC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

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

		2016 Deferred outflows of resources	2016 Deferred inflows of resources
Difference between expected and actual experience	$	356	—
Changes of assumptions		648	—
Net difference between projected and actual earnings on pension plan investments		—	1,959
Changes in proportion and differences between contributions and proportionate share of contributions		4,143	—
Contributions subsequent to the measurement date		3,603	—
Total	$	8,750	1,959

$4.6 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending June 30:		
2018	$	2,845
2019		2,845
2020		4,509
2021		2,673
2022		274
	$	13,146

There are no nonemployer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 and 2015 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00%
Salary increase (effective June 30, 2014)	4.00% average, including inflation
Investment rate of return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan investment expense, including inflation

(Dollars in tables in thousands)

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

Asset class	Asset allocation	Long-term expected real rate of return
Core plus fixed income	28 %	1.90 %
U.S. equity	24	5.85
Non-U.S. equity	16	6.32
Private equity	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100 %	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. 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.

(Continued)

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 7.50%, as well as what UIHC's proportionate share of the net pension liability would be if it was calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate (in thousands).

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

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

Payables to the Pension Plan – At June 30, 2017 and 2016, respectively, UIHC reported payables to the defined-benefit pension plan of $410 and $321, for legally required employer contributions and $273 and $214, for legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

(6) Postemployment Benefits

Other postemployment benefits (OPEB) are recorded in the financial statements as noncurrent accrued payroll on the statements of net position and are included as an operating expense in salaries and benefits on the statements of revenue, expenses, and changes in net position.

(a) Annual OPEB Cost and Net OPEB Obligation for Professional and Scientific and Faculty

All UIHC employees meeting eligibility requirements participate in the University of Iowa Health Insurance Benefits for Retirees. The University of Iowa's defined-benefit postemployment healthcare plan provides medical and dental benefits to eligible retired employees, which include employees who retire from the University after attaining age 55 and before reaching age 62, or who retire after attaining age 62 with 10 or more years of service.

The contribution requirements of plan members and the University are established and may be amended by the Board. The terms and conditions governing the postemployment benefits to which employees are entitled are in the sole authority and discretion of the University's Board. For fiscal years 2017 and 2016, UIHC's allocated annual OPEB cost was $10.1 million and $10.7 million, respectively, of which $2.3 million was contributed to the plan in 2017 and $2.4 million in 2016. The net allocated OPEB obligation at June 30, 2017 and 2016 was $37.9 million and $34.1 million, respectively. There is no requirement to fund the OPEB liability and the University has chosen to fund it on a "pay-as-you-go" basis. University policy dictates the payment of retiree claims as they become due. Plan members receiving benefits contributed 77% of the premium costs in fiscal years 2017 and 2016.

(Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, effective FY 2018, further changes the accounting and reporting requirements for postemployment benefits and results in significant increases in liability and expense. The standard requires the use of a more aggressive actuarial costing method, a lower discount rate, a shortened amortization period, and other changes in assumptions, which has the impact of drastically increasing the OPEB liability. The University evaluated options to minimize our liability and has made the decision to cap the University's contribution to retiree health at the current $288 per month for both current and future retirees. This decision passed through the appropriate approval channels and communication process (Staff Council Leadership, Funded Retirement and Insurance Committee Co-chairs, Faculty Senate leadership, Retiree Association Leadership). The University sent letters to retirees by the June 30, 2017 measurement date in order to be incorporated into the FY18 GASB Statement No 75 valuation. This option is expected to reduce our projected FY18 Net OPEB Liability from over $150 million to potentially less than $40 million.

The University's defined-benefit postemployment healthcare plan does not issue a separate financial report, but is included in the University's annual report, which can be obtained at the University of Iowa, 4 Jessup Hall, Iowa City, Iowa 52242.

(b) Other Postemployment Benefits

UIHC's merit employees are participants in the State of Iowa postretirement medical plan (OPEB Plan). The State of Iowa recognized the implicit rate subsidy for the OPEB Plan as required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. For fiscal years 2017 and 2016, UIHC's allocated annual OPEB cost was $2.5 million and $2.3 million, respectively, of which $1.1 million was contributed to the plan in 2017 and $1.2 million in 2016. UIHC recognized a net OPEB liability of $17.4 million and $14.7 million, at June 30, 2017 and 2016, respectively, for other postemployment benefits, which represents UIHC's portion of the State's net OPEB liability. UIHC's portion of the net OPEB liability was calculated using the ratio of full-time equivalent UIHC merit employees compared to all full-time equivalent employees of the State of Iowa.

Details of the OPEB Plan are provided on a statewide basis and are available in the State of Iowa's Comprehensive Annual Financial Report. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

(7) Risk Management

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

(Continued)

UIHC's portion of the health insurance liability, which is included in accounts payable and accrued expenses, is $5.6 million and $6.3 million as of June 30, 2017 and 2016, respectively, is as follows (in thousands):

		2017	2016
Liability for unpaid healthcare claims at beginning of year	$	6,277	5,150
Healthcare expenses incurred during the year		89,456	84,822
Healthcare payments to the University during the year		(90,162)	(83,695)
Liability for unpaid healthcare claims at end of year	$	5,571	6,277

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

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

The State maintains an employee fidelity bond where the first $200,000 in losses is the responsibility of UIHC. Under the state coverage, losses in excess of the $200,000 are insured up to $2,000,000. The University maintains separate fidelity and crime coverage, which extends to all employees, and includes coverage for robbery and theft. The University's crime policy provides an additional $8,000,000 in coverage over the state bond.

(8) Transactions with Related Parties

UIHC receives certain administrative services, utilities, and other general services from the University. The services and support costs include amounts due to the University's Carver College of Medicine for support of graduate medical education, specific clinical services, and other services. These services are charged to UIHC at the approximate cost incurred by the servicing unit. For the years ended June 30, 2017 and 2016, UIHC expensed approximately $181.4 million and $173.7 million, respectively, for these administrative services, utilities, and other services and support requirements. At June 30, 2017 and 2016, approximately $8.6 million and $10.2 million, respectively, were due to the Carver College of Medicine. At June 30, 2017 and 2016, $3.9 million and $3.6 million, respectively, was due to the University of Iowa for services and support.

(Continued)

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, 2017 and 2016, UIHC received revenue from these units of approximately $9.3 million and $9.2 million, respectively, for these services, which is recorded in other revenue in the statements of revenue, expense, and changes in net position.

UIHC transfers to and receives transfers from non-UIHC University of Iowa units. Net transfers to these units totaled $24.4 million and $32.0 million for the years ended June 30, 2017 and 2016, respectively.

UIHS was incorporated under the provisions of the Iowa Nonprofit Corporations Act on December 2, 1994. UIHS was formed to enhance and support the educational missions of the UIHC and the College of Medicine, particularly as these missions apply to clinical activities and statewide and multistate network development activities. UIHC paid UIHS for certain administrative and other general services in the amount of $1.7 million and $1.9 million for the years ended June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, UIHC transferred $5.5 million and $11.7 million, respectively, which is recorded in net transfers in the statements of revenue, expenses, and changes in net position.

(9) Net Patient Service Revenue

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

		2017	2016
Gross patient charges:			
Inpatient charges	$	2,183,505	1,978,323
Outpatient charges		2,154,042	1,924,724
Total gross patient charges		4,337,547	3,903,047
Less deductions from gross patient charges:			
Contractual adjustments – Medicare, Medicaid, and other		2,852,467	2,460,639
Provision for bad debt		34,680	32,399
Net patient service revenue	$	1,450,400	1,410,009

The provision for uncollectible patient accounts is based upon UIHC's management's assessment of expected net collections considering the accounts receivable aging, historical collections experience, economic conditions, trends in healthcare coverage, and other collection indicators. Management periodically assesses the adequacy of the allowances for uncollectible accounts and contractual adjustments based upon 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. Deductibles and coinsurance are classified as either third party or

(Continued)

(Dollars in tables in thousands)

self-pay receivables on the basis of which party has the primary financial responsibility, while the total gross revenue remains classified based on the primary payor at the time of service. Net patient accounts receivable have been adjusted to the estimated amounts expected to be collected.

Patient service revenue (net of contractual allowances and discounts but before the provision for bad debts), recognized in 2017 and 2016 from these major payor sources, is as follows:

		2017	2016
Patient (self-pay)	$	43,985	40,114
Less provision for bad debt		34,680	32,399
Self-pay (net of contractual allowance, discounts, and provision for bad debts)		9,305	7,715
Medicaid		204,677	206,524
Medicare		412,497	382,864
Commercial insurance and other third-party payors		823,921	812,906
Patient service revenue (net of contractual allowance, discounts, and provision for bad debts)	$	1,450,400	1,410,009

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 2017 and 2016 net patient service revenue from third-party payors increased approximately $10.4 million and $20.8 million, respectively, due to prior year retroactive adjustments being less than amounts previously estimated.

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

(a) Medicare

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

Revenue from Medicare accounted for approximately 28.4% and 27.2% of UIHC’s net patient revenue for the years ended 2017 and 2016, respectively.

(b) Iowa Medicaid

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

(Dollars in tables in thousands)

Revenue from Medicaid programs accounted for approximately 14.1% and 14.6% of UIHC's net patient revenue for the years ending 2017 and 2016, respectively.

(c) Commercial

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

(10) Charity Care and Uncompensated Cost of Services

UIHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Certain accounts are classified as charity care and, therefore, are not reported as revenue. Charges forgone for services and supplies furnished under UIHC's charity policy for the years ended June 30, 2017 and 2016 are as follows:

		2017	2016
Charity care	$	27,636	27,079
Charity care for state institution patients		8,075	7,320
Charity care charges forgone	$	35,711	34,399

UIHC also provides reduced price services and free programs throughout the year. The total uncompensated costs of services other than charity care, for the years ended June 30, 2017 and 2016, approximate the following:

		2017	2016
Medicare	$	78,462	62,858
Medicaid		66,328	38,667
Medicaid out of state		4,749	3,172
Uncompensated costs of services	$	149,539	104,697

(Continued)

(11) Concentrations of Credit Risk

UIHC grants credit without collateral to its patients, most of whom are Iowa residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2017 and 2016 was as follows:

	2017	2016
Blue Cross/Blue Shield	30 %	25 %
Commercial pay	29	32
Medicare	23	25
Medicaid	15	15
Self-pay	1	1
Other	2	2
	100 %	100 %

(12) Operating Leases

UIHC uses certain capital assets under noncancelable operating leases. In most cases, management expects that, in the normal course of operations, the leases will be renewed or replaced by other leases. Total rent expense under operating leases for the years ended June 30, 2017 and 2016 was $12.6 million and $9.8 million, respectively.

The following is a schedule by year of future minimum rental payments required under noncancelable operating leases as of June 30, 2017 (in thousands):

Year(s) ending June 30:		
2018	$	8,454
2019		6,628
2020		6,449
2021		5,972
2022		5,940
2023–2027		29,844
2028–2032		23,694
2033–2037		10,370
Total	$	97,351

(13) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses reported as current liabilities at June 30, 2017 and 2016 consisted of the following amounts (in thousands):

		2017	2016
Payable to employees (including payroll taxes)	$	97,711	92,016
Payable to suppliers		39,228	45,875
Other		6,198	3,885
Total accounts payable and accrued expenses	$	143,137	141,776

(14) 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.

(15) Subsequent Events

UIHC has reviewed subsequent events through November 7, 2017 and concluded that there were no events or transactions during this period that would require recognition or disclosure in the financial statements other than those already disclosed and listed below.

In October 2017, UIHC received a one-time unrestricted equity transfer from the University of Iowa in the amount of $94,500.

Schedule 1

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 Fiscal Year *

(In thousands)

Required Supplementary Information

June 30, 2017

(Unaudited)

		2017	2016
UIHC’s proportion of the net pension liability		0.59455 %	0.47349 %
UIHC’s proportionate share of the net pension liability	$	37,417	23,539
UIHC’s covered-employee payroll		52,104	32,763
UIHC’s proportionate share of the net pension liability as a percentage of its covered-employee payroll		71.8 %	71.8 %
Plan fiduciary net position as a percentage of the total pension liability		81.8	85.2

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

* Note:

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

See accompanying independent auditors’ report.

Schedule 2

STATE UNIVERSITY OF IOWA, UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Schedule of UIHC Contributions

Iowa Public Employees' Retirement System

Last 10 Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2017

(Unaudited)

		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Statutorily required contribution	$	4,624	3,603	2,660	2,299	1,896	1,528	976	665	587	470
Contributions in relation to the statutorily required contribution		(4,624)	(3,603)	(2,660)	(2,299)	(1,896)	(1,528)	(976)	(665)	(587)	(470)
Contribution deficiency	$	—	—	—	—	—	—	—	—	—	—
UIHC's covered-employee payroll	$	52,104	40,665	29,902	25,706	21,965	18,748	13,521	9,854	9,159	7,740
Contributions as a percentage of the covered-employee payroll		8.9 %	8.9 %	8.9 %	8.9 %	8.6 %	8.1 %	7.2 %	6.7 %	6.4 %	6.1 %

See accompanying independent auditors' report.

(1) Changes of Benefit Terms

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

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

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

(2) Changes of Assumptions

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.

Moved from an open 30-year amortization period to a closed 30-year amortization period for the unfunded actuarial liability (UAL) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

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

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

(Continued)

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service-based assumptions
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%
- Lowered the inflation assumption from 3.50% to 3.25%

Lowered disability rates for sheriffs and deputies and protection occupation members