UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Annual Financial Report

June 30, 2021

(With Independent Auditor's Report Thereon)

THE BOARD OF TRUSTEES

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The Governor of Illinois

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University System

University of Illinois – Chicago

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Annual Financial Report

June 30, 2021

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UNIVERSITY OF ILLINOIS SYSTEM

Office of the Vice President, Chief Financial Officer and Comptroller

May 4, 2022

Holders of University of Illinois
Health Services Facilities System Revenue Bonds
and The Board of Trustees of the University of Illinois:

I am pleased to transmit the Annual Financial Report of the University of Illinois Health Services Facilities System for the fiscal year ended June 30, 2021. This report supplements the Annual Financial Report of the University of Illinois.

The Health Services Facilities System continued to be challenged operationally and financially in fiscal year 2021 due to the ongoing COVID-19 pandemic. Relief funding under the federal CARES Act and efficient utilization of resources helped offset operating expenses and maintain a solid financial position. Health Services Facilities System leadership, medical professionals, and staff remain committed to its mission of advancing health for everyone through outstanding clinical care, education, research, and social responsibility.

The 2021 financial statements and accompanying notes appearing on pages 5 through 36 have been audited by RSM US LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements appears on pages 2 through 4.

RSM US LLP also prepares a report for the year ended June 30, 2021, containing special data requested by the Auditor General and summarizing the University's compliance with applicable state and federal laws and regulations for the year ended June 30, 2021. This report, which includes some data related to the Health Services Facilities System, is not contained herein and is primarily for the use of the Auditor General and state and federal agencies.

Respectfully,

SIGNED ORIGINAL ON FILE

Paul Ellinger
Interim Vice President, Chief Financial Officer, and Comptroller

349 Henry Administration Building • 506 South Wright Street • Urbana, Illinois 61801
Urbana (217) 333-1560 • Fax (217) 244-8108

RSM US LLP

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
University of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the University of Illinois Health Services Facilities System (the System), a segment of the University of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 business-type activities of the System, as of June 30, 2021, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements of the System are intended to present the financial position and the respective changes in financial position and cash flows of only that portion of the business-type activities of University of Illinois that is attributable to the transactions of the System. These financial statements do not purport to, and do not, present fairly the financial position of University of Illinois as of June 30, 2021, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, opening net position in the financial statements has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of University of Illinois Health Services Facilities System Proportionate Share of the Net Pension Liability on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated May 4, 2022, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
May 4, 2022

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Net Position

June 30, 2021

Assets and Deferred Outflow of Resources		
Current assets:		
Claim on cash and on pooled investments	$	378,911,082
Restricted claim on cash and on pooled investments		1,117,800
Restricted cash and cash equivalents		575
Accrued investment income		633,209
Patient accounts receivable, net		157,663,820
Other receivables		10,637,288
Inventories		9,010,328
Prepaid expenses, deposits, and other assets		4,080,058
Total current assets		562,054,160
Noncurrent assets:		
Restricted claim on cash and on pooled investments		34,386,049
Restricted cash and cash equivalents		31,049
Capital assets, net of accumulated depreciation		293,919,082
Total noncurrent assets		328,336,180
Deferred outflow of resources		2,587,346
Total assets and deferred outflow of resources	$	892,977,686
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$	70,228,027
Current portion of Advance from Centers for Medicare and Medicaid Services		55,190,189
Accrued payroll		24,183,332
Accrued interest payable		1,118,375
Estimated third-party settlements		69,122,495
Current maturities of long-term debt		4,591,135
Current portion of accrued compensated absences		2,783,453
Total current liabilities		227,217,006
Noncurrent liabilities:		
Long-term debt, net of current maturities		94,683,246
Advance from Centers for Medicare and Medicaid Services, net of current portion		12,676,867
Accrued compensated absences, net of current portion		32,093,111
Derivative instrument – swap liability		1,682,076
Total noncurrent liabilities		141,135,300
Total liabilities		368,352,306
Net investment in capital assets		197,801,894
Restricted:		
Expendable for capital projects and equipment		34,386,049
Expendable for debt service		31,049
Unrestricted		292,406,388
Total net position		524,625,380
Total liabilities and net position	$	892,977,686

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2021

Operating revenues:	
Net patient service revenue	$ 848,920,797
Revenues recognized on behalf of the System	29,095,595
Other revenues	32,516,344
Total operating revenues	910,532,736
Operating expenses:	
Salaries, wages and benefits	413,563,263
On-behalf for fringe benefits	58,895,198
Special funding situation for fringe benefits	315,069,431
Supplies and general expenses	494,439,962
Administrative services	16,168,875
Depreciation and amortization	28,023,061
Total operating expenses	1,326,159,790
Operating loss	(415,627,054)
Nonoperating revenues (expenses):	
On-behalf for fringe benefits	58,895,198
Special funding situation for fringe benefits	315,069,431
State appropriations	40,381,391
Transfer to the University of Illinois Hospital Services Fund	(26,250,000)
COVID-19 relief funding	89,182,791
Net increase in fair value of investments	7,108,033
Interest on capital asset related debt	(5,259,669)
Investment income (net of related expenses)	5,164,406
Loss on disposal of capital assets	(210,632)
Other nonoperating expenses, net	(89,686)
Net nonoperating revenues	483,991,263
Income before other revenues	68,364,209
Capital gifts	8,981,929
Increase in net position	77,346,138
Net position, beginning of year	429,721,759
Restatement, correction of an error	17,557,483
Net position, beginning of year, as restated	447,279,242
Net position, end of year	$ 524,625,380

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2021

Cash flows from operating activities:	
Patient services	$ 790,821,215
Payments to suppliers	(483,773,514)
Payments for administrative services	(16,168,875)
Payments to employees and for benefits	(385,605,302)
Other receipts	31,538,002
Net cash used in operating activities	(63,188,474)
Cash flows from noncapital financing activities:	
State appropriations	14,131,391
COVID-19 relief funding	89,182,791
Other receipts	232,967
Net cash provided by noncapital financing activities	103,547,149
Cash flows from capital and related financing activities:	
Purchases of capital assets	(51,566,408)
Capital gifts	8,981,929
Principal paid on capital debt and leases	(4,424,782)
Interest paid on capital debt and leases	(4,995,092)
Net cash used in capital and related financing activities	(52,004,353)
Cash flows from investing activities:	
Interest and other earnings on investments	5,366,830
Pooled cash allocated from University related to unrealized gains	7,108,035
Net cash provided by investing activities	12,474,865
Net increase in cash and cash equivalents	829,187
Cash and cash equivalents, beginning of year	413,617,368
Cash and cash equivalents, end of year	$ 414,446,555

(Continued)

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2021

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(415,627,054)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense		28,023,061
Provision for uncollectible accounts		(5,935,331)
On-behalf for fringe benefits		58,895,198
Special funding situation for fringe benefits		315,069,431
Changes in assets and liabilities:		
Patient accounts receivable		(57,497,807)
Other receivables		(978,342)
Inventories		(766,708)
Prepaid expenses, deposits, and other assets		287,411
Accounts payable and accrued expenses		7,319,770
Advance from Centers for Medicare and Medicaid Services		(7,487,068)
Estimated third-party settlements		12,820,625
Accrued compensated absences		2,688,340
Net cash used in operating activities	$	(63,188,474)
Noncash investing, capital, and financing activities:		
On-behalf for fringe benefits	$	58,895,198
Special funding situation for fringe benefits		315,069,431
State appropriations		26,250,000
Transfer to University of Illinois Hospital Services Fund		(26,250,000)
Decrease of other capital asset adjustments		(322,653)
Increase of capital asset obligations in accounts payable		4,429,265
Loss on disposal of capital assets		(210,632)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organizational Background and Basis of Presentation

The University of Illinois Health Services Facilities System (System) comprises the University of Illinois Hospital (Hospital) and Hospital-based clinics providing patient care at the University of Illinois - Chicago (UIC). The Hospital is a tertiary care facility located in Chicago, Illinois offering a full range of clinical services. Management of the System is the responsibility of the University of Illinois (University).

The System was established by a Bond Resolution (Resolution) of the Board of Trustees of the University of Illinois (Board) adopted on January 22, 1997. These financial statements have been prepared to satisfy the requirements of the Series 1997B, 2008 and 2013 bond indentures. The financial balances and activities of the System are also included in the University's financial statements. The financial statements of the System are prepared in accordance with United States (U.S.) generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The System is not a separate legal entity and has not presented management's discussion and analysis.

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

The System prepared its financial statements as a business type activity, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, using the economic resources measurement focus and the accrual basis of accounting. Business type activities are those financed in whole or in part by fees charged to external parties for goods and services.

Under the accrual basis, revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

(b) Cash and Cash Equivalents

The Statement of Cash Flows details the change in the cash and cash equivalents balances for the fiscal year. Cash and all liquid investments with original maturities of ninety days or less are defined as cash and cash equivalents.

(c) Investments

Investments are reported at fair value in accordance with guidelines defined by GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is determined for the System's investments based upon a framework described in Note 2(f). Bank deposits and money market funds are recorded at cost.

Changes in fair value during the reporting period are reported as a net increase (decrease) in the fair value of investments. Net investment income includes interest, dividends, and realized gains and losses.

(d) Inventories

Inventories of pharmaceutical and other supplies are stated at the lower of cost, determined using the first-in, first-out method, or market.

(e) Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition value at the date of a gift. Depreciation of capital assets is calculated on a straight-line basis over the estimated useful lives (see below) of the respective assets. The System's policy requires the capitalization of land and collection purchases regardless of cost, equipment over $5,000, software, easements, buildings and improvements over $100,000 and infrastructure over $1,000,000. The System does not capitalize collections, such as works of art or historical treasures, which are held for public exhibition, education or research in furtherance of public service rather than capital gain, unless they were previously capitalized as of June 30, 1999. Proceeds from the sale, exchange or other disposal of any item belonging to a collection must be applied to the acquisition of additional items for the same collection.

Estimated useful lives for capital assets are as follows:

	Useful life (in years)		Useful life (in years)
Buildings:		Improvements other than buildings:	
Shell	50	Site improvements	20
Service systems	25	Infrastructure	25
Fixed equipment	15		
Remodeling	25		
Intangibles:		Moveable equipment:	
Software	5 – 10	Equipment	3 – 20

(f) Deferred Outflow of Resources

Under hedge accounting, the University has determined that the interest rate swap agreement on the System's bonds payable, as a hedging derivative instrument, is an effective hedge. Accordingly, changes in the fair value of the interest rate swap, since being associated with the related outstanding bonds, is reported as a deferred outflow of resources on the accompanying Statement of Net Position. Additionally, an interest rate swap reassigned to new debt, after a refunding of debt that the swap previously hedged, normally has an other than zero fair value upon the reassociation. For a swap with a fair value of other than zero upon reassociation with a hedgeable item, the fair value is amortized as an adjustment to interest expense in a systematic manner.

Losses on refundings for the System's bonds are reported as deferred outflow of resources on the accompanying Statement of Net Position. The losses on refundings are amortized over the life of the debt using the straight-line method.

Deferred Outflow of Resources

	Ending balance
Interest rate swap agreement that hedges Series 2008 bonds	$ 1,271,107
Unamortized deferred loss on refunding	1,316,239
Total deferred outflow of resources	$ 2,587,346

(g) Federal Centers for Medicare and Medicaid Services Advanced Payment

On March 28, 2020, the Federal Centers for Medicare and Medicaid Services expanded its Accelerated/Advanced Payment Program to provide liquidity support to Medicare providers during the coronavirus infectious disease (COVID-19) pandemic. Repayment began one year from April 21, 2020 by offsetting Medicare payments by 25% for eleven months. After the eleven months, Medicare payments will continue to be offset at 50% for an additional six months with any remaining balance due at the conclusion of the offset period. As of June 30, 2021, $67,867,056 of the advance was remaining as due for repayment.

(h) Compensated Absences

Accrued compensated absences for System personnel are charged as an operating expense, using the vested method, based on earned and unused vacation and sick leave days including the System's share of Medicare taxes.

(i) Premiums

Premiums for the System's bonds are reported within long-term debt and amortized over the life of the debt issue using the effective interest method.

(j) Net Position

The System's resources are classified into net position categories and reported in the Statement of Net Position. These categories are defined as (a) Net investment in capital assets – capital assets net of accumulated depreciation and related outstanding debt balances attributable to the acquisition, construction, or improvement of those assets, (b) Restricted – net position subject to externally imposed restrictions that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time, and (c) Unrestricted – net position not subject to externally imposed stipulations but may be designated for specific purposes by action of management or the Board. The System first applies resources included in restricted net position when an expense or outlay is incurred for purposes for which resources in both restricted and unrestricted net positions are available.

(k) Classification of Revenues

The Statement of Revenues, Expenses and Changes in Net Position classifies the System's fiscal year activity as operating and nonoperating. Operating revenues generally result from exchange transactions such as payments received for providing goods and services.

Certain revenue sources that the System relies on for operations including on-behalf for fringe benefits, special funding situation for fringe benefits and investment income are defined by GASB Statement No. 35 as nonoperating. In addition, transactions related to capital and financing activities are components of net nonoperating revenues.

Other operating revenues of the System include capitation payments from Health Maintenance Organizations (HMOs) to provide medical services to subscribers, revenues from laboratory services provided to external organizations, cafeteria/gift shop sales and other sources.

In fiscal year 2021, the System received $60,892,912 from the Provider Relief Fund created under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and $28,289,879 from the State of Illinois (State) CARES Pandemic Related Stability Payments Program as voluntary nonexchange transactions. The Provider Relief Fund distributions were comprised of $43,074,157 from the safety net hospital allocation and $17,818,755 from the COVID-19 high-impact allocation. These funds were intended to offset pandemic response costs and lost revenue for providers impacted by COVID-19.

In fiscal year 2021, the System specified $26,250,000 of its State appropriation for transfer to the University of Illinois Hospital Services Fund, which is a special fund established in the State Treasury pursuant to the State Finance Act, 30 ILCS 105/6z-30. This fund is owned and operated by the Illinois Department of Healthcare and Family Services for the purpose of making payments to the System for services rendered to Medicaid recipients. It is not part of or a related organization of the University.

(l) Patient Services Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, some of which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods.

The System provides allowances for uncollectible accounts receivable based upon management's best estimate of uncollectible accounts, considering type, age, collection history, and other appropriate factors.

(m) Charity Care

The policy of the System is to treat patients in immediate need of medical services without regard to their ability to pay for such services. The System provides care without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy. This policy defines charity care and provides guidelines for assessing a patient's ability to pay. Eligibility is based on patient qualification, financial resources and service criteria. Because the System does not pursue collection of amounts determined to be charity care, they are not reported as revenue.

The System maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated cost of charity care using the System's cost-to-charge ratio was $24,594,248 for fiscal year 2021. The ratio of costs to charges is calculated based on the System's total operating expenses. Unreimbursed costs of providing care to Medicare and Medicaid patients are not included as charity care.

(n) Classification of Expenses

The majority of the System's expenses are exchange transactions which GASB defines as operating expenses for financial statement presentation. Nonoperating expenses include transfers to the University of Illinois Hospital Services Fund and capital financing costs.

(o) On-Behalf for Fringe Benefits

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System has reported outside sources of financial assistance provided by other entities on behalf of the System during the year ended June 30, 2021, as described below.

Substantially all active employees participate in group health insurance plans provided by the State and administered by the Illinois Department of Central Management Services (CMS). The State contributed, on-behalf of the System, an estimated $58,895,198, which is reflected as both nonoperating revenues and operating expenses within the Statement of Revenues, Expenses and Changes in Net Position.

(p) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the plan net position of the State Universities Retirement System (SURS) and additions to/deductions from SURS' plan net position has been determined on the same basis as they are reported by SURS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For financial reporting purposes, the State and its public universities and community colleges are under a special funding situation. A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to a pension plan. The System recognizes its proportionate share of the State's pension expense relative to the System's employees as nonoperating revenue and special funding situation for fringe benefits operating expense.

(q) Other Postemployment Benefits (OPEB)

The State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375) authorizes the State Employees Group Insurance Program (SEGIP), which includes activity for both active employees and retirees, as a single-employer defined benefit OPEB plan not administered as a trust. Substantially all State and state public universities' unit employees become eligible for these OPEB plan benefits when they become annuitants of one of the State sponsored pension plans. CMS administers these benefits for the annuitants with the assistance of the public retirement systems sponsored by the State General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and SURS.

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, the Act (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund, including the University's State Appropriations Funds. Additionally, the University shall not be required to make contributions for employees who are fully compensated from the System's operating funds. Pursuant to a long-standing State policy, the State's General Fund covers the contributions for employees who are fully compensated from the System's operating funds. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

The University has two separate components of OPEB administered within SEGIP. The (1) State of Illinois and its public universities are under a special funding situation for employees who are not paid from trust, federal, and other similar funds, while (2) the University is responsible for OPEB employer contributions when University employees are paid from trust, federal, and other similar funds. The System is under a special funding situation since its employees are not paid from trust, federal, and other similar funds.

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University, including the System) and the non-employer (the

State) is the only entity with a legal obligation to make contributions directly to an OPEB plan. The System recognizes the proportionate share of the State's OPEB expense relative to the System's employees as nonoperating revenue and special funding situation for fringe benefits operating expense.

(r) 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) New Accounting Pronouncements

The System adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which was effective for periods beginning after December 15, 2019. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Implementation of this pronouncement did not materially impact the System's financial statements.

The System adopted the provisions of GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which was effective for periods beginning after December 15, 2019. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. This requirement is to be applied on a prospective basis. Implementation of this pronouncement did not impact the System's financial statements.

The System adopted the provisions of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*; portions relating to defined benefit plans were effective immediately upon issuance in June 2020. The primary objectives of this Statement are to increase consistency and comparability related to the reporting of fiduciary component units, mitigate costs associate with the reporting of certain defined contribution pension plans and other postemployment benefit plans, and enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans. Implementation of this pronouncement did not materially impact the System's financial statements.

(t) Restatement of Beginning Net Position

During Fiscal Year 2021, an error correction resulted in a restatement to beginning net position, as follows:

July 1, 2020, as previously reported	$	429,721,759
Error Correction (A)		17,557,483
July 1, 2020, as restated	$	447,279,242

(A) This error correction occurred due to errors identified in the System's historical methodology to estimate the settlement liability related to the System's Managed Care contracts with Blue Cross. Because the System used the same methodology for many years, the overstatement of the settlement liability has accumulated incrementally over many years.

(2) Cash, Cash Equivalents and Investments

The System has cash and certain investments that are pooled with other University funds for the purpose of securing a greater return on investment and providing an equitable distribution of investment return. Income is distributed based upon average quarterly balances invested in the investment pool.

Nearly all of the University's investments are managed by external professional investment managers, who have full discretion to manage their portfolios subject to investment policy and manager guidelines established by the University, and in the case of mutual funds and other commingled vehicles, in accordance with the applicable prospectus or limited partnership agreement.

The Board follows the State of Illinois Uniform Prudent Management of Institutional Funds Act, 760 ILCS 51/1-11, when managing the University's investments. The Board fulfills its fiduciary responsibility for the management of investments, including endowment farm real estate, by adopting policies to maximize investment return with a prudent level of risk.

The following details the carrying value of the System's cash, cash equivalents, and investments as of June 30, 2021:

Money market funds	$	31,624
Claim on cash and on pooled investments		414,414,931
Total cash, cash equivalents and investments	$	414,446,555

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the University employs multiple investment managers, of which each has specific maturity assignments related to the operating funds. The funds are structured with different layers of liquidity. Funds expected to be used within one year are invested using the Barclay's Capital 90-Day and Bank of America Merrill Lynch 12-month Treasury Bill Index as performance benchmarks. Core operating funds are invested in longer maturity investments. Core operating funds investment managers' performance benchmarks are the Barclays Capital one-year to three-year Government Bond Index, the Barclays Capital one-year-to-three-year Government Credit Bond Index, the

Barclays Capital Intermediate Government Credit Bond Index and the Barclays Capital Intermediate Aggregate Bond Index.

The System's non-pooled investments of $31,624 as of June 30, 2021 were invested in money market funds with maturities of less than one year.

Claim on cash and on pooled investments represents the System's share of participation in the University's operating internal investment pool. At June 30, 2021, the University's operating internal investment portfolio had an effective duration for its interest-bearing securities of 1.4 years.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires that the University's short-term operating funds be invested in fixed income securities and other short-term fixed income instruments (e.g., money markets). Fixed income securities shall be rated investment grade or better by one or more nationally recognized statistical rating organizations. Securities not covered by the investment grade standard are allowed if, in the manager's judgment, those instruments are of comparable credit quality. Securities that fall below the stated minimum credit requirements subsequent to initial purchase may be held at the manager's discretion.

The University reports the credit ratings of fixed income securities and short-term instruments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk. At June 30, 2021, the University's operating internal investment pool and non-pooled investments primarily consisted of securities with credit ratings of A or better.

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University's investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2021, the System's investments and deposits had no custodial credit risk exposure.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy provides that the total operating funds portfolio will be broadly diversified across securities in a manner that is consistent with fiduciary standards of diversification. Issuer concentrations are limited to 5% per issuer of the total market value of the portfolio at the time of purchase, or in the case of securitized securities, an individual issuance trust. These concentration limits do not apply to investments in money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

As of June 30, 2021, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University does not have an overarching policy related to foreign currency risk; however, under each investment manager's respective fund agreement, the portfolio's foreign currency exposure may be unhedged or hedged back into U.S. dollars. The University's operating fund investments generally are not exposed to foreign currency risk.

The University invests in non-U.S. developed and emerging markets through commingled funds invested in non-U.S. equities, fixed income, private equity and absolute return strategies. As these funds are reported in U.S. dollars, both price changes of the underlying securities in local markets and changes to the value of local currencies relative to the U.S. dollar are embedded in investment returns.

(f) Investments and Fair Value Measurements

Accounting guidance for fair value establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is as follows:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the System has the ability to access as of the measurement date. Level 1 inputs would also include investments valued at prices in active markets that the System has access to where transactions occur with sufficient frequency and volume to provide reliable pricing information.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about what market participants would use in pricing an asset or liability.

The System's non-pooled investments of $31,624 as of June 30, 2021 are invested in money market funds that are reported at cost.

(3) Patient Accounts Receivable

Patient accounts receivable as of June 30, 2021, reported as current assets, consisted of the following amounts:

Patient accounts receivable, net of contractual allowances and charity care:	
Medicaid Managed Care	$ 89,724,606
Medicare Managed Care	71,580,960
Blue Cross	46,013,311
HMO/Preferred provider organization (PPO)	38,977,043
Commercial insurance	22,903,594
Medicare	21,210,135
Medicaid	18,907,932
Self-pay and other	14,658,831
Total	323,976,412
Less allowance for uncollectible accounts	(166,312,592)
Total patient accounts receivable, net	$ 157,663,820

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30, 2021 was as follows:

Medicaid Managed Care	27.7 %
Medicare Managed Care	22.1
Blue Cross	14.2
HMO/PPO	12.0
Commercial insurance	7.1
Medicare	6.6
Medicaid	5.8
Self-pay and other	4.5
	100.0 %

(4) Capital Assets

The capital assets of the System are not pledged to secure outstanding indebtedness of the Board. Capital asset activity for the year ended June 30, 2021 is summarized as follows:

Capital assets

	Beginning balance	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	$ 770,917	$	$	$	$ 770,917
Construction in process	70,377,716	47,200,430		(100,779,037)	16,799,109
Total nondepreciable capital assets	71,148,633	47,200,430	—	(100,779,037)	17,570,026
Depreciable capital assets:					
Buildings	294,867,099			10,322,673	305,189,772
Leasehold improvements	2,320,152				2,320,152
Equipment	167,288,214	8,472,590	(5,694,566)	222,836	170,289,074
Software	49,416,017		(1,333,116)	90,233,528	138,316,429
Total depreciable capital assets	513,891,482	8,472,590	(7,027,682)	100,779,037	616,115,427
Less accumulated depreciation:					
Buildings	146,639,563	10,569,685			157,209,248
Leasehold improvements	2,305,855	14,295			2,320,150
Equipment	127,027,189	9,784,798	(5,483,934)		131,328,053
Software	42,587,753	7,654,283	(1,333,116)		48,908,920
Total accumulated depreciation	318,560,360	28,023,061	(6,817,050)	—	339,766,371
Total depreciable capital assets, net	195,331,122	(19,550,471)	(210,632)	100,779,037	276,349,056
Total capital assets, net	$ 266,479,755	$ 27,649,959	$ (210,632)	$ —	$ 293,919,082

In August 2020, the University entered into several agreements with private enterprises in order to construct an Outpatient Surgery Center and Specialty Clinics Facility (OSC). The University has partnered with Provident Group-UIC Surgery Center LLC (Provident) and a developer, UIH ASC Development, LLC (Developer). Through agreements among the parties, Provident is responsible for the design, development and construction of the OSC. The Illinois Finance Authority (IFA) issued $149,845,000 of tax-exempt bonds in August 2020 and loaned the proceeds to Provident to fund a portion of the OSC project cost. The University leased the land on which the OSC will be built to Provident over a period of 40 years and has entered into a sublease with Provident to lease the OSC facility from Provident upon completion. Upon the termination or expiration of the land lease, the OSC, any improvements, fixtures, equipment and all personal property attached to or within the OSC shall be owned by the University.

Construction began in August 2020 and completion is anticipated in fiscal year 2023. Once the OSC is completed, the University and the System will recognize an asset and corresponding long-term liability. The use of the OSC will be reported in accordance with lease accounting standards.

(5) Long-Term Debt

During fiscal year 1997, the University issued $25,000,000 of Health Services Facilities System Revenue Bonds Series 1997B. The bonds are variable rate bonds which bear interest at a rate determined weekly and paid monthly. Proceeds from the bonds were used to finance the costs of a new ambulatory care facility in Chicago, a medical office building in Rockford, Illinois and to pay costs incidental to the issuance of the bonds.

During fiscal year 2008, the University issued $41,215,000 Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds, Series 2008. The bonds are variable rate bonds which bear interest at a rate determined weekly. Proceeds from the bonds funded the redemption of the Variable Rate Demand Health Services Facilities System Revenue Refunding Bonds, Series 2007 on July 28, 2008 and paid costs incidental to the issuance of the bonds. The difference between the reacquisition price and net carrying amount of the old debt, loss on refunding, was $4,485,000. This loss is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The unamortized deferred loss on refunding is disclosed in Note 1(f).

During fiscal year 2014, the University issued $70,785,000 Health Services Facilities System Revenue Bonds, Series 2013. The bonds are fixed rate bonds which bear interest payable on April 1 and October 1 of each year. Proceeds from the bonds were used to finance the costs of certain construction, renovation and equipment purchases for the System and to pay costs incidental to the issuance of the Series 2013 Bonds. The original bond premium, $591,216, is deferred and amortized over the remaining life of the issue.

Long-term debt activity for the year ended June 30, 2021 was as follows:

			Long–term debt				
Series	**Rate on June 30 outstanding debt**	**Fiscal year maturity dates**	**Beginning balance**	**Additions**	**Deductions**	**Ending balance**	**Current portion**
Bonds payable:							
1997B	Variable	2022– 2027	$ 9,200,000	$	$ (1,200,000)	$ 8,000,000	$ 1,200,000
2008	Variable	2022 – 2027	21,400,000		(2,700,000)	18,700,000	2,845,000
2013	5% to 6.25%	2028 – 2043	70,785,000		—	70,785,000	
			101,385,000	—	(3,900,000)	97,485,000	4,045,000
Unamortized premium			452,436	97,085		549,521	5,391
Total bonds payable			101,837,436	97,085	(3,900,000)	98,034,521	4,050,391
Capital lease			1,764,642		(524,782)	1,239,860	540,744
Total long–term debt			$ 103,602,078	$ 97,085	$ (4,424,782)	$ 99,274,381	$ 4,591,135

The bonds do not constitute obligations of the State. Bond principal and interest payments are funded from revenues pledged from (a) System net revenues, principally consisting of all charges, income and revenues received from the continued use and operation of the System remaining after providing sufficient funds for the reasonable and necessary cost of currently maintaining, repairing, insuring and operating the System, (b) Medical Service Plan (MSP) revenues net of bad debt expense and contractual allowances and (c) UIC College of Medicine tuition revenue. These revenues for the year ended June 30, 2021 are as follows:

System net revenues	$ 87,671,261
Adjusted MSP revenues	255,671,530
UIC College of Medicine student tuition	51,036,320
Total	$ 394,379,111

The table below shows the amount of revenues pledged for future principal and interest payments on the bonds:

Pledged revenues					
Bond issue(s)	Purpose	Source of revenue pledged	Future revenues pledged[1]	Term of commitment	Debt service to pledged revenues (current year)
Series 1997B, 2008 and 2013	Additions to System and Refunding	System net revenues, MSP revenues net of bad debt and contractual allowances, College of Medicine tuition	$ 164,775,630	2043	2.24%

[1] Total estimated future principal and interest payments on debt

The resolutions authorizing the bonds provide for the establishment of separate funds as follows: Revenue Fund, Project Fund, Repair and Replacement Reserve, Equipment Reserve, Bond and Interest Sinking Fund and Development Reserve. All income and revenues received from the continued use and operation of the System, as provided for by the Bond Resolution, are to be deposited in the Revenue Fund and used to pay necessary operation and maintenance expenses of the System. In the event of default, the bond owners may sue to command performance. The Bond Resolution also requires transfers to funds as follows:

Project Fund – at the discretion of the University Comptroller, amounts not needed to complete construction and renovation projects specified in the Bond Resolution are required to be transferred either to the Repair and Replacement Reserve or to the Bond and Interest Sinking Fund.

Repair and Replacement Reserve – an amount calculated as specified in the Bond Resolution to provide for the cost of unusual maintenance and repairs.

Equipment Reserve – an amount approved by the Board for the acquisition of movable equipment to be installed in the facilities constituting the System. The reserve may not exceed 20% of the book value of the movable equipment of the System.

Bond and Interest Sinking Fund – amounts transferred into the Bond and Interest Sinking Fund sufficient to pay principal and interest as it becomes due on the outstanding bonds.

Development Reserve – an amount approved by the Board for System development. No transfers were authorized by the Board during the year ended June 30, 2021, and there was not a balance in the reserve at June 30, 2021.

The System made all required transfers for the year ended June 30, 2021.

After fulfillment of the provisions described above, the surplus, if any, remaining in the Revenue Fund may be used at the Board's option (a) to redeem bonds of the System which are subject to early redemption, (b) to improve or add facilities to the System, or (c) for any other lawful purpose.

Assets restricted by Bond Resolution were held for the following purposes at June 30, 2021:

Restricted assets:		
Cash equivalents and claim on cash and pooled investments	$	26,553,544
Purpose:		
Repair and replacement reserve	$	25,404,120
Bond and interest sinking fund		1,149,424
Total assets limited as to use		26,553,544
Less amounts required for current liabilities		(1,118,375)
Total for long-term use	$	25,435,169

(a) Health Services Facilities System Variable Rate Debt and Interest Rate Swap Agreement

Demand Provisions

The System's Series 1997B and 2008 bonds mature serially through October 2026. These bonds have variable interest rates that are adjusted periodically (i.e., daily, weekly, or monthly), generally with interest paid at the beginning of each month. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the University's remarketing agents. The University pays the remarketing agent fees on the outstanding bond balance. If the remarketing agent is unable to resell any bonds that are "put" to the agent, the University has letter of credit agreements with a liquidity facility entity. The fees on the letters of credit are based on outstanding bonds plus pro forma interest. The University, in the event a liquidity facility is utilized, has reimbursement agreements with associated financial entities. If a liquidity advance has not been reimbursed for 90 days, the letter of credit automatically converts to a term loan. The term loan is required to be repaid in five equal quarterly installments, at an interest rate based on whether it was an outstanding advance or an event of default. The outstanding advance interest rate would be the base rate which is the greater of prime plus 1%, Federal Funds plus 2% or 7% and the event of default interest rate would be the base rate plus 3%. The due date of the initial payment on the term loan is one year from the conversion date. The letter of credit agreements contain provisions that the University may terminate and replace the letter of credit agreement so long as the University has paid all of the obligations owed to the liquidity facility entity. In the event of default, the liquidity facility entity may cause the bonds to be subject to a mandatory tender.

The required future interest payments for these variable rate bonds have been calculated using the current interest rate, based upon short-term tax-exempt rates, or the synthetic fixed rate, as illustrated in the table below. Certain parties and terms of the remarketing and liquidity facility agreements are disclosed in the table below:

Variable rate bonds at June 30, 2021

Bond issues	Interest rate at June 30, 2021	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity facility: Fee
HSFS, Series 1997B	0.05%	JPMorgan Securities	0.07%	Wells Fargo	May 30, 2024	Letter of Credit	0.59%
HSFS, Series 2008	0.02	Goldman Sachs	0.07	Wells Fargo	May 30, 2024	Letter of Credit	0.59

Interest Rate Swap Agreement

In fiscal year 2009, the University entered into a variable-to-fixed interest rate swap agreement with Loop Financial Products I LLC (Loop). The purpose of this interest rate swap was to hedge the Series 2008 debt by effectively changing the variable interest rate on the bonds to a synthetic fixed rate. When the swap agreement was entered, the notional amount of the swap was $40,875,000. In accordance with the swap agreement, the University makes monthly payments to the counterparty (Loop) equal to 3.534% of the notional amount and receives monthly payments from Loop equal to 68% of the one-month London Interbank Offered Rate (LIBOR). The swap will terminate in October 2026. As of June 30, 2021, the notional amount of the swap was $18,545,000.

The University engaged a third-party consultant to determine the fair value of the swap agreement. The fair value provided by the consultant was derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant market conditions. The fair value (Level 2 measurement) is recognized as a noncurrent liability and was $1,682,076 as of June 30, 2021.

In connection with the interest rate swap agreement, the University may be exposed to various types of risk:

Credit Risk: As of June 30, 2021, the University was not exposed to credit risk because the swap had a negative fair value. If interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative’s fair value. The counterparty may have to post collateral in the University’s favor in certain conditions, and the University would never be required to post collateral in the counterparty’s favor.

Interest Rate Risk: During fiscal year 2021, low interest rates exposed the University to interest rate risk, which adversely affected the fair value of the swap agreement.

Termination Risk: The swap is scheduled to terminate in October 2026. The University has the option to terminate the swap early. The University or Loop may terminate the swap if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparty (Loop) fall below BBB+ as issued by Standard & Poor’s and Baa1 as issued by Moody’s Investors Service. As of June 30, 2021, the Loop credit rating by Standard & Poor’s was BBB+ and by Moody’s Investors Service was A3.

If the swap is terminated, the Series 2008 variable-rate bonds would no longer carry a synthetic fixed interest rate. In addition, if at the time of termination, the swap has a negative fair value, the University would be liable to Loop for a payment equal to the swap’s fair value.

Basis Risk: The swap exposes the University to basis risk should the relationship between LIBOR and the variable weekly rate determined by the remarketing agent change, changing the synthetic rate on the bonds. If a change occurs that results in the difference in rates widening, the expected cost savings may not be realized.

Other Risks: Since the swap agreement extends to the maturity of the Series 2008 bonds, it does not expose the University to rollover risk. In addition, the University is not exposed to foreign currency risk associated with this swap agreement. The University is not exposed to market access risk as of June 30, 2021. However, if the University decides to issue refunding bonds and credit is more costly at that time, it could be exposed to market access risk.

(b) Debt Service Requirements

Future estimated debt service requirements for the Series 1997B, 2008 and 2013 Bonds at June 30, 2021 were as follows:

	Principal	Interest
2022	$ 4,045,000	$ 4,849,102
2023	4,200,000	4,747,511
2024	4,360,000	4,641,486
2025	4,525,000	4,529,688
2026	4,695,000	4,414,266
2027 - 2031	16,760,000	20,060,639
2032 - 2036	19,435,000	15,128,450
2037 - 2041	26,435,000	8,125,988
2042 - 2043	13,030,000	793,500
Total debt service	97,485,000	$ 67,290,630
Unamortized premium	549,521	
Total bonds payable	$ 98,034,521	

The required debt service for the variable rate Series 1997B and 2008 Bonds has been calculated using the current interest rate of .05% and .02%, respectively, over the remaining life of the bonds.

Using the actual rate in effect as of June 30, 2021 (.02% for Series 2008), debt service requirements of the Series 2008 variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

Health Services Facilities System Revenue Refunding Bonds, Series 2008
Variable-Rate Debt Service Requirements

	Variable rate bonds		Interest rate	
	Principal	Interest	swaps, net	Total
2022	$ 2,845,000	$ 3,740	$ 585,229	$ 3,433,969
2023	2,900,000	3,171	484,838	3,388,009
2024	3,060,000	2,591	380,041	3,442,632
2025	3,225,000	1,979	269,504	3,496,483
2026	3,295,000	1,334	155,407	3,451,741
2027	3,375,000	675	38,731	3,414,406
Total	$ 18,700,000	$ 13,490	$ 1,913,750	$ 20,627,240

The capital lease obligation has a maturity date through 2024 and an interest rate of 3.00%. As of June 30, 2021, future minimum lease payments are as follows:

	Principal	Interest
2022	$ 540,744	$ 29,801
2023	557,191	13,354
2024	141,925	710
Total minimum payments – capital lease	$ 1,239,860	$ 43,865

(6) Operating Leases

The System leases various real property and equipment under operating lease agreements, including leases renewed on an annual basis. Total rental expense under these agreements was $3,047,197 for the year ended June 30, 2021.

As of June 30, 2021, future minimum payments under operating leases are as follows:

2022	$	2,530,494
2023		2,069,912
2024		1,796,905
2025		1,131,436
2026		362,054
2027 - 2029		145,981
Total minimum payments – operating leases	$	8,036,782

(7) Accrued Compensated Absences

Accrued compensated absences includes earned and unused vacation and sick leave, including the System's share of Medicare taxes, valued at the current rate of pay.

Section 14a of the State Finance Act (30 ILCS 105/14a) provides that employees eligible to participate in the State Universities Retirement System or the Federal Retirement System are eligible for compensation at time of resignation, retirement, death or other termination of System employment for one-half (1/2) of the unused sick leave earned between January 1, 1984 and December 31, 1997. Any sick leave days that were earned before or after this period of time are noncompensable.

Changes in Compensated Absences Balance

Balance, beginning of year	$	32,188,223
Additions		6,220,870
Deductions		(3,532,529)
Balance, end of year		34,876,564
Less current portion		(2,783,453)
Balance, end of year – noncurrent portion	$	32,093,111

(8) Net Patient Service Revenue

Approximately 96% of the System's net patient service revenue was derived from Medicare, Medicaid and Managed Care programs for the year ended June 30, 2021. Reimbursement under these programs provided payments to the System at amounts different from its established rates, based on a specific amount per case, or a contracted price, for rendering services to program beneficiaries. The System records contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs, and adjusts them in future periods as final settlements through cost reports or other means as determined.

Net patient service revenue for the year ended June 30, 2021 was derived from the following payers:

Medicaid Managed Care	$	959,094,876
Medicare		526,329,307
Medicare Managed Care		381,840,794
HMO/PPO		378,409,774
Blue Cross		280,218,871
Self-pay and other		167,670,886
Medicaid		99,907,267
Commercial insurance		45,951,617
Total gross revenue		2,839,423,392
Contractual allowances		(1,996,437,926)
Provision for uncollectible accounts		5,935,331
Net patient service revenue	$	848,920,797

A summary of the payment arrangements with major third-party payers follows:

Medicare and Medicare Managed Care: Inpatient 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. Inpatient services are paid at prospectively determined rates that are based on the patients' diagnosis. Outpatient payments to the Hospital are based on a predetermined package rate based on services provided to patients. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2015, except for the cost report for the year ended June 30, 2014.

Medicaid and Medicaid Managed Care: Services are reimbursed at prospectively determined rates. Medicaid payment methodologies and rates for services rendered are subject to change and the amount of funding available to the University of Illinois Hospital Services Fund. Such changes could have a significant effect on the System's revenues.

HMO/PPO: The System has payment agreements with certain HMOs and PPOs. The basis for payment under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, prospectively determined daily rates and capitated per-member per-month rates.

For the year ended June 30, 2021, changes in estimates have been recognized as an increase in net patient service revenue of approximately $3,520,000 as a result of settled cost reports and changes in estimates related to services rendered in previous years.

(9) Retirement and Postemployment Benefits

(a) Defined Benefit Pension Plan Retirement Benefits

General Information about the Defined Benefit Pension Plan

Plan Description: The University contributes to the SURS, a cost-sharing multiple-employer defined benefit plan with a special funding situation whereby the State makes substantially all actuarially determined required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees. SURS is considered a component unit of the State's financial reporting entity and is included in the State's Annual Comprehensive Financial Report as a pension trust fund. SURS is governed by Chapter 40, Act 5, Article 15 of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.surs.org.

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have other eligible reciprocal system services. The revised plan is referred to as Tier 2. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable benefit plans. A summary of the benefit provisions as of June 30, 2020 can be found in the SURS' Comprehensive Annual Financial Report Notes to the Financial Statements.

Eligible employees must participate upon initial employment. Employees are ineligible to participate if (a) employed after having attained age 68; (b) employed less than 50% of full time; or (c) employed less than full time and attending classes with an employer. Of those University employees ineligible to participate, the majority are students at the University.

Contributions: The State is primarily responsible for funding SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a statutory funding plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members within the System to reach 90% of the total Actuarial Accrued Liability by the end of fiscal year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2020 and fiscal year 2021, respectively, was 13.02% and 12.70% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary except for police officers and fire fighters who contribute 9.5% of their earnings. The contribution requirements of plan members and employers are established and may be amended by the State's General Assembly.

Participating employers make contributions toward separately financed specific liabilities under Section 15-139.5(e) of the Illinois Pension Code (relating to contributions payable due to the employment of "affected annuitants" or specific return to work annuitants), Section 15-155(g) (relating to contributions payable due to earning increases exceeding 6% during the final rate of earnings period), and Section 15-155 (j-5) (relating to contributions payable due to earnings exceeding the salary set for the Governor).

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pensions

Net Pension Liability: The net pension liability (NPL) was measured as of June 30, 2020. At June 30, 2020, the SURS reported a NPL of $30,619,504,321.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the NPL to be recognized for the System is $0. The proportionate share of the State's NPL associated with the System is $2,685,929,039. This amount is not recognized in the System's financial statements. The NPL and total pension liability as of June 30, 2020 was determined based on the June 30, 2019 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to the SURS during fiscal year 2020.

Defined Benefit Pension Expense: At June 30, 2020, SURS reported a collective net pension expense of $3,364,411,021.

Employer Proportionate Share of Defined Benefit Pension Expense: The employer proportionate share of collective pension expense is recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) in the financial statements. The basis of allocation used in the proportionate share of collective pension expense is the actual reported pensionable contributions made to the SURS during fiscal year 2020. As a result, the University recognized revenue and pension expense of $1,515,060,865 from this special funding situation during the year ended June 30, 2021, of which $295,124,636 was related to the System.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pensions: Deferred outflows of resources are the consumption of net position by the SURS that is applicable to future reporting periods. Conversely, deferred inflows of resources are the acquisition of net position by SURS that is applicable to future reporting periods. SURS did not have any deferred inflows of resources as of June 30, 2020.

SURS Collective Deferred Outflows of Resources by Sources

		Deferred Outflows of Resources
Difference between expected and actual experience	$	170,987,483
Changes in assumption		473,019,629
Net difference between projected and actual earnings on pension plan investments		474,659,178
Total	$	1,118,666,290

(Continued)

SURS Collective Deferred Outflows of Resources by Year to be Recognized in Future Pension Expenses

Year Ending June 30		Net Deferred Outflows of Resources
2021	$	435,271,667
2022		346,428,171
2023		183,483,935
2024		153,482,517
2025		-
Thereafter		-
Total	$	1,118,666,290

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period June 30, 2014 through June 30, 2017. The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	3.25 to 12.25 percent, including inflation
Investment rate of return	6.75 percent beginning with the actuarial valuation as of June 30, 2018

Mortality rates were based on the RP-2014 White Collar, gender distinct tables with projected generational mortality and a separate mortality assumption for disabled participants.

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 of return (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. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant(s) and actuary(s).

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2020, these best estimates are summarized in the following table:

Defined Benefit Plan	Strategic Policy Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Traditional Growth		
Global Public Equity	44.0%	6.67%
Stablizied Growth		
Credit Fixed Income	14.0%	2.39%
Core Real Assets	5.0%	4.14%
Options Strategies	6.0%	4.44%
Non-Traditional Growth		
Private Equity	8.0%	9.66%
Non-Core Real Assets	3.0%	8.70%
Inflation Sensitive		
U.S. TIPS	6.0%	0.13%
Principal Protection		
Core Fixed Income	8.0%	-0.45%
Crisis Risk Offset		
Systematic Trend Following	2.1%	2.16%
Alternative Risk Premia	1.8%	1.60%
Long Duration	2.1%	0.86%
Total	**100.0%**	**4.84%**
Inflation		**2.25%**
Expected Arithmetic Return		**7.09%**

Discount Rate: A single discount rate of 6.49% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 2.45% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under SURS funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the NPL to changes in the single discount rate, the following presents the State's NPL, calculated using a single discount rate of 6.49%, as well as what the State's NPL would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.49%	Current Single Discount Rate Assumption 6.49%	1% Increase 7.49%
$36,893,469,884	$30,619,504,321	$25,441,837,592

Additional information regarding the SURS basic financial statements, including the plan's net position, can be found in SURS Comprehensive Annual Financial Report by accessing the website at www.SURS.org.

(b) Defined Contribution Pension Plan Retirement Benefits

General Information about the Defined Contribution Pension Plan

Plan Description: The University contributes to the Retirement Savings Plan (RSP) administered by SURS, a cost-sharing multiple-employer defined contribution pension plan with a special funding situation whereby the State makes substantially all required contributions on behalf of the participating employers. SURS was established July 21, 1941 to provide retirement annuities and other benefits for staff members and employees of State universities, certain affiliated organizations, and certain other State educational and scientific agencies and for survivors, dependents and other beneficiaries of such employees. SURS is governed by Chapter 40, Act 5. Article 15 of the *Illinois Compiled Statutes*. SURS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by accessing the website at www.surs.org. The RSP and its benefit terms were established and may be amended by the State's General Assembly.

Benefits Provided: A defined contribution pension plan, originally called the Self-Managed Plan, was added to SURS benefit offerings as a result of Public Act 90-0448 enacted effective January 1, 1998. The plan was renamed the RSP effective September 1, 2020, after an extensive plan redesign. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable defined benefit pension plans or the RSP. A summary of the benefit provisions as of June 30, 2020, can be found in SURS Comprehensive Annual Financial Report – Notes to the Financial Statements.

Contributions: All employees who have elected to participate in the RSP are required to contribute 8.0% of their annual covered earnings. Section 15-158.2(h) of the Illinois Pension Code provides for an employer contribution to the RSP of 7.6% of employee earnings. The State is primarily responsible for contributing to the RSP on behalf of the individual employers. Employers are required to make the 7.6% contribution for employee earnings paid from "trust, federal, and other funds" as described in Section 15-155(b) of the Illinois Pension Code. The contribution requirements of plan members and employers were established and may be amended by the State's General Assembly.

Forfeitures: Employees are not vested in employer contributions to the RSP until they have attained five years of service credit. Should an employee leave SURS-covered employment with less than five years of service credit, the portion of the employee's RSP account designated as employer contributions is forfeited. Employees who later return to SURS-covered employment will have their forfeited employer contributions reinstated to their account, so long as the employee's own contributions remain in the account. Forfeited employer contributions are managed by SURS and are used both to reinstate previously forfeited contributions and to fund a portion of the State's contributions on behalf of the individual employers. The vesting and forfeiture provisions of the RSP were established and may be amended by the State's General Assembly.

Pension Expense Related to Defined Contribution Pensions

Defined Contribution Pension Expense: For the year ended June 30, 2020, the State's contributions to the RSP on behalf of individual employers totaled $74,418,691. Of this amount, $68,874,215 was funded via an appropriation from the State and $5,544,476 was funded from previously forfeited contributions.

Employer Proportionate Share of Defined Contribution Pension Expense: The employer proportionate share of collective defined contribution pension expense is recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) in the financial statements. The basis of allocation used in the proportionate share of collective defined contribution pension expense is the actual reported pensionable contributions made to the RSP during fiscal year 2020. The University's share of pensionable contributions was 55.1119%. As a result, the University recognized revenue and defined contribution pension expense of $41,013,581 from this special funding situation during the year ended June 30, 2021, of which $7,989,277 was related to the System. The amount that constituted forfeitures for the University was $3,055,669.

(c) Other Postemployment Benefits

Plan description: The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the SEGIP to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the University's full-time employees are members of SEGIP. Members receiving monthly benefits from the GARS, JRS, SERS, TRS, and SURS are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for the SURS members were defined within Note 9(a).

The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan, which does not issue a stand-alone financial report.

Benefits provided: The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the State universities' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost: OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of CMS shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the State's General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2021, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $12,261 ($6,910 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $15,224 ($6,449 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Special funding situation of OPEB: The proportionate share of the State's OPEB expense relative to the System's former employees or retirees was estimated to be $11,955,518 during the year ended June 30, 2021. The amount of the total proportionate share of the total OPEB liability to be recognized by the System related to the special funding situation is $0. *Actuarial Methods and Assumptions:* The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2019, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2019.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post Medicare)	8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year 4.25% through 2037.
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2020 and 2021 are based on actual premiums. Premiums after 2021 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical & Rx (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental and Vision	6.00% grading down 0.50% per year over 3 years to 4.50%

*Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2019 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality table, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality table, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount Rate: Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.13% at June 30, 2019, and 2.45% at June 30, 2020, was used to measure the total OPEB liability.

(10) Related-Party Transactions

The University charged the System for administrative and other services totaling $16,168,875 in fiscal year 2021. These charges represent a portion of the estimated administrative and other service costs incurred by the University in support of the System. An additional $29,095,595 was paid by the University on behalf of the System for salaries and other costs for the year ended June 30, 2021, in exchange for System services and facilities provided, and are recognized as operating expenses (salaries and general) and operating revenues.

The System provides funds to the UIC College of Medicine to support programmatic initiatives that benefit the System's strategic goals and to pay for salaries of physicians and staff in the College of Medicine who serve as medical directors and physician leaders of the System under various agreements. During fiscal year 2021, approximately $56.8 million was recognized in salaries and wages and supplies and general expenses by the System under these agreements.

The System provides funds to the University's College of Pharmacy under various arrangements to pay for salaries of clinical pharmacists, faculty and residents and to support programs that benefit the System's clinical operations. During fiscal year 2021, approximately $12.2 million was recognized in salaries and wages and supplies and general expenses under these arrangements.

The System contracts with the College of Pharmacy to provide certain pharmacy services related to the Federal drug discount program under Section 340b of the Public Health Service Act, under which the System is a covered entity and purchases drugs for dispensing to eligible outpatients. During fiscal year 2021, the System paid approximately $13.2 million to the College of Pharmacy for these services.

The College of Pharmacy also provides various community benefit programs to patients and constituents of the System. During fiscal year 2021, the System paid approximately $9.7 million to the College of Pharmacy to support these programs.

Most healthcare services rendered by physicians at the University are charged, billed and collected through the MSP. For ambulatory care services, there is a charge for both professional and technical components. The System bills and collects on behalf of the MSP for the technical component of ambulatory care services. Based on the underlying agreements between the MSP and the System, the System remits certain funds collected to the MSP. Total MSP remittances from the System for the year ended June 30, 2021 relating to the delivery of ambulatory care were approximately $9.5 million.

During 2021, various departments within the College of Medicine agreed to reimburse the System for a portion of the expenses related to the resident and fellowship training program. This reimbursement, which totaled $4.1 million, has been reflected in the financial statements as a reduction of the related expenses.

(11) Commitments and Contingencies

(a) Commitments

At June 30, 2021, the System had commitments on various construction projects and contracts for repairs and renovation of health services facilities of $31,391,030 and commitments on software projects of $39,193,049.

(b) Contingencies

The University (including the System) is involved in regulatory audits arising in the normal course of business.

In 2021, the System received notices from Medicare requiring that it provide documentation for certain claims as part of the Recovery Audit Contractor (RAC) program. The System has responded to these requests. Review of claims through the RAC program may result in a liability to Medicare which could have a material impact on the System's net patient service revenue.

The University (including the System) is a defendant in a number of legal actions primarily related to medical malpractice. These legal actions have been considered in estimating the University's accrued self-insurance liability, which covers hospital and medical professional/general liability; estimated general and contractual liability, and workers' compensation liability. At June 30, 2021, the University's total accrued self-insurance liability was $272,731,916.

The University's accrued self-insurance liability includes $183,352,362 at June 30, 2021, for the most probable and reasonably estimable ultimate cost of medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses and amounts determined by actuaries using relevant industry data and System specific data to cover projected losses for claims incurred but not yet reported. The System contributes to the University's self-insurance reserve through annual assessments. Therefore, no liability related to medical malpractice claims is included in the System's financial statements, but the entire self-insurance liability is reflected in the University's financial statements.

The System utilizes classes of medical devices and x-ray machines that have legally imposed costs associated with their eventual disposal. The System does not have sufficient information available to reasonably estimate the timing and/or cost related to these future retirement obligations.

Required Supplementary Information
Year Ended June 30, 2021

Schedule of University of Illinois Health Services Facilities System Proportionate Share of the Net Pension Liability

Measurement Date	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
(a) Proportion Percentage of the Collective Net Pension Liability	0%	0%	0%	0%	0%	0%	0%
(b) Proportion Amount of the Collective Net Pension Liability	$0	$0	$0	$0	$0	$0	$0
(c) Portion of Nonemployer Contributing Entities' Total Proportion of Collective Net Pension Liability associated with the System	$2,685,929,039	$2,445,838,023	$2,325,669,476	$2,068,800,122	$2,016,718,081	$1,770,601,518	$1,546,893,194
Total (b) + (c)	$2,685,929,039	$2,445,838,023	$2,325,669,476	$2,068,800,122	$2,016,718,081	$1,770,601,518	$1,546,893,194
Employer defined benefit Covered Payroll*	$320,699,826	$300,473,375	$288,314,036	$274,251,179	$265,271,833	$253,062,776	$260,376,968
Proportion of Collective Net Pension Liability associated with the System as a percentage of defined benefit covered payroll	837.52%	813.99%	806.64%	754.35%	760.25%	699.67%	594.10%
SURS Plan Net Position as a Percentage of Total Pension Liability	39.05%	40.71%	41.27%	42.04%	39.57%	42.37%	44.39%

* GASB Statement #82 amended GASB Statements #67 & #68 to require the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure. For the SURS plans, the covered payroll are those employees within the defined benefit plan.

(Continued)

The pension schedules above are presented to illustrate the requirements of the Governmental Accounting Standards Board's Statement No. 68 to show information for 10 years. However, until a full 10-year trend is compiled, the University will only present available information measured in accordance with the requirements of Statement No. 68.

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2020.

Changes of assumptions. In accordance with *Illinois Compiled Statutes*, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2014 to June 30, 2017 was performed in February 2018, resulting in the adoption of new assumptions as of June 30, 2018.

- Salary increase. Decrease in the overall assumed salary increase rates, ranging from 3.25 percent to 12.25 percent based on years of service, with underlying wage inflation of 2.25 percent.

- Investment return. Decrease the investment return assumption to 6.75 percent. This reflects maintaining an assumed real rate of return of 4.50 percent and decreasing the underlying assumed price inflation to 2.25 percent.

- Effective rate of interest. Decrease the long-term assumption for the ERI for crediting the money purchase accounts to 6.75 percent (effective July 2, 2019).

- Normal retirement rates. A slight increase in the retirement rate at age 50. No change to the rates for ages 60-61, 67-74 and 80+, but a slight decrease in rates at all other ages. A rate of 50 percent if the member has 40 or more years of service and is younger than age 80.

- Early retirement rates. Decrease in rates for all Tier 1 early retirement eligibility ages (55-59).

- Turnover rates. Change rates to produce lower expected turnover for members with less than 10 years of service and higher turnover for members with more than 10 years of service.

- Mortality rates. Maintain the RP-2014 mortality tables with projected generational mortality improvement. Update the projection scale from the MP-2014 to the MP-2017 scale.

- Disability rates. Decrease current rates to reflect that certain members who receive disability benefits do not receive the benefits on a long-term basis.