



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

Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

The Board of Regents
State University of Iowa:

Opinion

We have audited the financial statements of the State University of Iowa, University of Iowa Hospitals and Clinics (UIHC) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise UIHC's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of UIHC as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Emphasis of Matter

As discussed in note 1(a), the financial statements of UIHC are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the State University of Iowa that is attributable to the transactions of UIHC. They do not purport to, and do not, present fairly the financial position of the State University of Iowa, as of June 30, 2023 and 2022, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in note 1(g), in 2023, UIHC adopted Governmental Accounting Standards Board Statement No.96, *Subscription-Based Information Technology Arrangements* (GASB 96). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about UIHC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UIHC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the UIHC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions, and the schedule of changes in UIHC's total OPEB liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not



express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Omaha, Nebraska
October 31, 2023

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

Management's Discussion and Analysis

June 30, 2023 and 2022

Introduction

This section of the State University of Iowa, University of Iowa Hospitals and Clinics' (UIHC) annual financial report presents management's discussion and analysis of UIHC's financial performance during the years ended June 30, 2023 and 2022. The purpose is to provide an objective analysis of the financial activities of UIHC based on currently known facts, decisions, and conditions. Please read it in conjunction with UIHC's financial statements and the accompanying notes to the financial statements.

Financial Highlights

UIHC demonstrated financial success in fiscal year 2023 with an increase in net position of \$437.3 million, or 19.3%, to \$2.7 billion, compared to an increase of \$314.3 million, or 16.1%, in fiscal year 2022. Operating income increased \$1.2 million, or 0.3% when compared to fiscal year 2022 as increases in core services led to a \$189.1 million or 7.2% year-over-year increase in operating revenue and a \$187.9 million or 8.5% increase in operating expenses. Nonoperating revenue, net increased \$121.3 million when compared to fiscal year 2022, largely due to stronger investment returns.

UIHC implemented the provisions of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) in fiscal year 2023. This standard improves accounting and financial reporting for governments by establishing a definition for subscription-based information technology arrangements (SBITAs) and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. Changes adopted to conform to the provisions of GASB 96 are applied retroactively by restating financial statements for all periods presented. UIHC adopted GASB 96 effective July 1, 2022, with an initial application date of July 1, 2021. As a result, fiscal year 2022 SBITA expenses previously reported as other supplies and general expenses have been restated as right of use asset amortization and interest expense. Adoption of GASB 96 resulted in the recognition of an intangible right-to-use subscription asset (SBITA) and related subscription liability of approximately \$7.0 million as of July 1, 2021 but did not materially impact UIHC's net position, earnings, or cash flows for the year ended.

Overview of the Financial Statements

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

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

Statements of Net Position

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows, and net position of UIHC as of a point in time. Net position, the difference between total assets and deferred outflows as compared to total liabilities and deferred inflows, presents the financial position at the end of the fiscal year and is one of the broadest measures of the financial condition of UIHC, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

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In fiscal year 2023, net position increased by \$437.3 million, or 19.3%, to \$2.7 billion. The increase in net position is primarily the result of operating income of \$410.5 million, investment income of \$66.8 million, and interest expense of \$23.8 million.

Table 1 summarizes UIHC's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2023, 2022, and 2021.

Table 1

Condensed Statements of Net Position

(In thousands)

	2023	2022 Restated	2021 Not restated
Assets and Deferred Outflows			
Current assets	\$ 889,542	758,977	478,148
Noncurrent cash and investments	1,761,466	1,588,849	1,232,678
Capital assets, net	1,358,341	1,225,468	1,191,105
Other assets	1,901	2,229	1,798
Total assets	4,011,250	3,575,523	2,903,729
Deferred outflows	52,924	53,614	61,521
Total assets and deferred outflows	\$ 4,064,174	3,629,137	2,965,250
Liabilities, Deferred Inflows, and Net Position			
Current liabilities	\$ 387,931	522,840	364,193
Long-term debt	804,173	654,112	432,989
Other long-term liabilities	133,466	100,804	191,647
Total liabilities	1,325,570	1,277,756	988,829
Deferred inflows	38,116	88,155	27,457
Net position:			
Net investment in capital assets	729,588	712,773	732,488
Restricted	33,877	17,834	5,981
Unrestricted	1,937,023	1,532,619	1,210,495
Total net position	2,700,488	2,263,226	1,948,964
Total liabilities, deferred inflows, and net position	\$ 4,064,174	3,629,137	2,965,250

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Management's Discussion and Analysis

June 30, 2023 and 2022

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present UIHC's results of operations in accordance with generally accepted accounting principles for a government entity.

In fiscal year 2023, operating income increased \$1.2 million, or 0.3% relative to fiscal year 2022 as operating revenues and expenses increased by \$189.1 million or 7.2% and \$187.9 million or 8.5%, respectively. Year-over-year increases in operating revenues and expenses are largely due to continued high occupancy combined with growth in surgical cases and outpatient clinic visits from fiscal year 2022.

Table 2 shows the changes in net position for fiscal year 2023 compared to fiscal years 2022 and 2021.

Table 2

Statements of Revenues, Expenses, and Changes in Net Position

(In thousands)

	<u>2023</u>	<u>2022 Restated</u>	<u>2021 Not restated</u>
Operating revenue:			
Net patient service revenue	\$ 2,760,854	2,577,624	2,111,156
Other revenue	<u>59,751</u>	<u>53,910</u>	<u>47,716</u>
Total operating revenue	<u>2,820,605</u>	<u>2,631,534</u>	<u>2,158,872</u>
Operating expenses:			
Salaries and benefits	920,530	874,701	869,745
Medical supplies and drugs	813,050	723,159	663,162
Other supplies and general expenses	541,756	496,997	419,054
Depreciation and amortization	<u>134,818</u>	<u>127,435</u>	<u>116,282</u>
Total operating expenses	<u>2,410,154</u>	<u>2,222,292</u>	<u>2,068,243</u>
Operating income	<u>410,451</u>	<u>409,242</u>	<u>90,629</u>
Nonoperating revenue (expense):			
Loss on disposal of capital assets	(1,317)	(108)	(1,522)
Noncapital gifts	298	362	205
Investment income	66,849	(93,896)	116,428
Government funding	—	29,152	35,451
Interest expense	<u>(23,791)</u>	<u>(14,734)</u>	<u>(14,471)</u>
Total nonoperating revenue, net	<u>42,039</u>	<u>(79,224)</u>	<u>136,091</u>
Excess of revenue over expenses before transfers	452,490	330,018	226,720

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June 30, 2023 and 2022

Table 2

Statements of Revenues, Expenses, and Changes in Net Position

(In thousands)

	<u>2023</u>	<u>2022 Restated</u>	<u>2021 Not restated</u>
Capital gifts and grants	\$ 461	1,214	1,147
Net transfers out	<u>(15,689)</u>	<u>(16,970)</u>	<u>(25,267)</u>
Increase in net position	437,262	314,262	202,600
Net position, beginning of year	<u>2,263,226</u>	<u>1,948,964</u>	<u>1,746,364</u>
Net position, end of year	<u>\$ 2,700,488</u>	<u>2,263,226</u>	<u>1,948,964</u>

Net Patient Service Revenue

In fiscal year 2023, net patient service revenue increased by \$183.2 million, or 7.1%, compared to fiscal year 2022. The year-over-year increase is primarily due to increased patient volumes including a 1.4% increase in admissions, a 1.6% increase in discharges, a 4.3% increase in surgical cases, a 3.6% increase in outpatient clinic visits, a 4.1% increase in emergency department visits, and a 1.3% increase in case mix index to 2.45.

Additionally, in fiscal year 2023 UIHC realized a higher reimbursement rate on claims for 340B-acquired drugs paid on or after September 28, 2022, stemming from the Supreme Court ruling in the case of *American Hospital Association v. Becerra*.

The provision for bad debts (a deduction from gross patient charges) decreased by \$9.6 million to \$33.8 million in fiscal year 2023. The decrease is primarily due to actual bad debt write offs being lower than expected.

In fiscal year 2022, net patient service revenue increased by \$466.5 million, or 22.1%, compared to fiscal year 2021. The year-over-year increase was largely driven by additional funding received through participation in a federal program in partnership with Iowa Medicaid Enterprise and the State of Iowa that is designed to ensure Medicaid patients have access to high quality specialty care in Iowa. Increased patient volumes also contributed to the year-over-year increase, including a 1.2% increase in admissions, a 1.1% increase in discharges, a 10.8% increase in outpatient clinic visits, and a 1.6% increase in case mix index the case mix index to 2.42.

Operating Expenses

In fiscal year 2023, total operating expenses increased by \$187.9 million, or 8.5%, compared to fiscal year 2022. Medical supplies and drugs increased by \$89.9 million, or 12.4%, while other supplies and general expenses increased by \$44.8 million, or 8.9%, relative to fiscal year 2022. The growth in operating expenses is largely the result of increased patient volumes as well as price inflation in the cost of labor, professional services, medical supplies, and drugs.

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In fiscal year 2022, total operating expenses increased by \$154.0 million, or 7.4%, compared to fiscal year 2021. Medical supplies and drugs increased by \$60.0 million, or 9.0%, while other supplies and general expenses increased by \$77.9 million, or 18.6%, relative to fiscal year 2021. The growth in operating expenses is largely the result of increased patient volumes as well as price inflation in the cost of labor, professional services, medical supplies, and drugs.

Nonoperating Revenue and Expenses, Net

Nonoperating revenue and expenses primarily consist of investment income, government funding, and interest expense. In fiscal year 2023, total nonoperating revenue and expense, net increased by \$121.3 million relative to fiscal year 2022 largely due to improved investment returns. UIHC recorded net investment income of \$66.8 million in fiscal year 2023, an increase of \$160.7 million over the prior year where net investment losses of \$93.9 million were recorded. UIHC received no government funding in response to the COVID-19 pandemic in fiscal year 2023, a decrease of \$29.2 million compared to fiscal year 2022.

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

Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. UIHC's overall liquidity decreased during fiscal year 2023, with a net decrease in cash and cash equivalents of \$3.6 million. In fiscal year 2023, net cash provided by operating activities generated cash inflows of \$383.1 million and net cash used in noncapital financing activities was \$15.4 million. Net cash used in capital and related financing activities was \$279.6 million while net cash used in investing activities was \$91.6 million.

UIHC's overall liquidity increased during fiscal year 2022, with a net increase in cash and cash equivalents of \$8.5 million. In fiscal year 2022, net cash provided by operating activities provided cash inflows of \$309.0 million and net cash provided by noncapital financing activities was \$12.5 million. Net cash provided by capital and related financing activities was \$201.5 million while net cash used in investing activities was \$514.6 million.

Capital Assets

As of June 30, 2023, UIHC had \$1.36 billion invested in capital assets, net of accumulated depreciation and amortization. The \$132.9 million, or 10.9%, increase over the prior year is largely due to a \$118.2 million increase to construction in progress for the UIHC at Forevergreen Road project. The project provides for the development of a health care complex that includes a 30,000 square foot hospital wing that may house up to 48 beds, 21 emergency care rooms, two procedures rooms, laboratories, and a pharmacy is anticipated to reach substantial completion in the December 2024. During fiscal year 2023, UIHC also completed a \$23.0 million dollar expansion of the Heart and Vascular Center Cardiac Catheterization procedure labs to provide easier access to advanced cardiac care services.

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Management's Discussion and Analysis

June 30, 2023 and 2022

As of June 30, 2022, UIHC had \$1.23 billion invested in capital assets, net of accumulated depreciation and amortization. This is a \$34.4 million, or 2.9%, increase when compared to capital assets, net in fiscal year 2021 of \$1.19 billion. The year-over-year increase is primarily due to the adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* effective July 1, 2021 and increases to construction in progress for the UIHC at Forevergreen Road project.

Debt

As of June 30, 2023, UIHC's bond debt and right to use liability obligations increased \$9.8 million, or 1.2%, to \$843.7 million. During fiscal years 2023 and 2022, principal payments on long-term debt and lease obligations were \$42.4 million and \$27.3 million, respectively, excluding reductions in refunded bonds. During fiscal year 2023, UIHC issued \$130.7 million of Series S.U.I 2022C Revenue Refunding Bond. The proceeds of the bonds were used to pay the principal and interest on the Refunding Bond Anticipation Note Series S.U.I 2021B.

In fiscal year 2022, UIHC issued \$112.4 million of Series S.U.I 2021A Revenue Refunding Bond. The proceeds of the bonds were used to refund the Series S.U.I. 2011 Revenue Bond, Series S.U.I 2011A Revenue Bond, and new construction. UIHC also issued \$148.7 million of Series S.U.I 2021B Refunding Bond Anticipation Note Bond to refund the Series S.U.I 2012 Revenue Bond. Additionally, UIHC issued \$181.7 million of Series S.U.I 2022A Bond and \$100.2 million of Series S.U.I 2022B Bond to help finance the UIHC at Forevergreen Road project.

Contacting UIHC's Financial Management

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

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Statements of Net Position

June 30, 2023 and 2022

(In thousands)

Assets and Deferred Outflows	2023	2022 Restated
Current assets:		
Cash and cash equivalents	\$ 11,906	15,469
Short-term investments	157,686	173,186
Patient accounts receivable, net of estimated uncollectible of \$42,554 in 2023 and \$44,856 in 2022	294,802	282,136
Inventories, at lower of cost or market	65,712	62,717
Current investments for debt service – restricted	22,197	9,514
Due from government agencies	312,613	196,849
Prepaid expenses and other current assets	24,626	19,106
Total current assets	889,542	758,977
Noncurrent assets:		
Capital assets, net	1,358,341	1,225,468
Noncurrent cash and investments:	1,761,466	1,588,849
Other noncurrent assets	1,901	2,229
Total noncurrent assets	3,121,708	2,816,546
Total assets	4,011,250	3,575,523
Deferred outflow of resources:		
Pension-related deferred outflows	26,679	22,824
OPEB-related deferred outflows	25,165	29,301
Debt refunding loss	1,080	1,489
Total deferred outflows	52,924	53,614
Total assets and deferred outflows	\$ 4,064,174	3,629,137
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current maturities of long-term debt and other obligations	\$ 39,555	179,770
Accounts payable and accrued expenses	235,438	223,202
Estimated third-party payor settlements	27,785	28,433
Due to related parties	38,091	41,170
Other current liabilities	39,060	43,334
Accrued interest	8,002	6,931
Total current liabilities	387,931	522,840
Long-term debt and other obligations, net of current maturities	804,173	654,112
Other long-term liabilities	133,466	100,804
Total liabilities	1,325,570	1,277,756
Deferred inflow of resources:		
Pension-related deferred inflows	6,087	57,024
OPEB-related deferred inflows	31,066	30,214
Leases	130	380
Debt refunding gain	833	537
Total deferred inflows	38,116	88,155
Net position:		
Net investment in capital assets	729,588	712,773
Restricted by donors for specific purposes	10,843	8,320
Restricted for debt service	23,034	9,514
Unrestricted	1,937,023	1,532,619
Total net position	2,700,488	2,263,226
Total liabilities, deferred inflows, and net position	\$ 4,064,174	3,629,137

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,
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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022 Restated</u>
Operating revenue:		
Net patient service revenue, net of provision for bad debts of \$33,831 in 2023 and \$43,456 in 2022	\$ 2,760,854	2,577,624
Other revenue	59,751	53,910
Total operating revenue	<u>2,820,605</u>	<u>2,631,534</u>
Operating expenses:		
Salaries and benefits	920,530	874,701
Medical supplies and drugs	813,050	723,159
Other supplies and general expenses	541,756	496,997
Depreciation and amortization	134,818	127,435
Total operating expenses	<u>2,410,154</u>	<u>2,222,292</u>
Operating income	<u>410,451</u>	<u>409,242</u>
Nonoperating revenue (expenses):		
Loss on disposal of capital assets	(1,317)	(108)
Noncapital gifts	298	362
Investment income	66,849	(93,896)
Government funding	—	29,152
Interest expense	(23,791)	(14,734)
Total nonoperating (expenses) revenue, net	<u>42,039</u>	<u>(79,224)</u>
Excess of revenue over expenses before transfers	452,490	330,018
Capital gifts and grants	461	1,214
Net transfers out	(15,689)	(16,970)
Increase in net position	437,262	314,262
Net position, beginning of year	<u>2,263,226</u>	<u>1,948,964</u>
Net position, end of year	<u><u>\$ 2,700,488</u></u>	<u><u>2,263,226</u></u>

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,
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Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

	2023	2022 Restated
Cash flows from operating activities:		
Receipts from patient services	\$ 2,625,026	2,390,872
Other receipts	58,887	53,909
Payments to employees	(927,237)	(890,007)
Payments to suppliers and contractors	(1,373,612)	(1,245,709)
Net cash provided by operating activities	<u>383,064</u>	<u>309,065</u>
Cash flows from noncapital financing activities:		
Net transfers	(15,689)	(16,970)
Noncapital gifts	298	362
Government funding	—	29,152
Net cash provided by (used in) noncapital financing activities	<u>(15,391)</u>	<u>12,544</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(211,303)	(141,904)
Proceeds from the sale of capital assets	65	54
Capital gifts and grants received	461	1,215
Proceeds from the issuance of long-term debt	130,695	542,995
Premium received on the issuance of long-term debt	18,383	34,238
Principal paid on long-term debt and other obligations	(191,135)	(208,646)
Interest paid on long-term debt and other obligations	(26,816)	(26,455)
Other capital and related financing receipts	2	10
Net cash provided by (used in) capital and related financing activities	<u>(279,648)</u>	<u>201,507</u>
Cash flows from investing activities:		
Proceeds from sale of investments	273,608	308,005
Purchase of investments	(400,599)	(837,774)
Interest and dividends received on investments	35,403	15,144
Net cash used in investing activities	<u>(91,588)</u>	<u>(514,625)</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,563)</u>	<u>8,491</u>
Cash and cash equivalents at beginning of year	<u>15,469</u>	<u>6,978</u>
Cash and cash equivalents at end of year	<u>\$ 11,906</u>	<u>15,469</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 410,451	409,242
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	134,818	127,435
Provision for bad debts	33,831	43,456
Changes in assets and liabilities:		
Accounts receivable	(46,496)	(45,478)
Inventories and supplies	(2,995)	(880)
Other assets	(17,595)	(1,442)
Accounts payable and accrued expenses	12,236	32,891
Other liabilities	(21,695)	(12,640)
Due to (from) related parties	(3,079)	(58,788)
Estimated third-party payor settlements and due from government agencies	(116,412)	(184,731)
Net cash provided by operating activities	<u>\$ 383,064</u>	<u>309,065</u>
Supplemental schedule of noncash capital and related financing and investing activities:		
Unrealized change in fair value of investments	\$ 32,425	(109,218)
Loss on disposal of capital assets	(1,317)	(108)
Obligations acquired under lease agreements	60,220	12,767
Acquisition of rights of use assets	58,435	12,701

See accompanying notes to financial statements.

**STATE UNIVERSITY OF IOWA,
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(1) Summary of Significant Accounting Policies and Related Matters

(a) Reporting Entity

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

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

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

(b) Basis of Presentation

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

(c) Use of Estimates

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

(d) Cash and Investments

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

For purposes of the Statement of Net Position and Statement of Cash Flows, cash and cash equivalents are reported in accordance with Board policy Chapter 2.2, section 4.C.ix

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

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

Undesignated cash equivalents totaling \$11.9 million and \$15.5 million at June 30, 2023 and 2022, respectively, represent money market funds and other short-term investments not held by external investment managers that mature in three months or less from date of purchase.

(e) Inventories and Supplies

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

(f) Capital Assets, Net

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

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

(g) Leases and Subscription-Based Information Technology Arrangements

UIHC is a lessee for various noncancellable leases of building and equipment, and also has noncancellable subscription IT arrangements (similar to leases) for the right-to-use information technology software (subscription IT arrangements, or SBITAs). UIHC is also a lessor of building space

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to external parties. During fiscal year 2023, UIHC adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) effective July 1, 2022, with an initial application date of July 1, 2021.

The adoption of GASB 96 resulted in the recognition of an intangible right-to-use subscription asset and related subscription liability of approximately \$7 million as of July 1, 2021, but did not materially impact UIHC's net position, earnings, or cash flows for the year ended.

Short-term leases and SBITAs – For leases and SBITAs with a maximum possible term of 12 months or less at commencement, UIHC recognizes expense based on the provisions of the lease contract or subscription IT arrangement, respectively.

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

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

Measurement of Subscription IT amounts – At subscription commencement, UIHC initially measures the subscription liability at the present value of payments expected to be made during the lease term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, less any vendor incentives received at or before the subscription commencement date, plus capitalizable implementation costs. Subsequently, the subscription asset is amortized into amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

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

- UIHC generally uses published rates from United States Department of Treasury's State and Local Government Series (SLGS) as a proxy for its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor/vendor charges is known. The SLGS rate is determined based on the start date and length of the lease term. UIHC's incremental borrowing rate for leases and SBITAs is based on the rate of interest it would need to pay if it issued general

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obligation bonds to borrow an amount equal to the lease under similar terms at the commencement or remeasurement date.

- The lease or subscription term includes the noncancellable period of the lease or SBITA, plus any additional periods covered by either UIHC or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both UIHC and the lessor/vendor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease term.
- Payments are evaluated by UIHC to determine if they should be included in the measurement of the lease or subscription liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as variable payments, payments for termination penalties, and residual value guarantees.
- The threshold for recognition of subscription liabilities is an undiscounted contract cost in excess of \$250,000. There is not minimum threshold for leases.

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

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

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

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

(h) Deferred Outflows and Inflows of Resources

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

(i) Gifts and Grants

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

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(j) Restricted Resources

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

(k) Net Position

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

(l) Operating Revenue and Expenses

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

(m) Net Patient Service Revenue

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

(n) Charity Care

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

(o) Compensated Absences

UIHC employees accumulate vacation and sick leave under the provisions of the Code of Iowa. Under the State's policy, accrued vacation benefits are paid at an employee's regular hourly rate when used or are paid upon retirement, death, or termination, with certain exceptions. Sick leave is paid in a

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similar manner when used or to a maximum of \$2,000 upon retirement, death, or termination with certain exceptions. These benefits are accrued in the financial statements as earned by UIHC employees.

(p) Pension – Iowa Public Employees Retirement System

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

(q) Income Taxes

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

(2) Deposits and Investments

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

Noncurrent cash and investments limited by bond resolutions or designated by the Board were held for the following purposes at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Limited by bond resolutions:		
Debt service reserve	\$ 837	13,022
Unspent bond proceeds	214,491	322,097
Designated by the board:		
Capital projects and equipment and other needs	1,167,790	907,181
Surplus	2,318	1,131
Improvement, extension, repair, operation, and maintenance funds	364,767	336,802
Restricted by donors	11,263	8,616
	<u>\$ 1,761,466</u>	<u>1,588,849</u>

Cash and cash equivalents and short-term investments specifically identified or pooled with the cash and investments of the University totaled \$169.6 million and \$188.7 million at June 30, 2023 and 2022, respectively. Cash equivalents designated by the Board totaled \$216.1 million and \$195.7 million at June 30, 2023 and 2022, respectively.

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UIHC's investments are recorded at fair value. As of June 30, 2023, UIHC had the following investments and quality credit ratings:

Fixed income	Effective duration (years)	TSY/AGY AAA	AA	A	BBB	BB	B	NA	Total market value
U.S. government agencies	3.19	\$ —	40,773	—	—	—	—	—	40,773
U.S. government treasuries	3.87	—	91,739	—	—	—	—	—	91,739
Mutual funds and fixed income funds at net asset value (NAV)	4.94	—	711,187	78,251	—	76,559	94,078	—	960,075
		\$ —	843,699	78,251	—	76,559	94,078	—	1,092,587
Other investments:									
Cash and cash equivalents									385,725
Common stock									3,321
Mutual funds and equity funds at NAV									342,248
Private market									38,455
Real estate									90,919
Total cash and investments									\$ 1,953,255

As of June 30, 2022, UIHC had the following investments and quality credit ratings:

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

(a) Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is measured using effective duration. At the time of purchase, the effective maturity of direct investment purchases by the University in the operating portfolio cannot exceed sixty-three months.

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There is no explicit limit on the average maturity of fixed income securities in the endowment portfolios. Each fixed income portfolio is managed to an appropriate benchmark.

(b) Credit Risk

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

(c) Concentration of Credit Risk

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

(d) Fair Value Measurements

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

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

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

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

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

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infrastructure, as well as indirect holdings of publicly traded assets in fixed income and international equity commingled funds.

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

The following table reflects fair value measurements of investment assets at June 30, 2023, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV:

	2023				
	Level 1	Level 2	Level 3	NAV	Total
Fixed income:					
U.S. government agencies	\$ —	40,773	—	—	40,773
U.S. government treasuries	91,739	—	—	—	91,739
Mutual funds	494,789	—	—	—	494,789
Fixed-income funds at NAV	—	—	—	465,286	465,286
Equity and other:					
Common stock	3,208	113	—	—	3,321
Mutual funds	240,930	—	—	—	240,930
Real estate	—	—	—	90,919	90,919
Private markets	—	—	—	38,455	38,455
Equity funds at NAV	—	—	—	101,318	101,318
	<u>\$ 830,666</u>	<u>40,886</u>	<u>—</u>	<u>695,978</u>	<u>1,567,530</u>
Money market/cash equivalents					<u>385,725</u>
Total cash and investments					<u>\$ 1,953,255</u>

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The following table summarizes UIHC's investments at June 30, 2023 for which NAV was used as a practical expedient to estimate fair value.

Asset class	Fair value determined using NAV 2023	Unfunded commitments at June 30, 2023	Redemption frequency	Redemption notice period
Fixed-income funds at NAV	\$ 465,286	—	Daily-monthly	5–60 days
Equity funds at NAV	101,318	—	Daily-monthly	2–30 days
Real estate:				
Redeemable	90,919	—	Quarterly	60–90 days
Nonredeemable	—	—	N/A	N/A
Private markets:				
Redeemable	—	—	N/A	N/A
Nonredeemable	38,455	24,000		
Investments measured at NAV	\$ 695,978	24,000		

The following table reflects fair value measurements of investment assets at June 30, 2022, as categorized by level of the fair value hierarchy according to the lowest level of inputs significant to each measurement of NAV:

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

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

Asset class	Fair value determined using NAV 2022	Unfunded commitments at June 30, 2022	Redemption frequency	Redemption notice period
Fixed-income funds at NAV	\$ 364,512	—	Daily-monthly	5–60 days
Equity funds at NAV	75,259	—	Daily-monthly	2–30 days
Real estate:				
Redeemable	90,273	—	Quarterly	60–90 days
Nonredeemable	—	—	N/A	N/A
Private markets:				
Redeemable	—	—	N/A	N/A
Nonredeemable	38,501	26,741		
Investments measured at NAV	\$ <u>568,545</u>	<u>26,741</u>		

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

- **Fixed Income Mutual Funds**—This category includes investments in mutual funds holding assets that provide stability, generate income, and diversify market risk.
- **Equity Mutual Funds**—This category includes investments in global equities including both developed and emerging markets.
- **Real Estate**—This category includes funds that invest in open-end real estate. The University subscribes to purchase interests in the funds, which may be called up to 18 months after subscription date, based on the fund contribution queue. The University's interest in the funds is redeemable on a quarterly or semi-annual basis following an additional lock period, with withdrawals dependent on each fund's redemption queue per the terms of the limited partnership agreement.
- **Private Markets**—This category includes funds that invest in strategies such as private equity, private real estate, and private resource investments. Capital is committed during the course of the investment period, typically four years, of each fund, after which point capital commitments stop. The University's interest in the nonredeemable funds is considered to be illiquid in that from liquidation of the underlying assets of the fund are at the discretion of the general partner per the terms of the limited partnership agreement. Funds are typically liquidated over a period of five to ten years, and include a mechanism to extend the length of the partnership with approval from limited partners.

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(3) Capital Assets

Capital assets at June 30, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Land (nondepreciable)	\$ 23,356	23,356
Land improvements	3,895	3,895
Infrastructure	28,291	27,458
Buildings and leasehold improvements	1,619,688	1,579,506
Equipment and software	637,870	621,569
Construction in progress (nondepreciable)	<u>206,612</u>	<u>84,049</u>
	2,519,712	2,339,833
Less accumulated depreciation	<u>1,313,950</u>	<u>1,235,748</u>
Total capital assets, net excluding lease assets	1,205,762	1,104,085
Lease and subscription IT assets, net (Note 12)	<u>152,579</u>	<u>121,383</u>
Total capital assets, net	<u><u>\$ 1,358,341</u></u>	<u><u>1,225,468</u></u>

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Capital asset additions, retirements, and balances as of and for the years ended June 30, 2023 and 2022 were as follows:

Cost basis summary	June 30, 2022 balances	Increases	Decreases	June 30, 2023 balances
Land (nondepreciable)	\$ 23,356	—	—	23,356
Land improvements	3,895	—	—	3,895
Infrastructure	27,458	833	—	28,291
Buildings and leasehold improvements	1,579,506	40,767	(585)	1,619,688
Equipment and software	621,569	49,932	(33,631)	637,870
Construction in progress (nondepreciable)	84,049	165,982	(43,419)	206,612
Total at historical cost	<u>2,339,833</u>	<u>257,514</u>	<u>(77,635)</u>	<u>2,519,712</u>
Less accumulated depreciation for:				
Land improvements	1,995	377	—	2,372
Infrastructure	16,694	2,061	—	18,755
Buildings and leasehold improvements	775,830	52,994	(586)	828,238
Equipment and software	441,229	54,625	(31,269)	464,585
Total accumulated depreciation	<u>1,235,748</u>	<u>110,057</u>	<u>(31,855)</u>	<u>1,313,950</u>
Total capital assets, net	1,104,085	147,457	(45,780)	1,205,762
Lease and subscription IT assets, net (Note 12)	<u>121,383</u>	<u>33,674</u>	<u>(2,478)</u>	<u>152,579</u>
Total capital assets, net	<u>\$ 1,225,468</u>	<u>181,131</u>	<u>(48,258)</u>	<u>1,358,341</u>

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Cost basis summary	June 30, 2021 balances	Increases	Decreases	June 30, 2022 balances
Land (nondepreciable)	\$ 22,431	925	—	23,356
Land improvements	4,637	—	(742)	3,895
Infrastructure	65,473	1,378	(39,393)	27,458
Buildings and leasehold improvements	1,652,601	21,858	(94,953)	1,579,506
Equipment and software	596,087	62,000	(36,518)	621,569
Construction in progress (nondepreciable)	26,576	84,687	(27,214)	84,049
Total at historical cost	2,367,805	170,848	(198,820)	2,339,833
Less accumulated depreciation for:				
Land improvements	2,349	388	(742)	1,995
Infrastructure	53,660	2,427	(39,393)	16,694
Buildings and leasehold improvements	819,250	51,531	(94,951)	775,830
Equipment and software	421,372	54,827	(34,970)	441,229
Total accumulated depreciation	1,296,631	109,173	(170,056)	1,235,748
Total capital assets, net	1,071,174	61,675	(28,764)	1,104,085
Lease and subscription IT assets, net (Note 12)	126,944	(5,561)	—	121,383
Total capital assets, net	\$ 1,198,118	56,114	(28,764)	1,225,468

At June 30, 2023, construction in progress is related to various projects throughout UIHC. The estimated cost to complete the current phase of equipment and projects under construction at June 30, 2023 is \$409.2 million. Other projects at June 30, 2023, with an estimated cost of \$759.1 million, have been committed to by the Board and/or UIHC; however, construction contracts had not been signed as of June 30, 2023. These projects are anticipated to be funded through existing designated funds, cash provided by future operations, and/or the issuance of additional long-term debt.

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(4) Long-term Debt and Other Obligations

Long-term debt and other obligations outstanding as of June 30, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Hospital Revenue Bonds:		
Series S.U.I. 2016 – 5.000% to 5.000%; maturing serially on September 1 through 2038	\$ 14,685	17,205
Series S.U.I. 2016A – 3.000%; maturing serially on September 1 through 2038	12,780	14,765
Series S.U.I. 2018 – 3.000% to 5.000%; maturing serially on September 1 through 2043	29,715	30,640
Series S.U.I. 2019 – 3.000% to 5.000%; maturing serially on September 1 through 2039	38,210	39,705
Series S.U.I. 2020 – 2.000% to 5.000%; maturing serially on September 1 through 2036	20,710	20,910
Series S.U.I. 2021A – 2.000% to 5.000%; maturing serially on September 1 through 2036	106,535	110,080
Series S.U.I. 2021B – 0.200% to 0.200%; maturing serially on September 1 through 2036	—	148,725
Series S.U.I. 2022A – 2.375% to 5.000%; maturing serially on September 1 through 2036	180,705	181,705
Series S.U.I. 2022B – 3.000% to 3.000%; maturing serially on September 1 through 2036	100,220	100,220
Series S.U.I. 2022C – 4.000% to 5.000%; maturing serially on September 1 through 2038	130,695	—
Net unamortized premium on hospital revenue bonds	49,267	35,436
Telecommunications Facilities Revenue Bonds:		
Series S.U.I. 2020 – 2.000% to 5.000%; maturing serially on July 1 through 2037	9,062	9,062
Series S.U.I. 2021 – 2.000% to 5.000%; maturing serially on July 1 through 2032	3,482	3,715
Total long-term bonds	696,066	712,168
Lease and subscription IT obligations (Note 12)	147,662	121,714
Total long-term debt	843,728	833,882
Long-term debt, current portion	(39,555)	(179,770)
	<u>\$ 804,173</u>	<u>654,112</u>

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Activity in long-term debt and other obligations for the years ended June 30, 2023 and 2022 was as follows:

	June 30, 2022 balance	Additions	Reductions	June 30, 2023 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2016	\$ 17,205	—	(2,520)	14,685	2,665
Hospital Revenue Bonds, Series 2016A	14,765	—	(1,985)	12,780	2,005
Hospital Revenue Bonds, Series 2018	30,640	—	(925)	29,715	975
Hospital Revenue Bonds, Series 2019	39,705	—	(1,495)	38,210	1,570
Hospital Revenue Bonds, Series 2020	20,910	—	(200)	20,710	1,080
Hospital Revenue Bonds, Series 2021A	110,080	—	(3,545)	106,535	3,715
Hospital Revenue Bonds, Series 2021B	148,725	—	(148,725)	—	—
Hospital Revenue Bonds, Series 2022A	181,705	—	(1,000)	180,705	1,000
Hospital Revenue Bonds, Series 2022B	100,220	—	—	100,220	—
Hospital Revenue Bonds, Series 2022C	—	130,695	—	130,695	5,475
Telecommunications Facilities Revenue Bonds:					
Series 2020	9,062	—	—	9,062	170
Series 2021	3,715	—	(234)	3,481	275
Net unamortized bond premium	35,436	18,383	(4,551)	49,268	—
Total bonds payable	712,168	149,078	(165,180)	696,066	18,930
Lease and subscription IT obligations (Note 12)				147,662	20,625
Total long-term obligations	\$ 712,168	149,078	(165,180)	843,728	39,555

	June 30, 2021 balance	Additions	Reductions	June 30, 2022 balance	Amounts due within one year
Hospital Revenue Bonds, Series 2011	\$ 18,400	—	(18,400)	—	—
Hospital Revenue Bonds, Series 2011A	10,880	—	(10,880)	—	—
Hospital Revenue Bonds, Series 2012	152,050	—	(152,050)	—	—
Hospital Revenue Bonds, Series 2016	19,695	—	(2,490)	17,205	2,520
Hospital Revenue Bonds, Series 2016A	16,695	—	(1,930)	14,765	1,985
Hospital Revenue Bonds, Series 2018	31,515	—	(875)	30,640	925
Hospital Revenue Bonds, Series 2019	41,125	—	(1,420)	39,705	1,495
Hospital Revenue Bonds, Series 2020	20,910	—	—	20,910	200
Hospital Revenue Bonds, Series 2021A	—	112,345	(2,265)	110,080	3,545
Hospital Revenue Bonds, Series 2021B	—	148,725	—	148,725	148,725
Hospital Revenue Bonds, Series 2022A	—	181,705	—	181,705	1,000
Hospital Revenue Bonds, Series 2022B	—	100,220	—	100,220	—
Telecommunications Facilities Revenue Bonds:					
Series 2011	340	—	(340)	—	—
Series 2020	9,062	—	—	9,062	—
Series 2021	3,715	—	—	3,715	234
Net unamortized bond premium	16,232	34,238	(15,034)	35,436	—
Total bonds payable	340,619	577,233	(205,684)	712,168	160,629
Lease and subscription IT obligations (Note 12)				121,714	19,141
Total long-term obligations	\$ 340,619	577,233	(205,684)	833,882	179,770

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(a) Long-Term Bonds

Hospital revenue bonds are special obligations of the Board payable solely out of hospital income, the general purpose of which is to expand and improve UIHC facilities. "Hospital income" is defined as the gross income and funds received by the Hospital System at the University, including the proceeds of rates, fees, charges, and payments for healthcare provider activities for patient care services rendered by the University's hospitals, clinics, laboratories, and ancillary facilities, less current expenses (as defined in the resolution authorizing the issuance of the bonds, the Bond Resolution). Hospital income does not include State appropriations to the University. So long as the bonds or parity bonds remain outstanding, the entire hospital income shall be deposited to the revenue fund and shall be disbursed to the following funds in the following order: (1) the operation and maintenance fund, (2) the sinking fund, (3) the reserve fund, and (4) the system fund. The reserve fund requirement is at least equal to the maximum annual amount of the principal and interest coming due on the bonds and any parity bonds, or \$0.0 million. Revenue bonds no longer have a debt service requirement and have been released. The maximum amount of hospital income pledged representing the undiscounted principal and interest on the bonds is \$976.8 million.

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

In 2023, UIHC issued \$130.7 million of Series S.U.I 2022C Revenue Refunding Bond. The proceeds of the bonds were used to pay the principal and interest on the Refunding Bond Anticipation Note Series S.U.I 2021B.

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

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

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

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2024	\$ 18,929	23,330	42,259
2025	20,100	22,395	42,495
2026	23,670	21,347	45,017
2027	24,802	20,189	44,991
2028	25,984	18,979	44,963
2029 through 2033	115,662	79,000	194,662
2034 through 2038	124,827	54,256	179,083
2039 through 2043	78,315	34,217	112,532
2044 through 2048	61,190	25,709	86,899
2049 through 2053	61,825	17,708	79,533
2054 through 2058	47,770	10,227	57,997
2059 through 2062	43,725	2,673	46,398
	<u>\$ 646,799</u>	<u>330,030</u>	<u>976,829</u>

The following are deferred outflows of resources and deferred inflows of resources related to debt refundings as of June 30, 2023 and 2022:

	<u>2023 Deferred outflows of resources</u>	<u>2023 Deferred inflows of resources</u>
Deferred outflows and inflows from debt refunding:		
Revenue Bonds Series 2016 refunding loss	\$ 435	—
Revenue Bonds Series 2016A refunding loss	645	—
Revenue Bonds Series 2020 refunding gain	—	80
Revenue Bonds Series 2021A refunding gain	—	57
Revenue Bonds Series 2022C refunding gain	—	657
Telecom Bonds Series 2020 refunding gain	—	26
Telecom Bonds Series 2021 refunding gain	—	13
	<u>\$ 1,080</u>	<u>833</u>

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

(5) Retirement Benefit Plans

(a) Teachers Insurance and Annuity Association

Substantially, all UIHC employees meeting eligibility requirements participate in the University of Iowa Retirement Plan (the Plan), which is a defined-contribution retirement plan providing benefits through the Teachers Insurance and Annuity Association (TIAA). During fiscal years 2023 and 2022, UIHC's contributions amount to \$44.6 million and \$42.9 million, respectively. UIHC contributions to the Plan are 10.00% of employee compensation after the first five years of employment. During the first five years of employment, UIHC's contribution is 6.67% of the first \$4,800 of compensation and 10.00% of the remaining balance of employee compensation. Employees are required to contribute an amount equal to 50.00% of UIHC's contribution. All contributions to the Plan are immediately 100.00% vested.

(b) Iowa Public Employees Retirement System

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

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

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

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

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

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

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

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

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In fiscal years 2023 and 2022, pursuant to the required rates, members and UIHC contributed the following percentages of pay to the respective membership groups:

<u>Fiscal year</u>	<u>Membership group</u>	<u>Member</u>	<u>UIHC</u>	<u>Total</u>
2023	Regular	6.29 %	9.44 %	15.73 %
2023	Protection occupations	6.21	9.31	15.52
2022	Regular	6.29	9.44	15.73
2022	Protection occupations	6.21	9.31	15.52

UIHC's contributions to IPERS for the years ended June 30, 2023 and 2022 were \$11.6 million and \$10.1 million, respectively.

Net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2023 and 2022, UIHC reported a liability in other long-term liabilities on the statements of net position of \$49.5 million and \$1.1 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. UIHC's proportion of the net pension liability was based on UIHC's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2022, UIHC's proportion of the collective net pension liability was 1.31083%. At June 30, 2021, UIHC's proportion of the collective net pension liability was negative 0.33168%.

For the years ended June 30, 2023 and 2022, UIHC recognized pension expense (benefit) of \$5.3 million and (\$0.7) million, respectively. At June 30, 2023 and 2022, UIHC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2023 Deferred outflows of resources</u>	<u>2023 Deferred inflows of resources</u>
Difference between expected and actual experience	\$ 2,259	(681)
Changes of assumptions	42	(36)
Net difference between projected and actual earnings on pension plan investments	—	(5,356)
Changes in proportion and differences between contributions and proportionate share of contributions	12,620	(14)
Contributions subsequent to the measurement date	11,566	—
Other	192	—
Total	\$ <u>26,679</u>	<u>(6,087)</u>

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

At June 30, 2023, the \$11.8 million reported as deferred outflows of resources related to pensions resulting from UIHC's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. At June 30, 2023 amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (benefit) as follows:

Year ending June 30:	
2024	\$ (740)
2025	(15)
2026	(3,632)
2027	12,618
2028	603
	<u>\$ 8,834</u>

There are no nonemployer contributing entities at IPERS.

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

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The actuarial assumptions used in the June 30, 2022 valuations were based on the results of an actuarial experience study and demographic assumptions study performed in June 2022. The June 30, 2021 valuations were based on the results of an actuarial experience study performed in March 2017 and a demographic assumption study dated June 2018.

Mortality rates for the June 30, 2022 valuation were based on the PubG-2010 Generational Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Projection Scale MP-2021. Different adjustments apply to pre-retirement, post-retirement, and post-disability mortality tables. Mortality rates for the June 30, 2021 valuation were based on the RP-2014 Generational Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Projection Scale MP-2017. Different adjustments apply to pre-retirement, post-retirement, and post-disability mortality tables.

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

Asset class	Asset allocation	Long-term expected real rate of return
Domestic equity	22.0 %	3.57 %
International equity	17.5	4.79
Global smart beta equity	6.0	4.16
Core-plus fixed income	20.0	1.66
Public credit	4.0	3.77
Cash	1.0	0.77
Private equity	13.0	7.57
Private real assets	8.5	3.55
Private credit	8.0	3.63
Total	100.0 %	

Discount rate – The discount rate used to measure the total pension liability was 7.0% at both measurement periods. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from UIHC will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit

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payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of UIHC's proportionate share of the net pension liability to changes in the discount rate –

The following presents UIHC's proportionate share of the net pension liability calculated using the discount rate of 7.0% at June 30, 2023, as well as what UIHC's proportionate share of the net pension liability would be if it was calculated using a discount rate that is one-percentage-point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate.

	<u>1% decrease 6.0%</u>	<u>Discount rate 7.0%</u>	<u>1% increase 8.0%</u>
UIHC's proportionate share of the net pension liability	\$ 92,659	49,525	11,514

The following presents UIHC's proportionate share of the net pension liability calculated using the discount rate of 7.0% at June 30, 2022, as well as what UIHC's proportionate share of the net pension liability would be if it was calculated using a discount rate that is one-percentage-point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate.

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

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

Payables to the pension plan – At June 30, 2023 and 2022, UIHC reported payables to the defined-benefit pension plan of \$1,024,000 and \$863,000, respectively, for legally required employer contributions and \$681,985 and \$575,000, respectively, for legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

(6) Other Postemployment Benefits

(a) Plan Description

The University operates two single-employer, defined-benefit health benefit plans, which provide medical/prescription drug benefits for employees, retirees, and their spouses. The two plans are the Professional and Scientific and Faculty Plan (PSF) and the Merit Employee Plan (Merit Plan). Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a

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trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting of Postemployment Benefits other than Pensions*.

At June 30, 2023 and 2022, UIHC recognized a total other postemployment benefits (OPEB) liability of \$44.6 million and \$49.8 million, respectively, for its PSF and a liability of \$12.2 million and \$13.4 million for its Merit Plan, for a total OPEB liability of \$56.8 million and \$63.2 million, respectively. At June 30, 2023 and 2022, \$53.1 million and \$59.4 million, respectively, of the total liability was recorded in other long-term liabilities while \$3.7 million and \$3.8 million, respectively, was recorded in other current liabilities.

(b) Funding Policy

The contribution requirements of plan members are established and may be amended by the University. Benefits are financed centrally by the University on a pay-as-you-go basis. Total expenditures for fiscal years 2023 and 2022 were \$1.9 million and \$2.1 million, respectively.

(c) OPEB Benefits

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

Retired participants must be age 55 or older at retirement. At June 30, 2023 and 2022, the following UIHC employees were covered by the benefit terms:

	<u>2023</u>	<u>2022</u>
PSF:		
Inactive employees or beneficiaries currently receiving benefits	\$ 792	801
Active employees	<u>5,133</u>	<u>5,184</u>
Total	<u>\$ 5,925</u>	<u>5,985</u>
Merit Plan:		
Inactive employees or beneficiaries currently receiving benefits	\$ 123	124
Active employees	<u>1,589</u>	<u>1,605</u>
Total	<u>\$ 1,712</u>	<u>1,729</u>

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(d) Total OPEB Liability

UIHC's total OPEB liability for June 30, 2023 and 2022 was determined by an actuarial valuation with a measurement date of June 30, 2022 and 2021, respectively.

(e) Actuarial Assumptions

The June 30, 2023 and 2022 liabilities were determined using the following actuarial assumptions and the entry-age normal actuarial cost method, applied to all periods included in the measurements.

	<u>2023</u>	<u>2022</u>
Rate of inflation	2.50 %	2.50 %
Rates of salary increase	3.00	3.00
Discount rate	3.54	2.16
Healthcare cost trend rate pre-65 (decreasing to an ultimate rate of 4.50%)	5.89	6.12
Healthcare cost trend rate post-65 (decreasing to an ultimate rate of 4.50%)	6.34	6.57

Discount rate – The June 30, 2022 and 2021 discount rate used to measure the total OPEB liability was 3.54% and 2.16%, respectively, which reflects the index rate for bond Buyer 20 Year GO Index as of the measurement date.

Mortality rates are from the Pub-2010 Aggregate Mortality Table projected using Scale MP-2020 for measurement dates of June 30, 2022 and 2021.

Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used for IPERS.

The actuarial assumptions used in the determination of the liabilities as of June 30, 2023 and 2022 were based on the results of an actuarial experience studies conducted with actual plan experience through 2020.

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

Changes in total PSF OPEB liability	2023 total OPEB liability	2022 total OPEB liability
Total OPEB liability, beginning of year, July 1	\$ 49,760	57,063
Changes for the year:		
Service cost	2,375	2,301
Interest	1,084	1,248
Changes in benefit terms	—	—
Differences between expected and actual experiences	(52)	(1,082)
Changes of assumptions	(5,173)	(5,153)
Benefit payments	(2,916)	(3,449)
Other	(492)	(1,168)
Net changes	(5,174)	(7,303)
Total OPEB liability, end of year, June 30	\$ 44,586	49,760

Changes in total Merit OPEB liability	2023 total OPEB liability	2022 total OPEB liability
Total OPEB liability, beginning of year, July 1	\$ 13,388	16,987
Changes for the year:		
Service cost	868	927
Interest	296	378
Changes in benefit terms	—	—
Differences between expected and actual experiences	82	(1,725)
Changes of assumptions	(1,486)	(1,917)
Benefit payments	(829)	(915)
Other	(132)	(347)
Net changes	(1,201)	(3,599)
Total OPEB liability, end of year, June 30	\$ 12,187	13,388

The financial accounting valuation reflects the following assumption changes:

- A change in the discount rate to 3.54% as of June 30, 2022.

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Sensitivity of UIHC's total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of UIHC as of June 30, 2023, as well as what UIHC's total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower (2.54%) or one-percentage-point higher (4.54%) than the current discount rate.

	1% decrease 2.54%	Discount rate 3.54%	1% increase 4.54%
UIHC's PSF OPEB liability	\$ 48,240	44,585	41,239
UIHC's Merit OPEB liability	13,275	12,188	11,271
	<u>\$ 61,515</u>	<u>56,773</u>	<u>52,510</u>

The following presents the total OPEB liability of UIHC as of June 30, 2022, as well as what UIHC's total OPEB liability would be if it was calculated using a discount rate that is one-percentage-point lower (1.16%) or one-percentage-point higher (3.16%) than the current discount rate.

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

Sensitivity of UIHC's total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of UIHC as of June 30, 2023, as well as what UIHC's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is one-percentage-point lower (4.89%) or one-percentage-point higher (6.89%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (5.34%) or one-percentage-point higher (7.34%) higher than the current healthcare cost trend rate for post-65 participants.

	1% decrease 4.89%	Healthcare cost trend rate 5.89%	1% increase 6.89%
Pre-65 participants	5.34%	6.34%	7.34%
UIHC's PSF OPEB liability	\$ 48,392	44,585	41,865
UIHC's Merit OPEB liability	13,411	12,188	11,336
	<u>\$ 61,803</u>	<u>56,773</u>	<u>53,201</u>

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The following presents the total OPEB liability of UIHC as of June 30, 2022, as well as what UIHC's total OPEB liability would be if it was calculated using a healthcare cost trend rate that is one-percentage-point lower (5.12%) or one-percentage-point higher (7.12%) than the current healthcare cost trend rate for pre-65 participants, and one-percentage-point lower (5.57%) or one-percentage-point higher (7.57%) higher than the current healthcare cost trend rate for post-65 participants.

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

OPEB expense and deferred outflows and inflows of resources related to OPEB – For the years ended June 30, 2023 and 2022, UIHC recognized OPEB expense of \$2.3 million and \$2.8 million, respectively, for the PSF and \$0.7 million and \$0.9 million, respectively, for the Merit Plan.

At June 30, 2023 and 2022, UIHC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

PSF	2023 Deferred outflows of resources	2023 Deferred inflows of resources
Difference between expected and actual experience	\$ 7,777	(1,149)
Changes of assumptions	9,460	(22,415)
Contributions subsequent to the measurement date	3,004	—
Total	<u>\$ 20,241</u>	<u>(23,564)</u>
Merit Plan	2023 Deferred outflows of resources	2023 Deferred inflows of resources
Difference between expected and actual experience	\$ 853	(1,864)
Changes of assumptions	3,414	(5,638)
Contributions subsequent to the measurement date	657	—
Total	<u>\$ 4,924</u>	<u>(7,502)</u>

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

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

The amount reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (in thousands):

	PSF
Year ending June 30:	
2024	\$ (1,205)
2025	(1,205)
2026	(1,206)
2027	(1,206)
2028	203
Total thereafter	<u>(1,708)</u>
Total	<u>\$ (6,327)</u>

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	<u>Merit Plan</u>
Year ending June 30:	
2024	\$ (510)
2025	(505)
2026	(466)
2027	(466)
2028	(466)
Total thereafter	<u>(822)</u>
Total	<u>\$ (3,235)</u>

(7) Risk Management

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

UIHC's portion of the health insurance liability, which is included in other current liabilities of \$13.4 million and \$14.5 million as of June 30, 2023 and 2022, respectively, is as follows:

	<u>2023</u>	<u>2022</u>
Liability for unpaid healthcare claims at beginning of year	\$ 14,538	13,233
Healthcare expenses incurred during the year	180,229	171,737
Healthcare payments to the University during the year	<u>(181,389)</u>	<u>(170,432)</u>
Liability for unpaid healthcare claims at end of year	<u>\$ 13,378</u>	<u>14,538</u>

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

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

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

(8) Transactions with Related Parties

UIHC receives certain administrative services, utilities, and other general services from the University. The services and support costs include amounts due to the University's Carver College of Medicine for support of graduate medical education and other specific clinical services provided to UIHC. These services are charged to UIHC at the approximate cost incurred by the servicing unit. For the years ended June 30, 2023 and 2022, UIHC expensed approximately \$285.1 million and \$258.1 million, respectively, for these administrative services, utilities, and clinical services. At June 30, 2023 and 2022, approximately \$38.1 million and \$41.2 million, respectively, were due to other University units.

UIHC also provides certain administrative services to other units of the University and UIHS. These services include billing, collection, legal, compliance, and other physician practice-related clinic overhead expenses. These services are charged to units of the University and UIHS at the approximate cost incurred by the servicing unit or mutually agreed upon terms. For the years ended June 30, 2023 and 2022, UIHC received revenue from these units of approximately \$11.1 million and \$10.0 million, respectively, for these services, which is recorded in other revenue in the statements of revenue, expenses, and changes in net position.

UIHC transfers to and receives transfers from non-UIHC University of Iowa units and UIHS. Net transfers to these units totaled \$15.7 million and \$16.9 million for the years ended June 30, 2023 and 2022, respectively.

UIHS was incorporated under the provisions of the Iowa Nonprofit Corporations Act on December 2, 1994. UIHS was formed to enhance and support the educational missions of the UIHC and the College of Medicine, particularly as these missions apply to clinical activities and statewide and multistate network development activities. In fiscal year 2023 UIHC transferred \$8.0 million which is recorded in net transfers in the statements of revenue, expenses, and changes in net position.

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(9) Net Patient Service Revenue

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

	<u>2023</u>	<u>2022</u>
Gross patient charges:		
Inpatient charges	\$ 3,468,775	3,252,587
Outpatient charges	<u>4,867,244</u>	<u>4,361,796</u>
Total gross patient charges	8,336,019	7,614,383
Less deductions from gross patient charges:		
Contractual adjustments – Medicare, Medicaid, and other	5,541,334	4,993,303
Provision for bad debts	<u>33,831</u>	<u>43,456</u>
Net patient service revenue	<u>\$ 2,760,854</u>	<u>2,577,624</u>

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

With partnership from the State, UIHC participates in a federal directed payment program. The primary use of the supplemental funding will be to expand access and increase capacity for Iowa Medicaid beneficiaries through modernization and expansion of health care facilities. In fiscal years 2023 and 2022, the program generated \$370.8 million and \$332.1 of net patient service revenue, respectively. As of June 30, 2023 and 2022, UIHC recognized a \$312.6 million and \$196.8 million due from government agency, reflected in current assets on the statements of net position, related to the program.

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Patient service cash receipts (net of adjustments), received in fiscal years 2023 and 2022 from the major payor sources, are as follows:

	<u>2023</u>	<u>2022</u>
Patient (self-pay)	\$ 20,350	22,495
Medicaid	600,962	470,281
Medicare	684,305	613,217
Commercial insurance and other third-party payors	<u>1,319,409</u>	<u>1,284,879</u>
Patient service receipts, net of adjustments	2,625,026	2,390,872
Changes to accounts receivable balance, late charges reserve, and other third-party reserves	<u>135,828</u>	<u>186,752</u>
Patient service revenue, net of contractual allowance, discounts, and provision for bad debts	<u>\$ 2,760,854</u>	<u>2,577,624</u>

UIHC has agreements with third-party payors that provide for payments to UIHC at amounts different from its established rates. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The fiscal year 2023 net patient service revenue from third-party payors increased approximately \$27.5 million and fiscal year 2022 net patient service revenue increased approximately \$21.2 million due to prior year retroactive adjustments being different than amounts previously estimated.

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

(a) Medicare

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

Receipts from Medicare accounted for approximately 26.2% and 25.9% of UIHC's net patient receipts for the years ended 2023 and 2022, respectively.

(b) Iowa Medicaid

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

Receipts from Medicaid programs accounted for approximately 23.0% and 19.9% of UIHC's net patient receipts for the years ended 2023 and 2022, respectively.

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(c) Commercial

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

(10) Charity Care and Uncompensated Cost of Services

UIHC provides care to patients who meet certain criteria under its charity care policy by adjusting off charges either in full or by adjusting off an approved percentage of the self-pay balance. State Institution accounts are automatically classified as charity care and, therefore, the patient charges are written off as charity care in full. Patient charges written off for services and supplies furnished under UIHC's charity policy for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Charity care	\$ 14,915	16,373
Charity care for State Institution patients	51,177	51,697
Charity care charges forgone	<u>\$ 66,092</u>	<u>68,070</u>

The cost of charges forgone for services and supplies furnished under UIHC's charity policy approximated \$16.9 million and \$17.4 million for the years ended June 30, 2023 and 2022, respectively.

UIHC also provides reduced price services and free programs throughout the year. The total uncompensated costs of services other than charity care, for the years ended June 30, 2023 and 2022, approximate the following:

	2023	2022
Medicare	\$ 145,865	106,143
Medicaid	4,710	5,061
Medicaid out of state	2,430	4,411
State Institution	10,901	10,249
Uncompensated costs of services	<u>\$ 163,906</u>	<u>125,864</u>

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(11) Concentrations of Credit Risk

UIHC grants credit without collateral to its patients, most of whom are Iowa residents and are insured under third-party payor agreements. The mix of receivables for facility medical claims from patients and third-party payors based on primary payor at June 30, 2023 and 2022 was as follows:

	2023	2022
Blue Cross Blue Shield	28 %	31 %
Commercial pay	26	27
Medicare	30	26
Medicaid	13	13
Self-pay	1	1
Other	2	2
	<u>100 %</u>	<u>100 %</u>

(12) Leases (Lessee and Lessor) and Subscription-Based Information Technology Arrangements

UIHC is a lessee for various noncancellable leases of buildings, equipment, and subscription-based IT arrangements (SBITAs), and a lessor for buildings. Lease and SBITA asset activity during the years ended June 30, 2023 and 2022 are summarized as follows:

	June 30, 2022 balances	Increases	Decreases	June 30, 2023 balances
Right of use assets				
Buildings	\$ 110,635	27,185	(4,576)	133,244
Leasehold improvements	2,306	—	—	2,306
Equipment	11,851	10,800	(3,631)	19,020
Subscription IT assets	13,996	20,451	(2,362)	32,085
Total right of use assets	138,788	58,436	(10,569)	186,655
Less accumulated amortization:				
Buildings	9,865	10,570	(3,330)	17,105
Leasehold improvements	243	595	—	838
Equipment	3,381	5,289	(2,352)	6,318
Subscription IT assets	3,916	8,308	(2,409)	9,815
Total accumulated amortization	17,405	24,762	(8,091)	34,076
Total right of use assets, net	\$ <u>121,383</u>	<u>33,674</u>	<u>(2,478)</u>	<u>152,579</u>

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	June 30, 2021 balances	Increases	Decreases	June 30, 2022 balances
Right of use assets				
Buildings	\$ 118,256	558	(8,179)	110,635
Leasehold improvements	907	1,888	(489)	2,306
Equipment	11,454	2,919	(2,522)	11,851
Subscription IT assets	7,013	7,336	(353)	13,996
Total right of use assets	137,630	12,701	(11,543)	138,788
Less accumulated amortization:				
Buildings	7,962	10,082	(8,179)	9,865
Leasehold improvements	202	530	(489)	243
Equipment	2,522	3,381	(2,522)	3,381
Subscription IT assets	—	4,269	(353)	3,916
Total accumulated amortization	10,686	18,262	(11,543)	17,405
Total right of use assets, net	\$ 126,944	(5,561)	—	121,383

Lease and SBITA liability activity during the years ended June 30, 2023 and 2022 are summarized as follows:

	June 30, 2022 balances	Additions	Deductions	Retirements	June 30, 2023 balances
Lease and subscription IT liabilities	\$ 121,714	60,220	(30,506)	(3,766)	147,662

	June 30, 2021 balances	Additions	Deductions	Retirements	June 30, 2022 balances
Lease and subscription IT liabilities	\$ 126,944	12,766	(17,996)	—	121,714

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Future annual lease and subscription IT payments are as follows:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year(s) ending June 30:			
2024	\$ 20,625	3,580	24,205
2025	16,924	3,516	20,440
2026	14,047	3,066	17,113
2027	13,255	2,660	15,915
2028	9,551	2,284	11,835
2029 – 2033	37,264	7,838	45,102
2034 – 2038	18,317	4,253	22,570
2039 – 2043	11,847	2,180	14,027
2044 – 2048	5,832	469	6,301
Total	<u>\$ 147,662</u>	<u>29,846</u>	<u>177,508</u>

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

The amounts recognized as outflows (expense) for variable payments not included in the measurement of the lease and subscription IT liabilities were \$1.3 million and \$1.3 million during the years ended June 30, 2023 and 2022, respectively.

Residual value guarantees of leases – As of June 30, 2023, the UIHC current has no leases with residual value guarantees.

(13) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses reported as current liabilities at June 30, 2023 and 2022 consisted of the following amounts:

	<u>2023</u>	<u>2022</u>
Payable to employees (including fringe benefits)	\$ 127,529	123,827
Payable to suppliers	99,965	90,824
Other	7,944	8,551
Total accounts payable and accrued expenses	<u>\$ 235,438</u>	<u>223,202</u>

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(14) Other Long-term Liabilities

Other long-term liabilities at June 30, 2023 and 2022 consisted of the following amounts (in thousands):

	<u>2023</u>	<u>2022</u>
Pension liability	\$ 49,525	1,145
OPEB liability	53,112	59,366
Payable to employees (compensated absences)	24,079	26,793
Unearned revenue	<u>6,750</u>	<u>13,500</u>
Total other long-term liabilities	<u>\$ 133,466</u>	<u>100,804</u>

(15) Law and Regulations

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

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

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

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

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

For the year ended June 30, 2023, UIHC did not receive additional COVID relief funds. For the year ended June 30, 2022, UIHC received additional funds as follows: \$10.1 million in Provider Relief Fund General Distributions, \$14.8 million in Provider Relief Fund Targeted Distributions, \$3.0 million in Coronavirus Relief Fund, and \$1.3 million in FEMA Public Assistance Disaster Program funds.

These funds are not subject to repayment, provided UIHC is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met and the funds are received. Based on analysis of the compliance and reporting requirements of the CARES Act and the impact of the pandemic on operating results through the end of 2023 and 2022, UIHC has recorded \$0.0 million and \$35.5 million, respectively, of coronavirus relief funds as nonoperating revenue in the statements of revenue, expenses, and changes in net position.

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

**STATE UNIVERSITY OF IOWA,
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Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in tables in thousands)

(17) Subsequent Events

UIHC has reviewed subsequent events through October 31, 2023 and concluded that there were no events or transactions during this period that would require recognition or disclosure in the financial statements, except as follows:

In August 2023, Mercy Hospital, Iowa City, Iowa (Mercy), an acute care hospital, filed for chapter 11 bankruptcy and announced they entered an asset purchase agreement with UIHC to purchase substantially all of Mercy's assets. In October 2023, as part of the bankruptcy auction process, Mercy announced that UIHC's bid was the winning bid. UIHC's bid at the bankruptcy auction is summarized below:

1. if UIHC is chosen as the winning bidder and subject to: (1) the acquisition being approved as the winning bidder by the bankruptcy court within a reasonable period of time; (2) satisfaction of all closing conditions including licensure; and (3) entering into an employee leaseback with Mercy until such time as the transaction can reasonably close, which UIHC anticipates occurring on or before January 31, 2024; the purchase price will be an amount equal to \$28.0 million plus an amount equal to Mercy's actual operating losses (exclusive of professional fees and all other costs and expenses related to the bankruptcy) for the period commencing on November 30, 2023 and continuing until such time as the transaction closes. For the avoidance of doubt, "operating losses" means all of the revenues received by debtors (Mercy) on or after December 1, 2023, will be used to pay operating expenses related to the debtors' existing health care operations that are included within the scope of UIHC's bid, and not professional fees or other costs of administering the bankruptcy case or the estate. Further, the calculation of the debtors' operating losses shall in no way take into account any funds made available to Mercy by the Mercy Foundation.
2. In addition to the commitments just stated, if UIHC is chosen as the winning bidder, it commits to invest at least \$25.0 million on: a) information technology infrastructure; b) physical plant infrastructure including but not limited to the roof, parking facilities, and plant equipment; and c) medical equipment within five years of closing.

Final approval for the sale hearing is anticipated to be received from the U.S. Bankruptcy Court for the North District of Iowa in November 2023.

**STATE UNIVERSITY OF IOWA,
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Schedule of Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2023

(Unaudited)

For the year ended	UIHC's proportion of the net pension liability (asset)	UIHC's proportionate share of the net pension liability	UIHC's covered- employee payroll	UIHC's proportionate share of the net pension liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
June 30, 2023	1.31083 % \$	49,525	106,669	46.4 %	91.4 %
June 30, 2022	(0.33168)	1,145	89,374	1.3	100.8
June 30, 2021	0.99744	70,067	77,106	90.9	82.9
June 30, 2020	0.88403	51,191	62,910	81.4	85.5
June 30, 2019	0.77810	49,240	59,251	83.1	83.6
June 30, 2018	0.70459	46,934	52,104	90.1	82.2
June 30, 2017	0.59455	37,417	40,665	92.0	81.8
June 30, 2016	0.47349	23,539	29,902	78.7	85.2

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

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

See accompanying independent auditors' report.

**STATE UNIVERSITY OF IOWA,
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Schedule of Contributions

Iowa Public Employees' Retirement System

Last Ten Fiscal Years

(In thousands)

Required Supplementary Information

June 30, 2023

(Unaudited)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 11,566	10,053	8,431	7,260	5,921	5,224	4,623	3,603	2,660	2,299
Contributions in relation to the statutorily required contribution	<u>(11,566)</u>	<u>(10,053)</u>	<u>(8,431)</u>	<u>(7,260)</u>	<u>(5,921)</u>	<u>(5,224)</u>	<u>(4,623)</u>	<u>(3,603)</u>	<u>(2,660)</u>	<u>(2,299)</u>
Contribution deficiency	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
UIHC's covered-employee payroll	\$ 122,817	106,669	89,374	77,106	62,910	59,251	52,104	40,665	29,902	25,706
Contributions as a percentage of the covered-employee payroll	9.4 %	9.4 %	9.4 %	9.4 %	9.4 %	8.8 %	8.9 %	8.9 %	8.9 %	8.9 %

See accompanying independent auditors' report.

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

Schedule of Changes in UIHC's Total OPEB Liability

Last ten fiscal years ended June 30, 2023

(Unaudited)

	2023	2022	2021	2020	2019	2018
PSF Plan:						
Service cost	\$ 2,375	2,301	1,806	971	970	10,283
Interest	1,084	1,248	1,737	1,582	1,535	5,609
Changes in benefit terms	—	—	—	—	—	(148,291)
Differences between expected and actual experience	(52)	(1,082)	(27)	1,278	—	15,488
Changes of assumptions	(5,173)	(5,153)	7,480	6,895	(308)	(30,071)
Benefit payments	(2,916)	(3,449)	(3,459)	(3,323)	(3,369)	(2,217)
Other	(492)	(1,168)	561	(848)	5,170	—
Net change in total OPEB liability	(5,174)	(7,303)	8,098	6,555	3,998	(149,199)
Total OPEB liability, beginning of year	49,760	57,063	48,965	42,410	38,412	187,611
Total OPEB liability, end of year	<u>\$ 44,586</u>	<u>49,760</u>	<u>57,063</u>	<u>48,965</u>	<u>42,410</u>	<u>38,412</u>
Merit Plan:						
Service cost	\$ 868	927	735	408	559	755
Interest	296	378	510	421	278	293
Changes in benefit terms	—	—	—	—	7,848	—
Differences between expected and actual experience	82	(1,725)	(39)	305	—	—
Changes of assumptions	(1,486)	(1,917)	2,385	2,707	(4,786)	(512)
Benefit payments	(829)	(915)	(854)	(429)	(421)	—
Contributions from the employer	—	—	—	—	—	(531)
Other	(132)	(347)	162	(217)	(2,404)	—
Net change in total OPEB liability	(1,201)	(3,599)	2,899	3,195	1,074	5
Total OPEB liability, beginning of year	13,388	16,987	14,088	10,893	9,819	9,814
Total OPEB liability, end of year	<u>\$ 12,187</u>	<u>13,388</u>	<u>16,987</u>	<u>14,088</u>	<u>10,893</u>	<u>9,819</u>

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

See accompanying independent auditors' report.

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

June 30, 2023

(Unaudited)

(1) Pension Liability

(a) Changes of Benefit Terms

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

(b) Changes of Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement:

- Assumed investment return: 7%
- Projected salary increases: 3.25%-16.25% depending upon years of service
- Mortality tables: PubG-2010 Employee and Healthy Annuitant Tables, using MP-2021
- Inflation rate: 2.6%
- Payroll increase assumption: 3.25%

The 2022 valuation incorporated the following refinements as a result of a June 2022 experience study:

- Changed mortality assumptions to the PubG-2010 Employee and Healthy Annuitant Tables, using MP-2021

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

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

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

- Decreased the inflation assumption from 3.00% to 2.60% per year.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.

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Notes to Required Supplementary Information

June 30, 2023

(Unaudited)

- Decreased the long-term rate of return assumption from 7.50% to 7.00% per year.
- Decreased the wage growth and payroll growth assumptions from 4.00% to 3.25% per year.
- Decreased the salary increase assumption by 0.75%.

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

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

(2) OPEB Liability

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

- The 2022 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The 2022 financial accounting valuation reflects the following assumption changes:
 - A change in the discount rate to 3.54% as of June 30, 2022.
- The 2021 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 2.16% as of June 30, 2021
 - A change in the retirement rates for Staff employees to better reflect recent experience
 - A change in the mortality projection scale from Scale MP-2018 to Scale MP-2020
 - The health care trend rate assumption was updated to a schedule of rates beginning at 6.12% in 2021, grading down to 4.5% in 2030 and beyond for pre-65 participants and 6.57% in 2021, grading down to 4.5% in 2030 and beyond for post-65 participants
 - The marginal cost adjustment factors were changed from 62.9% to 65.2% for pre-65 participants and from 89.5% to 90.3% for post-65 participants

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Notes to Required Supplementary Information

June 30, 2023

(Unaudited)

- The 2020 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 2.21% as of June 30, 2020
 - A removal of the excise tax on high-cost plans from the future trend rates.
- The 2019 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation.
- The financial accounting valuation reflects the following assumption changes:
 - A change in the Discount rate to 3.50% as of June 30, 2019
 - A change in the mortality assumption for healthy lives from the RP-2014 Aggregate Mortality Table projected using the Scale MP-2016 to Pub-2010 Aggregate Mortality Table projected using the Scale MP-2018 by classification.
 - A change in the mortality assumption for disabled lives from the CIA 1988-94 LTD table to the Pub-2010 Disable Mortality Table projected using Scale MP-2018.
 - The health care trend rate assumption was updated to a schedule of rates beginning at 6.65% in 2019, grading down to 4.50% in 2028 and beyond for pre-65 participants and 7.61% in 2019 grading down to 4.50% in 2029 and beyond for post-65 participants.
 - The marginal cost adjustment factors were changed from 60.1% to 62.9% for pre-65 participants and from 87.6% to 89.5% for post-65 participants.
 - The impact of the excise tax on high-cost plans due to healthcare reform was updated, based on current claims and medical trend assumptions.
- The 2018 valuation implemented the following refinements:
 - The financial accounting valuation reflects the following method changes:
 - There were no method changes in the financial accounting valuation
- The financial accounting valuation reflects the following assumption changes:
 - A change in the discount rate to 3.87% as of June 30, 2018. The discount rate was 3.58% as of June 30, 2017.
 - A change in demographic assumptions for the Merit employees from the State assumptions to the University staff assumptions.

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Notes to Required Supplementary Information

June 30, 2023

(Unaudited)

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