



IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Consolidated Financial Statements

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Balance Sheets	3
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Iowa Health System and Subsidiaries d/b/a UnityPoint Health:

Opinion

We have audited the consolidated financial statements of Iowa Health System and Subsidiaries d/b/a UnityPoint Health (the System), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2022 and 2021, and the results of its operations 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 Consolidated Financial Statements section of our report. We are required to be independent of the System 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 System'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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.

KPMG LLP

Minneapolis, Minnesota
April 21, 2023

IOWA HEALTH SYSTEM AND SUBSIDIARIES

d/b/a UnityPoint Health

Consolidated Balance Sheets

December 31, 2022 and 2021

(In thousands)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 294,746	424,285
Short-term investments	216,670	195,800
Assets limited as to use – required for current liabilities	24,004	29,772
Patient accounts receivable	498,694	479,101
Other receivables	162,319	158,228
Inventories	97,788	91,327
Prepaid expenses	58,189	57,695
Assets held for sale	412,230	166,335
Total current assets	1,764,640	1,602,543
Assets limited as to use, noncurrent:		
Held by trustee under bond indenture agreements	221	304
Internally designated for capital improvements	1,425,801	1,553,943
Internally designated for insurance reserve	2,980	13,526
Total assets limited as to use, noncurrent	1,429,002	1,567,773
Property, plant and equipment, net	1,543,084	1,507,611
Operating lease right of use assets	174,639	170,742
Other long-term investments	1,138,491	1,469,794
Investments in joint ventures and other investments	150,840	125,044
Contributions receivable and other assets held in trust	85,798	95,161
Other	91,886	62,718
Long-term assets held for sale	—	716,361
Total assets	\$ 6,378,380	7,317,747
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt	\$ 344,830	58,446
Current portion of operating lease liabilities	31,402	29,268
Accounts payable	249,677	226,128
Accrued payroll	243,507	298,361
Accrued interest	11,828	11,486
Estimated settlements due to third-party payors	125,209	75,195
Other current liabilities	106,704	258,867
Liabilities held for sale	186,437	22,013
Total current liabilities	1,299,594	979,764
Long-term debt, net	963,538	1,185,046
Long-term operating lease liabilities	149,241	147,145
Other long-term liabilities	263,539	272,694
Long-term liabilities held for sale	—	252,906
Total liabilities	2,675,912	2,837,555
Net assets:		
Without donor restrictions:		
Attributable to UnityPoint Health	3,407,404	4,170,025
Attributable to noncontrolling interests	35,896	32,769
Total without donor restrictions	3,443,300	4,202,794
With donor restrictions:		
Attributable to UnityPoint Health	258,555	276,727
Attributable to noncontrolling interests	613	671
Total with donor restrictions	259,168	277,398
Total net assets	3,702,468	4,480,192
Total liabilities and net assets	\$ 6,378,380	7,317,747

See accompanying notes to the consolidated financial statements.

IOWA HEALTH SYSTEM AND SUBSIDIARIES

d/b/a UnityPoint Health

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Patient service revenue	\$ 3,836,982	3,758,910
Other operating revenue	465,287	361,724
Net assets released from restrictions used for operations	<u>15,172</u>	<u>12,184</u>
Total operating revenues	<u>4,317,441</u>	<u>4,132,818</u>
Operating expenses:		
Salaries and wages	1,798,747	1,590,415
Provider compensation and services	646,620	604,848
Employee benefits	411,645	386,206
Supplies	857,584	786,467
Other expenses	596,170	558,247
Depreciation and amortization	158,656	162,439
Interest	32,685	28,394
Provision for uncollectible accounts	706	(203)
Total operating expenses	<u>4,502,813</u>	<u>4,116,813</u>
Operating (loss) income	<u>(185,372)</u>	<u>16,005</u>
Nonoperating (losses) gains:		
Investment (losses) income	(197,117)	283,359
Affiliate disaffiliation	—	(5,765)
Other, net	<u>33,234</u>	<u>19,380</u>
Total nonoperating (losses) gains, net	<u>(163,883)</u>	<u>296,974</u>
(Deficiency) excess of revenues over expenses from continuing operations	(349,255)	312,979
Discontinued operations	<u>(422,572)</u>	<u>50,680</u>
(Deficiency) excess of revenues over expenses	(771,827)	363,659
Less noncontrolling interest	<u>(5,888)</u>	<u>(7,126)</u>
(Deficiency) excess of revenues over expenses attributable to UnityPoint Health	\$ <u><u>(777,715)</u></u>	\$ <u><u>356,533</u></u>

See accompanying notes to the consolidated financial statements.

IOWA HEALTH SYSTEM AND SUBSIDIARIES

d/b/a UnityPoint Health

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions:		
(Deficiency) excess of revenues over expenses	\$ (777,715)	356,533
Amortization of previously hedged interest rate swaps fair value	1,360	1,360
Net assets released from restrictions used for capital expenditures	14,130	9,653
Change in defined benefit pension plan (losses) gains and prior costs and credits	(17,814)	605
Contributions of or for acquisition of property and equipment	—	19
Other, net	(4,923)	(2,433)
Change in defined benefit pension plan gains and prior costs and credits used for discontinued operations	<u>22,341</u>	<u>22,365</u>
(Decrease) increase in net assets without donor restrictions, UnityPoint Health	<u>(762,621)</u>	<u>388,102</u>
Net assets without donor restrictions, noncontrolling interest:		
Excess of revenues over expenses	5,888	7,126
Distributions of capital	(3,998)	(7,176)
Contributions of capital	1,852	—
Net assets released from restrictions used for capital expenditures	58	58
Other, net	<u>(673)</u>	<u>(238)</u>
Increase (decrease) in net assets without donor restrictions, noncontrolling interests	<u>3,127</u>	<u>(230)</u>
Net assets with donor restrictions:		
Contributions	33,960	27,155
Affiliate disaffiliation	—	(34)
Investment income	4,703	10,183
Net assets released from restrictions used for operations	(15,172)	(12,184)
Net assets released from restrictions used for capital expenditures	(14,130)	(9,654)
Change in net unrealized (losses) gains on investments	(10,622)	1,159
Change in beneficial interest in net assets of affiliates	(4,483)	1,845
Other, net	(6,956)	4,176
Change in net unrealized (losses) gains on investments and net assets released from restrictions used for discontinued operations	<u>(5,472)</u>	<u>11,229</u>
(Decrease) increase in net assets with donor restrictions, UnityPoint Health	<u>(18,172)</u>	<u>33,875</u>
Net assets with donor restrictions, noncontrolling interest:		
Net assets released from restrictions used for capital expenditures	<u>(58)</u>	<u>(58)</u>
Decrease in net assets with donor restrictions, noncontrolling interests	<u>(58)</u>	<u>(58)</u>
(Decrease) increase in net assets	<u>(777,724)</u>	<u>421,689</u>
Net assets, beginning of year	<u>4,480,192</u>	<u>4,058,503</u>
Net assets, end of year	\$ <u><u>3,702,468</u></u>	<u><u>4,480,192</u></u>

See accompanying notes to consolidated financial statements.

IOWA HEALTH SYSTEM AND SUBSIDIARIES

d/b/a UnityPoint Health

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Operating activities:		
(Decrease) increase in net assets	\$ (777,724)	421,689
Items not requiring (providing) operating cash:		
Loss on assets held for sale	382,609	—
Net losses (gain) on investments	321,001	(248,149)
Net unrealized gain on swaps	(40,755)	(18,636)
Restricted contributions, investment income government grants received, net assets released for operations	(23,491)	(17,592)
Contributions of or for acquisition of property and equipment	—	(39)
Depreciation and amortization	184,100	187,006
Change in defined pension plans' liability	17,814	(18,468)
Amortization of bond premium and debt issuance costs, net	(2,391)	(2,577)
Gain on disposition of assets	(9,033)	(2,937)
Equity in earnings of joint ventures	(30,883)	(32,962)
Change in beneficial interest in net assets of affiliates	4,483	(6,394)
Provision for uncollectible accounts	706	(94)
Changes in:		
Receivables	(18,460)	(36,106)
Inventories, prepaid expenses and other assets	8,690	5,389
Accounts payable, accrued liabilities and other liabilities	(253,210)	(163,414)
Due to third-party payors	13,048	30,109
Net cash (used in) provided by operating activities	<u>(223,496)</u>	<u>96,825</u>
Investing activities:		
Capital expenditures	(209,875)	(183,916)
Proceeds from sale of assets	5,862	5,045
Cash removed in disaffiliation	—	(1,901)
Decrease in loans receivable	53	4,265
Purchases of other long-term investments and assets limited to use	(2,928,741)	(1,878,658)
Proceeds from sales of other long-term investments and assets limited to use	3,109,814	1,767,817
Investments in joint ventures	(16,395)	(9,175)
Distributions received from joint ventures	39,892	39,396
Net cash provided by (used in) investing activities	<u>610</u>	<u>(257,127)</u>
Financing activities:		
Proceeds from issuance of long-term debt and line-of-credit activity	175,000	492
Payments of debt and line-of-credit activity	(113,659)	(41,718)
Proceeds from restricted contributions, investment income grants received and net assets released for operations	23,491	17,592
Proceeds from contributions for acquisition of property and equipment	—	39
Net cash provided by (used in) financing activities	<u>84,832</u>	<u>(23,595)</u>
Decrease in cash and cash equivalents	(138,054)	(183,897)
Cash and cash equivalents, beginning of year	<u>450,884</u>	<u>634,781</u>
Cash and cash equivalents, end of year	312,830	450,884
Less cash and cash equivalents of discontinued operations, end of year	<u>18,084</u>	<u>26,599</u>
Cash and cash equivalents of continuing operations, end of year	\$ <u>294,746</u>	\$ <u>424,285</u>

See accompanying notes to consolidated financial statements.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
d/b/a UnityPoint Health

Consolidated Statement of Cash Flows

Years ended December 31, 2022 and 2021

(in thousands)

	<u>2022</u>	<u>2021</u>
Supplemental cash flows information:		
Interest paid (net of amount capitalized)	\$ 38,964	34,516
Capital lease obligations incurred for property and equipment	5,674	2,998
Property and equipment purchases in accounts payable	17,836	15,531
Disaffiliations:		
Assets removed, less cash	—	(5,705)
Liabilities released	—	(33,501)

See accompanying notes to consolidated financial statements.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(1) Nature of Operations and Summary of Significant Accounting Policies

(a) Organization

Iowa Health System is an Iowa nonprofit corporation formed in December 1994. Iowa Health System and its subsidiaries provide inpatient and outpatient care and physician services from twenty hospital facilities and various ambulatory service and clinic locations in Iowa, Illinois, and Wisconsin. Primary, secondary, and tertiary care services are provided to residents of Iowa, Illinois, Wisconsin, and adjacent states.

Iowa Health System publicly operates as UnityPoint Health (the System). The legal name of the parent remains Iowa Health System, with the UnityPoint Health name reflecting a doing business as (d/b/a). This “d/b/a” name reflects the transformation of clinical processes underway within the System and the adaptation to better address the healthcare needs of communities, including building a model of delivering healthcare that coordinates care around the patient while focusing on improving the quality of care and reducing costs.

(b) Basis of Presentation

The consolidated financial statements include the accounts of UnityPoint Health and its subsidiaries listed below:

- Central Iowa Health System and Subsidiaries (d/b/a UnityPoint Health – Des Moines) (Des Moines)
- Methodist Health Services Corporation and Subsidiaries (Peoria)
- Trinity Regional Health System and Subsidiaries (Rock Island)
- Meriter Health Services, Inc. and Subsidiaries (Madison)
- St. Luke’s Healthcare and Subsidiaries (Cedar Rapids)
- Allen Health Systems, Inc. and Subsidiaries (Waterloo)
- St. Luke’s Health System, Inc. and Subsidiaries (Sioux City)
- Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
- Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
- Keokuk Area Hospital and Subsidiaries, Inc. (Keokuk; unaffiliated as of February 28, 2021)
- Iowa Physicians Clinic Medical Foundation (d/b/a UnityPoint Clinic)
- UnityPoint at Home

All significant intercompany balances and transactions have been eliminated in consolidation.

On February 28, 2021, the System and Keokuk Health Systems and Subsidiaries, Inc. terminated their affiliation. At the time of termination, Keokuk Health Systems and Subsidiaries, Inc. assets and liabilities of \$7,606 and \$33,501, respectively, were removed from the System’s consolidated balance sheets. Included in assets was cash of \$1,901.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(c) *Noncontrolling Interests*

The consolidated financial statements include all assets, liabilities, revenue, and expenses of entities that are controlled by the System and, therefore, consolidated. Noncontrolling interests in the consolidated balance sheets and statements of operations and changes in net assets represent the portion of net assets owned by entities outside the System and the portion of operating results attributed to the noncontrolling ownership interests.

(d) *Use of Estimates*

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

(e) *Cash, Cash Equivalents, and Short-Term Investments*

Cash equivalents consist of demand deposits, money market funds, and other debt securities with original maturities of three months or less at the date of purchase, other than those included in assets limited as to use or held in brokerage accounts. A portion of these balances are held in a pooled cash management account, with the balances and activity remaining within the respective subsidiaries. Short-term investments consist of debt securities with weighted average maturities between 91 and 365 days of the consolidated balance sheet date, and other debt securitized products, other investments held as part of deferred compensation arrangements whose distributions will occur within one year.

At times, the System's cash accounts exceeded federally insured limits. Management believes that the institutions where cash accounts are maintained are financially stable and that the credit risk related to deposits is minimal.

(f) *Assets Limited as to Use*

Assets limited as to use include amounts held by trustees under bond indenture agreements and related documents, in addition to assets internally designated by the Board of Directors for identified purposes and over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities are classified as current assets.

(g) *Inventories*

Inventories consist of supplies and are stated at the lower of cost or market.

(h) *Short-Term Investments, Other Long-Term Investments, Investments in Joint Ventures, and Investment Income*

Investments in equity securities with readily determinable fair values and all investments in fixed-income securities are measured at fair value in the consolidated balance sheets. The fair values are based on quoted market prices or dealer quotes.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Investments in joint ventures and other affiliates, which are more than 20% and not more than 50% owned, are recorded using the equity method. Other investments are reported at cost, as adjusted for permanent impairment in value, if any.

The System classifies its investments as trading securities. Realized gains and losses from the sale of investments, interest and dividends (except those earned as a function of operations), and investments carried at fair value pursuant to Accounting Standards Codification (ASC) Topic 825, *Financial Instruments*, are reported as nonoperating investment (losses) income unless restricted by a donor. Income from investments restricted by donors is included as a component of the change in net assets based upon the nature of the restriction.

The System elected the net asset value (NAV) as practical expedient option for its alternative investments (including hedge funds and private equity funds) that are primarily limited liability corporations and partnerships. Management has elected this option for the alternative investments because it more accurately reflects the portfolio returns and consolidated financial position of the System. Gains and losses on investments subject to the NAV option are reported in investment income in nonoperating (losses) gains in the accompanying consolidated statements of operations and changes in net assets.

Refer to notes 5 and 12 for additional disclosures regarding balance sheet line items and fair value of those investments carried under ASC Topic 825.

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

(i) Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost, less accumulated depreciation. Depreciation is provided primarily using the straight-line method over the estimated useful lives of the assets, including componentized building costs. Depreciation of assets under capital leases is provided using the straight-line method over the shorter of the lease term or the estimated useful life of the assets. Donated property, plant and equipment are recorded at fair value at the date of donation.

Property, plant, and equipment assets are depreciated on the straight-line method over the following usual estimated useful lives:

Buildings	10–45 years
Fixed equipment	5–30 years
Moveable equipment	2–30 years
Computer software	3 years

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Property, plant, and equipment is stated at cost and is summarized at December 31 as follows:

	2022	2021
Land	\$ 140,916	140,702
Land improvements	60,914	61,312
Buildings, improvements and fixed equipment	2,431,945	2,341,473
Movable equipment	1,732,488	1,664,965
	4,366,263	4,208,452
Less accumulated depreciation and amortization	2,893,859	2,784,872
	1,472,404	1,423,580
Construction/information systems installation in progress	70,680	84,031
Net property, plant and equipment	\$ 1,543,084	1,507,611

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of construction in progress, net of interest earned on investments acquired with the proceeds of the borrowing. During 2022 and 2021, the System capitalized \$528 and \$485 of interest expense, respectively.

As of December 31, 2022 and 2021, the System has committed \$131,427 and \$139,883, respectively, for costs related to various construction projects. The System plans to fund the majority of these projects through internal funds, with supplemental debt financing for certain projects.

(j) Long-Lived Asset Impairment

The System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2022 or 2021.

(k) Other Assets

Other assets include certain intangible assets that are stated at cost less accumulated amortization. In addition, other assets include goodwill. The System follows Accounting Standards Update (ASU) 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the goodwill impairment test. Goodwill is an asset representing the future economic benefits arising from other assets acquired as part of business combinations that are not individually identified and separately recognized. The System has \$38,590 and \$34,995 of goodwill at December 31, 2022 and 2021, respectively. Annually, or when there is a triggering event, the System

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

first performs a qualitative assessment by evaluating all relevant events and circumstances to determine if it is more likely than not that impairment exists. If necessary, based on qualitative factors, the System will perform an impairment test of its goodwill and intangible assets using a discounted cash flow method, and any identified impairment loss is recognized as expense. The impairment analysis performed during 2022 showed the carrying amount exceeded fair value for one of the System's subsidiaries, and \$1,000 of impairment was recognized in depreciation and amortization expense in the accompany consolidated statements of operations and changes in net assets in 2022. The impairment analysis performed during 2021 did not show the carrying amount exceeded fair value; therefore, no impairment was recognized during 2021.

Other intangible assets at December 31, 2022 and 2021 were \$4,187 and \$2,324, respectively, which are subject to amortization.

(l) Net Assets

Net assets are classified into two mutually exclusive classes: without donor restrictions and with donor restrictions. The two classes are based on the presence or absence of donor-imposed restrictions. The release of net assets from donor restrictions is recorded in the period in which the restrictions are met. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as without donor restriction.

Donor-imposed restrictions are generally restricted for capital expenditures, passage of time, or other donor-specified restrictions.

For entities in which the System has less than full ownership but has a controlling interest, a noncontrolling interest is recorded for the portion of net assets controlled by unrelated parties.

(m) (Deficiency) Excess of Revenues over Expenses from Continuing Operations

(Deficiency) excess of revenues over expenses from continuing operations transactions affecting net assets without donor restrictions are reflected in the consolidated statements of operations and changes in net assets. Consistent with industry practice, changes in defined-benefit plans and contributions of long-lived assets (including assets acquired with donor-restricted cash contributions) are excluded from determination of the (deficiency) excess of revenues over expenses from continuing operations. Transactions with donor restrictions are recorded as additions or deductions to net assets with donor restrictions and are reflected in the consolidated statements of operations and changes in net assets.

(n) Patient Service Revenue and Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the System's hospitals receiving inpatient acute care and outpatient services. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services. Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy, and/or implicit price concessions based on the historical collection experience of patient accounts. The System determines the transaction price associated with services provided to patients who have third-party payor coverage based on reimbursement terms per contractual agreements, discount policies, and historical experience. For uninsured patients who do not qualify for charity care, the System determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet the System's criteria for free care "charity" are provided care without charge and related amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most-likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled or are no longer subject to such audits, reviews, and investigations.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The System uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on the historical collection trends and other analyses, the System believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The percentage of patient service revenue by payor recognized in the years ended December 31 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	35 %	36 %
Medicaid	16	18
Wellmark/Blue Cross	23	21
Commercial and other	25	24
Self-pay	1	1
	<u>100 %</u>	<u>100 %</u>

The percentage of patient accounts receivable by payor at December 31 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	32 %	30 %
Medicaid	14	15
Wellmark/Blue Cross	21	23
Commercial and other	29	32
Self-pay	4	—
	<u>100 %</u>	<u>100 %</u>

The sources of patient service revenue, disaggregated by lines of service, for the years ended December 31 were as follows:

	<u>2022</u>	<u>2021</u>
Service lines:		
Hospital	\$ 2,494,341	2,491,888
Physician services	651,181	624,559
Home health and hospice	241,284	236,618
Other	450,176	405,845
	<u>\$ 3,836,982</u>	<u>3,758,910</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Other operating revenue primarily includes income from joint ventures, reference lab, retail pharmacy, grant revenue, college revenue, and shared savings revenue from value-based contracts with third party payors. Revenue from services recorded as other operating revenue is primarily recognized at the time service is rendered. Other operating revenue for the years ended December 31, 2022 and 2021 was \$465,287 and \$361,724, respectively.

(o) Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Amounts determined to be charity care are not reported as revenue.

(p) Contributions and Beneficial Interest in Net Assets

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-imposed restrictions are considered fulfilled as soon as the stipulated time has expired or the qualifying expenditure has been made. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

Contributions not expected to be collected within a year are recorded at the present value of expected future cash flows using a risk-free interest rate over the term of the contribution. Contributions of property are recorded at fair value when received.

Interests in charitable trusts and perpetual trusts are carried at the present value of expected future cash flows, which approximates fair value. The System's interest in the net assets (the Interest) of certain foundations that raise and hold assets on behalf of the System is accounted for in a manner similar to the equity method. The Interest is recorded at its beneficial interest in the underlying assets, and changes in the Interest are included in the change in net assets. Transfers of assets between these foundations and the System are recognized as increases or decreases in the Interest.

(q) Estimated Malpractice Costs, Health Insurance, and Workers' Compensation

An annual estimated provision is accrued for the self-insured portion of medical malpractice, health insurance, and workers' compensation claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Claims liabilities are recorded at the gross amount without consideration of insurance recoveries. Expected recoveries are presented separately as receivables in the consolidated balance sheets.

(r) Interest Rate Swap Agreements

The System has entered into various interest rate swap agreements (the Swaps) to reduce the effect of changes in cash flows primarily related to interest rate fluctuations on the System's various variable rate debt.

As described in note 7, the changes in fair value for all swap agreements are recorded as a component of nonoperating (losses) gains in (deficiency) excess of revenues over expenses as they do not qualify for hedge accounting.

IOWA HEALTH SYSTEM AND SUBSIDIARIES

(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The Swaps are recognized in the consolidated balance sheets at fair value. The net cash payments or receipts under the Swaps are recorded as an increase or decrease to other nonoperating (loss) income.

(s) Income Taxes

UnityPoint Health and most of its subsidiaries are classified as tax-exempt organizations as described in Sections 501(c)(3) and 501(c)(2) of the Internal Revenue Code (the Code). Tax-exempt organizations are not subject to federal and state income taxes on related income, pursuant to Section 501(a) of the Code. These organizations are subject to federal and state income taxes to the extent they have unrelated business income as described under provisions of Section 511 of the Code.

The System files Form 990 for substantially all of its operating entities in the U.S. federal jurisdiction and is no longer subject to examination by tax authorities for the years before 2019. The System has no material uncertain tax positions.

Certain subsidiaries are subject to federal and state income taxes. Some of these corporations have accumulated net operating loss carryforwards that are available to offset future taxable income, if any, during the carryforward period. Deferred tax assets and liabilities related to these subsidiaries were not material.

(t) Retirement Plans

Substantially all employees meeting age and length of service requirements participate in defined-contribution plans. Certain subsidiaries also have defined-benefit plans, most of which have been substantially frozen. Pension costs for the defined-benefit plans, which are composed of normal costs and amortization of prior service costs related to defined-benefit plans, are funded currently.

(u) Lease Commitments

The System regularly enters into agreements with third parties to lease real estate and equipment over various lengths of time. The System follows ASU 2016-02, *Leases (Topic 842)*, which requires the lessee to recognize right-of-use assets and liabilities for leases with lease terms of more than twelve months. All leases greater than twelve months are evaluated for classification as either operating or finance leases. For finance leases, the System recognizes both interest expense and depreciation expense. For operating leases, the System recognizes rent expense, generally on a straight-line basis, as part of other expenses.

Certain of the System's arrangements provide for maintenance costs to be the responsibility of the System as incurred or charged by the lessor. The maintenance cost is a non-lease component that the System elected to combine with the total monthly rental payment and account for the total cost as operating lease expense.

Leases less than twelve months, or those that operate on month-to-month agreements, are deemed short-term leases and are expensed as incurred.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(2) Charity Care

The System provides charity care and financial assistance discounts for medically necessary healthcare services provided to persons who meet the System's policy. The policy provides a percentage discount to the patient that decreases at gradually higher income levels or higher levels of household net assets. The benchmark, which the income level is compared to, is the Federal Poverty Income Guideline and is updated annually. Patients who are already receiving benefits from certain identified government programs qualify for presumptive eligibility.

The availability of charity care is widely communicated to all patients, and patients are notified prior to receiving services if their treatment does not fall within the guidelines of the policy. Amounts charged for care that is provided to individuals eligible for charity may not be more than the amounts generally billed to individuals who have insurance covering such care. Amounts billed are based on either the best, or an average of the three best, negotiated commercial rates or Medicare rates.

Accounts that are classified by the System as charity care are not reported as patient service revenue. In some cases, the charity care is subsidized by contributions from volunteer organizations or other donors. Charity care subsidies are not material to the consolidated financial statements.

Cost of charity care is calculated by applying hospital specific cost-to-charge ratios to the total amount of charity care deductions from gross revenue. The cost-to-charge ratio is calculated by taking the hospital total expenses and gross charges and applying adjustments to remove the cost of nonpatient care activity, Medicaid provider taxes paid, identifiable community benefit expenses, as well as gross patient charges that are generated for identifiable community benefit services. The amount of charity care provided at cost was \$18,270 and \$18,331 for the years ended December 31, 2022 and 2021, respectively.

Community benefit is also provided through reduced price services and free programs offered throughout the year. The System provides an array of uncompensated activities and services intended to meet the community health needs. These activities include wellness programs, community education programs, and various health screening programs.

(3) Third-Party Reimbursement

As a provider of healthcare services, the System generally grants credit to patients without requiring collateral or other security. The System routinely obtains assignments of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies. These health insurance programs or providers are commonly referred to as third-party payors and include the Medicare and Medicaid programs, Wellmark/Blue Cross, and various health maintenance and preferred provider organizations.

A major portion of the System's revenue is derived from these third-party payors. Significant changes have been made, and may be made, in certain of these programs, which could have a material, adverse impact on the financial condition of the System. These changes include federal and state laws and regulations, particularly those pertaining to Medicare and Medicaid.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The System has agreements with certain third-party payors that provide for payment of services at amounts that differ from established rates. Third-party payor payment rates vary by payor and include established charges; contracted rates less than established charges; prospectively determined rates per discharge, bundled payment per episode of care, per procedure, or per diem; and retroactively determined cost-based rates.

(a) Medicaid State Plans

The System has operations within states that have enacted a Medicaid State Plan. Under each of these plans, a tax assessment is levied on certain hospital providers in order to provide funding for Medicaid to obtain federal matching funds. A portion of these additional federal funds are then redistributed to participating hospitals through increased Medicaid payments in order to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific healthcare providers is based primarily on the amount of care provided to Medicaid recipients.

The System's aggregate tax assessment during 2022 and 2021 was \$35,599 and \$36,610, respectively, and is included in operating expenses in the consolidated statements of operations and changes in net assets. Additional Medicaid reimbursement in the same periods was \$80,299 and \$75,220, respectively, and is included in patient service revenue in the consolidated statements of operations and changes in net assets, resulting in a net increase in operating (loss) income of \$44,700 and \$38,610 for 2022 and 2021, respectively.

(4) Functional Expenses

The System provides general healthcare services, including hospital, physician, and home health and hospice, and incurs related general and administrative expenses. Expenses related to providing these services for the years ended December 31 were as follows:

	2022					
	Hospital services	Physician services	Home health and hospice	Other	G&A	Total
Salaries and wages	\$ 893,733	180,626	47,538	94,435	582,415	1,798,747
Physician compensation and services	63,394	565,438	939	12,403	4,446	646,620
Employee benefits	172,634	53,661	11,094	25,145	149,111	411,645
Supplies	586,136	62,568	14,296	153,277	41,307	857,584
Other expenses	148,275	60,162	3,716	63,006	321,011	596,170
Depreciation and amortization	46,229	7,776	153	5,444	99,054	158,656
Interest	66	243	—	22	32,354	32,685
Provision for uncollectible accounts	—	—	—	25	681	706
	<u>\$ 1,910,467</u>	<u>930,474</u>	<u>77,736</u>	<u>353,757</u>	<u>1,230,379</u>	<u>4,502,813</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	2021					
	Hospital services	Physician services	Home health and hospice	Other	G&A	Total
Salaries and wages	\$ 727,338	141,736	47,147	90,784	583,410	1,590,415
Physician compensation and services	52,117	509,598	590	11,726	30,817	604,848
Employee benefits	164,123	44,918	11,201	24,289	141,675	386,206
Supplies	563,054	49,051	11,556	136,393	26,413	786,467
Other expenses	151,554	40,776	5,530	62,331	298,056	558,247
Depreciation and amortization	43,018	7,814	157	4,778	106,672	162,439
Interest	27	298	—	27	28,042	28,394
Provision for uncollectible accounts	—	—	—	3	(206)	(203)
	<u>\$ 1,701,231</u>	<u>794,191</u>	<u>76,181</u>	<u>330,331</u>	<u>1,214,879</u>	<u>4,116,813</u>

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated based on revenue.

(5) Investments

(a) Investment Summary

A summary of short-term investments at December 31 is as follows:

	2022	2021
U.S. Treasury obligations	\$ 83,203	18,919
U.S. Government agency obligations	1,393	13,505
Asset-backed securities:		
Other	24,695	42,259
Mortgage-backed securities:		
Government	776	784
Non-government	8,405	6,196
Certificates of deposit	1,129	—
Corporate bonds	77,811	97,507
Municipal bonds	17,499	10,522
Mutual funds:		
International	25	107
Index	317	962
Equity	247	860
Fixed income	75	259
Other	1,095	3,920
Total short-term investments	<u>\$ 216,670</u>	<u>195,800</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

A summary of investments reported as assets limited as to use at December 31 is as follows:

	<u>2022</u>	<u>2021</u>
Held by trustees under bond indenture agreements:		
Cash equivalents	\$ 221	304
Internally designated:		
Cash equivalents	701	1,915
U.S. Treasury obligations	2,619	5,226
Asset-backed securities:		
Other	1,020	—
Corporate bonds	1,477	5,769
Equity securities:		
Domestic	7,480	17,570
International	1,800	215
Mutual funds:		
Domestic	3,271	6,277
International	240,694	265,719
Equity	217,318	266,866
Fixed income	526,081	560,915
Other	583	1,298
Alternative funds	124,069	152,826
Hedge funds	123,084	126,677
Private equity funds	96,032	90,538
Fund of funds	106,556	95,430
	<u>1,452,785</u>	<u>1,597,241</u>
Total assets limited as to use	1,453,006	1,597,545
Less amount required to meet current obligations	<u>24,004</u>	<u>29,772</u>
Noncurrent portion of assets limited as to use	<u>\$ 1,429,002</u>	<u>1,567,773</u>

Assets held by trustee under bond indenture agreements are required to be held in separate trust accounts. A summary of these trust accounts aggregated by their required use at December 31 is as follows:

	<u>2022</u>	<u>2021</u>
Debt service accounts	\$ 221	304

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Internally designated current and non-current assets are summarized below based on the designation at December 31:

	<u>2022</u>	<u>2021</u>
Capital improvements	\$ 1,425,801	1,553,943
Self-insured reserves	26,984	43,298
	<u>\$ 1,452,785</u>	<u>1,597,241</u>

Investments presented as other long-term investments at December 31 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Cash equivalents	\$ 566	1,758
U.S. Treasury obligations	26,492	77,561
U.S. Government agency obligations	25,746	—
Asset-backed securities:		
Other	28,932	36,367
Mortgage-backed securities:		
Government	5,641	8,513
Non-government	28,770	48,566
Corporate bonds	31,957	245,863
Municipal bonds	—	3,216
Equity securities:		
Domestic	1,105	4,875
Mutual funds:		
International	140,160	158,874
Index	15,212	13,329
Equity	134,182	167,381
Fixed income	351,815	337,564
Other	52,679	54,773
Alternative funds	77,070	95,519
Hedge funds	76,458	79,157
Private equity funds	59,654	56,575
Fund of funds	66,191	59,631
Insurance policies	14,760	18,172
Stock in transit	1,101	2,100
	<u>\$ 1,138,491</u>	<u>1,469,794</u>
Total other long-term investments	<u>\$ 1,138,491</u>	<u>1,469,794</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The following schedule summarizes the investment (loss) return and its classification in the consolidated statements of operations and changes in net assets for the years ended December 31:

	2022	2021
Investment (loss) return:		
Interest and dividends	\$ 85,411	76,973
Realized gains on sales of investments	105,357	107,619
Unrealized losses on trading investments	(413,446)	(26,471)
Equity in earnings of joint ventures	26,581	25,718
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	19,714	137,039
	\$ (176,383)	320,878
Investment (loss) return classification:		
Net assets without donor restrictions:		
Other operating revenue	\$ 26,653	26,177
Nonoperating (losses) gains – investment (losses) income	(197,117)	283,359
Net assets with donor restrictions	(5,919)	11,342
	\$ (176,383)	320,878

(b) Alternative Investments

At December 31, 2022 and 2021, 26% and 23%, respectively, of the System's investments were invested in alternative investment vehicles. These investments are included in either internally designated or other long-term investments in the investment summary tables (previously presented) based on the underlying investments. Due to the nature of the alternative investments and the need for the fund managers to execute on long-term strategies, many of the vehicles contain specific lock-up periods, restricted redemption timing, as well as advanced notice of redemption requests.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Alternative investments that have been estimated using the NAV per share as a practical expedient consist of the following at December 31:

	December 31, 2022			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Diversified property alternative fund	\$ 172,746	—	Quarterly	95 days
Structured credit alternative fund	122,302	—	Quarterly	65 days
Vista Fund	56,495	—	Quarterly	95 days
Diversified private equity alternative fund III	39,490	13,504	No specific lock-up provision****	N/A
Diversified private equity alternative fund IV	68,986	21,973	No specific lock-up provision****	N/A
Diversified private equity alternative fund V	15,566	22,411	No specific lock-up provision****	N/A
Hedge fund segregated portfolio	199,541	—	Based on holdings***	N/A
Energy debt alternative fund	22,342	—	Semi-annual, 3 year lock-up*	95 days
Healthcare private equity fund I	2,459	168	No specific lock-up provision****	N/A
Healthcare private equity fund II	9,790	476	10 year lock-up**	N/A
Healthcare private equity fund III	6,152	4,257	10 year lock-up**	N/A
Health Velocity	13,245	1,801	No specific lock-up provision****	N/A
	<u>\$ 729,114</u>	<u>64,590</u>		

	December 31, 2021			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Diversified property alternative fund	\$ 155,053	—	Quarterly	95 days
Structured credit alternative fund	125,684	—	Quarterly	65 days
Vista Fund	41,792	—	Quarterly	95 days
Diversified private equity alternative fund III	45,842	14,751	No specific lock-up provision****	N/A
Diversified private equity alternative fund IV	61,014	28,243	No specific lock-up provision****	N/A
Diversified private equity alternative fund V	8,941	28,350	No specific lock-up provision****	N/A
Hedge fund segregated portfolio	205,824	—	Based on holdings***	N/A
Energy debt alternative fund	80,893	—	Semi-annual, 3 year lock-up*	95 days
Healthcare private equity fund I	6,062	168	No specific lock-up provision****	N/A
Healthcare private equity fund II	8,023	613	10 year lock-up**	N/A
Healthcare private equity fund III	3,207	6,213	10 year lock-up**	N/A
Health Velocity	14,018	1,830	No specific lock-up provision****	N/A
	<u>\$ 756,353</u>	<u>80,168</u>		

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

- * The remainder is available in June 2023.
- ** Subject to 10-year lockup based on initial subscriptions in the investment, which will expire 2025 and 2030 for Fund II and III, respectively.
- *** The liquidity of the segregated portfolio and the availability for redemptions will be determined based on the liquidity and redemption terms set forth in the underlying funds. As a result, the System's ability to obtain liquidity or redeem participating shares will be limited.
- **** Private equity funds are nonredeemable so there is no tender or withdrawal process. The limited partners agree to stay in the investment until the fund closes, at which time all remaining assets are distributed back to the limited partners.

As of December 31, 2022, the alternative investment vehicles consist of three alternative funds, one fund of funds, one hedge fund, and seven private equity funds. The investment strategy of the diversified property fund of funds is to invest in income producing real estate properties utilizing a low level of leverage. The structured credit alternative fund is a fixed-income fund with an objective of generating high total returns using a strategy of investing in domestic credit markets, primarily through collateralized debt obligations and other structured credit instruments, such as loan participations and derivative instruments. The investment strategy of the energy debt alternative fund is to generate high absolute returns by taking advantage of the energy and related industries, market dislocation, and commodity price volatility, primarily by investing in debt securities, which are purchased or acquired at a significant discount to fair value and/or offer higher coupon rates. The Vista Fund is an alternative vehicle with an objective of capitalizing on dislocations in the market, specifically in interest rates, foreign currency, and the shape of the yield curve. The hedge fund segregated portfolio has an investment object to produce returns comparable to those of the equity markets over a full market cycle while targeting substantially less volatility than equities by investing in a diversified portfolio of hedge funds. The three diversified private equity alternative funds have an objective of investing in a diversified set of private equity funds. The healthcare private equity funds have a strategy of investing in early stage companies and entrepreneurs within the healthcare industry. There is no public market for shares in these alternative investment vehicles. Health Velocity invests in private healthcare industry companies, similar to the healthcare private equity funds. The value of the investments in the funds is determined based on the fair values of the underlying investments, as determined by the NAV per share.

In situations when investments do not have readily determinable fair values, the fund managers provide the NAV per share, or its equivalent, to the System. The NAV provided by the fund managers is supported by quoted market prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals of the private investment funds. The System follows ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which provided a practical expedient for certain investments to use the NAV per share to measure fair value. Accordingly, the System uses the NAV as a practical expedient for fair value for each of its alternative investments.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(c) Investments in Joint Ventures

At December 31, 2022 and 2021, investments in joint ventures amounted to \$90,697 and \$82,818, respectively. Other investments also included in this line in the consolidated balance sheets consist primarily of investments reported at cost and real estate held for investment.

The joint ventures consist of 40 privately held healthcare organizations in which the System's ownership interest ranges from 20% to 50%. The collective financial position of the joint ventures as of and for the years ended December 31 were as follows:

	<u>2022</u>	<u>2021</u>
	(unaudited)	
Total assets	\$ 354,142	282,102
Total equity	182,111	174,981
Net revenues	502,129	441,741
Net income	70,056	65,787

The System's share of earnings on the investments in joint ventures is included in other operating revenue in the consolidated statements of operations and changes in net assets. The System recorded activity related to joint ventures for the years ended December 31 as follows:

	<u>2022</u>	<u>2021</u>
Earnings on investments in joint ventures	\$ 26,580	25,717
New investments in joint ventures	16,395	9,175
Distributions received from joint ventures	35,096	32,612

The System both purchases services and sells services and supplies to several joint ventures. In 2022 and 2021, services purchased from joint ventures totaled \$10,751 and \$12,998, respectively. Services and supplies sold to joint ventures in 2022 and 2021 were \$1,278 and \$1,312, respectively.

(d) Investments at Cost

Investments reported at cost include direct equity and convertible-debt investments in early stage companies within the healthcare industry. These investments are directed to generate financial and strategic returns in companies with high-growth potential that are addressing areas of targeted innovation within the System. The funds are drawn from the balance sheet, and the System has governance approval to deploy a total of \$100,000. The expectation is to invest the majority of the allocated capital aggressively over the next three to four years. Financial returns on these investments are anticipated throughout the next 10 to 12 years. These investments are reported based on the initial cost of each investment. As of December 31, 2022 and 2021, the System has contributed \$52,054 and \$35,528 to these investments, respectively.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(6) Long-Term Debt

Long-term debt at December 31, 2022 and 2021 is summarized as follows:

	<u>Payable through</u>	<u>Issuance type (1)</u>	<u>Interest rate (2)</u>	<u>2022</u>	<u>2021</u>
Hospital Facility Revenue Bonds:					
Series 2020	2050	Fixed	3.67 %	\$ 319,635	319,635
Series 2018A	2035	Variable	2.18 %	68,270	72,670
Series 2018B	2048	Fixed	5.00 %	55,435	63,175
Series 2018C	2041	Variable	1.64 %	52,825	53,840
Series 2018D	2041	Variable	1.59 %	52,815	53,830
Series 2018E	2041	Variable	1.31 %	52,940	53,920
Series 2018F	2041	Variable	1.50 %	52,875	53,875
Series 2017A	2027	Fixed	3.15 %	17,472	17,917
Series 2016D	2046	Fixed	4.00%–5.00%	34,180	36,360
Series 2016E	2046	Fixed	4.00%–5.00%	151,200	154,750
Series 2014A	2029	Fixed	5.00 %	51,500	56,360
Series 2014C	2035	Fixed	4.47%–5.00%	69,145	69,145
Series 2013B	2039	VRDB	1.51%, 1.31%	70,055	71,330
Series 2012A	2024	Fixed	2.16 %	3,100	4,650
Series 2012C	2037	Fixed	2.43 %	15,725	16,170
Series 2005	2031	Fixed	1.45%–4.00%	2,085	2,265
Series 1992A	2022	Fixed	6.00 %	—	1,055
Total hospital facility revenue bonds				1,069,257	1,100,947
Finance lease obligations, net book					
value: 2021 – \$9,050; 2020 – \$13,039	2026	Fixed	0%–9.05%	13,857	14,032
Line of credit	2024	Variable	Various	100,000	—
Other notes and mortgages	Various	Fixed	1.00%–8.00%	104,168	105,036
				1,287,282	1,220,015
Current maturities				(344,830)	(58,446)
Unamortized bond issuance costs				(6,465)	(6,919)
Unamortized bond premium				27,551	30,396
Long-term portion				<u>\$ 963,538</u>	<u>1,185,046</u>

(1) Fixed rate, variable rate, or variable rate demand bonds (VRDB)

(2) Variable rates shown as of December 31, 2022 and 2021, respectively, and do not include letter of credit and remarketing fees.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The Series 2020, 2018B, 2018C, 2018D, 2018E, 2018F, 2016D, 2016E, 2014A, 2014C, 2013B, and 1992A bonds (collectively, the Bonds) and the Series 2018A, 2017A, 2012A, and 2012C direct note obligations (collectively, the Notes) are general obligations of the System and its affiliates. The System is required to meet certain operating and financial ratios contained in the master bond trust indenture, bond insurance agreements, and bank letter of credit agreements (related to the variable rate demand bonds).

The Bonds and Notes are subject to the provisions of amended and restated master trust indentures, which generally require monthly or quarterly deposits for principal and interest payments be made and certain funds be maintained by the trustee for interest payment and bond retirement purposes. The Bonds and the Notes are secured by the System's revenue.

The variable interest rates on substantially all of the bonds are adjusted daily or weekly by remarketing agents. The bonds may be tendered by the bond holders each interest rate period. The System maintains letters of credit that can be drawn on should the Series 2013B, 2018C, 2018D, 2018E, or 2018F variable rate demand bonds not be remarketed. The letter of credit for the Series 2018C and 2018E bonds will expire in 2023, and thus the related debt is shown as current debt in the System's consolidated financial statements as of December 31, 2022. The remaining letters of credit have varying expiration dates and are renewable, subject to approval and at the option of the providers, through the term of the bonds. Outstanding amounts under the letters of credit are due at the earlier of expiration of the agreement or over a period of three years, commencing after an initial outstanding period of 366 days or more.

On December 1, 2014, the System established a \$200,000 taxable commercial paper program. The System did not have any commercial paper outstanding as of December 31, 2022 or 2021. The System's commercial paper program is sold in tranches, with varying maturities of 1 to 270 days so that no more than \$25,000 will mature in any 5-business-day period.

On June 4, 2020, the System entered into a term loan agreement with an aggregate principal amount of \$100,000 and a maturity date in 2023, thus the debt is shown as current in the System's consolidated financial statements as of December 31, 2022.

The System maintains three separate revolving line-of-credit facilities that provide for revolving credit in an aggregate principal amount of up to \$50,000 for one and two facilities that provides for revolving credit in an aggregate principal amount of \$100,000. The interest rates applicable to loans under the credit agreements are based on SOFR plus certain margins, as defined in the agreements. Additionally, the facilities carry a commitment fee, which is charged on the average daily undrawn portion of the facilities. These agreements contain various financial covenants that mirror those in the System's master bond trust indenture. The System had \$100,000 and \$0 outstanding on line of credits at December 31, 2022 and 2021, respectively. The line-of-credit facilities will expire during 2024, however, the System plans to repay the outstanding balance during 2023. Thus, the line-of-credit balance is shown as current debt in the System's consolidated financial statements as of December 31, 2022.

IOWA HEALTH SYSTEM AND SUBSIDIARIES

(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Aggregate annual maturities of long-term debt during the years ending December 31 are as follows:

	Accelerated maturities with letter of credit expirations	Scheduled maturities based on loan agreements
2023	\$ 344,830	344,830
2024	137,924	36,365
2025	99,152	36,222
2026	28,763	34,728
2027	36,311	39,971
Thereafter	<u>640,302</u>	<u>795,166</u>
	\$ <u><u>1,287,282</u></u>	<u><u>1,287,282</u></u>

(7) Interest Rate Swaps

The System uses interest rate swap agreements as a risk management strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations.

The System has no swaps that are currently designated as hedging instruments, and all changes in fair values are recorded as a component of nonoperating (losses) gains in (deficiency) excess of revenues over expenses from continuing operations. Effective January 1, 2018, one swap that was previously designated as hedged was deemed to no longer be effective. As a result, the cumulative change in fair value of the hedge previously deemed effective of \$(15,036) is being amortized into income over the remaining life of the swap agreement. As of December 31, 2022 and 2021, \$(10,635) and \$(11,516), respectively, of net unrealized loss remains in net assets to be amortized, and \$881 and \$880 was amortized into other loss in 2022 and 2021, respectively. In previous years, the System reduced the notional amount of certain swap agreements by \$58,395 by paying \$8,450 as of the date of the transactions to the counterparty. This fair value remains a component of unrestricted net assets and is being amortized into interest expense over the remaining life of the swap. As of December 31, 2022 and 2021, \$5,068 and \$5,487, respectively, remain in unrestricted net assets to be amortized and \$419 and \$420 were amortized into interest expense in 2022 and 2021, respectively.

The System has provisions within certain interest rate swap agreements that require it to post collateral should the negative fair value of the agreements exceed certain thresholds that are dependent on the System's credit rating.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The respective fair values of interest rate swaps in an asset-and-liability position for the System were as follows as of December 31, 2022 and 2021:

Trade date	Maturity date	Notional amount	System pays	System receives	Fair value	
					2022	2021
2005	2035	82,890	3.5 %	62.4% of 3m LIBOR + 29 bps	\$ (3,698)	(13,551)
2006	2037	116,300	3.8	61.9% of 1m LIBOR + 31 bps	(12,042)	(32,117)
2006	2023	27,700	3.5	61.9% of 1m LIBOR + 31 bps	(21)	(1,151)
2005	2035	41,445	3.3	62.4% of 1m LIBOR + 29 bps	(1,590)	(6,332)
2008	2026	8,400	3.5	63.0% of 1m LIBOR + 30 bps	(97)	(773)
2008	2024	3,100	3.5	63.0% of 1m LIBOR + 30 bps	(5)	(235)
2005	2032	20,250	3.5	67.0% of 1m LIBOR	(1,257)	(3,946)
					\$ (18,710)	(58,105)

The aggregate fair value of the unhedged swap agreements is recorded as other long-term liabilities of \$(18,710) and \$(58,105) as of December 31, 2022 and 2021, respectively. The change in fair value of \$39,395 and \$19,054 is included as a component of other, net in nonoperating (loss) income for the years ended December 31, 2022 and 2021, respectively. The net of what the System pays and receives is settled monthly or quarterly on each swap agreement and is reported as other, net in nonoperating (loss) income.

The table below presents certain information regarding the System's interest rate swap agreements:

	2022	2021
Other long-term liabilities:		
Fair value of interest rate swap agreements	\$ (18,710)	(58,105)
Net assets without donor restrictions:		
Change in unrestricted net assets amortizing into other, net	\$ 941	941
Nonoperating other, net:		
Gain recognized in income from changes in fair value of interest rate swaps	\$ 39,395	19,054
Loss recognized in income from amortization of unrecognized losses in unrestricted net assets	(941)	(941)

(8) Liquidity

As part of the System's cash management policy, cash, and investments feature a high degree of safety and liquidity to support general expenditures and debt service within one year in the normal course of operations.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The following table represents financial assets available for general expenditures within one year at December 31:

	<u>2022</u>	<u>2021</u>
Financial assets at December 31:		
Cash and cash equivalents	\$ 294,746	424,285
Short-term investments	216,670	195,800
Assets limited as to use – required for current liabilities	24,004	29,772
Patient accounts receivable, net	498,694	479,101
Assets limited as to use, noncurrent:		
Held by trustee under bond indenture agreements	221	304
Internally designated	1,428,781	1,567,469
Other long-term investments	1,138,491	1,469,794
Contribution receivable and other assets held in trust	<u>85,798</u>	<u>95,161</u>
Total financial assets	<u>3,687,405</u>	<u>4,261,686</u>
Less amounts not available to be used within one year:		
Funds held by trustee under bond indenture agreements	221	304
Assets internally designated for self-insured reserves	26,984	43,298
Assets internally designated for capital improvements	99,145	124,258
Other long-term investments	128,480	133,208
Assets attributable to noncontrolling interest	35,896	32,769
Beneficial interests in foundations	62,402	73,513
Charitable trusts	264	357
Perpetual trusts	15,514	13,612
Donor restricted assets	<u>259,168</u>	<u>277,398</u>
Financial assets not available to be used within one year	<u>628,074</u>	<u>698,717</u>
Financial assets available to meet general expenditures	<u>\$ 3,059,331</u>	<u>3,562,969</u>

The System has certain board-designated and donor-restricted assets limited to use, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the table above representing financial assets to meet general expenditures within one year. The System has other assets limited to use under bond indenture agreement, for self-insurance reserves, and for capital expenditures. These assets are limited to use, which are more fully described in notes 5 and 12, and are not available for general expenditure within the next year. The assets internally designated for capital improvements could be made available, if necessary.

As part of the System's pooled cash management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

The System maintains a \$200,000 commercial paper program, as discussed in more detail in note 6. As of December 31, 2022 and 2021, \$200,000 remained available on the System's commercial paper program.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The System maintains three separate revolving line-of-credit facilities that provide for revolving credit in aggregate principal amount of up to \$50,000 for one and two credit facilities that provides for revolving credit in aggregate principal amount of \$100,000, as discussed in more detail in note 6. As of December 31, 2022 and 2021, \$100,000 and \$0, respectively, were drawn on these revolving line of credit facilities. As of December 31, 2022, the System was in compliance with bond covenants. Long-term debt is discussed in more detail in note 6.

(9) Retirement Benefit Plans

(a) Defined-Contribution Retirement Plans

The System has several defined-contribution benefit plans, which are available to substantially all employees meeting age and length of service requirements. Participating employers annually determine the amount, if any, of the System's contributions to the plans. Total benefit expenses under the defined-contribution plans were approximately \$70,377 and \$64,405 for 2022 and 2021, respectively. The System also has deferred compensation plans for certain employees. Total expenses under the deferred compensation plans were \$3,791 and \$3,386 for 2022 and 2021, respectively. In relation to the post retirement benefits, the System had liabilities of \$2,804 and \$6,322 included in accrued payroll and \$119,421 and \$129,242 in other long-term liabilities as of December 31, 2022 and 2021, respectively.

(b) Defined-Benefit Plans

Prior to 2001, substantially all employees of four of the System's subsidiaries were covered by noncontributory defined-benefit pension plans, three of which have subsequently been frozen to new participants or terminated. The Allen Hospital (Waterloo) plan is not frozen, and participants are still accruing benefits but it is closed to new participants. The System's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the System may determine to be appropriate from time to time.

The noncontributory defined-benefit plan for Methodist Health Services, Inc. (Methodist Peoria) has been frozen to new participants since 2007. As of December 31, 2012, Methodist Peoria froze its defined-benefit pension plan with regard to accrual of additional benefits by participants in the plan. The noncontributory defined-benefit pension plan for Proctor Health Care (Proctor Peoria) has been frozen with regard to the accrual of additional benefits and new participants since 2008. The unrecognized pension benefit costs in unrestricted net assets were eliminated prior to affiliation for both the Methodist Peoria and Proctor Peoria plans as part of the accounting for the affiliation with the System. Progressive Health Systems, Inc. (Pekin Peoria) has a defined-contribution plan that covers nearly all hospital employees. The board of trustees determines the amount, if any, of contributions to the plan annually. In addition, Pekin Peoria has a noncontributory defined-benefit plan covering all employees who met eligibility requirements. This plan has been curtailed since 2008 and was replaced by the defined-contribution plan. Effective December 31, 2018, the defined-benefit plans for Methodist Peoria and Proctor Peoria were merged into the Pekin Peoria plan and are now referred to as the UnityPoint Health Central Illinois pension plan. All balances are included in the disposal group classified as held for sale as of December 31, 2022, therefore, balances excluded in the 2022 details.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Upon the affiliation with Meriter Health Services, Inc. (Madison) during 2014, the System inherited their defined-benefit pension plan. Substantially, all of the employees of Madison are eligible to participate in the plan. Benefits under this plan are based primarily on years of service and employees' compensation. As of December 31, 2014, Madison froze the plan for all nonunion and service union covered employees. As of December 31, 2015, Madison froze the plan for all nurses' union participants. Subsequent to these dates, no additional benefits are being accrued by the frozen participants in the plan.

The System expects to contribute \$13,409 to the plans in 2022. The System uses a December 31 measurement date for the plans.

The following tables set forth information about each defined-benefit plan:

	December 31, 2022		
	Madison	Cedar Rapids	Waterloo
Change in benefit obligation:			
Benefit obligation, beginning of year	\$ 232,363	148,330	17,981
Service cost	—	—	551
Interest cost	6,360	4,118	518
Actuarial (gain) loss	(36,446)	(33,194)	(6,263)
Benefits paid	(19,911)	(7,826)	(464)
Benefit obligation, end of year	<u>182,366</u>	<u>111,428</u>	<u>12,323</u>
Change in fair value of plan assets:			
Fair value of plan assets, beginning of year	259,247	155,700	16,725
Actual return on plan assets	(50,200)	(28,608)	(3,235)
Employer contributions	8,000	5,004	405
Benefits paid	(19,911)	(7,825)	(465)
Fair value of plan assets, end of year	<u>197,136</u>	<u>124,271</u>	<u>13,430</u>
Funded status, end of year	<u>\$ 14,770</u>	<u>12,843</u>	<u>1,107</u>
Accumulated benefit obligation	\$ 182,366	111,428	12,323
Assets and liabilities recognized in the consolidated balance sheets:			
Noncurrent assets	\$ 14,770	12,843	1,107
Noncurrent liabilities	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$ 14,770</u>	<u>12,843</u>	<u>1,107</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	December 31, 2022		
	Madison	Cedar Rapids	Waterloo
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost:			
Net loss	\$ 25,747	50,288	287
Net prior service credit	649	—	—
	\$ 26,396	50,288	287
Amounts expected to be recognized within one year:			
Net loss	\$ 782	7,117	—
Net prior service credit	190	—	—
	\$ 972	7,117	—
Other changes in plan assets recognized in changes in net assets:			
Net (gain) loss	\$ 20,796	5,263	(1,777)
Amortization of net loss	—	(6,240)	(35)
Prior service credit	(190)	—	(3)
Total recognized in changes in net assets	\$ 20,606	(977)	(1,815)
Weighted average assumptions used to determine benefit obligations for the year ended December 31, 2022:			
Discount rate	5.46 %	5.46 %	5.60 %
Rate of compensation increase	N/A	N/A	N/A
Weighted average assumptions used to determine benefit costs for the year ended December 31, 2022:			
Discount rate	2.83 %	2.86 %	2.93 %
Expected return on plan assets	4.06 %	6.40 %	7.50 %
Rate of compensation increase	N/A	N/A	N/A
Components of net periodic benefit cost:			
Service cost	\$ —	—	551
Interest cost	6,360	4,118	518
Expected return on plan assets	(9,199)	(9,850)	(1,251)
Amortization of prior service credit	190	—	3
Amortization of net (gain)/loss	—	6,240	35
Net periodic benefit cost (benefit)	\$ (2,649)	508	(144)

IOWA HEALTH SYSTEM AND SUBSIDIARIES

(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The total post employment pension asset and liability recognized in the consolidated balance sheets as of December 31, 2022 and 2021 is \$28,720 and \$0, respectively, which results in net asset of \$28,720. The total amortization of prior service credit in the unrestricted net assets but not yet recognized as components of net periodic benefit cost for the year ended December 31, 2022 is \$193. The total amortization of net loss in plan assets recognized in changes of net assets for the year ended December 31, 2022 is \$6,275. The total expected return on plan assets in net periodic benefits costs for the year ended December 31, 2022 is \$(20,300) The total interest cost in net periodic benefit costs for the year ended December 31, 2022 is \$10,996. The service cost component of \$551 is presented with other employee compensation costs in employee benefits within operating (loss) income in the consolidated statement of operations and changes in net assets for the year ended December 31, 2022.

	December 31, 2021		
	Madison	Cedar Rapids	Waterloo
Change in benefit obligation:			
Benefit obligation, beginning of year	\$ 246,139	154,995	18,482
Service cost	—	—	976
Interest cost	6,021	3,817	495
Actuarial (gain) loss	(146)	(3,022)	(1,535)
Benefits paid	(19,651)	(7,460)	(437)
Benefit obligation, end of year	<u>232,363</u>	<u>148,330</u>	<u>17,981</u>
Change in fair value of plan assets:			
Fair value of plan assets, beginning of year	257,130	156,254	15,451
Actual return on plan assets	13,768	1,902	1,306
Employer contributions	8,000	5,004	405
Benefits paid	(19,651)	(7,460)	(437)
Fair value of plan assets, end of year	<u>259,247</u>	<u>155,700</u>	<u>16,725</u>
Funded status, end of year	<u>\$ 26,884</u>	<u>7,370</u>	<u>(1,256)</u>
Accumulated benefit obligation	\$ 232,363	148,330	17,981
Assets and liabilities recognized in the consolidated balance sheets:			
Noncurrent assets	\$ —	7,370	—
Noncurrent liabilities	26,884	—	(1,256)
	<u>\$ 26,884</u>	<u>7,370</u>	<u>(1,256)</u>
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost:			
Net loss	\$ 4,951	51,265	2,099
Net prior service credit	839	—	3
	<u>\$ 5,790</u>	<u>51,265</u>	<u>2,102</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	December 31, 2021		
	Madison	Cedar Rapids	Waterloo
Amounts expected to be recognized within one year:			
Net loss	\$ —	6,240	35
Net prior service credit	190,213	—	3
	<u>\$ 190,213</u>	<u>6,240</u>	<u>38</u>
Other changes in plan assets recognized in changes in net assets:			
Net (gain) loss	\$ 1,106	6,058	(1,584)
Amortization of net loss	—	(5,744)	(242)
Prior service credit	(190)	—	(9)
Total recognized in changes in net assets	<u>\$ 916</u>	<u>314</u>	<u>(1,835)</u>
Weighted average assumptions used to determine benefit obligations for the year ended December 31, 2021:			
Discount rate	2.83 %	2.86 %	2.93 %
Rate of compensation increase	N/A	N/A	N/A
Weighted average assumptions used to determine benefit costs for the year ended December 31, 2021:			
Discount rate	2.52 %	2.53 %	2.72 %
Expected return on plan assets	6.50 %	7.10 %	8.20 %
Rate of compensation increase	N/A	N/A	N/A
Components of net periodic benefit cost:			
Service cost	\$ —	—	976
Interest cost	6,021	3,817	495
Expected return on plan assets	(15,350)	(10,982)	(1,256)
Amortization of prior service credit	190	—	9
Amortization of net (gain)/loss	—	5,744	242
Net periodic benefit cost (benefit)	<u>\$ (9,139)</u>	<u>(1,421)</u>	<u>466</u>

The System has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

IOWA HEALTH SYSTEM AND SUBSIDIARIES

(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Plan assets are held by bank-administered trust funds, which invest each plan's assets in accordance with the provisions of the plan agreements. The plan agreements permit investment in common stocks, corporate bonds and debentures, U.S. government securities, and other specified investments based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earning while still permitting the plans to recognize potential higher returns through investment in equity securities and limited exposure to alternative investments.

Please see note 5 relating to the strategy of alternative investment funds. There are no unfunded commitment related to these bank-administered trust funds.

Target asset allocation percentages for 2022 and 2021 were as follows:

	2022		
	Madison	Cedar Rapids	Waterloo
Equity securities	25 %	10 %	37 %
Fixed income	65	90	48
Alternative investments	10	—	15

	2021		
	Madison	Cedar Rapids	Waterloo
Equity securities	25 %	10 %	38 %
Fixed income	65	90	48
Alternative investments	10	—	14

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Plan assets are re-balanced quarterly. At December 31, 2022 and 2021, plan asset allocations are as follows:

	2022			2021		
	Madison	Cedar Rapids	Waterloo	Madison	Cedar Rapids	Waterloo
Cash equivalents	2 %	— %	— %	2 %	— %	— %
U.S. Treasury obligations	—	21	9	—	16	8
Equity securities:						
Domestic	5	—	—	5	—	—
Mutual funds:						
Domestic	—	—	25	—	—	29
International	—	10	12	—	10	13
Equity	16	—	—	5	—	—
Fixed income	6	69	36	2	74	37
Other	—	—	—	2	—	—
Alternative investments	—	—	8	15	—	6
Hedge funds	71	—	—	69	—	—
Fund of Funds	—	—	10	—	—	7
	100 %	100 %	100 %	100 %	100 %	100 %

(c) Defined-Benefit Plan Assets

The valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy, are described below. There have been no significant changes in the valuation techniques during the year ended December 31, 2022 or 2021.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include exchange traded equities and mutual funds, as well as cash equivalents held in money market accounts. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified within Level 2 of the valuation hierarchy. Level 2 plan assets include U.S. Treasury obligations and corporate debt. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. There are no Level 3 plan assets.

The value of certain plan assets classified as alternative investments is determined using the NAV (or its equivalent) as a practical expedient.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The following table presents the fair value measurements of the System's pension plans' assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

	Fair value	Fair value measurements using		
		Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
2022:				
Cash equivalents	\$ 3,234	3,234	—	—
U.S. Treasury obligations	26,734	—	26,734	—
Equity securities:				
Domestic	10,348	10,348	—	—
International	587	587	—	—
Mutual funds:				
Domestic	3,350	3,350	—	—
International	13,412	13,412	—	—
Equity	32,006	32,006	—	—
Fixed income	102,395	102,395	—	—
Other	—	—	—	—
Alternative funds *	1,033	—	—	—
Hedge funds*	140,008	—	—	—
Fund of funds*	1,404	—	—	—
Accrued income	326	—	—	—
	<u>\$ 334,837</u>	<u>165,332</u>	<u>26,734</u>	<u>—</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	Fair value	Fair value measurements using		
		Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
2021:				
Cash equivalents	\$ 5,311	5,311	—	—
U.S. Treasury obligations	26,208	—	26,208	—
Equity securities:				
Domestic	12,593	12,593	—	—
International	919	919	—	—
Mutual funds:				
Domestic	4,927	4,927	—	—
International	18,093	18,093	—	—
Equity	12,909	12,909	—	—
Fixed income	126,339	126,339	—	—
Other	6,340	6,340	—	—
Alternative funds *	38,803	—	—	—
Hedge funds*	177,821	—	—	—
Fund of funds*	1,129	—	—	—
Accrued income	280	—	—	—
	<u>\$ 431,672</u>	<u>187,431</u>	<u>26,208</u>	<u>—</u>

* Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to amounts presented in the change in fair value of plan assets above. There are no unfunded commitments for these funds, and see Note 5 for strategy of each type of fund.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2022:

2023	\$ 24,090
2024	23,576
2025	24,335
2026	23,185
2027	23,121
2028–2032	107,609

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(10) Risk Management

The System's hospitals are primarily self-insured for professional and general liability for amounts of \$5,000 per claim with excess insurance exceeding this in aggregate. Other entities of the System maintain their professional and general liability coverage primarily on a claims-made basis with no significant deductibles.

The System is primarily self-insured for workers' compensation and employee healthcare claims. Workers' compensation claims individually and in the aggregate that exceed certain amounts are covered by insurance.

Property insurance is maintained with at least 90% replacement value coverage and minimal deductibles. Network security and information privacy insurance, as well as business interruption insurance coverage are also maintained by the System.

The System has accrued as other liabilities \$193,419 and \$137,810 for self-insured losses at December 31, 2022 and 2021, respectively. These liabilities are presented on a gross basis, and the expected offsetting insurance recoveries are reported as a receivable. The accrued liabilities are based on management's evaluation of the merits of various claims, historical experience, and consultation with external insurance consultants and actuaries, and these liabilities include estimates for incurred but not reported claims. There can be no assurance that the accrued liabilities will be sufficient for the ultimate amounts that will be paid for claims and settlements. Also, in the ordinary course of business, the System is involved in other litigation and claims, none of which management believes will ultimately result in losses that will adversely affect the System's consolidated net assets or results of operations to a material degree.

Cash and investments have been internally designated to be held for payments of claims, if any, which may result from the self-insured or uninsured portion of liability insurance and workers' compensation claims. At December 31, 2022 and 2021, cash and investments designated for this purpose amounted to \$26,984 and \$43,298, respectively.

(11) Lease Commitments

Certain equipment and property are being leased with remaining terms ranging from less than one year to 30 years. Certain leases contain renewal options. The renewal options are included in the lease term only for those situations in which they are reasonably certain to be renewed. The components of lease expense for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Lease cost:		
Finance lease cost:		
Amortization of right-to-use assets	\$ 4,509	2,338
Interest on lease liabilities	942	1,002
Operating lease cost	40,583	35,721
Short term lease cost	22,885	29,467
Sublease income	(569)	(622)
Total lease cost, net of income	\$ 68,350	67,906

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	2022	2021
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used in operating leases	\$ 40,583	35,721
Operating cash flows used in finance leases	739	763
Finance cash flows used in finance leases	5,813	4,357
Right-of-use assets obtained in exchange for new operating lease liabilities	23,754	9,896
Weighted average remaining lease term – finance leases	3.9 years	3.5 years
Weighted average remaining lease term – operating leases	7.6 years	8.1 years
Weighted average discount rate – finance leases	5.5 %	4.8 %
Weighted average discount rate – operating leases	3.9	3.9

Aggregate annual payments of lease obligations during the years ending December 31 are as follows:

	Operating leases	Finance leases
2023	\$ 40,340	5,960
2024	34,456	4,710
2025	30,562	2,846
2026	26,373	1,365
2027	20,577	170
Thereafter	67,114	—
Total	219,422	15,051
Less: Present value discount	(38,779)	(1,194)
Total lease liability	\$ 180,643	13,857

(12) Disclosures about Fair Value of Assets and Liabilities

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. An entity must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active, or other inputs, that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

(a) Financial Instruments Measured at Fair Value on a Recurring Basis

The valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy, are described below. There have been no significant changes in the valuation techniques during the year ended December 31, 2022 or 2021.

(b) Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities and mutual funds, certificates of deposit and cash equivalents held in money market accounts. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Treasury obligations, U.S. government agency obligations, municipal bonds, collateralized mortgage and other collateralized asset obligations, corporate debt, and certain beneficial interest in perpetual trusts. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Level 3 financial instruments include beneficial interest in perpetual trusts, which are discussed below. Inputs and valuation techniques used for these Level 3 interests are described below.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

(c) Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

(d) Beneficial Interest in Perpetual Trusts

The fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Trusts that have a definite duration based on the terms of the trust document, and where the System has the ability to redeem the investment for the underlying assets at some future point, are classified within Level 2 of the valuation hierarchy due to the nature of the valuation inputs. For trusts that are perpetual in nature in which the underlying assets will never be available to the System, the interest is classified within Level 3 of the hierarchy.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(e) Fair Value Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

	2022			
	Fair value measurements using			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Cash equivalents	\$ 1,488	1,488	—	—
U.S. Treasury obligations	112,314	—	112,314	—
U.S. Government agency obligations	27,139	—	27,139	—
Municipal bonds	17,499	—	17,499	—
Asset-backed securities:				
Other	54,647	—	54,647	—
Mortgage-backed securities:				
Government	6,417	—	6,417	—
Non-government	37,175	—	37,175	—
Certificates of deposit	1,129	1,129	—	—
Corporate bonds	111,245	—	111,245	—
Equity securities:				
Domestic	8,585	8,585	—	—
International	1,800	1,800	—	—

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	2022			
	Fair value measurements using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	Fair value			
Mutual funds:				
Domestic	\$ 3,271	3,271	—	—
International	380,879	380,879	—	—
Index	15,529	15,529	—	—
Equity	351,747	351,747	—	—
Fixed income	877,971	877,971	—	—
Other	54,357	54,357	—	—
Alternative investments*	201,139	—	—	—
Hedge funds*	199,542	—	—	—
Private equity funds*	155,686	—	—	—
Fund of funds*	172,747	—	—	—
Other items at cost**	15,861	—	15,861	—
	<u>2,808,167</u>	<u>1,696,756</u>	<u>382,297</u>	<u>—</u>
Total short-term investments, assets limited as to use and other long-term investments	\$ 2,808,167	1,696,756	382,297	—
Beneficial interests in perpetual trusts included in contributions receivable	\$ 15,350	—	4,755	10,595
Beneficial interests in charitable trusts included in contributions receivable	264	—	264	—
Interest rate swap agreements included in other long-term liabilities	(18,710)	—	(18,710)	—

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	2021			
	Fair value measurements using			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Cash equivalents	\$ 3,977	3,977	—	—
U.S. Treasury obligations	101,706	—	101,706	—
U.S. Government agency obligations	13,505	—	13,505	—
Municipal bonds	13,738	—	13,738	—
Asset-backed securities:				
Other	78,626	—	78,626	—
Mortgage-backed securities:				
Government	9,297	—	9,297	—
Non-government	54,762	—	54,762	—
Certificates of deposit	—	—	—	—
Corporate bonds	349,139	—	349,139	—
Corporate bonds – PIF	—	—	—	—
Equity securities:				
Domestic	22,445	22,445	—	—
International	215	215	—	—
Mutual funds:				
Domestic	6,277	6,277	—	—
International	424,700	424,700	—	—
Index	14,291	14,291	—	—
Equity	435,107	435,107	—	—
Fixed income	898,738	898,738	—	—
Other	59,991	59,991	—	—
Alternative investments*	248,345	—	—	—
Hedge funds*	205,834	—	—	—
Private equity funds*	147,113	—	—	—
Fund of funds*	155,061	—	—	—
Other items at cost**	20,272	—	20,272	—
Total short-term investments, assets limited as to use and other long-term investments	\$ 3,263,139	1,865,741	641,045	—

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	2021			
	Fair value measurements using			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Beneficial interests in perpetual trusts included in contributions receivable	\$ 13,612	—	4,157	9,455
Beneficial interests in charitable trusts included in contributions receivable	357	—	357	—
Interest rate swap agreements included in other long-term liabilities	(58,105)	—	(58,105)	—

* Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

** Other items at cost primarily includes insurance policies and accrued interest.

(f) Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Beneficial interest in perpetual trusts
Balance, December 31, 2020	\$ 8,977
Change in beneficial interest in perpetual trusts	478
Balance, December 31, 2021	9,455
Change in beneficial interest in perpetual trusts	1,140
Balance, December 31, 2022	\$ 10,595

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(g) Goodwill

Goodwill is evaluated for impairment when qualitative events indicate goodwill might be impaired. If the System performs an impairment test, any impairment loss is recognized as expense when it is determined that the carrying amount of the goodwill exceeds its implied fair value. The key inputs used to assess for potential impairment are a qualitative analysis of the applicable reporting unit and a quantitative discounted cash flow analysis.

(h) Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements:

		2022		
		Fair value	Valuation technique	Adjustment to NAV
Recurring:				
	Beneficial interests in perpetual trusts	\$ 10,595	Present value of future distributions expected to be received over term of agreement	N/A
Nonrecurring:				
	Goodwill	\$ 38,590	Discounted cash flow	N/A
		2021		
		Fair value	Valuation technique	Adjustment to NAV
Recurring:				
	Beneficial interests in perpetual trusts	\$ 9,455	Present value of future distributions expected to be received over term of agreement	N/A
Nonrecurring:				
	Goodwill	\$ 34,995	Discounted cash flow	N/A

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(13) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods as of December 31:

	2022	2021
Purchase of equipment	\$ 25,547	26,079
Indigent care/operations	104,877	101,096
Health education	6,969	11,080
For use in future periods	24,210	44,041
Investments to be held in perpetuity	97,565	95,102
Total with donor restrictions	\$ 259,168	277,398

The portion of restricted net assets that have restrictions on the usage of income include restrictions for the support of operations, capital and equipment, education, patient assistance, and research. Included in investments to be held in perpetuity is \$52,741 and \$50,615 of donor endowed corpus as of December 31, 2022 and 2021, respectively. The remainder of \$44,824 and 44,487 primarily consists of accumulated earnings on donor endowed corpus and perpetual trusts as of December 31, 2022 and 2021, respectively.

Net assets released from restrictions were \$29,302 and \$21,837 in 2022 and 2021, respectively. Net assets were released from restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors including support of operations, capital and equipment, education, patient and employee assistance, and research.

(14) Related-Party Transactions

System purchases a variety of services and products, including leases, from companies affiliated with members of the Boards of Directors of the System and/or its subsidiaries. Services and products purchased from these affiliated companies during 2022 and 2021 totaled \$47,167 and \$47,017, respectively. In addition, the System purchases services from several joint ventures and sells services and supplies to several joint ventures in which the System is also an investor.

The System has recorded contribution receivables for amounts held by nonconsolidated foundations on behalf of the System of \$62,718 and \$73,875 as of December 31, 2022 and 2021, respectively. Contributions received from nonconsolidated foundations and other related parties were \$1,589 and \$1,458 in 2022 and 2021, respectively.

The System believes these transactions are consummated under commercially reasonable business arrangements.

(15) Commitments and Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity has increased with respect to investigations and allegations concerning possible violations of regulations by

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

healthcare providers, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for patient services. The System has a corporate compliance plan intended to meet federal guidelines. As a part of this plan, the System performs periodic internal reviews of its compliance with laws and regulations. As part of the System's compliance efforts, the System investigates and attempts to resolve and remedy all reported or suspected incidents of material noncompliance with applicable laws, regulations, or policies on a timely basis. The System believes that these compliance programs and procedures lead to substantial compliance with current laws and regulations.

The System is in various stages of responding to inquiries and investigations by regulators. These various inquiries and investigations could result in fines and/or financial penalties, which could be material. At this time, the System is unable to estimate the possible liability, if any, that may be incurred as a result of these inquiries and investigations, but the System does not believe it would materially affect the financial position of the System.

Guarantees

The System has guaranteed \$33,477 and \$33,977, which is outstanding at December 31, 2022 and 2021, respectively, relating to long-term debt for the construction of a family practice residency program education facility, a managed facility's building project, and debt related to joint ventures. For 2022 and 2021, the System made no payments on these guarantees.

(16) Endowment

The System's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by U.S. GAAP, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The System's governing body has interpreted the State of Iowa Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations and deductions to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the System considers several factors in making a determination to appropriate or accumulate donor-restricted endowment funds including, duration and preservation of the fund, purposes of the fund, general economic conditions, possible effect of inflation and deflation, expected total return from investment income and appreciation or depreciation of investments, other resources of the System, and investment policies of the System.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The composition of net assets by type of endowment fund at December 31, 2022 and 2021 was as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
December 31, 2022:			
Donor-restricted endowment funds	\$ —	72,211	72,211
Board-designed endowment funds	<u>134,707</u>	<u>—</u>	<u>134,707</u>
Total endowment funds	<u>\$ 134,707</u>	<u>72,211</u>	<u>206,918</u>
December 31, 2021:			
Donor-restricted endowment funds	\$ —	78,960	78,960
Board-designed endowment funds	<u>159,808</u>	<u>—</u>	<u>159,808</u>
Total endowment funds	<u>\$ 159,808</u>	<u>78,960</u>	<u>238,768</u>

Changes in endowment net assets for the years ended December 31, 2022 and 2021 were as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment net assets, December 31, 2020	\$ 143,719	65,370	209,089
Investment return:			
Investment income	2,405	1,449	3,854
Net appreciation	<u>15,767</u>	<u>7,545</u>	<u>23,312</u>
Total investment return	18,172	8,994	27,166
Contributions	—	6,244	6,244
Appropriation of endowment assets for expenditure	<u>(2,083)</u>	<u>(1,648)</u>	<u>(3,731)</u>
Endowment net assets, December 31, 2021	<u>159,808</u>	<u>78,960</u>	<u>238,768</u>
Investment return:			
Investment income	2,179	710	2,889
Net depreciation	<u>(17,387)</u>	<u>(7,778)</u>	<u>(25,165)</u>
Total investment return	(15,208)	(7,068)	(22,276)
Contributions	—	2,680	2,680
Appropriation of endowment assets for expenditure	<u>(9,893)</u>	<u>(2,361)</u>	<u>(12,254)</u>
Endowment net assets, December 31, 2022	<u>\$ 134,707</u>	<u>72,211</u>	<u>206,918</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

As of December 31, 2022 and 2021, the corpus of the aforementioned donor-restricted endowment funds was \$52,741 and \$50,615, respectively. In addition, the net amount of earnings in excess of expenditures as of December 31, 2022 and 2021 was \$19,470 and \$28,345, respectively.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the System is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with U.S. GAAP, deficiencies of this nature are reported in without donor restriction net assets and amount to \$355 and \$0 at December 31, 2022 and 2021, respectively.

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the System must hold in perpetuity as well as those of board-designated funds. Under the System's policies, endowment assets are invested in a manner that is intended to produce results that exceed applicable benchmarks while assuming a prudent level of investment risk. The System expects its endowment funds to provide an average net rate of return of approximately 8% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through net investment income, including dividends, interest, and recognized appreciation, as well as unrealized capital appreciation. The System targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

In general, the System has a policy (the spending policy) of appropriating for expenditure each year 4%–5% of its endowment fund's average fair value over the prior 12 quarters through the year-end proceeding the year in which expenditure is planned. In establishing this policy, the System considered the long-term expected return on its endowment. A management fee of 1%–1.5% is also typically charged to the endowment funds annually to cover administrative costs of managing the endowment and the fundraising operations. Accordingly, over the long term, the System expects the current spending policy to allow its endowment to grow at an average of 2%–2.5% annually. This is consistent with the System's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

(17) Financial Responsibility Standards

The System participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 688. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 688, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: primary reserve, equity, and net income. These ratios utilize various financial data, some of which are made up of a summation of multiple items presented in the consolidated financial statements and footnotes, as of December 31, 2022. The instances where the input amount consists of a

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

total of more than one individually presented financial amount are detailed in the table below, input amount consists of a total of more than one individually presented financial amount are detailed in the table below.

Required input per standards	Ratio(s) used	Input amount	Amount not used as input on supplementary schedule	Reference
Net assets with donor restrictions:	Primary reserve, equity	\$ 97,565		
Net assets restricted in perpetuity:				
Donor endowed corpus			52,741	Note 13, net assets with donor restrictions
Accumulated earnings on donor endowed corpus and perpetual trusts			44,824	Note 13, net assets with donor restrictions
Net assets with donor restrictions:		161,603		
Purchase of equipment			25,547	Note 13, net assets with donor restrictions
Indigent care/operations			104,877	Note 13, net assets with donor restrictions
Health education			6,969	Note 13, net assets with donor restrictions
For use in future periods			24,210	Note 13, net assets with donor restrictions
Property, plant and equipment, net (includes construction in progress and capital leases):	Primary reserve	1,543,084		
Property, plant and equipment-post-implementation without outstanding debt for original purchase			1,472,404	Note 1(j), property, plant and equipment
Construction in process			70,680	Note 1(j), property, plant and equipment
Intangible assets:	Primary reserve, equity	42,777		
Goodwill			38,590	Note 1(k), other assets
Other intangible assets			4,187	Note 1(k), other assets
Post-employment and pension liabilities:	Primary reserve	134,565		
Post-employment accrued payroll			2,804	Note 9(a), defined-contribution retirement plans
Post-employment other long-term liabilities			119,421	Note 9(a), defined-contribution retirement plans
Post-employment other long-term liabilities from discontinued operations			12,340	Note 18, discontinued operations
Total expenses without donor restrictions:	Primary reserve	4,502,813		
Total expenses			4,502,813	Consolidated statement of operations and changes in net assets
Other components of net periodic pension costs:	Primary reserve	25,982		
Interest cost			10,996	Note 9(b), defined benefit plans
Expected return on plan assets			(20,300)	Note 9(b), defined benefit plans
Amortization of prior service credit			(193)	Note 9(b), defined benefit plans
Amortization of net loss			(6,275)	Note 9(b), defined benefit plans
Interest cost from discontinued operations			9,368	Note 18, discontinued operations
Expected return on plan assets from discontinued operations			(18,356)	Note 18, discontinued operations
Amortization of net loss from discontinued operations			(1,222)	Note 18, discontinued operations

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(18) Discontinued Operations

On December 10, 2021, the System signed a nonbinding letter of intent to transition Methodist Health Services Corporation and Subsidiaries (Central Illinois) to The Carle Foundation, d/b/a Carle Health (Carle Health). Accordingly, on October 28, 2022, the System and Carle Health signed a strategic affiliation agreement, to transition Central Illinois to Carle Health. The transition was effective April 1, 2023 with the System and Central Illinois signing a mutual agreement to terminate its affiliation agreement. Under the terms of the strategic affiliation agreement, Carle Health paid \$242,729 in cash on April 1, 2023 for Central Illinois' assets and assumed all related liabilities (\$75,000 one-time fee and \$167,729 for net intercompany liabilities). The calculation of the loss on the disposal of Central Illinois as of December 31, 2022 is as follows:

Loss on disposal of discontinued operations:

One-time fee from Carle Health to the System	\$ 75,000
Assets transferred (prior to loss):	
Cash and cash equivalents	\$ 18,084
Short-term investments	5,579
Net patient accounts receivable	83,645
Other current assets	44,165
Assets limited as to use	15,757
Property, plant and equipment	327,357
Other assets	<u>316,842</u>
Total assets	<u>\$ 811,429</u>
Liabilities transferred:	
Accounts payable	\$ 27,360
Other current liabilities	117,167
Long term debt	1,134
Other long term liabilities	<u>208,159</u>
Total liabilities	<u>\$ 353,820</u>
Central Illinois region net assets:	
Without donor restrictions	\$ 396,531
With donor restrictions	<u>61,078</u>
Total net assets	<u>457,609</u>
Loss on disposal of discontinued operation	<u>\$ (382,609)</u>

Disposals that represent a strategic shift that should have or will have a major effect on the System's operations and financial results qualify as discontinued operations. The results of discontinued operations are reported in discontinued operations in the consolidated statements of operations and changes in net assets for current and prior periods commencing in the period in which the business meets the criteria of a

IOWA HEALTH SYSTEM AND SUBSIDIARIES

(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

discontinued operation, and include any gain or loss recognized on closing or adjustment of the carrying amount to fair value less cost to sell.

With the affiliation termination of Central Illinois completed in 2023, the System is no longer maintaining a presence in Central Illinois and surrounding communities. Because the System's operations in Central Illinois are a major part of the System's operations and financial results, the System determined in 2022 that the transition of Central Illinois represented a strategic shift. Accordingly, the assets and liabilities of Central Illinois were segregated and reported as held for sale in the consolidated balance sheets as of December 31, 2022. Furthermore, the activities of Central Illinois have been segregated and reported as discontinued operations in the consolidated statements of operations and changes in net assets for all periods presented.

The following table presents a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operation to total assets and liabilities of the disposal group classified as held for sale in the consolidated balance sheets as of December 31, 2022:

	<u>2022</u>	<u>2021</u>
Discontinued operations balance sheet:		
Carrying amounts of major classes of assets included as part of discontinued operations (after loss):		
Cash and cash equivalents	\$ 18,084	26,599
Patient accounts receivable	83,645	84,484
Other receivables	25,136	30,227
Investments	236,261	299,590
Property, plant and equipment, net	—	327,239
Total major classes of assets of the discontinued operation	<u>363,126</u>	<u>768,139</u>
Other assets included in the disposal group classified as held for sale	<u>49,104</u>	<u>114,557</u>
Total assets of the disposal group classified as held for sale in the consolidated balance sheet	\$ <u>412,230</u>	<u>882,696</u>
Carrying amounts of major classes liabilities included as part of discontinued operations:		
Accounts payable	\$ 27,360	27,153
Accrued payroll	31,756	22,577
Total major classes of liabilities of the discontinued operation	<u>59,116</u>	<u>49,730</u>
Other liabilities included in the disposal group classified as held for sale	<u>127,321</u>	<u>225,189</u>
Total liabilities of the disposal group classified as held for sale in the consolidated balance sheet	\$ <u>186,437</u>	<u>274,919</u>

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

The following table presents a reconciliation of the major classes of line items from discontinued operations to the loss reported in discontinued operations for the year ended December 31, 2022:

	<u>2022</u>	<u>2021</u>
Major classes of line items reported in discontinued operations:		
Patient service revenue	\$ 625,941	643,681
Other operating revenue	79,574	80,479
Salaries and wages	(240,085)	(217,450)
Provider compensation and services	(124,149)	(124,622)
Employee benefits	(52,605)	(49,917)
Supplies	(109,001)	(109,033)
Other income and expenses not considered major	<u>(219,638)</u>	<u>(172,458)</u>
Loss on discontinued operations related to major classes of revenues over expenses	<u>(39,963)</u>	<u>50,680</u>
Loss on sale of discontinued operations	<u>(382,609)</u>	<u>—</u>
Total (loss) gain on discontinued operations that is presented in the consolidated statement of operations and changes in net assets	<u>\$ (422,572)</u>	<u>50,680</u>

Summarized condensed cash flow information for the discontinued operations for the year ended December 31, 2022 are as follows:

	<u>2022</u>	<u>2021</u>
Net cash (used in) provided by operating activities	\$ (31,391)	89,303
Net cash provided by (used in) investing activities	19,172	(93,915)
Net cash provided by (used in) financing activities	<u>3,704</u>	<u>(791)</u>
Decrease in cash and cash equivalents of discontinued activities	<u>\$ (8,515)</u>	<u>(5,403)</u>

The noncontributory defined-benefit plan for Central Illinois has been included in the assets held for sale balances. Central Illinois had \$12,340 of post-employment other long-term liabilities as of December 31, 2022. The other components of net periodic pension costs for Central Illinois were \$9,368 of interest cost, \$18,356 of expected return of plan assets, and \$1,222 of amortization of the net loss, which were included in discontinued operations on the consolidated statement of operations and changes in net assets as of December 31, 2022. See note 9 for additional details relating to the plan.

Central Illinois recognized \$708,865 of total operating revenues, which was classified as discontinued operations on the consolidated statement of operations and changes in net assets as of December 31, 2022.

IOWA HEALTH SYSTEM AND SUBSIDIARIES
(d/b/a UnityPoint Health)

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(19) Subsequent Events

Subsequent events have been evaluated through April 21, 2023, which is the date the consolidated financial statements were issued.

On March 30, 2023, the System entered into a definitive agreement with Presbyterian Healthcare Services (Presbyterian) to form a new healthcare organization, which will become the sole member of the System and Presbyterian. The newly created company will be a growth partnership and combine the non-patient facing activities to provide them at a lower cost to both organizations. Legacy brands/values will be retained, and the organizations will not be merging medical groups or fully integrating. If all approvals are obtained, a closing date is anticipated in mid-to-late 2023.