



THE UNIVERSITY OF IOWA

# FINANCIAL REPORT

JULY 1, 2012 TO JUNE 30, 2013





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## FOR IOWA AND THE WORLD

The University of Iowa is a comprehensive research university with particular distinction in the arts, humanities, and sciences; a world-class academic health center; and a wide array of exceptional professional programs. While serving as the state's most comprehensive institution of higher learning, the University also enjoys a national and international reputation for excellence, and competes at that level for the best faculty and the most talented graduate and professional students.

## UNIVERSITY OF IOWA MISSION

In pursuing its missions of teaching, research, and service, the University seeks to advance scholarly and creative endeavor through leading-edge research and artistic production; to use this research and creativity to enhance undergraduate, graduate, and professional education, health care, and other services provided to the people of Iowa, the nation, and the world; and to educate students for success and personal fulfillment in a diverse world.

## THE UNIVERSITY IN 2013

University of Iowa achievements during fiscal year 2013 include:

- Opening the Main Library Learning Commons, a 37,000-square-foot hub for study, teaching, and collaboration
- Providing a new setting for ambulatory health care services at the Iowa River Landing facility in Coralville.
- Launching a comprehensive fund-raising campaign that seeks to raise \$1.7 billion in private support by December 2016
- Commencing construction on new arts facilities, a performing arts center, and a new home for the UI Children's Hospital

## ENROLLMENT

|                           | Fall 2013 | Fall 2012 |
|---------------------------|-----------|-----------|
| <i>Group</i>              |           |           |
| Total students            | 31,065    | 31,498    |
| Undergraduates            | 21,974    | 21,999    |
| Graduate and professional | 9,091     | 9,499     |
| Iowa residents            | 54.5%     | 55.2%     |
| Total non-residents       | 45.5%     | 44.8%     |
| International students    | 12.1%     | 11.4%     |
| Minority enrollment       | 13.6%     | 12.6%     |

## EMPLOYMENT

|                                   | Fall 2013 | Fall 2012 |
|-----------------------------------|-----------|-----------|
| <i>Group (by FTEs)</i>            |           |           |
| Total faculty and staff           | 22,365    | 22,278    |
| Institutional officers            | 22        | 21        |
| Tenure-track faculty              | 1,613     | 1,615     |
| Clinical-track faculty            | 584       | 555       |
| Postdoctoral and other faculty    | 626       | 652       |
| Professional and scientific staff | 8,201     | 7,932     |
| Merit staff                       | 4,448     | 4,484     |
| Residents                         | 744       | 744       |
| Graduate assistants               | 2,512     | 2,572     |
| Temporary                         | 3,615     | 3,703     |



## EXTERNAL SUPPORT AND GIVING

The University reported strong grants and contracts support during 2013:

- Fiscal year 2013 grants and contracts: **\$424 million**
- Number of grants and contracts awarded: **2,130**
- Rank among public universities in federal research and development support: **20**

The University and the UI Foundation marked significant progress toward goals for the For Iowa. Forever More. comprehensive fund-raising campaign:

- Campaign gifts raised by June 30, 2013: **\$1,055,333,861**
- Percentage of \$1.7 billion campaign goal: **62%**
- Number of campaign donors: **approximately 120,000**
- Combined value of UI and UI Foundation endowments: **\$1.1 billion**

## RECENT RANKINGS

Snapshot of the University's standing in recent national surveys:

- U.S. News & World Report rank among U.S. public universities: **29**
- Number of graduate programs ranked among the top 25 of their kind by U.S. News & World Report: **26**
- U.S. News & World Report rank among best colleges for military veterans: **6**
- Kiplinger's Personal Finance rank for resident tuition value: **49**
- Kiplinger's rank for non-resident tuition value: **72**
- U.S. News & World Report rank among Iowa hospitals: **1**
- Number of medical specialties on U.S. News & World Report "Best Hospitals" list: **6**
- Number of pediatric specialties ranked by U.S. News & World Report: **7**



The new Main Library Learning Commons includes a TILE classroom designed for innovative teaching, dozens of group study spaces, a one-stop help center, and a café.

## Message from Senior Vice President and Treasurer, Douglas K. True

### *PRESIDENT MASON AND MEMBERS OF THE BOARD OF REGENTS:*



I am pleased to present the University of Iowa's audited Financial Report for fiscal year 2013, summarizing the financial position and results of operations of the University for the past two fiscal years. The University remains financially sound and stable with net position increasing by \$190.2 million (6.1%) during fiscal year 2013. Continued strong credit ratings by Moody's (Aa1) and Standard & Poor's (AA) are important indicators of the institution's financial health.

Quality and access are critical for a successful University. The University of Iowa is recognized as a "best buy" in several national college guides. Resident student undergraduate tuition and fees remain among the lowest in our peer group, nearly \$4,000 less than the Big Ten public institution average. The focus on value, student success, and academic excellence yielded the second largest enrollment of 31,065 students for fall 2013, as well as the University's best-prepared, most diverse first-year undergraduate class. The University continues to attract a significant number of non-resident and international undergraduate students while also granting admission to all qualified Iowans. Also, for the first time in many years, the University and the Board of Regents did not increase undergraduate resident tuition rates.

The University has reached an agreement with FEMA on most of the renovation or replacement of facilities devastated by the historic flood of 2008. Replacement facilities for Hancher Auditorium, the School of Music and the Art Building East are proceeding rapidly with construction beginning in late 2012 and early 2013. Over the next three years the University expects to invest at least \$600 million toward the completion of flood recovery work. This along with the construction work at University of Iowa Hospitals & Clinics (UIHC) is generating an additional 11,300 construction jobs for the Iowa economy.

During this past year the UIHC was recognized as the U.S. News & World Report's top hospital in the state of Iowa. To enable UIHC to continue to remain one of the nation's best hospitals, the Board of Regents authorized the new Children's Hospital which is now in construction and is expected to open in 2016. Supporting this initiative to give Iowa the very best children's medical services is UIHC's strong financial performance reflected in its positive and consistent operating margin (3.5% in fiscal year 2013).

Expense management and efficiency have never been more important to maintain our quality and competitiveness. The University is focusing on energy management, faculty and staff fringe benefit costs, supply chain management, and organizational reassessments. Almost 100 LEAN events occur annually to guide systematic change and reinvestment. Consistently the University has benefitted from the general University and health care functions collectively achieving economies of scale and savings through integration of administrative functions.

We hope you agree that there is much to be proud of at your University. The following financial information in the report of the Auditor of State and in the "Management Discussion and Analysis" section is a very good recap of the University's performance over the last year.

Very truly yours,

**Douglas K. True**

*Senior Vice President and Treasurer*



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Auditor of State

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Independent Auditor's Report

To the Members of the  
Board of Regents, State of Iowa:

Report on the Financial Statements

We have audited the accompanying Statement of Net Position, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows, of the State University of Iowa, Iowa City, Iowa, (University of Iowa) and its discretely presented component units as of and for the years ended June 30, 2013 and 2012, and the related Notes to Financial Statements, which collectively comprise the University of Iowa's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Iowa Research Foundation, the State University of Iowa Foundation and Affiliates and the University of Iowa Health System and Subsidiaries discussed in Note 1, which represent 100% of the assets, net position and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to those financial statements, is based solely on the reports of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component units were not audited in accordance with Government Auditing Standards.

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

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

## Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Iowa and its aggregate discretely presented component units as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years ended June 30, 2013 and 2012 in accordance with U.S. generally accepted accounting principles.

## Emphasis of Matter

As discussed in Note I, the financial statements of the University of Iowa are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the University of Iowa. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2013 and 2012 and the changes in its financial position and its cash flows for the years ended June 30, 2013 and 2012 in conformity with U.S. generally accepted accounting principles.

## Other Matters

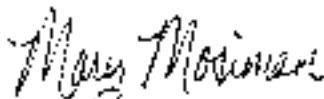
### *Required Supplementary Information*


U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 17 and 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Introduction and Highlights Section and the Transmittal Letter have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on them.

## Other Reporting Required by Government Auditing Standards

Our report on the University of Iowa's internal control over financial reporting and other tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters required by Government Auditing Standards will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be considered in assessing the results of our audits.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 12, 2013



# Management's Discussion and Analysis



Designed to integrate and enhance health care services for children, the 480,000-square-foot UI Children's Hospital (left) is slated for completion in 2016. University of Iowa Health Care dedicated the Iowa River Landing facility (right) in October 2012, providing a new, convenient location for ambulatory care services.

## INTRODUCTION

The following discussion and analysis of the University of Iowa's financial statements presents an overview of the University's financial activities for the years ended June 30, 2013 and 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes that follow.

## FINANCIAL HIGHLIGHTS

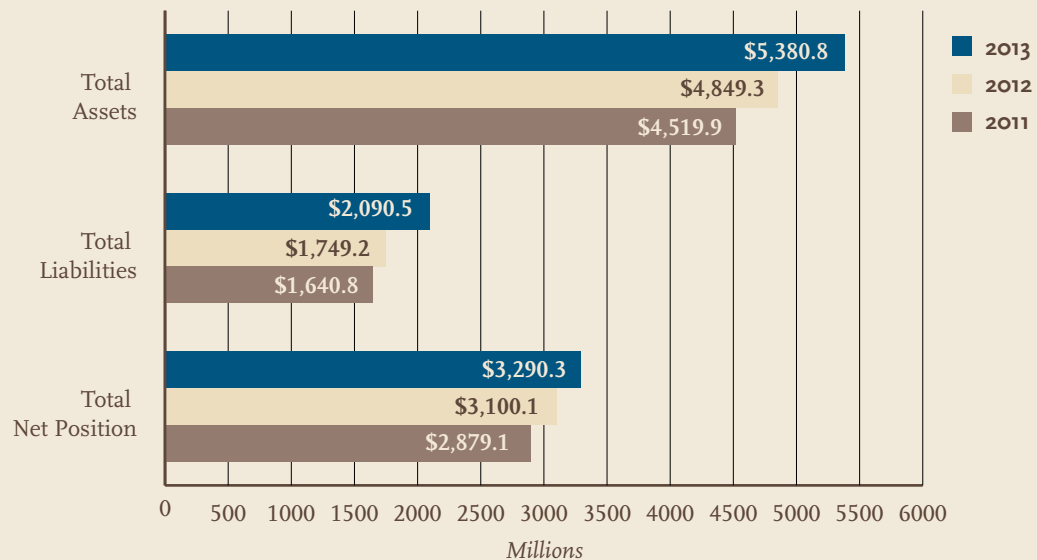
The University's financial position remained strong at June 30, 2013, with assets of \$5,381 million and liabilities of \$2,091 million as compared to June 30, 2012 assets of \$4,849 million and liabilities of \$1,749 million. Net position, the difference between total assets and total liabilities, increased by \$190.2 million (6.1%) from June 30, 2012 to June 30, 2013. The increase from June 30, 2011 to June 30, 2012 was \$221.0 million (7.7%).

The change in net position reports the financial results during the fiscal year by measuring the relationship between revenues and expenses. It is important to note that public universities such as the University of Iowa generally report an operating loss, as the financial reporting model classifies state appropriations, investment income and gifts as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers and constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided.

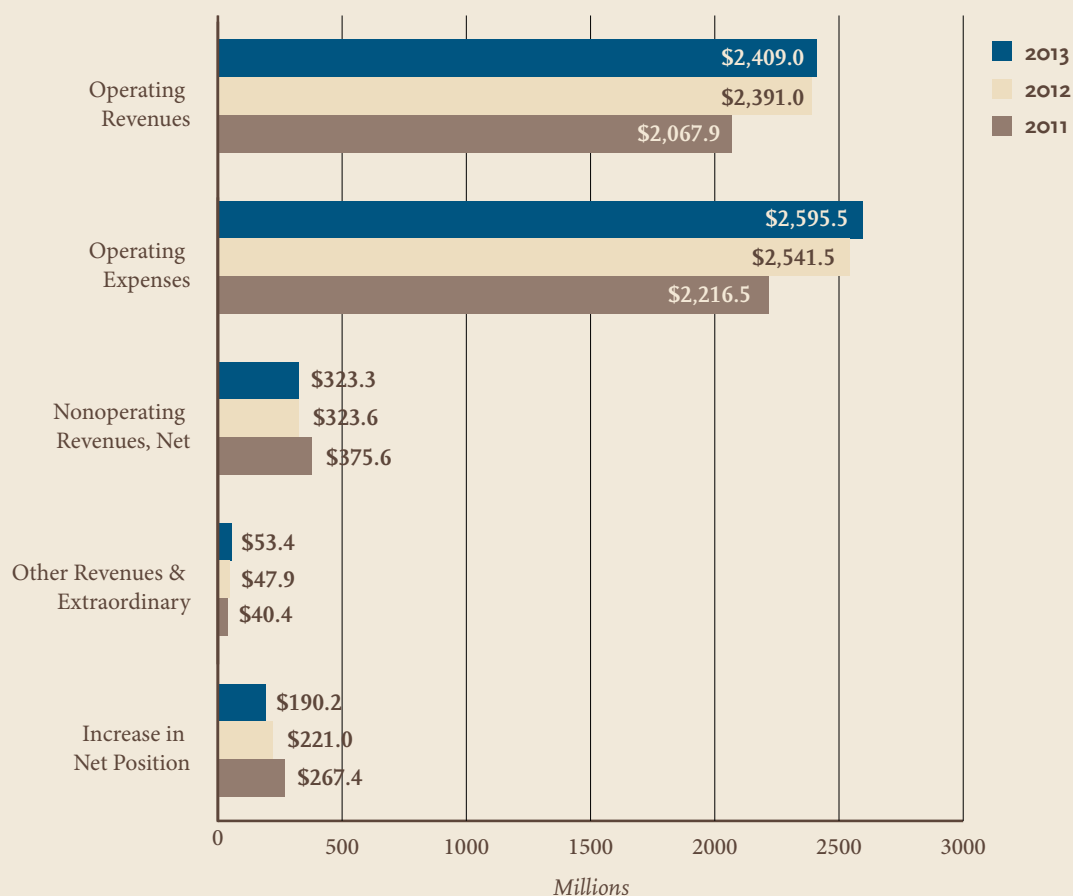
Implementation of GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34 required prior period adjustments for inclusion of the University of Iowa Research Park Corporation as a blended component unit and for the University of Iowa Facilities Corporation (UIFC) for the assets and the related debt and revenue and expenses related to the assets of the UIFC's activities for acquiring and holding property for the benefit and use of the University. A prior period adjustment was also required to record the acquisition of a parcel of land for the University of Iowa Research Park Corporation. The bar graphs for Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position, the tables of Statement of Revenues, Expenses and Changes in Net Position; Net Position, End of Year; Revenues, Expenses and Changes in Net Position; Capital Assets, Net of Depreciation and Amortization; and Bonds, Notes and Capital Leases have been revised to reflect these adjustments.

The following charts compare Total Assets, Total Liabilities and Total Net Position at June 30, 2013, 2012, and 2011 and the components of changes in Net Position at June 30, 2013, 2012 and 2011.

### STATEMENT OF NET POSITION



## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION



The following table summarizes the University's financial activity for the fiscal years ended June 30, 2013, 2012 and 2011.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in millions)

|                                      | 2013      | Restated 2012 | Restated 2011 |
|--------------------------------------|-----------|---------------|---------------|
| Total operating revenues             | \$2,409.0 | \$2,391.0     | \$2,067.9     |
| Total operating expenses             | 2,595.5   | 2,541.5       | 2,216.5       |
| Operating (loss)                     | (186.5)   | (150.5)       | (148.6)       |
| Net nonoperating revenues (expenses) | 323.3     | 323.6         | 375.6         |
| Income before other revenues         | 136.8     | 173.1         | 227.0         |
| Net other revenues                   | 53.4      | 47.9          | 40.4          |
| Increase in net position             | 190.2     | 221.0         | 267.4         |
| Net position, beginning of year      | 3,100.1   | 2,879.1       | 2,611.7       |
| Net position, end of year            | \$3,290.3 | \$3,100.1     | \$2,879.1     |

During the fiscal year ended June 30, 2013, the University increased operating revenues and operating expenses by 0.8% and 2.1%, respectively. The net result from operating revenues and expenses is an operating loss of 7.7% compared to 6.3% last year. However, after factoring in state appropriations, investment income, gifts and other revenues, the University increased net position by \$190.2 million for the year ended June 30, 2013.

During the fiscal year ended June 30, 2013, net nonoperating revenues (expenses) decreased by 0.1%.

## USING THIS ANNUAL REPORT

The University's annual report consists of three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These statements provide information on the University as a whole and present a long-term and short-term view of the University's activities.

## THE STATEMENT OF NET POSITION AND THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position present the financial position of the University at the end of the fiscal year and report the University's net position and changes in net position during the current fiscal year, respectively. Net position, the difference between total assets and total liabilities, is one indicator of the current financial condition of the University, while the change in net position over time determines whether the financial health of the University is improving. To assess the overall health of the University, non-financial factors are relevant as well. Such factors include student enrollment, patient volumes, the University's ability to attract and retain qualified faculty and staff and the overall condition of the University's buildings and infrastructure.

These statements are reported under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or paid.

The following table summarizes the University's assets, liabilities, and net position for the years ended June 30, 2013, 2012 and 2011.

### NET POSITION, END OF YEAR (in millions)

|                                  | 2013             | Restated<br>2012 | Restated<br>2011 |
|----------------------------------|------------------|------------------|------------------|
| <i>Assets</i>                    |                  |                  |                  |
| Current assets                   | \$2,520.1        | \$2,229.8        | \$2,131.5        |
| Capital assets, net              | 2,649.6          | 2,445.4          | 2,248.5          |
| Other noncurrent assets          | 211.1            | 174.1            | 139.9            |
| <b>Total Assets</b>              | <b>5,380.8</b>   | <b>4,849.3</b>   | <b>4,519.9</b>   |
| <i>Liabilities</i>               |                  |                  |                  |
| Current liabilities              | 766.7            | 727.0            | 604.7            |
| Noncurrent liabilities           | 1,323.8          | 1,022.2          | 1,036.1          |
| <b>Total Liabilities</b>         | <b>2,090.5</b>   | <b>1,749.2</b>   | <b>1,640.8</b>   |
| <i>Net Position</i>              |                  |                  |                  |
| Net investment in capital assets | 1,615.4          | 1,528.3          | 1,394.5          |
| Restricted                       | 390.5            | 341.5            | 335.5            |
| Unrestricted                     | 1,284.4          | 1,230.3          | 1,149.1          |
| <b>Total Net Position</b>        | <b>\$3,290.3</b> | <b>\$3,100.1</b> | <b>\$2,879.1</b> |

The following table summarizes the University's revenues, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011.

## REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in millions)

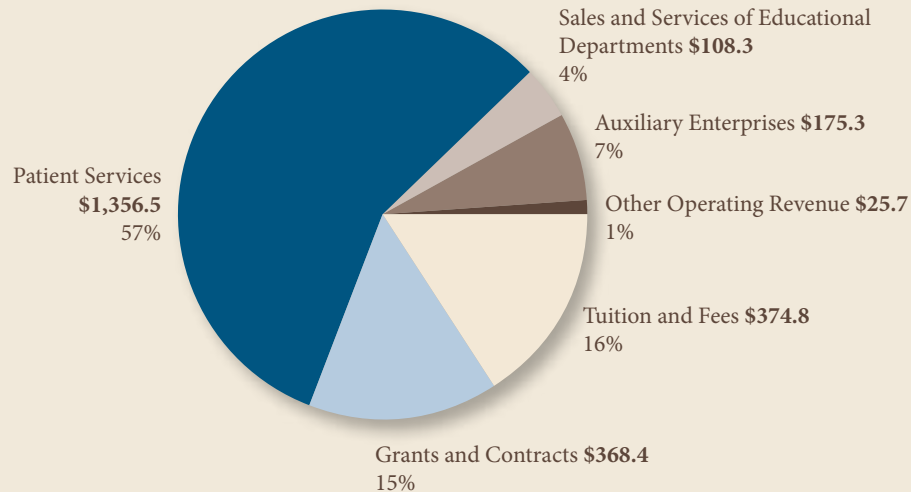
|   | 2013           | Restated<br>2012 | Restated<br>2011 |
|---|----------------|------------------|------------------|
| <i>Operating Revenues:</i>                            |                |                  |                  |
| Tuition and fees, net of scholarship allowances       | \$374.8        | \$357.1          | \$310.1          |
| Grants and contracts                                  | 368.4          | 388.8            | 394.1            |
| Patient services, net of allowances                   | 1,356.5        | 1,319.6          | 1,065.7          |
| Sales and services of educational departments         | 108.3          | 103.7            | 105.1            |
| Auxiliary enterprises, net of scholarship allowances  | 175.3          | 175.3            | 166.7            |
| Other operating revenue                               | 25.7           | 46.5             | 26.2             |
| <b>Total Operating Revenues</b>                       | <b>2,409.0</b> | <b>2,391.0</b>   | <b>2,067.9</b>   |
| <i>Operating Expenses:</i>                            |                |                  |                  |
| Instruction   | 336.0          | 336.6            | 314.9            |
| Research  | 287.3          | 290.1            | 291.9            |
| Academic support                                      | 163.1          | 137.9            | 120.3            |
| Patient services                                      | 1,190.0        | 1,165.4          | 882.1            |
| Depreciation and amortization                         | 167.8          | 160.1            | 157.5            |
| Auxiliary enterprises                                 | 157.5          | 165.1            | 157.1            |
| Other operating expenses                              | 293.8          | 286.3            | 292.7            |
| <b>Total Operating Expenses</b>                       | <b>2,595.5</b> | <b>2,541.5</b>   | <b>2,216.5</b>   |
| <b>Operating (Loss)</b>                               | <b>(186.5)</b> | <b>(150.5)</b>   | <b>(148.6)</b>   |
| <i>Nonoperating Revenues (Expenses):</i>              |                |                  |                  |
| State appropriations                                  | 229.6          | 232.0            | 245.2            |
| Investment income, net of investment expenses         | 61.2           | 56.7             | 104.3            |
| Gifts   | 74.1           | 68.4             | 64.8             |
| Interest expense                                      | (36.2)         | (32.1)           | (26.9)           |
| Loss on disposal of capital assets                    | (5.4)          | (1.4)            | (11.8)           |
| <b>Net Nonoperating Revenues (Expenses)</b>           | <b>323.3</b>   | <b>323.6</b>     | <b>375.6</b>     |
| <b>Income Before Other Revenues</b>                   | <b>136.8</b>   | <b>173.1</b>     | <b>227.0</b>     |
| <i>Other Revenues:</i>                                |                |                  |                  |
| Capital appropriations, State                         | 19.9           | 10.5             | 9.7              |
| Capital contributions and grants                      | 9.2            | 20.2             | 1.1              |
| FEMA reimbursement for capital costs, net of expenses | 24.3           | 15.8             | 16.0             |
| Other revenues  | -              | 1.4              | 13.6             |
| <b>Net Other Revenues</b>                             | <b>53.4</b>    | <b>47.9</b>      | <b>40.4</b>      |
| <b>Increase in Net Position</b>                       | <b>190.2</b>   | <b>221.0</b>     | <b>267.4</b>     |
| Net position, beginning of year                       | \$3,100.1      | \$2,879.1        | \$2,611.7        |
| Net position, end of year                             | \$3,290.3      | \$3,100.1        | \$2,879.1        |

The Statement of Revenues, Expenses and Changes in Net Position reflects a positive year with an increase in net position for the fiscal year ended June 30, 2013 of \$190.2 million (6.1%).

## OPERATING REVENUES

For the fiscal years (FY) ended June 30, 2013, 2012 and 2011, operating revenues totaled \$2,409 million, \$2,391 million and \$2,068 million, respectively. Operating revenues increased \$18 million (0.8%) over FY 2012 revenues. The increase is primarily from student tuition and fees and patient services. The following is a graphic illustration of revenues by source which are used to fund the University's operating activities for the year ended June 30, 2013.

### FY2013 OPERATING REVENUES \$2,409.0 million

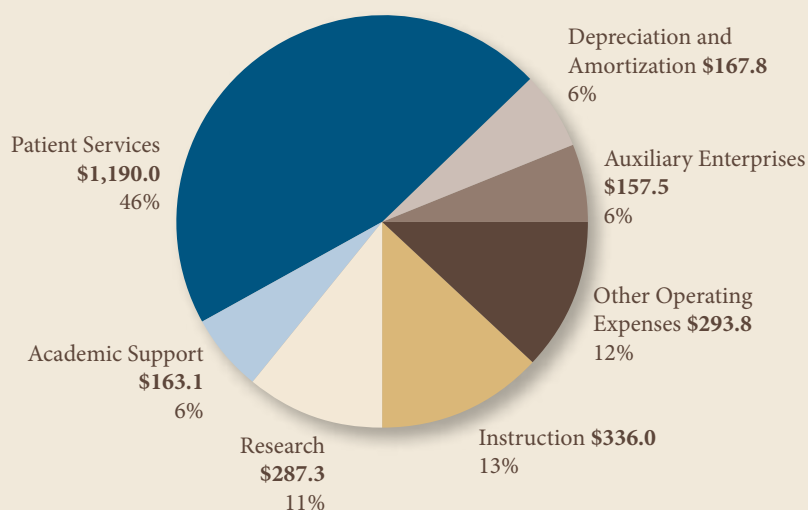


In the most recent National Science Foundation, Higher Education Research and Development survey (2011), the University of Iowa ranked 48th among public and private universities combined in terms of federally financed expenditures for research and development. Grants, contracts and other sponsored agreements revenue exceeded \$368 million in FY 2013, \$388 million in FY 2012 and \$394 million in FY 2011.

## OPERATING EXPENSES

For the fiscal years ended June 30, 2013, 2012 and 2011, operating expenses totaled \$2,595 million, \$2,542 million and \$2,216 million, respectively. Operating expenses increased \$53 million (2.1%) over FY 2012 expenses. The increase is primarily from patient services, academic support, and public service. The following is a graphic illustration of the University's operating expenses for the year ended June 30, 2013.

## FY2013 OPERATING EXPENSES \$2,595.5 million



Other operating expenses include Public Service (2013, \$80 million; 2012, \$70 million), Student Services (2013, \$31 million; 2012, \$30 million), Institutional Support (2013, \$79 million; 2012, \$75 million), Operation and Maintenance of Plant (2013, \$75 million; 2012, \$78 million), Scholarships and Fellowships (2013, \$29 million; 2012, \$29 million), and Other (2013, \$0 million; 2012, \$4 million).

## NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues and expenses netted a positive \$323.2 million for the fiscal year ended June 30, 2013 and a positive \$323.6 million for the fiscal year ended June 30, 2012.

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2013, 2012 and 2011.

### NONOPERATING REVENUES (EXPENSES) (in millions)

|   | 2013           | 2012           | 2011           |
|---|----------------|----------------|----------------|
| <i>Nonoperating Revenues (Expenses)</i>       |                |                |                |
| State appropriations                          | \$229.6        | \$232.0        | \$245.2        |
| Investment income, net of investment expenses | 61.2           | 56.7           | 104.3          |
| Gifts   | 74.1           | 68.4           | 64.8           |
| Interest expense                              | (36.2)         | (32.1)         | (26.9)         |
| Loss on disposal of capital assets            | (5.4)          | (1.4)          | (11.8)         |
| <b>Net Nonoperating Revenues (Expenses)</b>   | <b>\$323.3</b> | <b>\$323.6</b> | <b>\$375.6</b> |

State appropriations decreased by \$2.4 million (1.0%) in the fiscal year ended June 30, 2013. However, investment income increased by \$4.5 million (7.9%) and gifts increased by \$5.7 million (8.3%) in the fiscal year ended June 30, 2013.

## OTHER REVENUES

Not included, by definition, as nonoperating revenues and expenses are state appropriations for capital projects, contributions and grants for capital projects and reimbursement from FEMA for capital costs, net of expenses. The other revenues increased from \$47.9 million for the fiscal year ended June 30, 2012 to \$53.4 million for the fiscal year ended June 30, 2013 (11.5%). Capital appropriations, contributions, and grants decreased from \$30.7 million for the fiscal year ended June 30, 2012 to \$29.1 million for the fiscal year ended June 30, 2013, a decrease of \$1.6 million, or 5.2%. For the fiscal years ended June 30, 2013 and 2012, \$24.3 million and \$15.9 million, respectively, was recognized in FEMA reimbursement for capital costs, net of expenses. The net revenue is intended to fund flood-related expenses.

The other revenues of \$1.4 million from the fiscal year ended June 30, 2012 represents the restatement due to the prior period adjustments referenced earlier under Financial Highlights.

The University endowment is essentially a perpetuity for the benefit of the University. The endowments and similar long term assets are invested in accordance with the Board of Regents, State of Iowa (Regents) policies to maximize total return over the long term, with an appropriate level of risk. All investment managers and investment strategies are approved by the Regents and reviewed by the Regents at least quarterly. Any reduction in the fair value of the endowment portfolio will not have a significant, immediate impact on the portion of investment income available to support current year operating expenses since the University makes such distributions pursuant to its spending rate policy as described in Note 2 to the financial statements.

### **Other Revenues**

After insurance recoveries, FEMA has agreed to reimburse the University at 90% of actual cost of approved project work orders. All FEMA related activity is reported in Other Revenues. In fiscal year 2013, the University received \$28.9 million in FEMA reimbursements towards flood-related costs expended (\$24.3 million for capital costs and \$4.6 million for expenses).

## STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information regarding the University's cash receipts and disbursements during the fiscal year. This provides an assessment of the University's ability to generate net cash flows and meet obligations as they come due.

The following table summarizes the University's cash flow for the fiscal years ended June 30, 2013, 2012 and 2011.

### CASH FLOWS FOR THE YEAR (in millions)

|  | 2013    | 2012    | 2011    |
|--|---------|---------|---------|
| <i>Cash provided (used) by:</i>              |         |         |         |
| Operating activities                         | \$43.9  | \$42.4  | \$37.2  |
| Noncapital financing activities              | 319.7   | 340.6   | 348.2   |
| Capital and related financing activities     | (85.2)  | (277.7) | (216.8) |
| Investing activities                         | (202.6) | (100.7) | (112.6) |
| Net change in cash and cash equivalents      | 75.8    | 4.6     | 56.0    |
| Cash and cash equivalents, beginning of year | 657.5   | 652.9   | 596.9   |
| Cash and cash equivalents, end of year       | \$733.3 | \$657.5 | \$652.9 |



The University's overall liquidity increased during the year, with a net increase in cash and cash equivalents of \$75.8 million. The increase is primarily due to increases in collections for tuition and patient services.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The following table summarizes the University's capital assets, net of depreciation, as of June 30, 2013, 2012 and 2011.

### CAPITAL ASSETS, NET OF DEPRECIATION AND AMORTIZATION

(in millions)

|                                  | 2013             | Restated<br>2012 | Restated<br>2011 |
|----------------------------------|------------------|------------------|------------------|
| <i>Nondepreciable</i>            |                  |                  |                  |
| Land                             | \$63.1           | \$53.8           | \$41.1           |
| Construction in progress         | 386.9            | 256.3            | 236.5            |
| Intangibles in development       | 6.4              | 5.1              | 6.4              |
| Art & historical collections     | 33.7             | 33.3             | 33.2             |
| Library materials                | 285.6            | 272.9            | 256.9            |
| <i>Depreciable</i>               |                  |                  |                  |
| Land improvements, net           | 6.8              | 5.8              | 6.2              |
| Infrastructure, net              | 236.9            | 220.2            | 216.2            |
| Buildings, net                   | 1,374.0          | 1,339.3          | 1,209.0          |
| Equipment, net                   | 211.0            | 213.7            | 198.1            |
| Intangibles, net                 | 45.2             | 45.0             | 44.9             |
| <b>Total Capital Assets, Net</b> | <b>\$2,649.6</b> | <b>\$2,445.4</b> | <b>\$2,248.5</b> |

The University of Iowa is currently in construction on numerous major, impactful projects and is in the midst of an 18-month period that has and will see a total construction bidding amount of roughly \$1 billion. A primary contributor to the current construction workload is related to recovery from the 2008 flood. Construction has begun on the three major flood replacement projects; Art Studio Building, School of Music and Hancher Auditorium. Combined, these FEMA-supported projects are budgeted at \$402 million and all three are scheduled for completion in 2016. The demolition of the buildings to be replaced is also being advanced with Hancher/Voxman/Clapp and portions of the original Art Building complex scheduled for completion by the end of 2013. There are a number of major flood repair/recovery/protection projects that have also been bid and are moving into construction. The Iowa Memorial Union (\$27 million), the Theatre Building (\$8 million) and the Mayflower Residence Hall (\$13 million) have all begun construction. Recovery of the Iowa Advanced Technology Laboratory (\$18 million) will be bid in January, 2014.

Construction work continues on the \$133 million Pappajohn Biomedical Discovery Building, with completion expected in summer, 2014. Construction is now well underway for a new 500-bed residence hall on the west side of the Iowa River. The structure of this 10-story \$53 million facility, the first new residence hall on the UI campus since 1968, is being erected and the project will be complete in the summer of 2015. The second phase of the UI Football Operations project is now under construction, with completion expected in the fall of 2014. This project is budgeted

at \$35 million. Interior renovations and modernization of the 1973-built College of Dentistry Building, budgeted at \$47 million, continues with completion scheduled for 2016. The first Design-Build/Alternative Delivery project by a Regents institution is now under construction; the \$15 million indoor turf addition to the Hawkeye Campus Tennis and Recreation Center will be completed by fall, 2014. The UIHC Children's Hospital (\$291 million) and the associated parking structure (\$70 million) are well into construction and are scheduled for completion in 2016. Projects in design or study phases include a \$96 million College of Pharmacy building, a \$30 million addition to the College of Engineering Seamans Center and a \$25 million building for the Department of Psychology, within the College of Liberal Arts and Sciences. Additionally, the University has begun planning/programming for a new Museum of Art to replace the flood damaged facility, which can no longer host the UI collection due to inability to insure the collection in the former riverside facility. It is expected this project will be delivered as a private-public partnership. While specific timing for these projects has yet to be determined, it is expected that all may begin construction in 2015/16.

Additional information about the University's capital assets is presented in Note 4 to the financial statements.

### **Debt**

As of June 30, 2013, the University had \$1,244.2 million in outstanding bonds, notes and capital leases, an increase of \$268.5 million over the prior year with the largest component being a \$190 million UIHC debt issuance. Debt principal payments of \$45.1 million and interest payments of \$34.8 million were made during the fiscal year ended June 30, 2013.

The following table summarizes outstanding debt by type as of June 30, 2013, 2012 and 2011.

### **BONDS, NOTES AND CAPITAL LEASES** (in millions)

|                               | 2013             | Restated<br>2012 | Restated<br>2011 |
|-------------------------------|------------------|------------------|------------------|
| Revenue bonds                 | \$1,200.8        | \$958.9          | \$914.9          |
| Notes                         | 22.1             | 16.8             | 28.0             |
| Capital leases                | 21.3             | -                | -                |
| <b>Total Debt Outstanding</b> | <b>\$1,244.2</b> | <b>\$975.7</b>   | <b>\$942.9</b>   |

During the fiscal year ended June 30, 2013, \$271 million of new revenue bonds were issued. The revenue bond proceeds were \$190 million for construction of a new children's hospital, \$29 million for construction of a new residence hall, \$25 million for construction of a new patient parking facility and \$27 million for construction of a new biomedical discovery facility. The University carries an Aa1 institutional bond rating from Moody's and an AA rating from Standard & Poor's. UIHC carries a rating of AA2 and AA-. Additional information related to the University's long-term liabilities is presented in Note 5 to the financial statements.

## **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The University of Iowa continues to have significant appeal to prospective students. This is attributable, in part, to the University's high academic standards and its national reputation as a best buy due to its relative low cost of education. The University continues to draw a high percentage of students from outside the state of Iowa, most notably from the state of Illinois. In addition international non-resident undergraduate enrollment continues to increase and is at an all-time high of 2,259 students. The University is happy to report it has the most diversified student body since it began as a University in 1847. Total first year undergraduate enrollment for the 2013-2014 academic term is 4,460 which is on par with what it has been in the last few years. Total enrollment for fall 2013 is 31,065 which is down from a record high of 31,498 in the fall of 2012. Much of the decrease is attributable to lower enrollment in graduate and professional degree programs.

Other revenue streams are also in good condition. As economic conditions continue to improve in the United States and around the globe, the University has experienced nice gains in its operating, intermediate and long term investment pools. The University is benefitting from the run-up in the financial markets during this period but doing so with attention to liquidity and risk. The University continues to work diligently with the Board of Regents investment advisor, Wilshire & Associates, to ensure a prudently managed and well diversified investment portfolio.

The University continues to be one of the nation's top research-intensive universities with grant and contract research awards to the University exceeding \$400 million per year for the past 5 years. The recent completion of new research labs, hiring of highly productive faculty within focused clusters, and infrastructure improvements will enable the University's researchers to be more productive and better positioned to compete for external grants and contracts as new sponsored research opportunities emerge.

The University of Iowa Hospitals & Clinics (UIHC) continue to be recognized as one of the nation's best and achieved successful operating results for fiscal year 2013 with an operating margin of 3.5%. UIHC is ranked nationally in six adult and seven pediatric specialties and was also high-performing in eight adult specialties. The University of Iowa Health Care continues to report strong patient census data and good financial performance overall.

The state economy continues to report solid revenue growth over the prior year. The state increased the University's general education fund appropriation by \$5.6 million or approximately 2.6% for fiscal year 2014.

# Statement of Net Position

## June 30, 2013 (in thousands)

With comparative statement as of June 30, 2012

| ASSETS  | 2013               | Restated<br>2012   |
|---|--------------------|--------------------|
| <i>Current Assets:</i>                          |                    |                    |
| Cash and cash equivalents                       | \$611,849          | \$551,989          |
| Restricted cash and cash equivalents            | 72,214             | 79,146             |
| Investments                                     | 1,239,972          | 1,146,882          |
| Restricted investments                          | 156,258            | -                  |
| Deposits with trustees                          | 20,443             | 19,209             |
| Accounts receivable, net                        | 282,192            | 277,354            |
| Notes receivable, current portion, net          | 2,286              | 2,483              |
| Interest receivable                             | 1,242              | 752                |
| Due from government agencies                    | 70,830             | 101,109            |
| Inventories                                     | 28,643             | 30,301             |
| Prepaid expenses and other current assets       | 34,132             | 20,608             |
| Total current assets                            | 2,520,061          | 2,229,833          |
| <i>Noncurrent Assets:</i>                       |                    |                    |
| Restricted cash and cash equivalents            | 49,219             | 26,357             |
| Restricted investments                          | 74,381             | 74,630             |
| Notes receivable, noncurrent portion, net       | 23,866             | 23,592             |
| Capital assets, net                             | 2,649,564          | 2,445,454          |
| Investment in wholly owned subsidiary           | 63,688             | 49,471             |
| Total noncurrent assets                         | 2,860,718          | 2,619,504          |
| <b>Total Assets</b>                             | <b>\$5,380,779</b> | <b>\$4,849,337</b> |
| <br><b>LIABILITIES AND NET POSITION</b>         |                    |                    |
| <i>Current Liabilities:</i>                     |                    |                    |
| Accounts payable                                | \$118,292          | \$105,405          |
| Salaries and wages payable                      | 154,176            | 148,508            |
| Unpaid claims                                   | 25,690             | 23,116             |
| Unearned revenue                                | 57,093             | 51,616             |
| Interest payable                                | 15,808             | 13,561             |
| Long term debt, current portion                 | 49,922             | 72,006             |
| Other long term liabilities, current portion    | 92,854             | 90,180             |
| Deposits held in custody for others             | 252,832            | 222,593            |
| Total current liabilities                       | 766,667            | 726,985            |
| <i>Noncurrent Liabilities:</i>                  |                    |                    |
| Long term debt, noncurrent portion              | 1,194,321          | 903,663            |
| Other long term liabilities, noncurrent portion | 129,454            | 118,531            |
| Total noncurrent liabilities                    | 1,323,775          | 1,022,194          |
| <b>Total Liabilities</b>                        | <b>2,090,442</b>   | <b>1,749,179</b>   |
| <i>Net Position:</i>                            |                    |                    |
| Net investment in capital assets                | 1,615,413          | 1,528,347          |
| Restricted:                                     |                    |                    |
| Nonexpendable                                   | 108,231            | 92,655             |
| Expendable                                      | 282,277            | 248,859            |
| Unrestricted                                    | 1,284,416          | 1,230,297          |
| <b>Total Net Position</b>                       | <b>3,290,337</b>   | <b>3,100,158</b>   |
| <b>Total Liabilities and Net Position</b>       | <b>\$5,380,779</b> | <b>\$4,849,337</b> |

The accompanying notes are an integral part of these financial statements.

# Statement of Revenues, Expenses and Changes in Net Position

## For the year ended June 30, 2013 (in thousands)

With comparative statement for the year ended June 30, 2012

| <i>Operating Revenues:</i>   | 2013        | Restated<br>2012 |
|--|-------------|------------------|
| Student tuition and fees, net of scholarship allowances of \$91,907 and \$85,212 for the years ended June 30, 2013 and 2012, respectively (pledged as payment on revenue bonds)                              | \$374,773   | \$357,076        |
| Federal grants and contracts   | 320,585     | 341,181          |
| State and other governmental grants and contracts  | 13,653      | 12,761           |
| Nongovernmental grants and contracts   | 34,210      | 34,874           |
| Patient services, net of write-offs, contractual adjustments and indigent care of \$2,280,759 and \$2,100,909 for the years ended June 30, 2013 and 2012, respectively (pledged as payment on revenue bonds) | 1,356,530   | 1,319,642        |
| Sales and services of educational departments  | 108,291     | 103,758          |
| Interest on student loans  | 763         | 623              |
| Auxiliary enterprises, net of scholarship allowances of \$8,365 and \$7,748 for the years ended June 30, 2013 and 2012, respectively (pledged as payment on revenue bonds)                                   | 175,299     | 175,223          |
| Other operating revenue  | 24,895      | 45,893           |
| Total Operating Revenues   | 2,408,999   | 2,391,031        |
| <i>Operating Expenses:</i>   |             |                  |
| Instruction  | 335,972     | 336,587          |
| Research   | 287,370     | 290,066          |
| Public service   | 80,060      | 69,612           |
| Academic support   | 163,080     | 137,860          |
| Patient services   | 1,189,980   | 1,165,412        |
| Student services   | 31,131      | 30,209           |
| Institutional support  | 78,580      | 74,824           |
| Operation and maintenance of plant   | 74,863      | 78,289           |
| Scholarships and fellowships   | 28,726      | 29,162           |
| Depreciation and amortization  | 167,827     | 160,079          |
| Auxiliary enterprises  | 157,475     | 165,067          |
| Other operating expenses   | 398         | 4,344            |
| Total Operating Expenses   | 2,595,462   | 2,541,511        |
| <b>Operating (Loss)</b>  | (186,463)   | (150,480)        |
| <i>Nonoperating Revenues (Expenses):</i>   |             |                  |
| State appropriations   | 229,634     | 231,959          |
| Investment income, net of investment expenses of \$1,059 and \$1,089 for the years ended June 30, 2013 and 2012, respectively  | 61,192      | 56,729           |
| Gifts  | 74,090      | 68,377           |
| Interest expense   | (36,235)    | (32,134)         |
| Loss on disposal of capital assets   | (5,435)     | (1,356)          |
| Net Nonoperating Revenues (Expenses)   | 323,246     | 323,575          |
| <b>Income Before Other Revenues</b>  | 136,783     | 173,095          |
| <i>Other Revenues:</i>   |             |                  |
| Capital appropriations, State  | 19,888      | 10,501           |
| Capital contributions and grants   | 9,164       | 20,177           |
| FEMA reimbursement for capital costs, net of expenses  | 24,344      | 15,851           |
| Other revenues   | -           | 1,442            |
| Net Other Revenues   | 53,396      | 47,971           |
| <b>Increase in Net Position</b>  | 190,179     | 221,066          |
| <i>Net Position:</i>   |             |                  |
| Net position, beginning of year  | 3,100,158   | 2,879,092        |
| Net position, end of year  | \$3,290,337 | \$3,100,158      |

The accompanying notes are an integral part of these financial statements.

# Statement of Cash Flows

## For the Year ended June 30, 2013 (in thousands)

With comparative statement for the year ended June 30, 2012

|  | 2013             | Restated<br>2012 |
|--|------------------|------------------|
| <i>Cash Flows From Operating Activities:</i>                       |                  |                  |
| Tuition and fees   | \$371,771        | \$357,098        |
| Patient receipts   | 1,345,040        | 1,303,620        |
| Grants and contracts   | 386,358          | 400,740          |
| Payments for salaries and benefits                                 | (1,492,044)      | (1,439,720)      |
| Payments for goods and services                                    | (714,303)        | (712,564)        |
| Scholarships   | (28,726)         | (29,162)         |
| Loans issued to students   | (5,346)          | (5,202)          |
| Collections of loans from students                                 | 4,513            | 5,655            |
| Interest on loans to students                                      | 448              | 672              |
| Sales of educational activities                                    | 111,720          | 104,634          |
| Other receipts   | 45,263           | 48,717           |
| Auxiliary enterprise receipts                                      | 176,697          | 172,940          |
| Auxiliary enterprise payments                                      | (157,475)        | (165,067)        |
| <b>Net Cash Provided by Operating Activities</b>                   | <b>43,916</b>    | <b>42,361</b>    |
| <i>Cash Flows From Noncapital Financing Activities:</i>            |                  |                  |
| State appropriations   | 229,634          | 231,959          |
| Proceeds from noncapital gifts                                     | 74,090           | 68,377           |
| Funds held for others receipts                                     | 284,863          | 256,796          |
| Funds held for others payments                                     | (269,899)        | (216,493)        |
| William D. Ford Direct Lending & Plus Loans receipts               | 202,126          | 212,940          |
| William D. Ford Direct Lending & Plus Loans made                   | (201,125)        | (213,182)        |
| Other noncapital receipts (payments)                               | (14)             | 241              |
| <b>Net Cash Provided by Noncapital Financing Activities</b>        | <b>319,675</b>   | <b>340,638</b>   |
| <i>Cash Flows From Capital And Related Financing Activities:</i>   |                  |                  |
| Acquisition and construction of capital assets                     | (355,438)        | (329,370)        |
| Interest paid on capital debt and leases                           | (34,751)         | (30,935)         |
| Proceeds from sale of capital assets                               | 563              | 552              |
| Capital appropriations   | 19,709           | 11,621           |
| Capital gifts and grants received                                  | 8,436            | 16,038           |
| Deposits with trustee  | (1,234)          | 28,444           |
| Principal paid on capital debt and leases                          | (45,123)         | (50,503)         |
| Proceeds from capital debt and leases                              | 296,328          | 55,523           |
| Other capital and related financing receipts                       | 83,723           | 107,393          |
| Other capital and related financing payments                       | (57,400)         | (86,450)         |
| <b>Net Cash (Used) by Capital and Related Financing Activities</b> | <b>(85,187)</b>  | <b>(277,687)</b> |
| <i>Cash Flows From Investing Activities:</i>                       |                  |                  |
| Interest and dividends on investments                              | 35,679           | 34,522           |
| Proceeds from sale and maturities of investments                   | 181,390          | 126,852          |
| Purchase of investments  | (419,683)        | (262,144)        |
| <b>Net Cash (Used) by Investing Activities</b>                     | <b>(202,614)</b> | <b>(100,770)</b> |
| <b>Net Increase in Cash and Cash Equivalents</b>                   | <b>75,790</b>    | <b>4,542</b>     |
| Cash and Cash Equivalents, beginning of year                       | 657,492          | 652,950          |
| Cash and Cash Equivalents, end of year                             | <b>\$733,282</b> | <b>\$657,492</b> |

# Statement of Cash Flows

## For the year ended June 30, 2013 (in thousands)

With comparative statement for the year ended June 30, 2012

|   | 2013             | Restated<br>2012 |
|---|------------------|------------------|
| <i>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:</i>    |                  |                  |
| Cash and cash equivalents in current assets   | \$611,849        | \$551,989        |
| Current restricted cash and cash equivalents  | 72,214           | 79,146           |
| Noncurrent restricted cash and cash equivalents   | 49,219           | 26,357           |
| <b>Total Cash and Cash Equivalents</b>  | <b>\$733,282</b> | <b>\$657,492</b> |
| <i>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:</i> |                  |                  |
| Operating (loss)  | (\$186,463)      | (\$150,480)      |
| Adjustments to reconcile operating (loss) to net cash provided by operating activities: |                  |                  |
| Depreciation and amortization expense   | 167,827          | 160,079          |
| <b>Changes in operating assets and liabilities:</b>                                     |                  |                  |
| Accounts receivable, net  | (9,988)          | (16,489)         |
| Interest receivable   | 315              | (49)             |
| Inventories   | 1,658            | 870              |
| Prepaid expenses and other current assets   | (13,524)         | (671)            |
| Due from government agencies, net of receivable from State for capital appropriations   | 30,459           | 16,592           |
| Notes receivable, net   | (77)             | 272              |
| Accounts payable  | 26,423           | 8,587            |
| Salaries and wages payable  | 5,668            | 13,628           |
| Unpaid claims liability   | 2,574            | (2,539)          |
| Other long term liabilities   | 580              | 218              |
| Unearned revenue  | 5,447            | (2,376)          |
| Other postemployment benefits other than pension liability                              | 10,980           | 11,182           |
| Compensated absences  | 5,444            | 7,166            |
| Early retirement benefits   | (3,407)          | (3,629)          |
| <b>Net Cash Provided by Operating Activities</b>  | <b>\$43,916</b>  | <b>\$42,361</b>  |
| <i>Significant Noncash Transactions:</i>  |                  |                  |
| Assets acquired under capital leases  | \$21,313         | \$27,430         |
| Assets acquired by gift   | \$727            | \$4,139          |

The accompanying notes are an integral part of these financial statements.

**Consolidated Statement of Financial Position**

June 30, 2013 (in thousands)

With comparative statement as of June 30, 2012

| <b>ASSETS</b>  | <b>2013</b>        | <b>2012</b>        |
|--|--------------------|--------------------|
| Cash and cash equivalents  | \$14,355           | \$13,613           |
| <i>Receivables:</i>  |                    |                    |
| Pledges, at net present value, less allowance for doubtful pledges | 105,026            | 104,656            |
| Other receivables and prepaids                                     | 434                | 445                |
|  | 105,460            | 105,101            |
| <i>Investments:</i>  |                    |                    |
| <b>Carried at fair value</b>                                       |                    |                    |
| U.S. Government and governmental agency securities                 | 5,177              | 5,275              |
| Corporation stocks, primarily common stocks                        | 3,446              | 4,006              |
| Managed separate investment accounts, primarily equity securities  | 922,708            | 841,399            |
| Assets in living trusts, testamentary trusts and gift annuities    | 63,761             | 56,249             |
| Beneficial interest in perpetual trusts                            | 11,916             | 11,012             |
| <b>Other</b>   |                    |                    |
| Real estate  | 6,135              | 6,912              |
| Cash value of life insurance                                       | 5,433              | 4,997              |
| Other  | 936                | 936                |
|  | 1,019,512          | 930,786            |
| Property leasehold interest and equipment, net                     | 19,750             | 20,235             |
| <b>Total Assets</b>  | <b>\$1,159,077</b> | <b>\$1,069,735</b> |
| <b>LIABILITIES AND NET ASSETS</b>                                  |                    |                    |
| <i>Liabilities:</i>  |                    |                    |
| Accounts payable and accrued expenses                              | \$1,646            | \$1,893            |
| Annuity and life income obligations                                | 28,123             | 25,423             |
| Capital lease obligation   | 4,430              | 5,075              |
| Amounts held on behalf of others                                   | 89,034             | 80,457             |
| Total liabilities  | 123,233            | 112,848            |
| <i>Net Assets:</i>   |                    |                    |
| Unrestricted   | 23,120             | 21,600             |
| Temporarily restricted   | 486,934            | 425,271            |
| Permanently restricted   | 525,790            | 510,016            |
| Total net assets   | 1,035,844          | 956,887            |
| <b>Total Liabilities and Net Assets</b>                            | <b>\$1,159,077</b> | <b>\$1,069,735</b> |

The accompanying notes are an integral part of these financial statements.



# Consolidated Statement of Activities

## For the year ended June 30, 2013 (in thousands)

With comparative statement for the year ended June 30, 2012

|  | Unrestricted | Temporarily Restricted | Permanently Restricted | 2013 Total  | 2012 Total |
|--|--------------|------------------------|------------------------|-------------|------------|
| <i>Support and revenue:</i>  |              |                        |                        |             |            |
| Total contributions raised   | \$666        | \$81,319               | \$13,281               | \$95,266    | \$76,358   |
| Change in value of split interest agreements   | 22           | 2,340                  | 4,172                  | 6,534       | (347)      |
| Less amounts raised on behalf of others  | -            | (4,799)                | (2,335)                | (7,134)     | (6,923)    |
| Total contributions and change in value of split interest agreements                         | 688          | 78,860                 | 15,118                 | 94,666      | 69,088     |
| <b>Investment income:</b>  |              |                        |                        |             |            |
| Interest and dividends   | 2,017        | 3,335                  | -                      | 5,352       | 4,590      |
| Asset based management and service fees  | 11,038       | (10,856)               | -                      | 182         | 152        |
| Net appreciation (depreciation) in fair value of investments                                 | 1,299        | 80,786                 | -                      | 82,085      | (24,083)   |
| Less amounts attributed to others  | -            | (7,553)                | -                      | (7,553)     | 2,979      |
| Total investment income  | 14,354       | 65,712                 | -                      | 80,066      | (16,362)   |
| <b>Other revenue:</b>  |              |                        |                        |             |            |
| Fundraising service revenue and other  | 9,543        | 3,497                  | -                      | 13,040      | 12,889     |
| Less amounts attributed to others  | -            | (562)                  | -                      | (562)       | (1,994)    |
| Total other revenue  | 9,543        | 2,935                  | -                      | 12,478      | 10,895     |
| Net assets released from restrictions and changes in donor restrictions                      | 85,188       | (85,844)               | 656                    | -           | -          |
| Total support and revenue  | 109,773      | 61,663                 | 15,774                 | 187,210     | 63,621     |
| <i>Expenditures and deductions on behalf of The State University of Iowa and Affiliates:</i> |              |                        |                        |             |            |
| <b>Program and expense disbursements:</b>  |              |                        |                        |             |            |
| Student financial aid  | 16,161       | -                      | -                      | 16,161      | 14,108     |
| Faculty and staff support  | 12,337       | -                      | -                      | 12,337      | 13,469     |
| Research   | 15,796       | -                      | -                      | 15,796      | 14,612     |
| Capital/equipment  | 22,104       | -                      | -                      | 22,104      | 31,426     |
| Program support  | 16,916       | -                      | -                      | 16,916      | 16,409     |
| Fundraising  | 6,079        | -                      | -                      | 6,079       | 5,177      |
| Management and service fees  | 2,467        | -                      | -                      | 2,467       | 1,896      |
| Less amounts incurred on behalf of others  | (6,672)      | -                      | -                      | (6,672)     | (6,397)    |
| <b>Total</b>   | 85,188       | -                      | -                      | 85,188      | 90,700     |
| <i>Expenses of The State University of Iowa Foundation and Affiliates:</i>                   |              |                        |                        |             |            |
| Operating Expenses   | 23,065       | -                      | -                      | 23,065      | 23,407     |
| Total expenses   | 108,253      | -                      | -                      | 108,253     | 114,107    |
| Change in net assets   | 1,520        | 61,663                 | 15,774                 | 78,957      | (50,486)   |
| Net assets, beginning of year  | 21,600       | 425,271                | 510,016                | 956,887     | 1,007,373  |
| Net assets, end of year  | \$23,120     | \$486,934              | \$525,790              | \$1,035,844 | \$956,887  |

The accompanying notes are an integral part of these financial statements.

# Notes to Financial Statements



Located just north of Art Building West, the new Art Building (left) expected to open in 2016 is designed for maximum natural light and other green features. The new Voxman Music Building (right) will open in 2016, replacing the facility destroyed by flooding in 2008.

## *Note 1—Organization and Summary of Significant Accounting Policies*

### **ORGANIZATION**

The State University of Iowa (University), located in Iowa City, Iowa, is a coeducational university owned and operated by the State of Iowa (State) under the supervision of the Board of Regents, State of Iowa (Board of Regents). The University was established by the First General Assembly on February 25, 1847, and has been in continuous operation since classes began in 1855.

The University is classified as a state instrumentality under Internal Revenue Code Section 115 and it is exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

### **BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). These statements present the University as a whole. These GASB Statements establish standards for external financial reporting for public colleges and universities and require that resources be classified for accounting and reporting purposes into four net position categories:

- **Net investment in capital assets**—Capital assets, net of accumulated depreciation/amortization and reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted, nonexpendable**—Net position subject to externally imposed constraints in which the donors or other outside sources have stipulated as a condition that the principal is to be retained in perpetuity. Such assets include the University's permanent endowments.

- **Restricted, expendable**—Net position whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.
- **Unrestricted**—Net position not subject to externally imposed constraints which may be used by the governing board to meet current obligations for any purpose. Unrestricted net position is derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and are generally designated for academic, research and capital programs or to meet contractual obligations of the University.

When an expense is incurred in which both unrestricted and restricted net position are available, the University's policy is to first apply the expense against the restricted, and then toward the unrestricted net position.

## **FINANCIAL REPORTING ENTITY**

The University's financial statements include schools, colleges and departments, the University of Iowa Hospitals & Clinics (UIHC), the Iowa Medical Mutual Insurance Company (IMMIC, a captive insurance company) and certain affiliated operations determined to be a part of the University's financial reporting entity. The University has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. The GASB classification of these entities for the University's financial reporting purposes does not affect their respective legal or organizational relationships with the University. As required by United States generally accepted accounting principles as prescribed by the GASB, these financial statements present the University and its component units. These component units are included in the University's reporting entity because of the significance of their operational or financial relationships with the University. These component units are separate legal entities from the University, but are so intertwined with the University they are, in substance, the same as the University.

### ***Blended Component Units***

The Iowa Measurement Research Foundation, Miller Endowment, Incorporated and University of Iowa Research Park Corporation are included in the reporting entity as blended component units. These legally separate entities are included in the University's financial reporting entity because of the nature of their relationship to the University.

The Iowa Measurement Research Foundation (IMRF) was formed in 1970 under the provisions of the Iowa Nonprofit Corporation Act. The primary purpose of the Foundation is to advance and extend knowledge in the field of educational measurement by providing financial assistance to The University of Iowa and its College of Education for promising research and educational projects in furtherance of this purpose.

Miller Endowment, Incorporated was established December 18, 1995 pursuant to the will and codicil of F. Wendell Miller. The will and codicil appointed the presidents of Iowa State University and the State University of Iowa as coexecutors of the Miller Estate and co-trustees of the Miller Endowment Trust, a charitable trust, and further directed that the two universities be

equal beneficiaries of the income from said trust. The will and codicil also directed the trustees to have the right and discretion to create a charitable corporation, to be “Miller Endowment, Incorporated”, to own, administer and control the affairs and property of the trust. This corporation has been organized under Chapter 504A of the Code of Iowa and Section 501(C)(3) of the Internal Revenue Code. During fiscal year 1998, the assets of the trust were officially transferred to Miller Endowment, Incorporated. Since the net revenues and assets of the corporation are solely for the equal benefit of the two universities, one half of the value of the corporation’s transactions has been blended into the University’s operations.

The University of Iowa Research Park Corporation (Corporation) is a not-for-profit corporation and a component unit of the University of Iowa (University). The Corporation leases from the State of Iowa approximately 213 acres of land located in the University of Iowa Research Park. The land subject to this lease is designated as the University of Iowa Research Park and is platted as a subdivision of Coralville, Iowa. Under terms of its master lease with the State of Iowa, the Corporation subleases parcels of the University of Iowa Research Park to businesses (or to private developers working on behalf of businesses) wishing to locate close to the University and its research assets.

The Corporation’s revenues derive primarily from the proceeds of its leases to tenant companies or developers and from an annual special purpose appropriation from the State of Iowa.

#### ***Discretely Presented Component Units***

The State University of Iowa Foundation and Affiliates (Foundation), the University of Iowa Research Foundation, and the University of Iowa Health System and Subsidiaries are included in the reporting entity as discretely presented component units. These legally separate entities are included in the University’s financial reporting entity because of the nature of their relationship to the University.

The State University of Iowa Foundation and Affiliates (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation’s financial statements include its affiliated organization, the University of Iowa Facilities Corporation, wholly controlled by the Foundation. Additional information regarding the University of Iowa Facilities Corporation is provided in the footnote Investments in Subsidiaries (Foundation). The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the Foundation or the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University’s financial statements. During the years ended June 30, 2013 and 2012, the Foundation distributed to the University or expended on behalf of the University \$85,188,000 and \$90,700,000, respectively, for both restricted and unrestricted purposes.

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, Financial Statements for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

The Foundation acts as an agent for other organizations benefiting the University. Since the Foundation is not considered to be financially interrelated to these organizations, as defined by SFAS No. 136, the total amount of funds held on behalf of these organizations has been reflected as a liability in the Consolidated Statement of Financial Position (Amounts held on behalf of others). The Foundation does not have variance power to redirect the assets held for others and the funds are generally payable on demand. In the Statement of Activities, the Foundation reports the gross amounts of support, revenue and expenses with the amount raised and expended on behalf of these organizations shown as a reduction in the gross amounts of support, revenue and expenses.

Assets held on behalf of these organizations include remainder interests in trusts, pledges and investments, which are for the benefit of the University.

The following table identifies these legally separate, tax-exempt organizations (in thousands):

|                                       | <b>Amounts<br/>Held on<br/>Behalf of<br/>Others</b> |
|---------------------------------------|---|
| Iowa Law School Foundation            | \$72,395  |
| Iowa Scholarship Fund                 | 9,568   |
| University of Iowa Alumni Association | 6,513   |
| Student Publications Incorporated     | 558   |
| <b>Total</b>                          | <b>\$89,034</b>                                     |

Although the University is the exclusive beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary or affiliate of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Third parties dealing with the University should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Complete financial statements for the Foundation can be obtained from The University of Iowa Foundation, One West Park Road, P.O. Box 4550, Iowa City, Iowa 52240, Attn: Controller.

The University of Iowa Research Foundation (UIRF) – a 501(c)(3) corporation – commercializes University of Iowa (University) developed technologies and inventions through licensing and new venture formation, and manages the subsequent revenue stream. UIRF’s primary functions are:

- Licensing: finding suitable partners for commercialization of University technologies and inventions;
- New Ventures: identifying and helping develop new high growth University technology spinout companies suitable for licensing UIRF technologies;
- Intellectual Property (IP) Management: protecting University inventions through patents and copyrights, advising on IP terms for Clinical Trials and Sponsored Research, and executing out-going material transfer agreements.

The University owns inventions made by faculty, staff, or students during the course of the inventor’s employment by or association with the University, or if the invention was enabled by significant use of the University resources. The University may take an ownership stake in inventions stemming from privately sponsored research, and as a consequence of federal law, the Bayh-Dole Act. All inventions arising from federal research support must be disclosed to the University and must be reported to the associated funding agencies.

The UIRF was created in 1975 as a private, nonprofit, corporation tied to the University as the designated manager for these inventions and selected University intellectual properties. The intention of the UIRF is to effectively manage University intellectual property to successful outcomes including: transferring University inventions to the marketplace for public benefit; generating significant income; operating as a self-sustaining operation; and supporting the research mission.

University of Iowa Health System (UIHS) was incorporated under the provisions of the Iowa Nonprofit Corporation Act on December 2, 1994. UIHS was formed to support the clinical, academic, and research programs of the University of Iowa College of Medicine (UICOM) and the University of Iowa Hospitals and Clinics (UIHC).

UIHS does not have members with voting rights. Upon dissolution, any remaining assets will be transferred to the University of Iowa, or its successor, if in existence. Otherwise the assets may be transferred by the board of directors to various entities exclusively for public purposes in accordance with the articles of incorporation for UIHS.

UIHS has a for-profit wholly owned subsidiary, University of Iowa Community Medical Services, Inc. (UICMS), which was formed in 1995 and began operations in 1996. UICMS has a for-profit wholly owned subsidiary, University of Iowa Community Homecare, Inc. (UICH), which was also formed in 1995 and began operations in 1996.

UIHS has a wholly owned subsidiary, UI HealthWorks, L.L.C. (UIHW), which was formed and began operations in 1998.

## **BASIS OF ACCOUNTING**

For financial reporting purposes, the University is considered a special-purpose government engaged only in Business Type Activity as defined in GASB Statement No. 35. Accordingly, the financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. As a result, revenues are recognized when earned, expenses are recorded when an obligation is incurred and all significant intra-agency transactions have been eliminated.

## **CASH AND CASH EQUIVALENTS**

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, as permitted by GASB standards, cash equivalents held in Deposits with Trustees are treated as investments.

## **INVESTMENTS (UNIVERSITY)**

Investments are reported at fair value in accordance with GASB Statements No. 31 and No. 34. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

## **INVESTMENTS (FOUNDATION)**

In accordance with FASB 157, Fair Value Measurements, investments of the Foundation are carried at fair value as determined by values provided by an external investment manager and quoted market values. The carrying values of other investments and long-term liabilities approximate fair values because these financial instruments bear interest at rates that approximate current rates the Foundation could obtain on contracts or notes with similar maturities and credit qualities.

## **PLEDGES RECEIVABLE (FOUNDATION)**

Pledges receivable are recorded at their net present value of estimated cash flows using the currently effective interest rate, less an allowance for doubtful pledges. Conditional promises to give are not included as support until the conditions are met. The provision for losses on doubtful pledges is an adjustment to contributions at the time the pledge is made equal to 2.5% of gross pledges. Pledges written off totaled \$3,283,000 and \$1,289,000 for the years ended June 30, 2013 and 2012.

## **INVENTORIES**

Inventories, primarily expendable materials and supplies held for consumption, are valued using the lower of cost or market, with cost determined on the first-in, first-out or weighted average basis.

## **CAPITAL ASSETS**

Capital assets estimated to have a useful life greater than one year are stated at cost at the date of acquisition or estimated fair market value at date of receipt in the case of gifts. The purchased equipment capitalization threshold is \$5,000. Beginning with fiscal year 2011, the threshold

for leased capital equipment increased from \$5,000 to \$50,000. The capitalization threshold for intangibles (software) is \$500,000, except for UIHC which is \$5,000. Library materials for the Main Library and Law Library are capitalized as a collection and adjusted annually to account for additions, withdrawals, etc. Effective with fiscal year 2013, adjustments to library collections will exclude acquisitions of electronic subscriptions to which the University does not have perpetual access. Routine repair and maintenance costs are expensed as incurred. Interest cost is capitalized on all UIHC construction projects during the construction period. For all other University projects, interest costs are capitalized when the interest cost during the construction period exceeds the interest earned on the investment of debt proceeds. Depreciation and amortization of capital assets is calculated using the straight-line method over the estimated useful lives (five to fifty years) of the respective assets.

### **WHOLLY OWNED SUBSIDIARY (UNIVERSITY)**

The University owns all of the outstanding stock of Musser-Davis Land Company (acquired by gift) and reports such ownership as a wholly owned subsidiary. The Company's operations consist primarily of leasing mineral rights to others and planting seedlings to be harvested by others. The Company's fiscal year ends December 31 and its financial statements are presented on a modified cash basis of accounting. As of December 31, 2012, assets (including investments of \$61,915,000) totaled \$63,688,000, liabilities were \$0 and net assets were \$63,688,000. As of December 31, 2011, assets (including investments of \$47,697,000) totaled \$49,471,000, liabilities were \$0 and net assets were \$49,471,000.

### **INVESTMENTS IN SUBSIDIARIES (FOUNDATION)**

The University of Iowa Facilities Corporation (Corporation) is an affiliate of the Foundation because the Foundation elects the Corporation's Board of Directors. The Corporation is organized to assist the Foundation in its programs which support the University. The Corporation accomplishes this objective by acquiring and holding property for the benefit and use of the University. The Corporation may incur debt obligations, either through the issuance of bonds or incurring commercial mortgages, for the purchase of properties. Simultaneously, the Corporation leases these buildings to the University. The lease agreements provide for the University to service the debt and pay for expenses related to the facilities. The leases also provide for the Corporation to convey title of the facilities to the University at the end of each lease term when the debt agreements are fully amortized.

Since the Corporation has not and will not have an economic interest in the outstanding bonds, the asset and the related debt and revenue and expenses related to the asset are not recorded on the financial statements of the Corporation. The asset and the related debt and revenue and expenses related to the asset are recorded as a segment of the University and included within the University's financial statements.

The Corporation also acquires and holds real estate, which will ultimately be deeded to the University after a period of time. These assets are recorded on the Corporation's books.

The assets and net income (loss) of the subsidiaries described above are not material to the financial statements and the Foundation uses the equity method of accounting for its investment in these controlled corporations.



## **BOND ISSUANCE COSTS**

Generally, bond premium, discount and issuance costs are amortized over the life of the bonds using the effective interest rate method.

## **UNEARNED REVENUE**

Unearned revenue includes advance tickets sales, student tuition related to next fiscal year and amounts received from rents, grants and contracts that have not yet been earned.

## **COMPENSATED ABSENCES PAYABLE**

University employees accumulate vacation and sick leave under the provisions of Chapters 79 and 262 of the Code of Iowa. It is the policy of the State to liquidate these accrued benefits under specific circumstances. The State pays for accrued vacation at 100% of the employee's hourly rate upon retirement, death, or termination and, with certain exceptions, for accrued sick leave at 100% of the hourly rate to a maximum of \$2,000 upon retirement. The liability for accrued compensated absences as reported in the Statement of Net Position is based on the current rates of pay.

## **LONG TERM DEBT AND OTHER LONG TERM LIABILITIES**

Long term debt includes principal amounts of revenue bonds payable, notes payable and capital lease obligations with contractual maturities greater than one year. Long term debt also includes unamortized discount, premium, and refunding gain or loss resulting from bond issuances. Other long term liabilities include estimated amounts for accrued early retirement benefits, accrued other postemployment benefits, compensated absences payable, refundable allowances on student loans and unearned revenue that will not be paid or earned within the next fiscal year.

## **FRINGE BENEFITS**

The University utilizes the fringe benefits pool method to account for fringe benefits. Under the fringe benefits pool method, fringe benefits are expensed as a percentage of actual salary or wage costs. The use of fringe benefits rates rather than actual fringe benefits costs is accepted by the Federal Government and widely used by universities. Rates are reviewed annually prior to the beginning of the fiscal year and adjusted to reflect differences between the rates charged and actual benefits costs as well as future benefits projections. The Federal Government must approve the annual rate study.

## **DEFINITION OF OPERATING ACTIVITIES**

Operating activities reported on the Statement of Revenues, Expenses and Changes in Net Position are those that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

### **NON-VESTED EQUIPMENT**

Capital assets purchased with restricted contract and grant proceeds have been excluded from the Statement of Net Position at June 30, 2013.

### **USE OF ESTIMATES**

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### **RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to current year presentations.

### **PRIOR PERIOD ADJUSTMENTS**

Implementation of GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34 required prior period adjustments for inclusion of the University of Iowa Research Park Corporation (UIRPC) as a blended component unit and the assets and the related debt and revenue and expenses related to the assets of the University of Iowa Facilities Corporation's (UIFC) activities for acquiring and holding property for the benefit and use of the University. The capital assets acquired or constructed from debt issued by the UIFC have historically been recorded on the University's financial statements as capital assets and capital lease payables. The UIFC is now reported as a segment of the University defined as having identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. The change for both entities was accounted for as prior period adjustments and affected most line items on the Statement of Net Position. The change to the net position beginning balance at July 1, 2012 due to the inclusion of UIRPC and UIFC is \$11,408,704.

The balance of capital assets, net increased \$3,627,712 due to the inclusion of a parcel of land for the University of Iowa Research Park. This change has been accounted for as a prior period adjustment to the beginning balances of capital assets and net investment in capital assets.

The cumulative change to the net position beginning balance at July 1, 2012 due to the changes described above is \$15,036,416.

Also, the implementation of GASB Statement No. 61 resulted in prior period adjustment to include the University of Iowa Research Foundation and the University of Iowa Health System and Subsidiaries as discretely presented component units.

## **Note 2—Cash Deposits, Investments, And Deposits With Trustees**

### **CASH DEPOSITS AND CASH EQUIVALENTS**

As of June 30, 2013 and 2012, the book balance of cash and cash equivalents totaled \$733,282,000 and \$657,492,000, respectively, and the bank balance of cash and cash equivalents totaled \$752,712,000 and \$670,936,000, respectively. Of the bank balances as of June 30 2013, \$68,339,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and \$684,373,000 was invested in money market funds as cash equivalents. Of the bank balances as of June 30, 2012, \$51,635,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and \$619,301,000 was invested in money market funds as cash equivalents.

### **INVESTMENTS**

Investments are made in accordance with Chapter 12B.10A, section 5d of the Code of Iowa, and Board of Regents, State of Iowa policy. The University's portfolios may be invested in obligations of the U.S. government and its agencies, certificates of deposit, prime bankers' acceptances, commercial paper, repurchase agreements, investments authorized for the Iowa Public Employees' Retirement System in Section 97B.7A of the Code of Iowa, corporate debt, mortgage pass through and asset backed securities, an open-end management investment company organized in trust form registered with the S.E.C. under the Investment Company Act of 1940, the Common Fund for nonprofit organizations, commingled vehicles/mutual funds/exchange traded funds, and common stocks. In order to achieve economies of scale, the University of Northern Iowa's endowments and a portion of its operating portfolio are pooled with the University's investments. The University's endowment portfolio included \$7,872,000 and \$7,540,000 at June 30, 2013 and 2012, respectively, held for the University of Northern Iowa. The University's operating portfolio included \$37,884,000 and \$40,104,000 at June 30, 2013 and 2012, respectively, held for the University of Northern Iowa. The University of Northern Iowa investments are recorded as a Deposit Held in Custody for Others.

For donor restricted endowments, Chapter 540A of the Code of Iowa permits the University to spend the net appreciation of realized and unrealized earnings as the University determines to be prudent. The University's spending policy adjusts dollar payouts by the trailing calendar year Consumer Price Index (inflation rate). Total payout is banded at no less than 4% and no greater than 6% of calendar year end market values.

Net appreciation of permanent endowment funds, which totaled \$11,154,000 and \$9,797,000 at June 30, 2013 and 2012, respectively, is available to meet spending rate distributions and is recorded in restricted nonexpendable net position.

The University's investments are recorded at fair value. As of June 30, 2013, the University had the following investments and quality credit ratings (in thousands):

| INVESTMENT TYPE              | Effective Duration (Years) | TSY/AGY | AAA       | AA        | A        | BBB     | BB       | B        | NA   | Total Market Value |
|------------------------------|----------------------------|---------|-----------|-----------|----------|---------|----------|----------|------|--------------------|
| <i>Fixed Income</i>          |                            |         |           |           |          |         |          |          |      |                    |
| Corporate Notes and Bonds    | 3.28                       | -       | \$8,157   | \$2,396   | \$7,268  | \$5,131 | -        | -        | -    | \$22,952           |
| U.S. Government Agencies     | 3.08                       | -       | 83,765    | -         | -        | -       | -        | -        | 80   | 83,845             |
| U.S. Treasury Obligations    | 4.66                       | -       | 76,375    | -         | -        | -       | -        | -        | -    | 76,375             |
| Mutual Funds                 | 7.07                       | -       | 125,273   | 379,972   | 48,510   | -       | 18,160   | 67,216   | -    | 639,131            |
|                              |                            | \$ -    | \$293,570 | \$382,368 | \$55,778 | \$5,131 | \$18,160 | \$67,216 | \$80 | 822,303            |
| <i>Equity and Other</i>      |                            |         |           |           |          |         |          |          |      |                    |
| U.S. Equity Mutual Funds     |                            |         |           |           |          |         |          |          |      | 224,450            |
| Repurchase Agreement         |                            |         |           |           |          |         |          |          |      | 156,258            |
| Non-U.S. Equity Mutual Funds |                            |         |           |           |          |         |          |          |      | 138,006            |
| REIT Mutual Funds            |                            |         |           |           |          |         |          |          |      | 55,151             |
| Real Assets                  |                            |         |           |           |          |         |          |          |      | 50,822             |
| Private Equity               |                            |         |           |           |          |         |          |          |      | 13,538             |
| Certificates of deposit      |                            |         |           |           |          |         |          |          |      | 10,083             |
| <b>Total Investments</b>     |                            |         |           |           |          |         |          |          |      | <b>\$1,470,611</b> |

### INTEREST RATE RISK

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

### CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation to the University. The University manages exposure to credit risk by measuring portfolios against benchmarks as established by the Board of Regents. As of June 30, 2013, the University's long term bond funds benchmark is AA (Barclays Capital Aggregate Bond Index).

### CONCENTRATION OF CREDIT RISK

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

## DEPOSITS WITH TRUSTEES

Investments on deposit with trustees, paying and copaying agents for the purpose(s) of paying current obligations of bond principal and interest, for holding Bond Reserve Funds or for holding Construction Funds as specified by bond resolutions at June 30, 2013 and 2012, totaled \$20,443,000 and \$19,209,000, respectively. At June 30, 2013, \$14,319,000 of the \$20,443,000 was invested in U.S. Government Agency securities with a credit quality rating of AAA and an effective duration of 1.92 years.

As authorized by the Board of Regents, the University holds a surety bond, with a face value of \$3,500,000, as a substitute for a portion of the balance required for debt service of the Utility System Revenue Bonds.

### *Note 3—Accounts Receivable, Pledges Receivable, Due From Government Agencies and Notes Receivable*

#### ACCOUNTS RECEIVABLE (IN THOUSANDS)

|  | University<br>and Blended<br>Component<br>Units | UIHC,<br>Affiliates and<br>UI Physicians | Total            |
|--|---|--|------------------|
| Accounts Receivable  | \$89,924  | \$553,231                                | \$643,155        |
| Allowance for Uncollectible Accounts,<br>Indigent Patients and Contractual Adjustments | 2,290   | 358,673                                  | 360,963          |
| <b>Accounts Receivable, Net, June 30, 2013</b>   | <b>\$87,634</b>                                 | <b>\$194,558</b>                         | <b>\$282,192</b> |
|  | Restated  |  | Restated         |
| Accounts Receivable  | \$95,725  | \$517,354                                | \$613,079        |
| Allowance for Uncollectible Accounts,<br>Indigent Patients and Contractual Adjustments | 2,622   | 333,103                                  | 335,725          |
| <b>Accounts Receivable, Net, June 30, 2012</b>   | <b>\$93,103</b>                                 | <b>\$184,251</b>                         | <b>\$277,354</b> |

The accounts receivable and accounts receivable, net, as of June 30, 2012 of University and Blended Component Units and Total were restated from \$95,720 and \$93,098 to \$95,725 and \$93,103, respectively, and from \$613,074 and \$277,349 to \$613,079 and \$277,354, respectively. The restatements were due to the inclusion of \$5 of accounts receivable from the University of Iowa Research Park Corporation as a blended component unit.

#### PLEDGES RECEIVABLE (FOUNDATION)

A summary of the pledges receivable (unconditional promises to give) at June 30, 2013 and 2012 is as follows (in thousands):

|  | 2013             | 2012             |
|--|------------------|------------------|
| Gross pledges receivable   | \$123,197        | \$122,022        |
| Less present value discount of \$15,091 for 2013 and \$14,321 for 2012 and allowance for doubtful pledges of \$3,080 for 2013 and \$3,051 for 2012 | 18,171           | 17,372           |
| <b>Total</b>   | <b>\$105,026</b> | <b>\$104,656</b> |

Pledges receivable at June 30, 2013 are expected to be collected in the following periods (in thousands):

|                                 | <b>Total</b>     |
|---------------------------------|------------------|
| In one year or less             | \$48,703         |
| Between one year and five years | 57,652           |
| More than five years            | 16,842           |
| <b>Total</b>                    | <b>\$123,197</b> |

### **DUE FROM GOVERNMENT AGENCIES**

Due from government agencies at June 30, 2013 and 2012 are composed of \$8,282,000 and \$4,153,000, respectively, due from the State of Iowa and \$62,548,000 and \$96,956,000, respectively, due from United States government agencies.

### **NOTES RECEIVABLE**

Current notes receivable at June 30, 2013 and 2012 are \$2,286,000, net of an allowance of \$169,000, and \$2,483,000, net of an allowance of \$172,000, respectively. Noncurrent notes receivable at June 30, 2013 and 2012 are \$23,866,000, net of an allowance of \$1,763,000, and \$23,592,000, net of an allowance of \$1,636,000, respectively.

### **Note 4—Capital Assets**

A summary of capital assets activity for the year ended June 30, 2013 is as follows (in thousands):

|   | <b>Restated<br/>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Transfers</b> | <b>Retirements</b> | <b>Ending<br/>Balance</b> |
|---|---|------------------|------------------|--------------------|---------------------------|
| <i>Nondepreciable</i>                     |   |                  |                  |                    |                           |
| Land                                      | \$53,795                                  | 9,280            | -                | -                  | \$63,075                  |
| Construction in Progress                  | 256,250                                   | 268,581          | (137,883)        | -                  | 386,948                   |
| Intangibles in Development                | 5,136                                     | 6,085            | (4,847)          | -                  | 6,374                     |
| Art and Historical Collections            | 33,305                                    | 411              | -                | -                  | 33,716                    |
| Library Materials                         | 272,901                                   | 13,543           | -                | 876                | 285,568                   |
| Capital Assets,<br>Nondepreciable         | <b>621,387</b>                            | <b>297,900</b>   | <b>(142,730)</b> | <b>876</b>         | <b>775,681</b>            |
| <i>Depreciable</i>                        |   |                  |                  |                    |                           |
| Land Improvements                         | 22,275                                    | 334              | 1,076            | -                  | 23,685                    |
| Infrastructure                            | 500,435                                   | -                | 32,808           | -                  | 533,243                   |
| Buildings                                 | 2,515,256                                 | 21,313           | 103,999          | 7,279              | 2,633,289                 |
| Equipment                                 | 610,033                                   | 55,774           | -                | 41,110             | 624,697                   |
| Intangibles                               | 79,476                                    | 2,157            | 4,847            | 2,785              | 83,695                    |
| Capital Assets, Depreciable               | 3,727,475                                 | 79,578           | 142,730          | 51,174             | 3,898,609                 |
| Less Accum. Depreciation/<br>Amortization | (1,903,408)                               | (167,827)        | -                | (46,509)           | (2,024,726)               |
| Depreciable Assets, Net                   | <b>1,824,067</b>                          | <b>(88,249)</b>  | <b>142,730</b>   | <b>4,665</b>       | <b>1,873,883</b>          |
| <b>Capital Assets, Net</b>                | <b>\$2,445,454</b>                        | <b>209,651</b>   | <b>-</b>         | <b>5,541</b>       | <b>\$2,649,564</b>        |

The beginning balance of non-depreciable land has been restated from \$50,167 to \$53,795 and capital assets, nondepreciable were restated from \$617,759 to \$621,387 due to the inclusion of \$3,628 from a parcel of land for the University of Iowa Research Park.

The beginning balances of the following line items were restated due to the inclusion of the University of Iowa Research Park Corporation as a blended component unit. Depreciable land improvements and equipment were restated from \$21,601 and \$610,026 to \$22,275 and \$610,033, respectively; accumulated depreciation/amortization was restated from \$(1,903,113) to \$(1,903,408); and depreciable assets, net were restated from \$1,823,681 to \$1,824,067.

The beginning balance of capital assets, net was restated from \$2,441,440 to \$2,445,454 due to the combination of including a parcel of land for the University of Iowa Research Park and including the University of Iowa Research Park Corporation as a blended component unit.

### **Note 5—Long-Term Liabilities**

A summary of the changes in long-term liabilities for the year ended June 30, 2013 is as follows (in thousands):

|   | Restated<br>Beginning<br>Balance | Additions      | Reductions     | Ending<br>Balance | Current<br>Portion |
|---|----------------------------------|----------------|----------------|-------------------|--------------------|
| <i>Long-term debt:</i>                            |                                  |                |                |                   |                    |
| Bonds payable                                     | \$958,893                        | 344,784        | 102,905        | 1,200,772         | \$47,462           |
| Notes payable                                     | 16,777                           | 6,824          | 1,443          | 22,158            | 1,546              |
| Capital lease payable                             | -                                | 21,313         | -              | 21,313            | 914                |
| Total long-term debt                              | <b>975,670</b>                   | <b>372,921</b> | <b>104,348</b> | <b>1,244,243</b>  | <b>49,922</b>      |
| <i>Other long term liabilities:</i>               |                                  |                |                |                   |                    |
| Early retirement benefits payable                 | 7,926                            | -              | 3,407          | 4,519             | 2,447              |
| Other postemployment benefits other than pensions | 48,961                           | 19,949         | 8,969          | 59,941            | -                  |
| Compensated absences                              | 128,303                          | 92,217         | 86,773         | 133,747           | 90,407             |
| Refundable allowances on student loans            | 22,092                           | 749            | 131            | 22,710            | -                  |
| Unearned revenue                                  | 1,430                            | -              | 39             | 1,391             | -                  |
| Total other long term liabilities                 | <b>208,712</b>                   | <b>112,915</b> | <b>99,319</b>  | <b>222,308</b>    | <b>92,854</b>      |
| <b>Total long term liabilities</b>                | <b>\$1,184,382</b>               | <b>485,836</b> | <b>203,667</b> | <b>1,466,551</b>  | <b>\$142,776</b>   |

The beginning balances for the long-term debt types of bonds, notes, and capital leases payable were restated due to the reclassification of the debt owed to the University of Iowa Facilities Corporation (UIFC) from capital leases to bonds and notes payable. The UIFC's activities for debt issuance and property acquisition for the benefit of the University of Iowa are reported as a segment of the University.

The beginning balance of bonds, notes, and capital leases payable were restated from \$808,489, \$5,000, and \$154,177 to \$958,893, \$16,777, and \$0, respectively. In addition to the reclassification of \$154,177 from capital leases to bonds and notes payable, \$8,004 from the net of unspent bond proceeds and bond refunding gains and losses were added to the beginning balance of bonds payable. The beginning balance of total long-term debt was restated from \$967,666 to \$975,670. The beginning balance of other long-term liabilities was restated from \$207,282 to \$208,712 due to the inclusion of \$1,430 unearned revenue from the University of Iowa Research Park Corporation, which is reported as a blended component unit.

The beginning balance of total long term liabilities was restated from \$1,174,948 to \$1,184,382 due to \$8,004 from UIFC, reported as a segment of the University of Iowa, for the net of unspent bond proceeds and bond refunding gains and losses added to the beginning balance of bonds payable and the inclusion of \$1,430 unearned revenue from the University of Iowa Research Park Corporation, reported as a blended component unit.



The Pappajohn Biomedical Discovery Building (left) will house the Pappajohn Biomedical Institute, the Fraternal Order of Eagles Diabetes Research Center, and the Iowa Institute for Biomedical Imaging. Set for completion in 2014, the West Campus Residence Hall (right) is designed around living-learning communities, which connect academics and student life.



## BONDS PAYABLE

Bonds have been sold to finance certain capital projects and are outstanding at June 30, 2013, as follows (in thousands):

|  | Interest Rates<br>(Percent) | Fiscal Year<br>Maturity<br>Date Range | Amount             |
|--|-----------------------------|---------------------------------------|--------------------|
| <i>Bond Issues</i>                             |                             |                                       |                    |
| Academic Buildings                             | 2.00 - 8.38                 | 1996–2034                             | \$121,095          |
| Add: Unamortized Premium                       |                             |                                       | 1,164              |
| Athletic Facilities                            | 2.00 - 5.30                 | 2007–2037                             | 145,575            |
| Less: Unamortized Discount                     |                             |                                       | (35)               |
| Add: Unamortized Premium                       |                             |                                       | 573                |
| Center for University Advancement              | 3.75 - 4.75                 | 2006–2020                             | 5,075              |
| Hospital                                       | 2.00 - 6.125                | 2009–2039                             | 336,010            |
| Add: Unamortized Premium                       |                             |                                       | 13,971             |
| Less: Unamortized Refunding Loss               |                             |                                       | (504)              |
| Iowa Memorial Union                            | 3.50 - 4.30                 | 2007–2026                             | 8,100              |
| Parking System                                 | 2.00 - 4.00                 | 2011–2041                             | 41,650             |
| Add: Unamortized Premium                       |                             |                                       | 1,380              |
| Add: Unamortized Refunding Gain                |                             |                                       | 750                |
| Recreational Facilities                        | 3.00 - 4.875                | 2011–2035                             | 73,375             |
| Add: Unamortized Premium                       |                             |                                       | 171                |
| Residence Services                             | 2.00 - 4.00                 | 2012–2034                             | 66,955             |
| Add: Unamortized Premium                       |                             |                                       | 3,397              |
| Less: Unamortized Refunding Loss               |                             |                                       | (70)               |
| Add: Unamortized Refunding Gain                |                             |                                       | 1,484              |
| Telecommunications                             | 2.00 - 4.50                 | 2005–2037                             | 40,070             |
| Less: Unamortized Discount                     |                             |                                       | (1)                |
| Add: Unamortized Premium                       |                             |                                       | 198                |
| Add: Unamortized Refunding Gain                |                             |                                       | 97                 |
| University of Iowa Facility (UIFC) Corporation | 2.00 - 5.00                 | 2006–2038                             | 168,560            |
| Less: Unamortized Discount                     |                             |                                       | (25)               |
| Add: Unamortized Premium                       |                             |                                       | 2,492              |
| Less: Unamortized Refunding Loss               |                             |                                       | (1,738)            |
| Add: Unamortized Refunding Gain                |                             |                                       | 255                |
| Utility System                                 | 2.00 - 5.00                 | 2008–2038                             | 164,840            |
| Less: Unamortized Discount                     |                             |                                       | (6)                |
| Add: Unamortized Premium                       |                             |                                       | 3,559              |
| Less: Unamortized Refunding Loss               |                             |                                       | (210)              |
| Add: Unamortized Refunding Gain                |                             |                                       | 2,565              |
| <b>Total</b>                                   |                             |                                       | <b>\$1,200,772</b> |

As of June 30, 2013, unspent bond proceeds totaled \$202,331,000. Unspent bond proceeds by segment are: Hospital Revenue Bonds \$158,606,000; Parking Revenue Bonds \$10,116,000; Residence Services Revenue Bonds \$20,138,000; John and Mary Pappajohn Biomedical Discovery Building (UIFC) \$5,388,000; Utilities System Revenue Bonds \$8,083,000.

The bonds will mature as follows (in thousands):

|                                  | Principal          | Interest       | Total              |
|----------------------------------|--------------------|----------------|--------------------|
| <i>Year Ending June 30</i>       |                    |                |                    |
| 2014                             | \$46,145           | 45,247         | \$91,392           |
| 2015                             | 51,800             | 43,220         | 95,020             |
| 2016                             | 51,810             | 41,427         | 93,237             |
| 2017                             | 53,345             | 39,590         | 92,935             |
| 2018                             | 54,975             | 37,654         | 92,629             |
| 2019-2023                        | 284,745            | 156,363        | 441,108            |
| 2024-2028                        | 285,015            | 99,569         | 384,584            |
| 2029-2033                        | 207,665            | 46,832         | 254,497            |
| 2034-2038                        | 119,580            | 13,807         | 133,387            |
| 2039-2041                        | 16,225             | 450            | 16,675             |
| Less: Unamortized Discount       | (67)               | -              | (67)               |
| Add: Unamortized Premium         | 26,906             | -              | 26,906             |
| Less: Unamortized Refunding Loss | (2,522)            | -              | (2,522)            |
| Add: Unamortized Refunding Gain  | 5,150              | -              | 5,150              |
| <b>Total</b>                     | <b>\$1,200,772</b> | <b>524,159</b> | <b>\$1,724,931</b> |

As provided in the various bond resolutions, the University has the right to redeem certain bonds prior to the above maturity dates, under stated conditions.

#### NOTE PAYABLE

The University has the following notes payable outstanding at June 30, 2013:

|                            | Interest Rates | Maturity Dates | Amount          |
|----------------------------|----------------|----------------|-----------------|
| <i>Year Ending June 30</i> |                |                |                 |
| Fleet Services             | 1.60%          | 2013-2018      | \$1,530         |
| Oakdale Research Park      | 2.23%          | 2011-2016      | 5,644           |
| Plaza Centre One           | 4.59%          | 2004-2016      | 497             |
| University Athletic Club   | 5.05%          | 2009-2016      | 4,487           |
| Wells Fargo note payable   | 0.20-3.25%     | 2009-2015      | 10,000          |
| <b>Total</b>               |                |                | <b>\$22,158</b> |

Assets acquired under these notes had a net book value of \$17,089,000 as of June 30, 2013.

The notes will mature as follows (in thousands):

|                            | Principal       | Interest     | Total           |
|----------------------------|-----------------|--------------|-----------------|
| <i>Year Ending June 30</i> |                 |              |                 |
| 2014                       | \$1,546         | 648          | \$2,194         |
| 2015                       | 11,592          | 536          | 12,128          |
| 2016                       | 8,581           | 152          | 8,733           |
| 2017                       | 376             | 4            | 380             |
| 2018                       | 63              | -            | 63              |
| <b>Total</b>               | <b>\$22,158</b> | <b>1,340</b> | <b>\$23,498</b> |

### CAPITAL LEASES PAYABLE

Capital leases outstanding at June 30, 2013, are as follows (in thousands):

|  | Interest Rates | Lease Period | Amount   |
|--|----------------|--------------|----------|
| <i>Capital Lease</i>                   |                |              |          |
| Parking structure - Iowa River Landing | 2.95%-5.00%    | 2013-2031    | \$21,313 |

The following is a schedule, by year, of future minimum payments required (in thousands):

|                            | Principal       | Interest     | Total           |
|----------------------------|-----------------|--------------|-----------------|
| <i>Year Ending June 30</i> |                 |              |                 |
| 2014                       | \$914           | 629          | \$1,543         |
| 2015                       | 941             | 602          | 1,543           |
| 2016                       | 969             | 574          | 1,543           |
| 2017                       | 998             | 545          | 1,543           |
| 2018                       | 1,027           | 516          | 1,543           |
| 2019-2023                  | 5,609           | 2,354        | 7,963           |
| 2024-2028                  | 6,486           | 2,084        | 8,570           |
| 2029-2031                  | 4,369           | 441          | 4,810           |
| <b>Total</b>               | <b>\$21,313</b> | <b>7,745</b> | <b>\$29,058</b> |

Assets acquired under this capital lease had a net book value of \$21,313,000 as of June 30, 2013.

### Note 6—Operating Leases

The University has leased various buildings to house several departments of the University. These leases have been classified as operating leases. Accordingly, all rents are charged to expense as incurred. These leases expire from fiscal year 2014 to fiscal year 2033, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is an annual schedule of future minimum rental payments required under operating leases which have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2013 (in thousands).

| <i>Year Ending June 30</i> | <b>Amount</b>   |
|----------------------------|-----------------|
| 2014                       | \$11,819        |
| 2015                       | 7,530           |
| 2016                       | 4,486           |
| 2017                       | 2,764           |
| 2018                       | 1,460           |
| 2019-2023                  | 4,746           |
| 2024-2028                  | 1,914           |
| 2029-2033                  | 154             |
| <b>Total</b>               | <b>\$34,873</b> |

All leases contain non-appropriation clauses indicating that continuation of the lease is subject to funding by the Iowa State Legislature.

Rental expense for the year ended June 30, 2013, for all operating leases, except those with terms of a month or less that were not renewed, totaled \$11,807,000.

### ***Note 7—Retirement Programs***

#### **TEACHERS INSURANCE AND ANNUITY ASSOCIATION**

The University contributes to the Teachers Insurance and Annuity Association (TIAA) retirement program, which is a defined contribution plan. TIAA administers the retirement plan for the University. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provisions and contribution requirements. As required by the Board of Regents policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA, each employee through the fifth year of employment contributes 3 1/3% of the first \$4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first \$4,800 of earnings and 10% on earnings above the \$4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings. During fiscal years 2013 and 2012, the University's required and actual contribution amounted to \$101,144,000 and \$97,528,000, respectively. During fiscal years 2013 and 2012, the employees' required and actual contribution amounted to \$50,572,000 and \$48,764,000, respectively.

#### **IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEM**

The University contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State. IPERS provides retirement and death benefits which are established by State statute to plan members

and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 5.78%, 5.38%, and 4.50%, respectively, of their annual covered salary and the University is required to contribute 8.67%, 8.07%, and 6.95%, respectively, of annual covered payroll for the years ended June 30, 2013, 2012 and 2011. Contribution requirements are established by State statute. The required contribution paid by employees for the years ended June 30, 2013, 2012, and 2011 were \$3,145,000, \$2,535,000, and \$1,576,000, respectively. The University's required contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$4,718,000, \$3,802,000, and \$2,428,000, respectively, equal to required contributions for each year.

### **Note 8—Post-Employment Benefits**

#### **EARLY RETIREMENT**

The early retirement programs were approved by the Board of Regents in April, 2009, and in March, 2010. Those eligible for participation were faculty, professional-scientific employees, institutional officials, staff of the Board Office and all merit system employees employed by the Board of Regents who had attained the age of 57 by July 1, 2009 for the 2009 program and age 55 at time of termination and at least 10 years of service for the 2010 program. The employee's department head and the appropriate administrative officers approved the employee's participation. The following benefits are applicable during participation in the Early Retirement Program:

1. **Health and Dental Insurance**—The University will pay the full cost of the single employee premium for health and dental insurance or its standard share of any coverage other than single for a period of five years. This contribution shall be equal to the amount contributed for an active employee in the same plan.
2. **TIAA/CREF Contributions**—During the first three years, the University will pay both the employer and employee retirement contributions. During the next two years in the program, the university will pay only the employer contribution.

The University has recognized an early retirement benefit liability of \$4,519,000 as of June 30, 2013, calculated on merit, faculty and P & S employee personnel. The early retirement liability for health and dental insurance has been rolled into GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. During fiscal year 2013, retirement expenditures for the four hundred twenty-one (421) participants in the early retirement incentive program totaled \$3,407,000.

#### **REGULAR RETIREMENT**

The University implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), for the fiscal year ended June 30, 2008. The Statement requires the University to record and disclose an actuarially determined liability for the present value of projected future benefits for retired and active employees.

## PLAN DESCRIPTION

The University operates a single-employer retiree benefit plan. For post-employment benefits of retirees, the University contributes toward the cost of University of Iowa health insurance and the entire cost to purchase a paid-up life insurance policy, which varies in amounts from \$2,000 to \$4,000, depending upon length of service.

## FUNDING POLICY

The contribution requirements of plan members are established and may be amended by the University. Benefits are financed centrally by the University on a pay-as-you-go basis. Health insurance total expenditures for fiscal year 2013 were \$4,817,000 with 1,620 eligible participants as of June 30, 2013. Life insurance total expenditures for fiscal year 2013 were \$58,000 with 3,122 eligible participants as of June 30, 2013.

## ANNUAL OPEB COST AND NET OPEB OBLIGATION FOR PROFESSIONAL & SCIENTIFIC AND FACULTY

For fiscal year 2013, the University contributed \$9.0 million to the plan. Plan members receiving benefits contributed 39 percent of the premium costs. In fiscal year 2013, total member contributions were \$5.7 million.

The University currently plans to continue to finance retiree healthcare benefits on a pay-as-you-go basis from internal University monies. However, the University plans to earmark internal assets in the amount of 65 percent of the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The University will amortize the initial unfunded accrued liability (UAL) over an open thirty year period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess). The current ARC of \$16.6 million is 1.8% of annual payroll.

The following table presents the OPEB obligation for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2013 (in thousands):

|  |                        |
|--|------------------------|
| Annual Required Contribution               | \$16,618               |
| Interest on Net OPEB Obligation            | 2,466                  |
| Adjustment to Annual Required Contribution | (1,812)                |
| Annual OPEB Cost (Expense)                 | <u>\$17,272</u>        |
| Contributions Made                         | (8,969)                |
| Increase in Net OPEB Obligation            | <u>\$8,303</u>         |
| Net OPEB Obligation - Beginning of Year    | 32,879                 |
| <b>Net OPEB Obligation - End of Year</b>   | <u><u>\$41,182</u></u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2007. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations are summarized as follows (in thousands):

| <i>Fiscal Year Ended</i> | <b>Annual OPEB Costs</b> | <b>Percentage of Annual OPEB Cost Contributed</b> | <b>Net OPEB Obligation</b> |
|--------------------------|--------------------------|---|----------------------------|
| 6/30/11                  | \$15,230                 | 53.60%  | \$25,289                   |
| 6/30/12                  | \$16,133                 | 53.00%  | \$32,879                   |
| 6/30/13                  | \$17,272                 | 51.90%  | \$41,182                   |

## **FUNDED STATUS AND FUNDING PROGRESS**

As of June 30, 2013, the actuarial accrued liability (AAL) for benefits was \$169.8 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$169.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$906.0 million and the ratio of the UAAL to the covered payroll was 18.7 percent. As of June 30, 2013, there were no trust fund assets.

## **ACTUARIAL METHODS AND ASSUMPTIONS**

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the following, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects for legal or contractual funding limitations on the pattern of cost sharing between the employer and plan member in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7.50 percent discount rate based on the University's funding policy (earmarking the ARC internally) and the expected long-term returns on the University's internal capital. The projected annual healthcare trend rate is 8 percent initially, reduced in decrements to an ultimate rate of 5 percent after eight years. The expected long-term payroll growth rate is assumed to be 3.5 percent per year. The UAAL is being amortized as a level percent of pay on an open basis over thirty years.

## **TERMINATION**

The University continues faculty, P&S, and merit exempt terminated employees' benefits for health, dental, vision and hearing aid insurance under the Consolidated Omnibus Budget Reconciliation Act of 1985, modified by the Tax Reform Act and the Budget Reconciliation Act of 1986.

Four hundred thirty-five (435) terminated employees continued their benefits by assuming total financial responsibility. No University costs are associated with the premiums, but claims are the responsibility of the University since the insurance plans are self-insured.

## **OTHER POSTEMPLOYMENT BENEFITS**

The University's merit employees are participants in the State of Iowa postretirement medical plan (OPEB Plan). The State of Iowa recognized the implicit rate subsidy for the OPEB Plan as required by GASB Statement No. 45. The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial liability, which is approximately \$233.0 million for the State of Iowa at June 30, 2013. The University's portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB Plan are provided on a state-wide basis and are available in the State of Iowa's Comprehensive Annual Financial Report for the year ended June 30, 2013. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The University recognized a net OPEB liability of \$18.7 million for other postemployment benefits, which represents the University's portion of the State's net OPEB liability. The University's portion of the net OPEB liability was calculated using the ratio of full time equivalent University merit employees compared to all full time equivalent employees of the State of Iowa.

The University recognized a net OPEB liability of \$41.2 million for its retiree benefit plan and a liability of \$18.7 million for its allocated portion of the State's net OPEB liability, for a total net OPEB liability of \$59.9 million.

## ***Note 9—Other Commitments and Risk Management***

### **COMMITMENTS**

At June 30, 2013 and 2012, the University had outstanding construction contract commitments of \$393,883,000 and \$264,978,000, respectively.

### **RISK MANAGEMENT**

Following are risk financing and insurance related issues as defined by GASB Statement No. 10.

**Property Loss**—The University purchases catastrophic property insurance for academic/general fund facilities with a single incident deductible of \$5 million. The University may seek reimbursement for property losses in excess of \$5,000 from the State of Iowa pursuant



to Iowa Code Chapter 29C.20. Money from the state contingent fund may be requested for repairing, rebuilding, or restoring state property injured, destroyed, or lost by fire, storm, theft, or unavoidable causes. The University maintains conventional property insurance on self-supporting, revenue-producing, and auxiliary facilities which are an integral part of the operations of the University. Insured facilities include the Residence Halls, the Utility System, Telecommunications, Iowa Memorial Union, Athletic Facilities, University of Iowa Hospitals & Clinics, and other auxiliary operations. The University's annual limit is \$2 billion, the maximum available on the November 1, 2012 renewal.

The properties of the Utility and Telecommunications Systems are appraised annually and specific coverage and valuation data are as follows:

*Utility System specific coverage is as follows:*

|   |               |
|---|---------------|
| Utility System Operations Building & Contents | \$739,804,000 |
| Power Plant Building & Contents               | \$186,250,000 |

*Telecommunications Facilities premium is based on the following values:*

|          |              |
|----------|--------------|
| Building | \$30,840,000 |
| Contents | \$8,250,000  |
| Income   | \$5,758,000  |

**Tort Liability**—The University of Iowa is an agency of the State of Iowa and is covered by the State's self-insurance for tort liability. Tort claims against the State are handled as provided in the Iowa Tort Claims Act (Iowa Code, Chapter 669) which also sets forth the procedures by which tort claims may be brought. Claims under Chapter 669 may be filed against the State on account of wrongful death, personal injury or property damage incurred by reason of the negligence of the University or its employees while acting within the scope of employment.

By inter-agency agreement, tort liability claims under \$5,000 may be administered by the University subject to a maximum expenditure of \$100,000 per year. All other tort claims may be paid from the State's general fund.

**Motor Vehicle Liability**—The University of Iowa and other Board of Regents' institutions are self-insured for automobile liability up to \$250,000. Claims over \$250,000 are paid by the State of Iowa, as provided in Chapter 669 of the Code of Iowa. Coverage for physical damage (comprehensive and collision) to University vehicles is included in the Board of Regents' self-insurance program. Each loss is subject to a \$500 deductible.

**Fidelity/Crime Coverage**—The State maintains an employee fidelity bond where the first \$100,000 in losses is the responsibility of the University. Under the State coverage, losses in excess of the \$100,000 deductible are insured up to \$2,000,000. The University maintains separate fidelity and crime coverage, which extends to all employees, and includes coverage for robbery and theft. The University's bond provides an additional \$8,000,000 in coverage over the state bond.

**Workers' Compensation**—The University participates in a State self-funded program. The University pays a monthly premium for this coverage.

**Unemployment Compensation**—The University self-funds unemployment compensation claims received from Iowa Workforce Development on a reimbursement basis.

**College of Medicine Faculty Malpractice Claims**—Based on actuarial analysis, the College of Medicine has incurred a cumulative probable loss of \$15,171,000 as of June 30, 2013. Starting 1/1/03, the University of Iowa Faculty Practice plan (the Plan) became University of Iowa Physicians (UIP) and has self-funded its physician's professional liabilities with a \$5M per occurrence, \$9M aggregate limit of liability with the State of Iowa picking up loss amounts in excess of \$5M. Iowa Medical Mutual Insurance Company (IMMIC) was formed on 7/1/04 to provide claims-made coverage with a retroactive date of 7/1/04 for the \$2M excess of \$3M per occurrence layer that UIP retains. Claims reported after 7/1/04 with occurrence dates prior to 7/1/04 have a \$5M per occurrence retention, while claims reported after 7/1/04 with occurrence dates after 7/1/04 have a \$3M per occurrence retention.

**Employee Medical and Dental Claims**—The University purchases life, health, dental and disability insurance for eligible permanent employees. Based on actuarial analysis of employee medical and dental claims, the University has incurred but not reported claims of \$10,219,000 as of June 30, 2013.

**Reconciliation of Loss Contingencies (in thousands) —**

|   | FY 2013         | FY 2012         |
|---|-----------------|-----------------|
| Claims and contingent liabilities accrued at July 1                     | \$23,116        | \$25,654        |
| Claims incurred and contingent liabilities accrued for the current year | 149,548         | 137,289         |
| Payments on claims during the fiscal year                               | (146,974)       | (139,827)       |
| Claims and contingent liabilities at June 30                            | <u>\$25,690</u> | <u>\$23,116</u> |

**Insurance Settlements**—For those risks that the University has purchased commercial insurance, only the property insurance has claims in excess of the commercial coverage due to the 2008 flood. All other settled claims have not exceeded commercial coverage in the past three years.

**Pollution Remediation** — In accordance with GASB Statement No. 49, Accounting & Financial Reporting for Pollution Remediation Obligation, we have identified two potential pollution remediation liability events. A description of the nature of the sites and allegations are described below. The two matters were both brought pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), commonly known as "Superfund". The potential associated liability is not reasonably estimable at this time.

1. The LWD Incinerator Site is a hazardous waste disposal site located in Kentucky. The University received a demand letter regarding this site, alleging that the University of Iowa, having contributed waste to the site, is a potentially responsible party. The demand letter alleged that according to EPA's database the University of Iowa contributed 151,606 pounds of materials to the LWD Incinerator Site over the years covering 1983, 1986 and 1987. University General Counsel responded by letter to the attorney who submitted the demand letter, denying liability. A lawsuit was then filed in Federal District Court in Kentucky against the University and other potentially responsible parties, based upon the same claim involving the LWD Incinerator Site. The Attorney General's Office filed a motion to dismiss and included supporting brief in the case. The federal court did not dismiss the lawsuit, and the Attorney General's Office is planning to file a motion for summary judgment in the case.
2. The Marine Shale Processors site was a hazardous waste disposal site located in Louisiana. The University received a demand letter in September of 2012 from a group of potentially responsible parties (PRP) at the site alleging that the University of Iowa is a PRP at the site and had shipped between 5 and 10 tons of materials to the Marine Shale Processors site for disposal in 1991. University General Counsel responded by letter denying the liability on the part of The University of Iowa.

### ***Note 10—Debt Defeasance***

In November of 2012, the University issued \$26,830,000 of Academic Building Revenue Bonds, Series S.U.I. 2012, with an average interest rate of 2.993% and accrued interest of \$42,000 to replace the \$27,025,000 Academic Building Revenue Flood Anticipation Note, Series S.U.I 2009.

Net bond proceeds of \$27,704,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Academic Building Revenue Flood Anticipation Note, Series S.U.I 2009 was paid on January 1, 2013.

In January of 2013, the University issued \$12,010,000 of Parking System Revenue Refunding Bonds, Series S.U.I. 2013, with an average interest rate of 2.960% and accrued interest of \$2,000 to advance refund \$12,595,000 of outstanding Parking System Revenue Bonds, Series S.U.I 2004 with interest rates ranging between 4.25% and 5.00%.

Net bond proceeds of \$12,982,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Parking System Revenue Bonds, Series S.U.I 2004 will be called on July 1, 2014.

The refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of \$1,861,000; and reduced the aggregate debt service payments by \$2,064,000 over the next twelve years.

In June of 2013, the University issued \$13,620,000 of Utility System Revenue Refunding Bonds, Series S.U.I. 2013, with an average interest rate of 4.3995% and accrued interest of \$38,000 to advance refund \$15,855,000 of outstanding Utility System Revenue Bonds, Series S.U.I 2004 with interest rates ranging between 3.125% and 4.750%.

Net bond proceeds of \$15,517,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Utility System Revenue Bonds, Series S.U.I 2004 will be called on November 1, 2013.

The refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of \$1,907,000; and reduced the aggregate debt service payments by \$2,085,000 over the next twelve years.

The amount of defeased debt outstanding but removed from the Statement of Net Position at June 30, 2013, is as follows:

|   | Amount<br>(in thousands) |
|---|--------------------------|
| <i>Bond Issues</i>  |                          |
| Roy J. and Lucille A. Carver Biomedical Research Building | \$20,245                 |
| Parking   | 13,385                   |
| Residence Services  | 17,500                   |
| Utility   | 16,990                   |
| <b>Total</b>  | <b>\$68,120</b>          |

### **Note 11—Operating Expenses By Function**

A summary of operating expenses by functional classification for the year ended June 30, 2013 follows (in thousands):

|                                     | Compensation &<br>Benefits | Supplies       | Other          | Depreciation &<br>Amortization | Total              |
|-------------------------------------|----------------------------|----------------|----------------|--------------------------------|--------------------|
| Instruction                         | \$297,593                  | 10,652         | 27,727         | -                              | \$335,972          |
| Research                            | 196,037                    | 35,356         | 55,977         | -                              | 287,370            |
| Public service                      | 48,178                     | 8,714          | 23,168         | -                              | 80,060             |
| Academic support                    | 142,886                    | 11,048         | 9,146          | -                              | 163,080            |
| Patient services                    | 748,373                    | 235,405        | 206,202        | -                              | 1,189,980          |
| Student services                    | 21,333                     | 1,686          | 8,112          | -                              | 31,131             |
| Institutional support               | 56,870                     | 6,031          | 15,679         | -                              | 78,580             |
| Operations and maintenance of plant | 839                        | 2,319          | 71,705         | -                              | 74,863             |
| Scholarships and fellowships        | 13,755                     | -              | 14,971         | -                              | 28,726             |
| Depreciation and amortization       | -                          | -              | -              | 167,827                        | 167,827            |
| Auxiliary enterprises               | 74,979                     | 16,251         | 66,245         | -                              | 157,475            |
| Other operating expenses            | 1,194                      | 1,474          | (2,270)        | -                              | 398                |
| <b>Total</b>                        | <b>\$1,602,037</b>         | <b>328,936</b> | <b>496,662</b> | <b>167,827</b>                 | <b>\$2,595,462</b> |

## Note 12—Restricted Net Position

A summary of restricted net position follows (in thousands):

|                                    | June 30, 2013    | Restated<br>June 30, 2012 |
|------------------------------------|------------------|---------------------------|
| <i>Restricted - nonexpendable:</i> |                  |                           |
| Permanent endowment                | \$108,231        | \$92,655                  |
| <i>Restricted - expendable:</i>    |                  |                           |
| Research and gifts                 | \$67,709         | \$65,072                  |
| Student loans                      | 19,749           | 19,672                    |
| Term endowments                    | 38,819           | 31,961                    |
| Capital projects:                  |                  |                           |
| Sinking                            | 31,529           | 30,794                    |
| Reserve                            | 98,253           | 81,945                    |
| Renewal & replacement              | 26,218           | 19,415                    |
| <b>Total</b>                       | <b>\$282,277</b> | <b>\$248,859</b>          |

The beginning balances of restricted net position expendable, reserve and total, were restated from \$68,312 and \$235,226 to \$81,945 and \$248,859 due to inclusion of the net position from the debt service reserves for University of Iowa Facilities Corporation reported as a segment of the University of Iowa.

The Foundation's temporarily restricted net assets at June 30, 2013 and 2012 were restricted for the following (in thousands):

|                              | June 30, 2013    | June 30, 2012    |
|------------------------------|------------------|------------------|
| Program support              | \$158,535        | \$146,522        |
| Student support              | 83,919           | 68,198           |
| Faculty support              | 92,160           | 75,027           |
| Facilities and equipment     | 69,913           | 57,097           |
| Research                     | 61,858           | 60,041           |
| Remainder interest in trusts | 20,549           | 18,386           |
| <b>Total</b>                 | <b>\$486,934</b> | <b>\$425,271</b> |

The Foundation's net assets during the years ended June 30, 2013 and 2012 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence or passage of time.

The Foundation's permanently restricted net assets at June 30, 2013 and 2012 were restricted for the following (in thousands):

|                              | June 30, 2013    | June 30, 2012    |
|------------------------------|------------------|------------------|
| Undesignated                 | \$6,882          | \$6,858          |
| Program support              | 93,330           | 87,489           |
| Student support              | 160,539          | 154,896          |
| Faculty support              | 176,165          | 175,249          |
| Facilities and equipment     | 6,434            | 8,377            |
| Research                     | 65,053           | 62,489           |
| Perpetual trusts             | 6,946            | 6,460            |
| Remainder interest in trusts | 10,441           | 8,198            |
| <b>Total</b>                 | <b>\$525,790</b> | <b>\$510,016</b> |

### ***Note 13— Other Discretely Presented Component Units***

The Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34, provide guidance in determining whether organizations are to be included as part of a reporting entity. The University of Iowa has determined that, in accordance with the provisions of these statements, the financial activity of the University of Iowa Research Foundation (UIRF) and University of Iowa Health Systems and Subsidiaries (UIHS) should be reported as discretely presented component units.

#### **A - The University of Iowa Research Foundation**

The University of Iowa Research Foundation (UIRF) - a 501(c)(3) corporation - commercializes University of Iowa developed technologies and inventions through licensing and new venture formation, and manages the subsequent revenue stream. See Note 1 for additional information. UIRF reports on a fiscal year ended June 30. Requests for the separately issued financial statements should be directed to the Controller's Office, University of Iowa, B5 Jessup Hall, Iowa City, IA 52242.

Significant financial data for UIRF for the years ended June 30, 2013 and 2012 are presented below (in thousands):

### CONDENSED STATEMENT OF NET ASSETS

|   | 2013            | 2012            |
|---|-----------------|-----------------|
| <i>Assets</i>   |                 |                 |
| Cash, investments and other assets                      | \$24,344        | \$27,356        |
| Capital assets, net                                     | 14              | 30              |
| <b>Total Assets</b>                                     | <b>24,358</b>   | <b>27,386</b>   |
| <i>Liabilities</i>                                      |                 |                 |
| Accounts payable and other current liabilities          | 871             | 1,286           |
| Long-term liabilities (current and noncurrent portions) | 5               | -               |
| <b>Total Liabilities</b>                                | <b>876</b>      | <b>1,286</b>    |
| <i>Net Assets</i>                                       |                 |                 |
| Net investment in capital assets                        | 14              | 30              |
| Unrestricted  | 23,468          | 26,070          |
| <b>Total Net Assets</b>                                 | <b>23,482</b>   | <b>26,100</b>   |
| <b>Total Liabilities and Net Assets</b>                 | <b>\$24,358</b> | <b>\$27,386</b> |

### CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

|                                 | 2013            | 2012            |
|---------------------------------|-----------------|-----------------|
| <i>Program Expenses</i>         |                 |                 |
| Intellectual properties expense | \$5,565         | \$9,980         |
| Other                           | 401             | 403             |
| <b>Total Program Expenses</b>   | <b>5,966</b>    | <b>10,383</b>   |
| <i>Program Revenues</i>         |                 |                 |
| Intellectual properties income  | 2,522           | 8,811           |
| Investment income               | 483             | 985             |
| Payment from primary government | 343             | 641             |
| <b>Total Program Revenues</b>   | <b>3,348</b>    | <b>10,436</b>   |
| Change in Net Assets            | (2,618)         | 53              |
| Net Assets, Beginning of Year   | 26,100          | 26,047          |
| Net Assets, End of Year         | <b>\$23,482</b> | <b>\$26,100</b> |

### B - University of Iowa Health System and Subsidiaries

University of Iowa Health System (UIHS) was incorporated under the provisions of the Iowa Nonprofit Corporations Act on December 2, 1994. UIHS was formed to support the clinical, academic, and research programs of the University of Iowa College of Medicine and the University of Iowa Hospitals and Clinics. See Note 1 for additional information. UIHS reports on a fiscal year ended December 31. Requests for the separately issued financial statements should be directed to the Controller's Office, University of Iowa, B5 Jessup Hall, Iowa City, IA 52242.

Significant financial data for UIHS and Subsidiaries for the years ended December 31, 2012 and 2011 are presented below (in thousands):

### CONDENSED STATEMENT OF NET ASSETS

|  | 2012            | 2011            |
|--|-----------------|-----------------|
| <i>Assets</i>                                  |                 |                 |
| Cash, investments and other assets             | \$23,352        | \$22,844        |
| Capital assets, net                            | 274             | 333             |
| <b>Total Assets</b>                            | <b>23,626</b>   | <b>23,177</b>   |
| <i>Liabilities</i>                             |                 |                 |
| Accounts payable and other current liabilities | 1,244           | 1,091           |
| Accounts held for other component units        | 5,364           | 5,021           |
| <b>Total Liabilities</b>                       | <b>6,608</b>    | <b>6,112</b>    |
| <i>Net Assets</i>                              |                 |                 |
| Net investment in capital assets               | 274             | 333             |
| Unrestricted                                   | 16,744          | 16,732          |
| <b>Total Net Assets</b>                        | <b>17,018</b>   | <b>17,065</b>   |
| <b>Total Liabilities and Net Assets</b>        | <b>\$23,626</b> | <b>\$23,177</b> |

### CONDENSED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

|                               | 2012            | 2011            |
|-------------------------------|-----------------|-----------------|
| <i>Program Expenses</i>       |                 |                 |
| Patient Services              | \$11,247        | \$11,286        |
| Management services           | 10,492          | 9,795           |
| Depreciation                  | 177             | 233             |
| <b>Total Program Expenses</b> | <b>21,916</b>   | <b>21,314</b>   |
| <i>Program Revenues</i>       |                 |                 |
| Patient Services              | 7,385           | 7,836           |
| Management services           | 11,860          | 11,543          |
| Investment income             | 69              | 138             |
| Other                         | 2,555           | 2,159           |
| <b>Total Program Revenues</b> | <b>21,869</b>   | <b>21,676</b>   |
| Change in Net Assets          | (47)            | 362             |
| Net Assets, Beginning of Year | 17,065          | 16,703          |
| Net Assets, End of Year       | <b>\$17,018</b> | <b>\$17,065</b> |



### **Note 14—Subsequent Events**

The Board of Regents, on behalf of the University, has entered into a Master Lease Agreement with Wells Fargo Municipal Capital Strategies, L.L.C., whereby the University, Iowa State University of Science and Technology, and the University of Northern Iowa may from time to time finance real and personal property over a three to ten-year term on an annual appropriation lease basis. As of July 10, 2013, the University made draws of \$30,000,000 for the construction of a football operations facility, \$8,000,000 for the purchase of a scoreboard for Kinnick Stadium, and \$2,450,000 for the purchase of motor vehicles for the Fleet Services department under the Master Lease Agreement. The University's Notes will bear interest at 2.48% for ten (10) years, 2.41% for five (5) years, and 1.69% for five (5) years respectively. Monthly principal and interest payments will begin August 1, 2013.

In August 2013, the University received approval from the State Board of Regents to issue Academic Building Revenue Refunding Bonds, Series S.U.I. 2013 in the amount of \$18,780,000. The proceeds of the Bonds will be used to refund, as an advance refunding, the outstanding principal of the July 1, 2014 through July 1, 2024 maturities of the Board's \$25,000,000 Academic Building Revenue Bonds, Series 2004 dated October 1, 2004, and to pay the costs of issuing the bonds. These bonds will bear interest at varying rates between 3.00% and 5.00% and will mature in varying amounts from July 1, 2014 through July 1, 2024. This refunding transaction is being undertaken to achieve debt service savings.

In September 2013, the University received approval from the State Board of Regents to issue Academic Building Revenue Bonds, Series S.U.I. 2013A in the amount of \$30,100,000. The proceeds of the Bonds will be used to pay or reimburse a portion of the costs of building, repairing, replacing, reconstructing and equipping flood damaged buildings and facilities on the campus of the University, fund capitalized interest, fund a reserve fund, and pay the costs of issuing said Bonds. These bonds will bear interest at varying rates between 2.00% and 4.75% and will mature in varying amounts from July 1, 2017 through July 1, 2036.

### **Note 15—Segment Information**

A segment represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. Investors in Academic Building Revenue Bonds rely on pledged tuition and fees revenues generated by the University for repayment. Investors in bonds of all other bond enterprises rely solely on the revenue generated by the individual activities for repayment. The University's segments are described as follows:

#### **ACADEMIC BUILDING REVENUE BONDS**

The Academic Building Revenue Bond Funds were created to defray the costs of constructing and renovating academic buildings of the University.

#### **ATHLETIC FACILITIES REVENUE BONDS**

The Athletic Facilities Revenue Bond Funds were created to defray the costs of constructing and equipping certain athletic and recreational buildings and facilities at the University. The revenues pledged to these bonds are generated by student fees, tickets sold to athletic events and concessions at athletic events.

### **CENTER FOR UNIVERSITY ADVANCEMENT REVENUE BONDS**

The Center for University Advancement Revenue Bond Funds were created to defray the costs of constructing, furnishing, and equipping a building to be used as the Center for University Advancement at the University. The revenues pledged to these bonds are rental payments received from the University of Iowa Foundation for the use of the building.

### **HOSPITAL REVENUE BONDS**

The Hospital Revenue Bond Funds were created to defray the costs of various construction and renovation projects at the University of Iowa Hospitals & Clinics. The revenues pledged to these bonds consist of charges to patients for medical services.

### **IOWA MEMORIAL UNION (IMU) REVENUE BONDS**

The Iowa Memorial Union (IMU) Revenue Bond Funds were created to defray the cost of alterations and improvements to the IMU at the University. The revenues pledged to these bonds are generated by fees paid by users of the IMU and from student fees.

### **PARKING SYSTEM REVENUE BONDS**

The Parking System Revenue Bond Funds were created to defray additional costs of constructing, improving, and equipping various parking facilities at the University. The revenues pledged to these bonds are generated by fees paid by users of the parking facilities.

### **RECREATIONAL FACILITIES REVENUE BONDS**

The Recreational Facilities Revenue Bonds were created to defray the costs of building, furnishing, and equipping the Campus Recreation and Wellness Center and constructing improvements to the University Field House at the University. The revenues pledged to these bonds consist of student fees and charges.

### **RESIDENCE SERVICES REVENUE BONDS**

The Residence Services Revenue Bond Funds were created to defray additional costs of constructing, improving and maintaining various residence halls and related facilities at the University. The revenues pledged to these bonds are generated by fees paid by users of the residence halls' services.

### **STUDENT HEALTH FACILITY REVENUE BONDS**

The Student Health Facility Revenue Bond Funds were created to defray the costs of constructing, improving, and equipping a student health center at the University. The revenues pledged to these bonds consist of student fees and charges.

### **TELECOMMUNICATIONS FACILITIES REVENUE BONDS**

The Telecommunications Facilities Revenue Bond Funds were created to defray the costs of constructing, equipping, furnishing, and improving the telecommunications facilities of the University. The revenues pledged to these bonds come from charges assessed to the users of the telecommunications facilities.

### **UNIVERSITY OF IOWA FACILITIES CORPORATION REVENUE BONDS**

The University of Iowa Facilities Corporation Revenue Bond Funds were created to provide financial assistance to the University of Iowa for the acquisition and construction of facilities for the benefit of the University of Iowa. The bonds are payable solely from the lease payments paid by the University of Iowa for the facilities. Upon repayment of the bonds, ownership of the acquired facilities transfers to the University of Iowa.

### **UTILITY SYSTEM REVENUE BONDS**

The Utility System Revenue Bond Funds were created to defray additional costs to construct, equip and furnish the utility system of the University. The revenues pledged to these bonds come from charges assessed to the users of the utility system.

### **FUND ACCOUNTING**

In order to ensure the observance of limitations and restrictions placed on the use of available resources, the accounts are maintained in accordance with the principles of fund accounting. Each fund provides a separate set of self-balancing accounts which comprises its assets, liabilities, reserves, net position, revenues and expenses. Fund accounting is the procedure by which resources for various purposes are classified, for accounting and reporting purposes, into funds according to the activities or objectives specified. The University has set up accounts which are consistent with the flow of funds per requirements of the bond covenants.

### **TRANSFERS IN (OUT)**

After meeting certain requirements specified in the bond agreements, the balance of net receipts may be transferred to the University for its general operations. However, all such monies that have been transferred shall be returned by the University, if necessary, to satisfy the requirements of the bond indentures.

## Segment Reporting (in thousands)

|  | Academic<br>Building<br>Revenue<br>Bonds | Athletic<br>Facilities<br>Revenue<br>Bonds | Center for<br>University<br>Advancement<br>Revenue<br>Bonds | Hospital<br>Revenue<br>Bonds |
|--|--|--|---|------------------------------|
|--|--|--|---|------------------------------|

### CONDENSED STATEMENT OF NET POSITION

#### Assets:

|                         |                |                |              |                  |
|-------------------------|----------------|----------------|--------------|------------------|
| Current assets          | \$41,782       | \$29,700       | \$810        | \$349,550        |
| Capital assets          | 448,931        | 133,544        | 7,534        | 634,785          |
| Other noncurrent assets | 8,067          | 9,250          | 901          | 787,508          |
| <b>Total assets</b>     | <b>498,780</b> | <b>172,494</b> | <b>9,245</b> | <b>1,771,843</b> |

#### Liabilities:

|                          |                |                |              |                |
|--------------------------|----------------|----------------|--------------|----------------|
| Current liabilities      | 17,620         | 25,080         | 760          | 176,522        |
| Noncurrent liabilities   | 115,904        | 141,938        | 4,430        | 423,139        |
| <b>Total liabilities</b> | <b>133,524</b> | <b>167,018</b> | <b>5,190</b> | <b>599,661</b> |

#### Net Position:

|   |                  |                |                |                    |
|---|------------------|----------------|----------------|--------------------|
| Invested in capital assets, net of related debt | 326,672          | (12,569)       | 2,459          | 427,713            |
| Restricted - expendable                         | 38,584           | 17,552         | 1,596          | 8,411              |
| Unrestricted                                    | -                | 493            | -              | 736,058            |
| <b>Total net position</b>                       | <b>\$365,256</b> | <b>\$5,476</b> | <b>\$4,055</b> | <b>\$1,172,182</b> |

### CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

|  |                  |                |                |                    |
|--|------------------|----------------|----------------|--------------------|
| Operating revenues                     | \$333,663        | \$33,820       | -              | \$1,125,336        |
| Depreciation expense                   | (23,908)         | (5,983)        | (901)          | (72,671)           |
| Other operating expenses               | (109)            | (13,842)       | -              | (1,013,711)        |
| <b>Net operating income (loss)</b>     | <b>309,646</b>   | <b>13,995</b>  | <b>(901)</b>   | <b>38,954</b>      |
| Nonoperating revenues (expenses)       | (4,640)          | (5,442)        | (228)          | 17,988             |
| Transfers from/(to) University funds   | 215,723          | (5,726)        | 845            | (46,748)           |
| <b>Change in net position</b>          | <b>89,283</b>    | <b>2,827</b>   | <b>(284)</b>   | <b>10,194</b>      |
| <b>Net position, beginning of year</b> | <b>275,973</b>   | <b>2,649</b>   | <b>4,339</b>   | <b>1,161,988</b>   |
| <b>Net position, end of year</b>       | <b>\$365,256</b> | <b>\$5,476</b> | <b>\$4,055</b> | <b>\$1,172,182</b> |

### CONDENSED STATEMENT OF CASH FLOWS

|  |                 |                 |              |                |
|--|-----------------|-----------------|--------------|----------------|
| Net cash provided (used) by operating activities                     | \$333,478       | \$20,675        | -            | \$131,526      |
| Net cash provided (used) by noncapital financing activities          | (323,922)       | (10,815)        | 846          | (44,219)       |
| Net cash provided (used) by capital and related financing activities | (11,226)        | (9,689)         | (853)        | 72,094         |
| Net cash provided (used) by investing activities                     | 3,351           | 4,413           | 30           | (159,091)      |
| <b>Net increase (decrease) in cash</b>                               | <b>1,681</b>    | <b>4,584</b>    | <b>23</b>    | <b>310</b>     |
| <b>Cash and cash equivalents, beginning of year</b>                  | <b>10,879</b>   | <b>23,121</b>   | <b>774</b>   | <b>1,819</b>   |
| <b>Cash and cash equivalents, end of year</b>                        | <b>\$12,560</b> | <b>\$27,705</b> | <b>\$797</b> | <b>\$2,129</b> |

### DEBT SERVICE COVERAGE

|                                    |     |      |      |      |
|------------------------------------|-----|------|------|------|
| Debt service coverage % - Required | N/A | 125% | 100% | 130% |
| Debt service coverage % - Actual   | N/A | 209% | 100% | 743% |

### PORTION OF REVENUE PLEDGED

|  |          |          |       |          |
|--|----------|----------|-------|----------|
| Annual debt service (principal & interest)     | \$11,227 | \$10,265 | \$876 | \$15,029 |
| Net pledged revenue                            | 333,695  | 21,419   | 876   | 111,625  |
| Annual debt service/Net operating revenues (%) | 3%       | 48%      | 100%  | 13%      |

| IMU Revenue Bonds | Parking System Revenue Bonds | Recreational Facilities Revenue Bonds | Residence Services Revenue Bonds | Student Health Facility Revenue Bonds | Telecomm. Facilities Revenue Bonds | UI Facilities Corporation Bonds | Utility System Revenue Bonds |
|-------------------|------------------------------|---------------------------------------|----------------------------------|---------------------------------------|------------------------------------|---------------------------------|------------------------------|
| \$8,074           | \$10,270                     | \$12,003                              | \$51,287                         | \$6,903                               | \$14,040                           | \$6,124                         | \$48,103                     |
| 30,051            | 75,831                       | 86,722                                | 106,544                          | 4,315                                 | 34,644                             | 191,763                         | 255,402                      |
| 783               | 14,344                       | 4,234                                 | 6,408                            | -                                     | 3,068                              | 14,319                          | 9,811                        |
| <b>38,908</b>     | <b>100,445</b>               | <b>102,959</b>                        | <b>164,239</b>                   | <b>11,218</b>                         | <b>51,752</b>                      | <b>212,206</b>                  | <b>313,316</b>               |
| 4,003             | 4,576                        | 5,871                                 | 12,684                           | 495                                   | 4,896                              | 8,933                           | 14,292                       |
| 7,620             | 43,157                       | 70,796                                | 67,007                           | -                                     | 37,360                             | 160,611                         | 160,862                      |
| <b>11,623</b>     | <b>47,733</b>                | <b>76,667</b>                         | <b>79,691</b>                    | <b>495</b>                            | <b>42,256</b>                      | <b>169,544</b>                  | <b>175,154</b>               |
| 21,951            | 42,167                       | 13,176                                | 54,916                           | 4,315                                 | (5,817)                            | 27,607                          | 92,737                       |
| 1,310             | 1,575                        | 11,805                                | 25,124                           | -                                     | 8,601                              | 15,055                          | 33,014                       |
| 4,024             | 8,970                        | 1,311                                 | 4,508                            | 6,408                                 | 6,712                              | -                               | 12,411                       |
| <b>\$27,285</b>   | <b>\$52,712</b>              | <b>\$26,292</b>                       | <b>\$84,548</b>                  | <b>\$10,723</b>                       | <b>\$9,496</b>                     | <b>\$42,662</b>                 | <b>\$138,162</b>             |
| \$15,046          | \$17,188                     | \$4,193                               | \$65,156                         | \$1,447                               | \$24,753                           | -                               | \$86,442                     |
| (1,056)           | (2,721)                      | (3,001)                               | (6,008)                          | (361)                                 | (1,560)                            | (5,140)                         | (12,746)                     |
| (18,021)          | (10,454)                     | (6,715)                               | (52,260)                         | (6,627)                               | (17,813)                           | -                               | (54,559)                     |
| (4,031)           | 4,013                        | (5,523)                               | 6,888                            | (5,541)                               | 5,380                              | (5,140)                         | 19,137                       |
| (53)              | (2,689)                      | (3,245)                               | (368)                            | 166                                   | (1,401)                            | (5,881)                         | (4,247)                      |
| 4,396             | 8,492                        | 10,419                                | 616                              | 5,872                                 | (1,435)                            | 20,116                          | 8,053                        |
| 312               | 9,816                        | 1,651                                 | 7,136                            | 497                                   | 2,544                              | 9,095                           | 22,943                       |
| 26,973            | 42,896                       | 24,641                                | 77,412                           | 10,226                                | 6,952                              | 33,567                          | 115,219                      |
| <b>\$27,285</b>   | <b>\$52,712</b>              | <b>\$26,292</b>                       | <b>\$84,548</b>                  | <b>\$10,723</b>                       | <b>\$9,496</b>                     | <b>\$42,662</b>                 | <b>\$138,162</b>             |
| (\$2,954)         | \$7,157                      | (\$2,557)                             | \$14,933                         | (\$5,149)                             | \$5,960                            | -                               | \$32,997                     |
| 210               | (2,090)                      | 1,236                                 | 219                              | (73)                                  | (1,461)                            | -                               | (16,381)                     |
| 2,804             | 4,453                        | 2,976                                 | 10,407                           | 5,592                                 | (5,077)                            | 1,105                           | (29,316)                     |
| (57)              | (50)                         | 939                                   | (235)                            | 167                                   | 5,724                              | (8,069)                         | 6,495                        |
| 3                 | 9,470                        | 2,594                                 | 25,324                           | 537                                   | 5,146                              | (6,964)                         | (6,205)                      |
| 689               | -                            | 9,181                                 | 21,140                           | 6,029                                 | 6,678                              | 13,088                          | 36,000                       |
| <b>\$692</b>      | <b>\$9,470</b>               | <b>\$11,775</b>                       | <b>\$46,464</b>                  | <b>\$6,566</b>                        | <b>\$11,824</b>                    | <b>\$6,124</b>                  | <b>\$29,795</b>              |
| 120%              | 120%                         | 125%                                  | 135%                             | 120%                                  | 110%                               | N/A                             | 120%                         |
| 191%              | 299%                         | 152%                                  | 283%                             | N/A                                   | 156%                               | N/A                             | 187%                         |
| \$810             | \$2,201                      | \$5,973                               | \$5,440                          | -                                     | \$4,412                            | \$13,992                        | \$17,980                     |
| 1,550             | 6,584                        | 9,058                                 | 15,405                           | N/A                                   | 6,868                              | N/A                             | 33,569                       |
| 52%               | 33%                          | 66%                                   | 35%                              | N/A                                   | 64%                                | N/A                             | 54%                          |

A summary of revenue bonds payable activity, by segment, for the year ended June 30, 2013 is as follows:

|                              | Academic Building Revenue Bonds | Athletic Facilities Revenue Bonds | Center for University Advancement Revenue Bonds | Hospital Revenue Bonds |
|------------------------------|---------------------------------|-----------------------------------|---|------------------------|
| <b>REVENUE BONDS PAYABLE</b> |                                 |                                   |   |                        |
| Beginning Balance            | \$128,586                       | \$150,097                         | \$5,685   | \$152,010              |
| Additions                    | 27,885                          | -                                 | -   | 202,781                |
| Deductions                   | 34,212                          | 3,984                             | 610   | 5,314                  |
| <b>Ending Balance</b>        | <b>\$122,259</b>                | <b>\$146,113</b>                  | <b>\$5,075</b>                                  | <b>\$349,477</b>       |

A summary of bond debt service for payment of principal and interest is shown below. As of June 30, 2013, the amount shown for debt service payments due on July 1st were on hand.

|  | Academic Building Revenue Bonds | Athletic Facilities Revenue Bonds | Center for University Advancement Revenue Bonds | Hospital Revenue Bonds |
|--|---------------------------------|-----------------------------------|---|------------------------|
| <b>DEBT SERVICE REQUIREMENTS</b>                   |                                 |                                   |   |                        |
| Semi-annual maturity                               | Jan & Jul 1st                   | Jan & Jul 1st                     | Jan & Jul 1st                                   | Mar & Sep 1st          |
| Due on demand                                      | \$40                            | -                                 | -   | -                      |
| 2014   | 11,087                          | 10,185                            | 862   | 19,702                 |
| 2015   | 10,067                          | 10,625                            | 859   | 24,674                 |
| 2016   | 9,980                           | 10,596                            | 850   | 24,533                 |
| 2017   | 9,727                           | 10,618                            | 853   | 24,442                 |
| 2018   | 9,706                           | 10,673                            | 834   | 24,305                 |
| 2019-2023  | 48,508                          | 54,255                            | 1,682   | 120,509                |
| 2024-2028  | 41,186                          | 55,441                            | -   | 118,853                |
| 2029-2033  | 23,426                          | 45,699                            | -   | 82,321                 |
| 2034-2038  | 2,968                           | 10,206                            | -   | 67,364                 |
| 2039-2041  | -                               | -                                 | -   | 12,215                 |
| Unamortized Discount, Premium, Refunding Gain/Loss | 1,164                           | 538                               | -   | 13,467                 |
| <b>Total Principal and Interest</b>                | <b>\$167,859</b>                | <b>\$218,836</b>                  | <b>\$5,940</b>                                  | <b>\$532,385</b>       |

As of June 30, 2013, the University has entered into contract commitments for construction projects as follows:

|                             | Academic Building Revenue Bonds | Athletic Facilities Revenue Bonds | Center for University Advancement Revenue Bonds | Hospital Revenue Bonds |
|-----------------------------|---------------------------------|-----------------------------------|---|------------------------|
| <b>COMMITMENTS</b>          |                                 |                                   |   |                        |
| <b>Contract Commitments</b> | <b>\$103,757</b>                | <b>\$2,600</b>                    | <b>-</b>  | <b>\$121,844</b>       |

| IMU Revenue Bonds | Parking System Revenue Bonds | Recreational Facilities Revenue Bonds | Residence Services Revenue Bonds | Student Health Facility Revenue Bonds | Telecomm. Facilities Revenue Bonds | UI Facilities Corporation Bonds | Utility System Revenue Bonds |
|-------------------|------------------------------|---------------------------------------|----------------------------------|---------------------------------------|------------------------------------|---------------------------------|------------------------------|
| \$8,565           | \$19,719                     | \$75,384                              | \$45,206                         | \$345                                 | \$42,902                           | \$150,404                       | \$179,990                    |
| -                 | 38,850                       | -                                     | 30,157                           | -                                     | -                                  | 27,252                          | 17,859                       |
| 465               | 14,789                       | 1,838                                 | 3,597                            | 345                                   | 2,538                              | 8,112                           | 27,101                       |
| <b>\$8,100</b>    | <b>\$43,780</b>              | <b>\$73,546</b>                       | <b>\$71,766</b>                  | -                                     | <b>\$40,364</b>                    | <b>\$169,544</b>                | <b>\$170,748</b>             |

| IMU Revenue Bonds | Parking System Revenue Bonds | Recreational Facilities Revenue Bonds | Residence Services Revenue Bonds | Student Health Facility Revenue Bonds | Telecomm. Facilities Revenue Bonds | UI Facility Corporation Bonds | Utility System Revenue Bonds |
|-------------------|------------------------------|---------------------------------------|----------------------------------|---------------------------------------|------------------------------------|-------------------------------|------------------------------|
| Jan & Jul 1st     | Jan & Jul 1st                | Jan & Jul 1st                         | Jan & Jul 1st                    | Jan & Jul 1st                         | Jan & Jul 1st                      | Dec & Jun 1st                 | May & Nov 1st                |
| -                 | -                            | -                                     | -                                | -                                     | -                                  | -                             | -                            |
| 802               | 1,672                        | 5,923                                 | 5,834                            | -                                     | 4,368                              | 14,956                        | 15,959                       |
| 803               | 2,596                        | 5,995                                 | 6,606                            | -                                     | 3,811                              | 14,932                        | 14,051                       |
| 803               | 2,763                        | 4,856                                 | 6,603                            | -                                     | 3,113                              | 14,812                        | 14,329                       |
| 802               | 3,400                        | 4,979                                 | 6,576                            | -                                     | 2,395                              | 14,806                        | 14,338                       |
| 805               | 3,300                        | 5,116                                 | 6,416                            | -                                     | 2,391                              | 14,803                        | 14,279                       |
| 4,036             | 14,197                       | 26,751                                | 28,581                           | -                                     | 11,949                             | 62,698                        | 67,943                       |
| 2,440             | 10,627                       | 26,463                                | 12,998                           | -                                     | 12,103                             | 50,823                        | 53,650                       |
| -                 | 7,173                        | 24,939                                | 9,584                            | -                                     | 12,327                             | 28,370                        | 20,659                       |
| -                 | 7,295                        | 9,881                                 | 1,930                            | -                                     | 6,558                              | 15,297                        | 11,888                       |
| -                 | 4,460                        | -                                     | -                                | -                                     | -                                  | -                             | -                            |
| -                 | 2,130                        | 171                                   | 4,811                            | -                                     | 294                                | 984                           | 5,908                        |
| <b>\$10,491</b>   | <b>\$59,613</b>              | <b>\$115,074</b>                      | <b>\$89,939</b>                  | -                                     | <b>\$59,309</b>                    | <b>\$232,481</b>              | <b>\$233,004</b>             |

| IMU Revenue Bonds | Parking System Revenue Bonds | Recreational Facilities Revenue Bonds | Residence Services Revenue Bonds | Student Health Facility Revenue Bonds | Telecomm. Facilities Revenue Bonds | UI Facility Corporation Bonds | Utility System Revenue Bonds |
|-------------------|------------------------------|---------------------------------------|----------------------------------|---------------------------------------|------------------------------------|-------------------------------|------------------------------|
| \$1,093           | \$224                        | \$1,075                               | \$42,110                         | \$36                                  | -                                  | \$28,204                      | \$21,875                     |

## Required Supplementary Information

### June 30, 2013

The following schedule represents the University's actuarially determined funding progress using the projected unit credit actuarial cost method. See Note 8 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost, Net OPEB Obligation, and funded status and funding progress.

#### SCHEDULE OF FUNDING PROGRESS BY VALUATION DATE

(in thousands)

| <i>Fiscal Year Ended</i> | <i>Valuation Date</i> | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a percentage of Covered Payroll |
|--------------------------|-----------------------|---------------------------|-----------------------------------|---|--------------|------------------------|---|
| 6/30/11                  | 7/1/10                | -                         | \$143,831                         | \$143,831                                   | 0.00%        | \$822,594              | 17.50%                                  |
| 6/30/12                  | 7/1/11                | -                         | \$151,820                         | \$151,820                                   | 0.00%        | \$836,794              | 18.10%                                  |
| 6/30/13                  | 7/1/12                | -                         | \$169,800                         | \$169,800                                   | 0.00%        | \$906,000              | 18.70%                                  |





## OFFICE OF THE CONTROLLER ACCOUNTING & FINANCIAL REPORTING

**Terry L. Johnson**  
Associate Vice President and University Controller

**Selina J. Martin**  
Associate Controller

**Steve Romont**  
Director, Accounting & Financial Reporting

**Yan Huang**  
Assistant Director, Accounting & Financial Reporting

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This financial report is designed to provide users with a general overview of the University of Iowa's finances and to demonstrate the University's accountability for the funds received. Questions regarding this report, or requests for additional financial information, should be directed to the Controller's Office, University of Iowa, B5 Jessup Hall, Iowa City, IA 52242 or phone 319-335-0062. An electronic version can be found at <http://www.uiowa.edu/~fusas/annualreports>.

The University of Iowa prohibits discrimination in employment and in its educational programs and activities on the basis of race, national origin, color, creed, religion, sex, age, disability, veteran status, sexual orientation, gender identity, or associational preference. The University also affirms its commitment to providing equal opportunities and equal access to University facilities. For additional information on nondiscrimination policies, contact the Coordinator of Title IX, Section 504, and the ADA in the Office of Equal Opportunity & Diversity, 319/335-0705 (voice) or 319/335-0697 (text). The University of Iowa, 202 Jessup Hall, Iowa City, Iowa 52242-1316. XXXXXXX-1/14





**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Members of the Board of Regents, State of Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the State University of Iowa (University) and its discretely presented component units as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 12, 2013. Our report includes a reference to other auditors who audited the financial statements of the University of Iowa Research Foundation, the State University of Iowa Foundation and Affiliates and the University of Iowa Health System and Subsidiaries as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component units were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist which have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying Schedule of Findings as item (A) which we consider to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in a separate departmental report.


## State University of Iowa's Response to the Finding


The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the University's response.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the State University of Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 12, 2013

State University of Iowa

Schedule of Findings

Year ended June 30, 2013

**Finding Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCY:**

- (A) Financial Reporting – During the audit, we identified items which were not properly classified in the University’s financial statements. Also, University of Iowa Hospitals and Clinics (UIHC) entered into a capital lease for a parking ramp which had not been recorded in the University’s financial statements. In addition, a parcel of land recorded as a donation in a prior year was not recorded in the University’s financial statements. Adjustments were subsequently made by the University to properly classify and record these amounts in the financial statements.

Recommendation – The University should implement procedures to ensure all accounts are properly recorded and classified in the University’s financial statements.

Response – The University agrees with the Recommendation and has modified accounting procedures and internal controls to properly classify information reported in the audited financial statements. In each case cited by the State Auditor’s Office the University reported information conservatively in the financial statements. The University consults each year with the State Auditor’s Office regarding materiality factors and other considerations that may impact how transactions are classified.

- Historically the University has treated the insurance payment as an operating expense in the month in which it is paid which conservatively reports this transaction in the financial statements. A prepaid insurance expense was established in fiscal year 2013 in the amount of \$1.5 million to account for the 4 month coverage period that should be expensed in fiscal year 2014. The University has modified its accounting procedures for recording prepaid expense and will report in all future periods the appropriate portion of catastrophic property insurance as prepaid expense based on the insurance coverage period.
- In fiscal year 2013, UIHC reported an inter-departmental payable as if it were a payable to an external entity. UIHC should have recorded the transaction as an inter-departmental payable and also booked the inter-departmental receivable so payables and receivables would net to zero. Had the error not been corrected, it would have overstated accounts payable by \$1.7 million. The University has worked with the UIHC Finance and Accounting Department to ensure future accruals for appropriate activities use the inter-departmental payable/receivable institutional account so proper elimination entries can be made prior to financial statement preparation.

- UIHC has entered into a lease arrangement with the City of Coralville for parking spaces in the City's parking ramp adjacent to the UIHC Iowa River Landing Medical Office Building. UIHC treated this arrangement as an operating lease but it should have been reported as a capital lease. In the future, the University and UIHC will evaluate all new external lease agreements to determine if the lease should be reported as an operating lease or as a capital lease.
- Finally, the last item refers to a master ground lease dating back to 1988 in which the State of Iowa authorized the Board of Regents to enter into ground lease arrangements with companies to promote economic development initiatives at the University (formerly Oakdale) Research Park Corporation. Although no one currently employed by the University was on staff at the time this ground lease was authorized, the University had assumed this land was reported on the State of Iowa's balance sheet. After discussing this transaction with the Department of Management, it was decided the best course of action was to report this land as an asset in the University's financial statements.

Conclusion – Response accepted.

#### **INSTANCES OF NON-COMPLIANCE**

No matters were noted.