UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Annual Financial Report

June 30, 2023

(With Independent Auditor's Report Thereon)

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Annual Financial Report

June 30, 2023

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UNIVERSITY OF ILLINOIS SYSTEM

Office of the Vice President, Chief Financial Officer and Comptroller

January 19, 2024

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

I am pleased to transmit the Annual Financial Report of the University of Illinois Health Services Facilities System for the fiscal year ending June 30, 2023. This report supplements the Annual Financial Report of the University of Illinois.

The Health Services Facilities System has emerged from the COVID-19 pandemic with solid financial results in fiscal year 2023. Patient volume has exceeded pre-pandemic levels, pandemic-related costs related to personal protective equipment, facility modifications and patient care have been significantly reduced, and improved revenue cycle functions helped to offset inflationary impacts and labor costs. Health Services Facilities System leadership, medical professionals and staff remain committed to its mission of advancing health for everyone through outstanding clinical care, education, research and social responsibility.

The 2023 financial statements and accompanying notes appearing on pages 5 through 38 have been audited by RSM US LLP, Independent Certified Public Accountants, as special assistants to the Auditor General of the State of Illinois, whose report on the financial statements appears on pages 2 through 4.

Respectfully,

SIGNED ORIGINAL ON FILE

Paul Ellinger
Vice President, Chief Financial Officer and Comptroller

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

Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
University of Illinois

Report on the Audit of the Financial Statements

Opinion

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the University of Illinois Health Services Facilities System (System), a segment of the University of Illinois, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the System, a segment of the University of Illinois, as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University of Illinois, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the University of Illinois that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the University of Illinois as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements of the System, in Fiscal Year 2023, the System adopted Governmental Accounting Standards Board's Statement No. 96, *Subscription-Based Information Technology Arrangements*. The adoption of this statement resulted in the restatement of opening net position and the inclusion of intangible right-to-use assets and a subscription liability. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information
Management is responsible for the other information included in the annual report. The other information comprises the University Officials page and Transmittal Letter but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2024, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
January 19, 2024

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Net Position

June 30, 2023

Assets and Deferred Outflow of Resources		
Current assets:		
Claim on cash and on pooled investments	$	410,746,635
Restricted claim on cash and on pooled investments		1,038,992
Restricted cash and cash equivalents		71,216
Accrued investment income		1,333,406
Patient accounts receivable, net		163,943,176
Other receivables, net		12,480,236
Inventories		11,253,612
Prepaid expenses, deposits, and other assets		5,107,521
Total current assets		605,974,794
Noncurrent assets:		
Restricted claim on cash and on pooled investments		17,533,966
Other receivables		64,630
Capital assets, nondepreciable		25,955,565
Depreciable and amortizable capital assets, net		464,335,789
Total noncurrent assets		507,889,950
Deferred outflow of resources		814,774
Total assets and deferred outflow of resources	$	1,114,679,518
Liabilities, Deferred Inflow of Resources, and Net Position		
Current liabilities:		
Accounts payable	$	95,888,613
Accrued payroll		28,125,269
Accrued interest payable		1,277,605
Estimated third-party settlements		55,400,942
Current maturities of bonds payable		4,360,000
Current maturities of finance purchases payable		2,124,692
Current maturities of leases and subscriptions payable		6,413,161
Current portion of accrued compensated absences		4,453,599
Total current liabilities		198,043,881
Noncurrent liabilities:		
Bonds payable, net of current maturities		85,416,920
Finance purchases payable, net of current maturities		148,014,413
Leases and subscriptions payable, net of current maturities		12,083,926
Accrued compensated absences, net of current portion		30,722,284
Derivative instrument – swap liability		84,804
Total noncurrent liabilities		276,322,347
Deferred inflow of resources		345,673
Total liabilities and deferred inflow of resources		474,711,901
Net investment in capital assets		226,352,916
Restricted:		
Expendable for capital projects and equipment		17,210,958
Expendable for debt service		323,008
Unrestricted		396,080,735
Total net position		639,967,617
Total liabilities, deferred inflow of resources, and net position	$	1,114,679,518

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2023

Operating revenues:		
Net patient service revenue	$	1,141,969,712
Other revenues		79,661,872
Total operating revenues		1,221,631,584
Operating expenses:		
Salaries, wages and benefits		479,406,956
On-behalf for fringe benefits		68,161,825
Special funding situation for fringe benefits		46,666,128
Supplies and general expenses		615,975,800
Administrative services		22,290,113
Depreciation and amortization		42,054,874
Total operating expenses		1,274,555,696
Operating loss		(52,924,112)
Nonoperating revenues (expenses):		
On-behalf for fringe benefits		68,161,825
Special funding situation for fringe benefits		46,666,128
State appropriations		40,549,258
Transfer to the University of Illinois Hospital Services Fund		(31,000,000)
Net increase in fair value of investments		1,835,703
Interest on capital asset related debt		(8,278,393)
Investment income (net of related expenses)		7,503,593
Gain on sale/disposal of capital assets		94,184
Other nonoperating revenues, net		2,385,392
Net nonoperating revenues		127,917,690
Increase in net position		74,993,578
Net position, beginning of year		564,190,810
Restatement, change in accounting principle		783,229
Net position, beginning of year, as restated		564,974,039
Net position, end of year	$	639,967,617

See accompanying notes to financial statements.

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2023

Cash flows from operating activities:	
Patient services	$ 1,112,393,939
Payments to suppliers	(586,630,442)
Payments for administrative services	(22,290,113)
Payments to employees and for benefits	(454,628,492)
Other receipts	43,301,341
Net cash provided by operating activities	92,146,233
Cash flows from noncapital financing activities:	
State appropriations	9,549,258
Other receipts	1,104,147
Net cash provided by noncapital financing activities	10,653,405
Cash flows from capital and related financing activities:	
Purchases of capital assets	(56,076,706)
Proceeds from the sale of capital assets	1,495,257
Principal paid on capital debt, leases, and subscriptions	(12,705,586)
Interest paid on capital debt, leases, and subscriptions	(7,949,311)
Net cash used in capital and related financing activities	(75,236,346)
Cash flows from investing activities:	
Interest and other earnings on investments	6,792,720
Pooled cash allocated from University related to unrealized gains	1,835,704
Net cash provided by investing activities	8,628,424
Net increase in cash and cash equivalents	36,191,716
Cash and cash equivalents, beginning of year	393,199,093
Cash and cash equivalents, end of year	$ 429,390,809

(Continued)

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Statement of Cash Flows

Year ended June 30, 2023

Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(52,924,112)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization		42,054,874
Provision for uncollectible accounts		(18,439,557)
On-behalf for fringe benefits		68,161,825
Special funding situation for fringe benefits		46,666,128
Changes in assets, liabilities, and deferred inflow of resources:		
Patient accounts receivable		(4,551,525)
Other receivables		(1,246,925)
Inventories		(592,351)
Prepaid expenses, deposits, and other assets		(1,175,401)
Accounts payable and accrued expenses		21,335,359
Advance from Centers for Medicare and Medicaid Services		(15,086,086)
Estimated third-party settlements		8,501,395
Accrued compensated absences		(421,913)
Deferred inflow of resources - leases portion		(135,478)
Net cash provided by operating activities	$	92,146,233
Noncash investing, capital, and financing activities:		
On-behalf for fringe benefits	$	68,161,825
Special funding situation for fringe benefits		46,666,128
State appropriations		31,000,000
Transfer to the University of Illinois Hospital Services Fund		(31,000,000)
Other increases in capital assets		1,476,391
Decrease of capital asset obligations in accounts payable		(4,157,668)
Capital assets acquired through financed purchase, lease, or subscription		162,683,005
Disposal of capital assets		(1,401,073)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organizational Background and Basis of Presentation

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

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

Significant Accounting Policies

(a) Financial Statement Presentation and Basis of Accounting

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

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

(b) Cash and Cash Equivalents

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

(c) Investments

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

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

(d) Inventories

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

 (Continued)

(e) Capital Assets

Capital assets, which are or will be owned by the University, are recorded at cost or, if donated, at acquisition value at the date of the gift. Intangible right-of-use lease and subscription assets are recorded at cost based on the present value of expected payments over the term of the respective lease or arrangement plus any payments made to the lessor or provider at or before the commencement of the lease or arrangement term and certain direct costs that are ancillary charges necessary to place the lease or subscription asset into service. Depreciation and amortization of capital assets is calculated on a straight-line basis over the estimated useful lives (see below) of the assets, or over the shorter of the estimated useful lives or the lease or arrangement term for intangible right-of-use lease or subscription assets. The System's policy requires the capitalization of land and collection purchases regardless of cost, equipment and intangible right-of-use lease assets over $5,000, right-of-use subscription assets at $25,000, purchased or internally developed software, easements, buildings and improvements over $250,000 and purchased or internally developed infrastructure over $1,000,000. The System does not capitalize collections, such as works of art or historical treasures, which are held for public exhibition, education, or research in furtherance of public service rather than capital gain, unless they were previously capitalized as of June 30, 1999. Proceeds from the sale, exchange or other disposal of any item belonging to a collection must be applied to the acquisition of additional items for the same collection.

Estimated useful lives for capital assets are as follows:

	Useful life (in years)		Useful life (in years)
Buildings:		Improvements other than buildings:	
Shell	50	Site improvements	20
Service systems	25	Infrastructure	25
Fixed equipment	15		
Remodeling	25		
Intangibles:		Moveable equipment:	
Software	5 – 10	Equipment	3 – 20
Right-of-use	Shorter of the estimated useful lives or the lease or arrangement term		

(f) Deferred Outflow of Resources

Losses on refundings for the System's bonds are reported as deferred outflow of resources on the accompanying Statement of Net Position. The losses on refundings are amortized over the life of the debt using the straight-line method. The unamortized deferred loss on refunding at June 30, 2023 was $814,774.

(g) Deferred Inflow of Resources

Under hedge accounting, the University has determined that the interest rate swap agreement on the System's bonds payable, as a hedging derivative instrument, is an effective hedge. Accordingly, changes in the fair value of the interest rate swap, since being associated with the related outstanding bonds, is reported as a deferred inflow of resources of $169,565 on the accompanying Statement of Net Position. Additionally, an interest rate swap reassigned to new debt, after a refunding of debt that the swap previously hedged, normally has an other than zero fair value upon the reassociation. For a swap with a fair value of other than zero upon reassociation with a hedgeable item, the fair value is amortized as an adjustment to interest expense in a systematic manner.

Deferred inflow of resources of $176,108 related to leases in which the System is lessor is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. The deferred inflow of resources is recognized as revenue over the term of the lease.

(h) Compensated Absences

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

(i) Premiums

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

(j) Net Position

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

(k) Classification of Revenues

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

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

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

In fiscal year 2023, the System specified $31,000,000 of its State appropriation for transfer to the University of Illinois Hospital Services Fund, which is a special fund established in the State Treasury pursuant to the State Finance Act, 30 ILCS 105/6z-30. This fund is owned and operated by the Illinois Department of Healthcare and Family Services for the purpose of making payments to the System for services rendered to Medicaid recipients. It is not part of or a related organization of the University.

(l) ***Patient Services Revenue***

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, some of which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods. See note 8 for the impact of such changes in estimate for fiscal year 2023.

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

(m) ***Charity Care***

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

The System maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated cost of charity care using the System's cost-to-charge ratio was $22,216,193 for fiscal year 2023. The ratio of costs to charges is calculated based on the System's total operating expenses. Unreimbursed costs of providing care to Medicare and Medicaid patients are not included as charity care.

(n) ***Classification of Expenses***

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

(o) ***On-Behalf for Fringe Benefits***

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the System has reported outside sources of financial assistance provided by other entities on behalf of the System during the year ended June 30, 2023, as described below.

Substantially all active employees participate in group health insurance plans provided by the State and administered by the Illinois Department of Central Management Services (CMS). The State contributed, on-behalf of the System, an estimated $68,161,825, which is reflected as both nonoperating revenues and operating expenses within the Statement of Revenues, Expenses and Changes in Net Position.

(p) Pensions

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

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

(q) Other Postemployment Benefits (OPEB)

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

In order to fund SEGIP's pay-as-you-go obligations for both current employees and retirees, the Act (5 ILCS 375/11) requires contributions based upon total employee compensation paid from any State fund, including the University's State Appropriations Funds. Pursuant to State Statute, the State covers the contributions for employees who are compensated from the System's operating funds. This relationship may be modified through the enactment of a Public Act by the State's highest level of decision-making authority exercised by the Governor and the General Assembly pursuant to the State's Constitution.

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

A special funding situation exists when a non-employer entity (the State) is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity (the University, including the System) and the non-employer (the State) is the only entity with a legal obligation to make contributions directly to an OPEB plan. The System recognizes the proportionate share of the State's OPEB expense relative to the System's employees as nonoperating revenue and special funding situation for fringe benefits operating expense.

(r) Use of Estimates

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

(s) New Accounting Pronouncements

The System adopted the provisions of GASB Statement No. 91, *Conduit Debt Obligations*, which was effective for periods beginning after December 15, 2021. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations and related note disclosures. The Statement achieves those objectives by clarifying the existing definition of conduit debt obligation, establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations and improving required note disclosures. Implementation of this pronouncement did not materially impact the System's financial statements.

The System adopted the provisions of GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which was effective for periods beginning after June 15, 2022. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an service concession arrangement. This Statement provides accounting and financial reporting requirements for all other PPPs. Implementation of this pronouncement did impact the System's financial statements since the agreement disclosed in Note 6(a) is a PPP that meets the definition of a lease. The University followed Statement No. 87 and reported this PPP as a financed purchase.

The System adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* which was effective for periods beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended. The System has included subscription assets and liabilities within the Statement of Net Position and interest expense related to SBITAs within the Statement of Revenues, Expenses and Changes in Net Position. See note 1(t) for impact to the beginning net position for fiscal year 2023 related to implementation of this pronouncement.

The System adopted the provisions of GASB Statement No. 99, *Omnibus 2022*, which was effective for periods beginning after June 15, 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. This Statement addresses a variety of topics and includes specific provisions about derivatives, leases, PPPs, SBITAs, London Interbank Offered Rate, distribution of benefits, nonmonetary transactions, pledges of revenues, clarification of provisions related to the focus of the government-wide financial statements, terminology updates related deferred inflows and outflows and terminology related to resource flows statements. Implementation of this pronouncement did not materially impact the System's financial statements.

(t) Change in Accounting Principles

Effective for the fiscal year ended June 30, 2023, the System adopted GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, (GASB 96). Under this statement, the System generally should recognize a right-of-use subscription asset (an intangible asset) and a corresponding subscription liability. The adoption of GASB 96 has been reflected as of July 1, 2022. As reported on the Statement of Revenues, Expenses, and Changes in Net Position, beginning net position as of July 1, 2022, was restated for the effects of the System's adoption of GASB 96.

Balances, including beginning net position, impact by the System's adoption of GASB 96, as of July 1, 2022, were as follows:

	July 1, 2022 as Previously Stated	GASB 96 Impact	July 1, 2022 as Restated
Current assets	$ 538,064,594	$ -	$ 538,064,594
Noncurrent assets	332,104,696	8,164,621	340,269,317
Total assets	870,169,290	8,164,621	878,333,911
Deferred outflow of resources	1,291,170		1,291,170
Total assets and deferred outflows of resources	$ 871,460,460	$ 8,164,621	$ 879,625,081
Current liabilities	$ 180,017,500	$ 2,516,812	$ 182,534,312
Noncurrent liabilities	126,940,564	4,864,580	131,805,144
Total liabilities	306,958,064	7,381,392	314,339,456
Deferred inflow of resources	311,586		311,586
Net position	564,190,810	783,229	564,974,039
Total liabilities, deferred inflow of resources, and net position	$ 871,460,460	$ 8,164,621	$ 879,625,081

(2) Cash, Cash Equivalents and Investments

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

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

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

The following details the carrying value of the System's cash, cash equivalents, and investments as of June 30, 2023:

Money market funds	$	71,216
Claim on cash and on pooled investments		429,319,593
Total cash, cash equivalents and investments	$	429,390,809

(a) Interest Rate Risk

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

The System's non-pooled investments of $71,216, reported as cash equivalents, as of June 30, 2023, were invested in money market funds with maturities of less than one year.

Claim on cash and on pooled investments represents the System's share of participation in the University's operating internal investment pool. At June 30, 2023, the University's operating internal investment portfolio had an effective duration for its interest-bearing securities of 1.4 years.

(b) Credit Risk

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

The University reports the credit ratings of fixed income securities and short-term instruments using Standard and Poor's and Moody's ratings. Securities with split ratings or with a different rating assignment are disclosed using the rating indicative of the greatest degree of risk. At June 30, 2023, the University's operating internal investment pool primarily consisted of securities with credit ratings of A or better. The System's non-pooled money market funds have a credit rating of AAA.

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University's investment policy does not limit the value of investments that may be held by an outside party. At June 30, 2023, the System's investments and deposits had no custodial credit risk exposure.

(d) Concentration of Credit Risk

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

As of June 30, 2023, not more than 5% of the University's total investments were invested in securities of any one issuer, excluding money market funds, tri-party repurchase agreements or obligations of, or issues guaranteed by, the U.S. Treasury, U.S. agencies or U.S. government sponsored enterprises.

(e) Foreign Currency Risk

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

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

(f) Investments and Fair Value Measurements

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

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

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

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

The System's non-pooled investments of $71,216 as of June 30, 2023 are invested in money market funds that are reported at cost.

(3) Patient Accounts Receivable

Patient accounts receivable as of June 30, 2023, reported as current assets, consisted of the following amounts:

Patient accounts receivable, net of contractual allowances and charity care:	
Medicaid managed care	$ 108,322,359
Blue Cross	44,964,913
Medicare managed care	41,960,027
HMO/PPO	33,357,486
Medicaid	24,112,637
Medicare	14,900,568
Commercial insurance	11,027,028
Self-pay and other	9,377,405
Total	288,022,423
Less allowance for uncollectible accounts	(124,079,247)
Total patient accounts receivable, net	$ 163,943,176

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30, 2023 was as follows:

Medicaid managed care	39.1 %
Blue Cross	16.2
Medicare managed care	15.2
HMO/PPO	12.0
Medicaid	7.2
Medicare	5.4
Commercial insurance	4.0
Self-pay and other	0.9
	100.0 %

(4) Capital Assets

The capital assets of the System are not pledged to secure outstanding indebtedness of the Board. The System records right-of-use lease and subscription assets based on the present value of expected payments over the term of the respective leases and arrangements. The expected payments are discounted using the interest rate charged on the lease or arrangement, if available, and are otherwise discounted using the System's incremental borrowing rate. The System does not have any leases subject to a residual value guarantee.

Capital asset activity for the year ended June 30, 2023 is summarized as follows:

Capital Assets	Beginning balance, restated	Additions	Retirements	Transfers	Ending balance
Nondepreciable capital assets:					
Land	$ 770,917	$	$	$	$ 770,917
Construction in process	36,589,912	44,104,016		(55,509,280)	25,184,648
Total nondepreciable capital assets	37,360,829	44,104,016	—	(55,509,280)	25,955,565
Depreciable capital assets:					
Buildings	311,922,026	150,275,359	(2,302,675)	24,156,254	484,050,964
Leasehold improvements	2,320,152				2,320,152
Equipment	153,747,871	8,612,006	(1,442,630)	29,200,865	190,118,112
Software	144,312,371			2,152,161	146,464,532
Total depreciable capital assets	612,302,420	158,887,365	(3,745,305)	55,509,280	822,953,760
Less accumulated depreciation:					
Buildings	166,786,496	12,288,187	(1,174,364)		177,900,319
Leasehold improvements	2,320,150				2,320,150
Equipment	117,591,794	11,534,077	(1,169,868)		127,956,003
Software	60,348,846	10,805,868			71,154,714
Total accumulated depreciation	347,047,286	34,628,132	(2,344,232)	—	379,331,186
Total depreciable capital assets, net	265,255,134	124,259,233	(1,401,073)	55,509,280	443,622,574
Amortizable capital assets:					
Right-of-use buildings	2,519,459	1,135,650			3,655,109
Right-of-use equipment	6,379,576	3,427,586	(357,791)		9,449,371
Right-of-use subscriptions	8,164,621	8,523,816			16,688,437
Total amortizable capital assets	17,063,656	13,087,052	(357,791)	—	29,792,917
Less accumulated amortization:					
Right-of-use buildings	62,986	410,553			473,539
Right-of-use equipment	1,947,765	2,483,958	(357,791)		4,073,932
Right-of-use subscriptions		4,532,231			4,532,231
Total accumulated amortization	2,010,751	7,426,742	(357,791)	—	9,079,702
Total amortizable capital assets, net	15,052,905	5,660,310	—	—	20,713,215
Total depreciable and amortizable capital assets, net	$ 280,308,039	$ 129,919,543	$ (1,401,073)	$ 55,509,280	$ 464,335,789

(5) Bonds Payable

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

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

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

Bonds payable and other obligations activity for the year ended June 30, 2023 was as follows:

Bonds Payable and Other Obligations

Series	Rate on June 30 outstanding debt	Fiscal year maturity dates	Beginning balance	Additions	Deductions	Ending balance	Current portion
Bonds payable:							
1997B	Variable	2024 – 2027	$ 6,800,000	$	$ (1,300,000)	$ 5,500,000	$ 1,300,000
2008	Variable	2024 – 2027	15,855,000		(2,900,000)	12,955,000	3,060,000
2013	5% to 6.25%	2028 – 2043	70,785,000			70,785,000	
			93,440,000	—	(4,200,000)	89,240,000	4,360,000
Unamortized premium			542,722		(5,802)	536,920	
Total bonds payable			$ 93,982,722	$ —	$ (4,205,802)	$ 89,776,920	$ 4,360,000

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

These revenues for the year ended June 30, 2023 were as follows:

System net revenues	$ 114,101,032
Adjusted MSP revenues	304,005,932
UIC College of Medicine student tuition	53,656,717
Total	$ 471,763,681

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

Pledged revenues					
Bond issue(s)	**Purpose**	**Source of revenue pledged**	**Future revenues pledged[1]**	**Term of commitment**	**Debt service to pledged revenues (current year)**
Series 1997B, 2008 and 2013	Additions to System and Refunding	System net revenues, MSP revenues net of bad debt and contractual allowances, College of Medicine tuition	$ 147,315,529	2043	1.92%

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

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

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

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

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

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

Development Reserve – an amount approved by the Board for System development. No transfers were authorized by the Board during the year ended June 30, 2023, and there was not a balance in the reserve at June 30, 2023.

The System made all required transfers for the year ended June 30, 2023.

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

Assets restricted by Bond Resolution were held for the following purposes at June 30, 2023:

Restricted assets:		
Cash equivalents and claim on cash and pooled investments	$	18,533,966
Purpose:		
Repair and replacement reserve	$	17,210,958
Bond and interest sinking fund		1,433,216
Total assets limited as to use		18,644,174
Less amounts required for current liabilities		(1,110,208)
Total for long-term use	$	17,533,966

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

Demand Provisions

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

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

Variable rate bonds at June 30, 2023

Bond issues	Interest rate at June 30, 2023	Remarketing agent	Remarketing fee	Liquidity facility: Bank	Liquidity facility: Expiration	Liquidity facility: Insured by	Liquidity facility: Fee
HSFS, Series 1997B	4.00%	JPMorgan Securities	0.07%	Wells Fargo	May 30, 2024	Letter of Credit	0.59%
HSFS, Series 2008	3.72	Goldman Sachs	0.07	Wells Fargo	May 30, 2024	Letter of Credit	0.59

Interest Rate Swap Agreement

In fiscal year 2009, the University entered into a variable-to-fixed interest rate swap agreement (swap) with Loop Financial Products I LLC (Loop). The purpose of this interest rate swap was to hedge the Series 2008 debt by effectively changing the variable interest rate on the bonds to a synthetic fixed rate. In May 2022, Loop exercised an option in the agreement to assign the swap to its credit support provider, Deutsche Bank AG (DBAG).

When the swap was entered, the notional amount was $40,875,000. In accordance with the swap, the University makes monthly payments to the counterparty (DBAG) equal to 3.534% of the notional amount and receives monthly payments from DBAG equal to 68% of the one-month London Interbank Offered Rate (LIBOR). The swap will terminate in October 2026. As of June 30, 2023, the notional amount of the swap was $12,850,000.

The University engaged a third-party consultant to determine the fair value of the swap. The fair value provided by the consultant was derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant market conditions. The fair value (Level 2 measurement) is recognized as a noncurrent liability and was $84,804 as of June 30, 2023.

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

Credit Risk: As of June 30, 2023, the University was not exposed to credit risk because the swap had a negative fair value. If interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value. The counterparty may have to post collateral in the University's favor in certain conditions, and the University would never be required to post collateral in the counterparty's favor.

Interest Rate Risk: During fiscal year 2023, rising interest rates exposed the University to interest rate risk, which positively affected the fair value of the swap.

Termination Risk: The swap is scheduled to terminate in October 2026. The University has the option to terminate the swap early. The University or Loop may terminate the swap if the other party fails to perform under the terms of the contract. The University may terminate the swap if both credit ratings of the counterparty (DBAG) fall below BBB+ as issued by Standard & Poor's and Baa1 as issued by Moody's Investors Service. As of June 30, 2023, the DBAG credit rating by Standard & Poor's was A- and by Moody's Investors Service was A2.

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

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

Other Risks: Since the swap extends to the maturity of the Series 2008 bonds, it does not expose the University to rollover risk. In addition, the University is not exposed to foreign currency risk associated with this swap. The University is not exposed to market access risk as of June 30, 2023. However, if the University decides to issue refunding bonds and credit is more costly at that time, it could be exposed to market access risk.

(b) Debt Service Requirements

Future estimated debt service requirements for the Series 1997B, 2008 and 2013 Bonds at June 30, 2023 were as follows:

	Principal	Interest
2024	$ 4,660,000	$ 4,817,770
2025	4,525,000	4,651,700
2026	4,695,000	4,481,364
2027	4,575,000	4,312,314
2028	2,725,000	4,188,413
2029 - 2033	16,250,000	18,312,681
2034 - 2038	21,955,000	12,610,750
2039 - 2043	29,855,000	4,700,537
Total debt service	89,240,000	$ 58,075,529
Unamortized premium	536,920	
Total bonds payable	$ 89,776,920	

The required debt service for the variable rate Series 1997B and 2008 Bonds has been calculated using the current interest rate of 4.00% and 3.72%, respectively, over the remaining life of the bonds.

Using the actual rate in effect as of June 30, 2023 (3.72% for Series 2008), debt service requirements of the Series 2008 variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will also vary.

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

	Variable rate bonds		Interest rate	
	Principal	Interest	swaps, net	Total
2024	$ 3,060,000	$ 406,038	$ (20,138)	$ 3,445,900
2025	3,225,000	288,114	(14,288)	3,498,826
2026	3,295,000	166,408	(8,249)	3,453,159
2027	3,375,000	41,850	(2,074)	3,414,776
Total	$ 12,955,000	$ 902,410	$ (44,749)	$ 13,812,661

(6) Finance Purchases, Leases and Software Subscriptions

(a) Finance Purchase Arrangements

The System has finance purchase arrangements with external parties related to hospital space and equipment with remaining lease terms ranging from three years to thirty-three years. The renewal and termination options are not included in the assets or liability balance until they are reasonably certain of exercise. The term does not include periods of a finance purchase that include a mutual termination option. Variable payments that are not fixed in nature and non-rent charges are not included in the finance purchase payable. The System did not have any finance purchases with variable lease payments as of June 30, 2023.

One of these finance purchase arrangements is a private-public partnership. The University entered into several agreements with private enterprises to construct the UI Health Specialty Care Building (SCB), which includes an outpatient surgery center and five specialty clinics. The University has partnered with Provident Group-UIC Surgery Center LLC (Provident) and a developer, UIH ASC Development, LLC (Developer). Through agreements among the parties, Provident was responsible for the design, development, and construction of the SCB. The Illinois Finance Authority (IFA) issued $149,845,000 of tax-exempt bonds with fixed interest rates of 4.00% and 5.00% in August 2020 and loaned the proceeds to Provident to fund a portion of the SCB project cost. The University leased the land on which the SCB was built to Provident over a period of 40 years and has entered a sublease with Provident to lease the SCB facility from Provident. Upon the termination or expiration of the land lease, the SCB, any improvements, fixtures, equipment, and all personal property attached to or within the SCB shall be owned by the University.

Finance purchase payable activity for the year ended June 30, 2023 was as follows:

Finance Purchase Payable

	Beginning balance	Additions	Deductions	Ending balance	Current portion
Finance purchase payable	$ -	$ 150,275,359	$ (136,254)	$ 150,139,105	$ 2,124,692

As of June 30, 2023, the scheduled fiscal year maturities of finance purchase liabilities and related interest are as follows:

	Principal	Interest
2024	$ 2,124,692	$ 6,312,664
2025	2,227,996	6,205,360
2026	2,336,417	6,092,814
2027	2,350,000	5,974,650
2028	2,465,000	5,854,275
2029-2033	14,305,000	27,244,375
2034-2038	18,225,000	23,271,400
2039-2043	22,405,000	19,051,100
2044-2048	27,265,000	14,098,900
2049-2053	33,175,000	8,073,500
2054-2056	23,260,000	1,420,000
	$ 150,139,105	$ 123,599,038

(b) Lessee Arrangements

The System leases warehouse space and equipment from external parties with remaining lease terms ranging from less than one year to ten years. The renewal and termination options are not included in the right-of-use assets or lease liability balance until they are reasonably certain of exercise. The lease term does not include periods of a lease that include a mutual termination option. Variable payments that are not fixed in nature and non-rent charges are not included in leases payable. The System did not have any leases with variable lease payments as of June 30, 2023.

Leases payable activity for the year ended June 30, 2023 was as follows:

Leases Payable					
	Beginning balance	Additions	Deductions	Ending balance	Current portion
Leases payable	$ 6,882,236	$ 4,500,348	$ (2,680,876)	$ 8,701,708	$ 2,302,703

As of June 30, 2023, the scheduled fiscal year maturities of lease liabilities and related interest are as follows:

	Principal	Interest
2024	$ 2,302,703	$ 183,251
2025	2,092,776	137,686
2026	1,246,673	96,100
2027	1,063,564	67,913
2028	468,212	47,395
2029-2033	1,527,780	80,410
	$ 8,701,708	$ 612,755

(c) Lessor Arrangements

The System leases space within and attached to its buildings to external parties. These arrangements have terms ranging from less than one year to three years. In accordance with GASB 87, the System records lease receivables and deferred inflows of resources based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the interest rate charged on the lease. During the fiscal year ended June 30, 2023, the System recognized revenues related to these lease agreements totaling $147,213, including interest and other related revenues. Of these amounts recognized during the fiscal year ended June 30, 2023, the System recognized no revenue related to variable receipts that were not previously included in the measurement of the lease receivable.

(d) Subscription-Based Information Technology Arrangements

The System has many subscription-based information technology agreements (SBITAs) with remaining terms ranging from less than one year to seven years. The renewal and termination options are not included in the subscription asset or subscription liability balance until they are reasonably certain of exercise. The SBITA term does not include periods that include a mutual termination option.

Certain System SBITAs contain both fixed and variable subscription payments. These exist primarily within the agreements based on the consumer price index (fixed in substance) or other maintenance costs, which are paid based on actual costs incurred by the vendor (not fixed). The remaining SBITA do not contain variable lease payments. Variable payments that are not fixed in nature and non-subscription charges are not included in the subscription liability. The total expenditures for variable payments not previously included in the measurement of the subscription liability during the fiscal year ended June 30, 2023, were $795,287.

Additionally, the System recognized termination penalties for SBITAs held at June 30, 2023. These amounts were not included in the measurement of the subscription liability and were minimal. There were no commitments for SBITAs that have not yet commenced.

Subscription payable activity for the year ended June 30, 2023 was as follows:

Subscription Payable					
	Beginning balance, restated	Additions	Deductions	Ending balance	Current portion
Subscriptions payable	$ 7,381,392	$ 8,102,443	$ (5,688,456)	$ 9,795,379	$ 4,110,458

As of June 30, 2023, the scheduled fiscal year maturities of subscription liabilities and related interest are as follows:

	Principal	Interest
2024	$ 4,110,458	$ 266,147
2025	2,677,726	164,291
2026	1,246,653	90,239
2027	893,313	53,239
2028	446,343	25,744
2029-2033	420,886	12,801
	$ 9,795,379	$ 612,461

(7) Accrued Compensated Absences

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

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

Changes in Compensated Absences Balance

Balance, beginning of year	$ 35,597,796
Additions	3,551,926
Deductions	(3,973,839)
Balance, end of year	35,175,883
Less current portion	(4,453,599)
Balance, end of year – noncurrent portion	$ 30,722,284

(8) Net Patient Service Revenue

Approximately 95% of the System's net patient service revenue was derived from Medicare, Medicaid and managed care programs for the year ended June 30, 2023. Reimbursement under these programs provided payments to the System at amounts different from its established rates, based on a specific amount per case, or a contracted price, for rendering services to program beneficiaries. The System records contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs and adjusts them in future periods as final settlements through cost reports or other means as determined.

Net patient service revenue for the year ended June 30, 2023 was derived from the following payers:

Medicaid managed care	$ 1,257,627,726
Medicare managed care	537,579,794
Medicare	515,048,956
Blue Cross	400,021,978
HMO/PPO	371,468,302
Self-pay and other	211,789,635
Medicaid	188,799,514
Commercial insurance	48,095,422
Total gross revenue	3,530,431,327
Contractual allowances	(2,408,945,913)
Provision for uncollectible accounts	20,484,298
Net patient service revenue	$ 1,141,969,712

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

Medicare and Medicare Managed Care: Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient services are paid at prospectively determined rates that are based on the patients' diagnosis. Outpatient payments to the Hospital are based on a predetermined package rate based on services provided to patients. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2018.

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

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

For the year ended June 30, 2023, changes in estimates have been recognized as an increase in net patient service revenue of approximately $890,000 as a result of settled cost reports and changes in estimates related to services rendered in previous years.

(9) Retirement and Postemployment Benefits

(a) Defined Benefit Pension Plan

General Information about the Defined Benefit Pension Plan

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

Benefits Provided: A traditional benefit plan was established in 1941. Public Act 90-0448 enacted effective January 1, 1998, established an alternative defined benefit program known as the portable benefit package. The traditional and portable plan Tier 1 refers to members that began participation prior to January 1, 2011. Public Act 96-0889 revised the traditional and portable benefit plans for members who begin participation on or after January 1, 2011, and who do not have any other eligible reciprocal system service. The revised plan is referred to as Tier 2. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable benefit plans. A summary of the benefit provisions as of June 30, 2022 can be found in the Financial Section of SURS Annual Comprehensive Financial Report.

Contributions: The State is primarily responsible for funding SURS on behalf of the individual employers at an actuarially determined amount. Public Act 88-0593 provides a statutory funding plan consisting of two parts: (i) a ramp-up period from 1996 to 2010 and (ii) a period of contributions equal to a level percentage of the payroll of active members within the System to reach 90% of the total Actuarial Accrued Liability by the end of fiscal year 2045. Employer contributions from "trust, federal, and other funds" are provided under Section 15-155(b) of the Illinois Pension Code and require employers to pay contributions which are sufficient to cover the accruing normal costs on behalf of applicable employees. The employer normal cost for fiscal year 2022 and fiscal year 2023, respectively, was 12.32% and 12.83% of employee payroll. The normal cost is equal to the value of current year's pension benefit and does not include any allocation for past unfunded liability or interest on the unfunded liability. Plan members are required to contribute 8.0% of their annual covered salary except for police officers and fire fighters who contribute 9.5% of their earnings. The contribution requirements of plan members and employers are established and may be amended by the State's General Assembly.

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

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

Net Pension Liability: The net pension liability (NPL) was measured as of June 30, 2022. At June 30, 2022, the SURS reported a NPL of $29,078,053,857.

Employer Proportionate Share of Net Pension Liability: The amount of the proportionate share of the NPL to be recognized for the System is $0. The proportionate share of the State's NPL associated with the System is $2,722,736,087. This amount is not recognized in the System's financial statements. The NPL and total pension liability as of June 30, 2022 was determined based on the June 30, 2021 actuarial valuation rolled forward. The basis of allocation used in the proportionate share of net pension liability is the actual reported pensionable contributions made to the SURS during fiscal year 2021.

Defined Benefit Pension Expense: At June 30, 2022, SURS defined benefit plan reported a collective net pension expense of $1,903,314,699.

Employer Proportionate Share of Defined Benefit Pension Expense: The employer proportionate share of collective defined benefit pension expense is recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) in the financial statements. The basis of allocation used in the proportionate share of collective defined benefit pension expense is the actual reported pensionable contributions made to the SURS during fiscal year 2021. As a result, the University recognized revenue and defined benefit pension expense of $872,498,244 from this special funding situation during the year ended June 30, 2023, of which $178,217,641 was related to the System.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pensions: Deferred outflows of resources are the consumption of net position by the SURS that is applicable to future reporting periods. Conversely, deferred inflows of resources are the acquisition of net position by SURS that is applicable to future reporting periods.

SURS Collective Deferred Outflows and Deferred Inflows of Resources by Sources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 31,973,496	$ 28,674,599
Changes in assumption	279,362,441	982,954,268
Net difference between projected and actual earnings on pension plan investments	31,628,935	
Total	$ 342,964,872	$ 1,011,628,867

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

Year Ending June 30	Net Deferred Outflows and Inflows of Resources
2023	$ (332,941,204)
2024	(528,966,820)
2025	(249,290,775)
2026	442,534,804
2027	
Thereafter	
Total	$ (668,663,995)

Assumptions and Other Inputs

Actuarial assumptions: The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period June 30, 2017 through June 30, 2020. The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	3.00 to 12.75 percent, including inflation
Investment rate of return	6.50 percent

Mortality rates were based on the Pub-2010 employee and retiree gender distinct tables with projected generational mortality and a separate mortality assumption for disabled participants.

The long-term expected rate of return on defined benefit pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant and actuary.

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2022, these best estimates are summarized in the following table:

Defined Benefit Plan	Strategic Policy Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Traditional Growth		
Global Public Equity	38.0%	7.62%
Stabilized Growth		
Public Credit Fixed Income	9.0%	4.20%
Credit Real Assets	4.5%	4.98%
Options Strategies	2.5%	4.91%
Private Credit	1.0%	7.45%
Non-Traditional Growth		
Private Equity	10.5%	11.91%
Non-Core Real Assets	2.5%	9.43%
Inflation Sensitive		
U.S. TIPS	5.0%	1.23%
Principal Protection		
Core Fixed Income	8.0%	1.79%
Crisis Risk Offset		
Systematic Trend Following	10.0%	4.33%
Alternative Risk Premia	5.0%	3.59%
Long Duration	4.0%	2.16%
Total	**100.0%**	**6.08%**
Inflation		**2.25%**
Expected Arithmetic Return		**8.33%**

Discount Rate: A single discount rate of 6.39% was used to measure the total pension liability. This single discount rate was based on an expected rate of return on pension plan investments of 6.50% and a municipal bond rate of 3.69% (based on the Fidelity 20-Year Municipal GO AA Index as of June 30, 2022). The projection of cash flows used to determine this single discount rate were the amounts of contributions attributable to current plan members and assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the statutory contribution rates under SURS funding policy. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the SURS Net Pension Liability to Changes in the Discount Rate: Regarding the sensitivity of the NPL to changes in the single discount rate, the following presents the State's NPL, calculated using a single discount rate of 6.39%, as well as what the State's NPL would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.39%	**Current Single Discount Rate Assumption 6.39%**	**1% Increase 7.39%**
$35,261,802,968	$29,078,053,857	$23,928,731,076

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

(b) Defined Contribution Pension Plan

General Information about the Defined Contribution Pension Plan

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

Benefits Provided: A defined contribution pension plan, originally called the Self-Managed Plan, was added to SURS benefit offerings as a result of Public Act 90-0448 effective January 1, 1998. The plan was renamed the RSP effective September 1, 2020, after an extensive plan redesign. New employees are allowed six months after their date of hire to make an irrevocable election whether to participate in either the traditional or portable defined benefit pension plans or the RSP. A summary of the benefit provisions as of June 30, 2022, can be found in SURS Annual Comprehensive Financial Report – Notes to the Financial Statements.

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

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

Pension Expense Related to Defined Contribution Pensions

Defined Contribution Pension Expense: For the year ended June 30, 2022, the State's contributions to the RSP on behalf of individual employers totaled $89,770,940. Of this amount, $80,902,699 was funded via an appropriation from the State and $8,868,241 was funded from previously forfeited contributions.

Employer Proportionate Share of Defined Contribution Pension Expense: The employer proportionate share of collective defined contribution pension expense is recognized as nonoperating revenue with matching operating expense (special funding situation for fringe benefits) in the financial statements. The basis of allocation used in the proportionate share of collective defined contribution pension expense is the actual reported pensionable contributions made to the RSP during fiscal year 2022. The University's share of pensionable contributions was 56.0744%. As a result, the University recognized revenue and defined contribution pension expense of $50,338,541 from this special funding situation during the year ended June 30, 2023, of which $10,282,314 was related to the System. The amount that constituted forfeitures for the University was $4,972,815.

(c) Other Postemployment Benefits

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

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

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

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

For fiscal year 2023, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $12,636 ($6,990 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,646 ($5,882 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Special funding situation of OPEB: The proportionate share of the State's OPEB expense relative to the System's former employees or retirees was estimated to be ($141,833,827) during the year ended June 30, 2023. The amount of the total proportionate share of the total OPEB liability to be recognized by the System related to the special funding situation is $0.

Actuarial Methods and Assumptions: The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2021, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2021.

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.75%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare - QCHP**)	Trend rates start at 8.00% in 2024, decreasing by 0.25% per year to an ultimate trend rate of 4.25% in year 2039.
Post-Medicare - MAPD***	Trend rates are 0.00% in years 2024 to 2028, 19.42% from 2029 to 2033, then 5.77% in 2034 decreasing ratably to an ultimate trend rate of 4.25% in 2039.
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2022 and 2023 are based on actual premiums. Premiums after 2023 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

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

Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	1.80 % grading up 6.20% in the first year to 8.00%, then grading down 0.25% per year to an ultimate trend of 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Medical & Rx (Post-Medicare)	-7.56% grading up 15.56% in the first year to 8.00%, then grading down 0.25% per year to an ultimate trend of 4.25% in year 2038.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.

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

**Quality Care Health Plan

***Medicare Advantage Prescription Drug

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2021 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	**Mortality^^**
GARS	July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality table, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2018 - June 2021	Pub-2010 General and Public Safety Healthy Retiree mortality table, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2017 - June 2020	RP-2010 with future mortality improvements on a fully generational basis using projection table MP-2020
SURS	July 2017 - June 2020	Rates based on Pub-2010 Healthy Retiree Mortality tables and the most recent MP-2020 projection scale. Teachers table was used for Academic members and General

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

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

Discount Rate: Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 1.92% at June 30, 2021, and 3.69% at June 30, 2022, was used to measure the total OPEB liability.

(10) Related-Party Transactions

The University charged the System for administrative and other services totaling $22,290,113 in fiscal year 2023. These charges represent a portion of the estimated administrative and other service costs incurred by the University in support of the System. An additional $34,978,128 was paid by the University on behalf of the System for salaries and other costs for the year ended June 30, 2023, in exchange for System services and facilities provided, and are recognized as operating expenses (salaries and general) and operating revenues.

The System provides funds to the UIC College of Medicine to support programmatic initiatives that benefit the System's strategic goals and to pay for salaries of physicians and staff in the College of Medicine who serve as medical directors and physician leaders of the System under various agreements. During fiscal year 2023, approximately $57.3 million was recognized in salaries and wages and supplies and general expenses by the System under these agreements.

The System provides funds to the University's College of Pharmacy under various arrangements to pay for salaries of clinical pharmacists, faculty and residents and to support programs that benefit the System's clinical operations. During fiscal year 2023, approximately $17.8 million was recognized in salaries and wages and supplies and general expenses under these arrangements.

The System contracts with the College of Pharmacy to provide certain pharmacy services related to the Federal drug discount program under Section 340b of the Public Health Service Act, under which the System is a covered entity and purchases drugs for dispensing to eligible outpatients. During fiscal year 2023, the System paid approximately $17.6 million to the College of Pharmacy for these services.

The College of Pharmacy also provides various community benefit programs to patients and constituents of the System. During fiscal year 2023, the System paid approximately $8.1 million to the College of Pharmacy to support these programs.

Most healthcare services rendered by physicians at the University are charged, billed and collected through the MSP. For Hospital-based ambulatory care services, there is a charge for both professional and technical components. Based on the underlying agreements between the MSP and the System, the System remits certain net technical revenue to the MSP. Total MSP remittances from the System for the year ended June 30, 2023 relating to the delivery of ambulatory care were approximately $14.4 million.

During 2023, various departments within the College of Medicine agreed to reimburse the System for a portion of the expenses related to the resident and fellowship training program. This reimbursement, which totaled $3.5 million, has been reflected in the financial statements as a reduction of the related expenses.

(11) Commitments and Contingencies

(a) Commitments

At June 30, 2023, the System had commitments on various construction projects and contracts for repairs and renovation of health services facilities of $21,355,108, commitments on software projects of $33,579,201, and commitments on equipment of $4,058,067.

(b) Contingencies

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

In 2023, the System received notices from Medicare and other payers requiring that it provide documentation for certain claims as part of audit programs. The System has responded to these requests. Review of claims through these Medicare and other payer audit programs may result in a liability to Medicare and other payers which could have a material impact on the System's net patient service revenue.

The University (including the System) is a defendant in a number of legal actions primarily related to medical malpractice. These legal actions have been considered in estimating the University's accrued self-insurance liability, which covers hospital and medical professional/general liability, estimated general and contractual liability, and workers' compensation liability. At June 30, 2023, the University's total accrued self-insurance liability was $281,930,993.

The University's accrued self-insurance liability includes $186,012,440 at June 30, 2023, for the most probable and reasonably estimable ultimate cost of medical malpractice liabilities. Ultimate cost consists of amounts estimated by the University's risk management division and actuaries for asserted claims, unasserted claims arising from reported incidents, expected litigation expenses and amounts determined by actuaries using relevant industry data and System specific data to cover projected losses for claims incurred but not yet reported. The System contributes to the University's self-insurance reserve through annual assessments (approximately $12.4 million in fiscal year 2023). Therefore, no liability related to medical malpractice claims is included in the System's financial statements, but the entire self-insurance liability is reflected in the University's financial statements.

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

(12) Subsequent Events

The variable rate HSFS Revenue Bonds, Series 2008 are synthetically hedged with a floating to fixed interest rate swap agreement. As mentioned in Note 5(a), from the initiation of the swap agreement, the swap counterparty pays to the University 68% of LIBOR, with the University paying a fixed interest amount of 3.534% to the counterparty in monthly settlements. This LIBOR rate ceased official publishing on June 30, 2023. Effective with the settlement on the swap agreement beginning August 5, 2023, and expected to continue to the swap agreement's termination date on October 1, 2026, reference rate fallback protocols as defined by the International Swap Dealers Association (ISDA) are to be relied upon. Under this fallback protocol, the floating rate payor's obligation is determined by the Secured Overnight Financing Rate (SOFR). The swap counterparty's settlement will be calculated as 68% of (SOFR + 11.448 bps), as defined by ISDA actions taken with respect to the sunset of publishing the US Dollar LIBOR indices.

On August 1, 2023, the University executed an optional redemption of $300,000 principal of the HSFS 1997B bonds, as governed by the bond resolution. The optional redemption was selected from principal with a maturity date of October 1, 2026.

In October 2023, the System issued HSFS Refunding Revenue Bonds Series 2023 in the amount of $68,325,000. The bonds, which have fixed interest rates of 5.00% and 5.50%, mature serially from 2027 through 2042. Proceeds from the Series 2023 bonds will be used to (i) refund all the HSFS Revenue Bonds, Series 2013, and (ii) pay costs of issuing the Series 2023 bonds and refunding the Series 2013 bonds.

UNIVERSITY OF ILLINOIS
HEALTH SERVICES FACILITIES SYSTEM

Required Supplementary Information
Year Ended June 30, 2023

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

Measurement Date	Fiscal Year 2022	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
(a)	0%	0%	0%	0%	0%	0%	0%	0%	0%
(b)	$0	$0	$0	$0	$0	$0	$0	$0	$0
(c)	$2,722,736,087	$2,627,941,908	$2,685,929,039	$2,445,838,023	$2,325,669,476	$2,068,800,122	$2,016,718,081	$1,770,601,518	$1,546,893,194
Total (b) + (c)	$2,722,736,087	$2,627,941,908	$2,685,929,039	$2,445,838,023	$2,325,669,476	$2,068,800,122	$2,016,718,081	$1,770,601,518	$1,546,893,194
(d)	$360,104,021	$332,786,958	$320,699,826	$300,473,375	$288,314,036	$274,251,179	$265,271,833	$253,062,776	$260,376,968
(e)	756.10%	789.68%	837.52%	813.99%	806.64%	754.35%	760.25%	699.67%	594.10%
(f)	43.65%	45.45%	39.05%	40.71%	41.27%	42.04%	39.57%	42.37%	44.39%

(a) Proportion Percentage of the Collective Net Pension Liability
(b) Proportion Amount of the Collective Net Pension Liability
(c) Portion of Nonemployer Contributing Entitites' Total Proportion of Collective Net Pension Liability associated with the System
(d) Employer defined benefit Covered Payroll*
(e) Proportion of Collective Net Pension Liability associated with the System as a percentage of defined benefit covered payroll
(f) SURS Plan Net Position as a Percentage of Total Pension Liability

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

(Continued)

Notes to Required Supplementary Information
June 30, 2023

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

Changes of benefit terms. There were no benefit changes recognized in the Total Pension Liability as of June 30, 2022.

Changes of assumptions. In accordance with *Illinois Compiled Statutes*, an actuarial review is to be performed at least once every three years to determine the reasonableness of actuarial assumptions regarding the retirement, disability, mortality, turnover, interest and salary of the members and benefit recipients of SURS. An experience review for the years June 30, 2017 to June 30, 2020 was performed in Spring 2021, resulting in the adoption of new assumptions as of June 30, 2021. These assumptions are listed below and remained the same for the June 30, 2022, actuarial valuation.

- Salary increase. Change in the overall assumed salary increase rates, ranging from 3.00 percent to 12.75 percent based on years of service, while maintaining the underlying wage inflation rate of 2.25 percent.

- Investment return. Decrease the investment return assumption to 6.50 percent. This reflects decreasing the assumed real rate of return to 4.25 percent and maintaining the underlying assumed price inflation of 2.25 percent.

- Effective rate of interest. Decrease the long-term assumption for the effective rate of interest for crediting the money purchase accounts to 6.50 percent.

- Normal retirement rates. Establish separate rates for members in academic positions and non-academic positions to reflect that retirement rates for academic positions are lower than for non-academic positions.

- Early retirement rates. Establish separate rates for members in academic positions and non-academic positions to reflect that retirement rates for academic positions are lower than for non-academic positions.

- Turnover rates. Change rates to produce slightly lower expected turnover for most members, while maintaining a pattern of decreasing termination rates as years of service increase.

- Mortality rates. Change from the RP-2014 to the Pub-2010 mortality tables to reflect the latter's higher applicability to public pensions. Update the projection scale from the MP-2017 to the MP-2020 scale.

- Disability rates. Establish separate rates for members in academic positions and non-academic positions and maintain separate rates for males and females.

- Plan election. Change plan election assumptions to 75 percent Tier 2 and 25 percent Retirement Savings Plan (RSP) for non-academic members. Change plan election assumptions to 55 percent Tier 2 and 45 percent Retirement Savings Plan (RSP) for academic members.