



**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

June 30, 2021 and 2020

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## Independent Auditors' Report

The Board of Trustees  
The University of Arkansas System:

### *Report on the Financial Statements*

We have audited the accompanying statements of net position of the University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas System, as of June 30, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the UAMS' basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Arkansas for Medical Sciences, as of June 30, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



### *Emphasis of Matter*

As discussed in Note 1, the financial statements of UAMS are intended to present the financial position, the changes in financial position and, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Arkansas System that is attributable to the transactions of UAMS. They do not purport to, and do not, present fairly the financial position of the University of Arkansas System as of June 30, 2021 and 2020, its changes in financial position, or its cash flows for the years 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.

### *Other Matters*

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-15 and the required supplementary information on pages 61-66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2021 on our consideration of the UAMS' 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 UAMS' 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 UAMS' internal control over financial reporting and compliance.

**KPMG LLP**

Dallas, Texas  
October 6, 2021

Management's Discussion and Analysis (Unaudited)  
June 30, 2021 and June 30, 2020

This discussion and analysis provides an overview of the financial position and changes in net position of the University of Arkansas for Medical Sciences (UAMS) for the fiscal years ended June 30, 2021 and 2020. UAMS is one of 20 campuses and related units operating within the University of Arkansas System (UA System), organized under various laws of the State of Arkansas and governed by the UA System's 10-member Board of Trustees (UA Board). UAMS is a state-assisted academic health center composed of:

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School, and Northwest Arkansas Satellite Campus with a combined enrollment of 3,778 and faculty numbering 1,438
- The UAMS Medical Center, a tertiary care referral center with 535 acute care beds at June 30, 2021
- Regional programs, including Tele-education, Rural Hospital Program, and eight Regional Campuses located throughout the state
- The Winthrop P. Rockefeller Cancer Institute
- Harvey and Bernice Jones Eye Institute
- Donald W. Reynolds Institute on Aging
- Psychiatric Research Institute
- Jackson T. Stephens Spine and Neurosciences Institute
- Translational Research Institute.
- Institute for Digital Health and Innovation

The UAMS financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). This discussion has been prepared by management and should be read in conjunction with the financial statements and notes following this section.

### **Overview of the Financial Statements**

This financial report consists of three basic financial statements: the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. These statements provide information about UAMS as a whole.

The Statements of Net Position present the financial position of UAMS and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The sum of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources is net position, which is an indicator of the current financial condition of UAMS.

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The Statements of Revenues, Expenses, and Changes in Net Position reflect the results of UAMS' operations. The purpose of these statements is to present the revenues earned and expenses incurred by UAMS, both operating and nonoperating, and any other changes in net position of UAMS.

The Statements of Cash Flows provide relevant information about the cash receipts and cash payments of UAMS. The Statements of Cash Flows also help users assess UAMS' ability to generate future net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

This discussion and analysis of UAMS' financial statements provides an overview of its financial activities for the fiscal years ended June 30, 2021 and 2020, with comparative information for the fiscal year ended June 30, 2019.

**Financial Highlights**

UAMS' net position increased in fiscal year 2021 by \$61,472,000 with assets of \$1,801,466,000 and deferred outflows of resources of \$11,693,000 and liabilities of \$994,351,000 and deferred inflows of resources of \$15,883,000. Net position, which represents the residual interest in UAMS' assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was \$802,925,000 at June 30, 2021. Changes in net position represent the activities of UAMS, which result from revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2021, 2020, and 2019 as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
	(In thousands)		
Operating revenues	\$ 1,783,700	\$ 1,584,236	\$ 1,625,095
Operating expenses	(1,851,305)	(1,702,903)	(1,621,710)
Nonoperating revenues (net)	126,117	95,575	30,305
Other changes in net position	2,960	7,357	6,163
Increase (decrease) in net position	\$ 61,472	\$ (15,735)	\$ 39,853

**Statements of Net Position**

The Statements of Net Position present the financial position of UAMS at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of UAMS. Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values, except for capital assets, which are stated at historical cost, or acquisition value at the date of donation, less an allowance for depreciation and amortization.

Net position is divided into three major categories. The first category reflects the equity in property, plant, and equipment owned by UAMS, net of capital asset related debt. The next category is restricted net position, which is divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net position is available for expenditure by UAMS, but must be spent for purposes as determined by donors

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and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position, which is available for any lawful purpose of UAMS.

From the data presented, readers of the Statements of Net Position are able to determine the assets available to continue the operations of UAMS. They are also able to determine how much UAMS owes vendors and lending institutions. Finally, the Statements of Net Position provide a picture of the net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) and its availability for expenditure by UAMS.

A summary of UAMS' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position is as follows:

	<u>2021</u>	<u>June 30</u> <u>2020</u> (In thousands)	<u>2019</u>
Assets:			
Current assets	\$ 699,949	\$ 603,739	\$ 486,914
Noncurrent assets:			
Investments	83,444	61,377	63,942
Capital assets, net	799,163	745,267	738,084
Other	218,910	150,828	17,405
Total assets	<u>1,801,466</u>	<u>1,561,211</u>	<u>1,306,345</u>
Deferred outflows of resources	<u>11,693</u>	<u>9,008</u>	<u>9,761</u>
Liabilities:			
Current liabilities	295,617	289,076	191,037
Noncurrent liabilities	698,734	528,254	356,645
Total liabilities	<u>994,351</u>	<u>817,330</u>	<u>547,682</u>
Deferred inflows of resources	<u>15,883</u>	<u>11,436</u>	<u>11,236</u>
Net position:			
Net investment in capital assets	423,450	442,541	462,802
Restricted:			
Expendable	42,692	66,115	80,057
Nonexpendable	50,745	36,856	36,428
Unrestricted	286,038	195,941	177,901
Total net position	<u>\$ 802,925</u>	<u>\$ 741,453</u>	<u>\$ 757,188</u>

Current assets consist of cash and cash equivalents, short-term investments, net accounts receivable, supply, pharmacy and various medical related inventories, net notes and loans receivable, primarily from students, and prepaid expenses. Noncurrent assets include long-term investments, net notes and loans receivable, primarily from students, deposits and funds held in trust by others, net capital assets, and other noncurrent assets. Deferred outflows of resources consist of future expenses for pensions, postemployment benefits other than pensions, and loss on refunding of bond debt. Current liabilities

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consist primarily of accounts payable and accrued liabilities, unearned revenue, funds held in trust for others, estimated third-party payor settlements (Medicare and Medicaid), the current portion of compensated absences payable, early retirement agreements, postemployment benefits other than pensions, bonds, notes, and capital leases payable. Noncurrent liabilities include deposits received, compensated absences payable, liabilities for postemployment benefits other than pensions, early retirement agreements, pensions, bonds, notes, and capital leases payable, net of current portion, in addition to federal capital contributions for the Perkins Loan program. Deferred inflows of resources relate to pensions, postemployment benefits other than pensions, and irrevocable split-interest agreements. Net position represents the residual interest in UAMS' assets and deferred outflows after liabilities and deferred inflows are deducted.

**Fiscal Year 2021**

UAMS' total assets increased by \$240,255,000 in fiscal 2021. A review of the Statements of Net Position reveals that this net increase consisted of increases in cash and cash equivalents of \$31,494,000, investments of \$28,680,000, patient accounts receivable of \$27,610,000, non-patient accounts receivable of \$22,299,000, supplies of \$4,622,000, deposits and funds held in trust by others of \$69,265,000, net capital assets of \$53,896,000, and prepaid expenses of \$3,052,000. There was a decrease in Notes and Student Loans Receivable of \$663,000.

Current assets increased by \$96,210,000 in fiscal 2021. This net increase came from increases in cash and cash equivalents of \$31,494,000, short-term investments of \$6,613,000, patient accounts receivable of \$27,610,000, non-patient accounts receivable of \$22,299,000, supplies of \$4,622,000, notes and student loans receivable of \$520,000, and prepaid expenses of \$3,052,000.

Noncurrent assets increased by \$144,045,000 in fiscal 2021. This net increase resulted from increases in long-term investments of \$22,067,000, deposits and funds held in trust by others of \$69,265,000, Capital assets of \$53,896,000, and decreases in long-term notes and student loans receivable of \$1,183,000.

Deferred outflows of resources increased by \$2,685,000 in fiscal 2021. UAMS' deferred outflows of resources resulted from liabilities for pensions and postemployment benefits other than pensions along with the deferred loss on the refunding of certain outstanding bonds in past years. The actuarially determined deferred outflows related to pension liabilities decreased by \$174,000, postemployment benefits other than pensions increased by \$3,150,000. Deferred outflows related to the loss on refunding of bonds decreased in fiscal year 2021 by \$291,000 from the amortization for the year.



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Total liabilities increased by \$177,020,000 in fiscal 2021. This net increase consisted of decreases in estimated third-party payor settlements of \$43,812,000, early retirement agreements of \$98,000, and liabilities for pensions of \$1,285,000, while increases occurred in compensated absences payable of \$11,921,000, deposits of \$2,000, accounts payable and accrued liabilities of \$47,378,000, unearned revenue of \$681,000, funds held in trust for others of \$3,194,000, liability for postemployment benefits other than pensions of \$1,110,000 and bonds, notes and capital leases of \$142,045,000. The increase in the amount of liability to third parties under various payor settlements includes a decrease of \$18,468,000 advanced from CMS under the Accelerated Payment Program.

Current liabilities increased by \$6,541,000 in fiscal 2021. This net increase came from decreases in estimated third-party payer settlements of the amounts noted above, the current portion of compensated absences in the amount of 267,000, the short term portion of early retirement agreements of \$98,000, the current portion of bonds, notes and capital leases of \$637,000, while increases occurred in accounts payable and accrued liabilities of \$47,378,000, unearned revenue and funds held in trust for others in the amounts noted above, as well as in the postemployment benefits other than pensions of \$102,000.

Noncurrent liabilities increased by \$170,480,000 in fiscal 2021. This net increase was due to increases in the noncurrent portion of bonds, notes, and capital leases payable of \$142,682,000, primarily from the issuance of new bond debt of \$192,701,000. Other changes include increases in the liability for the noncurrent portion of compensated absences payable of \$12,188,000, the noncurrent portion of the liability for postemployment benefits other than pensions of \$1,008,000, deposits of \$2,000, while a decrease occurred in the net pension liability of the amount noted above.

Deferred inflows of resources increased by \$4,447,000 in fiscal 2021. UAMS' deferred inflows related to pensions increased by \$644,000, deferred inflows related to postemployment benefits other than pensions decreased by \$557,000 and there was an increase of \$3,082,000 in irrevocable split interest agreements, and there was an increase in deferred outflows related to bonds of 1,278,000.

### **Fiscal Year 2020**

UAMS' total assets increased by \$254,866,000 in fiscal 2020. A review of the Statements of Net Position reveals that this net increase consisted of increases in cash and cash equivalents of \$136,854,000, non-patient accounts receivable of \$14,562,000, supplies of \$3,557,000, deposits and funds held in trust by others of \$133,703,000, net capital assets of \$7,183,000, while decreases occurred in short term investments of \$26,443,000, patient accounts receivable of \$11,403,000, prepaid expenses of \$384,000, long term investments of \$2,565,000, notes and student loans receivable of \$198,000.

Current assets increased by \$116,825,000 in fiscal 2020. This net increase came from increases in cash and cash equivalents of \$136,854,000, non-patient accounts receivable of 14,562,000, supplies of \$3,557,000, notes and student loans receivable of \$82,000 while decreases occurred in short-term investments of \$26,443,000, patient accounts receivable of \$11,403,000, and prepaid expenses of \$384,000.

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Noncurrent assets increased by \$138,041,000 in fiscal 2020. This net increase resulted from decreases in long-term notes and student loans receivable of \$280,000 and long term investments of \$2,565,000, while increases occurred in deposits and funds held in trust by others \$133,703,000 and capital assets of \$7,183,000. The increase in noncurrent deposits and funds held in trust by others resulted primarily from unspent bond proceeds. The increase in net capital assets primarily consisted of net asset additions totaling \$58,088,000 less net depreciation and amortization of \$50,905,000.

Deferred outflows of resources decreased by \$753,000 in fiscal 2020. UAMS' deferred outflows of resources resulted from liabilities for pensions and postemployment benefits other than pensions along with the deferred loss on the refunding of certain outstanding bonds in past years. The actuarially determined deferred outflows related to pension liabilities decreased by \$1,701,000, postemployment benefits other than pensions increased by \$1,240,000. Deferred outflows related to the loss on refunding of bonds decreased in fiscal year 2020 by \$292,000 from the amortization for the year.

Total liabilities increased by \$269,648,000 in fiscal 2020. This net increase consisted of decreases in unearned income of \$1,319,000, funds held in trust for others of \$327,000, compensated absences payable of \$8,725,000, early retirement agreements of \$383,000, and liabilities for pensions of \$1,486,000, while increases occurred in accounts payable and accrued liabilities of \$3,038,000, estimated third-party payor settlements of \$97,882,000, liability for postemployment benefits other than pensions of \$2,415,000 and bonds, notes and capital leases of \$161,168,000. The increase in the amount of liability to third parties under various payor settlements includes \$109,785,000 advanced from CMS under the Accelerated Payment Program.

Current liabilities increased by \$98,039,000 in fiscal 2020. This net increase came from decreases in unearned income of the amounts noted above, the short term portion of early retirement agreements of \$383,000 the current portion of bonds, notes and capital leases of \$533,000, and the currents portion of compensated absences payable of \$399,000, while increases occurred in funds held in trust for others and estimated third-party payor settlements in the amounts noted above, as well as in the postemployment benefits other than pensions of \$80,000.

Noncurrent liabilities increased by \$171,609,000 in fiscal 2020. This net increase was due to increases in the noncurrent portion of bonds, notes, and capital leases payable of \$161,701,000, primarily from the issuance of new bond debt of \$157,222,000. Other changes include the liability for the noncurrent portion of compensated absences payable of \$9,124,000, the noncurrent portion of the liability for postemployment benefits other than pensions of 2,335,000, the net pension liability of the amount noted above, while decreases occurred in the noncurrent portion of early retirement agreements of \$68,000.

Deferred inflows of resources increased by \$200,000 in fiscal 2020. UAMS' deferred inflows related to pensions increased by \$577,000, deferred inflows related to postemployment benefits other than pensions decreased by \$162,000 and there was a decrease of \$215,000 in irrevocable split interest agreements.

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**Statements of Revenues, Expenses, and Changes in Net Position**

Changes in net position, as presented in the Statements of Net Position, are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Position. A summary of UAMS' revenues, expenses, and changes in net position is as follows:

	<b>Years ended June 30</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	(In thousands)		
<b>Operating revenues:</b>			
Student tuition and fees, net of scholarship allowances	\$ 49,819	\$ 48,268	\$ 48,592
Net patient services	1,344,980	1,215,037	1,301,036
Meaningful use	1,668	85	187
Sponsored programs	181,423	145,445	133,587
Other	205,810	175,401	141,693
Total operating revenues	<u>1,783,700</u>	<u>1,584,236</u>	<u>1,625,095</u>
<b>Operating expenses:</b>			
Compensation and benefits	1,190,195	1,103,318	1,044,749
Supplies and other services	594,150	530,916	508,403
Scholarships and fellowships	1,362	1,485	1,641
Depreciation and amortization	65,598	67,184	66,917
Total operating expenses	<u>1,851,305</u>	<u>1,702,903</u>	<u>1,621,710</u>
Operating income (loss)	<u>(67,605)</u>	<u>(118,667)</u>	<u>3,385</u>
<b>Nonoperating revenues (expenses):</b>			
State appropriations, net	55,830	65,596	14,896
CARES Act	46,365	28,355	—
Gifts	14,347	13,903	19,840
Investment gain (loss), net of expense	24,504	7,349	6,522
Other	(14,929)	(19,628)	(10,953)
Total nonoperating revenues, net	<u>126,117</u>	<u>95,575</u>	<u>30,305</u>
Income (loss) before other changes in net assets	<u>58,512</u>	<u>(23,092)</u>	<u>33,690</u>

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	Years ended June 30		
	2021	2020	2019
	(In thousands)		
Other changes in net position:			
Capital gifts and appropriations	\$ 2,960	7,411	6,163
Interagency disposition		(54)	—
Total other changes in net position	<u>2,960</u>	<u>7,357</u>	<u>6,163</u>
Increase (decrease) in net position	61,472	(15,735)	39,853
Net position:			
Beginning of year	<u>741,453</u>	<u>757,188</u>	<u>717,335</u>
End of year	<u>\$ 802,925</u>	<u>\$ 741,453</u>	<u>\$ 757,188</u>

### Fiscal Year 2021

The Statements of Revenues, Expenses, and Changes in Net Position reflect a profit before other changes in net position of \$58,512,000 and an increase of \$61,472,000 in net position for fiscal year 2021. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$129,943,000, or 10.69%. Clinical volumes improved in fiscal year 2021 after the suspension of elective surgery and other elective procedures during the last months of the previous fiscal year due to COVID19.

Sponsored programs, which include federal grants and contracts, as well as state and local government and nongovernmental (i.e., nonfederal) grants and contracts, increased by a total of \$35,978,000, or 24.74%. This increase was mainly due to an increase in nonfederal grants and contracts of \$21,228,000, or 41.85%. Federal grants and contracts increased \$14,750,000, or 15.57%. Net student tuition and fees increased \$1,551,000, or 3.21%, due to tuition rate increases and higher enrollment. Other operating revenues increased by \$29,722,000, or 23.18%, mainly resulting from increased specialty and retail pharmacy activity. Total operating revenue increased over the prior year by \$199,464,000, or 12.59%.

The following factors affected operating expenses in 2021:

Operating expenses increased by \$148,402,000 or 8.71%. Additional expenses were incurred due to the increased cost of operating in a pandemic environment. This increase was primarily caused by increases in compensation and benefits and supplies and other services expense. Compensation and benefits increased by \$86,877,000 or 7.87%. Total supplies and other services increased by \$63,234,000 or 11.91%, largely due to increases in medical supplies, and drugs and medicines for patient care.

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The following factors affected nonoperating revenue (expense) in 2021:

Nonoperating revenue (expense) increased by \$30,542,000 or 31.96%. The largest contributor to this was an increase in funding provided under the CARES Act of \$18,010,000 or 63.52%, as described below. Net investments increased by \$17,155,000, or 233.43%. Match payments increased by \$7,621,000 and gross state appropriations decreased by \$2,145.

State appropriations are reported in the Statements of Revenues, Expenses, and Changes in Net Position as Nonoperating revenues, net of the Medicaid match payments required under various contracts between UAMS and the Arkansas Department of Human Services (DHS).

Net state appropriations revenue for the years ended June 30, 2021, 2020, and 2019 was as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(In thousands)		
Gross state appropriations revenue	\$ 115,578	\$ 117,723	\$ 108,805
Less Medicaid match payments	<u>59,748</u>	<u>52,127</u>	<u>93,909</u>
Net state appropriations revenue	<u>\$ 55,830</u>	<u>\$ 65,596</u>	<u>\$ 14,896</u>

**Fiscal Year 2020**

The Statements of Revenues, Expenses, and Changes in Net Position reflect a loss before other changes in net position of \$23,092,000 and a decrease of \$15,735,000 in net position for fiscal year 2020.

Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue decreased by \$85,999,000, or 6.61%. Due to the COVID-19 pandemic, elective surgery and other elective procedures were suspended or restricted for approximately the last 3 months of the fiscal year. They have since resumed with additional precautions.

Sponsored programs, which include federal grants and contracts, as well as state and local government and nongovernmental (i.e., nonfederal) grants and contracts, increased by a total of \$11,858,000, or 8.88%. This increase was mainly due to an increase in federal grants and contracts of \$9,807,000, or 11.16%. Nonfederal grants and contracts increased by \$2,351,000, or 4.86%. Net student tuition and fees decreased \$324,000, or 0.67%, due to tuition rate increases and higher enrollment. Other operating revenues increased by \$33,868,000, or 35.89%, mainly resulting from increased specialty and retail pharmacy activity. Total operating revenue decreased over the prior year by \$40,859,000, or 2.51%.

The following factors affected operating expenses in 2020:

Operating expenses increased by \$81,193,000 or 5.01%. Additional expenses were incurred due to the increased cost of operating in a pandemic environment. This increase was primarily caused by supplies and other services expense and scholarships and fellowships. Total supplies and other

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services increased by \$22,513,000 or 4.43%, largely due to increases in medical supplies, and drugs and medicines for patient care. Scholarships and fellowships decreased by \$156,000 or 9.51%.

The following factors affected nonoperating revenue (expense) in 2020:

Nonoperating revenue (expense) increased by \$65,270,000 or 215.38%. The largest contributor to this change was an increase in state appropriations, of \$50,700,000, or 340.36%, primarily due to smaller than expected Medicaid match payments, which net against gross state appropriation, as described below. Match payments decreased by \$41,782,000 and gross state appropriations increased by \$8,918,000. Additionally, net investments increased by \$827,000, or 12.68%.

State appropriations are reported in the Statements of Revenues, Expenses, and Changes in Net Position as Nonoperating revenues, net of the Medicaid match payments required under various contracts between UAMS and the Arkansas Department of Human Services (DHS).

Net state appropriations revenue for the years ended June 30, 2020, 2019, and 2018 was as follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
	(In thousands)		
Gross state appropriations revenue	\$ 117,723	\$ 108,805	\$ 113,022
Less Medicaid match payments	52,127	93,909	79,747
Net state appropriations revenue	\$ 65,596	\$ 14,896	\$ 33,275

## Results of Operations

### *Fiscal Year 2021*

In fiscal year 2021, UAMS experienced a profit before other changes in net position of \$58,512,000 and an increase in net position of \$61,472,000.

Total operating revenues increased, with increases in student tuition and fees of \$1,551,000, or 3.21%, and increases of net patient service revenue of \$129,943,000, or 10.69%. Additionally, revenue from sponsored programs increased by \$35,978,000, or 24.74%, and Other operating revenue increased by \$29,722,000, or 23.18%.

A 12.59% increase in operating revenue was experienced in fiscal year 2021. UAMS also incurred higher operating expenses during the year, resulting in a net operating loss of \$67,605,000. Supplies and other services increased by \$63,234,000, or 11.91%, largely for medical supplies, primarily for surgeries, and drugs and medicines for both inpatient and outpatient care.

Net investment income recognized in fiscal year 2021 included gains of \$17,155,000, which was a 233.43% increase from the prior year.

Management's Discussion and Analysis (Unaudited)  
June 30, 2021 and June 30, 2020

Net state appropriations decreased by \$9,766,000 primarily due to larger than expected Medicaid match payments. As a share of UAMS' revenue, net state appropriations for fiscal year 2021 decreased to 3.13% from 4.14% in fiscal year 2020.

***Fiscal Year 2020***

In fiscal year 2020, UAMS experienced a loss before other changes in net position of \$23,092,000 and a decrease in net position of \$15,735,000.

Total operating revenues decreased, with increases in student tuition and fees of \$324,000, or 0.67%, and decreases of net patient service revenue of \$85,999,000, or 6.61%. Additionally, revenue from sponsored programs increased by \$11,858,000, or 8.88%, and Other operating revenue increased by \$33,868,000, or 35.89%.

A 2.51% decrease in operating revenue was experienced in fiscal year 2020. UAMS also incurred higher operating expenses during the year, resulting in a net operating loss of \$118,667,000. Supplies and other services increased by \$22,513,000, or 4.43%, largely for medical supplies, primarily for surgeries, and drugs and medicines for both inpatient and outpatient care.

Net investment income recognized in fiscal year 2020 included gains of \$835,000, which was a 54.26% decrease from the prior year when a more positive investment market was experienced.

Net state appropriations increased by \$50,700,000 primarily due to larger than expected Medicaid match payments. As a share of UAMS' revenue, gross state appropriations for fiscal year 2020 increased to 4.14% from 0.92% in fiscal year 2019.

**Capital Assets and Debt Administration**

***Capital Assets***

At June 30, 2021, UAMS had \$1,727,120,000 invested in capital assets, net of accumulated depreciation and amortization of \$927,957,000. Depreciation and amortization expense totaled \$65,598,000 for the fiscal year ended June 30, 2021.

UAMS' capital additions totaled \$123,007,000 in fiscal year 2021, including a capital lease of clinic and office space in North Little Rock, and a 3-D Mammography System. Major construction projects completed in fiscal year 2021 and the sources that funded their acquisition included:

<b>Project</b>	<b>Amount of additions</b>	<b>Funding source</b>
Buildout of the 3rd, 6th, and 7th floors of the WPRCI	\$ 11,876,000	Foundation Funds
Freeway Medical Center creation of shell space	594,000	UAMS & Foundation Funds

Management's Discussion and Analysis (Unaudited)  
June 30, 2021 and June 30, 2020

Construction in progress at June 30, 2021 totaled \$130,305,000. The largest components of that balance consists of the energy infrastructure and improvements, and the implementation of a new ERP (Enterprise Resource Planning) system. More detailed information about UAMS' capital assets is presented in note 7 to the financial statements.

UAMS is also committed to construction projects as discussed in note 10, including the energy infrastructure, the UAMS Health Orthopaedic and Spine Hospital, and the Radiation Oncology Center expansion projects.

### Debt Administration

At June 30, 2021, UAMS had \$524,654,000 in outstanding debt, as shown in the following table:

	<b><u>Amount outstanding</u></b> (In thousands)
Obligation:	
Bonds payable	\$ 471,390
Notes payable	23,508
Obligations under capital leases	<u>29,756</u>
Total debt	<u>\$ 524,654</u>

Moody's Investors Service has rated the UA System as Aa2 since May 2010. This rating was affirmed on August 28, 2020. As one of the campuses in the UA System, this rating applies to debt of UAMS. More detailed information about current and long-term liabilities is presented in notes 8 and 9 to the financial statements.

### Economic Outlook

UAMS closed fiscal year 2021 with an increase in net position of \$61,472,000, exceeding the budgeted loss of \$45,594,000 for the period. This amount includes \$46,365,000 in CARES Act funds that were not budgeted and are largely related to lost revenues in fiscal year 2020. Additionally, investment income was \$21,489,000 better than budget due to market value improvements on investments, primarily endowments. These two items make up \$67,854,000 of the positive variance. Further, the fiscal year 2021 budget assumed COVID-19 would continue to impact UAMS's financial performance at the same level of fiscal year 2020 through the first quarter of fiscal year 2021. As a result, budgeted volumes and related revenues and expenses were reduced in anticipation of the ongoing impact. Ultimately, clinical volumes and financial performance proved to be much better than anticipated.



Management's Discussion and Analysis (Unaudited)  
June 30, 2021 and June 30, 2020

UAMS has projected a balanced budget for fiscal year 2022. Clinical volumes are projected to return to pre-pandemic levels. Growth in key strategic areas is also expected. Increases over the fiscal year 2021 budget are also projected in retail and specialty pharmacy programs which have seen consistent growth and have been unimpacted by COVID-19. Funding for NCI designation for the Cancer Center will result in increased State Appropriations in fiscal year 2022. Further, increases in investment income and grants and contract revenue are also included. Fiscal year 2022 operating expenses are projected to increase, primarily in compensation and benefits, medical supplies, and drugs and medicine expense. Interest on capital is also increasing related to the fiscal year 2019 and fiscal year 2021 bond issues.

The financial results for the first two months of fiscal year 2022 have been less than budget by \$1,575,000. Through August, UAMS realized a decrease in net position of \$5.3 million, versus a budgeted decrease of \$3,725,000. Patient volumes have been less than projected due to the state's third COVID surge, as well as, a critical renovation on an inpatient unit which caused several beds to be unavailable for approximately six weeks. At the same time, UAMS has continued to see increased cost related to the pandemic, primarily in compensation and benefits as well as drugs and medicine expense. However, in recent weeks, the number of COVID cases in the state has been on the decline and UAMS believes it will still be able to achieve its budgeted goal for fiscal year 2022. UAMS continues to focus on its efforts around resource optimization, with projects underway to drive efficiencies in processes that increase revenue and reduce expense. Additional measures including a hiring pause or a freeze on discretionary spending, which have proven to be effective in the past, can also be deployed if needed.

In summary, the economic outlook for UAMS is stable. However, it will require a continuing commitment to flex expenses with volume, to improve the performance and cost efficiency of operations, to manage within budget limits, and to carefully evaluate the financial opportunities and risks ahead.

### **Requests for Information**

This financial report is designed to provide a general overview of UAMS' finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to Amanda George, Vice Chancellor for Finance and Chief Financial Officer, 4301 West Markham Street, #632, Little Rock, Arkansas 72205.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Statements of Net Position

June 30, 2021 and 2020

(In thousands)

	<b>Assets</b>		<b>2021</b>		<b>2020</b>
<b>Current assets:</b>					
Cash and cash equivalents (note 4)	\$	314,429	\$	282,935	
Investments (note 5)		113,926		107,313	
Patient accounts receivable (net of allowance for doubtful accounts of \$287,912 in 2021 and \$300,555 in 2020, note 2)		149,358		121,748	
Nonpatient accounts receivable (net of allowances of \$897 in 2021 and \$1,969 in 2020)		75,879		53,580	
Supplies		31,855		27,233	
Notes and student loans receivable, net (notes 6 and 14)		2,750		2,230	
Prepaid expenses		11,752		8,700	
Total current assets		699,949		603,739	
<b>Noncurrent assets:</b>					
Investments (note 5)		83,444		61,377	
Notes and student loans receivable, net (notes 6 and 14)		9,723		10,906	
Deposits and funds held in trust by others (note 4)		209,187		139,922	
Capital assets, net (note 7)		799,163		745,267	
Total noncurrent assets		1,101,517		957,472	
Total assets		1,801,466		1,561,211	
<b>Deferred Outflow of Resources</b>					
Pensions (note 11)		2,322		2,496	
Postemployment benefits other than pensions (note 12)		5,394		2,244	
Loss on refunding of bonds		3,977		4,268	
Total deferred outflows	\$	11,693	\$	9,008	
<b>Liabilities</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued liabilities (notes 8 and 9)	\$	170,531	\$	123,153	
Unearned revenue		5,936		5,255	
Funds held in trust for others		3,410		216	
Estimated third-party payor settlements (note 2)		90,169		133,981	
Compensated absences payable, current portion (note 9)		3,963		4,230	
Early retirement liability		85		183	
Liability for postemployment benefits other than pensions (notes 9 and 12)		1,008		906	
Bonds, notes, and capital leases payable, current portion (notes 9 and 10)		20,515		21,152	
Total current liabilities		295,617		289,076	
<b>Noncurrent liabilities:</b>					
Long term liability for payroll taxes (note 9)		15,885		—	
Deposits		30		28	
Compensated absences payable, net of current portion (note 9)		74,869		62,681	
Liability for postemployment benefits other than pensions (notes 9 and 12)		33,495		32,487	
Federal capital contribution for Perkins Loan Program, pending return as student loans are closed		1,911		1,911	
Net pension liability		9,159		10,444	
Bonds, notes, and capital leases payable, net of current portion (notes 9 and 10)		563,385		420,703	
Total noncurrent liabilities		698,734		528,254	
Total liabilities		994,351		817,330	
<b>Commitments and contingencies (notes 10 and 15)</b>					
<b>Deferred Inflows of Resources</b>					
Pensions (note 11)		3,906		3,262	
Bonds		1,278		—	
Postemployment benefits other than pensions (note 12)		4,831		5,388	
Irrevocable split-interest agreements		5,868		2,786	
Total deferred inflows		15,883		11,436	
<b>Net Position</b>					
Net investment in capital assets		423,450		442,541	
<b>Restricted:</b>					
<b>Expendable:</b>					
Scholarships		29,530		28,895	
Research		12,408		13,621	
Capital projects		363		23,254	
Other		391		345	
<b>Nonexpendable:</b>					
Endowments		50,351		36,462	
Scholarships, fellowships, and student loans		394		394	
Unrestricted		286,038		195,941	
Total net position	\$	802,925	\$	741,453	

See accompanying notes to financial statements.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Revenues:		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$4,646 in 2021 and \$4,085 in 2020)	\$ 49,819	\$ 48,268
Net patient services (note 2)	1,344,980	1,215,037
Meaningful use revenue	1,668	85
Sponsored programs:		
Federal grants and contracts	109,474	94,724
Nonfederal grants and contracts	71,949	50,721
Sales and services of educational departments	38,993	36,728
Auxiliary enterprises:		
Housing and food service	6,199	7,774
Other auxiliary enterprises	2,657	2,660
Other operating revenue	<u>157,961</u>	<u>128,239</u>
Total operating revenues	<u>1,783,700</u>	<u>1,584,236</u>
Expenses:		
Operating expenses (note 16):		
Compensation and benefits	1,190,195	1,103,318
Supplies and other services	594,150	530,916
Scholarships and fellowships	1,362	1,485
Depreciation and amortization (note 7)	<u>65,598</u>	<u>67,184</u>
Total operating expenses	<u>1,851,305</u>	<u>1,702,903</u>
Operating (loss)	<u>(67,605)</u>	<u>(118,667)</u>
Nonoperating revenues (expenses):		
State appropriations, net (note 3)	55,830	65,596
CARES Act	46,365	28,355
Gifts	14,347	13,903
Investment income, net of investment expense (notes 4 and 5)	24,504	7,349
Interest on debt	(14,608)	(13,353)
(Loss) on disposal of capital assets	<u>(321)</u>	<u>(6,275)</u>
Total nonoperating revenues, net	<u>126,117</u>	<u>95,575</u>
Revenues/(loss) before other changes in net position	<u>58,512</u>	<u>(23,092)</u>
Other changes in net position:		
Capital gifts	2,961	7,411
Other	<u>(1)</u>	<u>(54)</u>
Total other changes in net position	<u>2,960</u>	<u>7,357</u>
Increase/(decrease) in net position	61,472	(15,735)
Net position:		
Beginning of year	<u>741,453</u>	<u>757,188</u>
End of year	<u>\$ 802,925</u>	<u>\$ 741,453</u>

See accompanying notes to financial statements.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Tuition and fees (net of scholarships)	\$ 49,515	\$ 45,517
Patient and insurance payments	1,267,730	1,334,067
Sponsored programs	177,951	143,467
Collection of student loans and interest	1,249	2,828
Auxiliary enterprise revenue:		
Housing and food service	6,178	7,815
Other auxiliary enterprises	2,647	2,781
Other receipts	197,843	159,356
Payments to suppliers	(591,155)	(546,157)
Payments to employees	(954,767)	(900,680)
Payments of employee benefits	(175,789)	(186,110)
Loans issued to students	(1,727)	(3,910)
Scholarships and fellowships	(1,451)	(1,369)
Other payments	(2,859)	(9,324)
Net cash and cash equivalents (used in)/provided by operating activities	(24,635)	48,281
Cash flows from noncapital financing activities:		
State appropriations, net	55,260	60,172
Gifts	14,347	13,903
CARES Act	46,279	28,493
Repayment of loans	1,078	737
Other agency funds (net)	3,196	(328)
Net cash and cash equivalents provided by noncapital financing activities	120,160	102,977
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	197,978	166,767
Gifts	2,961	7,411
Purchases of capital assets	(123,589)	(51,560)
Principal paid on capital debt and leases	(57,223)	(27,887)
Interest and paying agent fees paid on debt and capital leases	(12,504)	9,744
Net cash and cash equivalents provided by (used in) capital and related financing activities	7,623	104,475
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	200,189	82,621
Interest on investments (net of fees)	1,424	1,700
Purchases of investments	(273,267)	(203,200)
Net cash and cash equivalents provided by/(used in) investing activities	(71,654)	(118,879)
Net increase in cash and cash equivalents	31,494	136,854
Cash and cash equivalents:		
Beginning of year	282,935	146,081
End of year	\$ 314,429	\$ 282,935

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Reconciliation of operating (loss) revenues to net cash provided by operating activities:		
Operating (loss)	\$ (67,605)	\$ (118,667)
Adjustments to reconcile net operating (loss) revenues to net cash and cash equivalents (used in)/provided by operating activities:		
Depreciation and amortization	65,598	67,184
Changes in assets and liabilities:		
Patient and nonpatient accounts receivable, net	(48,434)	2,270
Supplies	(4,622)	(3,557)
Other assets	(3,468)	(154)
Deferred outflows	(2,685)	753
Accounts payable and accrued liabilities	51,804	(6,056)
Long term liability for payroll taxes	15,885	—
Unearned revenue	767	(1,458)
Postemployment benefits other than pensions	1,110	2,415
Deposits	1	3
Compensated absences payable	11,921	8,725
Other liabilities	(44,994)	96,408
Deferred inflows	87	415
Net cash and cash equivalents (used in)/provided by operating activities	<u>\$ (24,635)</u>	<u>\$ 48,281</u>
Noncash transactions:		
Change in capital assets acquired in year-end accounts payable	\$ 4,998	\$ (6,852)
Capital assets acquired by incurring capital lease obligations	1,291	22,287
Capital assets acquired by capital gift	2,961	7,411

See accompanying notes to financial statements.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2021 and 2020

### (1) Summary of Significant Accounting Policies

The University of Arkansas for Medical Sciences (UAMS) is one of the 20 campuses and related units operating within the University of Arkansas System (UA System), organized under various laws of the State of Arkansas and governed by the UA System's 10-member Board of Trustees (UA Board).

#### (a) Basis of Presentation

The financial statements of UAMS are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business-type activities of the financial reporting entity of the UA System that is attributable to the transactions of UAMS.

UAMS accounts for its activities through the use of an enterprise fund. Enterprise funds are used to account for activities similar to those found in the private sector, where the determination of a change in financial position is necessary or useful for sound financial administration. The accounting records of UAMS are organized on the basis of funds as prescribed by U.S. generally accepted accounting principles (GAAP) applicable to governmental colleges and universities as established by the Governmental Accounting Standards Board (GASB).

UAMS is a state-assisted academic health center composed of:

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School, and Northwest Arkansas Satellite Campus
- The UAMS Medical Center, a tertiary care referral center with 535 acute care beds at June 30, 2021
- Regional programs, including Tele-education, Rural Hospital Program, and eight Regional Campuses located throughout the state
- The Winthrop P. Rockefeller Cancer Institute
- Harvey and Bernice Jones Eye Institute
- Donald W. Reynolds Institute on Aging
- Psychiatric Research Institute
- Jackson T. Stephens Spine Neurosciences Institute
- Translational Research Institute.
- Institute for Digital Health and Innovation

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2021 and 2020

UAMS utilizes approximately 7,054,000 square feet of office, clinical, research, educational, workshop, and general-purpose space, excluding space utilized at Arkansas Children's Hospital. This total is composed of approximately 5,384,000 square feet of owned space at the Little Rock campus and 1,167,000 of leased or owned space throughout the State of Arkansas.

**(b) *Accrual Accounting***

The financial statements are prepared on the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when incurred.

**(c) *Cash and Cash Equivalents***

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to cash and have a maturity at acquisition of three months or less.

**(d) *Investments***

Investments and funds held in trust by others of marketable securities are reported at fair value as established by major securities markets. The fair value of venture capital and other investments is based on the most current information reported to UAMS by the respective investment managers. All investment income, including changes in the fair value of investments, is reported as nonoperating revenue.

The UA Board and the University of Arkansas Foundation (UA Foundation) Board of Trustees established an investment pool (the Pool). This arrangement commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The governmental investment pool is exempt from registration with the Securities and Exchange Commission. The UA Board and the UA Foundation Board of Trustees are the sponsors of the Pool and are responsible for operation and oversight for the Pool. All participation in the Pool is voluntary. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. Detailed disclosure information about the Pool may be obtained by writing the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas 72207-3608.

In 2018, the UA Foundation revised their investment policies to only allow for endowed monies to be maintained in the Pool. In response to the change, the UA System Investment Committee approved an agreement with Wilmington Trust to create a short-term investment pool for non-endowed investments. PFM Management LLC was selected through the request for proposal process for non-endowed investments to invest and manage this pool.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2021 and 2020

**(e) Patient Accounts Receivable**

Patient accounts receivable are shown net of contractual allowances and an allowance for doubtful accounts. Credit balances representing refunds due are reported as accounts payable. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental care coverage, and other collection indicators.

**(f) Nonpatient Accounts Receivable**

Nonpatient accounts receivable represent primarily amounts due from other organizations and the State of Arkansas.

**(g) Notes and Student Loans Receivable**

Notes and student loans receivable represent the unpaid balances of student loans receivable, net of allowances, and notes receivable from related parties.

**(h) Loan Funds**

Loan funds, included in cash and cash equivalents in the statements of net position, consist of resources made available for financial loans to students of UAMS. These resources include federal funds, funds from other external sources, and UAMS funds.

**(i) Supplies**

Supplies, consisting primarily of medical supplies and drugs, are carried at the lower of cost or market on either the first-in, first-out basis or average-cost basis.

**(j) Capital Assets**

Capital assets are stated at cost at the date of acquisition or estimated acquisition value at the date of donation. UAMS has established a capitalization threshold of \$1,000,000 for software, \$100,000 for buildings and building improvements, and \$5,000 for equipment and other assets. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives generally as established by the American Hospital Association or the lease term as follows:

Buildings and fixtures	15 to 40 years
Equipment	3 to 15 years
Internally developed software	10 years
Leasehold Improvements	Dependent on lease term
Leased Assets	Dependent on lease term
	Generally, 3 to 10 years
Other	3 to 15 years

Amortization of amounts under capital lease is included in depreciation and amortization expense.



# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2021 and 2020

**(k) *Deferred Outflows of Resources***

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditure) until a future period. At June 30, 2021, deferred outflows resulted from participation in the Arkansas Teacher Retirement System (ATRS) and the Arkansas Public Employees Retirement System (APERS) of \$2,322,000. Deferred outflows of \$5,394,000 resulted from postemployment benefits other than pensions. The balance of \$3,977,000 represents deferred loss on defeasance of bond debt.

**(l) *Compensated Absences***

Vested or accumulated vacation and sick leave of UAMS employees are recorded as an expense and liability as the benefits are earned. Amounts recorded include salary expense as well as salary-related payments for Federal Insurance Contribution Act taxes. No liability is recorded for nonvested accumulated rights to receive sick leave benefits. The current portion of compensated absences is determined using the average balance paid annually in the prior two-year period.

**(m) *Early Retirement Liability***

UAMS has, from time to time, negotiated voluntary early retirement agreements with faculty and staff, which may include the provision of a stipend and healthcare or other benefits for future periods. The amount of liability established for these types of agreements was \$85,000 and \$183,000 for the years ended June 30, 2021 and 2020, respectively.

**(n) *Deferred Inflows of Resources***

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period. At June 30, 2021, deferred inflows of \$3,906,000 resulted from participation in the ATRS and APERS pension systems. Deferred inflows of \$4,831,000 related to postemployment benefits other than pensions, deferred inflows of \$1,278,000 related to bond debt, and deferred inflows of \$5,868,000 resulted from irrevocable split-interest agreements.

**(o) *Unearned Revenue***

Unearned revenue consists primarily of student tuition and fees related predominantly to future fiscal years and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreements.

**(p) *Operating Versus Nonoperating Revenue***

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services and education are reported as operating revenue and expenses. Operating revenue consists of tuition and fees, patient services

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2021 and 2020

revenue, operating grants and contracts, educational department sales and services, as well as various auxiliary services. Nonoperating revenue consists of revenue that results from nonexchange transactions or investment-related activities, including state appropriations (net of appropriations used for Medicaid match), gifts, grants and bequests other than items capital in nature, (loss) or gain on disposal of capital assets, investment income, and interest on debt. Additionally, in 2021, UAMS earned revenue relating to the CARES Act (primarily provider relief funds) which is included in nonoperating revenue. Other changes in net position includes capital gifts.

**(q) *Net Patient Services Revenue***

Net patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Retroactive adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted as final settlements are determined.

**(r) *Charity Care***

UAMS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not included in gross patient revenue.

**(s) *Grants and Contracts***

UAMS has been awarded grants and contracts for operations for which the moneys have not been received or expended. These awards have not been reflected in the financial statements but represent commitments of sponsors to provide funds for specific research and training projects.

Federal research grants and contracts normally provide for the recovery of direct and indirect costs, subject to adjustment based upon review by the granting agencies. UAMS recognizes revenue associated with direct costs as the related costs are incurred. The recovery of indirect costs is recorded at predetermined rates negotiated with the federal government that are effective from July 1, 2017 through June 30, 2021.

**(t) *Student Financial Aid***

Revenue and expenditures for student financial aid are recognized as such in the period earned. Tuition and fees are shown net of applicable scholarship allowances.

**(u) *Endowment Income***

Endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be utilized. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2021 and 2020

the occurrence of a particular event, all or part of the principal may be expended. While quasi-endowment funds have been established by the UA Board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended. As such, the expired portion of term endowments and all quasi-endowments are reflected as unrestricted net position in the statements of net position. UAMS employs a total-return policy in determining the amount of investment income to be spent.

**(v) 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 ATRS and APERS (the respective Systems), and additions to/deductions from the respective System's fiduciary net position have been determined on the same basis as they are reported by the respective Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

**(w) Income Taxes**

UAMS is part of the UA System and, as such, is exempt from federal income taxes except for tax on unrelated business income. Management of UAMS is not aware of any significant unrelated business income.

**(x) Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, it is UAMS' policy to use restricted resources first, then unrestricted resources as they are needed.

**(y) Net Position**

Net position restricted by outside sources is distinguished from unrestricted funds allocated for specific purposes by action of the UA Board. Externally restricted funds may only be utilized in accordance with the purposes established by the donor or grantor, whereas unrestricted funds may be used by UAMS in achieving any of its institutional purposes.

**(z) Use of Estimates**

The preparation of financial statements in conformity with GAAP and governmental accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates affecting the financial statements of UAMS include the determination of allowances for uncollectible accounts, contractual adjustments, and estimated third-party payor settlements relating to patient services. Additionally, certain of the investments of UAMS are professionally managed, through the UA Foundation or

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Notes to Financial Statements

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through the UA System Office, and subject to various investment risks and fair market valuations.

**(aa) Accounting Pronouncements**

The GASB issued the following statements, which became effective for the fiscal year ended June 30, 2021:

- Statement No. 84, Fiduciary Activities
- Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*

Management has determined that Statements No. 84, and 90 did not materially impact UAMS.

Additionally, the GASB issued the following statements, which become effective for the future fiscal years noted below:

*For the year ending June 30, 2021*

- Statement No. 87, *Leases* (postponed by 18 months)

*For the year ending June 30, 2022*

- Statement No. 91, Conduit Debt Obligations (postponed by one year)

Management has not yet determined the effects of these statements on UAMS' financial statements.

**(2) Net Patient Services Revenue and Charity Care**

Patient care operations are included in the accompanying financial statements under accounting principles generally followed by governmental colleges and universities. Patient accounts receivable at June 30, 2021 and 2020 are recorded net of an allowance for doubtful accounts of \$287,912,000 and \$300,555,000, respectively.

Net patient services revenue for the year ended June 30, 2021 and 2020 is as follows:

	<b>2021</b>	<b>2020</b>
	(In thousands)	
Gross patient revenue	\$ 3,460,967	\$ 3,219,592
Less:		
Patient services contractual allowances	2,047,386	1,956,936
Provision for bad debts	68,601	47,619
Net patient services revenue	\$ 1,344,980	\$ 1,215,037

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UAMS provided approximately \$38,231,000 and \$39,954,000 in charity care, based on established rates, during the years ended June 30, 2021 and 2020, respectively. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not included in gross patient revenue above. Net patient services revenue for the years ended June 30, 2021 and 2020 includes approximately \$46,025,000 and \$33,945,000, respectively, from the Medicaid program representing payments relating to Upper Payment Limit and Disproportionate Share reimbursements. These payments are available to state-operated teaching hospitals under Medicaid regulations. Net patient services revenue for the years ended June 30, 2021 and June 30, 2020 also includes approximately \$37,850,000 and \$38,808,000, respectively, of net revenue from the Supplemental Medicaid program. Parking services for the years ended June 30, 2021 and June 30, 2020, valued at \$774,000 and \$905,000, respectively, were provided to patients and guests at no additional charge.

The Hospital, Faculty Group Practice (FGP), and Regional Programs have agreements with governmental and other third-party payors that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with significant third-party payors is as follows:

**(a) Hospital**

**Medicare**

Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some transplantation services are paid based upon a cost-reimbursement methodology. Outpatient services are paid based on a prospective payment system where services are classified into groups called Ambulatory Payment Classifications (APC). Services in each APC are similar clinically and in terms of the resources they require. The Hospital is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audit by the Medicare fiscal intermediary. As of June 30, 2021, the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2017.

**Medicaid**

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost-reimbursement methodology. The Hospital is paid at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audits by the Medicaid audit contractor. The Hospital is required to pay the federal match for the difference in reimbursement between the Tax Equity and Fiscal Responsibility Act inpatient rate and full cost. For outpatient services, the Hospital is required to pay the federal match for the difference reimbursed between the outpatient prospective rates and full cost.

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As of June 30, 2021, the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2013.

**(b) FGP and Regional Programs**

Services rendered to both Medicare and Medicaid program beneficiaries are reimbursed on prospectively determined rates per unit of service.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated settlements resulted in no change to net patient services revenue for the years ended June 30, 2020 and 2019. Management believes that UAMS is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital, FGP, and Regional Programs have agreements with certain commercial insurance carriers and preferred provider organizations, which include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Additionally, UAMS has agreements to provide healthcare professionals to independent healthcare providers at contractually determined rates. These providers are responsible for billing and collecting from patients and third-party payors, as applicable, for the services provided by UAMS staff supplied by these contracts.

**(3) Net State Appropriations Revenue**

State appropriations are reported in the statement of revenues, expenses, and changes in net position as Non-operating revenue, net of the Medicaid match payments required under various contracts between UAMS and the DHS.

Net state appropriations revenue for the years ended June 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Gross state appropriations revenue	\$ 115,577	\$ 117,723
Less Medicaid match payments	<u>59,747</u>	<u>52,127</u>
Net state appropriations revenue	<u>\$ 55,830</u>	<u>\$ 65,596</u>

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### (4) Cash and Cash Equivalents

All cash deposits of UAMS are carried at cost. The carrying amount of deposits is separately displayed in the statements of net position as cash and cash equivalents. The carrying amount differs from the bank balance shown below due to timing differences of clearing outstanding checks and deposits.

UAMS' cash and cash equivalents at June 30, 2021 and 2020 include deposits that are insured or collateralized with securities held by UAMS or by its agent in UAMS' name.

	<u>Carrying amount</u>		<u>Bank balance</u>
	(In thousands)		
Cash at June 30, 2021	\$ 314,429	\$	320,855
Cash at June 30, 2020	282,935		273,736

At June 30, 2021 and 2020, cash and cash equivalents are composed of \$1,741,000 and \$1,418,000, respectively, of insured deposits, \$319,114,000 and \$272,318,000, respectively, of securities that are held in custody by the Federal Reserve Bank.

At June 30, 2021 and 2020, deposits and funds held in trust, as reported in the Statements of Net Position, include money market accounts of \$208,212,000 and \$138,774,000, respectively. The money market funds are comprised primarily of funds held in trust related to bond issues restricted to specific use in construction projects. As such, it is UAMS's policy to report these money market accounts as funds held in trust rather than as cash and cash equivalents on the statements of net position. Interest income on cash and cash equivalents as of June 30, 2021 and 2020 was \$3,520,000 and \$2,768,000, respectively.

### (5) Investments

UAMS participates in the Pool, which is sponsored by the UA Board and the UA Foundation Board. The Pool was originally established in 1997 by the UA System and the UA Foundation. The Pool commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The participants of the Pool have adopted investment guidelines and performance objectives for the accounts within the Pool. In January 2010, the University of Arkansas Investment Committee approved an agreement that delegated authority to the UA Foundation to manage UA System funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives (the guidelines) for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

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In 2018, the UA Foundation revised their investment policies to only allow for endowed monies to be maintained in the investment pools. In response to the change, the UA System Investment Committee approved an agreement with Wilmington Trust to create a short-term investment pool for non-endowed investments. PFM Asset Management LLC was selected through the request for proposal process to act as an investment advisor for the UA System for the short-term investment pool.

	<u>Total return pool</u>	<u>Short term pool</u>	<u>Total pool</u>
UAMS portion at June 30, 2021	3.1 %	37.7 %	6.7 %
UAMS portion at June 30, 2020	3.3 %	45.5 %	8.2 %

The following table lists the invested assets of UAMS at June 30 including funds held in trust. Money market funds carried as funds held in trust are disclosed in Footnote 4.

	<u>2021</u>	<u>2020</u>
	(In thousands)	
Investment type:		
Exchange traded investments:		
U.S. equity	\$ 835	\$ 631
U.S. fixed income	134	138
	<u>969</u>	<u>769</u>
Short-term pool:		
Fixed Income	64,922	73,724
Certificates of Deposit	25,904	23,502
Commercial Paper	16,553	9,981
	<u>107,379</u>	<u>107,207</u>
Total Return Pool	<u>77,718</u>	<u>58,426</u>
Other investments:		
Funds held in trust	113	486
ARHealth Ventures, Inc.	6,606	146
Accountable Care	23	18
PROTON International	83	—
NLR Radiation Oncology Joint Venture	(414)	—
Split Interest Agreement	5,868	2,786
	<u>12,279</u>	<u>3,436</u>
	<u>\$ 198,345</u>	<u>\$ 169,838</u>



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The activities during fiscal year 2021 affecting UAMS' pro rata allocation of investments are summarized below in thousands:

	<u>Total return pool</u>	<u>Short-term pool</u>	<u>Exchange and Other investments</u>	<u>Total</u>
Balances at June 30, 2020	\$ 58,426	\$ 107,207	\$ 4,205	\$ 169,838
Income	350	113	17	480
Realized gains (losses)	21,954	—	(433)	21,521
Net increase (decrease) in fair value of investments		59	—	59
Expenses paid	(194)	—	(69)	(263)
Purchases (sales), net	<u>(2,818)</u>	<u>—</u>	<u>9,459</u>	<u>6,641</u>
Balances at June 30, 2021	<u>\$ 77,718</u>	<u>\$ 107,379</u>	<u>\$ 13,248</u>	<u>\$ 198,345</u>

The activities during fiscal year 2020 affecting UAMS' pro rata allocation of investments are summarized below in thousands:

	<u>Total return pool</u>	<u>Short-term pool</u>	<u>Exchange and Other investments</u>	<u>Total</u>
Balances at June 30, 2019	\$ 60,485	\$ 133,424	\$ 6,254	\$ 200,163
Income	367	3,005	43	3,415
Realized gains (losses)	(157)	—	2	(155)
Net increase (decrease) in fair value of investments	550	778	(584)	744
Expenses paid	(91)	—	(404)	(495)
Purchases (sales), net	<u>(2,728)</u>	<u>(30,000)</u>	<u>(1,106)</u>	<u>(33,834)</u>
Balances at June 30, 2020	<u>\$ 58,426</u>	<u>\$ 107,207</u>	<u>\$ 4,205</u>	<u>\$ 169,838</u>

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

**Arkansas Code**

The following Arkansas Code section outlines the ability of UAMS to spend any net appreciation in endowment funds:

Arkansas Code Annotated Section 28-69-804 states, "Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift

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instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditures by the institution.”

**(6) Notes and Student Loans Receivable**

The net unpaid balances of notes and student loans receivable on June 30, 2021 and 2020, net of allowances of \$3,153,000 and \$3,341,000, respectively, are as follows:

	<u>2021</u>		<u>2020</u>
	(In thousands)		
Perkins loans	\$ 431	\$	578
Health professions loans	5,204		5,314
Institutional funds loans	3,957		3,643
Other	3		106
University of Arkansas at Fayetteville note receivable	593		622
University of Arkansas System eVersity note receivable	1,307		1,307
Arkansas State Hospital note receivable	978		1,566
	<hr/>		<hr/>
Total notes and student loans receivable, net	12,473		13,136
	<hr/>		<hr/>
Less current portion	(2,750)		(2,230)
	<hr/>		<hr/>
Notes and student loans receivable, noncurrent, net	\$ 9,723	\$	10,906
	<hr/> <hr/>		<hr/> <hr/>

**(7) Capital Assets**

Capital assets of UAMS at June 30, 2021 and 2020 were as follows:

	<u>June 30,</u>		<u>June 30,</u>
	<u>2020</u>	<u>Additions</u>	<u>2021</u>
	(In thousands)		
Nondepreciable:			
Land	\$ 13,695	\$ 61	\$ 13,769
Construction in progress	47,018	91,949	130,305
Depreciable:			
Buildings and fixtures	1,103,868	10,327	1,122,808
Improvements other than buildings	2,453	—	2,453
Equipment	306,425	20,515	318,565
Internally developed software	98,437	—	94,455
Leased property	44,067	155	44,147
Other	618	—	618
	<hr/>	<hr/>	<hr/>
Total capital assets	1,616,581	123,007	1,727,120
	<hr/>	<hr/>	<hr/>

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June 30, 2021 and 2020

	<u>June 30, 2020</u>	<u>Additions</u>	<u>Transfers</u> <small>(In thousands)</small>	<u>Dispositions</u>	<u>June 30, 2021</u>
Less accumulated depreciation and amortization:					
Buildings and fixtures	\$ 531,851	\$ 35,352	\$ —	\$ (26)	\$ 567,177
Improvements other than buildings	2,453	—	—	—	2,453
Equipment	252,776	16,899	—	(8,065)	261,610
Internally developed software	57,701	9,541	—	(791)	66,451
Leased property	26,533	3,806	—	(73)	30,266
Other	—	—	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation and amortization	871,314	65,598	—	(8,955)	927,957
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, net	\$ 745,267	\$ 57,409	\$ —	\$ (3,513)	\$ 799,163
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<u>June 30, 2019</u>	<u>Additions</u>	<u>Transfers</u> <small>(In thousands)</small>	<u>Dispositions</u>	<u>June 30, 2020</u>
Nondepreciable:					
Land	\$ 12,868	\$ 700	\$ 127	\$ —	\$ 13,695
Construction in progress	6,296	43,470	(2,748)	—	47,018
Depreciable:					
Buildings and fixtures	1,085,833	16,510	2,612	(1,087)	1,103,868
Improvements other than buildings	2,453	—	—	—	2,453
Equipment	315,226	18,934	(15,205)	(12,530)	306,425
Internally developed software	97,742	695	—	—	98,437
Leased property	28,481	533	15,213	(160)	44,067
Other	9,594	—	1	(8,977)	618
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets	1,558,493	80,842	—	(22,754)	1,616,581
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation and amortization:					
Buildings and fixtures	497,199	35,653	—	(1,001)	531,851
Improvements other than buildings	2,453	—	—	—	2,453
Equipment	247,437	18,725	(1,797)	(11,589)	252,776
Internally developed software	48,127	9,574	—	—	57,701
Leased property	22,088	2,783	1,797	(135)	26,533
Other	3,105	449	—	(3,554)	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation and amortization	820,409	67,184	—	(16,279)	871,314
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, net	\$ 738,084	\$ 13,658	\$ —	\$ (6,475)	\$ 745,267
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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The buildings and fixtures above include \$17,924,000 and \$19,471,000 of assets under capital leases at June 30, 2021 and 2020, respectively. The leased property above includes other types of leased assets.

Library holdings comprise books and periodicals held by UAMS. The estimated fair value of the holdings at June 30, 2021 and 2020 was \$1,243,000 and \$1,226,000, respectively. UAMS has not reported library holdings in the accompanying statements of net position.

**(8) Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following at June 30, 2021 and 2020:

	<b>2021</b>		<b>2020</b>	
	<u>(In thousands)</u>			
Trade payables	\$	49,333	\$	35,205
Accrued wages		99,931		64,954
Miscellaneous payables		<u>21,267</u>		<u>22,994</u>
Total accounts payable and accrued liabilities	\$	<u>170,531</u>	\$	<u>123,153</u>

**(9) Long-Term Obligations**

Changes in long-term obligations during fiscal year 2021 were as follows:

	<b>Beginning balance</b>		<b>Additions</b>		<b>Reductions</b>		<b>Ending balance</b>	
	<u>(In thousands)</u>							
Bonds payable	\$	383,668	\$	192,701	\$	45,733	\$	530,636
Notes payable		23,517		5,277		5,286		23,508
Capital leases		<u>34,670</u>		<u>1,291</u>		<u>6,205</u>		<u>29,756</u>
Total debt		441,855		199,269		57,224		583,900
Payroll Taxes		—		15,885		—		15,885
Compensated absences		66,911		18,830		6,909		78,832
Other postemployment benefits		<u>33,393</u>		<u>2,021</u>		<u>911</u>		<u>34,503</u>
Total obligations	\$	<u>542,159</u>	\$	<u>236,005</u>	\$	<u>65,044</u>	\$	<u>713,120</u>

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June 30, 2021 and 2020

The current and long-term portions of the categories noted above were as follows at June 30, 2021:

	<u>Current</u>	<u>Long term</u>	<u>Total</u>
		(In thousands)	
Bonds payable	\$ 9,935	\$ 520,701	\$ 530,636
Notes payable	5,101	18,407	23,508
Capital leases	<u>5,479</u>	<u>24,277</u>	<u>29,756</u>
Total debt	20,515	563,385	583,900
Payroll Taxes	—	15,885	15,885
Compensated absences	3,963	74,869	78,832
Other postemployment benefits	<u>1,008</u>	<u>33,495</u>	<u>34,503</u>
Total obligations	\$ <u>25,486</u>	\$ <u>687,634</u>	\$ <u>713,120</u>

Changes in long-term obligations during fiscal year 2020 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
		(In thousands)		
Bonds payable	\$ 238,474	\$ 158,210	\$ 13,016	\$ 383,668
Notes payable	21,165	8,557	6,205	23,517
Capital leases	<u>21,048</u>	<u>18,950</u>	<u>5,328</u>	<u>34,670</u>
Total debt	280,687	185,717	24,549	441,855
Compensated absences	58,186	9,456	731	66,911
Other postemployment benefits	30,978	2,415	—	33,393
Early retirement liability	<u>634</u>	<u>230</u>	<u>681</u>	<u>183</u>
Total obligations	\$ <u>370,485</u>	\$ <u>197,818</u>	\$ <u>25,961</u>	\$ <u>542,342</u>

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The current and long-term portions of the categories noted above were as follows at June 30, 2020:

	<u>Current</u>	<u>Long term</u>	<u>Total</u>
		(In thousands)	
Bonds payable	\$ 9,940	\$ 373,728	\$ 383,668
Notes payable	5,060	18,457	23,517
Capital leases	<u>6,152</u>	<u>28,518</u>	<u>34,670</u>
Total debt	21,152	420,703	441,855
Compensated absences	4,230	62,681	66,911
Other postemployment benefits	906	32,487	33,393
Early retirement liability	<u>183</u>	<u>—</u>	<u>183</u>
Total obligations	<u>\$ 26,471</u>	<u>\$ 515,871</u>	<u>\$ 542,342</u>

UAMS has bonds outstanding for various facilities. Revenues from clinical services are pledged to service those bonds. The bonds contain covenants that obligate the UA Board to maintain pledged revenues at a level greater than or equal to 125% of the related average annual debt service. For the year ended June 30, 2021, such pledged revenues were 1,753% of the related debt service.

UAMS has bonds outstanding for parking decks and lots, which produce parking fee revenue, which is pledged to service the bonds. Those bonds contain covenants that obligate the UA Board to maintain pledged revenues at a level greater than or equal to 120% of the related average annual debt service. For the year ended June 30, 2021, such pledged revenues were 455% of the related debt service.

Separate accounting is not required for these facilities under the provisions of the debt instruments; accordingly, segment reporting is not required for financial reporting purposes.

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A summary of the principal amount of outstanding bonds payable is as follows at June 30, 2021 and 2020:

		2021	2020
		(In thousands)	
Various Facility Revenue Bonds, Series 2010A, \$42,680,000 issued with various fixed interest rates of 2.00% to 5.00%, collateralized by pledged revenue, refunded December 1, 2020 with the Various Facilities Revenue 2020A Series.	Par Premium	— —	30,410 1,502
Parking System Revenue Refunding Bonds, Series 2011, \$8,985,000 original amount, less a discount of \$55,000, with principal due annually to 2034, used to advance refund the Series 2004 Parking System Revenue Construction Bonds, issued with various fixed interest rates of 2.00% to 4.25% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	Par Discount	5,930 (32)	6,290 (34)
Various Facility Revenue Bonds, Series 2013, \$112,665,000 original amount, \$16,667,000 premium, with principal due annually to 2034, used to advance refund the Series 2004A and 2004B Various Facility Bonds, issued with various fixed interest rates of 1.00% to 5.00% over the life of the issue, collateralized by pledged revenue.	Par Premium	86,475 10,354	90,670 11,131
Various Facility Revenue Bonds, Series 2014, \$86,035,000 original amount, \$12,713,000 premium, with principal due annually to 2036, used to advance refund the Series 2006 Various Facility Bonds, with various fixed interest rates of 2.00% to 5.00% over the life of the issue, collateralized by pledged revenue.	Par Premium	73,825 8,793	77,085 9,393
Various Facility Revenue Bonds, Series 2019A, \$48,615,000 original amount, plus a \$12,125,000 premium, with principal due annually starting in 2023 and ending in 2032, issued with fixed rates of 5.00% over the life of the issue, collateralized by pledged revenue.	Par Premium	48,615 9,697	48,615 11,137
Various Facility Revenue Bonds, Series 2019B, \$97,470,000 original amount, with principal due annually starting in 2033 until 2042, various fixed interest rates of 2.906% to 3.35% over the life of the issue, collateralized collateralized by pledged revenue.	Par Premium	97,470 —	97,470 —

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		<u>2021</u>	<u>2020</u>
		(In thousands)	
Various Facility Revenue Bonds, Series 2020A, \$24,325,000 original amount, with principal due annually until 2030, fixed interest rates of 5.00% over the life of the issue, collateralized by pledged revenue.	Par	21,935	—
	Premium	4,500	—
Various Facility Revenue Bonds, Series 2021A, \$95,295,000 original amount, \$26,157,524 premium, with principal due annually starting in 2041 and ending in 2045, with fixed interest rates of 5.00% over the life of the issue, collateralized by pledged revenue	Par	95,295	—
	Premium	25,934	—
Various Facility Revenue Bonds, Series 2021B, \$41,845,000 original amount, with principal due annually starting in 2035 and ending in 2041, issued various fixed interest rates of 2.714% to 3.097% over the life of the issue, collateralized by pledged revenue.	Par	41,845	—
	Premium	—	—
Total Bonds Payable		<u>\$ 530,636</u>	<u>\$ 383,669</u>

Scheduled maturities of bonds and notes payable are as follows:

	<u>Bonds payable</u>				<u>Notes payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Premium amortized</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(In thousands)						
2022	\$ 9,935	\$ 20,354	\$ 4,754	\$ 35,043	\$ 5,101	\$ 648	\$ 5,749
2023	13,680	19,856	4,653	38,189	3,920	520	4,440
2024	14,625	19,171	4,480	38,276	3,797	405	4,202
2025	15,605	18,437	4,291	38,333	3,886	286	4,172
2026	16,645	17,654	4,086	38,385	2,094	189	2,283
2027–2031	96,535	74,861	16,882	188,278	4,710	217	4,927
2032–2036	102,825	51,970	11,180	165,975	—	—	—
2037–2041	90,525	35,022	5,671	131,218	—	—	—
2042–2046	111,015	14,528	3,249	128,792	—	—	—
	<u>\$ 471,390</u>	<u>\$ 271,853</u>	<u>\$ 59,246</u>	<u>\$ 802,489</u>	<u>\$ 23,508</u>	<u>\$ 2,265</u>	<u>\$ 25,773</u>

The Various Facility Revenue Bond, Series 2021A, was issued on April 20, 2021. The issue provided \$95,295,000 for a new Surgical Hospital, a new Radiation Oncology Center, and other capital improvements. The outstanding bonds bear an interest rate of 5%. Annual principal payments start in December 2041 and continue until December 2045. Interest payments are made semiannually.



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The Various Facility Revenue Bond, Series 2021B, was issued on April 20, 2021. The issue provided \$41,845,000 to pay a portion of the costs of the new Radiation Oncology Center. The outstanding bonds bear various interest rate of 2.714% to 3.097%. Annual principal payments start in December of 2035 and continue until December 2041. Interest payments are made semiannually.

The Various Facility Revenue Refunding Bonds, Series 2020A, was issued on October 27, 2020. The issue provided \$24,325,000 necessary to advance refund Various Facility Revenue Refunding Bonds, Series 2010A. The remaining bonds bear an interest rate of 5%. Principal payments are made annually until December 1, 2030. Interest payments are made semiannually.

The Various Facility Revenue Bonds, Series 2019A, was issued on October 24, 2019. The issue provided \$48,615,000 for infrastructure and an energy conservation project. The bonds bear interest rates of 5%. Principal payments are made annually until March 2032. Interest payments are made semiannually.

The Various Facility Revenue Bonds, Series 2019B, was issued on October 24, 2019. The issue provided \$97,470,000 for infrastructure and an energy conservation project. The bonds bear various interest rates from 2.906% to 3.45%. Principal payments are made annually until October 2042.

The Various Facility Revenue Refunding Bonds, Series 2014, was issued on December 17, 2014. The issue provided \$98,037,198 necessary to advance refund Various Facility Revenue Bond, Series 2006. The remaining bonds bear interest rates from 3.75% to 5.00%. Principal payments are made annually until March 2036. Interest payments are made semiannually.

The Various Facility Revenue Refunding Bonds, Series 2013, was issued on May 14, 2013. The issue provided \$128,468,519 necessary to advance refund Various Facility Revenue Refunding Bonds, Series 2004A, and Various Facility Revenue Construction Bonds, Series 2004B bonds. The remaining bonds bear interest rates from 3.25% to 5.00%. Principal payments are made annually until November 2034. Interest payments are made semiannually.

The Parking System Revenue Refunding Bonds, Series 2011, was issued in November 2011. The 2011 issue provided \$8,786,825 necessary to advance refund the UA Board's Parking System Revenue Construction Bonds, Series 2004. The remaining 2011 bonds bear interest at various fixed interest rates from 2.90% to 4.25%. Principal payments are made annually until July 2034. Interest payments are made semiannually.

### **(10) Commitments**

#### **(a) Capital Leases**

Scheduled maturities of capital lease commitments outstanding as of June 30, 2021 are as follows:

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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		(In thousands)	
2022	\$ 5,479	\$ 878	\$ 6,357
2023	3,947	730	4,677
2024	3,866	620	4,486
2025	3,756	508	4,264
2026	3,342	403	3,745
2027-2031	6,634	1,040	7,674
2032-2036	1,915	317	2,232
2037-2041	817	44	861
	<u>\$ 29,756</u>	<u>\$ 4,540</u>	<u>\$ 34,296</u>

**(b) Operating Leases**

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2021 (in thousands):

2022	\$ 5,257
2023	3,823
2024	3,430
2025	3,128
2026	2,675
2027-2031	8,294
2032-2036	1,124
2037-2041	602
Total minimum payments required	<u>\$ 28,333</u>

Rental expense for operating leases for the year ended June 30, 2021 and 2020 was approximately \$9,910,000 and \$8,786,000, respectively, and is included in supplies and other services in the accompanying statements of revenues, expenses, and changes in net position.

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**(c) Construction Projects**

Construction in progress at June 30, 2021 included campus energy infrastructure and conservation projects, UAMS's portion of the new UA Systems ERP (Enterprise Resource Planning) software, a new Orthopaedic and Spine Hospital, and a new Radiology Oncology Center. At June 30, 2021, contracts outstanding for tangible construction projects were approximately \$207,433,000.

**(d) Outstanding Commitments**

At June 30, 2021 and 2020, UAMS had outstanding purchase orders for operating supplies and equipment amounting to approximately \$254,496,000 and \$185,994,000, respectively.

**(11) Retirement Benefits**

All active employees of UAMS who work 20 or more hours a week in a regularly appointed position of nine or more months participate in the University Retirement Plan (URP). A small closed group of participants continue in the Arkansas Public Employee Retirement System (APERS) or in the Arkansas Teacher Retirement System (ATRS). APERS and ATRS are not open to new enrollments within the University.

**(a) University Retirement Plan**

The URP is a defined contribution 403(b) and 457(b) program as defined by the Internal Revenue Service Code. The authority under which the URP's benefits provisions are established or amended is through the President of the University through the Board of Trustees. Arkansas Code Annotated authorizes participation in the plan. Active record-keeper/vendors to the URP include Teachers Insurance Annuity Association (TIAA) and Fidelity Investments.

The URP is a contributory plan with the required employee contribution and the University matching contribution. All four-year campuses are transitioning to a uniform contribution formula by July 2021. That contribution formula requires an employer base contribution of 5% of an employee's eligible salary to their TIAA and/or Fidelity Investments retirement account, allocated between the two companies according to the employee's choice, with a required employee contribution of 5%. The University makes an equal contribution for employee contributions in excess of 5%, with a maximum total University contribution of 10% of eligible salary up to the IRS match limit, which at June 30, 2021, was \$29,000. The transition period began in July 2016 and provided for an annual increase of 1% in the employee required contribution percentage to reach 5% by July 2020. However, due to economic uncertainty associated with the COVID-19 pandemic, the required 1% increase in employee contributions scheduled for July 2020 was delayed until July 2021. All benefits attributable to plan contributions made by the participant are immediately vested in the participant, and contributions made by the University are cliff vested upon completion of two consecutive years of URP participation.

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The eligible salary earnings for UAMS employees covered by the URP for the year ended June 30, 2021 were \$861,277,000. Total employer contributions to the URP during the fiscal year 2021 were \$67,848,000 and total employee contributions were \$84,808,000.

**(b) *Arkansas Teacher Retirement System***

**Plan Description**

ATRS is a cost-sharing, multiple-employer, defined-benefit pension plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 266 of 1937. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of ATRS is vested in the 15 members of the Board of Trustees of the Arkansas Teacher Retirement System (the ATRS Board). Membership includes 11 members who are elected and consist of seven active members of ATRS with at least five years of actual service, three retired members receiving an annuity from ATRS, and one active or retired member from a minority racial ethnic group. There are also four ex officio members, including the State Bank Commissioner, the Treasurer of the State, the Auditor of the State, and the Commissioner of Education. ATRS issues a publicly available financial report that can be obtained at <https://www.ATRS.gov/publications>.

***Benefits Provided***

ATRS provides retirement, disability, and death benefits. Benefit terms and assumptions are unchanged from the prior year. Retirement benefits are determined as a percentage of the member's highest three-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory	2.15 %
Noncontributory	1.39 %

Members are eligible to retire with a full benefit under the following conditions:

- At age 60 with 5 years of credited service
- At any age with 28 years of credited service

Members with 25 years of credited service who have not attained age 60 may retire with a reduced benefit.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Survivor benefits are payable to qualified survivors upon the death of an active member with 5 years of service. The monthly benefit paid to eligible spouse survivors is computed as if the

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member had retired and elected the joint and 100% survivor option. Minor child survivors receive a percentage of the member's highest salary earned. ATRS also provides a lump-sum death benefit for active and retired members with 10 years of actual service. The amount for contributory members will be up to \$10,000 and up to \$6,667 for noncontributory members. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2011, new employees of UAMS are no longer eligible to participate in ATRS. Existing ATRS participants are allowed to continue ATRS participation.

### ***Contributions***

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999, until July 1, 2000, to make an irrevocable choice to be contributory or noncontributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the ATRS Board based on an actuary's determination of a rate required to fund the plan. UAMS contributed 14.5% of applicable compensation for the fiscal year ended June 30, 2021, compared to 14.25% in the previous year. The gross payroll amount for UAMS employees covered by ATRS for the year ended June 30, 2021 was \$80,000. UAMS and member's contributions for the year ended June 30, 2021 were \$12,000 and \$5,000, respectively.

### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions***

At June 30, 2021 and 2020, UAMS reported a liability of \$189,535 and \$145,151 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. UAMS' proportion of the net pension liability was based on its share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2021 and June 30 2020, UAMS' proportion was .0033% and .0035% respectively.

For the years ended June 30, 2021 and June 30, 2020, UAMS recognized pension expense credit of \$19,155 and \$27,492. At June 30, 2021, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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June 30, 2021 and 2020

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ 2,513	\$ 1,529
Changes in proportion and differences between employer contributions and share of contributions	1,406	111,329
Net difference between projected and actual earnings on pension plan investments	31,156	—
Change of assumptions	12,333	—
UAMS contributions subsequent to the measurement date	11,633	—
	<u>                    </u>	<u>                    </u>
Total	\$ <u>59,041</u>	\$ <u>112,858</u>

At June 30, 2020, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ 3,897	\$ 1,519
Changes in proportion and differences between employer contributions and share of contributions	4,740	150,763
Net difference between projected and actual earnings on pension plan investments	-	10,225
Change of assumptions	21,574	—
UAMS contributions subsequent to the measurement date	14,940	-
	<u>                    </u>	<u>                    </u>
Total	\$ <u>45,151</u>	\$ <u>162,507</u>

Deferred outflows of resources related to pensions, resulting from UAMS' contributions subsequent to the measurement date, totaled \$11,633 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30, 2021:

2022	\$ (33,974)
2023	(25,111)
2024	(9,536)
2025	3,491
2026	(320)
Thereafter	—

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Deferred outflows of resources related to pensions, resulting from UAMS' contributions subsequent to the measurement date, totaled \$14,940 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30, 2020:	
2021	\$ (32,372)
2022	(42,755)
2023	(33,756)
2024	(18,160)
2025	(5,252)
Thereafter	-

**Schedule of Changes in Net Pension Liability  
Year ended June 30, 2021  
Arkansas Teachers Retirement System**

Total pension liability:	
Service cost	\$ 11,084
Interest on total pension liability	53,853
Changes of benefit terms	—
Difference between expected and actual experience	(833)
Changes of assumptions	—
Benefit payments, including refunds	<u>(42,343)</u>
Net changes in total pension liability	21,761
Total Pension liability, beginning of year	<u>733,680</u>
Total Pension liability, end of year	<u>755,441</u>
Plan fiduciary net position:	
Employer contributions	14,940
Employee contributions	5,126
Net investment income	(5,550)
Benefit payments, including refunds	(42,343)
Pension plan administrative expense	<u>(283)</u>
Net change in plan fiduciary net position	(28,110)
Plan fiduciary net position, beginning of year	<u>594,016</u>
Plan fiduciary net position, end of year	<u>565,906</u>
Net pension liability	\$ <u><u>189,535</u></u>

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June 30, 2021 and 2020

**Schedule of Changes in Net Pension Liability  
Year ended June 30, 2020  
Arkansas Teachers Retirement System**

Total pension liability:	
Service cost	\$ 11,325
Interest on total pension liability	53,988
Changes of benefit terms	-
Difference between expected and actual experience	4,156
Changes of assumptions	
Benefit payments, including refunds	<u>(42,279)</u>
Net changes in total pension liability	27,190
Total Pension liability, beginning of year	<u>735,316</u>
Total Pension liability, end of year	<u>762,506</u>
Plan fiduciary net position:	
Employer contributions	14,993
Employee contributions	4,937
Net investment income	31,261
Benefit payments, including refunds	(42,279)
Pension plan administrative expense	<u>(248)</u>
Net change in plan fiduciary net position	8,664
Plan fiduciary net position, beginning of year	<u>608,691</u>
Plan fiduciary net position, end of year	<u>617,355</u>
Net pension liability	<u>\$ 145,151</u>



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***Actuarial Assumptions***

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Wage inflation	2.75%
Salary increases	2.75–7.75%
Investment rate of return	7.50% compounded annually
Post retirement cost-of-living increases	3% Simple
Mortality table	Based on RP-2014 Mortality Table for males and females using Projection Scale MP-2017 from 2006 (94% for males and 84% for females)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2010–June 30, 2015

These assumptions are unchanged from the prior year.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in ATRS’s target asset allocation as of June 30, 2020 are summarized below:

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Total equity	53 %	5.2 %
Fixed income	15	(0.1)
Alternatives	5	3.5
Real assets	15	5.1
Private equity	12	7.2
Total	100 %	

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in ATRS’s target asset allocation as of June 30, 2019 are summarized below:

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Total equity	53 %	5.1 %
Fixed income	15	1.4
Alternatives	5	4.2
Real assets	15	5.0
Private equity	12	6.3
Cash equivalents	—	0.6
Total	100 %	

***Discount Rate: June 30, 2021***

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. It incorporates a municipal bond rate of 2.45% taken from the “20-Year Municipal GO AA Index” as of June 26, 2020. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14.5% of payroll. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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June 30, 2021 and 2020

***Discount Rate: June 30, 2020***

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. It incorporates a municipal bond rate of 3.13% taken from the “20-Year Municipal GO AA Index” as of June 28, 2019. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14.00% of payroll. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: June 30, 2021***

The following presents UAMS’ proportionate share of the net pension liability, using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

<b>Sensitivity of Discount Rate</b>		
<b>1% Decrease (6.50%)</b>	<b>Discount rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
\$ 282,019	\$ 189,535	\$ 112,834

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: June 30, 2020***

The following presents UAMS’ proportionate share of the net pension liability, using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

<b>Sensitivity of Discount Rate</b>		
<b>1% Decrease (6.50%)</b>	<b>Discount rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
\$ 238,641	\$ 145,151	\$ 67,615

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***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's net position is available in the separately issued ATRS financial report.

***Payables to the Pension Plan***

UAMS reported payables to ATRS of \$0 at June 30, 2021.

**(c) *Arkansas Public Employees Retirement System***

**Plan Description**

APERS is a cost-sharing, multiple-employer, defined-benefit plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the APERS Board). Membership includes three state and three nonstate employees, all appointed by the Governor, and three ex officio trustees, including the Auditor of the State, the Treasurer of the State, and the Director of the Department of Finance and Administration. APERS issues a publicly available financial report that can be obtained at <http://www.apers.org/annualreports>.

***Benefits Provided***

APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest three-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory, prior to July 1, 2005	2.07 %
Contributory, July 1, 2005-July 1, 2007	2.03 %
Contributory, on or after July 1, 2007	2.00 %
Noncontributory	1.72 %

Members are eligible to retire with a full benefit under the following conditions:

- At age 65 with 5 years of service
- At any age with 28 years of actual service
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005).

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

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## Notes to Financial Statements

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Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the joint and 75% survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2016, new employees of UAMS are no longer eligible to participate in APERS. Existing APERS participants are allowed to continue APERS participation.

### ***Contributions***

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5.00% of their salary. Employers are required to contribute at a rate established by the APERS Board based on an actuary's determination of a rate required to fund the plan. UAMS contributed 15.32% of applicable compensation for the fiscal year ended June 30, 2021. The gross payroll amount for UAMS employees covered by APERS for the year ended June 30, 2021 was \$6,566,642. UAMS' and member's contributions for the year ended June 30, 2021 were \$1,000,526 and \$231,605, respectively.

### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions***

At June 30, 2021 and 2020, UAMS reported a liability of \$8,969,190 and \$10,298,361 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. UAMS' proportion of the net pension liability was based on its share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2021 and 2020 UAMS' proportion was .3132% and .4269%.

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For the year ended June 30, 2021, UAMS recognized pension expense credit of \$447,898. At June 30, 2021, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 119,069	\$ 5,939
Changes in proportion and differences between employer contributions and share of contributions	112,376	153,675
Net difference between projected and actual earnings on pension plan investments	82,386	3,633,491
Change of assumptions	949,054	
UAMS contributions subsequent to the measurement date	1,000,526	
Total	\$ 2,263,411	\$ 3,793,105

Deferred outflows of resources related to pensions, resulting from UAMS contributions subsequent to the measurement date, totaled \$1,000,526 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30:

2022	\$ (1,463,229)
2023	(972,147)
2024	(344,066)
2025	249,222
2026	—
Thereafter	—

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For the year ended June 30, 2020, UAMS recognized pension expense of \$818,662. At June 30, 2020, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ 280,278	\$ 15,301
Changes of assumptions	558,966	395,886
Changes in proportion and differences between employer contributions and share of contributions	466,395	2,610,124
Net difference between projected and actual earnings on pension plan investments		78,221
UAMS contributions subsequent to the measurement date	<u>1,145,472</u>	
Total	\$ <u><u>2,451,111</u></u>	\$ <u><u>3,099,532</u></u>

Deferred outflows of resources related to pensions, resulting from UAMS contributions subsequent to the measurement date, totaled \$1,145,472 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30:	
2021	\$ (90,667)
2022	(1,165,234)
2023	(603,669)
2024	65,677
2025	—
Thereafter	—

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2021 and 2020

**Schedule of Changes in Net Pension Liability  
Year ended June 30, 2021  
Arkansas Public Employees Retirement System**

Total pension liability at June 30, 2021:	
Service cost	\$ 621,471
Interest on total pension liability	2,473,164
Difference between expected and actual experience	6,289
Changes of benefit terms	—
Changes of assumptions	—
Benefit payments, including refunds	<u>(1,889,598)</u>
Net changes in total pension liability	1,211,326
Total pension liability, beginning of year	<u>35,223,763</u>
Total pension liability, end of year	<u>36,435,089</u>
Plan fiduciary net position:	
Employer contributions	936,264
Employee contributions	222,144
Net investment income	546,754
Benefit payments, including refunds	(1,889,598)
Pension plan administrative expense	(36,589)
Other	<u>19,574</u>
Net change in plan fiduciary net position	(201,451)
Plan fiduciary net position, beginning of year	<u>27,667,350</u>
Plan fiduciary net position, end of year	<u>27,465,899</u>
Net pension liability	<u>\$ 8,969,190</u>



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June 30, 2021 and 2020

**Schedule of Changes in Net Pension Liability**  
**Year Ended June 30, 2020**  
**Arkansas Public Employees Retirement System**

Total pension liability at June 30 2020:

Service cost	\$	809,208
Interest on total pension liability		3,240,642
Difference between expected and actual experience		256,520
Changes of benefit terms		(269)
Changes of assumptions		—
Benefit payments, including refunds		<u>(2,439,957)</u>
Net changes in total pension liability		1,866,144
Total pension liability, beginning of year		<u>46,139,039</u>
Total pension liability, end of year		<u>48,005,183</u>
Plan fiduciary net position:		
Employer contributions		1,250,523
Employee contributions		286,949
Net investment income		1,923,020
Benefit payments, including refunds		(2,439,957)
Pension plan administrative expense		(62,919)
Other		<u>26,641</u>
Net change in plan fiduciary net position		984,257
Plan fiduciary net position, beginning of year		<u>36,722,565</u>
Plan fiduciary net position, end of year		<u>37,706,822</u>
Net pension liability	\$	<u>10,298,361</u>

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June 30, 2021 and 2020

*Actuarial Assumptions*

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Amortization method	Level of percent of payroll, closed
Investment rate of return	7.15%
Salary increases	3.25% – 9.85%
Wage inflation	3.25%
Postretirement cost-of-living increases	3.00% Annual Compounded Increase
Mortality table	Based on RP-2006 Combined Healthy mortality table projected to 2020 using Scale MP-2017.
Average remaining service life of all members	4.0486

*Actuarial Assumptions*

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Amortization method	Level of percent of payroll, closed
Investment rate of return	7.15%
Salary increases	3.25% – 9.85%
Wage inflation	3.25%
Postretirement cost-of-living increases	3.00% Annual Compounded Increase
Mortality table	Based on RP-2000 Combined Healthy mortality table projected to 2020 using Projection Scale BB
Average remaining service life of all members	4.1431

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The long-term expected rate of return on pension plan investments of 7.15% 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 for each major asset class included in the System's target asset allocation as of June 30, 2020 are summarized below:

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Broad domestic equity	37 %	6.22 %
International equity	24	6.69
Real assets	16	4.81
Absolute return	5	3.05
Domestic fixed	18	0.57
Total	<u>100 %</u>	

The long-term expected rate of return on pension plan investments of 7.15% 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 for each major asset class included in the System's target asset allocation as of June 30, 2019 are summarized below:

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Broad domestic equity	37 %	6.20 %
International equity	24	6.33
Real assets	16	3.32
Absolute return	5	3.56
Domestic fixed	18	1.54
Total	<u>100 %</u>	<u>4.80 %</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2021 and 2020

Assumption changes: Economic assumptions were updated in the June 30, 2017 valuation to a 7.15% investment return assumption and a 3.25% wage inflation assumption. The 3.25% represents base inflation, excluding merit or seniority increases. These assumptions were unchanged in the June 30, 2020 valuation.

***Discount Rate at June 30 2021***

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. It incorporates a municipal bond rate of 2.45% based on the “Fidelity 20-Year Municipal GO AA Index” from the Bond Buyer Index of general obligation municipal bonds (based on the weekly rate closest to but not later than the measurement date).

The projection of cash flows used to determine this single discount rate 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 difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate at June 30, 2021***

The following presents UAMS’ proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.15%) or one-percentage-point higher (8.15%) than the current rate:

<b>Sensitivity of Discount Rate</b>		
<b>1% Decrease</b>	<b>Discount rate</b>	<b>1% Increase</b>
<b>(6.15%)</b>	<b>(7.15%)</b>	<b>(8.15%)</b>
\$ 13,660,740	\$ 8,969,190	\$ 5,097,599

***Discount Rate at June 30, 2020***

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. It incorporates a municipal bond rate of 3.13% based on the “Fidelity 20-Year Municipal GO AA Index” from the *Bond Buyer Index* of general obligation municipal bonds (based on the weekly rate closest to but not later than the measurement date).

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2021 and 2020

The projection of cash flows used to determine this single discount rate 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 difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate at June 30 2020:***

The following presents UAMS' proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.15%) or one-percentage-point higher (8.15%) than the current rate:

<b>Sensitivity of Discount Rate</b>		
<b>1% Decrease (6.15%)</b>	<b>Discount rate (7.15%)</b>	<b>1% Increase (8.15%)</b>
\$ 16,505,702	\$ 10,298,361	\$ 5,177,021

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's net position is available in the separately issued APERS financial report. The pension plan's net position is determined on the same basis of accounting, including policies with respect to benefit payments and valuation of pension plan investments.

***Payables to the Pension Plan***

UAMS reported payables to APERS of \$0 at June 30, 2021.

***Retiree Health, Dental, and Life Insurance***

In addition to providing retirement benefits, UAMS arranges health, dental, and life insurance for retired and disabled employees and their families. Substantially, all of UAMS' employees may become eligible for those benefits if they meet normal retirement requirements while still working for UAMS. The participants of this program incur the total premium for this insurance. There is no direct expense for these services incurred by UAMS.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2021 and 2020

### (12) Postemployment benefits other than pensions

UAMS offers postemployment health (including prescription drugs) and dental benefits along with life insurance (\$10,000 available coverage) to eligible retirees. Health and dental benefits are provided in the UA System's self-funded plan sponsored by the UA Board for current and retired employees of each of its campuses and related units. The plan is considered a single-employer, defined-benefit plan. The UA System manages and administers the plan. Although benefits are also provided under the UA System's plan for the UA Foundation and the University of Arkansas Winthrop Rockefeller Institute, no postemployment benefit is accrued by the UA System for these private entities. No assets are accumulated in a trust.

Governmental entities recognize and match other postemployment benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. Accordingly, UAMS accrued \$2,597,000 expense credit and \$1,013,000 in retiree healthcare expense during the fiscal years ended June 30, 2021 and 2020, respectively.

For those campuses in the UA System's self-funded plan, retirees qualify for postemployment benefits as follows:

#### ***Participation***

Employees who retire with a combination of age and years of service of at least 70 years with at least 10 years of coverage under the plan are eligible to participate. Retirees may cover spouses and eligible dependent children. Surviving spouses can continue coverage after retiree's death. Retirees can continue coverage after Medicare eligibility age (age 65 or disabled) with the UA System plan paying secondary to Medicare.

#### ***Benefit Provided***

Retirees participate in the plan at the same premium rate as an active employee.

#### ***Required Contribution Ratio***

Retirees pay 100% of premium. The pre-65 premium is based upon blended active and pre-65 retiree claims experience. The valuation accounts for the implicit subsidy that arises as a result. Employer costs are funded on a pay-as-you-go basis.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2021 and 2020

***Employees covered by benefit terms***

As of July 1, the following employees were covered by the benefit terms:

	2020	2019
Inactive employees, beneficiaries:		
Or spouses of retirees:		
Medical	115	156
Life	715	691
Active employees:		
Medical	10,525	10,251
Life	10,848	10,581

Total OPEB liability for the year ended June 30, 2021 was \$34,503,000, determined by actuarial valuations as of June 30, 2020, rolled forward. For the year ended June 30, 2020, total OPEB liability was \$33,393,000, determined in the same manner.

**(a) *Summary of Key Actuarial Methods and Assumptions***

University self-funded plan:

Valuation date	July 1, 2020 valuation for the fiscal year ended June 30, 2021
Valuation year	Liabilities were measured as of July 1, 2020 valuation date
Actuarial cost method	Entry Age Normal as of July 1, 2020 measurement date
Discount rate	2.21% as of July 1, 2020, compared to 3.50% as of July 1, 2019
Projected payroll growth rate	4.00% (same as prior year)
Percent of retirees electing coverage	55.00% medical and 75.00% life (same as prior year)
Rate of medical inflation	Measurement dates: July 1, 2020 6.50% grading to 3.12% over 19 years and July 1, 2019, 6.75% grading to 4.00% over 15 years
Rate of pharmacy inflation	Measurement dates: July 1, 2020 7.50% grading to 3.12% over 19 years and July 1, 2019, 8.5% grading to 4.00% over 15 years
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs
Mortality table	RP-2014 Fully Generational Mortality Table, using mortality improvement based on projection scale MP-2014 (Same Mortality table as prior year)
No experience study was made during the year.	
The discount rate is based on high-quality AA/Aa or higher bond yields for 20-year tax-exempt general obligation municipal bonds using the Bond Buyer 20-Bond GO index. (Unchanged from prior year)	

Changes of assumptions and other inputs reflect a change in the discount rate from 3.50% to 2.21%.

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Notes to Financial Statements

June 30, 2021 and 2020

**(b) Changes in Total OPEB Liability**

Balance at June 30, 2019, rolled forward to 6/30/2020	\$ <u>33,393,000</u>
Changes for the year:	
Service cost	\$ 2,228,000
Interest	1,231,000
Change of benefits	(4,372,000)
Difference between expected and actual experience	(1,225,000)
Change of assumptions	4,154,000
Contributions - employer	—
Contributions - member	—
Net investment income	—
Benefit payments	(906,000)
Administrative expense/rounding	—
Net changes	<u>1,110,000</u>
Balance at June 30, 2020, rolled forward to 6/30/2021	\$ <u><u>34,503,000</u></u>
Balance at June 30, 2018, rolled forward to 6/30/2019	\$ <u>30,977,561</u>
Changes for the year:	
Service cost	\$ 1,924,000
Interest	1,257,000
Change of benefits	—
Difference between expected and actual experience	(1,375,000)
Change of assumptions	1,435,000
Contributions - employer	—
Contributions - member	—
Net investment income	—
Benefit payments	(826,000)
Administrative expense/rounding	439
Net changes	<u>2,415,439</u>
Balance at June 30, 2019, rolled forward to 6/30/2020	\$ <u><u>33,393,000</u></u>



**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2021 and 2020

**(c) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents UAMS' total OPEB liability, using the discount rate of 2.21% for fiscal year 2021 and 3.50% for fiscal year 2020, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<b>Sensitivity of Discount Rate, as of June 30, 2021</b>			
	<b>1% Decrease (1.21%)</b>	<b>Discount rate (2.21%)</b>	<b>1% Increase (3.21%)</b>
Total OPEB liability	\$ 37,879,000	\$ 34,503,000	\$ 31,495,000

  

<b>Sensitivity of Discount Rate, as of June 30, 2020</b>			
	<b>1% Decrease (2.50%)</b>	<b>Discount rate (3.50%)</b>	<b>1% Increase (4.50%)</b>
Total OPEB liability	\$ 37,832,000	\$ 33,393,000	\$ 29,732,000

**(d) Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates**

The following presents UAMS' total OPEB liability as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point higher, as well as what total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower than the current rate:

<b>Sensitivity to Changes in the Healthcare Cost Trend Rate, as of June 30, 2021</b>			
	<b>1% Decrease</b>	<b>Healthcare Trend</b>	<b>1% Increase</b>
Total OPEB liability	\$ 31,135,000	\$ 34,503,000	\$ 38,453,000

  

<b>Sensitivity to Changes in the Healthcare Cost Trend Rate, as of June 30, 2020</b>			
	<b>1% Decrease</b>	<b>Healthcare Trend</b>	<b>1% Increase</b>
Total OPEB liability	\$ 30,644,000	\$ 33,393,000	\$ 36,603,000

**(e) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the years ended June 30, 2021 and 2020, respectively, UAMS recognized OPEB expense of \$1,589,000 (credit) and \$1,919,000.

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Notes to Financial Statements

June 30, 2021 and 2020

At June 30, 2021, UAMS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ —	\$ 2,849,000
Changes of assumptions	4,386,000	1,982,000
UAMS benefits paid subsequent to the measurement date	1,008,000	—
	<b>\$ 5,394,000</b>	<b>\$ 4,831,000</b>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in the financial statements as follows:

Year ending June 30:	
2022	\$ (676,000)
2023	(678,000)
2024	314,000
2025	595,000
2026	—
Thereafter	—

At June 30, 2020, UAMS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ —	\$ 2,416,000
Changes of assumptions	1,338,000	2,972,000
UAMS benefits paid subsequent to the measurement date	906,000	—
	<b>\$ 2,244,000</b>	<b>\$ 5,388,000</b>

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in the financial statements as follows:

Year ending June 30:	
2021	\$ (1,262,000)
2022	(1,262,000)
2023	(1,264,000)
2024	(272,000)
2025	10,000
Thereafter	—

**(13) Affiliated Entities**

The UA Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. It was established to benefit the UA System, or its students, faculty, and staff. The Board of Directors of the UA Foundation includes four members who are also members, or former members, of the UA Board. Support by the UA Foundation on behalf of UAMS was \$11,323,000 and \$12,231,000 for the years ended June 30, 2021 and 2020, respectively. These amounts are included in Gifts and Capital gifts in the financial statements.

Based on unaudited information provided by the UA Foundation, during the years ended June 30, 2021 and 2020, revenue of \$136,802,000 and \$22,025,000, respectively, was received by the UA Foundation for the benefit of UAMS.

**(14) Related-Party Transactions**

Notes receivable from related parties at June 30, 2021 are as follows:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
University of Arkansas at Fayetteville	\$ 593	\$ 622
Arkansas State Hospital	978	1,566
University of Arkansas System (eVersity)	<u>1,307</u>	<u>1,307</u>
Total included in notes and student loans receivable (note 6)	<u>\$ 2,878</u>	<u>\$ 3,495</u>

Notes payable to related parties at June 30, 2021 are as follows:

	<u>2021</u>	<u>2020</u>
	(In thousands)	
University of Arkansas System (Workday)	<u>\$ 12,446</u>	<u>\$ 8,325</u>

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

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In addition to the above transactions, UAMS conducts various activities with UA System campuses and the State of Arkansas. These activities take place in the normal course of business and are on an arm's length basis.

### **(15) Contingencies**

Amounts received and expended by UAMS under various federal and state programs are subject to audit by governmental agencies. Management believes that adjustments, if any, which might result from such audits would not have a significant impact on the financial position of UAMS. Immunity provisions in Arkansas law prohibit suits naming the UA Board or UAMS as a defendant in Arkansas State courts. Employees of UAMS acting in good faith in the course and scope of their employment may be sued in state courts but only to the extent of maintained insurance coverage. UAMS maintains malpractice insurance for certain employees under a claims-made policy. Premiums are accrued based on estimated claims, with the final premium amount determined based on actual claims experience. The cost of this policy is included in supplies and other expenses. During each of the years ended June 30, 2021 and 2020, UAMS incurred costs of \$4,258,000 and \$3,585,000, respectively, for this insurance. A party may bring an action against UAMS through the Arkansas State Claims Commission (the Claims Commission). The Claims Commission may award a claim of up to \$15,000 without further review or appropriation. Awards that the Claims Commission approves in excess of \$15,000 must be approved and appropriated by the Arkansas State Legislature. Appropriations of this type, if any, reduce appropriations from the state to UAMS in the period in which the claim is appropriated.

UAMS is involved in litigation and regulatory investigations arising in the normal course of business. Management and counsel believe that these matters will be resolved without material adverse effect on UAMS' financial statements.

UAMS employees and their eligible dependents may participate in the UA System-sponsored self-funded health plan, which is administered by third parties who are responsible for the processing of claims and administration of cost containment. The monthly premiums are established by the UA System at a level sufficient to cover claims expected in the plan. UAMS and the employees share the cost of the monthly insurance premium with the total premium and the portion paid by UAMS varying depending on the insurance coverage chosen by the employee. The employee's portion and UAMS' portion of the premium are remitted the following month to the UA System with UAMS recognizing as expense its portion of the premiums in the month to which it relates.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

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In fiscal year 2006, the Arkansas Development Finance Authority (the Authority) issued \$36,775,000 in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the UA Board to fund an expansion to the Arkansas Cancer Research Center, now known as the Winthrop P. Rockefeller Cancer Institute. The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for \$22,158,000 of serial bonds and beginning in 2036 through 2046 for \$14,617,000 of term bonds.

Funds received from the Arkansas Tobacco Settlement Funds Act of 2000 are pledged for debt service (Debt Service Revenues) and are the primary source of payment for the bonds. In accordance with a loan agreement dated June 1, 2006 between the UA Board and the Authority, the UA Board will be required to make debt service payments on the Series 2006 Bond issue in the event of a shortfall in tobacco settlement revenues. However, no such payments will be made unless the Debt Service Revenues are insufficient to make such payments. Management believes the Debt Service Revenues will be sufficient to service the entire principal and interest due. *The Global Insights USA, Inc.* report, prepared in August 2006, on the *Forecast of U.S. Cigarette Consumption (2004–2046)* indicates that tobacco consumption in 2046 is expected to decline by 54% from the 2003 level. For fiscal year 2003, Arkansas received \$60,067,000 from the Tobacco Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately \$27,600,000 in 2046 with the first \$5,000,000 dedicated to pay the debt service on the above bond issue.

If Debt Service Revenues had been considered insufficient at June 30, 2021, UAMS would have incurred a liability of \$76,888,000 related to the issue. This amount includes drawdown of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

The revenues pledged by UAMS to secure the loan agreement consist of inpatient service fees and fees collected from other ancillary, therapeutic, and diagnostic services provided within the walls of the Hospital but exclude (a) physician-generated revenues, (b) State appropriations, and (c) revenues restricted for other purposes.

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June 30, 2021 and 2020

**(16) Functional Classification of Expenses**

For financial reporting purposes, UAMS classifies its operating expenses by their natural classification. The tables below summarize these expenses by their functional classification:

	<b>Year ended June 30, 2021</b>				
	<u>Compensation and benefits</u>	<u>Supplies and other services</u>	<u>Scholarships and fellowships</u>	<u>Depreciation and amortization</u>	<u>Total</u>
	(In thousands)				
Patient care	\$ 757,203	\$ 453,506	\$ —	\$ —	\$ 1,210,709
Instruction	106,930	12,226	—	—	119,156
Research	99,618	56,789	—	—	156,407
Public services	21,376	8,802	—	—	30,178
Academic support	30,453	2,946	—	—	33,399
Student services	1,466	2,213	—	—	3,679
Institutional support	123,018	29,815	—	—	152,833
Operation and maintenance of plant	48,145	24,984	—	—	73,129
Scholarships and awards	—	—	1,362	—	1,362
Auxiliary	1,287	1,168	—	—	2,455
Depreciation and amortization	—	—	—	65,598	65,598
Other	699	1,701	—	—	2,400
	<u>\$ 1,190,195</u>	<u>\$ 594,150</u>	<u>\$ 1,362</u>	<u>\$ 65,598</u>	<u>\$ 1,851,305</u>

	<b>Year ended June 30, 2020</b>				
	<u>Compensation and benefits</u>	<u>Supplies and other services</u>	<u>Scholarships and fellowships</u>	<u>Depreciation and amortization</u>	<u>Total</u>
	(In thousands)				
Patient care	\$ 701,218	\$ 392,825	\$ —	\$ —	\$ 1,094,043
Instruction	105,244	9,834	—	—	115,078
Research	85,589	47,191	—	—	132,780
Public services	22,466	11,082	—	—	33,548
Academic support	29,756	8,507	—	—	38,263
Student services	1,382	2,240	—	—	3,622
Institutional support	112,736	31,273	—	—	144,009
Operation and maintenance of plant	38,521	13,390	—	—	51,911
Scholarships and awards	—	—	1,485	—	1,485
Auxiliary	1,215	1,248	—	—	2,463
Depreciation and amortization	—	—	—	67,184	67,184
Other	5,191	13,326	—	—	18,517
	<u>\$ 1,103,318</u>	<u>\$ 530,916</u>	<u>\$ 1,485</u>	<u>\$ 67,184</u>	<u>\$ 1,702,903</u>

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Required Supplementary Information (Unaudited)

June 30, 2021 and 2020

**Retirement Benefits**

**(a) Arkansas Teacher Retirement System**

**Actuarial Assumptions**

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Wage inflation	2.75%
Salary increases	2.75-7.75%
Investment rate of return	7.50% compounded annually
Postretirement cost-of-living increases	3% simple
Mortality table	Based on RP-2014 Mortality Table for males and females using Projection Scale MP-2017 from 2006 (94% for males and 84% for females)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition, last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2010–June 30, 2015

**Schedule of UAMS' Proportional Share of the Net Pension Liability  
Arkansas Teacher Retirement System**

<b>Fiscal Ending June 30</b>	<b>UAMS Proportion of Net Pension Liability</b>	<b>UAMS Proportionate Share of Net Pension Liability</b>	<b>UAMS Covered Payroll</b>	<b>UAMS Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll</b>	<b>Plan Net Position as a Percentage of Total Pension Liability</b>
2017(a)	0.0102 % \$	450,267 \$	247,312	182.06 %	76.75 %
2018(b)	0.0083 %	350,770	173,286	202.42 %	79.48 %
2019(c)	0.0058 %	209,653	107,058	195.83 %	82.78 %
2020(d)	0.0035 %	145,151	104,845	138.44 %	80.96 %
2021(e)	0.0033 %	189,535	80,236	236.22 %	74.91 %

- (a) The amounts presented were determined as of June 30, 2016, rolled forward to June 30, 2017.
- (b) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.
- (c) The amounts presented were determined as of June 30, 2018, rolled forward to June 30, 2019.
- (d) The amounts presented were determined as of June 30, 2019, rolled forward to June 30, 2020.
- (e) The amounts presented were determined as of June 30, 2020, rolled forward to June 30, 2021.

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June 30, 2021 and 2020

**Schedule of UAMS' Contributions  
Arkansas Teacher Retirement System**

<b>Fiscal Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>UAMS Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
2017	\$ 34,624	\$ (34,624)	\$ —	\$ 247,312	14.00 %
2018	24,260	(24,260)	—	173,286	14.00 %
2019	14,988	(14,988)	—	107,058	14.00 %
2020	14,940	(14,940)	—	104,845	14.25 %
2021	11,634	(11,634)	—	80,236	14.50 %

**Schedule of Changes In Net Pension Liability  
Arkansas Teacher Retirement System**

<b>Total Pension Liability</b>											
<b>Fiscal Year</b>	<b>Service Cost</b>	<b>Interest on Total Pension Liability</b>	<b>Changes of Benefit Items</b>	<b>Difference between Expected and Actual Experience</b>	<b>Changes of Assumptions</b>	<b>Benefit Payments, including Refunds</b>	<b>Net Changes in Total Pension Liability</b>	<b>Total Pension Liability, Beginning of Year</b>	<b>Total Pension Liability, End of Year</b>		
2017	\$ 3,119	\$ 146,244	\$ —	\$ (1,565)	\$ —	\$ (106,703)	\$ 41,095	\$ 1,757,712	\$ 1,798,807		
2018	25,682	123,972	(39,151)	(6,409)	114,726	(92,103)	126,717	1,582,858	1,709,575		
2019	18,197	86,681	—	(424)	—	(67,415)	37,039	1,180,352	1,217,391		
2020	11,325	53,988	—	4,156	—	(42,279)	27,190	735,316	762,506		
2021	11,084	53,853	—	(833)	—	(42,343)	21,761	733,680	755,441		

<b>Net Pension Liability</b>											
<b>Fiscal Year</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>	<b>Net Investment Income</b>	<b>Benefit Payments, including Refunds</b>	<b>Pension Plan Expense</b>	<b>Net Changes in Plan Fiduciary Net Position</b>	<b>Plan Fiduciary Net Position, Beginning of Year</b>	<b>Plan Fiduciary Net Position, End of Year</b>	<b>Net Pension Liability</b>		
2017	\$ 34,624	\$ 7,861	\$ 4,264	\$ (106,703)	\$ (822)	\$ (60,776)	\$ 1,437,316	\$ 1,376,540	\$ 450,267		
2018	34,624	11,107	191,062	(92,103)	(653)	144,037	1,214,768	1,358,805	350,770		
2019	24,456	7,995	105,086	(67,415)	(538)	69,584	938,154	1,007,738	209,653		
2020	14,993	4,937	31,261	(42,279)	(248)	8,664	608,691	617,355	145,151		
2021	14,940	5,126	(5,550)	(42,343)	(283)	(28,110)	594,016	565,906	189,535		

Per the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which UAMS implemented in fiscal year 2015, this schedule will continue to add future fiscal years to report the required most recent 10 years of plan data, starting with the implementation year.



**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Required Supplementary Information (Unaudited)

June 30, 2021 and 2020

**(b) Arkansas Public Employees Retirement System**

**Actuarial Assumptions**

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Investment rate of return	7.15%
Salary increases	3.25% – 9.85%
Wage inflation	3.25%
Postretirement cost-of-living increases	3.00% annual compounded increase
Mortality table	Based on RP-2006 Combined Healthy mortality table projected to 2020 using Projection Scale MP-2017
Average remaining service life of all members	4.0486

**Schedule of UAMS' Proportional Share of the Net Pension Liability  
Arkansas Public Employees Retirement System**

Fiscal Year Ending June 30	UAMS Proportion of Net Pension Liability	UAMS Proportionate Share of Net Pension Liability	UAMS Covered Payroll	UAMS	
				Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Net Position as a Percentage of Total Pension Liability
2017(a)	0.5671 %	\$ 13,560,583	\$ 11,016,761	123.09 %	75.50 %
2018(b)	0.6177 %	15,963,746	9,954,115	160.37 %	75.65 %
2019(c)	0.5313 %	11,720,586	9,663,708	121.28 %	79.59 %
2020(d)	0.4269 %	10,298,361	7,599,668	135.51 %	78.55 %
2021(e)	0.3132 %	8,969,190	6,566,642	136.59 %	75.38 %

- (a) The amounts presented were determined as of June 30, 2016, rolled forward to June 30, 2017.
- (b) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.
- (c) The amounts presented were determined as of June 30, 2018, rolled forward to June 30, 2019.
- (d) The amounts presented were determined as of June 30, 2019, rolled forward to June 30, 2020.
- (e) The amounts presented were determined as of June 30, 2020, rolled forward to June 30, 2021.

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Required Supplementary Information (Unaudited)

June 30, 2021 and 2020

**Schedule of UAMS' Contributions  
Arkansas Public Employees Retirement System**

<b>Fiscal Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>UAMS Covered Payroll</b>	<b>Contributions as a Percentage of Covered Payroll</b>
2017	\$ 1,597,426	\$ (1,597,426)	\$ —	\$ 11,016,761	14.50 %
2018	1,468,232	(1,468,232)	—	9,954,115	14.75 %
2019	1,480,805	(1,480,805)	—	9,663,708	15.32 %
2020	1,145,471	(1,145,471)	—	7,599,668	15.07 %
2021	1,000,526	(1,000,526)	—	6,566,642	15.23 %

**Schedule of Changes In Net Position Liability  
Arkansas Public Employees Retirement System**

**Total Pension Liability**

<b>Fiscal Year</b>	<b>Service Cost</b>	<b>Interest on Total Pension Liability</b>	<b>Changes of Benefit Items</b>	<b>Difference between Expected and Actual Experience</b>	<b>Assumption Changes</b>	<b>Benefit Payments, including Refunds</b>	<b>Net Changes- Total Pension Liability</b>	<b>Total Pension Liability, Beginning of Year</b>	<b>Total Pension Liability, End of Year</b>
2017	\$ 959,039	\$ 3,925,528	\$ —	\$ 16,517	\$ —	\$ (2,802,075)	\$ 2,099,009	\$ 43,128,201	\$ 45,227,210
2018	1,078,999	4,442,513	—	388,257	2,570,780	(3,224,468)	5,256,081	60,306,236	65,562,317
2019	964,653	3,962,835	—	(36,983)	(956,897)	(2,893,548)	1,040,060	56,388,715	57,428,775
2020	809,208	3,240,642	(269)	256,520	—	(2,439,957)	1,866,144	46,139,039	48,005,183
2021	621,471	2,473,164	—	6,289	—	(1,889,598)	1,211,326	35,223,763	36,435,089

**Net Pension Liability**

<b>Fiscal Year</b>	<b>Employer Contributions</b>	<b>Employee Contributions</b>	<b>Net Investment Income</b>	<b>Benefit Payments, including Refunds</b>	<b>Pension Plan Expense</b>	<b>Other</b>	<b>Net Changes in Plan Fiduciary Net Position</b>	<b>Plan Fiduciary Net Position, Beginning of Year</b>	<b>Plan Fiduciary Net Position, End of Year</b>	<b>Net Pension Liability</b>
2017	\$ 1,597,426	\$ 423,792	\$ (1,943,715)	\$ (2,802,075)	\$ (39,295)	\$ 37,398	\$ (2,726,469)	\$ 34,393,096	\$ 31,666,627	\$ 13,560,583
2018	1,614,416	356,517	5,330,173	(3,224,468)	(58,662)	47,114	4,065,090	45,533,481	49,598,571	15,963,746
2019	1,467,945	337,020	4,156,663	(2,893,548)	(61,087)	42,550	3,049,543	42,658,646	45,708,189	11,720,586
2020	1,250,523	286,949	1,923,020	(2,439,957)	(62,919)	26,641	984,257	36,722,565	37,706,822	10,298,361
2021	936,264	222,144	546,754	(1,889,598)	(36,589)	19,574	(201,451)	27,667,350	27,465,899	8,969,190

Per the requirements of GASB Statement No. 68, which UAMS implemented in fiscal year 2015, this schedule will continue to add future fiscal years to report the required most recent 10 years of plan data, starting with the implementation year.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Required Supplementary Information (Unaudited)

June 30, 2021 and 2020

**Changes in Assumptions**

There were no benefit changes during the year. Economic assumptions in the June 30, 2020 valuation included a 7.15% investment return assumption. The investment return assumption for the prior year was 7.50%.

**(c) Postemployment benefits other than pensions**

**Actuarial Assumptions**

University self-funded plan:

Valuation date	July 1, 2020 valuation for the fiscal year ended June 30, 2021
Valuation year	Census data was collected as of February 2021. Liabilities were measured as of July 1, 2020 valuation date.
Actuarial cost method	Entry Age Normal as of July 1, 2020 measurement date
Discount rate	2.21% as of July 1, 2020, compared to 3.50% as of July 1, 2019
Projected payroll growth rate	4.00%
Percent of retirees electing coverage	55.00% medical and 75.00% life
Rate of medical inflation	Measurement dates: July 1, 2020 6.50% grading to 3.12% over 19 years and July 1, 2019, 6.75% grading to 4.00% over 15 years
Rate of pharmacy inflation	Measurement dates: July 1, 2020 7.50% grading to 3.12% over 19 years and July 1, 2019, 8.50% grading to 4.00% over 15 years
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs
Mortality table	RP-2014 Fully Generational Mortality Table, using mortality improvement based on projection scale MP-2014 (same as prior year)

No experience study was made during the year.

The discount rate is based on high-quality AA/Aa or higher bond yields for 20-year tax-exempt general obligation municipal bonds using the Bond Buyer 20-Bond GO index.

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Changes of assumptions and other inputs reflect a change in the discount rate from 3.50% to 2.21%. Also, the rate of pharmacy inflation was changed to 7.50% grading to 3.12% over 19 years from 8.50% grading to 4.00% over 15 years.

Schedule of Changes In Net Position Liability  
Arkansas Public Employees Retirement System

**CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
Year Ended June 30, 2021

<u>Fiscal Year</u>	<u>Service Cost</u>	<u>Interest on Total Pension Liability</u>	<u>Changes of Benefit</u>	<u>Difference between Expected and Actual Experience</u>	<u>Assumption Changes</u>	<u>Benefit Payments, including Refunds</u>	<u>Net Changes- Total Pension Liability</u>	<u>Total Pension Liability, Beginning of Year</u>	<u>Total Pension Liability, End of Year</u>
2018	\$ 2,234,061	\$ 1,013,709	\$ —	\$ —	\$ (5,942,336)	\$ (714,070)	\$ (3,408,636)	\$ 33,689,190	\$ 30,280,554
2019	1,949,956	1,141,397	—	(1,906,297)	213,960	(702,009)	697,007	30,280,554	30,977,561
2020	1,924,000	1,257,000	—	(1,375,000)	1,435,000	(826,000)	2,415,000	30,977,561	33,392,561
2021	2,228,000	1,231,000	(4,372,000)	(1,225,000)	4,154,000	(906,000)	1,110,000	33,393,000	34,503,000

**CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
Year Ended June 30, 2021

<u>Fiscal Year</u>	<u>Covered-employee payroll</u>	<u>Total OPEB liability as a percentage of covered employee</u>
2018	\$ 798,978,000	3.79 %
2019	782,000,000	3.96 %
2020	793,212,000	4.21 %
2021	807,816,000	4.27 %

Note: This is a 10-year schedule. Years after fiscal year 2021 are to be added as they become available.