

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

June 30, 2020 and 2019

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KPMG LLP  
Suite 1400  
2323 Ross Avenue  
Dallas, TX 75201-2721

## 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, 2020 and 2019, 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, 2020 and 2019, and the respective changes in financial position, and where applicable, 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, where applicable, 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, 2020 and 2019, 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 5, 2020 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 5, 2020

Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and June 30, 2019

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, 2020 and 2019. 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 3,602 and faculty numbering 1,438
- The UAMS Medical Center, a tertiary care referral center with 532 acute care beds at June 30, 2020
- Regional programs, including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) 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.

Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and June 30, 2019

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, 2020 and 2019, with comparative information for the fiscal year ended June 30, 2018.

**Financial Highlights**

UAMS' net position decreased in fiscal year 2020 by \$15,735,000 with assets of \$1,561,211,000 and deferred outflows of resources of \$9,008,000 and liabilities of \$817,330,000 and deferred inflows of resources of \$11,436,000. 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 \$741,453,000 at June 30, 2020. 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, 2020, 2019, and 2018 as follows:

	<b>2020</b>	<b>2019</b>	<b>2018</b>
	(In thousands)		
Operating revenues	\$ 1,584,236	\$ 1,625,095	\$ 1,521,503
Operating expenses	(1,702,903)	(1,621,710)	(1,600,792)
Nonoperating revenues (net)	95,575	30,305	58,859
Other changes in net position	7,357	6,163	4,867
Increase (decrease) in net position	\$ (15,735)	\$ 39,853	\$ (15,563)

**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, investment in capital assets, net of related debt, 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 and/or external entities that have placed time or

Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and June 30, 2019

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>2020</u>	<u>June 30</u> <u>2019</u> (In thousands)	<u>2018</u>
Assets:			
Current assets	\$ 603,739	\$ 486,914	\$ 420,039
Noncurrent assets:			
Investments	61,377	63,942	63,693
Capital assets, net	745,267	738,084	745,618
Other	150,828	17,405	33,531
Total assets	<u>1,561,211</u>	<u>1,306,345</u>	<u>1,262,881</u>
Deferred outflows of resources	<u>9,008</u>	<u>9,761</u>	<u>12,438</u>
Liabilities:			
Current liabilities	289,076	191,037	174,579
Noncurrent liabilities	528,254	356,645	375,127
Total liabilities	<u>817,330</u>	<u>547,682</u>	<u>549,706</u>
Deferred inflows of resources	<u>11,436</u>	<u>11,236</u>	<u>8,278</u>
Net position:			
Net investment in capital assets	442,541	462,802	464,948
Restricted:			
Expendable	66,115	80,057	143,298
Nonexpendable	36,856	36,428	36,053
Unrestricted	195,941	177,901	73,036
Total net position	<u>\$ 741,453</u>	<u>\$ 757,188</u>	<u>\$ 717,335</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

## Management's Discussion and Analysis (Unaudited)

June 30, 2020 and June 30, 2019

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 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.

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.

## Management's Discussion and Analysis (Unaudited)

June 30, 2020 and June 30, 2019

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.

### **Fiscal Year 2019**

UAMS' total assets increased by \$43,464,000 in fiscal 2019. A review of the Statements of Net Position reveals that this net increase consisted of increases in cash and cash equivalents of \$39,771,000, investments of \$24,545,000, patient accounts receivable of \$2,219,000, non-patient accounts receivable of \$1,235,000, prepaid expenses of \$421,000, while decreases occurred in supplies of \$858,000, notes and student loans receivable of \$1,456,000, deposits and funds held in trust by others of \$14,879,000 and net capital assets of \$7,534,000.

Current assets increased by \$66,875,000 in fiscal 2019. This net increase came from increases in short-term investments of \$24,296,000, cash and cash equivalents, patient and non-patient accounts receivable and prepaid expenses of the amounts noted above, while decreases occurred in supplies of the amount noted above and the current portion of notes and student loans receivable of \$209,000. The increase in short-term investments was due to management's decision in 2019 to move excess operating cash from long-term investments to short-term investments until the cash is needed for operations.

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Noncurrent assets decreased by \$23,411,000 in fiscal 2019. This net decrease resulted from decreases in long-term notes and student loans receivable of \$1,247,000, and deposits and funds held in trust by others and net capital assets of the amount noted above, while an increase occurred in long term investments of \$249,000. The decrease in noncurrent deposits and funds held in trust by others resulted primarily from equipment financing obtained in June 2018. These funds were drawn during fiscal 2019 as the equipment was installed. The decrease in net capital assets primarily consisted of net asset additions totaling \$60,998,000 less net depreciation and amortization of \$66,917,000.

Deferred outflows of resources decreased by \$2,677,000 in fiscal 2019. 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 outflow related to pension liabilities decreased by \$2,687,000. Deferred outflows related to the loss on refunding of bonds decreased in fiscal year 2019 by \$292,000 from the amortization for the year.

Total liabilities decreased by \$2,024,000 in fiscal 2019. This net decrease consisted of decreases in unearned income of \$4,663,000, funds held in trust for others of \$43,000, bonds, notes, and capital leases of \$20,253,000, liabilities for pensions of \$4,385,000, and early retirement agreements of \$439,000, while increases occurred in accounts payable and accrued liabilities of \$25,150,000, estimated third-party payor settlements of \$1,695,000, liability for postemployment benefits other than pensions of \$698,000, and compensated absences payable of \$136,000.

Current liabilities increased by \$16,458,000 in fiscal 2019. This net increase came from decreases in unearned income of the amounts noted above, the short term portion of early retirement agreements of \$180,000 and the current portion of bonds, notes and capital leases of \$6,584,000, 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 current portions of compensated absences payable of \$873,000 and postemployment benefits other than pensions of \$124,000.

Noncurrent liabilities decreased by \$18,479,000 in fiscal 2019. This net decrease was due to decreases in the noncurrent portion of bonds, notes, and capital leases payable of \$13,669,000 and the liability for the noncurrent portion of compensated absences payable of \$737,000, the net pension liability of the amount noted above, and the noncurrent portion of early retirement agreements of \$259,000, while increases occurred in the noncurrent portion of the liability for postemployment benefits other than pensions of \$574,000. The decrease in the noncurrent portion of bonds, notes, and capital leases payable was primarily due to the reduction of the noncurrent portion of debt via regular debt service payments.

Deferred inflows of resources increased by \$2,958,000 in fiscal 2019. UAMS' deferred inflows related to pensions increased by \$2,276,000, deferred inflows related to postemployment benefits other than pensions increased by \$598,000 and there was an increase of \$84,000 in irrevocable split interest agreements.

Management's Discussion and Analysis (Unaudited)  
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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>2020</b>	<b>2019</b>	<b>2018</b>
	(In thousands)		
<b>Operating revenues:</b>			
Student tuition and fees, net of scholarship allowances	\$ 48,268	\$ 48,592	\$ 48,034
Net patient services	1,215,037	1,301,036	1,231,064
Meaningful use	85	187	193
Sponsored programs	145,445	133,587	123,855
Other	175,401	141,693	118,357
Total operating revenues	<u>1,584,236</u>	<u>1,625,095</u>	<u>1,521,503</u>
<b>Operating expenses:</b>			
Compensation and benefits	1,103,318	1,044,749	1,044,269
Supplies and other services	530,916	508,403	490,499
Scholarships and fellowships	1,485	1,641	824
Depreciation and amortization	67,184	66,917	65,200
Total operating expenses	<u>1,702,903</u>	<u>1,621,710</u>	<u>1,600,792</u>
Operating income (loss)	<u>(118,667)</u>	<u>3,385</u>	<u>(79,289)</u>
<b>Nonoperating revenues (expenses):</b>			
State appropriations, net	65,596	14,896	33,275
CARES Act	28,355	—	—
Gifts	13,903	19,840	19,908
Investment gain (loss), net of expense	7,349	6,522	16,120
Other	(19,628)	(10,953)	(10,444)
Total nonoperating revenues, net	<u>95,575</u>	<u>30,305</u>	<u>58,859</u>
Income (loss) before other changes in net assets	<u>(23,092)</u>	<u>33,690</u>	<u>(20,430)</u>

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	<b>Years ended June 30</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	(In thousands)		
Other changes in net position:			
Capital gifts and appropriations	\$ 7,411	6,163	4,669
Interagency disposition	(54)	—	198
Total other changes in net position	<u>7,357</u>	<u>6,163</u>	<u>4,867</u>
Increase (decrease) in net position	(15,735)	39,853	(15,563)
Net position:			
Beginning of year	<u>757,188</u>	<u>717,335</u>	<u>732,898</u>
End of year	<u>\$ 741,453</u>	<u>\$ 757,188</u>	<u>\$ 717,335</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 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%.

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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

**Fiscal Year 2019**

The Statements of Revenues, Expenses, and Changes in Net Position reflect income before other changes in net position of \$33,690,000 and an increase of \$39,853,000 in net position for fiscal year 2019. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$69,972,000, or 5.68%. The increase in net patient service revenue is due primarily to an increase in both inpatient and outpatient volumes as well as one-time supplemental payments including disproportionate share hospital (DSH), upper payment limit (UPL), and cost report settlements.

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 \$9,732,000, or 7.86%. This increase was mainly due to an increase in federal grants and contracts of \$7,268,000, or 9.32%. Nonfederal grants and contracts increased by \$2,464,000, or 5.37%. Net student tuition and fees increased \$558,000, or 1.16%, due to tuition rate increases and higher enrollment. Other operating revenues increased by \$22,207,000, or 30.72%, mainly resulting from increased specialty and retail pharmacy activity. Total operating revenue increased over the prior year by \$103,592,000, or 6.81%.

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The following factors affected operating expenses in 2019:

Operating expenses increased by \$20,918,000, or 1.31%. This increase was primarily caused by supplies and other services expense and scholarships and fellowships. Total supplies and other services increased by \$17,904,000, or 3.65%, largely due to increases in medical supplies, primarily for a higher surgery volume, and drugs and medicines for patient care. Scholarships and fellowships increased by \$817,000 or 99.15%

The following factors affected nonoperating revenue (expense) in 2019:

Nonoperating revenue (expense) decreased by \$28,554,000 or 48.51%. The largest contributor to this change was a decrease in state appropriations, of \$18,379,000, or 55.23%, primarily due to larger than expected Medicaid match payments, which net against gross state appropriation, as described below. Match payments increased by \$14,162,000 and gross state appropriations decreased by \$4,217,000. Additionally, net investments decreased by \$9,598,000, or 59.54%.

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, 2019, 2018, and 2017 was as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(In thousands)		
Gross state appropriations revenue	\$ 108,805	\$ 113,022	\$ 112,001
Less Medicaid match payments	<u>93,909</u>	<u>79,747</u>	<u>80,742</u>
Net state appropriations revenue	<u>\$ 14,896</u>	<u>\$ 33,275</u>	<u>\$ 31,259</u>

## Results of Operations

### *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.

Management's Discussion and Analysis (Unaudited)  
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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.

***Fiscal Year 2019***

In fiscal year 2019, UAMS experienced income before other changes in net position of \$33,690,000 and an increase in net position of \$39,853,000.

Total operating revenues increased, with increases in student tuition and fees of \$558,000, or 1.16%, and net patient service revenue of \$69,972,000, or 5.68%. Additionally, revenue from sponsored programs increased by \$9,732,000, or 7.86%, and Other operating revenue increased by \$22,207,000, or 30.72%.

A 6.81% increase in operating revenue was experienced in fiscal year 2019. UAMS also incurred higher operating expenses during the year, resulting in a net operating gain of \$3,385,000. Supplies and other services increased by \$17,907,000, or 3.65%, largely for medical supplies, primarily for surgeries, and drugs and medicines for both inpatient and outpatient care.

Net investment income recognized in fiscal year 2019 included losses of \$9,598,000, which was a 59.54% decrease from the prior year when a more positive investment market was experienced.

Net state appropriations decreased by \$18,379,000 primarily due to larger than expected Medicaid match payments. As a share of UAMS' revenue, gross state appropriations for fiscal year 2019 decreased to 6.7% from 7.4% in fiscal year 2018.

**Capital Assets and Debt Administration**

***Capital Assets***

At June 30, 2020, UAMS had \$745,267,000 invested in capital assets, net of accumulated depreciation and amortization of \$871,314,000. Depreciation and amortization expense totaled \$67,184,000 for the fiscal year ended June 30, 2020.

UAMS' capital additions totaled \$80,842,000 in fiscal year 2020, including the donation of the Monroe building on the main campus, a capital lease of clinic and office space in Pine Bluff AR, and a Da Vinci robotic surgical system. Major construction projects completed in fiscal year 2020 and the sources that funded their acquisition included:

<b>Project</b>	<b>Amount of additions</b>	<b>Funding source</b>
Renovation of the 2nd floor of the Outpatient Center	\$ 1,833,000	UAMS
Renovation of the NWA CHP Occupational Therapy Facilities	1,176,000	UAMS & Foundation funds

Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and June 30, 2019

Construction in progress at June 30, 2020 totaled \$47,018,000. The largest component of that balance consists of the implementation of a new ERP (Enterprise Resource Planning) system as a part of the new ERP for the University of Arkansas 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 build out of the 3<sup>rd</sup>, 6<sup>th</sup> and 7<sup>th</sup> floors of the WPRCI and construction of a new generator plant.

**Debt Administration**

At June 30, 2020, UAMS had \$441,855,000 in outstanding debt, as shown in the following table:

	<u>Amount outstanding</u> (In thousands)
Obligation:	
Bonds payable	\$ 383,668
Notes payable	23,517
Obligations under capital leases	<u>34,670</u>
Total debt	<u>\$ 441,855</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 2020 down \$15,700,000 in net position, falling short of the balanced budget projected for the period. Through the first eight months of the fiscal year, UAMS experienced an increase in net position of \$22,700,000; however with the onset of COVID-19 in March, financial results took a serious downturn. Operations for the last four months of the fiscal year reflected a \$38,200,000 decrease in net position. While services began reopening in May 2020 and volumes are returning, the future impact of COVID-19 is not yet known. The pandemic is ongoing with an expected second surge projected late in the calendar year.

The fiscal year 2021 budget reflects a projected loss of \$45,600,000. Reduced patient volumes, and the associated revenue related to the impact of COVID-19, were anticipated during the first quarter of FY21 and are the reason for the projected loss. Prior to the pandemic, UAMS had prepared a balanced budget for fiscal year 2021. The financial results for the first two months of fiscal year 2021 have proven to be significantly better than what was expected. Through August, UAMS realized an increase in net position of \$15,000,000. While \$16,300,000 is related to additional distributions from the CARES Act, UAMS would have realized a near break-even change in net position if these funds were excluded versus an estimated loss of \$30,200,000. While the future impact of the pandemic is

Management's Discussion and Analysis (Unaudited)  
June 30, 2020 and June 30, 2019

undetermined at this point; UAMS believes it will be able to exceed its budgeted expectations. During its early response to the pandemic, UAMS deployed a number of cost-reducing measures to mitigate the financial impact to its operations. These measures included a hiring pause and a freeze on discretionary spending. As volumes have returned, both of these measures have been lifted. In the event of a second surge in FY21, those measures would be re-deployed. Further, UAMS continues to focus on its efforts around resource optimization, with projects underway to drive efficiencies in processes that increase revenue and reduce expense.

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, 2020 and 2019

(In thousands)

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 282,935	\$ 146,081
Investments (note 5)	107,313	133,756
Patient accounts receivable (net of allowance for doubtful accounts of \$300,555 in 2020 and \$323,478 in 2019, note 2)	121,748	133,151
Nonpatient accounts receivable (net of allowances of \$1,969 in 2020 and \$2,693 in 2019)	53,580	39,018
Supplies	27,233	23,676
Notes and student loans receivable, net (notes 6 and 14)	2,230	2,148
Prepaid expenses	8,700	9,084
Total current assets	603,739	486,914
Noncurrent assets:		
Investments (note 5)	61,377	63,942
Notes and student loans receivable, net (notes 6 and 14)	10,906	11,186
Deposits and funds held in trust by others (note 4)	139,922	6,219
Capital assets, net (note 7)	745,267	738,084
Total noncurrent assets	957,472	819,431
Total assets	1,561,211	1,306,345
<b>Deferred Outflow of Resources</b>		
Pensions (note 11)	2,496	4,197
Postemployment benefits other than pensions (note 12)	2,244	1,004
Loss on refunding of bonds	4,268	4,560
Total deferred outflows	\$ 9,008	\$ 9,761
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 123,153	\$ 120,115
Unearned revenue	5,255	6,574
Funds held in trust for others	216	543
Estimated third-party payor settlements (note 2)	133,981	36,099
Compensated absences payable, current portion (note 9)	4,230	4,629
Early retirement liability	183	566
Liability for postemployment benefits other than pensions (notes 9 and 12)	906	826
Bonds, notes, and capital leases payable, current portion (notes 9 and 10)	21,152	21,685
Total current liabilities	289,076	191,037
Noncurrent liabilities:		
Deposits	28	25
Compensated absences payable, net of current portion (note 9)	62,681	53,557
Liability for postemployment benefits other than pensions (notes 9 and 12)	32,487	30,152
Federal capital contribution for Perkins Loan Program, pending return as student loans are closed	1,911	1,911
Early retirement liability	—	68
Net pension liability	10,444	11,930
Bonds, notes, and capital leases payable, net of current portion (notes 9 and 10)	420,703	259,002
Total noncurrent liabilities	528,254	356,645
Total liabilities	817,330	547,682
Commitments and contingencies (notes 10 and 15)		
<b>Deferred Inflows of Resources</b>		
Pensions (note 11)	3,262	2,685
Postemployment benefits other than pensions (note 12)	5,388	5,550
Irrevocable split-interest agreements	2,786	3,001
	11,436	11,236
<b>Net Position</b>		
Net investment in capital assets	442,541	462,802
Restricted:		
Expendable:		
Scholarships	28,895	32,192
Research	13,621	12,425
Capital projects	23,254	35,109
Other	345	331
Nonexpendable:		
Endowments	36,462	36,034
Scholarships, fellowships, and student loans	394	394
Unrestricted	195,941	177,901
Total net position	\$ 741,453	\$ 757,188

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, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Revenues:		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$4,085 in 2020 and \$3,399 in 2019)	\$ 48,268	\$ 48,592
Net patient services (note 2)	1,215,037	1,301,036
Meaningful use revenue	85	187
Sponsored programs:		
Federal grants and contracts	94,724	85,217
Nonfederal grants and contracts	50,721	48,370
Sales and services of educational departments	36,728	36,043
Auxiliary enterprises:		
Housing and food service	7,774	8,427
Other auxiliary enterprises	2,660	2,852
Other operating revenue	128,239	94,371
Total operating revenues	<u>1,584,236</u>	<u>1,625,095</u>
Expenses:		
Operating expenses (note 16):		
Compensation and benefits	1,103,318	1,044,749
Supplies and other services	530,916	508,403
Scholarships and fellowships	1,485	1,641
Depreciation and amortization (note 7)	67,184	66,917
Total operating expenses	<u>1,702,903</u>	<u>1,621,710</u>
Operating (loss)/revenues	<u>(118,667)</u>	<u>3,385</u>
Nonoperating revenues (expenses):		
State appropriations, net (note 3)	65,596	14,896
CARES Act	28,355	—
Gifts	13,903	19,840
Investment income, net of investment expense (notes 4 and 5)	7,349	6,522
Interest on debt	(13,353)	(10,425)
(Loss) on disposal of capital assets	(6,275)	(528)
Total nonoperating revenues, net	<u>95,575</u>	<u>30,305</u>
(Loss)/revenues before other changes in net position	<u>(23,092)</u>	<u>33,690</u>
Other changes in net position:		
Capital gifts	7,411	6,163
Other	(54)	—
Total other changes in net position	<u>7,357</u>	<u>6,163</u>
(Decrease)/increase in net position	<u>(15,735)</u>	<u>39,853</u>
Net position:		
Beginning of year	757,188	717,335
End of year	<u>\$ 741,453</u>	<u>\$ 757,188</u>

See accompanying notes to financial statements.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Tuition and fees (net of scholarships)	\$ 45,517	\$ 48,944
Patient and insurance payments	1,334,067	1,351,214
Sponsored programs	143,467	126,438
Collection of student loans and interest	2,828	2,457
Auxiliary enterprise revenue:		
Housing and food service	7,815	8,434
Other auxiliary enterprises	2,781	3,008
Other receipts	159,356	134,336
Payments to suppliers	(546,157)	(521,780)
Payments to employees	(900,680)	(846,861)
Payments of employee benefits	(186,110)	(187,276)
Loans issued to students	(3,910)	(2,290)
Scholarships and fellowships	(1,369)	(1,641)
Other payments	(9,324)	(15,852)
Net cash and cash equivalents provided by operating activities	<u>48,281</u>	<u>99,131</u>
Cash flows from noncapital financing activities:		
State appropriations, net	60,172	13,720
Gifts	13,903	19,840
CARES Act	28,493	—
Repayment of loans	737	634
Other agency funds (net)	(328)	42
Net cash and cash equivalents provided by noncapital financing activities	<u>102,977</u>	<u>34,236</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	166,767	2,163
Gifts	7,411	6,163
Proceeds from sale of capital assets	—	86
Purchases of capital assets	(51,560)	(57,401)
Principal paid on capital debt and leases	(27,887)	(31,046)
Interest and paying agent fees paid on debt and capital leases	9,744	(10,500)
Net cash and cash equivalents provided by (used in) capital and related financing activities	<u>104,475</u>	<u>(90,535)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	82,621	149,179
Interest on investments (net of fees)	1,700	1,590
Purchases of investments	(203,200)	(153,830)
Net cash and cash equivalents used in investing activities	<u>(118,879)</u>	<u>(3,061)</u>
Net increase in cash and cash equivalents	136,854	39,771
Cash and cash equivalents:		
Beginning of year	<u>146,081</u>	<u>106,310</u>
End of year	<u>\$ 282,935</u>	<u>\$ 146,081</u>

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Reconciliation of operating (loss) revenues to net cash provided by operating activities:		
Operating (loss) revenues	\$ (118,667)	\$ 3,385
Adjustments to reconcile net operating (loss) revenues to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	67,184	66,917
Changes in assets and liabilities:		
Patient and nonpatient accounts receivable, net	2,270	(2,363)
Supplies	(3,557)	858
Other assets	(154)	400
Deferred outflows	753	2,677
Accounts payable and accrued liabilities	(6,056)	31,050
Unearned revenue	(1,458)	(4,663)
Postemployment benefits other than pensions	2,415	698
Deposits	3	(3)
Compensated absences payable	8,725	136
Other liabilities	96,408	(2,836)
Deferred inflows	415	2,875
Net cash and cash equivalents provided by operating activities	<u>\$ 48,281</u>	<u>\$ 99,131</u>
Noncash transactions:		
Change in capital assets acquired in year-end accounts payable	\$ (6,852)	\$ 6,118
Capital assets acquired by incurring capital lease obligations	22,287	8,628
Capital assets acquired by capital gift	7,411	6,163

See accompanying notes to financial statements.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2020 and 2019

### (1) Summary of Significant Accounting Policies

The University of Arkansas for Medical Sciences (UAMS) is one of the 21 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 has adopted GASB Statement No. 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 requires enterprise funds to adhere to all applicable GASB pronouncements, as well as those statements and interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

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 532 acute care beds at June 30, 2020
- Regional programs, including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state
- The Winthrop P. Rockefeller Cancer Institute
- Harvey and Bernice Jones Eye Institute
- Donald W. Reynolds Institute on Aging

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2020 and 2019

- Psychiatric Research Institute
- Jackson T. Stephens Spine Neurosciences Institute
- Translational Research Institute.
- Institute for Digital Health and Innovation

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 1,67,000 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

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2020 and 2019

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.

**(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, 2020 and 2019

**(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, 2020, deferred outflows resulted from participation in the Arkansas Teacher Retirement System (ATRS) and the Arkansas Public Employees Retirement System (APERS) of \$2,496,000. Deferred outflows of \$2,244,000 resulted from postemployment benefits other than pensions. The balance of \$4,268,000 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 \$183,000 and \$634,000 for the years ended June 30, 2020 and 2019, 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, 2020, deferred inflows of \$3,262,000 resulted from participation in the ATRS and APERS pension systems. Also, deferred inflows of \$5,388,000 related to postemployment benefits other than pensions and deferred inflows of \$2,786,000 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 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

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2020 and 2019

of appropriations used for Medicaid match), nonoperating gifts, grants and bequests, capital contributions, gain on disposal of capital assets, investment income, interest on debt, and additions to endowments. Additionally, in 2020, UAMS earned revenue relating to the CARES Act (provider relief fund).

**(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 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.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2020 and 2019

**(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 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, 2020: (postponed by GASB No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, due to the Covid-19 pandemic)

- Statement No. 84, Fiduciary Activities (postponed by one year)

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- Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61* (postponed by one year)

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

Additionally, the GASB issued the following statements, which become effective for the future fiscal years noted below: *(postponed due to the Covid-19 pandemic)*

*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, 2020 and 2019 are recorded net of an allowance for doubtful accounts of \$300,555,000 and \$323,478,000, respectively.

Net patient services revenue for the year ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>		<u>2019</u>
	(In thousands)		
Gross patient revenue	\$ 3,219,592	\$	3,326,003
Less:			
Patient services contractual allowances	1,956,936		1,968,128
Provision for bad debts	<u>47,619</u>		<u>56,839</u>
Net patient services revenue	<u>\$ 1,215,037</u>	\$	<u>1,301,036</u>

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UAMS provided approximately \$39,954,000 and \$52,706,000 in charity care, based on established rates, during the years ended June 30, 2020 and 2019, 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, 2020 and 2019 includes approximately \$33,945,000 and \$97,368,000, 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, 2020 and June 30 2019 also includes approximately \$38,808,000 and \$41,128,000, respectively, of net revenue from the Supplemental Medicaid program. Parking services for the years ended June 30, 2020 and June 30 2019, valued at \$905,000 and \$1,281,000, respectively, were provided to patients and guests at no additional charge.

The Hospital, Faculty Group Practice (FGP), and AHECs 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, 2020, 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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June 30, 2020 and 2019

As of June 30, 2020, the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2013.

**(b) FGP and AHECs**

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 AHECs 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, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Gross state appropriations revenue	\$ 117,723	\$ 108,805
Less Medicaid match payments	<u>52,127</u>	<u>93,909</u>
Net state appropriations revenue	<u>\$ 65,596</u>	<u>\$ 14,896</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, 2020 and 2019 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, 2020	\$ 282,935	\$	273,736
Cash at June 30, 2019	146,081		151,734

At June 30, 2020 and 2019, cash and cash equivalents are composed of \$1,418,000 and \$1,698,000, respectively, of insured deposits, \$272,318,000, and \$150,036,000, respectively, of securities that are held in custody by the Federal Reserve Bank.

At June 30, 2020 and 2019, deposits and funds held in trust, as reported in the Statements of Net Position, include money market accounts of \$138,774,000 and \$3,753,000, respectively. Interest income on cash and cash equivalents as of June 30, 2020 and 2019 was \$2,768,000 and \$1,906,000, 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. In November 2018, UAMS transferred approximately \$91,700,000 from the UA Foundation to the short-term investment account.

	<u>Total return pool</u>	<u>Short term pool</u>	<u>Total pool</u>
June 30, 2020	3.3 %	45.5 %	8.2 %
June 30, 2019	3.4 %	55.7 %	9.5 %

The following table lists the invested assets of UAMS at June 30:

	<u>Fair value</u>	
	<u>2020</u>	<u>2019</u>
	(In thousands)	
Investment type:		
Exchange traded investments:		
U.S. equity	\$ 631	\$ 604
U.S. fixed income	138	179
	<u>769</u>	<u>783</u>
Short-term pool:		
Fixed Income	73,724	82,929
Certificates of Deposit	23,502	27,447
Commercial Paper	9,981	23,048
	<u>107,207</u>	<u>133,424</u>
Total Return Pool	<u>58,426</u>	<u>60,485</u>
Other investments:		
Funds held in trust	486	2,014
ARHealth Ventures, Inc.	146	294
Accountable Care	18	162
Split Interest Agreement	2,786	3,001
	<u>3,436</u>	<u>5,471</u>
	<u>\$ 169,838</u>	<u>\$ 200,163</u>

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

	<u>Total return pool</u>	<u>Intermediate pool</u>	<u>Short-term pool</u>	<u>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>—</u>	<u>(30,000)</u>	<u>(1,106)</u>	<u>(33,834)</u>
Balances at June 30, 2020	<u>\$ 58,426</u>	<u>\$ —</u>	<u>\$ 107,207</u>	<u>\$ 4,205</u>	<u>\$ 169,838</u>

The activities during fiscal year 2019 affecting UAMS' pro rata allocation of investments are summarized below in thousands:

	<u>Total return pool</u>	<u>Intermediate pool</u>	<u>Short-term pool</u>	<u>Other investments</u>	<u>Total</u>
Balances at June 30, 2018	\$ 59,639	\$ 109,461	\$ —	\$ 21,790	\$ 190,890
Income	621	566	1,708	121	3,016
Realized gains (losses)	(21)	(183)	—	13	(191)
Net increase (decrease) in fair value of investments	2,921	(121)	652	(1,071)	2,381
Expenses paid	(176)	(7)	—	5	(178)
Purchases (sales), net	<u>(2,499)</u>	<u>(109,716)</u>	<u>131,064</u>	<u>(14,604)</u>	<u>4,245</u>
Balances at June 30, 2019	<u>\$ 60,485</u>	<u>\$ —</u>	<u>\$ 133,424</u>	<u>\$ 6,254</u>	<u>\$ 200,163</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 instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditures by the institution."

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

The net unpaid balances of notes and student loans receivable on June 30, 2020 and 2019, net of allowances of \$3,341,000 and \$3,233,000, respectively, are as follows:

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Perkins loans	\$ 578	\$ 771
Health professions loans	5,314	4,768
Institutional funds loans	3,643	3,572
Other	106	19
University of Arkansas at Fayetteville note receivable	622	648
University of Arkansas System eVersity note receivable	1,307	1,307
Arkansas State Hospital note receivable	<u>1,566</u>	<u>2,249</u>
Total notes and student loans receivable, net	13,136	13,334
Less current portion	<u>(2,230)</u>	<u>(2,148)</u>
Notes and student loans receivable, noncurrent, net	\$ <u><u>10,906</u></u>	\$ <u><u>11,186</u></u>

**(7) Capital Assets**

Capital assets of UAMS at June 30, 2020 and 2019 were as follows:

	<u>June 30,</u>					<u>June 30,</u>
	<u>2019</u>	<u>Additions</u>	<u>Transfers</u>	<u>Dispositions</u>		<u>2020</u>
	(In thousands)					
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	<u>9,594</u>	<u>—</u>	<u>1</u>	<u>(8,977)</u>		<u>618</u>
Total capital assets	<u>1,558,493</u>	<u>80,842</u>	<u>—</u>	<u>(22,754)</u>		<u>1,616,581</u>

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	<u>June 30,</u> <u>2019</u>	<u>Additions</u>	<u>Transfers</u> <small>(In thousands)</small>	<u>Dispositions</u>	<u>June 30,</u> <u>2020</u>
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)	—
	<u>820,409</u>	<u>67,184</u>	<u>—</u>	<u>(16,279)</u>	<u>871,314</u>
Total accumulated depreciation and amortization					
Capital assets, net	\$ <u>738,084</u>	\$ <u>13,658</u>	\$ <u>—</u>	\$ <u>(6,475)</u>	\$ <u>745,267</u>
	<u>June 30,</u> <u>2018</u>	<u>Additions</u>	<u>Transfers</u> <small>(In thousands)</small>	<u>Dispositions</u>	<u>June 30,</u> <u>2019</u>
Nondepreciable:					
Land	\$ 12,435	\$ 433	\$ —	\$ —	\$ 12,868
Construction in progress	3,171	5,526	(2,401)	—	6,296
Depreciable:					
Buildings and fixtures	1,058,701	27,885	1,319	(2,072)	1,085,833
Improvements other than buildings	2,453	—	—	—	2,453
Equipment	301,760	24,403	—	(10,937)	315,226
Internally developed software	84,430	2,205	11,107	—	97,742
Leased property	38,456	546	(10,025)	(496)	28,481
Other	9,594	—	—	—	9,594
	<u>1,511,000</u>	<u>60,998</u>	<u>—</u>	<u>(13,505)</u>	<u>1,558,493</u>
Total capital assets					
Less accumulated depreciation and amortization:					
Buildings and fixtures	462,674	35,721	—	(1,196)	497,199
Improvements other than buildings	2,453	—	—	—	2,453
Equipment	239,676	18,109	—	(10,348)	247,437
Internally developed software	34,757	8,451	4,919	—	48,127
Leased property	23,166	4,187	(4,919)	(346)	22,088
Other	2,656	449	—	—	3,105
	<u>765,382</u>	<u>66,917</u>	<u>—</u>	<u>(11,890)</u>	<u>820,409</u>
Total accumulated depreciation and amortization					
Capital assets, net	\$ <u>745,618</u>	\$ <u>(5,919)</u>	\$ <u>—</u>	\$ <u>(1,615)</u>	\$ <u>738,084</u>

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The buildings and fixtures above include \$19,471,000 and \$17,498,000 of assets under capital leases at June 30, 2020 and 2019, 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, 2020 and 2019 was \$1,226,000 and \$1,273,000, 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, 2020 and 2019:

	<b>2020</b>		<b>2019</b>	
	<u>(In thousands)</u>			
Trade payables	\$	35,205	\$	34,664
Accrued wages		22,994		58,898
Miscellaneous payables		64,954		26,553
Total accounts payable and accrued liabilities	\$	<u>123,153</u>	\$	<u>120,115</u>

**(9) Long-Term Obligations**

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

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

Changes in long-term obligations during fiscal year 2019 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
		(In thousands)		
Bonds payable	\$ 248,229	\$ —	\$ 9,755	\$ 238,474
Notes payable	32,397	2,163	13,395	21,165
Capital leases	<u>20,314</u>	<u>8,628</u>	<u>7,894</u>	<u>21,048</u>
Total debt	300,940	10,791	31,044	280,687
Compensated absences	58,050	3,815	3,679	58,186
Other postemployment benefits	30,280	3,084	2,386	30,978
Early retirement liability	<u>1,073</u>	<u>634</u>	<u>1,073</u>	<u>634</u>
Total obligations	<u>\$ 390,343</u>	<u>\$ 18,324</u>	<u>\$ 38,182</u>	<u>\$ 370,485</u>

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The current and long-term portions of the categories noted above were as follows at June 30, 2019:

	<u>Current</u>	<u>Long term</u>	<u>Total</u>
		(In thousands)	
Bonds payable	\$ 10,510	\$ 227,964	\$ 238,474
Notes payable	6,268	14,897	21,165
Capital leases	4,907	16,141	21,048
	<u>21,685</u>	<u>259,002</u>	<u>280,687</u>
Total debt			
Compensated absences	4,629	53,557	58,186
Other postemployment benefits	826	30,152	30,978
Early retirement liability	566	68	634
	<u>27,706</u>	<u>342,779</u>	<u>370,485</u>
Total obligations			

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, 2020, such pledged revenues were 3,972% 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, 2020, such pledged revenues were 165% 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.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

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A summary of the principal amount of outstanding bonds payable is as follows at June 30, 2020 and 2019:

		<u>2020</u>	<u>2019</u>
		(In thousands)	
Parking System Revenue Refunding Bonds, Series 2010, \$7,605,000 original amount, plus a premium of \$560,000, with principal due annually to 2019, various fixed interest rates of 2.00% to 4.50% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS	Par Premium	\$ —	\$ 995 —
Various Facility Revenue Bonds, Series 2010A, \$42,680,000 original amount, plus a premium of \$2,876,000, with principal due annually to 2030, various fixed interest rates of 2.00% to 5.00%, collateralized by pledged revenue	Par Premium	30,410 1,502	32,445 1,646
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, 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 Premium	6,290 (34)	6,640 (37)
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, various fixed interest rates of 1.00% to 5.00% over the life of the issue, collateralized by pledged revenue	Par Premium	90,670 11,131	94,695 11,908
Various Facility Revenue Bonds, Series 2014, \$86,035,000 original amount, \$12,713,000 premium, with principal due annually to 2024, used to advance refund the Series 2006 Various Facility Bonds, various fixed interest rates of 2.00% to 5.00% over the life of the issue, collateralized by pledged revenue	Par Premium	77,085 9,393	80,190 9,992
Various Facility Revenue Bonds, Series 2019A, \$48,615,000 original amount, \$12,125,000 premium, with principal due annually starting in 2023 and ending in 2032, fixed interest rates of 5.00% over the life of the issue, collateralized by pledged revenue	Par Premium	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 by pledged revenue	Par	97,470	—
Total Bonds Payable		<u>\$ 383,669</u>	<u>\$ 238,474</u>

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

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Scheduled maturities of bonds and notes payable are as follows:

	Bonds payable				Notes payable		
	Principal	Interest	Premium amortized	Total	Principal	Interest	Total
	(In thousands)						
2021	\$ 9,940	\$ 15,125	\$ 2,958	\$ 28,023	\$ 5,060	\$ 618	\$ 5,678
2022	10,435	14,628	2,958	28,021	4,493	494	4,987
2023	14,205	14,104	2,926	31,235	3,294	385	3,679
2024	15,180	13,392	2,826	31,398	3,151	290	3,441
2025	16,190	12,630	2,713	31,533	3,219	192	3,411
2026–2030	95,200	49,958	11,490	156,648	4,300	245	4,545
2031–2035	108,675	26,077	6,857	141,609	—	—	—
2036–2040	56,440	9,735	400	66,575	—	—	—
2041–2042	24,275	1,268	—	25,543	—	—	—
	<u>\$ 350,540</u>	<u>\$ 156,917</u>	<u>\$ 33,128</u>	<u>\$ 540,585</u>	<u>\$ 23,517</u>	<u>\$ 2,224</u>	<u>\$ 25,741</u>

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.

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The Various Facility Revenue Bonds, Series 2010A, was issued on December 15, 2010. The issue provided \$42,680,000 for Patient Tower Building improvements, Winthrop P. Rockefeller Cancer Institute improvements, Central Energy Plant improvements, operating room and surgical suite improvements, and various other acquisitions and improvements. The remaining bonds bear interest rates of 5.0%. Principal payments are made annually until December 2030. Interest payments are made semiannually.

**(10) Commitments**

**(a) Capital Leases**

Scheduled maturities of capital lease commitments outstanding as of June 30, 2020 are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
			(In thousands)		
2021	\$ 6,154	\$	1,019	\$	7,173
2022	5,213		842		6,055
2023	3,673		711		4,384
2024	3,602		607		4,209
2025	3,521		501		4,022
2026–2030	<u>12,507</u>		<u>1,802</u>		<u>14,309</u>
	\$ <u>34,670</u>	\$	\$ <u>5,482</u>	\$	\$ <u>40,152</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, 2020 (in thousands):

2021	\$ 6,729
2022	3,309
2023	2,070
2024	1,717
2025	1,650
2026–2030	<u>4,882</u>
Total minimum payments required	\$ <u>20,357</u>

Rental expense for operating leases for the year ended June 30, 2020 and 2019 was approximately \$8,786,000 and \$8,871,000, respectively, and is included in supplies and other services in the accompanying statements of revenues, expenses, and changes in net position.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

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**(c) Construction Projects**

Construction in progress at June 30, 2020 included UAMS's portion of the FY20 costs of the new UA Systems ERP (Enterprise Resource Planning) software, build outs of the WPRCI, and a new generator plant. At June 30, 2020, contracts outstanding for tangible construction projects were approximately \$127,644,000.

**(d) Outstanding Commitments**

At June 30, 2020 and 2019, UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$185,994,000 and \$280,629,000, 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 2020. 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 4%. 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, 2020, was \$28,500. 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 has been 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, 2020 were \$800,111,000. Total employer contributions to the URP during the fiscal year 2020 were \$62,463,000 and total employee contributions were \$76,921,000.

**(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 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

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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 14.25% of applicable compensation for the fiscal year ended June 30, 2020, compared to 14% in the previous year. The gross payroll amount for UAMS employees covered by ATRS for the year ended June 30, 2020 was \$105,000. UAMS and member's contributions for the year ended June 30, 2020 were \$14,940 and \$6,553, respectively.

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

At June 30, 2020 and 2019, UAMS reported a liability of \$145,151 and \$209,653 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2020, UAMS' proportion was 0.0035%.

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For the year ended June 30, 2020, UAMS recognized pension expense credit of \$27,492. 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>
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	—
Total	\$ 45,151	\$ 162,507

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:	
2021	\$ (32,372)
2022	(42,755)
2023	(33,756)
2024	(18,160)
2025	(5,252)
Thereafter	—

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**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		(42,279)
Net changes in total pension liability		<u>27,190</u>
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		(248)
Net change in plan fiduciary net position		<u>8,664</u>
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><u>145,151</u></u>

***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
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

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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:

Asset class	Target allocation	Long-term expected real rate of return
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***

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.

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***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

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

***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, 2020.

***(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>.

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Notes to Financial Statements

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***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.

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, 2020. The gross payroll amount for UAMS employees covered by APERS for the year ended June 30, 2020 was \$7,599,668. UAMS' and member's contributions for the year ended June 30, 2020 were \$1,145,472 and \$267,940, respectively.

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Notes to Financial Statements

June 30, 2020 and 2019

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

At June 30, 2020 and 2019, UAMS reported a liability of \$10,298,361 and \$11,720,586 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2020, UAMS' proportion was .42686996%.

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>
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	1,145,472	—
Total	\$ 2,451,111	\$ 3,099,532

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	—

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

Total pension liability:		
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><u>10,298,361</u></u>

***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, 2019 are summarized below:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
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>	4.80 %

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, 2019 valuation.

***Discount Rate***

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).

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.

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***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

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, 2020.

***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.

**(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

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\$1,013,000 and \$1,819,000 in retiree healthcare expense during the fiscal years ended June 30, 2020 and 2019, 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.

***Employees covered by benefit terms***

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

	<u>2019</u>	<u>2018</u>
Inactive employees, beneficiaries:		
Or spouses of retirees:		
Medical	156	120
Life	691	693
Active employees:		
Medical	10,251	9,915
Life	10,581	10,241

Total OPEB liability for the year ended June 30, 2020 was \$33,393,000, determined by actuarial valuations as of June 30, 2019, rolled forward. For the year ended June 30, 2019, total OPEB liability was \$30,978,000, determined in the same manner.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2020 and 2019

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

University self-funded plan:

Valuation date	July 1, 2019 valuation for the fiscal year ended June 30, 2020
Valuation year	Liabilities were measured as of July 1, 2019 valuation date
Actuarial cost method	Entry Age Normal as of July 1, 2019 measurement date
Discount rate	3.50% as of July 1, 2019, compared to 3.87% as of July 1, 2018
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	July 1, 2019 measurement date, 6.75% grading to 4.00% over 15 years (unchanged from July 1, 2018 measurement date)
Rate of pharmacy inflation	July 1, 2019 measurement date 8.50% grading to 4.00% over 15 years (unchanged from the July 1, 2018 measurement date)
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 3.87% to 3.50%.

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

Balance at June 30, 2018, rolled forward to 6/30/2019	\$ 30,977,561
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, 2020 and 2019

Balance at June 30, 2017, rolled forward to 6/30/2018	\$ 30,280,554
Changes for the year:	
Service cost	\$ 1,949,956
Interest	1,141,397
Change of benefits	—
Difference between expected and actual experience	(1,906,297)
Change of assumptions	213,960
Contributions - employer	(702,009)
Contributions - member	—
Net investment income	—
Benefit payments	—
Administrative expense	—
Net changes	<u>697,007</u>
Balance at June 30, 2018, rolled forward to 6/30/2019	\$ <u>30,977,561</u>

**(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 3.50% for FY 2020 and 3.87% for FY 2019, 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, 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
<b>Sensitivity of Discount Rate, as of June 30, 2019</b>			
	<b>1% Decrease (2.87%)</b>	<b>Discount rate (3.87%)</b>	<b>1% Increase (4.87%)</b>
Total OPEB liability	\$ 35,018,602	\$ 30,977,561	\$ 27,633,625

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Notes to Financial Statements

June 30, 2020 and 2019

**(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, 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

  

<b>Sensitivity to Changes in the Healthcare Cost Trend Rate, as of June 30, 2019</b>			
	<b>1% Decrease</b>	<b>Healthcare Trend</b>	<b>1% Increase</b>
Total OPEB liability	\$ 28,465,281	\$ 30,977,561	\$ 33,903,072

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

For the years ended June 30, 2020 and 2019, respectively, UAMS recognized OPEB expense of \$1,919,000 and \$1,819,000.

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>

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	—

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Notes to Financial Statements

June 30, 2020 and 2019

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	\$ —	\$ 1,588,581
Changes of assumptions	178,300	3,961,558
UAMS benefits paid subsequent to the measurement date	825,787	—
	\$ 1,004,087	\$ 5,550,139

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	\$ (1,272,445)
2022	(1,272,445)
2023	(1,272,445)
2024	(1,272,447)
2025	(282,057)
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 \$12,231,000 and \$19,450,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, revenue of \$22,025,000 and \$26,690,000, respectively, was received by the UA Foundation for the benefit of UAMS.

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Notes to Financial Statements

June 30, 2020 and 2019

**(14) Related-Party Transactions**

Notes receivable from related parties at June 30, 2020 are as follows:

	<b>2020</b>	<b>2019</b>
	(In thousands)	
University of Arkansas at Fayetteville	\$ 622	\$ 648
Arkansas State Hospital	1,566	2,249
University of Arkansas System (eVersity)	1,307	1,307
Total included in notes and student loans receivable (note 6)	\$ 3,495	\$ 4,204

Notes payable to related parties at June 30, 2020 are as follows:

	<b>2020</b>	<b>2019</b>
	(In thousands)	
University of Arkansas System (Workday)	\$ 8,325	\$ 1,953

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, 2020 and 2019, UAMS incurred costs of \$3,585,000 and \$3,431,000, 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.

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## Notes to Financial Statements

June 30, 2020 and 2019

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.

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, 2020, UAMS would have incurred a liability of \$73,206,000 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

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2020 and 2019

of the Hospital but exclude (a) physician-generated revenues, (b) State appropriations, and (c) revenues restricted for other purposes.

**(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:

	Year ended June 30, 2020				
	<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>

	Year ended June 30, 2019				
	<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	\$ 645,232	\$ 368,508	\$ —	\$ —	\$ 1,013,740
Instruction	104,809	11,162	—	—	115,971
Research	85,678	46,847	—	—	132,525
Public services	22,228	9,955	—	—	32,183
Academic support	29,208	5,140	—	—	34,348
Student services	1,532	2,263	—	—	3,795
Institutional support	116,267	33,573	—	—	149,840
Operation and maintenance of plant	36,942	17,049	—	—	53,991
Scholarships and awards	—	—	1,641	—	1,641
Auxiliary	1,038	1,211	—	—	2,249
Depreciation and amortization	—	—	—	66,917	66,917
Other	1,815	12,695	—	—	14,510
	<u>\$ 1,044,749</u>	<u>\$ 508,403</u>	<u>\$ 1,641</u>	<u>\$ 66,917</u>	<u>\$ 1,621,710</u>

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Notes to Financial Statements

June 30, 2020 and 2019

**(17) Subsequent Event**

As discussed in note 1, UAMS received CARES stimulus funds in 2020, and UAMS believes the amounts recorded as revenue and the amounts deferred for recognition in future periods as of and for the year ended June 30, 2020 are consistent with the guidance available from HHS as of June 30, 2020. HHS released General and Targeted Distribution Post-Payment Notice of Reporting Requirements on September 19, 2020. This new HHS guidance does not represent a clarification of existing information, but rather resulted in substantive changes to the requirements related to the Provider Relief Funds. Since this information could not have been known at June 30, 2020 any change in the estimate of revenue to be recognized will be recorded in future periods. UAMS is evaluating the effects of the reporting requirements and believes complying with the reporting requirements will not have a material impact on the financial statements.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

**Retirement Benefits**

**(a) Arkansas Teacher 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
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>
2016(a)	0.0098 %	\$ 320,396	\$ 299,045	107.14 %	82.20 %
2017(b)	0.0102 %	450,267	247,312	182.06 %	76.75 %
2018(c)	0.0083 %	350,770	173,286	202.42 %	79.48 %
2019(d)	0.0058 %	209,653	107,058	195.83 %	82.78 %
2020(e)	0.3500 %	145,151	104,845	138.44 %	80.96 %

- (a) The amounts presented were determined as of June 30, 2015, rolled forward to June 30, 2016.
- (b) The amounts presented were determined as of June 30, 2016, rolled forward to June 30, 2017.
- (c) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.
- (d) The amounts presented were determined as of June 30, 2018, rolled forward to June 30, 2019.
- (e) The amounts presented were determined as of June 30, 2019, rolled forward to June 30, 2020.

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Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

**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>
2016	\$ 41,866	\$ (41,866)	\$ —	\$ 299,045	14.00 %
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 %

**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>
2016	\$ 29,217	\$ 134,374	\$ —	\$ 12,105	\$ —	\$ (96,186)	\$ 79,510	\$ 1,678,202	\$ 1,757,712
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

**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>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>
2016	\$ 41,866	\$ 10,929	\$ 56,174	\$ (96,186)	\$ (787)	\$ 11,996	\$ 1,425,320	\$ 1,437,316	\$ 320,396
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

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, 2020 and 2019

**(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-2000 Combined Healthy mortality table projected to 2020 using Projection Scale BB
Average remaining service life of all members	4.1431

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

<b>Fiscal Year 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</b>	
				<b>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>
2016(a)	0.4743 %	\$ 8,735,105	\$ 10,271,365	85.04 %	80.39 %
2017(b)	0.5671 %	13,560,583	11,016,761	123.09 %	75.50 %
2018(c)	0.6177 %	15,963,746	9,954,115	160.37 %	75.65 %
2019(d)	0.5313 %	11,720,586	9,663,708	121.28 %	79.59 %
2020(e)	0.4269 %	10,298,361	7,599,668	135.51 %	78.55 %

- (a) The amounts presented were determined as of June 30, 2015, rolled forward to June 30, 2016.
- (b) The amounts presented were determined as of June 30, 2016, rolled forward to June 30, 2017.
- (c) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.
- (d) The amounts presented were determined as of June 30, 2018, rolled forward to June 30, 2019.
- (e) The amounts presented were determined as of June 30, 2019, rolled forward to June 30, 2020.

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Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

**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>
2016	\$ 1,489,348	\$ (1,489,348)	\$ —	\$ 10,271,365	14.50 %
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	15.32 %

**Schedule of Changes In Net Position Liability  
Arkansas Public Employees 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>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>	
2016	\$ 800,675	\$ 3,235,758	\$ —	\$ (652,983)	\$ 911,954	\$ (2,201,279)	\$ 2,094,125	\$ 41,034,076	\$ 43,128,201	
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	

**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>
2016	\$ 1,489,348	\$ 390,368	\$ 208,879	\$ (2,201,279)	\$ (32,960)	\$ 31,993	\$ (113,651)	\$ 34,506,747	\$ 34,393,096	\$ 8,735,105
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

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, 2020 and 2019

### Changes in Assumptions

There were no benefit changes during the year. Economic assumptions in the June 30, 2019 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, 2019 valuation for the fiscal year ended June 30, 2020
Valuation year	Census data was collected as of February 2020. Liabilities were measured as of July 1, 2019 valuation date.
Actuarial cost method	Entry Age Normal as of July 1, 2019 measurement date
Discount rate	3.50% as of July 1, 2019, compared to 3.87% as of July 1, 2018
Projected payroll growth rate	4.00%
Percent of retirees electing coverage	55.00% medical and 75.00% life
Rate of medical inflation	July 1, 2019 measurement date, 6.75% grading to 4.00% over 15 years (unchanged from July 1, 2018 measurement date)
Rate of pharmacy inflation	July 1, 2019 measurement date 8.50% grading to 4.00% over 15 years July 1, 2018 measurement date 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

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.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% to 3.87%. Also, the rate of pharmacy inflation was changed from 9.00% grading to 4.00% over 16 years to 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, 2020

<b>Fiscal Year</b>	<b>Service Cost</b>	<b>Interest on Total Pension Liability</b>	<b>Changes of Benefit</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>
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

**CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
Year Ended June 30, 2020

<b>Fiscal Year</b>	<b>Covered-employee payroll</b>	<b>Total OPEB liability as a percentage of covered employee</b>
2018	\$ 782,000,000	3.87 %
2019	798,978,000	3.88 %
2020	807,816,000	4.13 %

Note: This is a 10-year schedule. Years after FY 2020 are to be added as they become available.