



**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Financial Statements

June 30, 2022

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

June 30, 2022

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## Independent Auditors' Report

The Board of Trustees  
The University of Arkansas System:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas System (the University), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise UAMS' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of UAMS, as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinion*

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

#### *Emphasis of Matters*

##### *Reporting Entity*

As discussed in Note 1, the financial statements of UAMS are intended to present the financial position, the changes in financial position and the cash flows of only that portion of the University that is attributable to the transactions of UAMS. They do not purport to, and do not, present fairly the financial position of the University, as of June 30, 2022, the changes in its financial position, or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

##### *Adoption of New Accounting Pronouncement*

As discussed in Note 7 to the basic financial statements, in fiscal year 2022, UAMS adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

##### *Responsibilities of Management for the Financial Statements*

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



### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UAMS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4-11 and the required supplementary information on pages 53-59 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022 on our consideration of 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 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 UAMS' internal control over financial reporting and compliance.

*KPMG LLP*

Dallas, Texas  
October 31, 2022

## Management's Discussion and Analysis (Unaudited)

June 30, 2022

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 year ended June 30, 2022. 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 3,370 and faculty numbering 1,572

The UAMS Medical Center, a tertiary care referral center with 521 acute care beds at June 30, 2022

Regional programs, including Tele-education, Rural Hospital Program, and eight Regional Campuses located throughout the state

The Winthrop P. Rockefeller Cancer Institute

Harvey and Bernice Jones Eye Institute

Donald W. Reynolds Institute on Aging

Psychiatric Research Institute

Jackson T. Stephens Spine and Neurosciences Institute

Translational Research Institute.

Institute for Digital Health and Innovation

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

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

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

The Statement of Net Position presents 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.

The Statement of Revenues, Expenses, and Changes in Net Position reflect the results of UAMS' operations. The purpose of this statement 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 Statement of Cash Flows provides relevant information about the cash receipts and cash payments of UAMS. The Statement 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 year ended June 30, 2022.

Management's Discussion and Analysis (Unaudited)

June 30, 2022

**Financial Highlights**

UAMS' net position decreased in fiscal year 2022 by \$31,824,000 with assets of \$1,889,407,000 and deferred outflows of resources of \$9,861,000 and liabilities of \$1,110,386,000 and deferred inflows of resources of \$17,781,000. 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 \$771,101,000 at June 30, 2022. 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, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
	(In thousands)	
Operating revenues	\$ 1,833,332	1,783,700
Operating expenses	(1,949,713)	(1,851,305)
Nonoperating revenues (net)	81,410	126,117
Other changes in net position	<u>3,147</u>	<u>2,960</u>
Decrease in net position	<u>\$ (31,824)</u>	<u>61,472</u>

**Statement of Net Position**

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

Net position is divided into three major categories. The first category reflects the equity in property, plant, and equipment owned by UAMS, net of capital asset related debt. The next category is restricted net position, which is divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net position is available for expenditure by UAMS, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position, which is available for any lawful purpose of UAMS.

From the data presented, readers of the Statement 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 Statement of Net Position provides 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.

Management's Discussion and Analysis (Unaudited)  
June 30, 2022

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

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
	(In thousands)	
<b>Assets:</b>		
Current assets	\$ 498,531	699,949
<b>Noncurrent assets:</b>		
Investments	161,153	83,444
Capital assets, net	986,306	799,163
Other	243,417	218,910
Total assets	1,889,407	1,801,466
Deferred outflows of resources	9,861	11,693
<b>Liabilities:</b>		
Current liabilities	238,035	295,617
Noncurrent liabilities	872,351	698,734
Total liabilities	1,110,386	994,351
Deferred inflows of resources	17,781	15,883
<b>Net position:</b>		
Net investment in capital assets	419,295	423,450
<b>Restricted:</b>		
Expendable	52,227	42,692
Nonexpendable	47,966	50,745
Unrestricted	251,613	286,038
Total net position	\$ 771,101	802,925

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 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.



Management's Discussion and Analysis (Unaudited)

June 30, 2022

**Fiscal Year 2022**

UAMS' total assets increased by \$87,941,000 in fiscal 2022. This net increase was driven by an increase in noncurrent assets of \$289,359,000 offset by a decrease in current assets of \$201,418,000.

Current assets decreased by \$201,418,000 in fiscal 2022. Decreases were seen in the following areas: cash and cash equivalents (\$120,304,000), short-term investments (\$100,081,000), non-patient accounts receivable (\$19,886,000), supplies (\$2,412,000), notes and student loans receivable (\$1,936,000), and prepaid expenses (\$879,000). An offsetting increase was seen in patient accounts receivable of \$44,081,000.

Noncurrent assets increased by \$289,359,000 in fiscal 2022. Increases were seen in the following areas: capital assets (\$187,143,000), long-term investments (\$77,708,000), deposits and funds held in trust by others (\$23,958,000), and decreases in long-term notes and student loans receivable (\$549,000).

Deferred outflows of resources decreased by \$1,833,000 in fiscal 2022. 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 \$524,000, postemployment benefits other than pensions decreased by \$861,000. Deferred outflows related to the loss on refunding of bonds decreased in fiscal year 2022 by \$447,000 from the amortization for the year.

Total liabilities increased by \$116,035,000 in fiscal 2022. This net increase was driven by an increase in noncurrent liabilities of \$173,617,000 offset by a decrease in current liabilities of \$57,582,000.

Current liabilities decreased by \$57,582,000 in fiscal 2022. Decreases were seen in the following areas: estimated third-party payer settlements (\$61,127,000), accounts payable and accrued liabilities (\$24,479,000), and the current portion of early retirement liability (\$21,000). The decrease in the liability to third parties under various payor settlements was driven by a repayment of \$64,887,000 to CMS under the Accelerated Payment Program. Offsetting increases were seen in the following areas: current portion of bonds, notes and capital leases (\$16,295,000), unearned revenue (\$5,693,000), funds held in trust for others (\$4,758,000), the current portion of compensated absences payable (\$1,196,000), as well as in the postemployment benefits other than pensions (\$102,000).

Noncurrent liabilities increased by \$173,617,000 in fiscal 2022. An increase was seen in the noncurrent portion of bonds, notes, and capital leases payable (\$198,962,000), primarily from the issuance of new bond debt of \$134,195,000. Other changes include increases in the noncurrent portion of other post employment benefits (\$1,450,000) and deposits (\$1,000). Decreases occurred in the noncurrent portion of net pension liability (\$6,386,000) and the noncurrent portion of compensated absences payable (\$4,525,000).

Deferred inflows of resources increased by \$1,898,000 in fiscal 2022. UAMS' deferred inflows related to pensions increased by \$3,199,000, but was offset by decreases in deferred inflows related to post employment benefits other than pensions (\$1,072,000) and deferred outflows related to bonds (\$229,000).

Management's Discussion and Analysis (Unaudited)

June 30, 2022

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

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

	<u>Year ended</u> <u>June 30, 2022</u>	<u>Year ended</u> <u>June 30, 2021</u>
	(In thousands)	
Operating revenues:		
Student tuition and fees, net of scholarship allowances	\$ 47,784	49,819
Net patient services	1,334,667	1,344,980
Meaningful use	1,655	1,668
Sponsored programs	246,883	181,423
Other	<u>202,343</u>	<u>205,810</u>
Total operating revenues	<u>1,833,332</u>	<u>1,783,700</u>
Operating expenses:		
Compensation and benefits	1,219,460	1,190,195
Supplies and other services	650,324	594,150
Scholarships and fellowships	3,225	1,362
Depreciation and amortization	<u>76,704</u>	<u>65,598</u>
Total operating expenses	<u>1,949,713</u>	<u>1,851,305</u>
Operating loss	<u>(116,381)</u>	<u>(67,605)</u>
Nonoperating revenues (expenses):		
State appropriations, net	68,119	55,830
CARES/ARPA	36,760	46,365
Gifts	15,126	14,347
Investment loss, net of expense	(19,574)	24,504
Other	<u>(19,021)</u>	<u>(14,929)</u>
Total nonoperating revenues, net	<u>81,410</u>	<u>126,117</u>
Loss before other changes in net assets	<u>(34,971)</u>	<u>58,512</u>
Other changes in net position:		
Capital gifts and appropriations	3,147	2,960
Interagency disposition	<u>—</u>	<u>—</u>
Total other changes in net position	<u>3,147</u>	<u>2,960</u>
Decrease in net position	<u>(31,824)</u>	<u>61,472</u>
Net position:		
Beginning of year	<u>802,925</u>	<u>741,453</u>
End of year	<u>\$ 771,101</u>	<u>802,925</u>

Management's Discussion and Analysis (Unaudited)

June 30, 2022

**Fiscal Year 2022**

The Statement of Revenues, Expenses, and Changes in Net Position reflects a loss before other changes in net position of \$34,971,000 and a decrease of \$31,824,000 in net position for fiscal year 2022. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$57,137,000, or 4.5%. The balanced budget for FY22 assumed an increase in patient volumes to pre-pandemic levels along with the return of the ability to perform at a near-normal level of surgical cases, previously constrained in the pandemic. Ultimately, clinical volumes proved to be better than anticipated and FY22 grant revenue surpassed budget.

Sponsored programs, which include federal grants and contracts, as well as state and local government and nongovernmental (i.e., nonfederal) grants and contracts, decreased by a total of \$1,989,000, or 0.8%. This decrease was seen in nonfederal grants and contracts and was mainly due to a significant FY21 COVID contracts through the Arkansas Department of Health that did not renew in FY22. Federal grants and contracts increased \$16,319,000 or 14.9%. Net student tuition and fees decreased \$2,034,000, or 4.1%, due to lower enrollment. Other operating revenues decreased by \$6,042,000, or 3.8%, resulting from decreases in several areas. Total operating revenue increased over the prior year by \$49,633,000, or 2.8%.

The following factors affected operating expenses in 2022:

Operating expenses increased by \$98,408,000 or 5.3%. Additional expenses were incurred due to the increased cost of operating in a pandemic environment and inflation. This increase was primarily caused by increases in compensation and benefits and supplies and other services expense. Compensation and benefits increased by \$29,265,000 or 2.5%. Total supplies and other services increased by \$56,174,000 or 9.5%, largely due to increases in contract labor, medical supplies, and drugs and medicines for patient care.

The following factors affected nonoperating revenue (expense) in 2022:

Nonoperating revenue (expense) decreased by \$44,707,000 or 35.4%. The largest contributor to this was a decrease in investment performance compared to prior year of \$44,077,000, or 179.9%.

State appropriations are reported in the Statement 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 year ended June 30, 2022 was as follows:

	<u>2022</u>
	(In thousands)
Gross state appropriations revenue	\$ 130,106
Less Medicaid match payments	<u>61,987</u>
Net state appropriations revenue	<u>\$ 68,119</u>

Management's Discussion and Analysis (Unaudited)  
June 30, 2022

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2022, UAMS had \$986,306,000 invested in capital assets, net of accumulated depreciation and amortization of \$988,684,000. Depreciation and amortization expense totaled \$76,704,000 for the fiscal year ended June 30, 2022.

UAMS' capital additions totaled \$264,041,000 in fiscal year 2022, with the majority comprised of new construction and capital leases, but also including land acquisitions in Springdale and Rogers, capital leases on Gene George Blvd in Springdale and Midtown Avenue in Little Rock. Major construction projects completed in fiscal year 2022 and the sources that funded their acquisition included:

<u>Project</u>	<u>Amount of additions</u>	<u>Funding source</u>
New East Energy Plant	\$ 51,679,000	Bonds
Barton Infrastructure Improvements	12,464,000	Bonds
Upgrade to the MCEP Chilled Water Plant	12,153,000	Bonds

Construction in progress at June 30, 2022 totaled \$154,336,000. The largest components of that balance consists of the expansion of radiology oncology and new proton therapy center, a new orthopaedic and spine hospital, and the implementation of a new ERP (Enterprise Resource Planning) system, and remaining energy infrastructure and improvements. More detailed information about UAMS' capital assets is presented in note 7 to the financial statements.

UAMS adopted GASB Statement No. 87, Leases in fiscal year 2022. GASB Statement No. 87 establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Balances for fiscal year 2021 have not been adjusted to reflect the adoption.

**Debt Administration**

At June 30, 2022, UAMS had \$799,157,000 in outstanding debt, as shown in the following table:

	<u>Amount outstanding</u> (In thousands)
Obligation:	
Bonds payable	\$ 664,801
Notes payable	50,088
Obligations under leases	<u>84,268</u>
Total debt	<u><u>\$ 799,157</u></u>

Moody's Investors Service has rated the UA System as Aa2 since May 2010. This rating was affirmed on August 2, 2022. 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.

## Management's Discussion and Analysis (Unaudited)

June 30, 2022

### **Economic Outlook**

UAMS closed fiscal year 2022 with a decrease in net position of \$31.8 million, compared to the balanced budget for the period. The balanced budget for FY22 assumed an increase in patient volumes to pre-pandemic levels along with the return of the ability to perform at a near-normal level of surgical cases, previously constrained in the pandemic. Ultimately, clinical volumes proved to be better than anticipated and FY22 grant revenue surpassed budget; however these positive budget variances were more than offset by significant increases over prior year in contract labor and supply cost.

The FY 2023 budget for UAMS includes the impact of the startup and anticipated opening of The Orthopaedic & Spine Hospital (TOSH) in May 2023. The projected financial impact of TOSH on the FY 2023 budget is a deficit of \$7.88 million. Excluding the impact of the TOSH opening, the overall FY 2023 UAMS budget is balanced. Budgeted operating revenues are expected to increase by \$85.6 million over the FY22 budget. Tuition revenue is projected to increase slightly over the FY22 budget. Increases are also expected in net patient service revenue. In addition to the opening of The Orthopaedic and Spine Hospital in May 2023, UAMS Health is projecting growth in key strategic areas including the development of advanced cardiology services, site expansions of cancer clinical care and new locations for urology and radiology imaging services. Increases are also budgeted in other operating revenue due to the retail and specialty pharmacy programs which have seen consistent growth. Finally grants and contracts revenue are projected to see an increase from the FY22 budget. FY23 operating expenses are budgeted to increase \$106.8 million over the FY22 budget. The increase in overall spending is mainly due to increases in compensation and benefits, medical supplies, and drugs and medicine. Non-operating revenue for FY23 includes an increase of \$14.5M in State Appropriations, largely driven by funding for the Cancer Institute to aid in gaining NCI designation. Investment income is also projected to be \$1.8M over the FY22 budget. Interest on capital is increased by \$2.3M related to the recent bond issues.

The financial results for the first two months of FY23 have been less than budget by \$2.0M. Through August, UAMS realized a decrease in net position of \$2.0 million, versus a balanced budgeted. Patient volumes have been less than projected but expenses have flexed with volume. Nonoperating revenue, including Appropriations and Gift Revenue, is less than projected for the first two months, but is expected to increase in the coming months. 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

Years ended June 30, 2022

(In thousands)

<b>Assets</b>		<b>2022</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 4)		\$ 194,125
Investments (note 5)		13,845
Patient accounts receivable (net of allowance for doubtful accounts of \$301,289 in 2022, note 2)		193,438
Nonpatient accounts receivable (net of allowances of \$1,949 in 2022)		55,993
Supplies		29,443
Notes and student loans receivable, net (notes 6 and 14)		814
Prepaid expenses		10,873
<b>Total current assets</b>		<b>498,531</b>
<b>Noncurrent assets:</b>		
Investments (note 5)		161,153
Notes and student loans receivable, net (notes 6 and 14)		10,272
Deposits and funds held in trust by others (note 4)		233,145
Capital assets, net (note 7)		986,306
<b>Total noncurrent assets</b>		<b>1,390,876</b>
<b>Total assets</b>		<b>1,889,407</b>
<b>Deferred Outflow of Resources</b>		
Pensions (note 11)		1,798
Postemployment benefits other than pensions (note 12)		4,533
Loss on refunding of bonds		3,530
<b>Total deferred outflows</b>		<b>\$ 9,861</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities (notes 8 and 9)		\$ 146,052
Unearned revenue		11,629
Funds held in trust for others		8,168
Estimated third-party payor settlements (note 2)		29,042
Compensated absences payable, current portion (note 9)		5,159
Early retirement liability		65
Liability for postemployment benefits other than pensions (notes 9 and 12)		1,110
Bonds, notes, and capital leases payable, current portion (notes 9 and 10)		36,810
<b>Total current liabilities</b>		<b>238,035</b>
<b>Noncurrent liabilities:</b>		
Long term liability for payroll taxes (note 9)		
Deposits		31
Compensated absences payable, net of current portion (note 9)		70,344
Liability for postemployment benefits other than pensions (notes 9 and 12)		34,945
Federal capital contribution for Perkins Loan Program, pending return as student loans are closed		1,911
Net pension liability		2,773
Bonds, notes, and capital leases payable, net of current portion (notes 9 and 10)		762,347
<b>Total noncurrent liabilities</b>		<b>872,351</b>
<b>Total liabilities</b>		<b>1,110,386</b>
<b>Commitments and contingencies (notes 10 and 15)</b>		
<b>Deferred Inflows of Resources</b>		
Pensions (note 11)		7,105
Bonds		1,049
Postemployment benefits other than pensions (note 12)		3,759
Irrevocable split-interest agreements		5,868
<b>Total deferred inflows</b>		<b>17,781</b>
<b>Net Position</b>		
Net investment in capital assets		419,295
Restricted:		
Expendable:		
Scholarships		29,745
Research		13,208
Capital projects		8,848
Other		426
Nonexpendable:		
Endowments		47,572
Scholarships, fellowships, and student loans		394
Unrestricted		251,613
<b>Total net position</b>		<b>\$ 771,101</b>

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, 2022**  
(In thousands)

	<b>2022</b>
<b>Revenues:</b>	
<b>Operating revenues:</b>	
Student tuition and fees (net of scholarship allowances of \$3,076 in 2022)	\$ 47,784
Net patient services (note 2)	1,334,667
Meaningful use revenue	1,655
<b>Sponsored programs:</b>	
Federal grants and contracts	125,794
Nonfederal grants and contracts	121,089
Sales and services of educational departments	39,158
<b>Auxiliary enterprises:</b>	
Housing and food service	7,569
Other auxiliary enterprises	3,698
Other operating revenue	151,918
<b>Total operating revenues</b>	<b>1,833,332</b>
<b>Expenses:</b>	
<b>Operating expenses (note 16):</b>	
Compensation and benefits	1,219,460
Supplies and other services	650,324
Scholarships and fellowships	3,225
Depreciation and amortization (note 7)	76,704
<b>Total operating expenses</b>	<b>1,949,713</b>
Operating (loss)	<b>(116,381)</b>
<b>Nonoperating revenues (expenses):</b>	
State appropriations, net (note 3)	68,119
CARES Act and ARPA	36,760
Gifts	15,126
Investment income, net of investment expense (notes 4 and 5)	(19,574)
Interest on debt	(18,813)
(Loss) on disposal of capital assets	(208)
<b>Total nonoperating revenues, net</b>	<b>81,410</b>
<b>Revenues/(loss) before other changes in net position</b>	<b>(34,971)</b>
<b>Other changes in net position:</b>	
Capital gifts	3,147
<b>Total other changes in net position</b>	<b>3,147</b>
<b>Increase/(decrease) in net position</b>	<b>(31,824)</b>
<b>Net position:</b>	
Beginning of year	802,925
End of year	<b>\$ 771,101</b>

See accompanying notes to financial statements.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Statements of Cash Flows

Year ended June 30, 2022

(In thousands)

	<u><b>2022</b></u>
Cash flows from operating activities:	
Tuition and fees (net of scholarships)	\$ 47,917
Patient and insurance payments	1,242,145
Sponsored programs	254,075
Collection of student loans and interest	4,326
Auxiliary enterprise revenue:	
Housing and food service	7,574
Other auxiliary enterprises	3,626
Other receipts	194,044
Payments to suppliers	(641,126)
Payments to employees	(1,025,285)
Payments of employee benefits	(228,726)
Loans issued to students	(3,419)
Scholarships and fellowships	(3,225)
Other payments	<u>(11,361)</u>
Net cash and cash equivalents (used in)/provided by operating activities	<u>(159,435)</u>
Cash flows from noncapital financing activities:	
State appropriations, net	72,190
Gifts	15,125
CARES Act	36,760
Repayment of loans	(75)
Other agency funds (net)	<u>4,760</u>
Net cash and cash equivalents provided by noncapital financing activities	<u>128,760</u>
Cash flows from capital and related financing activities:	
Proceeds from issuance of debt	187,107
Gifts	3,147
Purchases of capital assets	(189,239)
Principal paid on capital debt and leases	(51,663)
Interest and paying agent fees paid on debt and capital leases	<u>(17,823)</u>
Net cash and cash equivalents provided by (used in) capital and related financing activities	<u>(68,471)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	260,650
Interest on investments (net of fees)	5,499
Purchases of investments	<u>(287,307)</u>
Net cash and cash equivalents provided by/(used in) investing activities	<u>(21,158)</u>
Net increase in cash and cash equivalents	(120,304)
Cash and cash equivalents:	
Beginning of year	<u>314,429</u>
End of year	\$ <u><u>194,125</u></u>



**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Statements of Cash Flows

Year ended June 30, 2022

(In thousands)

	<b>2022</b>
Reconciliation of operating (loss) revenues to net cash provided by operating activities:	
Operating (loss)	\$ (116,381)
Adjustments to reconcile net operating (loss) revenues to net cash and cash equivalents (used in)/provided by operating activities:	
Depreciation and amortization	76,704
Changes in assets and liabilities:	
Patient and nonpatient accounts receivable, net	(28,266)
Supplies	2,412
Other assets	2,341
Deferred outflows	1,833
Accounts payable and accrued liabilities	(36,707)
Long term liability for payroll taxes	—
Unearned revenue	5,693
Postemployment benefits other than pensions	1,552
Deposits	—
Compensated absences payable	(3,329)
Other liabilities	(67,414)
Deferred inflows	2,127
Net cash and cash equivalents (used in)/provided by operating activities	\$ (159,435)
Noncash transactions:	
Change in capital assets acquired in year-end accounts payable	\$ 4,998
Capital assets acquired by incurring capital lease obligations	1,291

See accompanying notes to financial statements.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2022

### (1) Summary of Significant Accounting Policies

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

#### (a) Basis of Presentation

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

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

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

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School, and Northwest Arkansas Satellite Campus
- The UAMS Medical Center, a tertiary care referral center with 521 acute care beds at June 30, 2022
- Regional programs, including Tele-education, Rural Hospital Program, and eight Regional Campuses located throughout the state
- The Winthrop P. Rockefeller Cancer Institute
- Harvey and Bernice Jones Eye Institute
- Donald W. Reynolds Institute on Aging
- Psychiatric Research Institute
- Jackson T. Stephens Spine Neurosciences Institute
- Translational Research Institute
- Institute for Digital Health and Innovation

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

#### (b) Accrual Accounting

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

## UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

### Notes to Financial Statements

June 30, 2022

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

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

#### **(d) Investments**

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

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

In 2018, the UA Foundation revised their investment policies to only allow for endowed monies to be maintained in the Pool. In response to the change, the UA System Investment Committee approved an agreement with Wilmington Trust to create a short-term investment pool for non-endowed investments. PFM Management LLC was selected through the request for proposal process for non-endowed investments to invest and manage this pool. In 2022, an extended fixed income fund and intermediate-term growth fund were added.

#### **(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.

## UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

### Notes to Financial Statements

June 30, 2022

#### **(h) Loan Funds**

Loan funds, included in cash and cash equivalents in the statement 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	5 to 40 years
Equipment	5 to 20 years
Internally developed software	10 years
Leasehold Improvements	Dependent on lease term
Leased Assets	Dependent on lease term Generally, 3 to 10 years

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

#### **(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, 2022, deferred outflows resulted from participation in the Arkansas Teacher Retirement System (ATRS) and the Arkansas Public Employees Retirement System (APERS) of \$1,798,000. Deferred outflows of \$4,533,000 resulted from postemployment benefits other than pensions. The balance of \$3,530,000 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 \$65,000 for the year ended June 30, 2022.

## UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

### Notes to Financial Statements

June 30, 2022

#### **(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, 2022, deferred inflows of \$7,105,000 resulted from participation in the ATRS and APERS pension systems. Deferred inflows of \$3,759,000 related to postemployment benefits other than pensions, deferred inflows of \$1,049,000 related to bond debt, and deferred inflows of \$5,868,000 resulted from irrevocable split-interest agreements.

#### **(o) *Unearned Revenue***

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

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

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services and education are reported as operating revenue and expenses. Operating revenue consists of tuition and fees, patient services revenue, operating grants and contracts, educational department sales and services, as well as various auxiliary services. Nonoperating revenue consists of revenue that results from nonexchange transactions or investment-related activities, including state appropriations (net of appropriations used for Medicaid match), gifts, grants and bequests other than items capital in nature, (loss) or gain on disposal of capital assets, investment income, and interest on debt. Additionally, in 2022, UAMS earned revenue relating to ARPA and the CARES Act (primarily provider relief funds) which is included in nonoperating revenue. Other changes in net position includes capital gifts.

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

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

#### **(r) *Charity Care***

UAMS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UAMS does not pursue collection of amounts determined to qualify as charity care, these amounts are accounted for as a reduction of patient services revenue at the time the services are rendered.

#### **(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

## UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

### Notes to Financial Statements

June 30, 2022

at predetermined rates negotiated with the federal government that are effective from July 1, 2022 through June 30, 2026.

**(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.

**(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.

## UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

### Notes to Financial Statements

June 30, 2022

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 years identified below. In fiscal year 2020, the GASB issued Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which became effective immediately and delayed the implementation dates of certain pronouncements. The effective dates below reflect the post-GASB 95 revisions.

For the year ended June 30, 2022:

- Statement No. 87, *Leases*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*, paragraphs 13-14
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*
- Statement No. 98, *The Annual Comprehensive Financial Report*
- Statement No. 99, *Omnibus 2022*, the requirements in paragraphs 26-32 related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63

Management has determined that the Statements No. 92, 93, 97, 98 and 99 did not materially impact UAMS. Statement No. 87 established standards of accounting and financial reporting for leases. Details of the effect implementing this statement are discussed in detail in Footnote 7.

For the year ending June 30, 2023:

- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 99, *Omnibus 2022*, the requirements in paragraphs 11-25 related to leases, PPPs, and SBITAs

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2022

For the year ending June 30, 2024:

- Statement No. 99, *Omnibus 2022*, the requirements in paragraph 4-10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53
- Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 6*

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

**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, 2022 are recorded net of an allowance for doubtful accounts of \$301,289,000.

Net patient services revenue for the year ended June 30, 2022 is as follows:

	<u>2022</u>
	(In thousands)
Gross patient revenue	\$ 3,709,906
Less:	
Patient services contractual allowances	2,320,457
Provision for bad debts	<u>54,782</u>
Net patient services revenue	<u>\$ 1,334,667</u>

UAMS provided approximately \$45,030,000 in charity care, based on established rates, during the year ended June 30, 2022. Because UAMS does not pursue collection of amounts determined to qualify as charity care, these amounts are accounted for as a reduction of patient services revenue at the time the services are rendered. Net patient services revenue for the year ended June 30, 2022 includes approximately \$58,151,000 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 year ended June 30, 2022 also includes approximately \$40,462,000 of net revenue from the Supplemental Medicaid program.

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

**(bb) 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



# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2022

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, 2022, 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. As of June 30, 2022, the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2013.

### ***(cc)FGP and Regional Programs***

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

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

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

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

## **(2) 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.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2022

Net state appropriations revenue for the year ended June 30, 2022 was as follows:

	<b>2022</b>
	(In thousands)
Gross state appropriations revenue	\$ 130,106
Less Medicaid match payments	61,987
Net state appropriations revenue	\$ 68,119

**Cash and Cash Equivalents**

All cash deposits of UAMS are carried at cost. The carrying amount of deposits is separately displayed in the statement 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, 2022 include deposits that are insured or collateralized with securities held by UAMS or by its agent in UAMS' name.

	<b>Carrying amount</b>	<b>Bank balance</b>
	(In thousands)	
Cash at June 30, 2022	\$ 194,125	180,999

At June 30, 2022, cash and cash equivalents are composed of \$1,380,000 of insured deposits, and \$179,619,000 of securities that are held in custody by the Federal Reserve Bank.

At June 30, 2022, deposits and funds held in trust, as reported in the statement of net position, include money market accounts of \$225,068,000. The money market funds are comprised primarily of funds held in trust related to bond issues restricted to specific use in construction projects. As such, it is UAMS's policy to report these money market accounts as funds held in trust rather than as cash and cash equivalents on the statement of net position. Interest income on cash and cash equivalents during the year ended June 30, 2022 was \$2,537,000.

**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.

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2022

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 2022, an extended fixed income fund and intermediate-term growth fund were added.

UAMS Portion at June 30, 2022:

<b>Total return pool</b>	<b>Intermediate term pool</b>	<b>Short term pool</b>	<b>Total pool</b>
3.1%	99.9%	5.2%	6.4%

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2022

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

	<u>Fair value</u>
	<u>2022</u>
	(In thousands)
Investment type:	
Exchange traded investments:	
U.S. equity	612
U.S. fixed income	\$ <u>176</u>
	<u>788</u>
Short-term pool:	
Fixed Income	3,844
Certificates of Deposit	1,525
Commercial Paper	<u>1,295</u>
	<u>6,664</u>
Intermediate-Term pool:	
Equity	48,298
Fixed Income	20,732
Real assets	<u>7,928</u>
	<u>76,958</u>
Total Return Pool	<u>70,775</u>
Other investments:	
Funds held in trust	14,000
ARHealth Ventures, Inc.	6,587
Accountable Care	143
PROTON International	1,376
NLR Radiation Oncology Joint Venture	(85)
Split Interest Agreement	<u>5,868</u>
	<u>27,889</u>
	\$ <u><u>183,074</u></u>

**UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES**

Notes to Financial Statements

June 30, 2022

The activities during fiscal year 2022 affecting UAMS' pro rata allocation of investments are summarized below in thousands:

	<b>Total return pool</b>	<b>Intermediate term pool</b>	<b>Short-term &amp; Other investments</b>	<b>Total</b>
Balances at June 30, 2021	\$ 77,718	—	120,627	198,345
Income	464	—	(791)	(327)
Realized losses	(299)	—	(49)	(348)
Net increase (decrease) in fair value of investments	(4,477)	(17,071)	1,153	(20,395)
Expenses paid	(242)	—	1,287	1,045
Purchases (sales), net	(2,389)	94,029	(86,886)	4,754
Balances at June 30, 2022	\$ <u>70,775</u>	<u>76,958</u>	<u>35,341</u>	<u>183,074</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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**Notes and Student Loans Receivable**

The net unpaid balances of notes and student loans receivable on June 30, 2022, net of allowances of \$3,315,000, are as follows:

	<u>2022</u>
	(In thousands)
Perkins loans	\$ 315
Health professions loans	5,100
Institutional funds loans	3,674
Other	3
University of Arkansas at Fayetteville note receivable	563
University of Arkansas System eVersity note receivable	1,306
Arkansas State Hospital note receivable	<u>125</u>
Total notes and student loans receivable, net	11,086
Less current portion	<u>(814)</u>
Notes and student loans receivable, noncurrent, net	\$ <u><u>10,272</u></u>

**Capital Assets**

Capital assets of UAMS at June 30, 2022 were as follows:

	<u>June 30,</u>				<u>June 30,</u>
	<u>2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>Dispositions</u>	<u>2022</u>
			(In thousands)		
Nondepreciable:					
Land	\$ 13,769	21,652	—	—	35,421
Construction in progress	130,305	126,403	(102,372)	—	154,336
Depreciable:					
Buildings and fixtures	1,083,200	6,125	106,990	(38)	1,196,277
Leased buildings and fixtures	39,608	67,995	(4,628)	—	102,975
Improvements other than buildings	2,453	—	—	—	2,453
Equipment	318,565	30,142	532	(12,843)	336,396
Leased equipment	44,147	11,724	(522)	(3,289)	52,060
Internally developed software	94,455	—	—	—	94,455
Other	<u>618</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>617</u>
Total capital assets	<u>1,727,120</u>	<u>264,041</u>	<u>—</u>	<u>(16,170)</u>	<u>1,974,990</u>

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	<u>June 30,</u> <u>2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>Dispositions</u>	<u>June 30,</u> <u>2022</u>
			(In thousands)		
Less accumulated depreciation and amortization:					
Buildings and fixtures	\$ 545,493	35,728	3,514	(4)	584,731
Leased Buildings and fixtures	21,684	7,926	(3,514)	—	26,096
Improvements other than building	2,453	—	—	—	2,453
Equipment	261,610	18,539	199	(12,689)	267,659
Leased Equipment	30,266	5,335	(199)	(3,284)	32,118
Internally developed software	66,451	9,176	—	—	75,627
Other	—	—	—	—	—
Total accumulated depreciation and amortization	<u>927,957</u>	<u>76,704</u>	<u>—</u>	<u>(15,977)</u>	<u>988,684</u>
Capital assets, net	<u>\$ 799,163</u>	<u>187,337</u>	<u>—</u>	<u>(193)</u>	<u>986,306</u>

Leased Buildings and fixtures comprise of space leased through the Arkansas Division of Building Authority, and related fixed equipment. Leased equipment comprise predominantly of copiers, and medical equipment.

Library holdings comprise books and periodicals held by UAMS. The estimated fair value of the holdings at June 30, 2022 was \$1,244,000. UAMS has not reported library holdings in the accompanying statement of net position.

UAMS adopted GASB Statement No. 87, Leases in fiscal year 2022. GASB Statement No. 87 establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Beginning in fiscal year 2022, UAMS, as a result of GASB 87 started recognizing intangible “right to use” leased assets equal to the present value of the lease payments. This increase in assets is offset by a corresponding increase in capital lease liability for certain of its leases that were previously reported as operating leases under the previous accounting standards. The effect was an increase in additions of both lease related assets and liabilities this fiscal year over last fiscal year. In fiscal year 2022, Leased Buildings and fixtures increased from \$63,367,000 while Leased Equipment increased \$6,049,000.

Lease payments, once recognized as expense, are now recognized as interest expense and depreciation over the life of the lease but not on a straight line basis. Interest on the lease payments is recognized using the effective interest method while depreciation on the new leased assets is calculated on a straight line basis resulting in the same recognition of expense over the life of the lease but differing in each period. Prior to GASB 87 operating leases were expensed as payments were made.

As a result of GASB 87, leased assets, in fiscal year 2022, are reported separately as Leased buildings and fixtures and Leased equipment. Leases were recognized and measured using the facts and circumstances that existed at the beginning of fiscal year 2022. That measurement date is in line with the State’s financial statements for fiscal year 2022. The ending balance for Buildings and fixtures for fiscal year 2021 was separated into the beginning balances for Buildings and fixtures, and Leased buildings and fixtures for fiscal year 2022. Leased Equipment was formerly reported as Leased property in 2021. The ending balances of

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Buildings and fixtures and Leased property in fiscal year 2021 is equal to the beginning balance of Buildings and fixtures, Leased buildings and fixtures, and Leased equipment in fiscal year 2022.

The present value of the leased assets are calculated using the term of the lease and the borrowing rate for UAMS at the beginning of the lease. The lease terms vary according to the conditions of the individual leases.

**Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following at June 30, 2022:

	<b>2022</b>	
	(In thousands)	
Trade payables	\$	33,257
Accrued wages		85,937
Miscellaneous payables		<u>26,858</u>
Total accounts payable and accrued liabilities	\$	<u><u>146,052</u></u>

**Long-Term Obligations**

Changes in long-term obligations during fiscal year 2022 were as follows:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>
	(In thousands)			
Bonds payable	\$ 530,635	155,696	21,530	664,801
Notes payable	23,508	31,412	4,832	50,088
Leases	<u>29,756</u>	<u>79,813</u>	<u>25,301</u>	<u>84,268</u>
Total debt	583,899	266,921	51,663	799,157
Payroll Taxes	15,885	—	15,885	—
Compensated absences	78,832	6,299	9,628	75,503
Other postemployment benefits	<u>34,503</u>	<u>1,552</u>	<u>—</u>	<u>36,055</u>
Total obligations	\$ <u><u>713,119</u></u>	<u><u>274,772</u></u>	<u><u>77,176</u></u>	<u><u>910,715</u></u>



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The current and long-term portions of the categories noted above were as follows at June 30, 2022:

	<u>Current</u>	<u>Long term</u>	<u>Total</u>
		(In thousands)	
Bonds payable	\$ 14,325	650,476	664,801
Notes payable	9,791	40,297	50,088
Leases	<u>12,694</u>	<u>71,574</u>	<u>84,268</u>
Total debt	36,810	762,347	799,157
Payroll Taxes	—	—	—
Compensated absences	5,159	70,344	75,503
Other postemployment benefits	<u>1,110</u>	<u>34,945</u>	<u>36,055</u>
Total obligations	\$ <u>43,079</u>	<u>867,636</u>	<u>910,715</u>

UAMS has bonds outstanding for various facilities. Revenues from clinical services are pledged to service those bonds. The bonds contain covenants that obligate the UA Board to maintain pledged revenues at a level greater than or equal to 125% of the related average annual debt service. For the year ended June 30, 2022, such pledged revenues were 2838% 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, 2022, such pledged revenues were 480% of the related debt service.

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

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A summary of the principal amount of outstanding bonds payable is as follows at June 30, 2022:

		<b>2022</b>
		(In thousands)
Various Facility Revenue Bonds, Series 2013, \$112,665,000 original amount, \$16,667,000 premium, with principal due annually to 2034, used to advance refund the Series 2004A and 2004B Various Facility Bonds, issued with various fixed interest rates of 1.00% to 5.00% over the life of the issue, collateralized by pledged revenue.	Par Premium	82,070 8,976
Various Facility Revenue Bonds, Series 2014, \$86,035,000 original amount, \$12,713,000 premium, with principal due annually to 2036, used to advance refund the Series 2006 Various Facility Bonds, with various fixed interest rates of 2.00% to 5.00% over the life of the issue, collateralized by pledged revenue.	Par Premium	70,400 7,751
Various Facility Revenue Bonds, Series 2019A, \$48,615,000 original amount, plus a \$12,125,000 premium, with principal due annually starting in 2023 and ending in 2032, issued with fixed rates of 5.00% over the life of the issue, collateralized by pledged revenue.	Par Premium	48,615 8,256
Various Facility Revenue Bonds, Series 2019B, \$97,470,000 original amount, with principal due annually starting in 2033 until 2042, various fixed interest rates of 2.906% to 3.35% over the life of the issue, collateralized collateralized by pledged revenue.	Par	97,470
Various Facility Revenue Bonds, Series 2020A, \$24,325,000 original amount, with principal due annually until 2030, fixed interest rates of 5.00% over the life of the issue, collateralized by pledged revenue.	Par Premium	20,200 3,694
Various Facility Revenue Bonds, Series 2021A, \$95,925,000 original amount, \$26,157,524 premium, with principal due annually starting in 2041 and ending in 2045, with fixed interest rates of 5.00% over the life of the issue, collateralized by pledged revenue	Par Premium	95,295 24,800

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		<u>2022</u>
		(In thousands)
Various Facility Revenue Bonds, Series 2021B, \$41,845,000 original amount, with principal due annually starting in 2035 and ending in 2041, issued various fixed interest rates of 2.714% to 3.097% over the life of the issue, collateralized by pledged revenue.	Par	41,845
Parking Revenue Bonds, Series 2022A \$27,555,000 original amount, with principal due annually starting in 2022 and ending in 2051, issued with fixed interest rates of 5.0% over the life of the issue, collateralized by pledged revenue.	Par Premium	27,555 5,308
Parking Revenue Bonds, Series 2022B \$4,835,000 original amount, with principal due annually starting in 2022 and ending in 2029, issued with fixed interest rates of 3.135% to 3.433% over the life of the issue, collateralized by pledged revenue.	Par	4,835
Various Facility Revenue Bonds, Series 2022A, \$93,665,000 original amount, with principal due annually starting in 2029 and ending in 2052, issued with fixed interest rates of 5.0% over the issue, collateralized by pledged revenue.	Par Premium	93,665 15,926
Various Facility Revenue Bonds, Series 2022B \$8,140,000 original amount with principal due annually starting in 2026 and ending in 2029, issued with fixed interest rates of 3.135% to 3.433% over the issue, collateralized by pledged revenue.	Par	<u>8,140</u>
Total Bonds Payable		\$ <u><u>664,801</u></u>

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Scheduled maturities of bonds and notes payable are as follows:

	<b>Bonds payable</b>				<b>Notes payable</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Premium amortized</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
				(in thousands)			
2023	\$ 14,325	25,397	6,636	46,358	9,791	1,258	11,049
2024	15,110	25,118	6,318	46,546	8,038	1,039	9,077
2025	16,095	24,380	5,977	46,452	8,036	813	8,849
2026	19,125	23,589	5,611	48,325	6,331	609	6,940
2027	20,315	22,679	5,218	48,212	6,329	440	6,769
2028–2032	112,735	98,015	19,524	230,274	11,563	652	12,215
2033–2037	118,190	72,049	11,111	201,350	—	—	—
2038–2042	116,785	51,208	9,031	177,024	—	—	—
2043–2047	120,340	22,543	4,428	147,311	—	—	—
2048–2052	37,070	5,377	857	43,304	—	—	—
	<u>\$ 590,090</u>	<u>370,355</u>	<u>74,711</u>	<u>1,035,156</u>	<u>50,088</u>	<u>4,811</u>	<u>54,899</u>

The Various Facility Revenue Bonds, Series 2022A, were issued on April 20, 2022. The issue provided \$93,665,000 for acquisition and construction and equipping of the Northwest Arkansas UAMS Orthopaedics and Sports Medicine Facility, including land acquisition. The outstanding bonds bear an interest rate of 5.0%. Annual principal payments start in April 2029 and continue until April 2052. Interest payments are made semiannually.

The Various Facility Revenue Bonds, Series 2022B, were issued on April 20, 2022. The issue provided \$8,140,000 for property in Rogers Arkansas for future expansion. The outstanding bonds bear an interest rate of 3.135% to 3.433%. Annual principal payments start in April 2026 and continue until April 2029. Interest payments are made semiannually.

The Parking Revenue Bonds, Series 2022A, were issued on February 15, 2022. The issue provided \$27,555,000 for refunding the Parking Revenue Bonds, Series 2011, for financing a portion of the new parking deck on the east side of campus, capital improvements related to Parking Deck 4, and other expenditures related to the UAMS parking infrastructure. The outstanding bonds bear an interest rate of 3.0% to 5.0%. Annual principal payments start in July 2022 and continue until July 2051. Interest payments are made semiannually.

The Parking Revenue Bonds, Series 2022B, were issued on February 15, 2022. The issue provided \$4,835,000 for a new parking deck on the east side of the campus. The outstanding bonds bear an interest rate of 0.85% to 2.23%. Annual principal payments start in July 2022 and continue until July 2029. Interest payments are made semiannually.

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

The Various Facility Revenue Bonds, Series 2021B, were issued on April 20, 2021. The issue provided \$41,845,000 to pay a portion of the costs of the new Radiation Oncology Center. The outstanding bonds

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bear various interest rate of 2.714% to 3.097%. Annual principal payments start in December of 2035 and continue until December 2041. Interest payments are made semiannually.

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

The Various Facility Revenue Bonds, Series 2019A, were 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, were 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 March 2042.

The Various Facility Revenue Refunding Bonds, Series 2014, were 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, were 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.

**Commitments**

**(a) Leases**

Scheduled maturities of lease commitments outstanding as of June 30, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(In thousands)		
2023	\$ 12,674	1,990	14,664
2024	11,636	1,762	13,398
2025	10,086	1,425	11,511
2026	8,615	1,191	9,806
2027	5,528	1,003	6,531
2028-2032	18,193	3,324	21,517
2033-2037	11,991	1,321	13,312
2038-2042	5,545	252	5,797
	<u>\$ 84,268</u>	<u>12,268</u>	<u>96,536</u>

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**(b) Rentals**

Rental expense for operating leases for the year ended June 30, 2022 was approximately \$6,686,000 and is included in supplies and other services in the accompanying statement of revenues, expenses, and changes in net position.

**(c) Construction Projects**

Construction in progress at June 30, 2022 included a new Radiology Oncology and Proton Therapy Center, the Orthopaedic and Spine Hospital (TOSH), and an upgrade of essential power systems. At June 30, 2022, contracts outstanding for tangible construction projects were approximately \$191,548,068.

**(d) Outstanding Commitments**

At June 30, 2022, UAMS had outstanding purchase orders for operating supplies and equipment amounting to approximately \$372,275,000.

### 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 transitioned to a uniform contribution formula by July 2021. That contribution formula requires an employer base contribution of 5% of an employee's eligible salary to their TIAA and/or Fidelity Investments retirement account, allocated between the two companies according to the employee's choice, with a required employee contribution of 5%. The University makes an equal contribution for employee contributions in excess of 5%, with a maximum total University contribution of 10% of eligible salary up to the IRS match limit, which at June 30, 2022, was \$30,500. 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 was delayed until July 2021. All benefits attributable to plan contributions made by the participant are immediately vested in the participant, and contributions made by the University are cliff vested upon completion of two consecutive years of URP participation.

The eligible salary earnings for UAMS employees covered by the URP for the year ended June 30, 2022 were \$992,541,000. Total employer contributions to the URP during the fiscal year 2022 were \$72,609,000 and total employee contributions were \$92,983,000.

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(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 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

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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 14.75% of applicable compensation for the fiscal year ended June 30, 2022. The gross payroll amount for UAMS employees covered by ATRS for the year ended June 30, 2022 was \$79,000. UAMS and member's contributions for the year ended June 30, 2022 were \$12,000 and \$5,000, respectively.

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

At June 30, 2022, UAMS reported a liability of \$68,167 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2022, UAMS' proportion was .0025%

For the year ended June 30, 2022, UAMS recognized pension expense credit of \$55,874. At June 30, 2022, 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	\$ 3,468	589
Changes in proportion and differences between employer contributions and share of contributions	—	97,973
Net difference between projected and actual earnings on pension plan investments	—	56,576
Change of assumptions	20,539	—
UAMS contributions subsequent to the measurement date	11,720	—
Total	\$ 35,727	155,138

Deferred outflows of resources related to pensions, resulting from UAMS' contributions subsequent to the measurement date, totaled \$11,720 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows or deferred inflows of



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resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30, 2022:		
2023	\$	(50,813)
2024		(35,377)
2025		(21,544)
2026		(22,702)
2027		(695)
Thereafter		—

**Schedule of Changes in Net Pension Liability**  
**Year ended June 30, 2022**  
**Arkansas Teachers Retirement System**

Total pension liability:		
Service cost		\$ 8,381
Interest on total pension liability		40,760
Changes of benefit terms		—
Difference between expected and actual experience		2,680
Changes of assumptions		21,849
Benefit payments, including refunds		<u>(32,440)</u>
Net changes in total pension liability		41,230
Total Pension liability, beginning of year		<u>555,500</u>
Total Pension liability, end of year		<u>596,730</u>
Plan fiduciary net position:		
Employer contributions		11,635
Employee contributions		4,139
Net investment income		129,280
Benefit payments, including refunds		(32,440)
Pension plan administrative expense		<u>(180)</u>
Net change in plan fiduciary net position		112,434
Plan fiduciary net position, beginning of year		<u>416,129</u>
Plan fiduciary net position, end of year		<u>528,563</u>
Net pension liability	\$	<u><u>68,167</u></u>

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**Actuarial Assumptions**

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

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	7.25% 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

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, 2022 are summarized below:

Asset class	Target allocation	Long-term expected real rate of return
Total equity	53 %	4.8 %
Fixed income	15	0.4
Alternatives	5	3.8
Real assets	15	4.7
Private equity	12	6.5
Total	100 %	

**Discount Rate: June 30, 2022**

A single discount rate of 7.25% 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 7.25%. It incorporates a municipal bond rate of 1.92% taken from the "20-Year Municipal GO AA Index" as of June 30, 2021. The

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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 14.75% of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: June 30, 2022***

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 (6.25%)</b>	<b>Discount rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
\$ 142,618	68,167	6,392

***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, 2022.

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

***Plan Description***

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

***Benefits Provided***

APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest three-year average compensation times the member's years of

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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, 2022. The gross payroll amount for UAMS employees covered by APERS for the year ended June 30, 2022 was \$6,308,524. UAMS' and member's contributions for the year ended June 30, 2022 were \$966,958 and \$218,274, respectively.

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

At June 30, 2022, UAMS reported a liability of \$2,705,090 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2022 UAMS' proportion was .3518%.

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For the year ended June 30, 2022, UAMS recognized pension expense credit of \$2,606,408. At June 30, 2022, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ 61,910	173,488
Changes in proportion and differences between employer contributions and share of contributions	—	2,008,912
Net difference between projected and actual earnings on pension plan investments	733,446	4,748,351
Change of assumptions	—	18,949
UAMS contributions subsequent to the measurement date	<u>966,958</u>	<u>—</u>
Total	\$ <u>1,762,314</u>	<u>6,949,700</u>

Deferred outflows of resources related to pensions, resulting from UAMS contributions subsequent to the measurement date, totaled \$966,958 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. 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:	
2023	\$ (2,190,551)
2024	(1,548,444)
2025	(974,368)
2026	(1,440,981)
2027	—
Thereafter	—

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Notes to Financial Statements

June 30, 2022

**Schedule of Changes in Net Pension Liability  
Year ended June 30, 2022  
Arkansas Public Employees Retirement System**

Total pension liability at June 30, 2022:	
Service cost	\$ 704,284
Interest on total pension liability	2,873,081
Difference between expected and actual experience	(230,970)
Changes of benefit terms	(19,018)
Changes of assumptions	—
Benefit payments, including refunds	<u>(2,195,529)</u>
Net changes in total pension liability	1,131,848
Total pension liability, beginning of year	<u>40,928,580</u>
Total pension liability, end of year	<u>42,060,428</u>
Plan fiduciary net position:	
Employer contributions	1,076,371
Employee contributions	261,627
Net investment income	9,379,539
Benefit payments, including refunds	(2,195,529)
Pension plan administrative expense	(40,972)
Other	<u>21,070</u>
Net change in plan fiduciary net position	8,502,106
Plan fiduciary net position, beginning of year	<u>30,853,232</u>
Plan fiduciary net position, end of year	<u>39,355,338</u>
Net pension liability	<u>\$ 2,705,090</u>

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Notes to Financial Statements

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**Actuarial Assumptions**

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

Actuarial cost method	Entry Age Normal
Amortization method	Level of percent of payroll, closed
Investment rate of return	7.15%
Salary increases	3.25% – 9.85%
Wage inflation	3.25%
Postretirement cost-of-living increases	3.00% Annual Compounded Increase
Mortality table	Based on RP-2006 Combined Healthy mortality table projected to 2020 using Scale MP-2017.
Average remaining service life of all members	3.9676

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, 2021 are summarized below:

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

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

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### Notes to Financial Statements

June 30, 2022

#### ***Discount Rate at June 30 2022***

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 1.92% based on the "Fidelity 20-Year Municipal GO AA Index" from the Bond Buyer Index of general obligation municipal bonds (based on the weekly rate closest to but not later than the measurement date).

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

#### ***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate at June 30, 2022***

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

<b>Sensitivity of Discount Rate</b>		
<b>1% Decrease</b>	<b>Discount rate</b>	<b>1% Increase</b>
<b>(6.15%)</b>	<b>(7.15%)</b>	<b>(8.15%)</b>
\$ 8,090,979	2,705,090	(1,743,496)

#### ***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, 2022.

#### ***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.

#### **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



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Notes to Financial Statements

June 30, 2022

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 \$1,341,000 expense credit in retiree healthcare expense during the fiscal year ended June 30, 2022.

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

**(d) 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.

**(e) Benefit Provided**

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

**(f) 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.

**(g) Employees covered by benefit terms**

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

	<u>2021</u>
Inactive employees, beneficiaries:	
Or spouses of retirees:	
Medical	165
Life	655
Active employees:	
Medical	9,121
Life	11,238

Total OPEB liability for the year ended June 30, 2022 was \$36,055,000, determined by actuarial valuations as of June 30, 2021, rolled forward.

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Notes to Financial Statements

June 30, 2022

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

University self-funded plan:

Valuation date	July 1, 2021 valuation for the fiscal year ended June 30, 2022
Valuation year	Liabilities were measured as of July 1, 2021 valuation date
Actuarial cost method	Entry Age Normal as of July 1, 2021 measurement date
Discount rate	2.16% as of July 1, 2021
Projected payroll growth rate	4.00% (same as prior year)
Percent of retirees electing coverage	55.00% medical and 75.00% life (same as prior year)
Rate of medical inflation	Measurement dates: July 1, 2021 6.50% grading to 3.12% over 19 years
Rate of pharmacy inflation	Measurement dates: July 1, 2021 7.50% grading to 3.12% over 19 years
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs
Mortality table	RP-2014 Fully Generational Mortality Table, using mortality improvement based on projection scale MP-2014 (Same Mortality table as prior year)

No experience study was made during the year.

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

Changes of assumptions and other inputs reflect a change in the discount rate from 2.21% to 2.16%.

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

Balance at June 30, 2020, rolled forward to 6/30/2021	\$ <u>34,503,000</u>
Changes for the year:	
Service cost	\$ 2,462,000
Interest	806,000
Change of benefits	—
Difference between expected and actual experience	(887,000)
Change of assumptions	179,000
Contributions - employer	—
Contributions - member	—
Net investment income	—
Benefit payments	(1,008,000)
Administrative expense/rounding	<u>                    </u>
Net changes	<u>1,552,000</u>
Balance at June 30, 2021, rolled forward to 6/30/2022	\$ <u><u>36,055,000</u></u>

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June 30, 2022

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

The following presents UAMS' total OPEB liability, using the discount rate of 2.16% for fiscal year 2022, 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, 2022</b>			
	<b>1% Decrease (1.16%)</b>	<b>Discount rate (2.16%)</b>	<b>1% Increase (3.16%)</b>
Total OPEB liability	\$ 39,512,000	36,055,000	32,961,000

**(k) 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, 2022</b>			
	<b>1% Decrease</b>	<b>Healthcare Trend</b>	<b>1% Increase</b>
Total OPEB liability	\$ 32,508,000	36,055,000	40,216,000

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

For the year ended June 30, 2022, UAMS recognized OPEB expense of \$1,341,000.

At June 30, 2022, 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	\$ —	2,767,000
Changes of assumptions	3,423,000	992,000
UAMS benefits paid subsequent to the measurement date	1,110,000	—
	<b>\$ 4,533,000</b>	<b>3,759,000</b>

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June 30, 2022

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:		
2023	\$	(819,000)
2024		173,000
2025		454,000
2026		(144,000)
2027		—
Thereafter		—

**Affiliated Entities**

The UA Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. It was established to benefit the UA System, or its students, faculty, and staff. The Board of Directors of the UA Foundation includes four members who are also members, or former members, of the UA Board. Support by the UA Foundation on behalf of UAMS was \$11,906,000 for the year ended June 30, 2022. These amounts are included in Gifts and Capital gifts in the financial statements.

Based on unaudited information provided by the UA Foundation, during the year ended June 30, 2022, a net loss of \$26,300,000 was reported due to unrealized losses on long-term investments received by the UA Foundation for the benefit of UAMS.

**Related-Party Transactions**

Notes receivable from related parties at June 30, 2022 are as follows:

	<b>2022</b>
	(In thousands)
University of Arkansas at Fayetteville	\$ 563
Arkansas State Hospital	125
University of Arkansas System (eVerity)	<u>1,306</u>
Total included in notes and student loans receivable (note 6)	\$ <u><u>1,994</u></u>

Notes payable to related parties at June 30, 2022 are as follows:

	<b>2022</b>
	(In thousands)
University of Arkansas System (Workday)	\$ <u><u>16,443</u></u>

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.

# UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

## Notes to Financial Statements

June 30, 2022

### 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 the year ended June 30, 2022, UAMS incurred costs of \$4,497,000 for this insurance. A party may bring an action against UAMS through the Arkansas State Claims Commission (the Claims Commission). The Claims Commission may award a claim of up to \$15,000 without further review or appropriation. Awards that the Claims Commission approves in excess of \$15,000 must be approved and appropriated by the Arkansas State Legislature. Appropriations of this type, if any, reduce appropriations from the state to UAMS in the period in which the claim is appropriated.

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

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

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.

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Notes to Financial Statements

June 30, 2022

If Debt Service Revenues had been considered insufficient at June 30, 2022, UAMS would have incurred a liability of \$72,902,000 related to the issue. This amount includes drawdown of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

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

**Functional Classification of Expenses**

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

	<b>Year ended June 30, 2022</b>				
	<b>Compensation and benefits</b>	<b>Supplies and other services</b>	<b>Scholarships and fellowships</b>	<b>Depreciation and amortization</b>	<b>Total</b>
	(In thousands)				
Patient care	\$ 780,210	502,988	—	—	1,283,198
Instruction	108,482	12,865	—	—	121,347
Research	112,765	58,971	—	—	171,736
Public services	24,021	11,593	—	—	35,614
Academic support	38,192	1,823	—	—	40,015
Student services	1,441	2,904	—	—	4,345
Institutional support	103,705	35,618	—	—	139,323
Operation and maintenance of plant	45,750	18,964	—	—	64,714
Scholarships and awards	2,007	1,368	3,225	—	6,600
Auxiliary	1,247	1,213	—	—	2,460
Depreciation and amortization	—	—	—	76,704	76,704
Other	1,640	2,017	—	—	3,657
	<u>\$ 1,219,460</u>	<u>650,324</u>	<u>3,225</u>	<u>76,704</u>	<u>1,949,713</u>

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Required Supplementary Information (Unaudited)

June 30, 2022 and 2021

**(1) Retirement Benefits**

**(a) Arkansas Teacher Retirement System**

**Actuarial Assumptions**

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

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Wage inflation	2.75%
Salary increases	2.75-7.75%
Investment rate of return	7.25% 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

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Required Supplementary Information (Unaudited)

June 30, 2022 and 2021

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

Fiscal Ending June 30	UAMS Proportion of Net Pension Liability	UAMS Proportionate Share of Net Pension Liability	UAMS Covered Payroll	UAMS	
				Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Net Position as a Percentage of Total Pension Liability
2018(a)	0.0083 %	350,770	173,286	202.42 %	79.48 %
2019(b)	0.0058 %	209,653	107,058	195.83 %	82.78 %
2020(c)	0.0035 %	145,151	104,845	138.44 %	80.96 %
2021(d)	0.0033 %	189,535	80,236	236.22 %	74.91 %
2022(e)	0.0025 %	68,167	79,457	85.79 %	88.58 %

(a) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.

(b) The amounts presented were determined as of June 30, 2018, rolled forward to June 30, 2019.

(c) The amounts presented were determined as of June 30, 2019, rolled forward to June 30, 2020.

(d) The amounts presented were determined as of June 30, 2020, rolled forward to June 30, 2021.

(e) The amounts presented were determined as of June 30, 2021, rolled forward to June 30, 2022.

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

Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to		UAMS Covered Payroll	Contributions as a Percentage of Covered Payroll
		Contractually Required Contribution	Contribution Deficiency (Excess)		
2018	24,260	(24,260)	—	173,286	14.00 %
2019	14,988	(14,988)	—	107,058	14.00 %
2020	14,940	(14,940)	—	104,845	14.25 %
2021	11,634	(11,634)	—	80,236	14.50 %
2022	11,720	(11,720)	—	79,457	14.75 %



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

Total Pension Liability									
Fiscal Year	Service Cost	Interest on Total Pension Liability	Changes of Benefit Items	Difference between Expected and Actual Experience	Changes of Assumptions	Benefit Payments, including Refunds	Net Changes in Total Pension Liability	Total Pension Liability, Beginning of Year	Total Pension Liability, End of Year
2018	25,682	123,972	(39,151)	(6,409)	114,726	(92,103)	126,717	1,582,858	1,709,575
2019	18,197	86,681	—	(424)	—	(67,415)	37,039	1,180,352	1,217,391
2020	11,325	53,988	—	4,156	—	(42,279)	27,190	735,316	762,506
2021	11,084	53,853	—	(833)	—	(42,343)	21,761	733,680	755,441
2022	8,381	40,760	—	2,680	21,849	(32,440)	41,230	755,441	796,671

Net Pension Liability									
Fiscal Year	Employer Contributions	Employee Contributions	Net Investment Income	Benefit Payments, including Refunds	Pension Plan Expense	Net Changes in Plan Fiduciary Net Position	Plan Fiduciary Net Position, Beginning of Year	Plan Fiduciary Net Position, End of Year	Net Pension Liability
2018	34,624	11,107	191,062	(92,103)	(653)	144,037	1,214,768	1,358,805	350,770
2019	24,456	7,995	105,086	(67,415)	(538)	69,584	938,154	1,007,738	209,653
2020	14,993	4,937	31,261	(42,279)	(248)	8,664	608,691	617,355	145,151
2021	14,940	5,126	(5,550)	(42,343)	(283)	(28,110)	594,016	565,906	189,535
2022	11,635	4,139	129,278	(32,440)	180	112,792	565,906	678,699	68,167

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.

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

**Actuarial Assumptions**

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

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Investment rate of return	7.15%
Salary increases	3.25% – 9.85%
Wage inflation	3.25%
Postretirement cost-of-living increases	3.00% annual compounded increase
Mortality table	Based on RP-2006 Combined Healthy mortality table projected to 2020 using Projection Scale MP-2017
Average remaining service life of all members	3.9676

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

Fiscal Year Ending June 30	UAMS Proportion of Net Pension Liability	UAMS Proportionate Share of Net Pension Liability	UAMS Covered Payroll	UAMS	Plan Net Position as a Percentage of Total Pension Liability
				Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	
2018(a)	0.6177 %	15,963,746	9,954,115	160.37 %	75.65 %
2019(b)	0.5313 %	11,720,586	9,663,708	121.28 %	79.59 %
2020(c)	0.4269 %	10,298,361	7,599,668	135.51 %	78.55 %
2021(d)	0.3132 %	8,969,190	6,566,642	136.59 %	75.38 %
2022(e)	0.3518 %	2,705,090	6,308,524	42.88 %	95.68 %

(a) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.

(b) The amounts presented were determined as of June 30, 2018, rolled forward to June 30, 2019.

(c) The amounts presented were determined as of June 30, 2019, rolled forward to June 30, 2020.

(d) The amounts presented were determined as of June 30, 2020, rolled forward to June 30, 2021.

(e) The amounts presented were determined as of June 30, 2021, rolled forward to June 30, 2022.

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

Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to		UAMS Covered Payroll	Contributions as a Percentage of Covered Payroll
		Contractually Required Contribution	Contribution Deficiency (Excess)		
2018	1,468,232	(1,468,232)	—	9,954,115	14.75 %
2019	1,480,805	(1,480,805)	—	9,663,708	15.32 %
2020	1,145,471	(1,145,471)	—	7,599,668	15.07 %
2021	1,000,526	(1,000,526)	—	6,566,642	15.23 %
2022	966,958	(966,958)	—	6,308,524	15.33 %

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

**Total Pension Liability**

<b>Fiscal Year</b>	<b>Service Cost</b>	<b>Interest on Total Pension Liability</b>	<b>Changes of Benefit Items</b>	<b>Difference between Expected and Actual Experience</b>	<b>Assumption Changes</b>	<b>Benefit Payments, including Refunds</b>	<b>Net Changes-Total Pension Liability</b>	<b>Total Pension Liability, Beginning of Year</b>	<b>Total Pension Liability, End of Year</b>
2018	1,078,999	4,442,513	—	388,257	2,570,780	(3,224,468)	5,256,081	60,306,236	65,562,317
2019	964,653	3,962,835	—	(36,983)	(956,897)	(2,893,548)	1,040,060	56,388,715	57,428,775
2020	809,208	3,240,642	(269)	256,520	—	(2,439,957)	1,866,144	46,139,039	48,005,183
2021	621,471	2,473,164	—	6,289	—	(1,889,598)	1,211,326	35,223,763	36,435,089
2022	704,284	2,873,081	(19,018)	(230,970)	—	(2,195,529)	1,131,848	36,435,089	37,566,937

**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>
2018	1,614,416	356,517	5,330,173	(3,224,468)	(58,662)	47,114	4,065,090	45,533,481	49,598,571	15,963,746
2019	1,467,945	337,020	4,156,663	(2,893,548)	(61,087)	42,550	3,049,543	42,658,646	45,708,189	11,720,586
2020	1,250,523	286,949	1,923,020	(2,439,957)	(62,919)	26,641	984,257	36,722,565	37,706,822	10,298,361
2021	936,264	222,144	546,754	(1,889,598)	(36,589)	19,574	(201,451)	27,667,350	27,465,899	8,969,190
2022	1,076,371	261,627	9,379,539	(2,195,529)	(40,970)	—	8,481,038	27,465,899	35,946,937	2,705,090

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.

***Changes in Assumptions***

There were no benefit changes during the year. Economic assumptions in the June 30, 2021 valuation included a 7.15% investment return assumption. The investment return assumption for the prior year was 7.50%.

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

**Actuarial Assumptions**

University self-funded plan:

Valuation date	July 1, 2021 valuation for the fiscal year ended June 30, 2022
Valuation year	Census data was collected as of February 2022. Liabilities were measured as of July 1, 2021 valuation date.
Actuarial cost method	Entry Age Normal as of July 1, 2021 measurement date
Discount rate	2.16% as of July 1, 2021
Projected payroll growth rate	4.00%
Percent of retirees electing coverage	55.00% medical and 75.00% life
Rate of medical inflation	Measurement dates: July 1, 2021 6.50% grading to 3.12% over 19 years
Rate of pharmacy inflation	Measurement dates: July 1, 2021 7.50% grading to 3.12% over 19 years
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs
Mortality table	RP-2014 Fully Generational Mortality Table, using mortality improvement based on projection scale MP-2014 (same as prior year)

No experience study was made during the year.

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

Changes of assumptions and other inputs reflect a change in the discount rate from 2.21% to 2.16%. Also, the rate of pharmacy inflation remained constant at 7.50% grading to 3.12% over 19 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, 2022**

Fiscal Year	Service Cost	Interest on Total Pension Liability	Changes of Benefit	Difference between Expected and Actual Experience	Assumption Changes	Benefit Payments, including Refunds	Net Changes-Total Pension Liability	Total Pension Liability, Beginning of Year	Total Pension Liability, End of Year
2018	\$ 2,234,061	1,013,709	—	—	(5,942,336)	(714,070)	(3,408,636)	33,689,190	30,280,554
2019	1,949,956	1,141,397	—	(1,906,297)	213,960	(702,009)	697,007	30,280,554	30,977,561
2020	1,924,000	1,257,000	—	(1,375,000)	1,435,000	(826,000)	2,415,000	30,977,561	33,392,561
2021	2,228,000	1,231,000	(4,372,000)	(1,225,000)	4,154,000	(906,000)	1,110,000	33,393,000	34,503,000
2022	2,462,000	806,000	—	(887,000)	179,000	(1,008,000)	1,552,000	34,503,000	36,055,000

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

<b>Fiscal Year</b>	<b>Covered- employee payroll</b>	<b>Total OPEB liability as a percentage of covered employee</b>
2018	\$ 798,978,000	3.79 %
2019	782,000,000	3.96 %
2020	793,212,000	4.21 %
2021	807,816,000	4.27 %
2022	992,983,000	3.63 %

Note: This is a 10-year schedule. Years after fiscal year 2022 are to be added as they become available.