




University of Arkansas for Medical Sciences

Independent Auditor's Report and Financial Statements

June 30, 2023



University of Arkansas for Medical Sciences
June 30, 2023

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Independent Auditor's Report

Board of Trustees
University of Arkansas System
4301 W. Markham Street
Little Rock, Arkansas 72205

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, 2023, 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, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of 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

As discussed in *Note 1* to the financial statements, the financial statements of UAMS are intended to present the financial position, the change 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 of Arkansas System as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in *Note 5* to the financial statements, in 2023, UAMS adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about UAMS' ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about UAMS' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

FORVIS,LLP

Little Rock, Arkansas
October 16, 2023

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Introduction

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, 2023. 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 3,209 and faculty numbering 1,767
- The UAMS Medical Center, a tertiary care referral center with 535 acute care beds
- The Orthopaedic & Spine Hospital, opened in June 2023, with 24 beds, 12 operating suites, clinic space, therapy and imaging space
- 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.

In 2023, UAMS adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Prior year comparative information contained herein has not been adjusted for adoption of GASB 96.

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

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, 2023.

Financial Highlights

UAMS' net position decreased in fiscal year 2023 by \$46,408,000 with assets of \$1,814,533,000 and deferred outflows of resources of \$9,301,000 and liabilities of \$1,082,709,000 and deferred inflows of resources of \$16,432,000. 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 \$724,693,000 at June 30, 2023. 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, 2023 and 2022 as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 1,905,388	\$ 1,833,332
Operating expenses	(2,075,906)	(1,949,713)
Nonoperating revenues (net)	124,054	81,410
Other changes in net position	<u>56</u>	<u>3,147</u>
Decrease in net position	<u>\$ (46,408)</u>	<u>\$ (31,824)</u>

University of Arkansas for Medical Sciences
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

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 net investment in capital assets. 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.

University of Arkansas for Medical Sciences
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

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

	2023	2022
Assets		
Current assets	\$ 376,320	498,531
Noncurrent assets:		
Investments	179,988	161,153
Capital, lease and subscription assets, net	1,108,427	986,306
Other	<u>149,798</u>	<u>243,417</u>
 Total assets	 <u>1,814,533</u>	 <u>1,889,407</u>
 Deferred Outflows of Resources	 <u>9,301</u>	 <u>9,861</u>
 Total assets and deferred outflows of resources	 <u>\$ 1,823,834</u>	 <u>\$ 1,899,268</u>
 Liabilities		
Current liabilities	\$ 181,935	\$ 238,035
Noncurrent liabilities	<u>900,774</u>	<u>872,351</u>
 Total liabilities	 <u>1,082,709</u>	 <u>1,110,386</u>
 Deferred Inflows of Resources	 <u>16,432</u>	 <u>17,781</u>
 Net Position		
Net investment in capital assets	422,323	419,295
Restricted:		
Expendable	55,909	52,227
Nonexpendable	48,227	47,966
Unrestricted	<u>198,234</u>	<u>251,613</u>
 Total net position	 <u>724,693</u>	 <u>771,101</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 1,823,834</u>	 <u>\$ 1,899,268</u>

University of Arkansas for Medical Sciences
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

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.

Fiscal Year 2023

UAMS' total assets decreased by \$75,434,000 in fiscal year 2023. This net decrease was driven by a decrease in current assets of \$122,211,000 offset by an increase in noncurrent assets of \$47,337,000.

Current assets decreased by \$122,211,000 in fiscal year 2023. Decreases were seen in the following areas: cash and cash equivalents (\$173,360,000), short-term investments (\$13,392,000), notes and student loans receivable (\$174,000), and prepaid expenses (\$928,000). An offsetting increase was seen in non-patient accounts receivable (\$49,965,000), patient accounts receivable (\$10,363,000) and inventories (\$4,017,000).

Noncurrent assets increased by \$49,308,000 in fiscal year 2023. Increases were seen in the following areas: capital, lease and subscription assets (\$122,121,000), long-term investments (\$18,835,000), and decreases in deposits and funds held in trust by others (\$93,584,000), long-term notes payable and student loans receivable (\$35,000).

Deferred outflows of resources decreased by \$560,000 in fiscal year 2023. UAMS' deferred outflows of resources resulted from liabilities for pensions and postemployment benefits along with the deferred loss on the refunding of certain outstanding bonds in past years. The actuarially determined deferred outflows related to pension liabilities increased by \$1,252,000, and postemployment benefits other than pensions decreased by \$1,335,000. Deferred outflows related to the loss on refunding of bonds decreased in fiscal year 2023 by \$477,000 from the amortization for the year.

Total liabilities decreased by \$27,677,000 in fiscal year 2023. This net decrease was driven by a decrease in current liabilities of \$56,100,000 offset by an increase in noncurrent liabilities of \$28,423,000.

University of Arkansas for Medical Sciences
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

Current liabilities decreased by \$56,100,000 in fiscal year 2023. Decreases were seen in the following areas: accounts payable (\$20,473,000), estimated third-party payer settlements (\$38,031), funds held in trust for others (\$6,887,000), unearned revenue (\$6,089,000) and the current portion of early retirement liability (\$65,000). An offsetting increase was seen in the current portion of bonds, notes payable and capital leases of \$6,649,000.

Noncurrent liabilities increased by \$28,423,000 in fiscal year 2023. An increase was seen in the noncurrent portion of bonds and notes payable and lease and subscription liabilities of \$25,611,000. Other changes include increases in the noncurrent portion of net pension liability (\$4,472,000) and the noncurrent portion of compensated absences payable (\$4,230,000). Decreases occurred in the noncurrent portion of other postemployment benefits liability other than pensions (\$3,948,000) and Perkins Loan advances (\$1,911,000).

Deferred inflows of resources decreased by \$1,349,000 in fiscal year 2023. Decreases were seen in the following areas: deferred inflows related to pensions decreased (\$4,806,000), deferred outflows related to bonds (\$209,000), but were offset by an increase in deferred inflows related to postemployment benefits other than pensions of \$3,256,000.

University of Arkansas for Medical Sciences
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

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 (in thousands):

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Student tuition and fees, net of scholarship allowances	\$ 48,700	\$ 47,784
Net patient services	1,325,665	1,336,322
Sponsored programs	292,064	246,883
Other	<u>238,959</u>	<u>202,343</u>
Total operating revenues	<u>1,905,388</u>	<u>1,833,332</u>
Operating Expenses		
Compensation and benefits	1,283,328	1,219,460
Supplies and other services	696,928	650,324
Scholarships and fellowships	806	3,225
Depreciation and amortization	<u>94,844</u>	<u>76,704</u>
Total operating expenses	<u>2,075,906</u>	<u>1,949,713</u>
Operating Loss	<u>(170,518)</u>	<u>(116,381)</u>
Nonoperating Revenues (Expenses)		
State appropriations, net	84,978	68,119
Noncapital gifts	23,433	15,126
Investment gain (loss), net of expense	28,969	(19,574)
Interest expense	(23,843)	(19,021)
Other	<u>10,517</u>	<u>36,760</u>
Total nonoperating revenues, net	<u>124,054</u>	<u>81,410</u>
Loss Before Capital Gifts	(46,464)	(34,971)
Capital Gifts	<u>56</u>	<u>3,147</u>
Decrease in Net Position	(46,408)	(31,824)
Net Position, Beginning of Year	<u>771,101</u>	<u>802,925</u>
Net Position, End of Year	<u>\$ 724,693</u>	<u>\$ 771,101</u>

University of Arkansas for Medical Sciences
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

Fiscal Year 2023

The Statement of Revenues, Expenses and Changes in Net Position reflects a loss before other changes in net position of \$46,471,000 and a decrease of \$46,408,000 in net position for fiscal year 2023. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue decreased by \$10,657,000, or 0.8%. The budget for fiscal year 2023 assumed increases in patient volumes in both the inpatient and outpatient areas; however, staffing challenges resulted in several volume indicators falling short of budget. Patient discharges were less than prior year and less than budgeted volumes in fiscal year 2023. Clinic visits were flat with prior year volume and did not meet the budgeted growth. Surgical volumes exceeded prior year cases by 7.0% but fell short of the fiscal year 2023 budgeted volume.

Sponsored programs, which include federal grants and contracts, as well as state and local government and nongovernmental (i.e., nonfederal) grants and contracts, increased by a total of \$45,181,000, or 18.3%. Federal grants and contracts increased \$13,831,000, or 11.0%. Net student tuition and fees increased \$916,000, or 1.9%. Other operating revenues increased by \$36,616,000, or 18.1%. Total operating revenue increased over the prior year by \$72,056,000, or 3.9%.

The following factors affected operating expenses in 2023:

Operating expenses increased by \$126,193,000, or 6.5%. This increase was primarily caused by increases in compensation and benefits and supplies and other services expense. Compensation and benefits increased by \$63,868,000, or 5.2%. Total supplies and other services increased by \$46,604,000, or 7.2%, largely due to increases in medical supplies and drugs and medicines for patient care.

The following factors affected nonoperating revenue (expense) in 2023:

Nonoperating revenue (expense) increased by \$42,644,000, or 52.4%. The largest contributor to this was an increase in investment performance compared to prior year of \$48,543,000, or 248.0%.

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, 2023 was as follows (in thousands):

Gross state appropriations revenue	\$ 146,052
Less Medicaid match payments	<u>61,074</u>
	<u>\$ 84,978</u>

University of Arkansas for Medical Sciences
Management’s Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

Capital, Lease, and Subscription Assets and Debt Administration

Capital Assets

At June 30, 2023, UAMS had \$1,904,899,000 invested in capital assets, net of accumulated depreciation and amortization of \$959,444,000. Depreciation and amortization expense totaled \$70,830,000 for the fiscal year ended June 30, 2023.

UAMS’ capital additions totaled \$214,118,000 in fiscal year 2023, with the majority comprised of new construction and capital leases. Major construction projects completed in fiscal year 2023 and the sources that funded their acquisition included (in thousands):

Project	Amount of additions	Funding source
New Orthopaedic and Spine Hospital	\$ 78,699	Bonds
Radiation Oncology Expansion	64,102	Bonds
Upgrade Essential Power Systems	14,961	Bonds
Realign Pine/Cedar Boulevard	10,907	Bonds

Construction in progress at June 30, 2023 totaled \$37,879,000. The largest components of that balance consists of Parking Deck 4, the Northwest Arkansas Orthopaedic and Sports Medicine Facility, and the relocation of Outpatient Center Infusion 1. More detailed information about UAMS’ capital assets is presented in *Note 5* to the financial statements.

Lease Assets

At June 30, 2023, UAMS had \$203,049,000 invested in lease assets, net of accumulated depreciation and amortization of \$72,951,000. Depreciation and amortization expense totaled \$17,320,000 for the fiscal year ended June 30, 2023.

Subscription Assets

At June 30, 2023, UAMS had \$39,568,000 invested in subscription assets, net of accumulated depreciation and amortization of \$6,694,000. Depreciation and amortization expense totaled \$6,694,000 for the fiscal year ended June 30, 2023.

University of Arkansas for Medical Sciences
Management’s Discussion and Analysis (Unaudited)
Year Ended June 30, 2023

Debt Administration

At June 30, 2023, UAMS had \$831,417,000 in outstanding debt, as shown in the following table (in thousands):

Obligation:	
Bonds payable	\$ 643,840
Notes payable	58,532
Obligations under leases	121,009
Obligations under subscription liabilities	<u>8,036</u>
	<u>\$ 831,417</u>

Moody’s Investors Service has rated the UA System as Aa2 since May 2010. This rating was affirmed on June 29, 2023. 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 7, 8 and 9* to the financial statements.

Economic Outlook

UAMS closed fiscal year 2023 with a decrease in net position of \$46,400,000, compared to the budgeted loss of \$7,900,000 for the period. The budget for fiscal year 2023 included the impact of the startup and anticipated opening of The Orthopaedic & Spine Hospital and assumed increases in patient volumes in both the inpatient and outpatient areas. While some clinical volumes exceeded prior year, staffing challenges have resulted in patient volumes being less than expected and are the reason net patient services revenue is below budget. In addition, supply costs increased in several areas over prior year, specifically in pharmacy expense, medical supplies, and services.

The fiscal year 2024 budget for UAMS is a decrease in net position of \$8,100,000, which is comparable to the fiscal year 2023 budgeted decrease of \$7,900,000. The recent completion of capital projects across the system to support growth in clinical programs has resulted in an increase in depreciation expense for fiscal year 2024, which is the primary driver behind the budgeted decrease in net position. Due to the significant year-over-year increase in depreciation expense and the fact that the associated clinical programs have a ramp-up period to expected financial performance, UAMS is taking a multi-year approach to fully funding the associated depreciation expense. Despite the budgeted decrease in net position, UAMS expects to be cash flow positive for fiscal year 2024.

Budgeted operating revenues are expected to increase by \$137,300,000 over the fiscal year 2023 budget. Tuition revenue is projected to decrease slightly over the fiscal year 2023 budget. Increases of \$89,600,000 are expected in net patient service revenue. In addition to The Orthopaedic and Spine Hospital (opened in June 2023), the opening of the UAMS Health Urology Center is another source of new revenue for the fiscal year 2024 budget.

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Finally, the College of Medicine is projecting estimated growth at 9% related to additional physician recruitments to be deployed at Arkansas Children's Hospital. Grants and contracts revenue are also projected to see an increase from the fiscal year 2023 budget.

Fiscal year 2024 operating expenses are budgeted to increase \$132,700,000 over the fiscal year 2023 budget. The increase in overall spending is due to increases in compensation and benefits, increased cost of medical supplies, drugs and medicine; and an increase in depreciation expenses for capital projects across UAMS.

Nonoperating revenue for fiscal year 2024 includes a decrease of \$10,500,000 in state appropriations. Noncapital investment spending is expected to be less than was budgeted in fiscal year 2023, primarily due to large capital expenditures budgeted in fiscal year 2023. Additionally, an increase in the Medicaid Match is projected. This is the result of a lower Federal Medical Assistance Percentage (FMAP) rate in fiscal year 2024 due to the end of the COVID-19 public health emergency. Investment income is budgeted at \$9,970,000 for fiscal year 2024, which is consistent with historical actuals. Interest expense of \$23,120,000 is budgeted for fiscal year 2024, which is consistent with prior year.

The financial results for the first two months of fiscal year 2024 have been better than budgeted by \$1,900,000. Through August, UAMS realized a decrease in net position of \$5,400,000, versus a budgeted decrease of \$7,300,000. Patient volumes have been less than projected, but expenses have flexed with volume. Nonoperating revenue, including appropriations and gift revenue, is more than projected for the first two months.

Over the past few years, the healthcare industry has experienced significant financial challenges. These challenges, initially brought on by the pandemic, have persisted due to record levels of inflation in labor as well as supplies. UAMS has not been immune to this and has experienced the same financial challenges as other healthcare organizations across the state and the U.S. Further, UAMS' overall financial performance depends on the margin it generates from the clinical enterprise to subsidize its other mission areas of research and education. To address these challenges, UAMS has significant efforts underway to drive efficiencies in processes that increase revenue and reduce expense. UAMS believes these efforts will improve its financial performance in the coming months and expects to end the fiscal year within its budget.

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

Statement of Net Position

June 30, 2023

(in thousands)

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents (note 2)	\$	20,765
Investments (notes 2 and 16)		453
Deposits and funds held in trust by others - current (notes 2 and 16)		1,971
Patient accounts receivable, net of allowance; \$297,136 (note 3)		183,075
Nonpatient accounts receivable, net of allowance; \$16,461		105,958
Estimated third-party payor settlements (note 11)		20,053
Supplies		33,460
Notes and student loans receivable, net (note 4)		640
Prepaid expenses		9,945
		<hr/>
Total current assets		376,320

Noncurrent Cash and Investments

Investments (notes 2 and 16)		179,988
Notes and student loans receivable, net (note 4)		10,237
Deposits and funds held in trust by others (notes 2 and 16)		139,561
		<hr/>
Total noncurrent cash and investments		329,786

Capital Assets, Net (Note 5)

945,455

Lease Assets, Net (Note 5)

130,098

Subscription Assets, Net (Note 5)

32,874

Total assets

1,814,533

Deferred Outflows of Resources

Pension related (note 14)		3,050
Other postemployment benefit related (note 15)		3,198
Bonds (note 7)		3,053
		<hr/>

Total deferred outflows of resources

9,301

Total assets and deferred outflows of resources

\$ 1,823,834

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Accounts payable and accrued liabilities (note 6)	\$ 125,579
Unearned revenue	5,540
Funds held in trust for others	1,281
Compensated absences payable, current portion (note 7)	5,159
Liability for postemployment benefits other than pensions (note 15)	917
Current maturities of bonds payable (note 7)	15,110
Current maturities of notes payable (note 7)	12,406
Current portion of lease liabilities (notes 7 and 8)	13,858
Current portion of subscription liabilities (notes 7 and 9)	2,085

Total current liabilities 181,935

Noncurrent Liabilities

Compensated absences payable, net of current portion (note 7)	74,574
Liability for postemployment benefits other than pensions (note 15)	30,997
Net pension liability (note 14)	7,245
Bonds payable (note 7)	628,730
Notes payable (note 7)	46,126
Lease liabilities (notes 7 and 8)	107,151
Subscription liabilities (notes 7 and 9)	5,951

Total noncurrent liabilities 900,774

Total liabilities 1,082,709

Deferred Inflows of Resources

Pension related (note 14)	2,299
Bonds (note 7)	840
Other postemployment benefit related (note 15)	7,015
Irrevocable split-interest agreements	6,278

Total deferred inflows of resources 16,432

Net Position

Net investment in capital assets	422,323
Restricted - expendable	55,909
Restricted - nonexpendable	48,227
Unrestricted	198,234

Total net position 724,693

Total liabilities, deferred inflows of resources and net position \$ 1,823,834

University of Arkansas for Medical Sciences
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2023
(in thousands)

Operating Revenues	
Student tuition and fees, net of scholarship allowances; \$282	\$ 48,700
Net patient service revenue, net of provision for uncollectible accounts; \$26,890 (note 11)	1,325,665
Sponsored programs	
Federal grants and contracts	139,625
Nonfederal grants and contracts	152,439
Sales and services of educational departments	40,669
Auxiliary enterprises	
Housing and food service	8,527
Other auxiliary enterprises	2,924
Other operating revenue	<u>186,839</u>
 Total operating revenues	 <u>1,905,388</u>
Operating Expenses (Note 19)	
Compensation and benefits	1,283,328
Supplies and other services	696,928
Scholarships and fellowships	806
Depreciation and amortization (note 5)	<u>94,844</u>
 Total operating expenses	 <u>2,075,906</u>
Operating Loss	<u>(170,518)</u>
Nonoperating Revenues (Expenses)	
State appropriations, net (note 13)	84,978
Noncapital gifts	23,433
Investment income, net of investment expense (note 2)	28,969
Interest expense	(23,843)
Other	<u>10,517</u>
 Total nonoperating revenues	 <u>124,054</u>
Loss Before Capital Gifts	<u>(46,464)</u>
Capital Gifts	<u>56</u>
Decrease in Net Position	(46,408)
Net Position, Beginning of Year	<u>771,101</u>
Net Position, End of Year	<u><u>\$ 724,693</u></u>

University of Arkansas for Medical Sciences

Statement of Cash Flows

Year Ended June 30, 2023

(in thousands)

Cash Flows from Operating Activities	
Receipts from and on behalf of patients	\$ 1,286,933
Receipts from and on behalf of students	83,821
Receipts from sponsored programs	265,716
Payments to suppliers	(720,026)
Payments to employees	(1,284,700)
Scholarships and fellowships	(806)
Other receipts, net	<u>178,957</u>
Net cash and cash equivalents used in operating activities	<u>(190,105)</u>
Cash Flows from Noncapital Financing Activities	
Noncapital appropriations - State of Arkansas	84,978
Noncapital grants and gifts	23,433
Repayment of student loans	209
Other, net	<u>(4,080)</u>
Net cash and cash equivalents provided by noncapital financing activities	<u>104,540</u>
Cash Flows from Capital and Related Financing Activities	
Capital grants and gifts	56
Proceeds from issuance of notes payable	9,999
Principal paid on notes payable	(12,035)
Principal paid on bonds	(14,325)
Interest paid on notes payable and bonds	(27,576)
Principal paid on lease liabilities	(15,207)
Interest paid on lease liabilities	(2,753)
Principal paid on subscription liabilities	(2,031)
Interest paid on subscription liability	(150)
Subscription asset additions	(1,594)
Purchases of capital assets	<u>(137,319)</u>
Net cash and cash equivalents used in capital and related financing activities	<u>(202,935)</u>
Cash Flows from Investing Activities	
Interest and dividends on investments	5,261
Purchase of investments	(283,521)
Proceeds from sales and maturities of investments	398,843
Net change in pooled investments	<u>(5,443)</u>
Net cash and cash equivalents provided by investing activities	<u>115,140</u>
Decrease in Cash and Cash Equivalents	<u>(173,360)</u>
Cash and Cash Equivalents, Beginning of Year	<u>194,125</u>
Cash and Cash Equivalents, End of Year	<u>\$ 20,765</u>

University of Arkansas for Medical Sciences
Statement of Cash Flows (Continued)
Year Ended June 30, 2023
(in thousands)

Reconciliation of Operating Loss to Net Cash and Cash Equivalents Used in Operating Activities

Operating loss	\$	(170,518)
Depreciation and amortization		94,844
Provision for uncollectible accounts		(26,890)
Changes in operating assets and liabilities		
Patient accounts receivable		37,253
Nonpatient accounts receivable		(49,965)
Estimated third-party payor settlements		(49,095)
Supplies		(4,017)
Prepaid expenses		(793)
Deferred outflows of resources - pension, other postemployment benefits, and bonds		560
Deferred inflows of resources - pension, other postemployment benefits, bonds, and irrevocable split-interest agreements		(1,349)
Accounts payable and accrued liabilities		(16,665)
Unearned revenue		(6,089)
Compensated absences payable		4,230
Liability for postemployment benefits other than pensions		(4,141)
Net pension liability		4,472
Other operating liabilities		(1,942)
		(1,942)
Net cash used in operating activities	\$	(190,105)

Noncash Investing, Capital and Financing Activities

Lease obligations incurred for lease assets	\$	51,948
Long-term debt incurred for purchase of capital assets	\$	8,343
Capital assets acquired through noncash transactions	\$	6,901
Capital assets acquisitions included in accounts payable	\$	2,679
Subscription assets acquired through noncash transactions	\$	2,137

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2023

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

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).

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 with a combined enrollment of 3,209 and faculty numbering 1,767
- The UAMS Medical Center, a tertiary care referral center with 535 acute care beds
- The Orthopaedic & Spine Hospital, opened in June 2023, with 24 beds, 12 operating suites, clinic space, therapy and imaging space
- 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

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2023

UAMS utilizes approximately 7,544,000 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 6,377,000 square feet of owned space at the Little Rock campus and 1,167,000 of leased or owned space throughout the state of Arkansas.

Basis of Accounting and Presentation

The financial statements of UAMS have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. UAMS first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

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.

Cash Equivalents

UAMS considers all liquid investments with original maturities of three months or less to be cash equivalents. UAMS does not consider uninvested cash held in investment accounts as cash or cash equivalents. At June 30, 2023, cash equivalents consisted primarily of money market accounts with brokers.

Patient Accounts Receivable

UAMS reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. UAMS provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2023

Nonpatient Accounts Receivable

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

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.

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.

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.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. The investment in equity investees is reported on the equity method of accounting. All other investments, including pooled investments held by the University of Arkansas Foundation (UA Foundation), are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Capital Assets (Including Intangible Assets)

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by UAMS:

Buildings and fixtures	5–40 years
Equipment	5–20 years
Internally developed software	10 years
Leasehold improvements	Dependent on lease term

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made to the subscription-based information technology arrangement (SBITA) vendor at the commencement of the SBITA term, less any SBITA vendor incentives received from the SBITA vendor at the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital, Lease, and Subscription Asset Impairment

UAMS evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease or subscription asset has occurred. If a capital, lease or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the asset is reduced first for any change in the corresponding liability and any remaining amount is recognized as an impairment.

No asset impairment was recognized during the year ended June 30, 2023.

Deferred Outflows of Resources

UAMS reports the consumption of net assets that is applicable to a future reporting period as deferred outflows of resources in a separate section of its statement of net position.

Compensated Absences

UAMS policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized.

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2023

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the statement of net position date is included in other long-term liabilities. The current portion of compensated absences is determined using the average balance paid annually in the prior two-year period.

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.

Risk Management

UAMS is exposed to various risks of loss including theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims, for which the UA System-sponsored plan provides coverage (see *Note 10*). Settled claims have not exceeded this commercial coverage in any of the three preceding years. See *Note 18* for further discussion of medical malpractice risks and sovereign immunity considerations.

Cost-Sharing Defined Benefit Pension Plans

UAMS participates in two cost-sharing multiple-employer defined benefit pension plans, Arkansas Teacher Retirement System (ATRS) and Arkansas Public Employee Retirement System (APERS). 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 respective plans and additions to/deductions from the respective plans' fiduciary net position have been determined on the same basis as they are reported by the respective plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Non-Trusted Single Employer Defined Benefit Other Postemployment Benefit Plan

UAMS offers postemployment health and dental benefits through the UA System self-funded plan (the OPEB Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the OPEB Plan and additions to/deductions from the OPEB Plan have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2023

Deferred Inflows of Resources

UAMS reports an acquisition of net assets that is applicable to a future reporting period as deferred inflows of resources in a separate section of its statement of net position.

Net Position

Net position of UAMS is classified in four components on its statement of net position.

- Net investment in capital assets consists of capital, lease and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings, lease and subscription liabilities used to finance the purchase, use, or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to UAMS, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to UAMS, such as permanent endowments.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Operating Versus Nonoperating Revenue

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. Other changes in net position includes capital gifts.

Net Patient Service Revenue

UAMS has agreements with third-party payors that provide for payments to UAMS at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

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.

Grants and Contracts

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

Federal research grants and contracts normally provide for the recovery of direct and indirect costs, subject to adjustment based upon review by the granting agencies. UAMS recognizes revenue associated with direct costs as the related costs are incurred. The recovery of indirect costs is recorded at predetermined rates negotiated with the federal government that are effective from July 1, 2022 through June 30, 2026.

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.

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 statement of net position. UAMS employs a total-return policy in determining the amount of investment income to be spent.

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.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

Accounting Pronouncements

GASB issued the following statements, which became effective for the fiscal years identified below.

- 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

Management has determined that the Statements No. 91, 94, and 99 did not materially impact UAMS. Statement No. 96 established standards of accounting and financial reporting for Subscription-based information technology arrangements (SBITAs). Details of the effect implementing this statement are discussed in detail in *Note 5*.

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. 62

For the year ending June 30, 2025:

- Statement No. 101, *Compensated Absences*

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

Note 2: Deposits, Investments and Investment Income

Deposits

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.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

UAMS' cash and cash equivalents at June 30, 2023 include deposits that are insured or collateralized by UAMS or by its agent in UAMS' name and had a carrying amount and bank balance of approximately \$20,765,000 and \$24,177,000, respectively.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. UAMS' deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas; bonds of any city, county, school district or special road district of the state of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2023, approximately \$23,386,000 of UAMS' bank balances was uninsured with collateral held by pledging financial institution.

At June 30, 2023, deposits and funds held in trust, as reported in the statement of net position, included money market accounts of \$14,873,000. 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' 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, 2023 was \$815,000.

Investments

The following is a summary of UAMS' investments held at June 30, 2023 (in thousands):

Investment Type	Fair Value
Money market mutual funds	\$ 13,282
U.S. Treasury obligations	76,237
U.S. agencies obligations	8,955
Commercial paper	19,119
Other	7,514
Pooled investments	
External investment pool	71,017
Intermediate-term growth fund	92,388
Investments not held at fair value	
Cash and cash equivalents	23,984
Investments in equity investees	9,477
Total investments	\$ 321,973

The following tables contain information on the risk disclosures of investments held outside the pooled investments.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. UAMS' credit risk at June 30, 2023 (in thousands):

Type	Fair Value*	U.S. Govt				
		AAA	AA	A	Guaranteed	Not Rated
U.S. Treasury obligations	\$ 76,237	\$ -	\$ -	\$ -	\$ 76,237	\$ -
U.S. agencies obligations	8,955	-	8,955	-	-	-
Commercial paper	19,119	7,155	-	11,442	-	522
Money market mutual funds	13,283	13,282	-	-	-	-
	<u>\$ 117,593</u>	<u>\$ 20,437</u>	<u>\$ 8,955</u>	<u>\$ 11,442</u>	<u>\$ 76,237</u>	<u>\$ 522</u>

*Does not include accrued income

At June 30, 2023, UAMS had the following investments and maturities outside the pooled investments (in thousands):

Type	Fair Value*	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 76,237	\$ 47,984	\$ 28,253	\$ -	\$ -
U.S. agencies obligations	8,955	8,955	-	-	-
Commercial paper	19,119	19,119	-	-	-
Money market mutual funds	13,283	13,283	-	-	-
		<u>\$ 89,341</u>	<u>\$ 28,253</u>	<u>\$ -</u>	<u>\$ -</u>
Non maturing investments					
Investment in equity investees	9,477				
Cash and cash equivalents	23,984				
Other	7,513				
	<u>\$ 158,568</u>				

*Does not include accrued income

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

Interest rate risk is the risk that a change in overall interest rates will reduce the value of a fixed-rate investment. UAMS' interest rate risk at June 30, 2023 (in thousands):

Type	Fair Value*	Effective Duration
U.S. Treasury obligations	\$ 76,237	0.86
U.S. agencies obligations	8,955	0.10
Commercial paper	19,119	0.27
Money market mutual funds	13,282	N/A
	\$ 117,593	

*Does not include accrued income

Outside of pooled investments, UAMS was not exposed to foreign currency risk as of June 30, 2023.

External Investment Pool

The UA Board and the UA Foundation Board of Trustees have established an investment pool (the External Investment Pool). This arrangement commingles (pools) the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The External 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 External Investment Pool and are responsible for operation and oversight for the External Investment Pool. All participation in the External Investment Pool is voluntary.

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 External Investment Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives (the guidelines) for accounts within the External Investment Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. The following tables contain information on the risk disclosures of the External Investment Pool.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

The External Investment Pool's Statement of Invested Assets at June 30, 2023 (in thousands):

Type	Fair Value*
Equities	
Common stock	\$ 138,257
Funds - common stock	353,272
Fixed Income	
Government bonds	207,396
Corporate bonds	89
Fixed income mutual funds	18,526
Venture Capital and Partnerships	
Partnerships	960,986
Hedge Fund	
Hedge equity	624,790
All Other	
Recoverable taxes	492
Cash and Cash Equivalents	
Short-term bills and notes	234,513
Funds - short-term investment	185,149
Cash	1,631
	\$ 2,725,101

*Includes accrued income

The External Investment Pool's credit risk at June 30, 2023 (in thousands):

Type	Fair Value*	Not Rated or Not Available	U.S. Government Guaranteed
Corporate bonds	\$ 89	\$ 89	\$ -
Fixed income mutual funds	18,526	18,526	-
Funds - short-term investment	185,149	-	185,149
Government bonds	207,396	-	207,396
Short-term bills and notes	234,513	-	234,513
	\$ 645,673	\$ 18,615	\$ 627,058

*Does not include accrued income

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

At June 30, 2023, the External Investment Pool had the following investments and maturities (in thousands):

Type	Fair Value*	Less than 1	Maturities in Years			Maturity Not Applicable
			1-5	6-10	More than 10	
Corporate bonds	\$ 89	\$ -	\$ -	\$ -	\$ 89	\$ -
Fixed income mutual funds	18,526	-	-	-	-	18,526
Funds - short-term investment	185,149	-	-	-	-	185,149
Government bonds	207,396	-	-	207,396	-	-
Short-term bills and notes	234,513	234,513	-	-	-	-
	<u>\$ 645,673</u>	<u>\$ 234,513</u>	<u>\$ -</u>	<u>\$ 207,396</u>	<u>\$ 89</u>	<u>\$ 203,675</u>

*Does not include accrued income

The External Investment Pool's interest rate risk at June 30, 2023 (in thousands):

Type	Fair Value*	Effective Duration
Corporate bonds	\$ 89	N/A
Fixed income mutual funds	18,526	N/A
Funds - short-term investment	185,149	N/A
Government bonds	207,396	8.29
Short-term bills and notes	234,513	0.56
	<u>\$ 645,673</u>	

*Does not include accrued income

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

The External Investment Pools' foreign currency risk at June 30, 2023 (in thousands):

Currency by Investment and Fair Value*	Cash	Equity	Other Assets
Australian Dollar	\$ 1,405	\$ -	\$ -
British Pound Sterling	-	6,809	-
Canadian Dollar	2,023	-	-
Danish Krone	18	-	6
Euro	-	18,328	350
Hong Kong Dollar	-	1,534	-
Japanese Yen	-	4,517	3
Norwegian Krone	145	-	-
Singapore Dollar	132	-	-
Swedish Krona	484	-	-
Swiss Franc	-	5,086	129
	<u>\$ 4,207</u>	<u>\$ 36,274</u>	<u>\$ 488</u>

*Includes accrued income

Intermediate Term Growth Fund

In 2018, the UA Foundation revised its 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 to create a short-term investment pool for non-endowed investments. In September 2021, the UA System Investment Committee expanded the External Investment Pool with the Intermediate Term Growth Fund. The Intermediate Term Growth Fund seeks to provide long-term capital appreciation through the investment of diversified portfolio of stocks and bonds. The Intermediate Term Growth Fund's investment objectives are based on a long-term investment horizon of five years or longer. The following tables contain information on the risk disclosures of the Intermediate Term Growth Fund.

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The Intermediate Term Growth Fund's Statement of Invested Assets at June 30, 2023 (in thousands):

Type	Fair Value*
Equities	
International developed	\$ 15,732
Global equity	1,778
U.S. large/mid-cap	47,168
Fixed Income	
International fixed income funds	8,752
Bond funds	17,053
Municipal bonds	1,318
Cash and Cash Equivalents	
Money market mutual funds	823
	<u>\$ 92,624</u>

*Includes accrued income

The Intermediate Term Growth Fund's credit risk at June 30, 2023 (in thousands):

Type	Fair Value*	Not Rated
International fixed income funds	\$ 8,752	\$ 8,752
Bond funds	17,053	17,053
Municipal bonds	1,318	1,318
	<u>\$ 27,123</u>	<u>\$ 27,123</u>

*Does not include accrued income

At June 30, 2023, the Intermediate Term Growth Fund had the following investments and maturities (in thousands):

Type	Fair Value*	Maturities in Years	
		Over 10	Maturity Not Applicable
International fixed income funds	\$ 8,752	\$ -	\$ 8,752
Bond funds	17,053	-	17,053
Municipal bonds	1,318	1,318	-
	<u>\$ 27,123</u>	<u>\$ 1,318</u>	<u>\$ 25,805</u>

*Does not include accrued income

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The Intermediate Term Growth Fund’s interest rate risk at June 30, 2023 (in thousands):

Type	Fair Value*	Effective Duration
International fixed income funds	\$ 8,752	N/A
Bond funds	17,053	N/A
Municipal bonds	1,318	6.33
	\$ 27,123	

*Does not include accrued income

The Intermediate Term Growth Fund was not exposed to foreign currency risk as of June 30, 2023.

UAMS’ portion of the External Investment Pool and Intermediate Term Growth Fund as disclosed above at June 30, 2023:

External Investment Pool	2.61%
Intermediate Term Growth Fund	99.75%
Total	5.80%

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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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statement of net position at June 30, 2023 as follows (in thousands):

Carrying value		
Deposits	\$	20,765
Investments		<u>321,973</u>
	<u>\$</u>	<u>342,738</u>
Included in the following statement of net position captions		
Cash and cash equivalents	\$	20,765
Short-term investments		453
Deposits and funds held in trust by others - current		1,971
Noncurrent investments		179,988
Deposits and funds held in trust by others		<u>139,561</u>
	<u>\$</u>	<u>342,738</u>

Note 3: Patient Accounts Receivable

UAMS grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors, net of allowances for contractual adjustments and bad debts, as of June 30, 2023, is as follows (in thousands):

Medicare	\$	75,740	41%
Medicaid		22,091	12
Commercial insurance and other		81,227	45
Patients		<u>4,017</u>	<u>2</u>
Total	<u>\$</u>	<u>183,075</u>	<u>100%</u>

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Note 4: Notes and Student Loans Receivable

The net unpaid balances of notes and student loans receivable on June 30, 2023, net of allowances of \$3,884,000, are as follows (in thousands):

Perkins loans	\$ 193
Health professions loans	6,272
Institutional funds loans	4,412
	10,877
Less current portion	640
Notes and student loans receivable, noncurrent	\$ 10,237

Note 5: Capital, Lease, and Subscription Assets

Capital assets activity for the year ended June 30, 2023 was (in thousands):

	Beginning Balance (As Restated)	Additions	Disposals	Transfers	Ending Balance
Land	\$ 35,421	\$ -	\$ (3,712)	\$ -	\$ 31,709
Buildings and fixtures	1,196,277	22,354	(44)	193,185	1,411,772
Improvements other than buildings	2,453	-	(1)	5,975	8,427
Equipment	336,396	23,429	(46,489)	6,109	319,445
Internally developed software	94,455	-	-	313	94,768
Other	618	313	(32)	-	899
Construction in progress	131,118	112,343	-	(205,582)	37,879
	1,796,738	158,439	(50,278)	-	1,904,899
Less accumulated depreciation					
Buildings and fixtures	(584,212)	(46,132)	2	-	(630,342)
Improvements other than buildings	(2,453)	(411)	-	-	(2,864)
Equipment	(267,659)	(19,920)	46,237	-	(241,342)
Internally developed software	(75,627)	(9,269)	-	-	(84,896)
Other	-	-	-	-	-
	(929,951)	(75,732)	46,239	-	(959,444)
Capital assets, net	\$ 866,787	\$ 82,707	\$ (4,039)	\$ -	\$ 945,455

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Lease assets activity for the year ended June 30, 2023 was (in thousands):

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings and fixtures	\$ 102,975	\$ 50,060	\$ (3,918)	\$ -	\$ 149,117
Equipment	52,060	1,888	(16)	-	53,932
	<u>155,035</u>	<u>51,948</u>	<u>(3,934)</u>	<u>-</u>	<u>203,049</u>
Less accumulated amortization					
Buildings and fixtures	(26,096)	(11,266)	2,579	-	(34,783)
Equipment	(32,118)	(6,054)	4	-	(38,168)
	<u>(58,214)</u>	<u>(17,320)</u>	<u>2,583</u>	<u>-</u>	<u>(72,951)</u>
Lease assets, net	<u>\$ 96,821</u>	<u>\$ 34,628</u>	<u>\$ (1,351)</u>	<u>\$ -</u>	<u>\$ 130,098</u>

On July 1, 2022, UAMS adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), that addresses the accounting for the costs related to subscription-based information technology arrangements. The standard defines a subscription-based information technology arrangement (SBITA), establishes that a SBITA would result in a right-to-use Information Technology (IT) asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures. The subscription asset is amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT asset to amortization expense (which may be combined with depreciation expense). Subsequent SBITA payments are accounted for consistent with how debt service payments on long-term debt are recorded, including segregating the SBITA payments between interest and principal. The current portion of the subscription liability is also segregated from the long-term portion. The effect of this adoption in 2023 was to increase subscription IT assets by \$35,836,590, which included prior years capitalized implementation costs of approximately \$23,218,000 reported as construction in progress in 2022, and \$2,551,148 of payments before the subscription term, and subscription liabilities (see *Note 9*) by \$10,067,442. The adoption had no impact on beginning of year net position but did require the restatement of the beginning of year balances in related disclosures.

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Subscription assets activity for the year ended June 30, 2023 was (in thousands):

	Beginning Balance (As Restated)	Additions	Disposals	Transfers	Ending Balance
Subscription IT asset	\$ 35,837	\$ 3,731	\$ -	\$ -	\$ 39,568
Less accumulated amortization	-	(6,694)	-	-	(6,694)
Subscription assets, net	<u>\$ 35,837</u>	<u>\$ (2,963)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,874</u>

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2023 consisted of (in thousands):

Payable to suppliers and contractors	\$ 69,409
Payable to employees (including payroll taxes and benefits)	34,475
Other	<u>21,695</u>
	<u>\$ 125,579</u>

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Note 7: Long-Term Obligations

The following is a summary of long-term obligation transactions for UAMS for the year ended June 30, 2023 (in thousands):

	Beginning Balance (As Restated)	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable					
Series 2013	\$ 82,070	\$ -	\$ (4,630)	\$ 77,440	\$ 4,875
Series 2014	70,400	-	(3,595)	66,805	3,780
Series 2019A	48,615	-	(3,250)	45,365	3,660
Series 2019B	97,470	-	-	97,470	-
Series 2020A	20,200	-	(1,825)	18,375	1,915
Series 2021A	95,295	-	-	95,295	-
Series 2021B	41,845	-	-	41,845	-
Series 2022A	93,665	-	-	93,665	-
Series 2022B	8,140	-	-	8,140	-
Series 2022A Parking	27,555	-	(330)	27,225	315
Series 2022B Parking	4,835	-	(695)	4,140	565
Revenue bond premium	74,711	-	(6,636)	68,075	-
Notes payable	50,088	20,479	(12,035)	58,532	12,406
	<u>714,889</u>	<u>20,479</u>	<u>(32,996)</u>	<u>702,372</u>	<u>27,516</u>
Total long-term debt					
Other long-term liabilities					
Compensated absences payable					
	75,503	12,255	(8,025)	79,733	5,159
Lease liabilities	84,268	51,948	(15,207)	121,009	13,858
Subscription liabilities	10,067	-	(2,031)	8,036	2,085
	<u>169,838</u>	<u>64,203</u>	<u>(25,263)</u>	<u>208,778</u>	<u>21,102</u>
Total other long-term liabilities					
Total long-term obligations					
	<u>\$ 884,727</u>	<u>\$ 84,682</u>	<u>\$ (58,259)</u>	<u>\$ 911,150</u>	<u>\$ 48,618</u>

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Various Facilities Revenue Bonds

Revenue Bonds – Series 2013

The Series 2013 revenue bonds payable consist of Various Facilities Revenue Refunding Bonds (the 2013 Bonds) in the original amount of \$112,665,000, with a premium of \$16,667,000, dated May 1, 2013, which bear interest at 1.00% to 5.00%. The 2013 Bonds are payable in annual installments including mandatory sinking fund redemption through November 2034. Interest is paid semiannually. All of the 2013 Bonds still outstanding may be redeemed at UAMS' option on or after November 1, 2023. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption. Proceeds from the issuance of the 2013 Bonds were used to advance refund Various Facilities Revenue Refunding Bonds, Series 2004A, and Various Facilities Revenue Construction Bonds, Series 2004B bonds.

Revenue Bonds – Series 2014

The Series 2014 revenue bonds payable consist of Various Facilities Revenue Refunding Bonds (the 2014 Bonds) in the original amount of \$86,035,000, with a premium of \$12,713,000, dated December 17, 2014, which bear interest at 2.00% to 5.00%. The 2014 Bonds are payable in annual installments including mandatory sinking fund redemption through March 2036. Interest is paid semiannually. All of the 2014 Bonds still outstanding may be redeemed at UAMS' option on or after March 1, 2025. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption. Proceeds from the issuance of the 2014 Bonds were used to advance refund Various Facilities Revenue Bonds, Series 2006.

Revenue Bonds – Series 2019A

The Series 2019A revenue bonds payable consist of Various Facilities Revenue Bonds (the 2019A Bonds) in the original amount of \$48,615,000, with a premium of \$12,125,000, dated October 24, 2019, which bear interest at 5.00%. The 2019A Bonds are payable in annual installments including mandatory sinking fund redemption through March 2032. Interest is paid semiannually. All of the 2019A Bonds still outstanding may be redeemed at UAMS' option on or after March 1, 2029. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption. Proceeds from the issuance of the 2019A Bonds were used to fund infrastructure and an energy conservation project.

Taxable Revenue Bonds – Series 2019B

The Series 2019B revenue bonds payable consist of Various Facilities Revenue Bonds (the 2019B Bonds) in the original amount of \$97,470,000, dated October 24, 2019, which bear interest at 2.91% to 3.45%. The 2019B Bonds are payable in annual installments including mandatory sinking fund redemption beginning March 2034 through March 2042. Interest is paid semiannually. All of the 2019B Bonds still outstanding may be redeemed at UAMS' option on or after March 1, 2029. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption.

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In addition, prior to March 1, 2029, the 2019B Bonds may be redeemed at a redemption price of 100% of the principal amount thereof plus the sum of the present values of the applicable remaining scheduled payments of principal and interest discounted to the date of redemption on a semi-annual basis at the Treasury Rate plus twenty-five basis points. Proceeds from the issuance of the 2019B Bonds were used to fund infrastructure and an energy conservation project.

Revenue Bonds – Series 2020A

The Series 2020A revenue bonds payable consist of Various Facilities Revenue Refunding Bonds (the 2020A Bonds) in the original amount of \$24,325,000, with a premium of \$5,078,000, dated October 28, 2020, which bear interest at 5.00%. The 2020A Bonds are payable in annual installments through December 2030. Interest is paid semiannually. The 2020A Bonds are not subject to redemption prior to maturity. Proceeds from the issuance of the 2020A Bonds were used to advance refund Various Facilities Revenue Refunding Bonds, Series 2010A.

Revenue Bonds – Series 2021A

The Series 2021A revenue bonds payable consist of Various Facilities Revenue Bonds (the 2021A Bonds) in the original amount of \$95,295,000, with a premium of \$26,157,000, dated April 20, 2021, which bear interest at 5.00%. The 2021A Bonds are payable in annual installments including mandatory sinking fund redemption from December 2041 through December 2045. Interest is paid semiannually. All of the 2021A Bonds still outstanding may be redeemed at UAMS' option on or after June 1, 2031. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption. Proceeds from the issuance of the 2021A Bonds were used to fund a new Surgical Hospital, a new Radiation Oncology Center, and other capital improvements.

Taxable Revenue Bonds – Series 2021B

The Series 2021B revenue bonds payable consist of Various Facilities Revenue Bonds (the 2021B Bonds) in the original amount of \$41,845,000, dated April 20, 2021, which bear interest at 2.71% to 3.10%. The 2021B Bonds are payable in annual installments including mandatory sinking fund redemption from December 2035 through December 2041. Interest is paid semiannually. All of the 2021B Bonds still outstanding may be redeemed at UAMS' option on or after June 1, 2031. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption. In addition, the 2021B Bonds may be redeemed at any time at a redemption price of 100% of the principal amount thereof plus the sum of the present values of the applicable remaining scheduled payments of principal and interest discounted to the date of redemption on a semi-annual basis at the Treasury Rate plus fifteen basis points. Proceeds from the issuance of the 2021B Bonds were used to fund a new Radiation Oncology Center.

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Revenue Bonds – Series 2022A

The Series 2022A revenue bonds payable consist of Various Facilities Revenue Bonds (the 2022A Bonds) in the original amount of \$93,665,000, with a premium of \$16,076,000, dated April 20, 2022, which bear interest at 5.00%. The 2022A Bonds are payable in annual installments including mandatory sinking fund redemption from April 2029 through April 2052. Interest is paid semiannually. All of the 2022A Bonds still outstanding may be redeemed at UAMS' option on or after April 1, 2032. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption. Proceeds from the issuance of the 2022A Bonds were used to fund the acquisition, construction, and equipping of the Northwest Arkansas UAMS Orthopedics and Sports Medicine Facility, including land acquisition.

Taxable Revenue Bonds – Series 2022B

The Series 2022B revenue bonds payable consist of Various Facilities Revenue Bonds (the 2022B Bonds) in the original amount of \$8,140,000, dated April 20, 2022, which bear interest at 3.14% to 3.43%. The 2022B Bonds are payable in annual installments including mandatory sinking fund redemption from April 2026 through April 2029. Interest is paid semiannually. All of the 2022B Bonds still outstanding may be redeemed at UAMS' option at any time. The redemption price is 100% of the principal amount thereof plus the sum of the present values of the applicable remaining scheduled payments of principal and interest discounted to the date of redemption on a semi-annual basis at the Treasury Rate plus fifteen basis points. Proceeds from the issuance of the 2022B Bonds were used to fund the acquisition of property in Rogers, Arkansas, for future expansion.

UAMS has pledged revenues attributable to in-patient services and other ancillary, therapeutic, and diagnostic services provided within the walls of the Hospital, excluding physician generated revenues, all state appropriations, and restricted revenues to repay the Various Facilities Revenue Bonds. The bonds are payable solely from pledged revenues. Annual principal and interest payments on the bonds are expected to require less than 1.00% of pledged revenues.

Parking Revenue Bonds

Revenue Bonds – Series 2022A Parking

The Series 2022A Parking revenue bonds payable consist of Parking System Revenue Bonds (the 2022A Parking Bonds) in the original amount of \$27,555,000, with a premium of \$5,425,000, dated February 15, 2022, which bear interest at 3.00% to 5.00%. The 2022A Parking Bonds are payable in annual installments including mandatory sinking fund redemption through July 2051. Interest is paid semiannually. All of the 2022A Parking Bonds still outstanding may be redeemed at UAMS' option on or after July 1, 2032. The redemption price is 100% of the principal amount thereof plus accrued interest to the date of redemption. Proceeds from the issuance of the 2022A Parking Bonds were used to advance refund Parking Revenue Bonds, Series 2011, for financing a portion of the new parking deck on the east side of UAMS' campus, capital improvements related to Parking Deck 4, and other expenditures related to UAMS parking infrastructure.

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Taxable Revenue Bonds – Series 2022B Parking

The Series 2022B Parking revenue bonds payable consist of Parking System Revenue Bonds (the 2022B Parking Bonds) in the original amount of \$4,835,000, dated February 15, 2022, which bear interest at 0.85% to 2.23%. The 2022B Parking Bonds are payable in annual installments through July 2029. Interest is paid semiannually. The 2022B Parking Bonds are not subject to redemption prior to maturity. The Bonds are secured by pledged revenues. Proceeds from the issuance of the 2022B Parking Bonds were used to fund a new parking deck on the east side of UAMS' campus.

UAMS has pledged gross revenues derived from the parking facilities to repay the Parking Revenue Bonds. The bonds are payable solely from pledged revenues. Annual principal and interest payments on the bonds are expected to require less than 1.00% of pledged revenues.

The Various Facilities Revenue Bonds and the Parking Revenue Bonds are subject to a master indenture agreement that requires certain funds be established with the trustee for debt service and capital acquisitions. Accordingly, these funds are included as funds held in trust by others in the statement of net position. Amounts are required to be deposited into the debt service funds five business day before the bondholders are paid. The indenture agreement also requires UAMS to comply with certain restrictive covenants including maintenance of revenue producing facilities, arbitrage restrictions, and limitations on private activity.

Notes Payable

UAMS is obligated under notes payable for equipment that are due between July 2023 and February 2033, including interest rates ranging between 0.02% and 9.17%. The notes are secured by certain capital assets.

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Debt Service Requirements

Debt service requirements on long-term debt other than lease liabilities as of June 30, 2023 are as follows (in thousands):

Year Ending June 30,	Total to Be Paid	Bonds			Notes Payable	
		Principal	Interest	Premium Amortized	Principal	Interest
2024	\$ 60,912	\$ 15,110	\$ 25,118	\$ 6,318	\$ 12,406	\$ 1,960
2025	58,790	16,095	24,380	5,977	10,956	1,382
2026	58,776	19,125	23,589	5,611	9,392	1,059
2027	56,458	20,315	22,679	5,218	7,493	753
2028	53,052	20,650	21,707	4,805	5,335	555
2029 - 2033	242,069	116,495	94,141	17,553	12,950	930
2034 - 2038	193,427	115,530	67,533	10,364	-	-
2039 - 2043	176,638	121,445	46,555	8,638	-	-
2044 - 2048	120,902	100,665	17,106	3,131	-	-
2049 - 2053	34,414	30,335	3,619	460	-	-
	<u>\$ 1,055,438</u>	<u>\$ 575,765</u>	<u>\$ 346,427</u>	<u>\$ 68,075</u>	<u>\$ 58,532</u>	<u>\$ 6,639</u>

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Note 8: Lease Liabilities

UAMS, as lessee, leases equipment and buildings, the terms of which expire in various years through 2058. The following is a schedule by year of payments under the leases as of June 30, 2023 (in thousands):

Year Ending June 30,	Total to Be Paid	Principal	Interest
2024	\$ 17,452	\$ 13,858	\$ 3,594
2025	15,645	12,402	3,243
2026	13,913	10,982	2,931
2027	10,545	7,879	2,666
2028	8,715	6,259	2,456
2029 - 2033	37,881	28,202	9,679
2034 - 2038	22,423	16,145	6,278
2039 - 2043	13,608	9,355	4,253
2044 - 2048	7,095	4,025	3,070
2049 - 2053	7,422	5,371	2,051
2054 - 2058	7,236	6,531	705
	<u>\$ 161,935</u>	<u>\$ 121,009</u>	<u>\$ 40,926</u>

Note 9: Subscription Liabilities

UAMS has various SBITAs, the terms of which expire in various years through 2028. The following is a schedule by year of payments under the SBITAs as of June 30, 2023 (in thousands):

Year Ending June 30,	Total to Be Paid	Principal	Interest
2024	\$ 2,261	\$ 2,085	\$ 176
2025	2,093	1,961	132
2026	2,062	1,973	89
2027	2,062	2,017	45
	<u>\$ 8,478</u>	<u>\$ 8,036</u>	<u>\$ 442</u>

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Note 10: Employee Health Claims

Substantially all of UAMS' employees and their dependents are eligible to participate in the UA System-sponsored employee health insurance 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 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 an expense its portion of the premiums in the month to which it relates, which totaled approximately \$75,283,000 for the year ended June 30, 2023.

Note 11: Net Patient Service Revenue

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:

Hospital

Medicare. Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Transplantation services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

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 the cost of providing outpatient services to Medicaid beneficiaries. Net patient services revenue for the year ended June 30, 2023 includes approximately \$36,192,000 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.

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Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

FGP and Regional Programs

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

The FGP and Regional Programs have payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations that provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily 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.

Approximately 48% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2023. 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. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Note 12: Charity Care

In support of its mission, UAMS voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, UAMS provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided. During the year ended June 30, 2023, the estimated cost of uncompensated care was approximately \$14,881,000.

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The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. In addition to uncompensated costs, UAMS also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

Note 13: Net State Appropriations

State appropriations are reported in the statement of revenues, expenses, and changes in net position as nonoperating revenue, net of the Medicaid match payments required under various contracts between UAMS and the Arkansas Medicaid agency.

Net state appropriations revenue for the year ended June 30, 2023 was as follows (in thousands):

Gross state appropriations revenue	\$	146,052
Less Medicaid match payments		61,074
		\$ 84,978

Note 14: Pension Plans

Single-Employer Defined Contribution Plan

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). 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.

The URP is a contributory plan with the required employee contribution and the UA System matching contribution. The contribution formula requires an employer base contribution of 5% of an employee's eligible salary. The UA System makes an equal contribution for employee contributions in excess of 5%, with a maximum total UA System contribution of 10% of eligible salary up to the IRS match limit, which at June 30, 2023 was \$22,500. All benefits attributable to plan contributions made by the participant are immediately vested in the participant, and contributions made by the UA System are cliff vested upon completion of two consecutive years of URP participation.

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The eligible salary earnings for UAMS employees covered by the URP for the year ended June 30, 2023 were approximately \$1,744,065,000. Total employer contributions to the URP during the year ended June 30, 2023 were approximately \$75,094,000 and total employee contributions were approximately \$96,706,000.

Nonvested UAMS contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses. For the year ended June 30, 2023, forfeitures reduced UAMS' pension expense by approximately \$1,594,000.

Cost-Sharing Defined Benefit Plans

Arkansas Teacher Retirement System

Plan Description

The Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan, provides pension benefits to employees of schools and education-related agencies. 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.

The plan issues a publicly available financial report that can be obtained at <https://www.ATRS.gov/publications>.

Benefits Provided

The 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%

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

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

Members with more than 25 but fewer than 28 years of credited service who have not attained age 60 may retire with a reduced benefit.

Members are eligible for disability benefits with five 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. 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.

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:

Inflation	2.75%	
Salary increases	2.75% - 7.75%	Average, including inflation
Cost of living adjustments	3.00%	Average
Investment rate of return	7.25%	Net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2020.

Mortality rates were based on the PUB-2010 amount weighted tables for males and females, with adjustments for mortality improvements based on the MP-2020 projection scales.

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Long-term Expected Rate of Return

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 geometric real rates of return for each major asset class included in ATRS' 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%	5.3%
Fixed income	15%	1.3%
Alternatives	5%	4.8%
Real assets	15%	4.0%
Private equity	12%	7.6%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25% for the year ended June 30, 2022. The projection of cash flows used to determine this single discount rate assumed that member and employer contributions will be made in accordance with this schedule. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS.

The noncontributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999 until July 1, 2000 to make an irrevocable choice to be contributory or noncontributory.

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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 15.00% of applicable compensation for the fiscal year ended June 30, 2023. UAMS and member contributions for the year ended June 30, 2023 were approximately \$12,000 and \$6,000, respectively.

Pension Liabilities

At June 30, 2023, UAMS reported a liability of approximately \$123,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date.

UAMS' proportion of the net pension liability was based UAMS' actual contribution to the plan during the measurement period relative to the actual contributions of all participating employers for the same period. At June 30, 2023, UAMS' proportion was 0.0023%, which was an decrease of 0.0002% from its proportion measured as of June 30, 2022.

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

UAMS' proportionate share of the net pension liability has been calculated using a discount rate of 7.25%. The following presents UAMS' proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease		Current Discount Rate		1% Increase
UAMS proportionate share of the net pension liability	\$ 196,088	\$	123,351	\$	63,005

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2023, UAMS recognized pension expense credit of approximately \$40,000. At June 30, 2023, UAMS reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,378	\$ 266
Changes of assumptions	12,799	-
Net difference between projected and actual earnings on pension plan investments	18,054	-
Changes in proportion and differences between the UAMS contributions and the proportionate share of contributions	-	57,119
	\$ 33,231	\$ 57,385

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30 related to pensions will be recognized in pension expense as follows:

2024	\$ (21,442)
2025	(7,494)
2026	(8,278)
2027	13,060
	\$ (24,154)

Pension Plan Fiduciary Net Position

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

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Arkansas Public Employees Retirement System

Plan Description

The Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan, provides pension benefits to all State employees not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under this system, college and university employees, and certain non-teaching school employees. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 157 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of APERS is vested in the 13 members of the Board of Trustees of the Arkansas Public Employees Retirement System (the APERS Board). Membership includes the Auditor of State, Treasurer of State, and the Secretary of the Department of Finance and Administration; three members who are state employees and three members who are nonstate employees appointed by the Governor; two members who retired from APERS, including one who is a retired law enforcement officer; and two members who retired from APERS, including one who is a retired law enforcement officer.

The plan issues a publicly available financial report that can be obtained at <http://www.apers.org/annualreports>.

Benefits Provided

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

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

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

- At age 65 with five years of actual service
- At any age with 28 years of credited 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 five years of actual service at age 55 or at any age with at least 25 but fewer than 28 years of service.

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Members are eligible for disability benefits with five 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 five 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.

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:

Inflation	3.25%	
Salary increases	3.25% - 9.85%	Average, including inflation
Ad hoc cost of living adjustments	3.00%	Average
Investment rate of return	7.15%	Net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2022 valuations were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2017.

Mortality rates were based on the RP-2006 benefit weighted generational mortality tables for males and females, with adjustments for mortality improvements based on the MP-2017 improvement scales.

Long-term Expected Rate of Return

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.

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Best estimates of arithmetic real rates of return for each major asset class included in the APERS' target asset allocation as of June 30, 2022 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	37%	6.2%
International equity	24%	6.7%
Real assets	16%	4.8%
Absolute return	5%	3.1%
Domestic fixed	18%	0.6%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the year ended June 30, 2023. 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.

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 15.00% of applicable compensation for the fiscal year ended June 30, 2023. For the year ended June 30, 2023, contributions to the pension plan from UAMS and member contributions were \$778,000 and \$173,000, respectively.

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Pension Liabilities

At June 30, 2023, UAMS reported a liability of \$7,122,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date.

UAMS' proportion of the net pension liability was based on UAMS' actual contribution to the plan during the measurement period relative to the actual contributions of all participating employers for the same period. At June 30, 2022, UAMS' proportion was 0.2641%, which was a decrease of 0.0877% from its proportion measured as of June 30, 2021.

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

UAMS' proportionate share of the net pension liability has been calculated using a discount rate of 7.15%. The following presents UAMS' proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
UAMS proportionate share of the net pension liability	\$ 11,322,675	\$ 7,121,997	\$ 3,653,962

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2023, UAMS recognized pension expense of \$809,000. At June 30, 2023, UAMS reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 170,952	\$ 85,987
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	2,359,947	-
Changes in proportion and differences between the UAMS contributions and the proportionate share of contributions	486,156	2,156,033
	\$ 3,017,055	\$ 2,242,020

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Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30 related to pensions will be recognized in pension expense as follows:

2024		\$ (674,427)
2025		(71,091)
2026		(384,754)
2027		1,047,756
		1,047,756
		\$ (82,516)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued APERS financial report.

Note 15: Other Postemployment Benefit Plan

Non-Trusted Plan – Single-Employer Defined Benefit Other Postemployment Benefit Plan

Plan Description

UAMS contributes to the UA System’s self-funded Medical, Dental, and Life insurance plans (the OPEB 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 that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

The OPEB plan provides postemployment health (including prescription drugs) and dental benefits along with life insurance (\$10,000 available coverage) to eligible retirees. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the OPEB Plan. Life insurance benefits provided to retirees are equal to \$10,000. 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 a retiree’s death. Retirees can continue coverage after Medicare eligibility age (age 65 or disabled) with the OPEB plan paying secondary to Medicare.

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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 recognized \$1,367,000 expense in retiree healthcare expense during the fiscal year ended June 30, 2023.

Actuarial Assumptions

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

Inflation	2.70%	
Discount rate	3.54%	
Salary increases	4.00%	Average, including inflation
Rate of Medical Inflation	7.00%	For 2023, grading to 4.14% over 20 years
Rate of Pharmacy Inflation	9.00%	For 2023, grading to 4.14% over 20 years
Rate of Retiree Contribution Inflation	7.50%	For 2023, grading to 4.14% over 20 years
Health care cost trend rates	7.00% - 9.00%	

Mortality rates were based on the PUB-2010 T tables, as appropriate with adjustments for mortality improvements based on the MP 2021 improvement scales.

The actuarial assumptions used in the June 30, 2022 valuation were based on the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of the SOA Project Oversight Group.

Changes of assumptions and other inputs reflect changes in benefits and experience and actuarial expectations for future costs, current contribution rates, and an increase in the discount rate from 2.16% to 3.54%.

The employees covered by the benefit terms at June 30, 2022 are:

Inactive employees, beneficiaries, or spouses of retirees currently receiving benefits	774
Active employees	<u>10,522</u>
	<u><u>11,296</u></u>

The discount rate was based on high-quality bond yields in effect for 20-year, tax-exempt general obligation municipal bonds.

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Total OPEB Liability

UAMS' total OPEB liability of \$31,914,000 as of June 30, 2023 was determined by an actuarial valuation as of June 30, 2022, rolled forward.

Changes in the total OPEB liability are:

Total OPEB liability, beginning of year	\$ 36,055,000
Changes for the year:	
Service cost	2,364,401
Interest	819,695
Differences between expected and actual experience	(1,999,190)
Benefit payments	(1,170,027)
Changes in assumptions	<u>(4,155,879)</u>
Net changes	<u>(4,141,000)</u>
Total OPEB liability, end of year	<u><u>\$ 31,914,000</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

The total OPEB liability of UAMS has been calculated using a discount rate of 3.54%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
UAMS net OPEB liability	\$ 34,953,815	\$ 31,914,000	\$ 29,196,562

The total OPEB liability of UAMS has been calculated using health care cost trend rates of 7.00% and 9.00%. The following presents the total OPEB liability using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
UAMS net OPEB liability	\$ 28,983,297	\$ 31,914,000	\$ 35,336,159

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OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, UAMS recognized OPEB expense of \$1,367,000. At June 30, 2023, UAMS reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ 550,078	\$ 3,500,149
Changes of assumptions	1,730,922	3,514,851
Benefit payments subsequent to the measurement date	917,000	-
	\$ 3,198,000	\$ 7,015,000

At June 30, 2023, UAMS reported \$917,000 as deferred outflows of resources related to OPEB resulting from UAMS benefit payments subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the total OPEB liability at June 30, 2024.

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2023 related to OPEB will be recognized in OPEB expense as follows:

2024	\$ (826,749)
2025	(679,407)
2026	(924,567)
2027	(1,118,157)
2028	(204,641)
Thereafter	(63,479)
	\$ (3,817,000)

Note 16: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

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- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)
June 30, 2023				
Investments				
Money market funds	\$ 13,282	\$ 13,282	\$ -	\$ -
U.S. Treasury obligations	76,237	76,237	-	-
U.S. agencies obligations	8,955	-	8,955	-
Commercial paper	19,119	19,119	-	-
External investment pool	71,017	-	71,017	-
Intermediate-term investment fund	92,388	-	92,388	-
Other	7,514	-	-	7,514
Total investments	\$ 288,512	\$ 108,638	\$ 172,360	\$ 7,514

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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Note 17: Related Party Transactions

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 \$19,706,000 for the year ended June 30, 2023. These amounts are included in noncapital gifts and capital gifts in the financial statements.

Based on unaudited information provided by the UA Foundation, during the year ended June 30, 2023, revenue of \$51,291,000 was received by the UA Foundation for the benefit of UAMS.

Notes payable to related parties at June 30, 2023 included approximately \$15,083,000 payable to the University of Arkansas System for significant implementation costs incurred for the Workday system. This payable is distinct from the associated subscription liability, as disclosed in *Note 9*.

Notes receivable from related parties at June 30, 2023 included approximately \$531,000 receivable from the University of Arkansas at Fayetteville and approximately \$1,223,000 from the UA System eVersity.

In addition to the above transactions, UAMS conducts various activities with the 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.

Note 18: Contingencies

Medical Malpractice Claims

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. 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. Based on UAMS' claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

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General Litigation

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.

Investments

UAMS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of net position.

Tobacco Settlement Revenue Bonds

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 \$360,067,000 from the Tobacco Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately \$27,600,000 in 2046 with the first \$5,000,000 dedicated to pay the debt service on the above bond issue.

If Debt Service Revenues had been considered insufficient at June 30, 2023, UAMS would have incurred a liability of \$71,379,000 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 generate revenues, (b) State appropriations, and (c) revenues restricted for other purposes.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2023

Outstanding Commitments

Construction in progress at June 30, 2023, included the surgical annex of the Orthopaedic and Surgical Hospital, Parking Deck, UAMS Child Development Center, and the Northwest Arkansas Orthopaedics and Sports Medicine facility. At June 30, 2023, contracts outstanding for tangible construction projects were approximately \$35,982,000.

Information Technology projects in progress at June 30, 2023 consisted of Cisco network upgrades. At June 30, 2023, contracts outstanding for IT projects were approximately \$484,000.

Note 19: Functional Classification of Expenses

For financial reporting purposes, UAMS classifies its operating expenses by their natural classification. The table below summarizes these expenses by their functional classification (in thousands):

	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 820,425	\$ 560,892	\$ -	\$ -	\$ 1,381,317
Instruction	117,427	12,492	-	-	129,919
Research	105,116	47,942	-	-	153,058
Public services	30,071	25,954	-	-	56,025
Academic support	41,781	1,621	-	-	43,402
Student services	1,385	414	-	-	1,799
Institutional Support	125,439	1,500	-	-	126,939
Operation and maintenance of plant	39,695	44,472	-	-	84,167
Scholarships and awards	238	1,053	806	-	2,097
Auxiliary	872	30	-	-	902
Depreciation and amortization	-	-	-	94,844	94,844
Other	879	558	-	-	1,437
	<u>\$ 1,283,328</u>	<u>\$ 696,928</u>	<u>\$ 806</u>	<u>\$ 94,844</u>	<u>\$ 2,075,906</u>

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2023

Note 20: Subsequent Events

Budget Stabilization Trust Fund Loan

On July 28, 2023, UAMS was approved for a loan of \$30,000,000 from the Budget Stabilization Trust Fund based upon the general revenue allocated to UAMS for fiscal year 2024. The loan funds were distributed to level the cash flow of UAMS and prevent the need to transfer funds from the intermediate-term investment fund pool, which had not regained market losses experienced over the last few years. The loan will be repaid in 10 monthly installments of \$3,000,000 beginning September 2023 and ending June 2024.

Series 2023 Revenue Bonds

On August 3, 2023, the Board of Trustees of the University of Arkansas issued the Series 2023 Revenue Bonds (the 2023 Bonds) on behalf of UAMS. The 2023 Bonds consist of Various Facilities Revenue Bonds in the original amount of \$64,630,000, with a premium of \$8,923,760, which bear interest at 5.00%. The 2023 Bonds are payable in annual installments through November 2034. Proceeds from the issuance of the bonds were used to current refund Various Facilities Revenue Refunding Bonds, Series 2013.

Required Supplementary Information

University of Arkansas for Medical Sciences
Arkansas Teacher Retirement System
Last 10 Fiscal Years*

Schedule of UAMS' Proportionate Share of the Net Pension Liability

	UAMS Proportion of the Net Pension Liability	UAMS Proportionate Share of the Net Pension Liability	UAMS Covered- Employee Payroll	UAMS Proportionate Share of the Net Pension Liability as a Percentage of its Covered- Employee Payroll	Plan Net Position as a Percentage of the Total Pension Liability
2018	0.0100%	\$ 350,770	\$ 173,286	202.42%	79.48%
2019	0.0100%	209,653	107,058	195.83%	82.75%
2020	0.0000%	145,151	104,845	138.44%	80.96%
2021	0.0000%	189,535	80,236	236.22%	74.91%
2022	0.0000%	68,167	79,457	87.79%	88.58%
2023	0.0023%	123,351	78,679	156.78%	78.85%

Schedule of UAMS' Pension Contributions

	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribtuion	Contribution Deficiency (Excess)	UAMS Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
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%
2023	11,802	(11,802)	-	78,679	15.00%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.*

Notes to Schedule:

Changes of benefit terms. There were no significant changes in benefit terms.

Changes of assumptions. There were no significant changes in assumptions.

University of Arkansas for Medical Sciences
Arkansas Public Employees Retirement System
Last 10 Fiscal Years*

Schedule of UAMS' Proportionate Share of the Net Pension Liability

	UAMS Proportion of the Net Pension Liability	UAMS Proportionate Share of the Net Pension Liability	UAMS Covered- Employee Payroll	UAMS Proportionate Share of the Net Pension Liability as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.6200%	\$ 15,963,746	\$ 9,954,115	160.37%	75.65%
2019	0.5300%	11,720,586	9,663,708	121.28%	79.59%
2020	0.4300%	10,298,361	7,599,668	135.51%	78.55%
2021	0.3100%	8,969,190	6,566,642	136.59%	75.38%
2022	0.3500%	2,705,090	6,308,524	42.88%	95.68%
2023	0.2613%	7,121,997	5,089,867	139.93%	78.31%

Schedule of UAMS' Pension Contributions

	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribtuion	Contribution Deficiency (Excess)	UAMS Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
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%
2023	778,479	(778,479)	-	5,089,867	15.29%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.*

Notes to Schedule:

Benefit changes. Beginning July 1, 2022, all contributory plan members rates will increase by 0.25% until it reaches a maximum of 7%. For members first hired on or after July 1, 2022, the final average compensation period will increase from three years to five years, and the cost-of-living adjustment on benefit payments will be the lessor of 3.0% or the increase in the Consumer Price Index.

Changes of assumptions. There were no significant changes in assumptions.

University of Arkansas for Medical Sciences
Schedule of Changes in UAMS' Total OPEB Liability and Related Ratios
University of Arkansas Self-Funded Plan
Last 10 Fiscal Years*
(in thousands)

	Service Cost	Interest	Changes of Benefit Term	Differences Between Expected and Actual Experience	Changes of Assumptions or Other Inputs	Benefit Payments	Net Change in Total Pension Liability	Hospital's Total OPEB Liability, Beginning	Hospital's Total OPEB Liability, Ending	Covered Employee Payroll	Hospital's Net OPEB Liability as a Percentage of Covered Employee Payroll
2018	\$ 2,234	\$ 1,014	\$ -	\$ -	\$ (5,942)	\$ (714)	\$ (3,408)	\$ 33,689	\$ 30,281	\$ 798,978	3.79%
2019	1,950	1,141	-	(1,906)	214	(702)	697	30,281	30,978	782,000	3.96%
2020	1,924	1,257	-	(1,375)	1,435	(826)	2,415	30,978	33,393	793,212	4.21%
2021	2,228	1,231	(4,372)	(1,225)	4,154	(906)	1,110	33,393	34,503	807,816	4.27%
2022	2,462	806	-	(887)	179	(1,008)	1,552	34,503	36,055	992,983	3.63%
2023	2,364	820	-	(1,999)	(4,156)	(1,170)	(4,141)	36,055	31,914	1,004,999	3.18%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.*

This schedule is presented as of the measurement date for the fiscal year.

Notes to Schedule:

Benefit changes. There were no significant changes in benefit terms.

Changes of assumptions. Changes in assumptions included an increase in the discount rate from 2.16% to 3.54% and changes to claims cost and trends to reflect changes in benefits and experience and the actuary's expectation of future cost.