

# **University of Arkansas for Medical Sciences**

**OMB Circular A 133 Audit Report  
June 30, 2013**

# University of Arkansas for Medical Sciences

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June 30, 2013 and 2012

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# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

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This discussion and analysis provides an overview of the financial position and changes in net position of the University of Arkansas for Medical Sciences (UAMS) for the fiscal years ended June 30, 2013 and 2012. 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 2,867 and faculty numbering 1,396;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 453 acute care beds in use at June 30, 2013;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute (PRI);
- Jackson T. Stephens Spine and Neurosciences Institute; and
- Translational Research Institute.

The UAMS financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, provides a comprehensive, entity wide perspective of UAMS' assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes following this section.

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

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

The Statements of Net Position present the financial position of UAMS and include all assets and liabilities. The difference between total assets and total liabilities is net position, which is an indicator of the current financial condition of UAMS. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, there is a decrease in net position. Over time, increases or decreases in an institution's net position are one, but not the only, indicator of whether its financial health is improving or diminishing.

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

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

This discussion and analysis of UAMS' financial statements provides an overview of its financial activities for the fiscal years ended June 30, 2013 and 2012, with comparative information for the fiscal year ended June 30, 2011.

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**Financial Highlights**

UAMS' net position continued to improve in fiscal year 2013 with assets of \$1,334,056,000 and liabilities of \$550,465,000. Net position, which represents the residual interest in UAMS' assets after liabilities are deducted, was \$783,591,000 at June 30, 2013. 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, 2013, 2012, and 2011 as follows:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating revenues	\$ 1,163,244	\$ 1,180,953	\$ 1,111,413
Operating expenses	(1,229,975)	(1,244,286)	(1,140,792)
Nonoperating revenues	79,555	55,343	71,609
Other changes in net position	<u>5,435</u>	<u>41,909</u>	<u>17,237</u>
Increase in net position	<u>\$ 18,259</u>	<u>\$ 33,919</u>	<u>\$ 59,467</u>

**Statements of Net Position**

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

Net position is divided into three major categories. The first category, invested in capital assets, net of related debt, reflects the equity in property, plant, and equipment owned by UAMS. 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 Statements of Net Position are able to determine the assets available to continue the operations of UAMS. They are also able to determine how much UAMS owes vendors and lending institutions. Finally, the Statements of Net Position provide a picture of the net position (assets minus liabilities) and its availability for expenditure by UAMS.

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A summary of UAMS' assets, liabilities, and net position is as follows:

<i>(in thousands)</i>	<b>June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>			
Current assets	\$ 320,120	\$ 327,111	\$ 321,028
Noncurrent assets			
Investments	116,267	102,415	93,155
Capital assets, net	831,492	791,808	738,232
Other	66,177	45,939	75,708
Total assets	<u>\$ 1,334,056</u>	<u>\$ 1,267,273</u>	<u>\$ 1,228,123</u>
<b>Liabilities</b>			
Current liabilities	\$ 117,141	\$ 106,135	\$ 106,719
Noncurrent liabilities	433,324	395,806	389,991
Total liabilities	<u>550,465</u>	<u>501,941</u>	<u>496,710</u>
<b>Net position</b>			
Invested in capital assets, net of related debt	488,402	477,589	448,381
Restricted			
Expendable	110,999	112,146	88,905
Nonexpendable	29,868	28,150	27,126
Unrestricted	154,322	147,447	167,001
Total net position	<u>783,591</u>	<u>765,332</u>	<u>731,413</u>
Total liabilities and net position	<u>\$ 1,334,056</u>	<u>\$ 1,267,273</u>	<u>\$ 1,228,123</u>

Current assets consist of cash and cash equivalents, short-term investments, net accounts receivable, inventories, prepaid expenses, and notes and net student loans receivable. Noncurrent assets include long-term investments, notes and net student loans receivable, deposits and funds held in trust by others, net capital assets, and other noncurrent assets. Current liabilities consist primarily of accounts payable and accrued liabilities, deferred revenue, funds held in trust for others, estimated third-party payor settlements (Medicare and Medicaid), the current portion of compensated absences payable, bonds, notes, and capital leases payable. Noncurrent liabilities include primarily compensated absences payable, other postemployment benefits, and bonds, notes, and capital leases payable, net of current portion. Net position represents the residual interest in UAMS' assets after liabilities are deducted.

***Fiscal Year 2013***

UAMS' total assets increased by \$66,783,000 in fiscal year 2013. A review of the Statements of Net Position reveals that the increase consisted primarily of an increase in long-term investments of \$13,852,000, an increase of \$39,684,000 in net capital assets, an increase in noncurrent deposits and funds held in trust by others of \$20,984,000, along with a decrease in current assets of \$6,991,000 and in noncurrent notes and net student loans receivable of \$1,438,000.

The increase in long-term investments is due to a repositioning of investments previously held as cash equivalents and an increase in market values of the investments. The increase in net capital assets is primarily due to construction in progress related to the implementation of a new integrated clinical information system purchased from Epic Systems Corporation (EPIC), which is discussed more fully below. The increase in noncurrent deposits and funds held in trust by others was due to borrowing additional funds which have not yet been spent. The funds are held in escrow and drawn as needed to

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fund the capital projects. The decrease in noncurrent notes and net student loans receivable was due to scheduled repayments.

The decrease in current assets was primarily due to a decrease in cash and cash equivalents of \$31,684,000, used to fund operating activities and increase long-term investments, offset by increases in net nonpatient accounts receivable of \$20,767,000, primarily due to accrued contract and grant revenue, and prepaid expenses of \$3,074,000, primarily due to the early termination of a medical software maintenance contract which will be expensed in fiscal year 2014 as that contract ends.

Total liabilities increased by \$48,524,000 in fiscal year 2013. The majority of this increase is due to obtaining a \$60,000,000 note to help finance the EPIC license and implementation, as more fully discussed later in the Economic Outlook section. This was offset by the decision in early fiscal year 2013 to no longer provide a sick leave benefit for nonclassified personnel upon their retirement, resulting in a reduction in liabilities and fiscal year 2013 compensation and benefits expense of \$6,671,000.

Current liabilities increased by \$11,250,000 in total, primarily due to increases in accounts payable and accrued expenses of \$9,513,000 and \$9,635,000 in the current portion of bonds, notes, and capital leases payable offset by the decreases of \$4,181,000 in deferred revenue.

#### ***Fiscal Year 2012***

UAMS' total assets increased by \$39,150,000 for fiscal year 2012. A review of the Statements of Net Position reveals that the increase consisted primarily of an increase in current assets of \$6,083,000, an increase in long-term investments of \$9,260,000, an increase of \$53,576,000 in net capital assets, a decrease in noncurrent deposits and funds held in trust by others of \$28,558,000, and a decrease in noncurrent notes and net student loans receivable of \$1,055,000.

Increases in current assets were noted in: cash and cash equivalents of \$7,978,000 due to the sale of investments; net patient accounts receivable of \$2,938,000 which was due to increased activity at College of Medicine's Faculty Group Practice (FGP); and, net nonpatient accounts receivable of \$3,966,000 primarily due to accrued contract and grant revenue. These increases were offset by decreases in: investments included in current assets of \$5,706,000 due to a repositioning of investments to higher yielding long-term investments; inventories of \$1,872,000 due to efforts to manage supplies more efficiently and prepaid expenses of \$1,241,000 primarily due to the recognition of software maintenance and licenses fees prepaid in the prior year.

The increase in long-term investments is due to a repositioning of investments previously held in short-term investments and an increase in market values of the investments. The decrease in noncurrent deposits and funds held in trust by others was due to the use of funds from bonds and notes for capital construction and purchases. The funds are held in escrow and drawn as needed to fund the capital projects. The decrease in noncurrent notes and net student loans receivable was due to scheduled repayments.

Total liabilities increased by \$5,231,000 in fiscal year 2012. A large portion of this overall increase is due to UAMS' early fiscal 2012 decision to provide nonclassified employees vested accumulated rights to receive sick leave benefits. The liability for this compensated absences benefit at June 30, 2012 totaled \$6,671,000. This decision was subsequently reversed in early fiscal year 2013. Therefore, fiscal year 2012 compensation and benefits expenses increased as a result of this liability.

Other larger contributors to the net increase in total liabilities for fiscal 2012 included \$4,592,000 in deferred revenue, primarily related to the Broadband Technology Opportunities Program (BTOP) federal grant, and \$2,952,000 in liabilities for postemployment benefits. Offsetting these increases were decreases of \$4,182,000 in bonds, notes, and capital leases payable, \$3,850,000 in accounts payable and accrued liabilities and \$3,202,000 in estimated third-party payor settlements.

Current liabilities decreased by \$584,000 in total, primarily due to the increases of \$4,592,000 in deferred revenue and \$1,702,000 in the current portion of bonds, notes, and capital leases payable offset by the

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decreases of \$3,850,000 in accounts payable and accrued liabilities and \$3,202,000 in estimated third-party payor settlements.

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

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

<i>(in thousands)</i>	Years Ended June 30,		
	2013	2012	2011
<b>Operating revenues</b>			
Student tuition and fees, net of scholarship allowances	\$ 29,701	\$ 25,754	\$ 23,576
Net patient services	886,577	876,544	868,685
Meaningful use	4,646	5,581	-
Sponsored programs	173,603	219,911	172,468
Other	68,717	53,163	46,684
Total operating revenues	1,163,244	1,180,953	1,111,413
<b>Operating expenses</b>			
Compensation and benefits (1)	818,921	801,330	757,978
Supplies and other services	353,765	392,072	331,131
Scholarships and fellowships	242	342	258
Depreciation and amortization	57,047	50,542	51,425
Total operating expenses	1,229,975	1,244,286	1,140,792
Operating loss	(66,731)	(63,333)	(29,379)
<b>Nonoperating revenues (expenses)</b>			
State appropriations, net	50,000	42,632	47,709
Gifts	27,370	20,608	19,516
Investment gain (loss), net of expense	14,223	7,062	17,738
Other	(12,038)	(14,959)	(13,354)
Total nonoperating revenues, net	79,555	55,343	71,609
Income (loss) before other changes in net assets	12,824	(7,990)	42,230
<b>Other changes in net position</b>			
Capital gifts and appropriations	3,278	20,634	15,758
Federal grants for capital projects	2,594	22,496	1,479
Interagency disposition	(437)	(1,221)	-
Total other changes in net position	5,435	41,909	17,237
Increase in net position	18,259	33,919	59,467
<b>Net position</b>			
Beginning of year	765,332	731,413	671,946
End of year	\$ 783,591	\$ 765,332	\$ 731,413

(1) Note: Compensation and benefits increased in fiscal 2012 by \$6,671,000 due to UAMS' decision to provide nonclassified employees vested accumulated rights to receive sick leave benefits. This practice was subsequently reversed in early fiscal 2013. Therefore, fiscal year 2013 compensation and benefits expenses were decreased by the same amount as a result of this change.

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***Fiscal Year 2013***

The Statement of Revenues, Expenses, and Changes in Net Position reflects income before other changes in net position of \$12,824,000, and an increase of \$18,259,000 in net position for fiscal year 2013. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$10,033,000 or 1.14%. The increase in net patient service revenue is due primarily to a growth in inpatient visits. Hospital patient service revenue was up \$10,795,000 or 2%, College of Medicine patient service revenue was down \$5,904,000 or 2.6%, and the new Radiation Oncology division had net patient revenues of \$6,444,000. Other divisions combined for a slight decrease in patient service revenue. Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, decreased by \$46,308,000. Federal grants and contracts decreased by \$50,627,000, approximately \$42,442,000 of which was due to winding down the BTOP grant. Nongovernmental grants and contracts increased by \$2,075,000 primarily due to increased contract activity in the College of Medicine. The total operating revenue decrease was 1.5%.

The following factors affected operating expenses in 2013:

Compensation and benefits expense was a major driver in operating expense in fiscal year 2013, increasing by \$17,591,000 or 2.2%. Compensation and benefits expense related to patient care increased by \$28,482,000 or 6.8%, primarily due to the staffing required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. Compensation and benefits related to research increased by \$4,107,000 or 5.2%, primarily due to internally funded research in the College of Medicine. Total supplies and other services decreased by \$38,307,000 or 9.8%. Supplies and other services related to patient care decreased by \$5,292,000 or 2.2%, primarily due to cost containment efforts. Supplies and other services related to public services decreased by \$44,239,000 or 67.2%, primarily due to the winding down of the BTOP grant. The balance of the change in supplies and other services were primarily related to the EPIC project.

The following factors affected nonoperating revenue (expense) in 2013:

Nonoperating revenue (expense) increased by \$24,212,000. This was primarily caused by an increase of \$7,161,000 in net investment income and an increase of \$7,368,000 in net state appropriations. Gross state appropriations were down by \$139,000 or .1%. Offsetting this decrease was a decrease of \$7,507,000 in Medicaid match payments, which are reported as a decrease to state appropriated revenue.

State appropriations are reported in the Statements 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 Department of Human Services (DHS).

Net state appropriations revenue for the years ended June 30, 2013, 2012, and 2011 was as follows:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Gross state appropriations revenue	\$ 114,638	\$ 114,777	\$ 114,515
Less: Medicaid match payments	<u>64,638</u>	<u>72,145</u>	<u>66,806</u>
Net state appropriations revenue	<u>\$ 50,000</u>	<u>\$ 42,632</u>	<u>\$ 47,709</u>



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#### ***Fiscal Year 2012***

The Statement of Revenues, Expenses, and Changes in Net Position reflects a net loss before other changes in net position of \$7,990,000, and an increase of \$33,919,000 in net position for fiscal year 2012. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$7,859,000 or 0.9%. The increase in net patient service revenue is due primarily to a growth in outpatient visits. Hospital patient service revenue was down \$1,087,000 or 0.2%, College of Medicine patient service revenue was up \$9,453,000 or 4.4%, and other UAMS divisions had a slight decrease in patient service revenue. Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, increased by \$47,443,000. Federal grants and contracts increased by \$45,734,000, of which \$45,413,000 was related to the American Recovery and Reinvestment Act (ARRA) with the balance being from normal grant activity. Nongovernmental grants and contracts increased by \$1,742,000 primarily due to increased contract activity in the College of Medicine. The total operating revenue increase was 6.3%.

The following factors affected operating expenses in 2012:

Compensation and benefits expense was a major driver in operating expense in fiscal year 2012, increasing by \$43,352,000 or 5.7%. Compensation and benefits expense related to patient care increased by \$31,958,000 or 8.2%, primarily due to the staffing required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. Compensation and benefits related to research increased by \$10,587,000 or 15.9%, primarily due to internally funded research in the College of Medicine. Total supplies and other services increased by \$60,941,000 or 18.4%. Supplies and other services related to patient care increased by \$6,096,000 or 2.6%, primarily due to the supplies and other services required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. Supplies and other services related to public services increased by \$52,968,000 or 410.6%, primarily due to the ARRA stimulus funds for the Broadband Technology Opportunities Program. The balance of the change in supplies and other services were primarily related to auxiliary operations.

The following factors affected nonoperating revenue (expense) in 2012:

Nonoperating revenue (expense) decreased by \$16,266,000. This was primarily caused by a decrease of \$10,676,000 in net investment income and a decrease in net state appropriations. Gross state appropriations were up by \$262,000 or 0.2%. Offsetting the increase of \$5,077,000 was an increase of \$5,339,000 in Medicaid match payments, which are reported as a decrease to state appropriated revenue.

State appropriations are reported in the Statements 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 Department of Human Services (DHS). The increase in Medicaid match payments was primarily due to the phase out of the ARRA stimulus funding.

Net state appropriations revenue for the years ended June 30, 2012, 2011, and 2010 was as follows:

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<i>(in thousands)</i>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Gross state appropriations revenue	\$ 114,777	\$ 114,515	\$ 114,213
Less: Medicaid match payments	<u>72,145</u>	<u>66,806</u>	<u>57,396</u>
Net state appropriations revenue	<u>\$ 42,632</u>	<u>\$ 47,709</u>	<u>\$ 56,817</u>

**Results of Operations**

***Fiscal Year 2013***

In fiscal year 2013, UAMS experienced a net income before other changes in net position of \$12,824,000 and an increase in net position of \$18,259,000. UAMS benefitted from two significant nonrecurring transactions during fiscal year 2013: (1) the recognition, as other operating revenue, of \$13,551,000 in IRS refunds of Federal Insurance Contributions Act (FICA) taxes paid by UAMS on wages earned for services performed by medical residents for calendar years 1996 through 1999 with interest, more fully described in Note 17 to the financial statements; and (2) the removal of a liability in the amount of \$6,671,000 for the vested accumulated rights of nonclassified employees to receive sick leave benefits upon retirement, as noted above, which lowered compensation and benefits expense by this amount. Without these two transactions, UAMS would have experienced a net loss before other changes in net position of \$7,398,000 and a decrease in net position of \$1,963,000. Primary drivers of other changes in net position were capital gifts, primarily for the Donald W. Reynolds Institute on Aging, and Federal capital grants for the BTOP project.

Although the overall financial position improved in 2013, there were some occurrences that adversely affected the financial position:

Operating expense related to patient services increased by \$23,190,000 or 3.5%, primarily due to the staffing required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. However, net patient service revenue increased by \$10,033,000 or 1.1%. Net patient service revenue was adversely impacted by a 14.5% increase in charity care and bad debt expense.

Gross state appropriations decreased by \$139,000, and continued to decline as a share of UAMS revenue to approximately 9.1% and 9.2% for fiscal years 2013 and 2012, respectively.

***Fiscal Year 2012***

In fiscal year 2012, UAMS experienced a net loss before other changes in net position of \$7,990,000 and an increase in net position of \$33,919,000. Excluding the increase in compensation and benefits of \$6,671,000 due to UAMS' decision in fiscal year 2012 to provide nonclassified employees vested accumulated rights to receive sick leave benefits, as noted above, UAMS would have experienced a net loss before other changes in net position of \$1,319,000 and an increase in net position of \$40,590,000. Primary drivers of other changes in net position were the BTOP grant and capital gifts for the expansion of the Winthrop P. Rockefeller Cancer Institute, Donald W. Reynolds Institute on Aging, and other renovation and construction projects.

Although the overall financial position improved in 2012, there were some occurrences that adversely affected the financial position:

Operating expense related to patient services increased by \$38,054,000 or 6.1%, primarily due to the staffing required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. However, net patient service revenue increased by \$7,859,000 or 0.9%. Net patient service revenue was adversely impacted by a 15.2% increase in charity care and bad debt expense.

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Gross state appropriations increased by \$262,000, and continue to decline as a share of UAMS revenue to approximately 9.2% and 9.6% for fiscal years 2012 and 2011, respectively.

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2013, UAMS had \$831,492,000 invested in capital assets, net of accumulated depreciation and amortization of \$507,537,000. Depreciation and amortization charges totaled \$57,047,000 for the fiscal year ended June 30, 2013.

UAMS' capital additions totaled \$97,665,000 in fiscal year 2013. Capital additions primarily comprised replacement, renovation, and new construction of academic, research, and hospital facilities, as well as investments in equipment. Major capital additions in fiscal year 2013 and the sources that funded their acquisition included:

<i>(in thousands)</i>	<b>Amount of Additions</b>	<b>Funding Source</b>
<b>Project</b>		
Radiation Oncology Center equipment	\$ 9,800	Capital lease
Central energy plant upgrade	8,000	UAMS and ABA loan
Donald W. Reynolds Institute on Aging	3,009	Donald W. Reynolds Foundation
BTOP equipment	2,970	Grant
Construction in progress:		
EPIC information system implementation	29,207	UAMS and loan
Hospital surgical suite renovation	5,601	Bonds
AHEC Magnolia clinic renovation	2,646	UAMS

As noted above, construction in progress at June 30, 2013, which totaled \$44,722,000, was dominated by the EPIC implementation. More detailed information about UAMS' capital assets is presented in Note 7 to the financial statements.

**Debt Administration**

At June 30, 2013, UAMS had \$390,378,000 in outstanding debt, as shown in the following table:

<i>(in thousands)</i>	<b>Amount Outstanding</b>
<b>Obligation</b>	
Bonds payable	\$ 282,927
Notes payable	68,447
Obligations under capital leases	39,004
Total debt	<u>\$ 390,378</u>

Moody's Investors Service raised the rating of the University of Arkansas System from Aa3 to Aa2 in May 2010, which was affirmed on October 5, 2012. UAMS, as one of the colleges in the University of Arkansas System, will benefit from this rating increase. More detailed information about current and long-term liabilities is presented in Notes 8 and 9 to the financial statements.

**Economic Outlook**

UAMS' financial position improved in fiscal year 2013 as evidenced by an \$18,259,000 increase in net position. UAMS had a net margin (Income before other changes in net position) of \$12,824,000 for the fiscal year. As discussed above, fiscal year 2013 was a challenging year for UAMS. As we move into fiscal year 2014, UAMS faces a changing health care environment with the *Patient Protection and Affordable Care Act* (PPACA) and the challenges of converting to a new integrated clinical information

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system and a new student information system. Additionally, UAMS is undertaking an institution-wide effort to examine its work processes and organizational structure to improve efficiency and effectiveness and reduce waste (Performance Excellence). Each of these initiatives will be discussed in more detail below.

UAMS has a diverse revenue stream to fund operations, including tuition, patient services revenue, state appropriations, investment income, and philanthropic support from individuals, foundations, and corporations. However, UAMS is highly dependent on patient service revenue, which represents 70.7% of total revenue.

Also on the horizon is Arkansas' plan to implement the Medicaid expansion part of PPACA by using Medicaid funds as premium assistance to purchase coverage for some or all newly eligible Medicaid beneficiaries in marketplace plans. This is expected to be a significant driver of patient service revenue in fiscal year 2014 and future years. It creates opportunities to have more UAMS patients insured, which may improve the overall payor mix for UAMS' clinical programs. Challenges include the possible reduction in federal payments to safety net providers, like UAMS, who provide care to indigent patients, and the need to develop the necessary infrastructure required to comply with PPACA and participate in new opportunities, such as an Accountable Care Organization or developing a clinically integrated network. At this time, UAMS is unable to quantify the effect on payor mix or patient service revenue.

UAMS must continue significant investments in clinical and campus infrastructure in order to generate necessary productivity gains to more closely manage clinical practice and outcomes, continue to increase patient safety, and to remain compliant with an ever-growing regulatory burden. To this end, the Board of Trustees of the University of Arkansas approved a proposal by UAMS to enter into a license and support agreement with Epic Systems Corporation for an integrated clinical information system with a cost not to exceed \$87,000,000 from institutional reserves, plus borrowing in the amount of \$60,000,000 at an interest rate of 1.66% per annum for a period of 7 years. Additionally, UAMS entered into a license and support agreement with Oracle Corporation, in August 2013, for a student information system (SIS) with a projected cost of \$7,844,000 to be paid from institutional reserves.

The first wave of clinics and departments went live in July and August 2013 on EPIC, which included patient scheduling, outpatient registration, the outpatient pharmacy, professional billing for physicians, and a number of outpatient clinics. All outpatient and inpatient clinical services are expected to be converted to EPIC by the end of March 2014.

The planning is underway for the conversion to the SIS from an internally developed system that has been in use by UAMS for many years. The conversion is expected to be completed in time to register students in the fall of 2015.

The Performance Excellence program, initiated in the spring 2013, will apply business process improvement strategies using Lean Six Sigma principles and methodologies to improve efficiency and effectiveness. UAMS has contracted with a company that specializes in Lean Six Sigma, which will train UAMS employees on how to evaluate work processes leading to improvements in performance. UAMS' intent is to become self-sufficient in training its staff by transitioning from a contracted program to a UAMS internal-resourced program. The primary goal of this effort in the first year is to develop opportunities to increase revenues, reduce costs and improve overall performance. The longer term strategy is to develop internal capabilities through cultural transformation of management practices at UAMS in order for the university to thrive in a changing healthcare environment.

On the national scene, many of UAMS' revenue streams may be at risk. Department of Health and Human Services (DHHS) funding is being threatened with budget cuts. DHHS provided \$69,494,000 in funds to UAMS during fiscal 2013. Medicare reimbursement is at risk on many fronts. Physician payments and annual updates are being reviewed with a goal of reducing payments. All Medicare patient care reimbursements are the subject of heightened audits by contractors seeking opportunities to recoup funding from providers. Graduate Medical Education and, specifically, Indirect Medical Education, are

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2013 and 2012

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targeted for 10% reductions. Federal health officials have released a final rule that calls for a \$1.1 billion reduction in Medicaid disproportionate share hospital (DSH) payments over the next two years. Medicaid will adopt a formula for state-specific reductions that favor hospitals that treat a large number of uninsured patients or have high Medicaid volumes. UAMS' net patient service revenue included \$61,330,000 in DSH payments during fiscal 2013. However, the potential effect of these changes on UAMS revenue in future years is unknown at this time. The continued drive for national deficit reduction is almost certain to impact federal reimbursement in the form of Medicaid, Medicare, DHHS, and other agency funding.

State operating support, which represents 9.1% of UAMS' revenue, is also under pressure due to current economic conditions. UAMS' state operating support was reduced by \$1,600,000 for fiscal year 2014. While efforts are underway to have all or a portion of this funding restored in fiscal year 2014, it is uncertain whether or not this will continue as a permanent reduction in UAMS' state appropriations support as the university heads into fiscal year 2015.

On June 29, 2012, UAMS completed the purchase of substantially all of the assets owned by CARTI and used exclusively in the operation of the CARTI radiation oncology treatment facility located on the UAMS campus. The purchase price was \$9,500,000. On July 1, 2012, the radiation oncology treatment facility opened as the UAMS Radiation Oncology Center (ROC). In fiscal year 2013, ROC installed new treatment equipment at a cost of \$10,201,000. In the first full year of operations, ROC had a break even operating margin and is expected to generate positive operating margins in future years.

Management understands its current operating challenges and is committed to maintaining an operating margin that will position UAMS to deal with the impact of healthcare reform and allow for investment in technology, research, and human capital.

#### **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 William R. Bowes, Vice Chancellor for Finance and Chief Financial Officer, 4301 West Markham, #632, Little Rock, Arkansas 72205.



## **Report of Independent Auditors**

To the Board of Trustees of  
The University of Arkansas System:

We have audited the accompanying financial statements of the University of Arkansas for Medical Sciences (“UAMS”), a campus of the University of Arkansas, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise UAMS’ basic financial statements as listed in the table of contents.

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

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

### ***Auditor’s Responsibility***

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of UAMS at June 30, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and the certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying management’s discussion and analysis on pages 1 through 11 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have issued our report dated October 2, 2013 on our consideration of UAMS’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UAMS’ internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

Dallas, Texas  
October 2, 2013

**University of Arkansas for Medical Sciences**  
**Statements of Net Position**  
**June 30, 2013 and 2012**

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 4)	\$ 63,030	\$ 94,714
Investments (Note 5)	67,606	66,968
Patient accounts receivable, net (Note 2)	108,398	108,772
Nonpatient accounts receivable (net of allowances of \$3,198 in 2013 and \$977 in 2012)	52,175	31,408
Supplies	19,602	18,703
Notes and student loans receivable, net (Notes 6 and 14)	2,387	2,698
Prepaid expenses	6,922	3,848
Total current assets	<u>320,120</u>	<u>327,111</u>
Noncurrent assets		
Investments (Note 5)	116,267	102,415
Notes and student loans receivable, net (Notes 6 and 14)	14,476	15,914
Deposits and funds held in trust by others (Note 5)	47,921	26,937
Capital assets, net (Note 7)	831,492	791,808
Other noncurrent assets	3,780	3,088
Total noncurrent assets	<u>1,013,936</u>	<u>940,162</u>
Total assets	<u>\$ 1,334,056</u>	<u>\$ 1,267,273</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 76,500	\$ 66,987
Deferred revenue	8,886	13,067
Funds held in trust for others	498	461
Estimated third-party payor settlements (Note 2)	267	4,043
Compensated absences payable, current portion (Note 9)	2,881	2,859
Bonds, notes, and capital leases payable, current portion (Notes 9 and 10)	28,353	18,718
Total current liabilities	<u>117,385</u>	<u>106,135</u>
Noncurrent liabilities		
Deposits	185	180
Compensated absences payable, net of current portion (Note 9)	44,150	49,625
Liability for other postemployment benefits (Notes 9 and 12)	24,809	22,225
Federal Capital Contribution for Perkins Loan Program	1,911	1,911
Bonds, notes, and capital leases payable, net of current portion (Notes 9 and 10)	362,025	321,865
Total noncurrent liabilities	<u>433,080</u>	<u>395,806</u>
Total liabilities	<u>550,465</u>	<u>501,941</u>
Commitments and contingencies (Notes 10 and 15)		
<b>Net Position</b>		
Net investment in capital assets	488,402	477,589
Restricted		
Expendable		
Scholarships	10,563	15,236
Research	15,968	25,699
Capital projects	83,970	70,635
Other	498	576
Nonexpendable		
Endowments	29,474	27,756
Scholarships, fellowships, student loans	394	394
Unrestricted	<u>154,322</u>	<u>147,447</u>
Total net position	<u>783,591</u>	<u>765,332</u>
Total liabilities and net position	<u>\$ 1,334,056</u>	<u>\$ 1,267,273</u>

The accompanying notes are an integral part of these financial statements.



**University of Arkansas for Medical Sciences**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2013 and 2012**

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$4,029 in 2013 and \$4,347 in 2012)	\$ 29,701	\$ 25,754
Net patient services (Note 2)	886,577	876,544
Meaningful use revenue	4,646	5,581
Sponsored programs		
Federal grants and contracts	96,037	146,664
State and local grants and contracts	22,363	20,119
Nongovernmental grants and contracts	55,203	53,128
Sales and services of educational departments	30,972	31,279
Auxiliary enterprises		
Housing and food service	8,559	8,443
Bookstore	613	674
Other auxiliary enterprises	2,526	2,623
Other operating revenue (Note 17)	26,047	10,144
Total operating revenues	<u>1,163,244</u>	<u>1,180,953</u>
<b>Expenses</b>		
Operating expenses (Note 16)		
Compensation and benefits	818,921	801,330
Supplies and other services	353,765	392,072
Scholarships and fellowships	242	342
Depreciation and amortization (Note 7)	57,047	50,542
Total operating expenses	<u>1,229,975</u>	<u>1,244,286</u>
Operating loss	<u>(66,731)</u>	<u>(63,333)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations, net (Note 3)	50,000	42,632
Gifts	27,370	20,608
Investment income, net of investment expense (Notes 4 and 5)	14,223	7,062
Interest on debt	(11,696)	(14,706)
Loss on disposal of capital assets	(342)	(253)
Total nonoperating revenues, net	<u>79,555</u>	<u>55,343</u>
Income (loss) before other changes in net position	<u>12,824</u>	<u>(7,990)</u>
<b>Other changes in net position</b>		
Capital gifts	2,822	20,634
Capital appropriations	456	-
Federal grants for capital projects	2,594	22,496
Other	(437)	(1,221)
Total other changes in net position	<u>5,435</u>	<u>41,909</u>
Increase in net position	18,259	33,919
<b>Net position</b>		
Beginning of year	<u>765,332</u>	<u>731,413</u>
End of year	<u>\$ 783,591</u>	<u>\$ 765,332</u>

The accompanying notes are an integral part of these financial statements.

**University of Arkansas for Medical Sciences**  
**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Tuition and fees (net of scholarships)	\$ 25,013	\$ 26,585
Patient and insurance payments	873,740	865,055
Sponsored programs	169,514	222,082
Collection of loans and interest	2,392	2,217
Auxiliary enterprise revenue		
Housing and food service	8,553	8,446
Bookstore	613	674
Other auxiliary enterprises	2,698	2,810
Other receipts	60,779	43,966
Payments to suppliers	(338,266)	(379,360)
Payments to employees	(668,115)	(643,016)
Payments of employee benefits	(150,686)	(148,469)
Loans issued to students	(3,078)	(3,117)
Scholarships and fellowships	(242)	(342)
Other payments	(10,961)	(10,050)
Net cash and cash equivalents used in operating activities	<u>(28,046)</u>	<u>(12,519)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	43,642	43,639
Gifts and grants	30,194	45,072
Repayment of loans	141	(587)
Other agency funds (net)	37	(89)
Net cash and cash equivalents provided by noncapital financing activities	<u>74,014</u>	<u>88,035</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of debt	196,092	17,911
Federal grants for capital projects	2,594	22,496
Capital appropriations	400	-
Proceeds from sale of capital assets	102	75
Purchases of capital assets	(81,569)	(98,557)
Principal paid on capital debt and leases	(161,177)	(27,470)
Interest and paying agent fees paid on debt and capital leases	(12,702)	(14,646)
Net cash and cash equivalents used in capital and related financing activities	<u>(56,260)</u>	<u>(100,191)</u>

The accompanying notes are an integral part of these financial statements.

**University of Arkansas for Medical Sciences**  
**Statements of Cash Flows (continued)**  
**Years Ended June 30, 2013 and 2012**

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	76,183	68,155
Interest on investments (net of fees)	946	1,011
Purchases of investments	<u>(98,521)</u>	<u>(36,513)</u>
Net cash and cash equivalents (used in) provided by investing activities	<u>(21,392)</u>	<u>32,653</u>
Net (decrease) increase in cash and cash equivalents	(31,684)	7,978
<b>Cash and cash equivalents</b>		
Beginning of year	<u>94,714</u>	<u>86,736</u>
End of year	<u>\$ 63,030</u>	<u>\$ 94,714</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
<b>Operating loss</b>	\$ (66,731)	\$ (63,333)
Adjustments to reconcile net operating loss to net cash and cash equivalents (used in) provided by operating activities		
Depreciation and amortization	57,047	50,542
Changes in assets and liabilities		
Patient and nonpatient accounts receivable, net	(14,271)	(8,732)
Supplies	(899)	1,872
Other assets	(2,195)	1,363
Accounts payable and accrued liabilities	9,827	(3,753)
Deferred revenue	(4,182)	762
Deposits	4	160
Compensated absences payable	(7,057)	8,850
Other liabilities	<u>411</u>	<u>(250)</u>
Net cash and cash equivalents used in operating activities	<u>\$ (28,046)</u>	<u>\$ (12,519)</u>
<b>Noncash transactions</b>		
Capital assets acquired by capital gift	\$ 2,822	\$ 20,633
Capital asset acquisition paid for by State of Arkansas	56	-
Capital assets acquired by incurring capital lease obligations	10,726	5,377
Capital assets acquired by notes payable	2,492	9,570

The accompanying notes are an integral part of these financial statements.

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2013 and 2012

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#### 1. Summary of Significant Accounting Policies

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

##### **Basis of Presentation**

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

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

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

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School and Northwest Arkansas Satellite Campus;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 453 acute care beds in use at June 30, 2013;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute;
- Jackson T. Stephens Spine Neurosciences Institute; and
- Translational Research Institute.

The Little Rock campus includes approximately 5,460,000 square feet of office, clinical, research, educational, workshop, and general-purpose space, excluding space utilized at Arkansas Children's Hospital and leased space in the community.

##### **Accrual Accounting**

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

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2013 and 2012

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#### **Cash and Cash Equivalents**

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

#### **Investments**

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

The UA Board and the University of Arkansas Foundation Board of Trustees established an external investment pool (the Pool). This arrangement commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The governmental external investment pool is exempt from registration with the SEC. The UA Board and the University of Arkansas Foundation Board of Trustees are the sponsors of this investment pool and are responsible for operation and oversight for the pool. All participation in this investment pool is voluntary. Participation in or withdrawal from the cash segment of the Pool is based on the daily market value of the units within the Pool. Participation in or withdrawal from the investment segment of the Pool is based on the market value per unit at the beginning of the calendar quarter in which the transaction takes place. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. Detailed disclosure information about the Pool may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas 72207-3608, 501-686-2500.

#### **Patient Accounts Receivable**

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

#### **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 statements of net position, consist of resources made available for financial loans to students of UAMS. These resources include federal funds, funds from other external sources, and UAMS funds.

#### **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 (FIFO) basis or average-cost basis.

#### **Capital Assets**

Capital assets are stated at cost at the date of acquisition or estimated fair value at the date of donation. Interest on borrowings to finance facilities is capitalized during construction, net of any

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2013 and 2012

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investment income earned through the temporary investment of project borrowings. UAMS has established a capitalization threshold of \$5,000 for all capital assets other than software. The software capitalization threshold is \$1,000,000 for purchased and internally developed software. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives as established by the American Hospital Association or the lease term as follows:

Buildings and fixtures	15 to 40 years
Equipment	3 to 15 years
Leased assets	Dependent on lease term; generally, 3 to 10 years
Other	3 to 15 years

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

#### **Compensated Absences**

Vested or accumulated vacation and sick leave of UAMS employees are recorded as an expense and liability as the benefits are earned. Amounts recorded include salary expense as well as salary-related payments (e.g., FICA taxes, retirement, etc.). No liability is recorded for nonvested accumulated rights to receive sick leave benefits. The current portion of compensated absences is determined using the average balance paid in the prior two-year period. In fiscal 2013, UAMS extended vested accumulated rights to receive sick leave benefits, already granted to classified employees, to nonclassified employees. This increased fiscal 2012 expenses by \$6,671,000. A decision to reverse this extension was made in fiscal 2013, resulting in a decrease in expense by the same amount.

UAMS has, from time to time, negotiated voluntary early retirement agreements with faculty and staff which may include the provision of a stipend and healthcare or other benefits for future periods. At June 30, 2013, the amount of liability established for these type agreements was \$801,000.

#### **Deferred Revenue**

Deferred revenue consists of student tuition and fees and other revenue applicable to subsequent accounting periods.

#### **Operating Versus Nonoperating Revenue**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services and education are reported as operating revenue and expenses. Operating revenue consists of tuition and fees, patient services revenue, operating grants and contracts, educational department sales and services, as well as various auxiliary services. Nonoperating revenue consists of revenue that results from nonexchange transactions or investment-related activities, including state appropriations (net of appropriations used for Medicaid match), nonoperating gifts, grants and bequests, capital contributions, loss on disposal of capital assets, investment income, interest on debt, and additions to endowments.

#### **Net Patient Services Revenue**

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

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2013 and 2012

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#### **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 moneys have not been received or expended. These awards have not been reflected in the financial statements but represent commitments of sponsors to provide funds for specific research and training projects.

Federal research grants and contracts normally provide for the recovery of direct and indirect costs, subject to adjustment based upon review by the granting agencies. UAMS recognizes revenue associated with direct costs as the related costs are incurred. The recovery of indirect costs is recorded at predetermined rates negotiated with the federal government that are effective from July 1, 2010 through June 30, 2013.

#### **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 statements 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 University of Arkansas 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. Accordingly, no provision for income taxes is made in the accompanying financial statements.

#### **Use of Restricted Resources**

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

#### **Net Position**

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

#### **Use of Estimates**

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

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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**Accounting Pronouncements**

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63). GASB No. 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB No. 63 are effective for financial statements for periods beginning after December 15, 2011. UAMS adopted GASB No. 63 on July 1, 2012. The adoption of GASB No. 63 did not have a significant impact on the financial statements of UAMS as there were no deferred inflows or outflows.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations, and limits the use of the term 'deferred' in financial statements. The provisions of GASB No. 65 are effective for financial statements for periods beginning after December 15, 2012. UAMS is currently evaluating the impact GASB No. 65 will have on its financial statements.

**2. Net Patient Services Revenue and Charity Care**

The Hospital is a division of UAMS, and the Faculty Group Practice (FGP) is the collective body of the College of Medicine faculty involved in professional practice at UAMS. FGP is an integral component of UAMS, functioning as an unincorporated division of the College of Medicine. As such, it is subject to the policies and regulations of the College of Medicine, UAMS, and the UA Board. Patient care operations are included in the accompanying financial statements under accounting principles generally followed by governmental colleges and universities. Patient accounts receivable at June 30, 2013 and 2012 are recorded net of an allowance for doubtful accounts of \$425,204,000 and \$497,497,000, respectively.

Net patient services revenue for the years ended June 30, 2013 and 2012 is as follows:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
Gross patient revenue	\$ 2,006,148	\$ 1,962,329
Less: Patient services contractual allowances	1,029,435	1,012,931
Less: Provision for bad debts	<u>90,136</u>	<u>72,854</u>
Net patient services revenue	<u>\$ 886,577</u>	<u>\$ 876,544</u>

UAMS provided approximately \$141,296,000 and \$129,258,000 in charity care, based on established rates, during the years ended June 30, 2013 and 2012, respectively. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not included in gross patient revenue above. Net patient services revenue for the years ended June 30, 2013 and 2012 includes approximately \$71,722,000 and \$74,044,000, respectively, from the Medicaid program representing payments relating to Upper Payment Limit and Disproportionate Share reimbursements. These payments are available to state-operated teaching hospitals under Medicaid regulations. Net patient services revenue for the years ended June 30, 2013 and 2012



# University of Arkansas for Medical Sciences

## Notes to Financial Statements

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includes approximately \$28,906,000 and \$31,402,000, respectively, of net revenue from the Supplemental Medicaid program.

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

#### **Hospital** ***Medicare***

Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some transplantation services are paid based upon a cost reimbursement methodology. Outpatient services are paid based on a prospective payment system where services are classified into groups called Ambulatory Payment Classifications (APC). Services in each APC are similar clinically and in terms of the resources they require. The Hospital is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audit by the Medicare fiscal intermediary. As of June 30, 2013, the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

#### ***Medicaid***

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is paid at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audits by the Medicaid audit contractor. The Hospital is required to pay the federal match for the difference in reimbursement between the Tax Equity and Fiscal Responsibility Act inpatient rate and full cost. For outpatient services, the Hospital is required to pay the federal match for the difference reimbursed between the outpatient prospective rates and full cost. As of June 30, 2013, the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2009.

#### **FGP and AHECs**

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated settlements resulted in a decrease to net patient services revenue of \$589,500 for the year ended June 30, 2013 and an increase of \$7,461,000 for the year ended June 30, 2012. Management believes that UAMS is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

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**3. Net State Appropriations Revenue**

State appropriations are reported in the statements 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 DHS.

Net state appropriations revenue for the years ended June 30, 2013 and 2012 is as follows:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
Gross state appropriations revenue	\$ 114,638	\$ 114,777
Less: Medicaid match payments	<u>64,638</u>	<u>72,145</u>
Net state appropriations revenue	<u>\$ 50,000</u>	<u>\$ 42,632</u>

**4. Cash and Cash Equivalents**

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

UAMS' deposits at June 30, 2013 and 2012 are categorized below to give an indication of the level of risk assumed by UAMS at each year-end. Category 1 includes deposits that are insured or collateralized with securities held by UAMS or by its agent in UAMS' name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in UAMS' name. Category 3 includes uncollateralized deposits or deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in UAMS' name. Amounts are shown.

<i>(in thousands)</i>	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Category</b>		
			<b>1</b>	<b>2</b>	<b>3</b>
Cash at June 30, 2013	\$ 63,030	\$ 80,470	\$ 80,470	\$ -	\$ -
Cash at June 30, 2012	94,714	114,750	114,750	-	-

At June 30, 2013 and 2012, Category 1 is composed of \$1,350,000 and \$1,274,000, respectively, of insured deposits and \$79,120,000 and \$113,476,000, respectively, of securities that are held in custody by the Federal Reserve Bank.

The following schedule reconciles the reported amount of deposits to the statements of net position under GASB Statement No. 3 (GASB 3), *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
Reported amount of deposits under GASB 3 as reported in the statements of net assets	<u>\$ 63,030</u>	<u>\$ 94,714</u>
Cash and cash equivalents	<u>\$ 63,030</u>	<u>\$ 94,714</u>

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Deposits and funds held in trust as reported in the statements of net position include money market accounts of \$12,414,000. Interest income on cash and cash equivalents as of June 30, 2013 and 2012 was \$1,006,000 and \$1,019,000, respectively.

**5. Investments**

UAMS participates in an external investment pool which is sponsored by the University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Trustees. In January 2010, the University of Arkansas Investment Committee approved an agreement which delegated authority to the UA Foundation to manage University funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives (the guidelines) for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

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

<i>(in thousands)</i>	<b>Fair Value</b>	
	<b>2013</b>	<b>2012</b>
<b>Investment Type</b>		
Commingled funds:		
U.S. equity	\$ 442	\$ 360
U.S. fixed income	141	146
	<u>583</u>	<u>506</u>
Other investments:		
Escrow accounts	1,231	1,049
External investment pool	183,873	169,383
	<u>185,104</u>	<u>170,432</u>
	<u>\$ 185,687</u>	<u>\$ 170,938</u>

The activities during fiscal year 2013 affecting UAMS' investments are summarized below:

<i>(in thousands)</i>	<b>Total Return Pool</b>	<b>Short/ Intermediate Pool</b>	<b>Other Investments</b>	<b>Total</b>
<b>Balances at June 30, 2012</b>	\$ 102,415	\$ 66,968	\$ 1,555	\$ 170,938
Income	1,258	1,745	13	3,016
Realized gains	2,741	2,210	41	4,992
Unrealized gains (losses)	8,973	(3,240)	10	5,743
Expenses paid	(446)	(77)	(4)	(527)
Purchases, net	1,326	-	199	1,525
<b>Balances at June 30, 2013</b>	<u>\$ 116,267</u>	<u>\$ 67,606</u>	<u>\$ 1,814</u>	<u>\$ 185,687</u>

**University of Arkansas for Medical Sciences**  
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The activities during fiscal year 2012 affecting UAMS' investments are summarized below:

<i>(in thousands)</i>	<b>Total Return Pool</b>	<b>Short/ Intermediate Pool</b>	<b>Other Investments</b>	<b>Total</b>
<b>Balances at June 30, 2011</b>	\$ 90,332	\$ 72,674	\$ 10,149	\$ 173,155
Income	942	1,842	89	2,873
Realized gains	1,071	1,374	10	2,455
Unrealized gains (losses)	(10)	1,138	12	1,140
Expenses paid	(361)	(60)	(4)	(425)
Purchases (sales), net	10,441	(10,000)	(8,701)	(8,260)
<b>Balances at June 30, 2012</b>	<u>\$ 102,415</u>	<u>\$ 66,968</u>	<u>\$ 1,555</u>	<u>\$ 170,938</u>

A substantial portion of the endowment investments is pooled, with participation in or withdrawal from the Pool based on the market value per unit at the beginning of the calendar quarter in which the transaction takes place.

The following table summarizes the relationship between the pooled endowed assets and their earnings:

<i>(in thousands, except unit amounts)</i>	<b>2013</b>	<b>2012</b>
Fair value at June 30	\$ 29,496	\$ 27,388
Number of units in Pool at June 30	495,961	495,890
Fair value per unit at June 30	\$ 59.47	\$ 55.23
Realized gains for the year	\$ 700.00	\$ 299.00
Income earned for the year	\$ 231.00	\$ 265.00
Realized gains per unit	\$ 1.41	\$ 0.60
Income earned per unit	\$ 0.47	\$ 0.53
Total income per unit	<u>\$ 1.88</u>	<u>\$ 1.13</u>

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Additionally, realized gains and losses on investments held in more than one fiscal year and sold in fiscal years 2013 and 2012 were included as a change in the fair value of investments reported in fiscal years 2013 and 2012.

The following table contains information on the risk disclosure for the Pool, which commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The Pool was originally established in 1997 by the University and the University of Arkansas Foundation. During 1998, the Walton Arts Foundation joined the Pool, and during 2003, the Fayetteville Campus Foundation joined the Pool. The participants of the Pool have adopted investment guidelines and performance objectives for the accounts within the Pool. This information is provided in total for the pools, which include the Total Return Pool, the Intermediate Pool, and the Cash Pool. UAMS owned 11.9% of the total of these pools as of June 30, 2013 and 11.7% as of June 30, 2012.

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**External Investment Pool**  
**Statement of Invested Assets**

<i>(in thousands)</i> <b>Investment Type</b>	<b>Fair Value</b> <i>(includes accrued income)</i>	
	<b>2013</b>	<b>2012</b>
<b>Fixed income:</b>		
Government bonds	\$ 30,331	\$ 31,440
Corporate bonds	84	73
Other fixed income	400,015	401,158
	<u>430,430</u>	<u>432,671</u>
<b>Venture capital and partnerships:</b>		
Partnerships	<u>577,858</u>	<u>565,298</u>
<b>Commodities:</b>		
Funds - Commodity Linked	<u>19,739</u>	<u>-</u>
<b>Equity:</b>		
Common stocks	393,141	331,591
Preferred stocks	30	58
	<u>393,171</u>	<u>331,649</u>
<b>Hedge fund:</b>		
Hedge equity	<u>116,901</u>	<u>74,460</u>
<b>Other</b>	<u>18</u>	<u>73</u>
<b>Cash/cash equivalents:</b>		
Short term investment funds	13,482	66,858
Cash	(514)	(30,289)
Invested cash	<u>1</u>	<u>25</u>
	<u>12,969</u>	<u>36,594</u>
	<u>\$ 1,551,086</u>	<u>\$ 1,440,745</u>

In accordance with the guidelines, the Pool manages its exposure to credit risk by diversifying the portfolio. The Policy prohibits purchase of securities rated less than BBB-. Securities downgraded below BBB should not represent more than 5% of the portfolio at cost or market. The average quality of the portfolio shall be no less than AA. Except for U.S. Treasury and Agency obligations, the portfolio shall contain no more than 5% exposure to any issuer. The following tables present the credit risk associated with the fixed income portfolio and exclude the accrued income included in the Statement of Invested Assets above.

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**Credit Risk – S&P Quality Ratings at June 30, 2013**

<i>(in thousands)</i> Investment Type	S&P Quality Rating by Fair Value					U.S.	
	AAA	AA	A	BBB	Not Rated	Government Guaranteed	Total Fair Value
Corporate bonds	\$ -	\$ -	\$ -	\$ -	\$ 28,891	\$ -	\$ 28,891
Government bonds	-	-	-	8	-	30,251	30,259
Other fixed income	-	-	-	-	370,848	-	370,848
Hedge event driven	-	-	-	-	24,133	-	24,133
Short term investment funds	-	-	-	-	13,482	-	13,482
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ 437,354</u>	<u>\$ 30,251</u>	<u>\$ 467,613</u>

<i>(in thousands)</i> Investment Type	Investment Maturities in Years					
	Less Than 1	1 - 5	6 - 10	More Than 10	Maturity not Determined	Total Fair Value
Corporate bonds	\$ -	\$ -	\$ -	\$ 84	\$ 28,807	\$ 28,891
Government bonds	-	-	30,251	8	-	30,259
Other fixed income	-	-	-	-	370,848	370,848
Hedge event driven	-	-	-	-	24,133	24,133
Short term investment funds	-	-	-	-	13,482	13,482
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,251</u>	<u>\$ 92</u>	<u>\$ 437,270</u>	<u>\$ 467,613</u>

**Credit Risk – S&P Quality Ratings at June 30, 2012**

<i>(in thousands)</i> Investment Type	S&P Quality Rating by Fair Value					U.S.	
	AAA	AA	A	BBB	Not Rated	Government Guaranteed	Total Fair Value
Corporate bonds	\$ -	\$ -	\$ -	\$ -	\$ 24,621	\$ -	\$ 24,621
Government bonds	-	-	-	39	-	31,401	31,440
Other fixed income	-	-	-	-	376,191	-	376,191
Hedge event driven	-	-	-	-	-	-	-
Short term investment funds	-	-	-	-	66,857	-	66,857
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 467,669</u>	<u>\$ 31,401</u>	<u>\$ 499,109</u>

<i>(in thousands)</i> Investment Type	Investment Maturities in Years					
	Less Than 1	1 - 5	6 - 10	More Than 10	Maturity not Determined	Total Fair Value
Corporate bonds	\$ -	\$ -	\$ -	\$ 73	\$ 24,548	\$ 24,621
Government bonds	-	31,401	-	39	-	31,440
Other fixed income	-	-	-	-	376,191	376,191
Hedge event driven	-	-	-	-	-	-
Short term investment funds	-	-	-	-	66,857	66,857
	<u>\$ -</u>	<u>\$ 31,401</u>	<u>\$ -</u>	<u>\$ 112</u>	<u>\$ 467,596</u>	<u>\$ 499,109</u>

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In accordance with the Policy, the Pool manages its exposure to credit risk by diversifying the portfolio, as follows:

<i>(in thousands)</i> Investment Type	2013 Fair Value	Effective Duration (Years)	2012 Fair Value	Effective Duration (Years)
Corporate bonds	\$ 28,891	N/A	\$ 24,621	N/A
Government bonds	30,259	8.92	31,440	1.99
Other fixed income	370,848	N/A	376,191	N/A
Hedge event driven	24,133	N/A	-	N/A
Short term investment funds	<u>13,482</u>	N/A	<u>66,857</u>	N/A
	<u>\$ 467,613</u>		<u>\$ 499,109</u>	

**Arkansas Code**

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

28-69-604 Rule of construction. 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.

28-69-607 Standard of conduct. In the administration of the powers to expend endowment funds, to make and retain investments, and to delegate investment management of institutional funds, members of a governing board shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In so doing they shall consider long- and short-term needs of the institution in carrying out its educational, religious, charitable, or other eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions, and the aggregate value of all endowment funds held by the institution.

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**6. Notes and Student Loans Receivable**

The net unpaid balances of notes and student loans receivable on June 30, 2013 and 2012, net of allowances of \$4,756,000 and \$4,198,000, respectively, are as follows:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
Perkins loans	\$ 1,293	\$ 1,442
Health professional loans	4,744	5,073
Institutional funds loans	2,979	3,330
University of Arkansas at Fayetteville	773	893
Arkansas State Hospital note receivable	5,874	6,403
Arkansas Department of Health note receivable	1,200	1,461
Miscellaneous	-	10
Total notes and student loans receivable, net	<u>16,863</u>	<u>18,612</u>
Less: Current portion	<u>(2,387)</u>	<u>(2,698)</u>
Notes and student loans receivable, noncurrent, net	<u>\$ 14,476</u>	<u>\$ 15,914</u>

**7. Capital Assets**

Capital assets of UAMS at June 30 were as follows:

<i>(in thousands)</i>	<b>June 30, 2012</b>	<b>Additions</b>	<b>Transfers</b>	<b>Dispositions</b>	<b>June 30, 2013</b>
<b>Nondepreciable</b>					
Land	\$ 12,570	\$ -	\$ -	\$ -	\$ 12,570
Construction in progress	20,708	40,268	(16,254)	-	44,722
<b>Depreciable</b>					
Buildings and fixtures	933,990	23,591	16,329	(16)	973,894
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	228,209	22,872	1,745	(11,611)	241,215
Leased property	26,151	10,726	(1,820)	(957)	34,100
Other	29,867	208	-	-	30,075
Total capital assets	<u>1,253,948</u>	<u>97,665</u>	<u>-</u>	<u>(12,584)</u>	<u>1,339,029</u>
<b>Less: Accumulated depreciation and amortization</b>					
Buildings and fixtures	267,811	31,470	4	(7)	299,278
Improvements other than buildings	2,441	6	-	-	2,447
Equipment	159,074	19,699	1,694	(11,231)	169,236
Leased property	13,903	4,841	(1,698)	(412)	16,634
Other	18,911	1,031	-	-	19,942
Total accumulated depreciation and amortization	<u>462,140</u>	<u>57,047</u>	<u>-</u>	<u>(11,650)</u>	<u>507,537</u>
Capital assets, net	<u>\$ 791,808</u>	<u>\$ 40,618</u>	<u>\$ -</u>	<u>\$ (934)</u>	<u>\$ 831,492</u>



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<i>(in thousands)</i>	June 30, 2011	Additions	Transfers	Dispositions	June 30, 2012
<b>Nondepreciable</b>					
Land	\$ 10,797	\$ 1,773	\$ -	\$ -	\$ 12,570
Construction in progress	13,911	18,459	(11,662)	-	20,708
<b>Depreciable</b>					
Buildings and fixtures	881,231	42,723	10,046	(10)	933,990
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	202,420	29,167	2,304	(5,682)	228,209
Leased property	25,478	2,704	(1,836)	(195)	26,151
Other	18,981	9,738	1,148	-	29,867
Total capital assets	<u>1,155,271</u>	<u>104,564</u>	<u>-</u>	<u>(5,887)</u>	<u>1,253,948</u>
<b>Less: Accumulated depreciation and amortization</b>					
Buildings and fixtures	239,295	28,422	-	94	267,811
Improvements other than buildings	2,411	30	-	-	2,441
Equipment	145,811	17,010	1,617	(5,364)	159,074
Leased property	11,016	4,675	(1,617)	(171)	13,903
Other	18,506	405	-	-	18,911
Total accumulated depreciation and amortization	<u>417,039</u>	<u>50,542</u>	<u>-</u>	<u>(5,441)</u>	<u>462,140</u>
Capital assets, net	<u>\$ 738,232</u>	<u>\$ 54,022</u>	<u>\$ -</u>	<u>\$ (446)</u>	<u>\$ 791,808</u>

In addition to the leased property noted, the buildings and fixtures above include \$24,252,000 and \$24,449,000 of net assets under capital leases at June 30, 2013 and 2012, respectively.

Bond interest of \$3,183,000, net of interest income of \$9,000, was capitalized. The interest was from the 2010A and 2010B Series Various Facilities Revenue Bonds, and included \$712,000 interest from fiscal year 2013, and \$1,410,000 interest from fiscal year 2012. In addition, loan interest of \$279,000 was capitalized.

Library holdings comprise books and periodicals, including old and rare books, held by UAMS. The estimated value of the holdings at June 30, 2013 and 2012 was \$1,308,000 and \$1,366,000, respectively. UAMS has not reported library holdings in the accompanying statements of net position.

**8. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following at year-end:

<i>(in thousands)</i>	2013	2012
Trade payables	\$ 20,197	\$ 12,921
Accrued wages	41,260	39,884
Miscellaneous payables	15,043	14,182
Total accounts payable and accrued liabilities	<u>\$ 76,500</u>	<u>\$ 66,987</u>

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**9. Long-Term Obligations**

Changes in long-term obligations during fiscal year 2013 were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Bonds payable	\$ 292,166	\$ 125,206	\$ 134,445	\$ 282,927
Notes payable	14,984	70,886	17,423	68,447
Capital leases	<u>33,433</u>	<u>14,880</u>	<u>9,309</u>	<u>39,004</u>
Total debt	340,583	210,972	161,177	390,378
Compensated absences	52,484	3,570	9,023	47,031
Other postemployment benefits	<u>22,225</u>	<u>2,704</u>	<u>120</u>	<u>24,809</u>
Total obligations	<u>\$ 415,292</u>	<u>\$ 217,246</u>	<u>\$ 170,320</u>	<u>\$ 462,218</u>

The current and long-term portions of the categories noted above were as follows at June 30, 2013:

	<b>Current</b>	<b>Long Term</b>	<b>Total</b>
Bonds payable	\$ 7,255	\$ 275,672	\$ 282,927
Notes payable	12,977	55,470	68,447
Capital leases	<u>8,121</u>	<u>30,883</u>	<u>39,004</u>
Total debt	28,353	362,025	390,378
Compensated absences	2,881	44,150	47,031
Other postemployment benefits	<u>-</u>	<u>24,809</u>	<u>24,809</u>
Total obligations	<u>\$ 31,234</u>	<u>\$ 430,984</u>	<u>\$ 462,218</u>

Changes in long-term obligations during fiscal year 2012 were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Bonds payable	\$ 301,704	\$ 8,341	\$ 17,879	\$ 292,166
Notes payable	7,363	9,570	1,949	14,984
Capital leases	<u>35,698</u>	<u>5,377</u>	<u>7,642</u>	<u>33,433</u>
Total debt	344,765	23,288	27,470	340,583
Compensated absences	43,634	8,850	-	52,484
Other postemployment benefits	<u>19,273</u>	<u>2,952</u>	<u>-</u>	<u>22,225</u>
Total obligations	<u>\$ 407,672</u>	<u>\$ 35,090</u>	<u>\$ 27,470</u>	<u>\$ 415,292</u>

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The current and long-term portions of the categories noted above were as follows at June 30, 2012:

	<b>Current</b>	<b>Long Term</b>	<b>Total</b>
Bonds payable	\$ 9,300	\$ 282,866	\$ 292,166
Notes payable	1,896	13,088	14,984
Capital leases	<u>7,522</u>	<u>25,911</u>	<u>33,433</u>
Total debt	18,718	321,865	340,583
Compensated absences	2,859	49,625	52,484
Other postemployment benefits	<u>-</u>	<u>22,225</u>	<u>22,225</u>
Total obligations	<u>\$ 21,577</u>	<u>\$ 393,715</u>	<u>\$ 415,292</u>

UAMS has bonds outstanding for the Patient Bed Tower, Radiation Oncology Center Building, Residence Hall, Psychiatry Building, power plant, the East Parking Deck and land and capital improvements. The income from the revenue-producing facilities, along with a portion of tuition and fees, is pledged to meet the principal and interest payments of certain bonds. Separate accounting is not required for these facilities under the provisions of the debt instruments; accordingly, segment reporting is not required for financial reporting purposes.

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A summary of the principal amount of outstanding debt is as follows at June 30, 2013 and 2012:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Bonds Payable</b>		
Various Facility Revenue Bonds, Series 2006, \$107,500,000 original amount, plus a premium of \$5,048,000, due annually to 2036 with \$35,305,000 in term bonds due 2036, various fixed interest rates of 3.40% to 5.00% collateralized by pledged revenue.	<b>PAR</b> <b>Premium</b> \$ 93,820 3,827	\$ 95,985 3,996
Parking System Revenue Refunding Bonds, Series 2010, \$7,605,000 original amount plus a premium of \$560,000, due annually to 2019, various fixed interest rates of 2.0% to 4.5% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	<b>PAR</b> <b>Premium</b> 6,130 371	6,885 433
Various Facility Revenue Bonds, Series 2010A, \$42,680,000 original amount plus a premium of \$2,876,000 due annually to 2030, various fixed interest rates of 2.00% to 5.00%, collateralized by pledged revenue.	<b>PAR</b> <b>Premium</b> 41,905 2,512	42,295 2,656
Various Facility Revenue Bonds, Series 2010B (taxable), \$3,680,000 original amount, due annually to 2013, various fixed interest rates of 1.20% to 1.93% over the life of the issue, collateralized by pledged revenue.	<b>PAR</b> 1,250	2,475
Parking System Revenue Refunding Bonds, Series 2011, \$8,995,000 original amount, due annually to 2034. Used to advance refund the Series 2004 Parking System Revenue Construction Bonds. Various fixed interest rates of 2.00% to 4.25% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	<b>PAR</b> <b>Discount</b> 8,580 (51)	8,985 (53)
Various Facility Revenue Bonds, Series 2013, \$112,665,000 original amount, \$16,667,000 premium due annually to 2034. Used to advance refund the Series 2004A and 2004B Various Facility Bonds. Various fixed interest rates of 1.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	<b>PAR</b> <b>Premium</b> 112,665 16,567	N/A
Various Facility Revenue Refunding Bonds, Series 2004A, \$54,085,000 original amount plus a premium of \$4,797,000, due annually to 2018, various fixed interest rates of 4.00% to 5.00% collateralized by pledged revenue.	<b>PAR</b> <b>Premium</b> - -	30,320 2,187
Various Facility Revenue Construction Bonds, Series 2004B, \$95,915,000 original amount, plus a premium of \$3,412,000, due annually to 2034, various fixed interest rates of 2.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	<b>PAR</b> <b>Premium</b> - -	94,030 2,545
	<b>Deferred Loss Amortization</b> <u>(4,649)</u>	<u>(573)</u>
	<b>Total Bonds Payable</b> <u>\$ 282,927</u>	<u>\$ 292,166</u>

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Scheduled maturities of bonds and notes payable are as follows. Interest on variable rate debt is calculated based on the rate in effect at June 30, 2013:

<i>(in thousands)</i>	<b>Bonds Payable</b>				<b>Notes Payable</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Premium Amortized</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 7,255	\$ 11,982	\$ 1,148	\$ 20,385	\$ 12,976	\$ 988	\$ 13,964
2015	8,045	11,753	1,148	20,946	9,809	828	10,637
2016	8,315	11,490	1,148	20,953	9,874	668	10,542
2017	8,610	11,188	1,148	20,946	14,968	506	15,474
2018	8,945	10,830	1,148	20,923	9,197	255	9,452
2019–2023	51,530	47,502	5,496	104,528	9,345	110	9,455
2024–2028	63,165	33,809	5,435	102,409	1,828	-	1,828
2029–2033	72,690	16,818	5,060	94,568	300	-	300
2034–2037	35,795	2,608	1,495	39,898	150	-	150
	<u>\$ 264,350</u>	<u>\$ 157,980</u>	<u>\$ 23,226</u>	<u>\$ 445,556</u>	<u>\$ 68,447</u>	<u>\$ 3,355</u>	<u>\$ 71,802</u>

On May 14, 2013, UAMS issued revenue refunding bonds of \$112,665,000 (par value) with an interest rate of 1% to 5% to advance refund Various Facility Revenue Refunding Bonds Series 2004A with an interest rate of 5%, and Various Facility Revenue Construction Bonds Series 2004B bonds with an interest rate of 3.25% to 5%, with a combined par value of \$150,000,000. The 2004A bonds mature on November 1, 2018, and the 2004B bonds mature on November 1, 2034 and are callable on November 1, 2014. The revenue refunding bonds were issued at a premium of \$16,667,000 and, after paying issuance costs of \$210,000 and underwriter's discount of \$653,000, the net proceeds were \$128,469,000, net of accrued interest of \$175,000. The net proceeds from the issuance of the revenue refunding bonds were used to purchase U.S. government securities and provide debt service payments until the term bonds are called on November 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the 2004A and 2004B Series bonds were removed from UAMS financial statements. As a result of the advance refunding, the UAMS reduced its total debt service requirements by \$14,429,000, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$13,600,000. All defeased debt in prior years has been refunded, leaving only \$124,352,000 from the defeasance of the 2004 A and B series as the outstanding defeased balance as of June 30, 2013.

The Parking System Revenue Refunding Bonds, Series 2011, were issued in November 2011. The 2011 issue provided \$8,995,000 necessary to advance refund the UA Board's Parking System Revenue Construction Bonds, Series 2004. The bonds bear interest at various fixed interest rates from 2.00% to 4.125%. Principal payments are made annually until July 2034. Interest payments are made semiannually. The refunding reduced cash flows by \$668,000. There was a deferred refunding loss on the transaction of \$589,000 which will be amortized as a component of interest expense until July 2034.

The Various Facility Revenue Bonds, Series 2010A and 2010B, were issued in December 2010. The 2010A issue provided \$42,680,000 for Patient Tower Building Improvements, Winthrop P. Rockefeller Cancer Institute Improvements, Central Energy Improvements, Operating Room and Surgical Suite Improvements, and various other acquisitions and improvements. The bonds bear interest at various fixed interest rates from 2.0% to 5.0% and principal payments are due annually with interest payments due semiannually until the year 2030. The 2010B (Taxable) issue provided \$3,680,000 for acquiring land and properties for expansion and other University

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related purposes. The bonds bear interest at various fixed interest rates from 1.20% to 1.93% and principal payments are due annually with interest payments due semiannually until fiscal year 2014.

The Parking System Revenue Refunding Bonds, Series 2010, were issued in June 2010. The 2010 Bonds were issued to refund the Parking System Revenue Construction and Refunding Bonds, Series 1998. The \$7,605,000 issue enabled UAMS to take advantage of lower rates, with the 2010 Bonds bearing interest at various fixed rates from 2.0% to 4.5%. Principal payments are due annually, with interest payments due semiannually until the year 2019. The refunding resulted in a net present value benefit of \$770,000 and a deferred refunding loss of \$230,000, which will be amortized as a component of interest expense until June 30, 2020. For current and advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the refunded debt is deferred and amortized as a component of interest expense until July 1, 2019.

The Various Facility Revenue Bonds, Series 2006, were issued in March 2006. The 2006 issue provided an additional \$107,500,000 for the recent expansion of the UAMS Hospital to include a new Patient Bed Tower, new Residence Hall, new Psychiatry Building, and a new power plant. The bonds bear interest at various fixed interest rates from 3.4% to 5.0%, and principal payments are due annually with interest payments due semiannually until the year 2036.

**10. Commitments**

**Capital Leases**

Scheduled maturities of capital lease commitments outstanding as of June 30, 2013 are as follows:

<i>(in thousands)</i>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 8,121	\$ 1,458	\$ 9,579
2015	7,069	1,178	8,247
2016	6,764	896	7,660
2017	5,034	641	5,675
2018	3,452	486	3,938
2019–2022	8,564	948	9,512
	<u>\$ 39,004</u>	<u>\$ 5,607</u>	<u>\$ 44,611</u>

**Operating Leases**

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013:

<i>(in thousands)</i>	
2014	\$ 5,816
2015	3,769
2016	1,709
2017	747
2018	92
2019–2022	-
Total minimum payments required	<u>\$ 12,133</u>

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Rental expense for operating leases for the years ended June 30, 2013 and 2012 was approximately \$8,976,000 and \$9,456,000 respectively, and is included in supplies and other services in the accompanying statements of revenues, expenses, and changes in net position.

#### **Construction Projects**

Construction in progress at June 30, 2013 included the Surgical Services renovation and the technology upgrade for the parking decks and surface lots. At June 30, 2013, construction contracts outstanding were approximately \$7,473,000.

#### **Outstanding Commitments**

At June 30, 2013 and 2012, UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$66,195,000 and \$155,796,000, respectively.

## **11. Retirement Benefits**

All active employees of UAMS who work 20 or more hours a week participate in the Arkansas Teacher Retirement System (ARTRS), Arkansas Public Employee Retirement System (APERS), or the University of Arkansas Optional Retirement Plan (UAORP), which is funded through the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments. ARTRS was established as an actuarial reserve system, with a financial base derived from employer and employee contributions and income from investments to pay future benefits. It pays retirement benefits based on length of service and an average of the three highest fiscal years' earnings. Benefit provisions are established and amended by State of Arkansas Statute (A.C.A. 266). UAMS' required contribution rate has been 14% since 2007. ARTRS issues a publicly available financial report, which may be obtained by writing or calling: ARTRS, 1400 West Third Street, Little Rock, Arkansas 72201, 501-682-1517. The gross payroll amount for UAMS employees covered by ARTRS for the years ended June 30, 2013 and 2012 was \$280,700 and \$439,800, respectively. UAMS' total salaries were \$666,263,000 and \$649,819,000 for fiscal years 2013 and 2012, respectively. Total employer contributions to ARTRS in fiscal years 2013, 2012, and 2011 were \$39,300, \$61,500, and \$77,000, respectively. Employee contributions to ARTRS in fiscal years 2013 and 2012 were \$12,400 and \$19,300, respectively.

APERS is a cost-sharing multiple-employer defined benefit plan administered by the State of Arkansas, which pays retirement benefits based on length of service and an average of the five highest fiscal years' earnings. Vesting is effective after 10 years of participation in the plan. Benefit provisions are established and amended by State of Arkansas Statute (A.C.A. 24). UAMS' required contribution rate was 14.24% in 2013 and 13.47% in 2012. APERS issues a publicly available financial report, which may be obtained by writing or calling: APERS, One Union National Plaza, 124 W. Capitol, 5th Floor, Little Rock, Arkansas 72201, 501-682-7855. The gross payroll amount for UAMS employees covered by APERS for the years ended June 30, 2013 and 2012 was \$7,566,000 and \$6,582,000, respectively. Total employer contributions to APERS in fiscal years 2013, 2012, and 2011 were \$1,078,000, \$960,900, and \$788,200, respectively. Employee contributions to APERS in fiscal years 2013 and 2012 were \$238,500 and \$210,500, respectively.

The UAORP was established by the Board of Trustees of the University of Arkansas System. These funds represent a defined contribution plan as set forth in Sections 403(b) and 457(b) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

UAMS automatically contributes 5% of an employee's regular salary to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance.

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For any contributions an employee makes in excess of 5% of regular salary, UAMS makes an equal contribution up to a maximum total UAMS contribution of 10% of regular salary up to a maximum of \$25,500 per employee, which is the IRS maximum for tax year 2013. All contributions for faculty members and nonclassified employees are vested immediately. For classified employees, UAMS contributions will be vested when one of the following occurs: three years of service is completed; when the participant reaches the age of 70; or the participant contributes at least 5% of regular salary for at least six months. The eligible salary earnings for UAMS employees covered by UAORP for the years ended June 30, 2013 and 2012 was \$602,270,000 and \$587,024,000, respectively. Total employer contributions during fiscal years 2013 and 2012 to TIAA-CREF and Fidelity were \$46,745,000 and \$52,423,000, respectively. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal years 2013 and 2012 were \$52,423,000 and \$50,359,000, respectively.

In addition to providing retirement benefits, UAMS arranges health, dental, and life insurance for retired and disabled employees and their families. Substantially, all of UAMS' employees may become eligible for those benefits if they meet normal retirement requirements while still working for UAMS. The number of enrolled retirees was 764 and 688 as of June 30, 2013 and 2012, respectively. The participants of this program incur the total premium for this insurance. There is no direct expense for these services incurred by UAMS.

#### **12. Other Postemployment Benefits (OPEB)**

The University offers postemployment health (including prescription drugs) and dental benefits along with life insurance (\$10,000 available coverage) to eligible retirees. Health and dental benefits are provided in the University's self-funded plan sponsored by the Board of Trustees of the University of Arkansas System for current and retired employees of Fayetteville (UAF), Little Rock (UALR), Medical Sciences (UAMS), Monticello (UAM), Pine Bluff (UAPB), Phillips (PCCUA) and Batesville (UACCB) campuses, the Cooperative Extension Service of the Division of Agriculture (CES), the Arkansas School for Mathematics, Sciences, and the Arts (ASMSA), and the University of Arkansas System Administration (SYSTEM). The plan is considered a single-employer defined benefit plan. The System Administration manages and administers the plan. Although benefits are also provided under the University's plan for the University of Arkansas Foundation, Inc. (the Foundation) and the University of Arkansas Winthrop Rockefeller Institute, no postemployment benefit is accrued by the University for these private entities. Financial activities of the plan are reported in the University's consolidated financial report.

Governmental entities recognize and match other postretirement benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. Accordingly, UAMS accrued \$2,828,000 and \$2,952,000 in retiree healthcare expense during the fiscal years ended June 30, 2013 and 2012, respectively.

For those campuses in the University's self-funded plan, retirees qualify for postretirement benefits as follows:

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

**Benefit Provided:** Retirees participate in the plan at the same premium rate as an active employee.



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

#### Summary of Key Actuarial Methods and Assumptions

##### University Self-Funded Plan

Valuation date	July 1, 2012 valuation for the fiscal year ended June 30, 2013
Valuation year	Census data was collected as of November 1, 2012. Liabilities were measured as of November 1, 2012 and rolled backward to the July 1, 2012 valuation date.
Actuarial cost method	Projected unit credit
Amortization method	30 years open, level percentage of payroll
Asset valuation method	N/A
Discount rate	4.50%
Projected payroll growth rate	4.00%
Medical trend rate	Initial rate of 8.0% unchanged for 3 years, with a 0.5% decrease each year afterwards to an ultimate rate of 5.0%.
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs.

##### General Overview of the Valuation Methodology

The process of determining the liability for retiree medical benefits is based on many assumptions about future events. Future increases in healthcare costs are affected by many factors, including: medical inflation; change in utilization patterns; technological advances; cost shifting; cost leveraging; and changes to government medical programs, such as Medicare.

The required frequency of valuations per GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, depends on the number of members in the plan. Even though the University's self-funded plan only requires it every two years, a full actuarial valuation is performed every other year and a roll forward valuation is performed in the interim years. No decision has been made at this time as to whether annual or biennial valuations will be made in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Calculations are based on the types of benefits provided under the terms of each plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the University and plan members in the future.

##### Changes in Actuarial Assumptions and Methods

For fiscal year 2012, the mortality rates were changed to the RP-2000 Fully Generational Combined Healthy Mortality Table projected by scale AA to better reflect anticipated future mortality improvements. For fiscal year 2013, the healthcare trend rate assumption was changed to better reflect anticipated future experience.

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**Medical Coverage – Retirees Not Eligible for Medicare**

Claim experience for the period January 1, 2011 through December 31, 2012 was used to develop the claims cost for non-Medicare-eligible retirees. The paid claims data was converted to an incurred basis using a completion factor approach. This experience includes 612 life years of exposure and was deemed to be 80% credible. The experience was combined with the active claims experience adjusted for demographic differences to produce the per capita claims costs used in the valuation. Adjustment factors were then applied to develop expected claims by age to be used in the valuation. Expected retiree premiums were developed to represent the expected cost sharing level anticipated by the University. Retiree premiums were also age-adjusted for use in the valuation.

**Medical Coverage – Retirees Eligible for Medicare**

Medical and prescription drug claims for the period January 1, 2011 through December 31, 2012 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 3,000 life years of exposure and was deemed to be fully credible. Based on this analysis, it was concluded that the retiree contributions are sufficient to fully cover the expected claims costs as intended. As such, the cost for Medicare eligible retirees was excluded from this valuation.

**Determination of Annual Required Contribution (ARC) and End-of-Year Accrual**

	<b>July 1</b>	
	<b>2012</b>	<b>2011</b>
Unfunded actuarial accrued liability	<u>\$ 26,463</u>	<u>\$ 28,120</u>
<b>Annual Required Contribution (ARC)</b>		
Normal cost	2,008	2,102
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	945	1,004
Interest	132	140
Annual Required Contribution (ARC)	<u>3,085</u>	<u>3,246</u>
<b>Annual OPEB Cost</b>		
Interest on net OPEB obligation	1,000	867
ARC amortization adjustment	(829)	(719)
Annual OPEB Cost	<u>3,256</u>	<u>3,394</u>
Less: Expected employer contributions	<u>(672)</u>	<u>(442)</u>
End-of-year accrual	2,584	2,952
Beginning of year liability	<u>22,225</u>	<u>19,273</u>
End of year of year liability	<u>\$ 24,809</u>	<u>\$ 22,225</u>

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**Schedule of Employer Contributions**

	<b>Annual Contributions</b>	<b>Expected Contributions</b>	<b>Percentage Contributed</b>
<b>Fiscal Years Ended</b>			
June 30, 2013	\$ 3,256	\$ 672	20.64 %
June 30, 2012	3,394	442	13.02 %
June 30, 2011	3,071	449	14.62 %

Since there is no funding, the expected contributions are the expected implicit subsidy payments. The implicit rate subsidy is the difference between the true cost of medical benefits and the cost-sharing premiums paid by the retiree.

**Schedule of Funding Progress (Unaudited)**

	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as Percentage of Covered Payroll</b>
<b>Fiscal Years Ended</b>						
June 30, 2013	\$ -	\$ 26,463	\$ 26,463	-	\$ 610,117	4 %
June 30, 2012	-	28,120	28,120	-	594,046	5 %
June 30, 2011	-	25,114	25,114	-	552,717	5 %

**13. Affiliated Entities**

The UA Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. It was established to benefit the University, or its students, faculty, and staff. The Board of Directors of the Foundation includes four members who are also members, or former members, of the University Of Arkansas System Board Of Trustees. Support, by the Foundation on behalf of UAMS, was \$27,374,000 and \$33,908,000 for the years ended June 30, 2013 and 2012, respectively.

Based on information provided by the Foundation, during the years ended June 30, 2013 and 2012, respectively, revenue of \$42,916,000 and \$27,870,000 was received by the Foundation for the benefit of UAMS. These revenue amounts are provided by the Foundation and are unaudited.

**14. Related-Party Transactions**

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

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
University of Arkansas at Fayetteville	\$ 773	\$ 893
Arkansas State Hospital	5,874	6,403
Arkansas Department of Health	1,200	1,461
Total included in notes and student loans receivable (Note 6)	<u>\$ 7,847</u>	<u>\$ 8,757</u>

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

# University of Arkansas for Medical Sciences

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#### 15. Contingencies

Amounts received and expended by UAMS under various federal and state programs are subject to audit by governmental agencies. Management believes that adjustments, if any, which might result from such audits would not have a significant impact on the financial position of UAMS. Immunity provisions in Arkansas law prohibit suits naming the Board of Trustees of the University of Arkansas System 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 a retrospective rating plan. UAMS incurred costs of \$4,000,000 and \$3,469,000 for this insurance during the years ended June 30, 2013 and 2012, respectively. 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 \$7,500 without further review or appropriation. Awards that the Claims Commission approves in excess of \$7,500 must be approved and appropriated by the Arkansas State Legislature. Appropriations of this type, if any, reduce appropriations from the state to UAMS in the period in which the claim is appropriated.

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

UAMS employees and their eligible dependents may participate in the University of Arkansas System sponsored self-funded health plan, which is administered by third parties who are responsible for the processing of claims and administration of cost containment. The monthly premiums are established by the University of Arkansas System at a level sufficient to cover claims expected in the plan. UAMS and the employees share the cost of the monthly insurance premium with the total premium and the portion paid by UAMS varying depending on the insurance coverage chosen by the employee. The employee's portion and UAMS' portion of the premium are remitted the following month to the University of Arkansas System with UAMS recognizing as expense its portion of the premiums in the month to which it relates. UAMS has not recorded any other amounts in the financial statements related to the health plan.

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. The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for \$22,158,000 of serial bonds and beginning in 2036 through 2046 for \$14,617,000 of term bonds.

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

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

If Debt Service Revenues would have been considered insufficient at June 30, 2013, UAMS would have incurred a liability of \$51,942,000 related to issue. This amount includes drawdown of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

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

**16. Functional Classification of Expenses**

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

<i>(in thousands)</i>	Year Ended June 30, 2013				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 449,945	\$ 231,183	\$ -	\$ -	\$ 681,128
Instruction	124,460	11,292	-	-	135,752
Research	83,458	39,361	-	-	122,819
Public services	18,277	21,629	-	-	39,906
Academic support	18,074	5,149	-	-	23,223
Student services	1,994	1,624	-	-	3,618
Institutional support	85,843	14,401	-	-	100,244
Operation and maintenance of plant	31,392	16,803	-	-	48,195
Scholarships and awards	-	-	242	-	242
Auxiliary	4,253	3,012	-	-	7,265
Depreciation and amortization	-	-	-	57,047	57,047
Other	1,225	9,311	-	-	10,536
	<u>\$ 818,921</u>	<u>\$ 353,765</u>	<u>\$ 242</u>	<u>\$ 57,047</u>	<u>\$ 1,229,975</u>

<i>(in thousands)</i>	Year Ended June 30, 2012				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 421,463	\$ 236,475	\$ -	\$ -	\$ 657,938
Instruction	118,569	10,372	-	-	128,941
Research	79,351	38,301	-	-	117,652
Public services	19,517	65,868	-	-	85,385
Academic support	17,001	4,733	-	-	21,734
Student services	2,025	1,764	-	-	3,789
Institutional support	107,191	7,510	-	-	114,701
Operation and maintenance of plant	31,486	10,919	-	-	42,405
Scholarships and awards	-	-	342	-	342
Auxiliary	3,943	3,081	-	-	7,024
Depreciation and amortization	-	-	-	50,542	50,542
Other	784	13,049	-	-	13,833
	<u>\$ 801,330</u>	<u>\$ 392,072</u>	<u>\$ 342</u>	<u>\$ 50,542</u>	<u>\$ 1,244,286</u>

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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**17. Out-of-Period Adjustments**

During fiscal year 2013, UAMS recorded an out-of-period adjustment which increased Other operating revenue and the Increase in net position by \$13,551,000. The adjustment related to the recognition in 2013 of a refund from the Internal Revenue Service (IRS) of Federal Insurance Contribution Act (FICA) taxes paid by UAMS on wages earned for services performed by medical residents for calendar years 1996 through 1999. The wages of medical residents during this period were deemed by the IRS to be exempt from FICA taxes based on the student exception. On April 1, 2005, new IRS regulations went into effect whereby the earnings of medical residents became subject to FICA taxes. Appropriately, UAMS did not pay FICA taxes on medical resident earnings after calendar 1999 until the new regulations went into effect. The majority of the refund and related interest should have been recognized prior to fiscal year 2012, when the IRS announced they would honor the appropriate claims for refund of FICA taxes. UAMS evaluated the out-of-period adjustment, in relation to the current period, as well as the period in which it originated, and concluded the adjustment is not material to the impacted periods.

During fiscal year 2013, UAMS recorded an out-of-period adjustment to capitalize interest on capital projects previously expensed in the amount of \$1,061,000 and \$1,410,000 in fiscal years 2011 and 2012, respectively. UAMS evaluated the out-of-period adjustment, in relation to the current period, as well as the periods in which it originated, and concluded the adjustment is not material to the impacted periods.

**18. Subsequent Events**

UAMS evaluated subsequent events through October 2, 2013, which is the date the financial statements were issued, and determined there were no matters that required adjustment to or disclosure in the financial statements.



**Independent Auditor’s Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Trustees  
The University of Arkansas System:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UAMS’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UAMS’s internal control. Accordingly, we do not express an opinion on the effectiveness of UAMS’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether UAMS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PricewaterhouseCoopers LLP*

Dallas, Texas  
October 2, 2013





**Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees  
University of Arkansas System:

Report on Compliance for Each Major Federal Program

We have audited the compliance of the University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of UAMS's major federal programs for the year ended June 30, 2013. UAMS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of UAMS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UAMS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of UAMS's compliance.

Opinion on Each Major Federal Program

In our opinion, UAMS complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.



### Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-001. Our opinion on each major program is not modified with respect to this matter.

UAMS' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. UAMS' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Internal Control Over Compliance

Management of UAMS is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit, we considered UAMS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UAMS's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*PricewaterhouseCoopers LLP*

Dallas, Texas  
January 10, 2014

# University of Arkansas for Medical Sciences

## Schedule of Expenditures of Federal Funds

### June 30, 2013

Federal grantor/pass-through program or cluster title	CFDA No.	Pass through Entity	Pass through Entity Identifying Number	Expenditures	Subrecipients
Research and Development Cluster					
United States Department of Agriculture					
Agriculture and Food Research Initiative (AFRI)	10.310	University of Arkansas - Fayetteville	2011-68001-30014/UA AES 91086	312,869	12,050
Total for United States Department of Agriculture				<u>\$ 312,869</u>	<u>\$ 12,050</u>
United States Department of Commerce					
Economic Adjustment Assistance	11.307		08-79-04523	205,985	
Measurement and Engineering Research and Standards_ARRA award	11.609	Johns Hopkins University	60NANB10D008	42,842	
Total for United States Department of Commerce				<u>\$ 248,827</u>	<u>\$ -</u>
United States Department of Defense					
Military Medical Research and Development	12.420	University of Arkansas at Little Rock	W81XWH	459,668	
Military Medical Research and Development	12.420	University of Memphis	W81XWH-10-1-0812	325	
Military Medical Research and Development	12.420	University of Tennessee	W81XWH-12-2-0020	115,755	
Military Medical Research and Development	12.420			640,988	28,832
Basic Scientific Research	12.431		W911NF-10-1-0058	184,309	
Total for United States Department of Defense				<u>\$ 1,401,045</u>	<u>\$ 28,832</u>
United States Department of Labor					
H-1B Job Training Grants	17.268	Department of Workforce Services (ESD)	05-R10-APNF-83	385,269	
Total for United States Department of Labor				<u>\$ 385,269</u>	<u>\$ -</u>
National Aeronautics and Space Administration					
Cooperative Agreements	43.001	University of Arkansas at Little Rock	UAMS22044/UAMS22045/12012	15,194	
Total for National Aeronautics and Space Administration				<u>\$ 15,194</u>	<u>\$ -</u>
National Science Foundation					
Biological Sciences	47.074			163,959	
ARRA - Trans-NSF Recovery Act Research Support	47.082	University of Arkansas - Fayetteville	EPS-0918970	9,518	
Miscellaneous National Science Foundation Programs	47.Unknown	New Mexico State University	MOU 15218/Q01555	43,550	
Total for National Science Foundation				<u>\$ 217,027</u>	<u>\$ -</u>
United States Environmental Protection Agency					
Miscellaneous Environmental Protection Agency Programs	66.500	The Health Effects Institute	CR-83234701/4907-RFPA09-5/12-1	81,040	
Total for United States Department of Defense				<u>\$ 81,040</u>	<u>\$ -</u>
United States Department of Health and Human Services					
Environmental Health	93.113			160,145	
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135			341,709	
Research Related to Deafness and Communication Disorders	93.173			122,441	
Research and Training in Complementary and Alternative Medicine	93.213	BotaniPharm, LLC	2 R44 AT003365-02	112,907	
Mental Health Research Grants	93.242	Emory University	S889211/S472606	69,294	
Mental Health Research Grants	93.242	University of Massachusetts	6121802/RFS2011038	89,425	
Mental Health Research Grants	93.242	University of Miami	5 R01 MH078775-05	2,928	
Mental Health Research Grants	93.242			943,148	233,334
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	Benton County Drug Court	5 H79 T02125-03	35,909	
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243			262,738	
Occupational Safety and Health Program	93.262			721,002	
Alcohol Research Programs	93.273	Dartmouth College	R01AA016917	886	
Alcohol Research Programs	93.273	RTI International	7 R01 AA016299-05/1-312-0213322	231	
Alcohol Research Programs	93.273			467,631	
Drug Abuse and Addiction Research Programs	93.279	Baylor College of Medicine	5P50 DA018197-09/101701942	285,632	
Drug Abuse and Addiction Research Programs	93.279	Dartmouth College	#1010/#1014	29,082	
Drug Abuse and Addiction Research Programs	93.279	University of Kentucky Research Foundation	2 U01 DA01359-10/3048109618-13-065	94,546	
Drug Abuse and Addiction Research Programs	93.279	University of Kentucky Research Foundation	7 R01 DA026837-04/3048110037-13-138	176,167	
Drug Abuse and Addiction Research Programs	93.279	Virginia Tech	431677-19982/5 R01DA030241	14,788	
Drug Abuse and Addiction Research Programs	93.279			3,974,001	1,583,963
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			401,144	

See accompanying independent auditors' report.

**University of Arkansas for Medical Sciences**  
**Schedule of Expenditures of Federal Funds**  
**June 30, 2013**

Federal grantor/pass-through program or cluster title	CFDA No.	Pass through Entity	Pass through Entity Identifying Number	Expenditures	Subrecipients
Minority Health and Health Disparities Research	93.307	City College of New York	7 R01 MD007054-02/41839-A	1,982	
Minority Health and Health Disparities Research	93.307			1,832,403	179,411
Trans-NIH Research Support	93.310			156,925	108,408
Nursing Research	93.361			303,042	74,017
National Center for Research Resources	93.389	Health Partners Research Foundation	URICA A07-129	(921)	
National Center for Research Resources	93.389	University of Arkansas- Fayetteville	5 P30 RR031154-03/SA 1107015	101,502	
National Center for Research Resources	93.389			8,731,446	2,210,994
Cancer Cause and Prevention Research	93.393	University of Alabama-Birmingham	5 U01 CA093344-08/000351425-001	(954)	
Cancer Cause and Prevention Research	93.393	University of Utah	10002577-01	3,448	
Cancer Cause and Prevention Research	93.393			299,126	
Cancer Detection and Diagnosis Research	93.394	American College of Radiology	ACRIN 6685/6688	80,580	
Cancer Detection and Diagnosis Research	93.394	Radiation Monitoring Devices, Inc.	1 R43 CA168100-01A1	4,013	
Cancer Detection and Diagnosis Research	93.394			1,017,688	18,239
Cancer Treatment Research	93.395	American College of Surgeons Oncology Gr	Z6051	2,100	
Cancer Treatment Research	93.395	CTSU-CALGB	CALGB 90802/CALGB 30610/ROTG 0538	11,776	
Cancer Treatment Research	93.395	Duke Clinical Research	5 U10 CA76001-01/ 5 U10 CA86004-02	4,309	
Cancer Treatment Research	93.395	Southwest Oncology Group	NSC-736634; SWOG 0709,1005,0816;s0952,s0931,CA032102,s120 1	18,076	
Cancer Treatment Research	93.395	UCLA	PO 168 G NA643/2 U01 CA 121947-04	208,209	
Cancer Treatment Research	93.395	University of Alabama-Birmingham	5 R01 CA135075-03/5 R01 CA151538- 02/000401263-001	60,553	
Cancer Treatment Research	93.395	University of Michigan	U10 CA32102	18,227	
Cancer Treatment Research	93.395	University of Oklahoma	NSC# 710428	4,012	
Cancer Treatment Research	93.395	Vanderbilt University	5 R01 CA140409-03/VUMC39437	84,574	
Cancer Treatment Research	93.395			5,228,945	140,524
Cancer Biology Research	93.396			297,608	
Cancer Research Manpower	93.398	Cancer Trials Support Unit	ECOG 1609	35,304	
Cancer Research Manpower	93.398			31,283	
Cancer Control	93.399	University of Maryland	5 U01 CA114650-05/SR00002046	47,584	
Health Care Innovation Challenge	93.610			1,103,437	677,346
ARRA - Trans-NIH Recovery Act Research Support	93.701	InterVexion Therapeutics, LLC	DA028915-01	11,072	
ARRA - Trans-NIH Recovery Act Research Support	93.701	Wright State University	1 RC1 DA028467-02	324	
ARRA - Trans-NIH Recovery Act Research Support	93.701			472,839	211,401
ARRA - National Center for Research Resources, Recovery Act Construction Support	93.702			874,657	
Cardiovascular Diseases Research	93.837	Wayne State University	7 R01HL084337-04/WSU11083	1,913	
Cardiovascular Diseases Research	93.837			1,606,143	18,015
Lung Diseases Research	93.838			(1,954)	
Blood Diseases and Resources Research	93.839	University of Iowa	2 15032 00 05/2 R01 HL046925- 16A 1/W000392594	172,838	
Blood Diseases and Resources Research	93.839			475,391	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			1,448,601	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Biomedical Research Foundation	1 R43 DK089659-01	170,564	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Jaeb Center for Health Research	Protocol R	7,728	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Louisiana State University	1 R01 DK089051/S03 50325	9,628	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of Vermont	5 R01 DK056746-10/24030	271,589	7,507
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Wake Forest University	U01 DK57136	31,875	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Yale University	1 R01 DK096549-01A1/M13A11501 (A09021)	33,871	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			2,662,694	15,099
Digestive Diseases and Nutrition Research	93.848			508,045	
Kidney Diseases, Urology and Hematology Research	93.849			576,747	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Baylor College of Medicine	101739415/7R01NS06074	17,850	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Emory University	2 U01 NS038455-11A1/S886411	72,067	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Alabama-Birmingham	5 U01 NS041588	36,220	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Toledo	5 R01 NS049389	880	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			609,695	
Allergy, Immunology and Transplantation Research	93.855	Duke Clinical Research	UA1067798-06	204,552	
Allergy, Immunology and Transplantation Research	93.855	HIV Prevention Trials Network	U01 AI068619	31,632	
Allergy, Immunology and Transplantation Research	93.855	Indiana University	1 R01 AI099278-01/IN-4689724-UA	129,130	
Allergy, Immunology and Transplantation Research	93.855	University of Alabama-Birmingham	5 R01 AI093692-02/000410050-001	15,633	
Allergy, Immunology and Transplantation Research	93.855	University of Alabama-Birmingham	1 R34 AI100728-01/000421793-001	39,345	
Allergy, Immunology and Transplantation Research	93.855	University of California at San Diego	5 U01 AI082229-04/10305957-003	40,850	

See accompanying independent auditors' report.

**University of Arkansas for Medical Sciences**  
**Schedule of Expenditures of Federal Funds**  
**June 30, 2013**

Federal grantor/pass-through program or cluster title	CFDA No.	Pass through Entity	Pass through Entity Identifying Number	Expenditures	Subrecipients
Allergy, Immunology and Transplantation Research	93.855			2,138,987	
Microbiology and Infectious Diseases Research	93.856	University of Alabama-Birmingham	HHSN266200400073C/000209764-026	115,620	
Biomedical Research and Research Training	93.859	Univ. of Pittsburg	5 P50 GM076659-05/9000613(117896-36)	2,146	
Biomedical Research and Research Training	93.859	Univ. of Pittsburg	3 P50 GM076659-04S1	9,798	
Biomedical Research and Research Training	93.859	University of Pittsburg	0026332 (120609-1)	214,469	
Biomedical Research and Research Training	93.859			3,937,742	161,070
Child Health and Human Development Extramural Research	93.865	Duke Clinical Research	RHD057956	2,500	
Child Health and Human Development Extramural Research	93.865			317,903	3,280
Aging Research	93.866	Invotek	1 R43 AG039172	14,070	
Aging Research	93.866	University of Alabama-Birmingham	1 R01 AG039588-01A1/000410331-001	7,171	
Aging Research	93.866	University of Alabama-Birmingham	5 R03 AG041411-02/000408383-001	26,654	
Aging Research	93.866			4,520,962	146,768
Vision Research	93.867			948,466	60,272
International Research and Research Training	93.989			323,732	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Arkansas Research Alliance	HHSF223201210189C	41,346	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Case Western Reserve University	RES502420/HHSN266200700022C	15,828	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Case Western Reserve University	CDC 200-2009-32598/RES507408	25,620	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	CTSU-CALGB	CALGB 1208	23,148	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	EMMES Corporation	HHS-N-260-2005-00007-C	7,529	
Biomedical Research and Research Training	93.Unknow n	Johns Hopkins University	1 R01 GM106024-01	14,227	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Southwest Oncology Group	C710732-2010	18,900	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	University of California at San Diego	HHSN26620040074C/6730c	30,548	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Washington/Madison County Adult Drug Court	1H79T1024160-01/2012-125	30,854	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n		HHS010020111000-45C	1,720,855	724,644
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n		254-20010-M-36838	11,166	
Total for United States Department of Health and Human Services				<u>\$ 53,044,691</u>	<u>\$ 6,574,292</u>
Total for Research and Development Cluster				<u>\$ 55,705,962</u>	<u>\$ 6,615,174</u>
Head Start Cluster					
United States Department of Health and Human Services					
Head Start - Non Class Room	93.600		90YD025403	78,274	
Head Start - Class Room	93.600		06CH700114/5	7,987,369	
Total for United States Department of Health and Human Services				<u>\$ 8,065,643</u>	<u>\$ -</u>
Total for Head Start Cluster				<u>\$ 8,065,643</u>	<u>\$ -</u>
Student Financial Aid Cluster					
United States Department of Education					
Federal Supplemental Educational Opportunity Grants	84.007		E P007A050203	28,037	
Federal Pell Grant Program	84.063		E P063P051089	1,327,880	
Federal Direct Student Loans	84.268		Direct loans	42,977,642	
Federal Perkins Loan Program_Federal Capital Contributions	84.038		Perkins	1,315,423	
Total for United States Department of Education				<u>\$ 45,648,982</u>	<u>\$ -</u>
United States Department of Health and Human Services					
Nurse Faculty Loan Program (NFLP)	93.264		Nurse Faculty Loans	4,031	
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342		HPSL	4,625,038	
Nursing Student Loans	93.364		Nursing	267,292	
Total for United States Department of Health and Human Services				<u>\$ 4,896,361</u>	<u>\$ -</u>
Total Student Financial Aid Cluster				<u>\$ 50,545,343</u>	<u>\$ -</u>
Other					
United States Department of Agriculture					
Miscellaneous US Department of Agriculture Programs	10.Unknow n		AR902-A50	19,887	
Total for United States Department of Agriculture				<u>\$ 19,887</u>	<u>\$ -</u>

See accompanying independent auditors' report.

# University of Arkansas for Medical Sciences

## Schedule of Expenditures of Federal Funds

### June 30, 2013

Federal grantor/pass-through program or cluster title	CFDA No.	Pass through Entity	Pass through Entity Identifying Number	Expenditures	Subrecipients
United States Department of Commerce					
Broadband Technology Opportunities Program (BTOP)	11.557	Connect Arkansas	05-43-B10591	310,124	
Broadband Technology Opportunities Program (BTOP)	11.557		NT10BIX5570102	13,130,203	10,614,854
Total for United States Department of Commerce				<u>\$ 13,440,327</u>	<u>\$ 10,614,854</u>
United States Department of Transportation					
State and Community Highway Safety	20.600	Arkansas State Police	OP-2012-03-07-01/OP-2013-03-07-01	151,717	
Safety Belt Performance Grants	20.609	Arkansas State Police	K4-2012-12-01-01/K4-2013-12-01-01	204,082	
Total for United States Department of Transportation				<u>\$ 355,799</u>	<u>\$ -</u>
United States Environmental Protection Agency					
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		XA-00F59601	13,313	
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716		X8-00F10401	(694)	
Total for United States Department of Defense				<u>\$ 12,619</u>	<u>\$ -</u>
United States Department of Education					
National Institute on Disability and Rehabilitation Research	84.133		H133G090170-11	94,265	
Total for United States Department of Education				<u>\$ 94,265</u>	<u>\$ -</u>
United States Department of Health and Human Services					
Special Programs for the Aging Title IV and Title I Discretionary Projects	93.048	Department of Human Services	4600020550/4501107255	17,428	
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107			579,540	
Maternal and Child Health Federal Consolidated Programs	93.110			899,026	174,213
AIDS Education and Training Centers	93.145			193,331	
Disabilities Prevention	93.184			419	
Urban Indian Health Services	93.193	Arkansas Department of Health	4600020986/5 VF1 CE001111-04	285,939	55,679
Telehealth Programs	93.211			542,740	
Grants to States to Support Oral Health Workforce Activities	93.236	Arkansas Department of Health	4600022962/4501207828	122,679	
Geriatric Academic Career Awards	93.250			60,189	
Poison Center Support and Enhancement Grant Program	93.253			171,558	
Substance Abuse and Mental Health Services-Access to Recovery	93.275	Department of Human Services	4600020666/4501107722	632	
Substance Abuse and Mental Health Services-Access to Recovery	93.276	University of Arkansas - Fayetteville	4600027730	109,848	
Drug Abuse and Addiction Research Programs	93.279			300,719	
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	Arkansas Department of Health	4600023248	7,421	
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	Arkansas Department of Health	4600026062	7,010	
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283			390,519	
Subtotal CFDA No. 93.283					
Cancer Cause and Prevention Research	93.393			404,950	
Cancer Research Manpower	93.398			84,290	
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	Arkansas Children's Hospital	D809MC23141-01-00/13-9828-1	136,083	
				317,940	
Affordable Care Act (ACA) Primary Care Residency Expansion Program	93.510			769,958	
Affordable Care Act - Teaching Health Center Graduate Medical Education Payments Program	93.530			257,102	
PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	Arkansas Department of Health	4600023060/ 4501214305	256,790	
Child Care and Development Block Grant	93.575	Department of Human Services		12,813	
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632			455	
Children's Justice Grants to States	93.643			191,771	
ARRA - Trans-NIH Recovery Act Research Support	93.701			9,060	
Health Careers Opportunity Program	93.822			156,125	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Case Western Reserve University	R25DK082376/RESS04026	50,677	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			100,498	
Subtotal CFDA No. 93.847					
Biomedical Research and Research Training	93.859			151,175	
Grants for Training in Primary Care Medicine and Dentistry	93.884			407,088	
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	Mid Delta Community Consortium	D60RH08532A0	846,681	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Department of Human Services	4600027465	329,728	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Department of Human Services	4600019580	99,709	
Subtotal CFDA No. 93.959				<u>429,437</u>	

See accompanying independent auditors' report.

**University of Arkansas for Medical Sciences**  
**Schedule of Expenditures of Federal Funds**  
**June 30, 2013**

Federal grantor/pass-through program or cluster title	CFDA No.	Pass through Entity	Pass through Entity Identifying Number	Expenditures	Subrecipients
Public Health Traineeships	93.964			13,410	
Geriatric Education Centers	93.969			363,699	107,285
Preventive Health and Health Services Block Grant	93.991	Arkansas Department of Health	4600021405	51,907	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Arkansas Centers for Youth and Families	Thrive	123,307	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Houston Academy of Med. - Texas Med Ctr	HHSN-276-2011-00007	4,857	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Houston Academy of Med. - Texas Med Ctr	HHSN-276-2011-00007-C	1,489	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Insurance Dept		11,759	
Miscellaneous US Department of Health and Human Services Programs	93.Unknow n	Univ Oklahoma Health Science Center		6,470	
Total for United States Department of Health and Human Services				<u>\$ 8,383,797</u>	<u>\$ 337,177</u>
Total for Other Federal Expenses				<u>\$ 22,306,694</u>	<u>\$ 10,952,031</u>
Total for Fiscal Year 2013				<u>\$ 136,623,642</u>	<u>\$ 17,567,205</u>

See accompanying independent auditors' report.



**University of Arkansas for Medical Sciences**  
**Notes to Schedule of Expenditures of Federal Funds**  
**June 30, 2013**

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**1. Basis of Accounting**

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. Expenditures are recognized as they are incurred.

**2. Loans and Loan Guarantees**

Federal awards expended under the following loan programs were determined based on the value of new loans made during the year, plus the balance of loans from previous years, for which the federal government imposes continuing compliance requirements, plus any interest subsidies, cash, or administrative cost allowance received. The outstanding balance as of June 30, 2013 of these loans is:

Federal Perkins Loan Programs	CFDA No. 84.038	\$	1,315,423
Health Professions Student Loans	CFDA No. 93.342		4,625,038
Nursing Student Loans	CFDA No. 93.364		267,292
Nurse Faculty Loan Program	CFDA No. 93.264		4,031
		<u>\$</u>	<u>6,211,784</u>

New loans issued in the current year are as follows;

Federal Perkins Loan Programs	CFDA No. 84.038	\$	207,555
Health Professions Student Loans	CFDA No. 93.342		488,536
Nursing Student Loans	CFDA No. 93.364		62,580
Nurse Faculty Loan Program	CFDA No. 93.264		-
		<u>\$</u>	<u>758,671</u>

UAMS currently participates in the Federal Direct Student Loan Program (Direct Loan Program). Proceeds under the Direct Loan Program are disbursed by the federal government, rather than a lending institution, with UAMS providing various administrative support. As UAMS is only responsible for certain administrative duties, outstanding loans are not included in UAMS' financial statements or schedule of expenditures of federal awards. As reported in the accompanying schedule, new loans totaling \$42,977,642 were made to students of UAMS during the year ended June 30, 2013.

The total Perkins loan cancelation amount is \$141,993 and the amount of Administrative Cost Allowances were \$11,780.

**Part I. Summary of Auditor's Results**

**Consolidated Financial Statements**

Type of auditor's report issued:

**Unmodified**

Internal control over financial reporting:

- Material weakness identified?  Yes  No
- Significant deficiency identified that is not considered to be a material weakness?  Yes  None reported

Noncompliance material to consolidated financial statements noted?

Yes  No

**Federal Awards**

Internal control over major programs:

- Material weakness identified?  Yes  No
- Significant deficiency identified that is not considered to be a material weakness?  Yes  None reported

Type of auditor's report issued on compliance for major programs:

**Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133

Yes  No

Identification of major programs:

<b>CFDA Numbers</b>	<b>Name of Federal Program</b>
Various	Student Financial Aid – Cluster
Various	Research and Development – Cluster
11.557	Broadband Technology Opportunities Program (BTOP) – Program
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**Part II. Financial Statement Findings Section**

No matters were reported.

### Part III. Federal and State Award Findings and Questioned Costs

#### 2013-001: Allowable Costs – Indirect Costs

**Program or Cluster Name** Research and Development Cluster  
**CFDA Numbers** 93.394, 93.395, 93.398, 93.847, and 93.Unknown  
**Federal Award Number** Refer below  
**Federal Award Year** July 1, 2012 through June 30, 2013  
**Federal Agency** National Institutes of Health

#### Criteria

In order to recover indirect costs, educational institutions must prepare indirect cost rate proposals (ICRPs) in accordance with the guidelines provided in A-21. Educational institutions must submit ICRPs to the cognizant agency for approval (A-21, section G.11). These approved rates must be applied to Federal awards, unless superseded by award-specific rates.

#### Condition

Out of a sample of 25 indirect cost expenditures for R&D grants selected for testing, one item was identified for which the federally approved indirect cost rate was not used for the April 2013 indirect cost expenditures. This selected expenditure resulted in an over expenditure of \$15,465.23.

Additionally, upon further investigation of the magnitude of this finding, there were 8 grants for which an over expenditure was recorded, resulting in an over expenditure of \$24,424.94 specifically for the April 2013 monthly indirect costs. It should be noted that all 8 of these grants are clinical trials grants for which cash had not yet been drawn down for the recorded indirect expenditures as of year-end.

It is noted that our testing encompassed multiple different months and a variety of indirect cost uploads and this was the only instance where an incorrect upload of the indirect costs was identified.

#### Questioned Costs

CFDA	Indirect Cost Over-Expenditure	Document / Contract	Agency / Pass-Through Entity
93.394	15,465.23	ACRIN 6685	American College of Radiology
93.395	145.75	CA032102	Southwest Oncology Group
93.395	1,350.00	CALGB 90802	CTSU-CALGB
93.395	1,017.50	NSC-736634	Southwest Oncology Group
93.395	1,397.87	S1201	Southwest Oncology Group
93.398	4,770.00	ECOG 1609	Cancer Trials Support Unit
93.847	78.40	Protocol R	Jaeb Center for Health Research
93.Unknown	200.19	HHS-N-260-2005-00007-C	The EMMES Corporation
<b>Total</b>	<b>24,424.94</b>		

#### Effect

The recording of expenditures of indirect costs greater than the approved rate could result in drawdowns or reimbursements for unallowable costs, as these indirect cost rates have either been federally approved or approved on an award-specific basis within the grant award.

**Cause**

UAMS' process of recording indirect costs is based off of an automated calculation which pulls from grant specific rates that have been previously uploaded into the system; however, the monthly upload of these calculations to record the indirect cost expenditures is a manual process. When uploading a portion of the April 2013 indirect cost expenditures, monthly indirect costs for eight of the grants (clinical trials) were uploaded using the incorrect column from the automated indirect costs calculation file, resulting in an over expenditure of indirect costs.

**Recommendation**

It is our recommendation that management implements a more robust review process of their upload of monthly grant expenditures to better verify that indirect cost rates were applied to the grants for that month. Additionally, a periodic review should be performed to verify that Federal grants had not incurred indirect costs at a rate greater than their approved rates.

**Management's Views and Corrective Action Plan**

We concur with the finding. Management will continue the current review of F&A postings each month but will add a quarterly review as of December 31, 2013 to ensure human errors such as this do not occur or if they do occur the errors are corrected in a timely manner.

Responsible Official: Tyrone Stephens, Director of Cost Accounting, (501) 526-7452

**Finance Department  
Office of Grants Accounting**

4301 W. Markham St., #545  
Little Rock, AR 72205-7199

501-686-6843  
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### Summary of Status of Prior Audit Findings

<b>Finding Number</b>	2012-1
<b>Program or Cluster Name</b>	Student Financial Aid Cluster
<b>CFDA Number and Title</b>	CFDA# 84.268 - Federal Direct Student Loans
<b>Federal Award Number</b>	N/A
<b>Federal Award Year</b>	July 1, 2011 through June 30, 2012
<b>Federal Agency</b>	Department of Education

#### Condition

During PwC's testing of enrollment reporting, PwC noted eight instances out of a sample of 40 where changes in students' status were not reported to the NSLDS within 60 days of the status change. Two of the eight students were reported later than 60 days. The remaining six students' information was not reported to the NSLDS as of September 30, 2012, even though their status was updated in the student system (OASIS) prior to June 30, 2012.

#### Recommendation

PwC recommended that management perform a review of the automatic reporting processes between the student system and NSLDS to ensure the processes are working as expected and applicable data is properly reported between UAMS and NSLDS. PwC also noted that UAMS is under contract to start using the National Student Clearinghouse (NSC) as a servicer for enrollment reporting with an estimated starting period of January 2013. PwC further recommended that management review the enrollment reporting through our official transition to NSC to ensure that student status changes are reported accurately and timely during the first portion of the year not under the servicer.

#### Status

The SSCR Task Force successfully finalized the implantation with the National Student Clearinghouse (NSC) as outlined in our Action Plan. The student statuses are now reported correctly to NSLDS via NSC.

<b>Finding Number</b>	<b>2012-2: Subrecipient Monitoring</b>
<b>Program or Cluster Name</b>	Research and Development and BTOP
<b>CFDA Number and Title</b>	11.557: Broadband Technology Opportunities Program (BTOP) and various other programs (except Student Financial Aid)
<b>Federal Award Number</b>	APP 2206640 (BTOP), Other Various (except Student Financial Aid)
<b>Federal Award Year</b>	8/1/2010-7/31/2013 (BTOP) and Other Various (except Student Financial Aid)
<b>Federal Agency</b>	Department of Commerce (BTOP) and Other Various (except Student Financial Aid)

**Condition**

During PwC’s testing of subrecipient monitoring and discussions with UAMS, they noted our review of subrecipients’ audit reports only pertains to grants with the CFDA number of our relevant pass-through grant. We review the audit reports of our subrecipients through the Federal Audit Clearinghouse. If there are any findings related to the CFDA number related to the relevant pass-through grant, we request the full audit report, including findings and management’s response and corrective action plan and reviews this full report. If there are findings un-related to the CFDA number, we typically waived further review procedures. For the R&D Cluster, in PwC’s testing of a sample of seven subrecipients, they noted that of the reports that were reviewed by UAMS, there was one instance in which there were findings on other CFDA numbers within the R&D cluster that were not investigated by management. Additionally, there was one subrecipient in the BTOP cluster. Although this subrecipient did not have any audit findings in the report viewed by management on any CFDA number, as our review was still specific to our own applicable CFDA number, PwC note that this issue applies to this cluster.

**Recommendation**

PwC recommended that UAMS perform a review of all findings for subrecipients rather than just findings related to CFDA numbers associated with their pass-through grants. Not reviewing all subrecipient findings could result in the oversight of material findings which could have a direct or indirect impact on the Entity. PwC noted that additional findings should be reviewed and taken into consideration for determining the risk associated with the subrecipient, whether or not we should continue to pass-through money to the subrecipient, and the appropriate level of monitoring for the subrecipient given the updated risk assessment.

**Status**

Effective December 31, 2012, all audits are reviewed and all findings are considered when determining the risk associated with the subrecipient.

<b>Finding Number</b>	<b>2012-3: Equipment Management</b>
<b>Program or Cluster Name</b>	Research and Development
<b>CFDA Number and Title</b>	93.848, various
<b>Federal Award Number</b>	5R01DK56226, 314100011573
<b>Federal Award Year</b>	1999, 2001, 2002
<b>Federal Agency</b>	National Science Foundation, National Institute of Health

### Condition

Out of a sample of 60 items of R&D equipment selected for physical inspection by PwC, one item was not located. The item was purchased in October 2003 at a cost of \$499. Although the 2012 count sheet indicated this item was located and counted, through PwC's discussion with UAMS it had been determined that this item was moved after the inventory was taken but the new location has not been documented.

Additionally, the fixed asset records of three assets out of a sample of 60 tested by PwC were not appropriately updated to reflect the disposal of these assets. One of the assets was purchased in 1994 for \$3,008 and was disposed of in 2009, another was purchased in 2001 for \$3,718 and disposed of in 2002, and the final asset was purchased and disposed of in 2009 at the original price of \$6,107. One asset was disposed and the records were not properly updated to reflect this. Two of these assets were virtually tagged, which means due to size and use of assets there was not a physical tag on the item, rather it was virtually tagged and linked to another asset that was physically tagged. The virtually tagged assets and physically tagged assets to which they were linked were disposed in previous years, but the fixed asset records only reflected the disposal of the physically tagged asset rather than both assets. PwC selected two virtually tagged assets that could not be located as they had been disposed of and our records were not updated.

### Recommendation

PwC recommended that we review other virtually tagged assets to ensure there are no additional assets in the system that have been moved to surplus. This would ensure records are updated to accurately reflect only virtually tagged assets that are still in use. PwC further noted that we should ensure that accounting records get updated after the fixed asset physical inventory is performed. Additionally, we should ensure all assets' locations are current, and if assets are lost, procedures as outlined in UAMS's policy are followed.

### Status

The virtually tagged assets have been reviewed and corrections made as needed. The asset records are updated after the physical inventory, locations are current as of the inventory scan date. Departments notify Property Services of any changes in location of any assets after the inventories are reconciled or if equipment moves. The policy is being followed for lost assets.

<b>Finding Number</b>	<b>2012-4: American Recovery and Reinvestment Act Reporting</b>
<b>Program or Cluster Name</b>	Research and Development
<b>CFDA Number and Title</b>	93.702, 93.701
<b>Federal Award Number</b>	1 C06 RR029923-01, 2 R01 NS037821-09A2, 3 P20 RR016460-08S2
<b>Federal Award Year</b>	Various
<b>Federal Agency</b>	National Institute of Health

**Condition**

In PwC's sample of 14 ARRA Reports submitted by UAMS, they noted that there was one report for the period ended June 30, 2012, in which we had expenditures associated with the quarter that were not captured in the appropriate ARRA Report. The ARRA report was submitted by UAMS before the quarterly close process was finished, and thus, expenditures of a total of \$814K were not appropriately captured in the reports. We did not update the report as part of the continuous correction period, but rather included the amount in the subsequent quarters' reports.

**Recommendation**

PwC recommended that UAMS prospectively implement a policy to modify the data in its Section 1512 reports to capture data through the actual quarter-end in order to ensure compliance with Section 1512 reporting requirements, utilizing the continuous correction period, if necessary. Controls should be implemented to ensure effective supervisory review to validate that amounts reported are complete and accurate.

**Status**

ARRA reports are submitted and if necessary updated using the continuous correction period to ensure reports are complete and accurate.