

# **University of Arkansas for Medical Sciences**

**Financial Statements  
June 30, 2014 and 2013**

# University of Arkansas for Medical Sciences

## Index

June 30, 2014 and 2013

---

	<b>Page(s)</b>
<b>Management's Discussion and Analysis</b> .....	1-11
<b>Report of Independent Auditors</b> .....	12-13
<b>Financial Statements</b>	
Statements of Net Position.....	14
Statements of Revenues, Expenses, and Changes in Net Position .....	15
Statements of Cash Flows .....	16-17
Notes to Financial Statements .....	18-44
Required Supplementary Information .....	45-46

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2014 and 2013

---

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, 2014 and 2013. 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 2,890 and faculty numbering 1,402;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 484 acute care beds in use at June 30, 2014;
- 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, deferred outflows of resources, liabilities and deferred inflows of resources. The sum of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources is net position, which is an indicator of the current financial condition of UAMS. 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.

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2014 and 2013

---

This discussion and analysis of UAMS' financial statements provides an overview of its financial activities for the fiscal years ended June 30, 2014 and 2013, with comparative information for the fiscal year ended June 30, 2012.

#### Financial Highlights

UAMS' net position decreased in fiscal year 2014 by \$14,534,000 with assets and deferred outflows of resources totaling \$1,297,730,000 and liabilities and deferred inflows of resources totaling \$532,453,000. Net position, which represents the residual interest in UAMS' assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was \$765,277,000 at June 30, 2014. 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, 2014, 2013, and 2012 as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating revenues	\$ 1,174,740	\$ 1,163,244	\$ 1,180,953
Operating expenses	(1,279,022)	(1,229,975)	(1,244,286)
Nonoperating revenues	85,185	78,863	55,500
Other changes in net position	4,563	5,435	41,909
Increase (decrease) in net position	<u>\$ (14,534)</u>	<u>\$ 17,567</u>	<u>\$ 34,076</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, deferred outflows of resources, liabilities, deferred inflows of resources and net position of UAMS. Assets, deferred outflows of resources, liabilities and deferred inflows of resources are generally measured using current values, except for capital assets, which are stated at historical cost, or 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 and deferred outflows of resources minus liabilities and deferred inflows of resources) and its availability for expenditure by UAMS.

**University of Arkansas for Medical Sciences**  
**Unaudited Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

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

<i>(in thousands)</i>	<b>June 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Current assets	\$ 286,927	\$ 320,120	\$ 327,111
Noncurrent assets			
Investments	136,242	116,267	102,415
Capital assets, net	848,886	831,492	791,808
Other	21,244	62,397	42,851
Total assets	<u>1,293,299</u>	<u>1,330,276</u>	<u>1,264,185</u>
<b>Deferred outflows of resources</b>	<u>4,431</u>	<u>4,649</u>	<u>573</u>
<b>Liabilities</b>			
Current liabilities	117,026	117,141	106,135
Noncurrent liabilities	415,427	437,973	396,379
Total liabilities	<u>532,453</u>	<u>555,114</u>	<u>502,514</u>
<b>Net position</b>			
Invested in capital assets, net of related debt	494,033	488,402	477,589
Restricted			
Expendable	121,944	107,272	109,058
Nonexpendable	31,747	29,868	28,150
Unrestricted	117,553	154,269	147,447
Total net position	<u>\$ 765,277</u>	<u>\$ 779,811</u>	<u>\$ 762,244</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, unearned 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 and Deferred Outflows after liabilities are deducted.

**Fiscal Year 2014**

UAMS' total assets decreased by \$36,977,000 in fiscal year 2014. A review of the Statements of Net Position reveals that this decrease consisted primarily of a decrease in noncurrent deposits and funds held in trust by others of \$40,849,000, an increase in net capital assets of \$17,394,000, a decrease in investments of \$12,609,000, and an increase in patient accounts receivable of \$4,669,000.

Current assets decreased by \$33,193,000 in fiscal year 2014. This decrease came primarily from a decrease in short-term investments of \$32,584,000, which were used mostly to assist in the funding of the implementation of a new integrated clinical information system. This decrease was partially offset by the increase in patient accounts receivable, which resulted from additional net patient service revenue experienced in the year.

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2014 and 2013

---

Noncurrent assets decreased by \$3,784,000 in fiscal year 2014. This total decrease was largely driven by the decrease in noncurrent deposits and funds held in trust by others of \$40,849,000, which was due to the expenditure of funds held in escrow and drawn as needed to fund capital projects during the year. Partially offsetting this decrease were increases in noncurrent investments of \$19,975,000 and net capital assets of \$17,394,000. The increase in noncurrent investments resulted mainly from an increase in market values of the investments. The increase in net capital assets consisted of net asset additions totaling \$76,624,000 less depreciation and amortization of \$59,230,000.

UAMS' deferred outflows of resources results from the defeasance of certain outstanding bonds in past years. These refundings resulted in losses (the difference between the acquisition price of the new debt and the net carrying amount of the old debt). In accordance with the adoption of GASB Statements No. 63 and No. 65, these losses are presented as a deferred outflow of resources. The deferred outflows decreased in fiscal year 2014 by \$218,000 from the amortization for the year.

Total liabilities decreased by \$22,661,000 in fiscal year 2014. The majority of this decrease resulted from the reduction of debt via regular debt service payments.

Current liabilities decreased by \$115,000 in 2014, primarily due to a decrease in accounts payable and accrued expenses offset by an increase in estimated third-party payor settlements related to the Medicare and Medicaid programs. Noncurrent liabilities decreased in 2014 by \$22,546,000 primarily due to the reduction of the noncurrent portion of debt via regular debt service payments.

#### ***Fiscal Year 2013***

UAMS' total assets increased by \$66,091,000 in fiscal year 2013 following the restatement of Nonoperating revenues (expenses) to present previously capitalized bond issuance costs of \$692,000 as an expense of fiscal year 2013 due to the adoption of GASB No. 65. 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 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 deferred outflows of resources increased in fiscal year 2013 by \$4,076,000 due primarily to a loss incurred on the defeasance of the Series 2004 A and B various facility revenue bonds in May 2013.

Total liabilities increased by \$52,600,000 in fiscal year 2013, following restatement of \$4,649,000 due to the adoption of GASB No. 65. 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.

**University of Arkansas for Medical Sciences**  
**Unaudited Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

Total Current liabilities increased by \$11,006,000, 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 unearned revenue.

**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,		
	2014	2013	2012
<b>Operating revenues</b>			
Student tuition and fees, net of scholarship allowances	\$ 32,273	\$ 29,701	\$ 25,754
Net patient services	919,366	886,577	876,544
Meaningful use	2,434	4,646	5,581
Sponsored programs	169,778	173,603	219,911
Other	50,889	68,717	53,163
Total operating revenues	1,174,740	1,163,244	1,180,953
<b>Operating expenses</b>			
Compensation and benefits <i>(1)</i>	852,919	818,921	801,330
Supplies and other services	366,504	353,765	392,072
Scholarships and fellowships	369	242	342
Depreciation and amortization	59,230	57,047	50,542
Total operating expenses	1,279,022	1,229,975	1,244,286
Operating loss	(104,282)	(66,731)	(63,333)
<b>Nonoperating revenues (expenses)</b>			
State appropriations, net	51,492	50,000	42,632
Gifts	25,062	27,370	20,608
Investment gain (loss), net of expense	22,203	14,223	7,062
Other	(13,572)	(12,730)	(14,802)
Total nonoperating revenues, net	85,185	78,863	55,500
Income (loss) before other changes in net assets	(19,097)	12,132	(7,833)
<b>Other changes in net position</b>			
Capital gifts and appropriations	1,917	3,278	20,634
Federal grants for capital projects	2,727	2,594	22,496
Interagency disposition	(81)	(437)	(1,221)
Total other changes in net position	4,563	5,435	41,909
Increase (decrease) in net position	(14,534)	17,567	34,076
<b>Net position</b>			
Beginning of year	779,811	762,244	728,168
End of year	\$ 765,277	\$ 779,811	\$ 762,244

*(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.*

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2014 and 2013

---

#### ***Fiscal Year 2014***

The Statement of Revenues, Expenses, and Changes in Net Position reflects a loss before other changes in net position of \$19,097,000, and a decrease of \$14,534,000 in net position for fiscal year 2014. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$32,789,000 or 3.7%. The increase in net patient service revenue is due primarily to an increase in third party payor rates, higher acuity cases and an increase in professional fees. Hospital patient service revenue was up \$14,755,000 or 2.7%, College of Medicine patient service revenue was up \$12,674,000 or 5.8%. Regional Programs patient service revenue increased \$1,736,000, also a 5.8% increase. Other divisions combined for a slight increase 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 a total of \$3,825,000. Included in this total was a decrease in Federal grants and contracts of \$6,482,000, which resulted primarily from decreased research grant funding from the Department of Health and Human Services. Also included was a decrease in State grants and contracts of \$4,821,000 due to reduced activity from various sources. Offsetting these decreases was an increase in Nongovernmental grants and contracts of \$7,478,000 primarily due to increased contract activity in the College of Medicine. Other operating revenue decreased by \$18,090,000 due mainly to recognition and receipt in fiscal year 2013 of a nonrecurring refund from the Internal Revenue Service (IRS) 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, which is more fully described in Note 17 to the financial statements. The total operating revenue increase was 1%.

The following factors affected operating expenses in 2014:

Compensation and benefits expense was the major driver in operating expense increasing by \$33,998,000 or 4.2% in fiscal year 2014. Compensation and benefits expense related to patient care increased by \$16,646,000 or 3.9%, primarily due to the staffing required to support increases in the outpatient clinics and emergency room, and the clinical complexity of patients in the hospital. Also, contributing significantly to the increase in Compensation and benefits were additional staffing needed for the final year of the implementation phase of the new integrated clinical software system. These additions increased Compensation and benefits in 2014 by \$4,663,000. Total supplies and other services increased by \$12,739,000 or 3.6%. The largest component of this increase came from the Hospital, which increased by \$9,430,000 or 3.8%, and is due mainly to increases in drugs and medicines for patient care. Another large increase in Supplies and other services was due to the final work on the Broadband Technology Opportunities Program (BTOP) federal grant. This work increased Supplies and other services in fiscal 2014 by \$4,196,000.

The following factors affected nonoperating revenue (expense) in 2014:

Nonoperating revenue (expense) increased by \$6,322,000 or 8.0%. This was primarily caused by an increase in net investment income of \$7,980,000 or 56.1%, which was due to a positive investment market during the year. Gross state appropriations increased \$5,474,000 or 4.8%. Offsetting this increase was an increase of \$3,982,000 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).

**University of Arkansas for Medical Sciences**  
**Unaudited Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

---

Net state appropriations revenue for the years ended June 30, 2014, 2013, and 2012 was as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Gross state appropriations revenue	\$ 120,112	\$ 114,638	\$ 114,777
Less: Medicaid match payments	<u>68,620</u>	<u>64,638</u>	<u>72,145</u>
Net state appropriations revenue	<u>\$ 51,492</u>	<u>\$ 50,000</u>	<u>\$ 42,632</u>

**Fiscal Year 2013**

The Statement of Revenues, Expenses, and Changes in Net Position reflects income before other changes in net position of \$12,132,000, and an increase of \$17,567,000 in net position for fiscal year 2013, following the restatement of Nonoperating revenues (expenses) to present previously capitalized bond issuance costs of \$692,000 as an expense of fiscal year 2013 due to the adoption of GASB No. 65. 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 \$23,363,000, following the restatement for bond issuance costs due to the adoption of GASB No. 65 noted above. This increase 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 DHS.

**University of Arkansas for Medical Sciences**  
**Unaudited Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

---

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>

**Results of Operations**

***Fiscal Year 2014***

In fiscal year 2014, UAMS experienced a net loss before other changes in net position of \$19,097,000 and a decrease in net position of \$14,534,000.

Total operating revenues increased, led primarily by an increase in net patient service revenue of \$32,789,000 or 3.7%. This increase resulted from increased third party payor rates, higher acuity cases and increases in professional fees. The increase in professional fees is attributed to improvements in capturing charges from the new integrated clinical software system and more collectible revenues from patients newly insured from Arkansas' private option Medicaid program.

While an increase in operating revenues was experienced in fiscal year 2014, UAMS incurred much higher operating expenses during the year, resulting in an operating loss of \$104,282,000. Compensation and benefits expenses increased \$33,998,000 or 4.2%. This increase was primarily in patient care due to higher acuity cases with longer length of stay. Also adding to this compensation increase was the cost of staff needed in the implementation phase of the new integrated clinical software system, which was completed in May 2014. Large expense increases were also noted in Supplies and other services for drugs and medicines for the Hospital and professional services for the completion of the BTOP grant.

Net investment income recognized in fiscal 2014 was \$22,203,000, which was a 56.1% increase over the prior year and the largest annual net investment income since fiscal 2007.

Primary drivers of other changes in net position were Federal capital grants for the Cancer Institute totaling \$2,727,000, and capital gifts for various projects.

Gross state appropriations increased by \$5,474,000 and remained relatively unchanged as a share of UAMS revenue to approximately 9.4% and 9.1% for fiscal years 2014 and 2013, respectively.

***Fiscal Year 2013***

In fiscal year 2013, UAMS experienced a net income before other changes in net position of \$12,132,000 and an increase in net position of \$17,567,000, following the restatement for bond issuance costs due to the adoption of GASB No. 65 noted above. 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 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 \$8,090,000 and a decrease in net position of \$2,655,000, following restatement. 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:

**University of Arkansas for Medical Sciences**  
**Unaudited Management's Discussion and Analysis**  
**June 30, 2014 and 2013**

---

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 relatively unchanged as a share of UAMS revenue to approximately 9.1% and 9.2% for fiscal years 2013 and 2012, respectively.

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2014, UAMS had \$848,886,000 invested in capital assets, net of accumulated depreciation and amortization of \$539,703,000. Depreciation and amortization charges totaled \$59,230,000 for the fiscal year ended June 30, 2014.

UAMS' capital additions totaled \$77,491,000 in fiscal year 2014. Capital additions were primarily composed of the implementation of the integrated clinical software system, replacement, renovation, and new construction of academic, research, and hospital facilities, as well as investments in equipment. Major capital additions in fiscal year 2014 and the sources that funded their acquisition included:

<i>(in thousands)</i>	<b>Amount of Additions</b>	<b>Funding Source</b>
<b>Project</b>		
Integrated clinical software systems (EPIC)	\$ 46,797	UAMS and Loan
Hospital Surgical Services renovation	8,927	UAMS
Magnolia AHEC renovation	3,216	Bonds
Construction in progress:		
Healthcare analytics software	1,555	UAMS
Remodel of College of Health Professions administration building	1,533	UAMS
Northwest Arkansas Walker education building	1,714	Foundation and UAMS

Construction in progress at June 30, 2014 totaled \$8,638,000, which was the lowest balance at the end of a fiscal year in the past 10 years. More detailed information about UAMS' capital assets is presented in Note 7 to the financial statements.

**Debt Administration**

At June 30, 2014, UAMS had \$365,689,000 in outstanding debt, as shown in the following table:

<i>(in thousands)</i>	<b>Amount Outstanding</b>
<b>Obligation</b>	
Bonds payable	\$ 279,173
Notes payable	55,620
Obligations under capital leases	30,896
Total debt	\$ 365,689

Moody's Investors Service raised the rating of the University of Arkansas System from Aa3 to Aa2 in May 2010, which was affirmed on June 19, 2014. 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.

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2014 and 2013

---

#### Economic Outlook

Fiscal year 2014 was a challenging year for UAMS as evidenced by its \$14,534,000 decrease in net position. UAMS had a negative net margin (Income before other changes in net position) of \$19,097,000 for the fiscal year. The transition to the new EPIC integrated clinical information system, which was completed during fiscal year 2014, accounts for some of the change in UAMS' financial condition, both in terms of direct project expense incurred during the year as well as the slowdown of patient revenue collection simply due to the system changeover. As UAMS gains experience with this new system, we anticipate much greater efficiency in the revenue cycle in terms of charge capture, billing and collections that could yield additional revenue benefits.

Federal support for UAMS remains a question mark for the future. National Institute for Health research funding is unlikely to return to pre-sequestration levels. Graduate medical education, specifically indirect medical education reimbursements, is expected to be reduced and Medicare disproportionate share (DSH) payments are expected to decline as much as \$1.1 billion nationally over the next couple years. UAMS' net patient service revenue included \$66.7 million in Medicare DSH payments in fiscal year 2014. How these various factors will impact UAMS directly is difficult to forecast, although sponsored program funding is already down significantly from prior years.

On the positive side, uncompensated care continued to decline dramatically during fiscal year 2014, from about 12% to 4%, as more Arkansas residents signed up for healthcare insurance coverage under Arkansas' private option expansion of Medicaid. This contributed positively to UAMS patient services revenues during the latter part of fiscal year 2014. We expect it to have a much more significant impact in fiscal year 2015, adding as much as \$14 million to patient care revenues.

Although UAMS has a diverse revenue stream to fund its operations, including tuition, patient services revenue, state appropriations, investment income, and philanthropic support from individuals, foundations, and corporations, UAMS remains highly dependent on patient service revenue, which represents 72.3% of total revenue. Further, state appropriations reductions were implemented for fiscal year 2015 totaling \$14.6 million, though relief in the form of \$7 million of State rainy day funds has been provided to restore part of this reduction and is expected to become a permanent part of the UAMS appropriation base. UAMS also expects a portion of its funding match to the Arkansas Department of Human Services for Medicaid supplemental funds will be waived in fiscal 2015. The funding match is approximately \$7.5 million and is used to obtain Medicaid supplemental funding for Arkansas' rural hospitals. This change is also expected to become a permanent change to UAMS' matching requirements. Future budget strategies will place greater emphasis on the educational components of UAMS' mission and the importance of that educational mission to the State of Arkansas.

In the next couple years, UAMS will seek opportunities to invest in its clinical and campus infrastructure in order to sustain growth, target opportunities for additional patient referrals by expanding its primary care footprint in the state, and take advantage of clinical opportunities in key specialties through statewide partnerships. A new primary care clinic recently opened in west Little Rock, Arkansas. Through its newly created Center for Health and Economic Development, UAMS launched provider service initiatives with Saline Memorial Hospital in Benton, Arkansas and CHI St. Vincent Hospital. Plans to refinance UAMS Series 2006 bonds in the near term, to take advantage of the lower interest rate environment, will help provide added revenue to support these initiatives and others.

# **University of Arkansas for Medical Sciences**

## **Unaudited Management's Discussion and Analysis**

### **June 30, 2014 and 2013**

---

UAMS is continuing its performance excellence program and beginning to implement its new service line strategy that was developed last year. Four service lines are planned to go into operation in fiscal year 2015 – Cancer, Behavioral Health, Women's Health and Primary Care – bringing together clinical components of the College of Medicine, the Hospital and Clinics into an integrated clinical enterprise. To support the many operational changes this initiative will require, UAMS is also beginning efforts to transform the organizational structure in finance, human resources, and a few other areas. UAMS expects that all of these efforts, together with the many projects underway to improve the efficiency and effectiveness of processes, will result in improved patient care and better service to students and the community, while resulting in cost reduction and increased revenue.

Within the past few months, UAMS completed the organizational consolidation of registration, student records, student accounts and student financial assistance operations and has begun standardizing processes in these areas. These changes were necessary to accommodate the implementation of the new student information system which remains on target for a Fall 2015 roll out to the campus.

While there are many positive changes occurring that will lead to a more efficient and effective operating environment at UAMS, Management understands that many challenges remain to reaching goals and objectives. At the same time, Management is committed to pursuing these goals, sustaining financial viability and serving the needs of its patients, students and community stakeholders. Through the strategies UAMS has adopted, the institution will be well-positioned to address the impact of the changes occurring in healthcare.

#### **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 Administration 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, 2014 and 2013, and the related notes to the financial statements, which consist of the statements of net position and the related statements of revenues, expenses and changes in net position and statements of cash flows of UAMS.

### ***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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2014 and 2013, 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 Matter***

The accompanying management's discussion and analysis and the required supplemental information for the year ended June 30, 2014 on pages 1 through 11 and 45 through 46 respectively, 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.

*PricewaterhouseCoopers LLP*

Little Rock, AR  
October 2, 2014

**University of Arkansas for Medical Sciences**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 4)	\$ 65,720	\$ 63,030
Investments (Note 5)	35,022	67,606
Patient accounts receivable, net (Note 2)	113,067	108,398
Nonpatient accounts receivable (net of allowances of \$1,944 in 2014 and \$3,198 in 2013)	45,344	52,175
Supplies	21,097	19,602
Notes and student loans receivable, net (Notes 6 and 14)	2,245	2,387
Prepaid expenses	4,432	6,922
Total current assets	<u>286,927</u>	<u>320,120</u>
Noncurrent assets		
Investments (Note 5)	136,242	116,267
Notes and student loans receivable, net (Notes 6 and 14)	14,172	14,476
Deposits and funds held in trust by others (Note 5)	7,072	47,921
Capital assets, net (Note 7)	848,886	831,492
Total noncurrent assets	<u>1,006,372</u>	<u>1,010,156</u>
Total assets	<u>1,293,299</u>	<u>1,330,276</u>
<b>Deferred Outflow of Resources</b>		
Loss on refunding of bonds	4,431	4,649
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	72,830	75,699
Unearned revenue	7,156	8,886
Funds held in trust for others	357	498
Estimated third-party payor settlements (Note 2)	6,335	267
Compensated absences payable, current portion (Note 9)	2,994	2,881
Early retirement liability	1,126	557
Bonds, notes, and capital leases payable, current portion (Notes 9 and 10)	26,228	28,353
Total current liabilities	<u>117,026</u>	<u>117,141</u>
Noncurrent liabilities		
Deposits	186	185
Compensated absences payable, net of current portion (Note 9)	45,426	44,150
Liability for other postemployment benefits (Notes 9 and 12)	27,146	24,809
Federal capital contribution for Perkins Loan Program	1,911	1,911
Early retirement liability	1,297	244
Bonds, notes, and capital leases payable, net of current portion (Notes 9 and 10)	339,461	366,674
Total noncurrent liabilities	<u>415,427</u>	<u>437,973</u>
Total liabilities	<u>532,453</u>	<u>555,114</u>
Commitments and contingencies (Notes 10 and 15)		
<b>Net Position</b>		
Net investment in capital assets	494,033	488,402
Restricted		
Expendable		
Scholarships	6,696	10,563
Research	18,607	15,968
Capital projects	89,802	80,243
Other	6,839	498
Nonexpendable		
Endowments	31,353	29,474
Scholarships, fellowships, student loans	394	394
Unrestricted	<u>117,553</u>	<u>154,269</u>
Total net position	<u>\$ 765,277</u>	<u>\$ 779,811</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, 2014 and 2013**

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$4,055 in 2014 and \$4,029 in 2013)	\$ 32,273	\$ 29,701
Net patient services (Note 2)	919,366	886,577
Meaningful use revenue	2,434	4,646
Sponsored programs		
Federal grants and contracts	89,555	96,037
State and local grants and contracts	17,542	22,363
Nongovernmental grants and contracts	62,681	55,203
Sales and services of educational departments	30,420	30,972
Auxiliary enterprises		
Housing and food service	9,037	8,559
Bookstore	588	613
Other auxiliary enterprises	2,887	2,526
Other operating revenue (Note 17)	7,957	26,047
Total operating revenues	1,174,740	1,163,244
<b>Expenses</b>		
Operating expenses (Note 16)		
Compensation and benefits	852,919	818,921
Supplies and other services	366,504	353,765
Scholarships and fellowships	369	242
Depreciation and amortization (Note 7)	59,230	57,047
Total operating expenses	1,279,022	1,229,975
Operating loss	(104,282)	(66,731)
<b>Nonoperating revenues (expenses)</b>		
State appropriations, net (Note 3)	51,492	50,000
Gifts	25,062	27,370
Investment income, net of investment expense (Notes 4 and 5)	22,203	14,223
Interest on debt	(12,759)	(11,696)
Loss on disposal of capital assets	(813)	(342)
Other (Note 1)	-	(692)
Total nonoperating revenues, net	85,185	78,863
Income (loss) before other changes in net position	(19,097)	12,132
<b>Other changes in net position</b>		
Capital gifts	1,668	2,822
Capital appropriations	249	456
Federal grants for capital projects	2,727	2,594
Other	(81)	(437)
Total other changes in net position	4,563	5,435
Increase (decrease) in net position	(14,534)	17,567
<b>Net position</b>		
Beginning of year	779,811	762,244
End of year	\$ 765,277	\$ 779,811

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

**University of Arkansas for Medical Sciences**  
**Statement of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Tuition and fees (net of scholarships)	\$ 32,597	\$ 25,013
Patient and insurance payments	917,156	873,740
Sponsored programs	180,360	169,514
Collection of loans and interest	2,732	2,392
Auxiliary enterprise revenue		
Housing and food service	9,045	8,553
Bookstore	588	613
Other auxiliary enterprises	3,035	2,698
Other receipts	37,963	60,779
Payments to suppliers	(359,208)	(338,266)
Payments to employees	(685,385)	(668,115)
Payments of employee benefits	(163,876)	(150,686)
Loans issued to students	(4,224)	(3,078)
Scholarships and fellowships	(369)	(242)
Other payments	(9,827)	(10,961)
Net cash and cash equivalents used in operating activities	<u>(39,413)</u>	<u>(28,046)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	53,017	43,642
Gifts and grants	25,062	27,370
Repayment of loans	(7)	141
Other agency funds (net)	(141)	37
Net cash and cash equivalents provided by noncapital financing activities	<u>77,931</u>	<u>71,190</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of debt	80	196,092
Federal grants for capital projects	2,727	2,594
Gifts and grants	1,668	2,824
Capital appropriations	249	400
Proceeds from sale of capital assets	109	102
Purchases of capital assets	(74,310)	(81,569)
Principal paid on capital debt and leases	(29,201)	(161,177)
Interest and paying agent fees paid on debt and capital leases	(12,819)	(12,702)
Net cash and cash equivalents used in capital and related financing activities	<u>(111,497)</u>	<u>(53,436)</u>

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

**University of Arkansas for Medical Sciences**  
**Statement of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	103,205	76,183
Interest on investments (net of fees)	1,645	946
Purchases of investments	<u>(29,181)</u>	<u>(98,521)</u>
Net cash and cash equivalents provided by (used in) investing activities	<u>75,669</u>	<u>(21,392)</u>
Net increase (decrease) in cash and cash equivalents	2,690	(31,684)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>63,030</u>	<u>94,714</u>
End of year	<u>\$ 65,720</u>	<u>\$ 63,030</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
<b>Operating loss</b>	\$ (104,282)	\$ (66,731)
Adjustments to reconcile net operating loss to net cash and cash equivalents (used in) provided by operating activities		
Depreciation and amortization	59,230	57,047
Other postemployment benefits	2,336	2,585
Changes in assets and liabilities		
Patient and nonpatient accounts receivable, net	696	(14,271)
Supplies	(1,495)	(899)
Other assets	2,096	(2,195)
Accounts payable and accrued liabilities	(5,021)	9,827
Unearned revenue	(1,729)	(4,182)
Deposits	2	4
Compensated absences payable	1,389	(7,057)
Other liabilities	<u>7,365</u>	<u>(2,174)</u>
Net cash and cash equivalents used in operating activities	<u>\$ (39,413)</u>	<u>\$ (28,046)</u>
<b>Noncash transactions</b>		
Other postemployment benefits	\$ 2,336	\$ 2,585
Capital assets acquired by capital gift	1,666	2,822
Change in capital assets acquired in year end accounts payable	(2,537)	-
Capital assets acquired by notes payable	-	2,492
Capital asset acquisition paid for by State of Arkansas	-	56
Capital assets acquired by incurring capital lease obligations	-	10,726

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

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2014 and 2013

---

#### 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 484 acute care beds in use at June 30, 2014;
- 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, 2014 and 2013

---

#### **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 Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. Detailed disclosure information about the Pool may be obtained by writing 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.

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2014 and 2013

---

#### 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 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 generally as established by the American Hospital Association or the lease term as follows:

Buildings and fixtures	15 to 40 years
Equipment	3 to 15 years
Internally developed software	10 years
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 annually in the prior two-year period.

#### Early Retirement Liability

UAMS has, from time to time, negotiated voluntary early retirement agreements with faculty and staff which may include the provision of a stipend and healthcare or other benefits for future periods. The amount of liability established for these type agreements was \$2,423,000 and \$801,000 for the years ended June 30, 2014 and 2013, respectively.

#### Unearned Revenue

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

#### 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, 2014 and 2013

---

#### **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, 2013 through June 30, 2017.

#### **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, 2014 and 2013

---

#### **Accounting Pronouncements**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting and Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, (GASB No. 63). This Statement 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 this Statement were effective for financial statements for periods beginning after December 15, 2011. UAMS adopted GASB No. 63 on July 1, 2012. The adoption of this Statement had no impact on UAMS' financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (GASB No. 65). This Statement 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. This Statement 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 this Statement were effective for financial statements for periods beginning after December 15, 2012, with retroactive application required. UAMS adopted GASB No. 65 on July 1, 2013. The impacts of the adoption of GASB No. 65 are summarized as follows:

- The beginning net position for the year ended June 30, 2013 was reduced by bond issuance costs required to be expensed in prior years totaling \$3,088,000;
- Other nonoperating expense for the year ended June 30, 2013 was increased by \$692,000 for costs of bonds issued in May 2013;
- Loss on refunding of bonds was reclassified from Bonds Payable to Deferred Outflows of Resources at June 30, 2014 and 2013 in the amounts of \$4,431,000 and \$4,649,000, respectively.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, (GASB No. 70). The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. UAMS adopted GASB No. 70 on July 1, 2013. The adoption of this Statement had no impact on UAMS' 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, 2014 and 2013 are recorded net of an allowance for doubtful accounts of \$447,121,000 and \$468,282,000, respectively.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

---

Net patient services revenue for the years ended June 30, 2014 and 2013 is as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Gross patient revenue	\$ 2,275,786	\$ 2,006,148
Less: Patient services contractual allowances	1,280,815	1,029,435
Less: Provision for bad debts	75,605	90,136
Net patient services revenue	<u>\$ 919,366</u>	<u>\$ 886,577</u>

UAMS provided approximately \$132,590,000 and \$141,296,000 in charity care, based on established rates, during the years ended June 30, 2014 and 2013, 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, 2014 and 2013 includes approximately \$80,328,000 and \$71,722,000, 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, 2014 and 2013 also includes approximately \$33,487,000 and \$28,906,000, 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, 2014, 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, 2014, the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2010.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

---

**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 \$1,264,000 for the year ended June 30, 2014 and a decrease of \$589,500 for the year ended June 30, 2013. Management believes that UAMS is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

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

**3. Net State Appropriations Revenue**

State appropriations are reported in the 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, 2014 and 2013 is as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Gross state appropriations revenue	\$ 120,112	\$ 114,638
Less: Medicaid match payments	<u>68,620</u>	<u>64,638</u>
Net state appropriations revenue	<u><u>\$ 51,492</u></u>	<u><u>\$ 50,000</u></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, 2014 and 2013 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.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

<i>(in thousands)</i>	Carrying Amount	Bank Balance	Category		
			1	2	3
Cash at June 30, 2014	\$ 65,720	\$ 81,914	\$ 81,914	\$ -	\$ -
Cash at June 30, 2013	63,030	80,470	80,470	-	-

At June 30, 2014 and 2013, Category 1 is composed of \$1,195,000 and \$1,350,000, respectively, of insured deposits and \$80,719,000 and \$79,120,000, 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>	2014	2013
Reported amount of deposits under GASB 3 as reported in the statements of net assets	\$ 65,720	\$ 63,030
Cash and cash equivalents	\$ 65,720	\$ 63,030

At June 30, 2014 and 2013, deposits and funds held in trust, as reported in the statements of net position, include money market accounts of \$6,195,000 and \$12,414,000, respectively. Interest income on cash and cash equivalents as of June 30, 2014 and 2013 was \$764,000 and \$1,006,000, respectively.

**5. Investments**

UAMS participates in an external investment pool (the Pool), which is sponsored by the University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Trustees. 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 Pool commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The participants of the Pool have adopted investment guidelines and performance objectives for the accounts within the Pool. In January 2010, the University of Arkansas Investment Committee approved an agreement 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 Pool consists of the Total Return Pool and the Intermediate Pool. UAMS' ownership of each of these individual pools and of the total external investment pool was as follows:

	Total Return Pool	Intermediate Pool	Total Pool
June 30, 2014	9.9%	11.0%	10.1%
June 30, 2013	9.6%	20.1%	11.9%

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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

<i>(in thousands)</i>	<b>Fair Value</b>	
	<b>2014</b>	<b>2013</b>
<b>Investment Type</b>		
Equity:		
U.S.	\$ 8	\$ -
Commingled funds:		
U.S. equity	461	442
U.S. fixed income	167	141
	<u>628</u>	<u>583</u>
Other investments:		
Escrow accounts	82	1,231
External investment pool	171,256	183,873
	<u>171,338</u>	<u>185,104</u>
	<u>\$ 171,974</u>	<u>\$ 185,687</u>

The activities during fiscal year 2014 affecting UAMS' investments are summarized below:

<i>(in thousands)</i>	<b>Total Return Pool</b>	<b>Intermediate Pool</b>	<b>Other Investments</b>	<b>Total</b>
<b>Balances at June 30, 2013</b>	\$ 116,267	\$ 67,606	\$ 1,814	\$ 185,687
Income	1,348	1,363	5	2,716
Realized gains	4,543	675	3	5,221
Unrealized gains (losses)	13,739	419	31	14,189
Expenses paid	(460)	(41)	(3)	(504)
Purchases (sales), net	797	(35,000)	(1,132)	(35,335)
<b>Balances at June 30, 2014</b>	<u>\$ 136,234</u>	<u>\$ 35,022</u>	<u>\$ 718</u>	<u>\$ 171,974</u>

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

<i>(in thousands)</i>	<b>Total Return Pool</b>	<b>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**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

The following table contains information on the risk disclosure for the total external investment pool:

**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>2014</b>	<b>2013</b>
<b>Fixed income:</b>		
Government bonds	\$ 48,355	\$ 30,331
Corporate bonds	37,224	84
Other fixed income	351,376	400,015
	<u>436,955</u>	<u>430,430</u>
<b>Venture capital and partnerships:</b>		
Partnerships	<u>641,733</u>	<u>577,858</u>
<b>Commodities:</b>		
Funds - Commodity Linked	<u>30,237</u>	<u>19,739</u>
<b>Equity:</b>		
Common stocks	376,950	393,141
Preferred stocks	32	30
	<u>376,982</u>	<u>393,171</u>
<b>Hedge fund:</b>		
Hedge equity	<u>178,907</u>	<u>116,901</u>
<b>Other</b>	<u>68</u>	<u>18</u>
<b>Cash/cash equivalents:</b>		
Short term investment funds	11,417	13,482
Cash	(335)	(514)
Invested cash	2,557	1
	<u>13,639</u>	<u>12,969</u>
	<u>\$ 1,678,521</u>	<u>\$ 1,551,086</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 of the total external investment pool and exclude the accrued income included in the Statement of Invested Assets above. Securities structured as a fund and, therefore, not individually rated, are included in the tables as Not Rated.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Credit Risk – S&P Quality Ratings at June 30, 2014**

<i>(in thousands)</i> Investment Type	S&P Quality Rating by Fair Value					U.S.	Total Fair Value
	AAA	AA	A	BBB	Not Rated	Government Guaranteed	
Corporate bonds	\$ -	\$ -	\$ -	\$ -	\$ 37,058	\$ -	\$ 37,058
Government bonds	-	-	-	7	142	48,200	48,349
Other fixed income	-	-	-	-	351,145	-	351,145
Hedge event driven	-	-	-	-	34,986	-	34,986
Short term investment funds	-	-	-	-	11,416	-	11,416
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 434,747</u>	<u>\$ 48,200</u>	<u>\$ 482,954</u>

<i>(in thousands)</i> Investment Type	Investment Maturities in Years						Total Fair Value
	Less Than 1	1 - 5	6 - 10	More Than 10	Maturity not Determined		
Corporate bonds	\$ -	\$ -	\$ 4	\$ 95	\$ 36,959	\$ -	\$ 37,058
Government bonds	-	-	48,200	7	142	-	48,349
Other fixed income	-	-	-	-	351,145	-	351,145
Hedge event driven	-	-	-	-	34,986	-	34,986
Short term investment funds	-	-	-	-	11,416	-	11,416
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,204</u>	<u>\$ 102</u>	<u>\$ 434,648</u>	<u>\$ -</u>	<u>\$ 482,954</u>

**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.	Total Fair Value
	AAA	AA	A	BBB	Not Rated	Government Guaranteed	
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>

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

<i>(in thousands)</i> Investment Type	Investment Maturities in Years					Total Fair Value
	Less Than 1	1 - 5	6 - 10	More Than 10	Maturity not Determined	
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>

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	2014 Fair Value	Effective Duration (Years)	2013 Fair Value	Effective Duration (Years)
Corporate bonds	\$ 37,058	N/A	\$ 28,891	N/A
Government bonds	48,349	7.95	30,259	8.92
Other fixed income	351,145	N/A	370,848	N/A
Hedge event driven	34,986	N/A	24,133	N/A
Short term investment funds	11,416	N/A	13,482	N/A
	<u>\$ 482,954</u>		<u>\$ 467,613</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.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**6. Notes and Student Loans Receivable**

The net unpaid balances of notes and student loans receivable on June 30, 2014 and 2013, net of allowances of \$4,546,000 and \$4,756,000, respectively, are as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>2013</b>
Perkins loans	\$ 1,300	\$ 1,293
Health professional loans	5,184	4,744
Institutional funds loans	2,933	2,979
University of Arkansas at Fayetteville	757	773
Arkansas State Hospital note receivable	5,321	5,874
Arkansas Department of Health note receivable	931	1,200
Other	(9)	-
Total notes and student loans receivable, net	<u>16,417</u>	<u>16,863</u>
Less: Current portion	<u>(2,245)</u>	<u>(2,387)</u>
Notes and student loans receivable, noncurrent, net	<u><u>\$ 14,172</u></u>	<u><u>\$ 14,476</u></u>

**7. Capital Assets**

Capital assets of UAMS at June 30 were as follows:

<i>(in thousands)</i>	<b>June 30, 2013</b>	<b>Additions</b>	<b>Transfers</b>	<b>Dispositions</b>	<b>June 30, 2014</b>
<b>Nondepreciable</b>					
Land	\$ 12,570	\$ 153	\$ (318)	\$ -	\$ 12,405
Construction in progress	44,722	5,788	(41,872)	-	8,638
<b>Depreciable</b>					
Buildings and fixtures	973,894	10,838	12,293	(36)	996,989
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	241,215	13,935	7,992	(8,058)	255,084
Internally developed software	19,721	46,746	29,257	(17,022)	78,702
Leased property	34,100	-	(7,352)	(2,785)	23,963
Other	10,354	31	-	(30)	10,355
Total capital assets	<u>1,339,029</u>	<u>77,491</u>	<u>-</u>	<u>(27,931)</u>	<u>1,388,589</u>
<b>Less: Accumulated depreciation and amortization</b>					
Buildings and fixtures	299,278	33,025	(17)	(36)	332,250
Improvements other than buildings	2,447	6	-	-	2,453
Equipment	169,236	20,028	6,353	(7,554)	188,063
Internally developed software	19,316	1,672	-	(17,022)	3,966
Leased property	16,634	3,865	(6,336)	(2,452)	11,711
Other	626	634	-	-	1,260
Total accumulated depreciation and amortization	<u>507,537</u>	<u>59,230</u>	<u>-</u>	<u>(27,064)</u>	<u>539,703</u>
Capital assets, net	<u><u>\$ 831,492</u></u>	<u><u>\$ 18,261</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (867)</u></u>	<u><u>\$ 848,886</u></u>

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

<i>(in thousands)</i>	June 30, 2012	Additions	Transfers	Dispositions	June 30, 2013
<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
Internally developed software	19,721	-	-	-	19,721
Leased property	26,151	10,726	(1,820)	(957)	34,100
Other	10,146	208	-	-	10,354
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
Internally developed software	18,911	405	-	-	19,316
Leased property	13,903	4,841	(1,698)	(412)	16,634
Other	-	626	-	-	626
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>

In addition to the leased property noted, the buildings and fixtures above include \$21,382,000 and \$24,252,000 of net assets under capital leases at June 30, 2014 and 2013, respectively.

Bond interest of \$123,000, net of interest income of \$1,000, was capitalized. The interest was from the 2010A and 2010B Series Various Facilities Revenue Bonds. In addition, loan interest of \$570,000 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, 2014 and 2013 was \$1,287,000 and \$1,308,000, 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>	2014	2013
Trade payables	\$ 17,060	\$ 20,197
Accrued wages	39,895	41,260
Miscellaneous payables	15,875	14,242
Total accounts payable and accrued liabilities	<u>\$ 72,830</u>	<u>\$ 75,699</u>

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**9. Long-Term Obligations**

Changes in long-term obligations during fiscal year 2014 were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Bonds payable	\$ 287,576	\$ -	\$ 8,403	\$ 279,173
Notes payable	68,447	80	12,907	55,620
Capital leases	39,004	-	8,108	30,896
Total debt	<u>395,027</u>	<u>80</u>	<u>29,418</u>	<u>365,689</u>
Compensated absences	47,031	4,064	2,675	48,420
Other postemployment benefits	24,809	3,657	1,320	27,146
Early retirement liability	801	3,107	1,485	2,423
Total obligations	<u>\$ 467,668</u>	<u>\$ 10,908</u>	<u>\$ 34,898</u>	<u>\$ 443,678</u>

The current and long-term portions of the categories noted above were as follows at June 30, 2014:

	<b>Current</b>	<b>Long Term</b>	<b>Total</b>
Bonds payable	\$ 9,194	\$ 269,979	\$ 279,173
Notes payable	9,953	45,667	55,620
Capital leases	7,081	23,815	30,896
Total debt	<u>26,228</u>	<u>339,461</u>	<u>365,689</u>
Compensated absences	2,994	45,426	48,420
Other postemployment benefits	-	27,146	27,146
Early retirement liability	1,126	1,297	2,423
Total obligations	<u>\$ 30,348</u>	<u>\$ 413,330</u>	<u>\$ 443,678</u>

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	\$ 292,739	\$ 129,332	\$ 134,495	\$ 287,576
Notes payable	14,984	70,886	17,423	68,447
Capital leases	33,433	14,880	9,309	39,004
Total debt	<u>341,156</u>	<u>215,098</u>	<u>161,227</u>	<u>395,027</u>
Compensated absences	52,484	3,570	9,023	47,031
Other postemployment benefits	22,225	2,704	120	24,809
Early retirement liability	-	801	-	801
Total obligations	<u>\$ 415,865</u>	<u>\$ 222,173</u>	<u>\$ 170,370</u>	<u>\$ 467,668</u>

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

---

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

	Current	Long Term	Total
Bonds payable	\$ 7,255	\$ 280,321	\$ 287,576
Notes payable	12,977	55,470	68,447
Capital leases	8,121	30,883	39,004
Total debt	<u>28,353</u>	<u>366,674</u>	<u>395,027</u>
Compensated absences	2,881	44,150	47,031
Other postemployment benefits	-	24,809	24,809
Early retirement liability	557	244	801
Total obligations	<u>\$ 31,791</u>	<u>\$ 435,877</u>	<u>\$ 467,668</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.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

A summary of the principal amount of outstanding bonds payable is as follows at June 30, 2014 and 2013:

<i>(in thousands)</i>		<b>2014</b>	<b>2013</b>
<p>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.</p>	<p><b>PAR</b> <b>Premium</b></p>	<p>\$ 91,550 3,660</p>	<p>\$ 93,820 3,827</p>
<p>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.</p>	<p><b>PAR</b> <b>Premium</b></p>	<p>5,355 309</p>	<p>6,130 371</p>
<p>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.</p>	<p><b>PAR</b> <b>Premium</b></p>	<p>41,510 2,367</p>	<p>41,905 2,512</p>
<p>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.</p>	<p><b>PAR</b></p>	<p>-</p>	<p>1,250</p>
<p>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.</p>	<p><b>PAR</b> <b>Discount</b></p>	<p>8,275 (48)</p>	<p>8,580 (51)</p>
<p>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.</p>	<p><b>PAR</b> <b>Premium</b></p>	<p>110,405 15,790</p>	<p>112,665 16,567</p>
<b>Total Bonds Payable</b>		<p><b>\$ 279,173</b></p>	<p><b>\$ 287,576</b></p>

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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, 2014:

<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>
2015	\$ 8,045	\$ 11,753	\$ 1,148	\$ 20,946	\$ 9,952	\$ 829	\$ 10,781
2016	8,315	11,490	1,148	20,953	9,880	668	10,548
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	10,000	10,427	1,148	21,575	9,345	106	9,451
2020-2024	52,960	45,045	5,435	103,440	2,278	3	2,281
2025-2029	66,340	30,629	5,434	102,403	-	-	-
2030-2034	72,350	13,486	4,916	90,752	-	-	-
2035-2039	21,530	1,150	553	23,233	-	-	-
	<u>\$ 257,095</u>	<u>\$ 145,998</u>	<u>\$ 22,078</u>	<u>\$ 425,171</u>	<u>\$ 55,620</u>	<u>\$ 2,367</u>	<u>\$ 57,987</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. Principal payments are made annually until 2034. Interest payments are made semi-annually.

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)

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

---

issue provided \$3,680,000 for acquiring land and properties for expansion and other University related purposes. The bonds bear interest at various fixed interest rates from 1.20% to 1.93% and principal payments were 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, 2014 are as follows:

<i>(in thousands)</i>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 7,081	\$ 1,178	\$ 8,259
2016	6,766	896	7,662
2017	5,034	633	5,667
2018	3,452	486	3,938
2019	3,006	380	3,386
2020–2026	5,557	568	6,125
	<u>\$ 30,896</u>	<u>\$ 4,141</u>	<u>\$ 35,037</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, 2014:

<i>(in thousands)</i>	
2015	\$ 6,156
2016	2,867
2017	1,363
2018	558
2019	241
2020	141
Total minimum payments required	<u>\$ 11,326</u>

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2014 and 2013

---

Rental expense for operating leases for the years ended June 30, 2014 and 2013 was approximately \$9,481,000 and \$8,976,000 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, 2014 included the renovation of the new Texarkana AHEC SW facility, and work on the east tower of the AHEC NW East Tower in Fayetteville. At June 30, 2014, construction contracts outstanding were approximately \$5,469,000.

#### **Outstanding Commitments**

At June 30, 2014 and 2013, UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$160,689,000 and \$66,195,000, 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, 2014 and 2013 was \$278,600 and \$280,700, respectively. UAMS' total salaries were \$688,684,000 and \$666,263,000 for fiscal years 2014 and 2013, respectively. Total employer contributions to ARTRS in fiscal years 2014, 2013, and 2012 were \$38,300, \$39,300 and \$61,500, respectively. Employee contributions to ARTRS in fiscal years 2014 and 2013 were \$12,900 and \$12,400, 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 14.88% in 2014 and 14.24% in 2013. 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, 2014 and 2013 was \$8,133,300 and \$7,566,000, respectively. Total employer contributions to APERS in fiscal years 2014, 2013, and 2012 were \$1,210,200, \$1,078,000 and \$960,900, respectively. Employee contributions to APERS in fiscal years 2014 and 2013 were \$284,800 and \$238,500, 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.

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2014 and 2013

---

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.

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 \$26,000 per employee, which is the IRS maximum for tax year 2014. 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, 2014 and 2013 was \$624,797,000 and \$602,270,000, respectively. Total employer contributions during fiscal years 2014 and 2013 to TIAA-CREF and Fidelity were \$48,443,000 and \$46,745,000, respectively. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal years 2014 and 2013 were \$47,013,000 and \$52,423,000, 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 790 and 764 as of June 30, 2014 and 2013, 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 \$2,336,000 and \$2,828,000 in retiree healthcare expense during the fiscal years ended June 30, 2014 and 2013, respectively.

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2014 and 2013

---

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.

**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, 2013 valuation for the fiscal year ended June 30, 2014
Valuation year	Census data was collected as of November 1, 2012. Liabilities were measured as of November 1, 2012 and rolled forward to the July 1, 2013 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 7.5% unchanged for 2 years, with a 0.25% decrease each year afterwards until 2026 when a .5% decrease brings the ultimate rate to 4.75%.
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.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

---

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**

In both fiscal years, the healthcare trend rate assumption was changed to better reflect anticipated future experience. This change decreased the Actuarial Accrued Liability by \$646,792 as of July 1, 2012. This change increased this liability by \$2,059,046 as of July 1, 2013.

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

Claim experience for the period February 1, 2012 through January 31, 2014 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 987 life years of exposure and was deemed to be 70% 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**

Effective January 1, 2014, the plan for Medicare eligible retirees was changed to a fully insured Medicare Advantage program. Retirees pay 100% of the fully insured premium. As a result, no liabilities for Medicare eligible retiree medical benefits were included in the valuation.

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

	<b>July 1</b>	
	<b>2013</b>	<b>2012</b>
Unfunded actuarial accrued liability	\$ 23,253	\$ 26,463
<b>Annual Required Contribution (ARC)</b>		
Normal cost	1,661	2,008
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	830	945
Interest	112	132
Annual Required Contribution (ARC)	2,603	3,085
<b>Annual OPEB Cost</b>		
Interest on net OPEB obligation	1,116	1,000
ARC amortization adjustment	(925)	(829)
Annual OPEB Cost	2,794	3,256
Less: Expected employer contributions	(457)	(672)
End-of-year accrual	2,337	2,584
Beginning of year liability	24,809	22,225
End of year of year liability	\$ 27,146	\$ 24,809

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Schedule of Employer Contributions**

<b>Fiscal Years Ended</b>	<b>Annual Contributions</b>	<b>Expected Contributions</b>	<b>Percentage Contributed</b>
June 30, 2014	\$ 2,794	\$ 457	16.36 %
June 30, 2013	3,256	672	20.64 %
June 30, 2012	3,394	442	13.02 %

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.

**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 \$25,772,000 and \$27,374,000 for the years ended June 30, 2014 and 2013, respectively.

Based on information provided by the Foundation, during the years ended June 30, 2014 and 2013, respectively, revenue of \$49,205,000 and \$42,916,000 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>2014</b>	<b>2013</b>
University of Arkansas at Fayetteville	\$ 757	\$ 773
Arkansas State Hospital	5,321	5,874
Arkansas Department of Health	<u>931</u>	<u>1,200</u>
Total included in notes and student loans receivable (Note 6)	<u>\$ 7,009</u>	<u>\$ 7,847</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.

**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

# University of Arkansas for Medical Sciences

## Notes to Financial Statements

### June 30, 2014 and 2013

---

certain employees under a claims-made policy. Premiums are accrued based on a retrospective rating plan. UAMS incurred costs of \$4,000,000 for this insurance during each of the years ended June 30, 2014 and 2013. A party may bring an action against UAMS through the Arkansas State Claims Commission (the Claims Commission). The Claims Commission may award a claim of up to \$15,000 without further review or appropriation. Awards that the Claims Commission approves in excess of \$15,000 must be approved and appropriated by the Arkansas State Legislature. Appropriations of this type, if any, reduce appropriations from the state to UAMS in the period in which the claim is appropriated.

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

UAMS employees and their eligible dependents may participate in the 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.

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.

If Debt Service Revenues would have been considered insufficient at June 30, 2014, UAMS would have incurred a liability of \$54,551,000 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.

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**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, 2014				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 474,727	\$ 247,015	\$ -	\$ -	\$ 721,742
Instruction	128,756	15,675	-	-	144,431
Research	82,939	34,881	-	-	117,820
Public services	16,820	23,603	-	-	40,423
Academic support	19,109	4,772	-	-	23,881
Student services	2,077	2,112	-	-	4,189
Institutional support	91,159	10,856	-	-	102,015
Operation and maintenance of plant	31,974	11,374	-	-	43,348
Scholarships and awards	-	-	369	-	369
Auxiliary	3,908	2,774	-	-	6,682
Depreciation and amortization	-	-	-	59,230	59,230
Other	1,450	13,442	-	-	14,892
	<u>\$ 852,919</u>	<u>\$ 366,504</u>	<u>\$ 369</u>	<u>\$ 59,230</u>	<u>\$ 1,279,022</u>

<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>

**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

**University of Arkansas for Medical Sciences**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

---

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, 2014, 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.

**19. Recently Issued Pronouncements**

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*, in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014 (i.e., UAMS' fiscal 2015). UAMS is currently evaluating the impact this Statement will have its financial statements.

The GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, in January 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for fiscal years beginning after December 15, 2013 (i.e., UAMS' fiscal 2015). UAMS is currently evaluating the impact, if any, this Statement will have its financial statements.

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, in November 2013. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The provisions of this Statement are required to be applied simultaneously with Statement No. 68. UAMS is currently evaluating the impact this Statement will have its financial statements.

# University of Arkansas for Medical Sciences

## Required Supplementary Information

### June 30, 2014 and 2013

---

#### Other Postemployment Benefits

##### **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**

In both fiscal years, the healthcare trend rate assumption was changed to better reflect anticipated future experience. This change decreased the Actuarial Accrued Liability by \$646,792 as of July 1, 2012. This change increased this liability by \$2,059,046 as of July 1, 2013.

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

Claim experience for the period February 1, 2012 through January 31, 2014 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 987 life years of exposure and was deemed to be 70% 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**

Effective January 1, 2014, the plan for Medicare eligible retirees was changed to a fully insured Medicare Advantage program. Retirees pay 100% of the fully insured premium. As a result, no liabilities for Medicare eligible retiree medical benefits were included in the valuation.

**University of Arkansas for Medical Sciences**  
**Required Supplementary Information**  
**June 30, 2014 and 2013**

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

	July 1	
	2013	2012
Unfunded actuarial accrued liability	\$ 23,253	\$ 26,463
<b>Annual Required Contribution (ARC)</b>		
Normal cost	1,661	2,008
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	830	945
Interest	112	132
Annual Required Contribution (ARC)	2,603	3,085
<b>Annual OPEB Cost</b>		
Interest on net OPEB obligation	1,116	1,000
ARC amortization adjustment	(925)	(829)
Annual OPEB Cost	2,794	3,256
Less: Expected employer contributions	(457)	(672)
End-of-year accrual	2,337	2,584
Beginning of year liability	24,809	22,225
End of year of year liability	\$ 27,146	\$ 24,809

**Schedule of Employer Contributions**

	Annual Contributions	Expected Contributions	Percentage Contributed
<b>Fiscal Years Ended</b>			
June 30, 2014	\$ 2,794	\$ 457	16.36 %
June 30, 2013	3,256	672	20.64 %
June 30, 2012	3,394	442	13.02 %

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)**

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
<b>Fiscal Years Ended</b>						
June 30, 2014	\$ -	\$ 23,253	\$ 23,253	\$ -	\$ 633,209	4 %
June 30, 2013	-	26,463	26,463	-	610,117	4 %
June 30, 2012	-	28,120	28,120	-	594,046	5 %