



UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

June 30, 2018 and 2017

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Management's Discussion and Analysis (Unaudited)	3–17
Financial Statements:	
Statements of Net Position	18
Statements of Revenues, Expenses, and Changes in Net Position	19
Statements of Cash Flows	20–21
Notes to Financial Statements	22–63
Required Supplementary Information (Unaudited)	64–70



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

Independent Auditors' Report

The Board of Trustees
The University of Arkansas System:

Report on the Financial Statements

We have audited the accompanying statements of net position of the University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas System, as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the UAMS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Arkansas for Medical Sciences, as of June 30, 2018 and 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in Note 1, the financial statements of UAMS are intended to present the financial position, the changes in financial position and, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Arkansas System that is attributable to the transactions of UAMS. They do not purport to, and do not, present fairly the financial position of the University of Arkansas System as of June 30, 2018 and 2017, its changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-17 and the required supplementary information on pages 64 - 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018 on our consideration of the UAMS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the UAMS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UAMS' internal control over financial reporting and compliance.

KPMG LLP

Dallas, Texas
October 3, 2018

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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, 2018 and 2017. UAMS is one of 20 campuses and related units operating within the University of Arkansas System (UA System), organized under various laws of the State of Arkansas and governed by the UA System's 10-member Board of Trustees (UA Board). UAMS is a state-assisted academic health center composed of:

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School, and Northwest Arkansas Satellite Campus with a combined enrollment of 2,758 and faculty numbering 1,438
- The University Hospital of Arkansas (Hospital), a tertiary care referral center with 508 acute care beds in use at June 30, 2018
- 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 and Neurosciences Institute
- 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.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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

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

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

This discussion and analysis of UAMS' financial statements provides an overview of its financial activities for the fiscal years ended June 30, 2018 and 2017, with comparative information for the fiscal year ended June 30, 2016. Ending Net Position for 2017 was restated due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As a result, ending Net Position at June 30, 2017 was increased by \$3,039,000 to reflect the cumulative effect of the adjustment of the liability for postemployment benefits other than pensions. Therefore, the following discussion and analysis of 2017 operating results focuses on results before the cumulative effect of the adoption of GASB Statement No. 75.

Additionally, the June 30, 2017 balance of Investments and Deferred Inflows of Resources were both restated due to the implementation of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. As a result, both accounts were increased by \$2,885,000 to recognize UAMS' interest in irrevocable split-interest agreements. Therefore, this restatement had no effect on Net Position.

Financial Highlights

UAMS' net position decreased in fiscal year 2018 by \$15,563,000 with assets and deferred outflows of resources totaling \$1,275,319,000 and liabilities and deferred inflows of resources totaling \$557,984,000. 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 \$717,335,000 at June 30, 2018.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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, 2018, 2017, and 2016 as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(In thousands)		
Operating revenues	\$ 1,521,503	\$ 1,446,158	\$ 1,427,635
Operating expenses	(1,600,792)	(1,532,579)	(1,432,604)
Nonoperating revenues	58,859	64,079	17,236
Other changes in net position	<u>4,867</u>	<u>2,456</u>	<u>6,272</u>
Increase (decrease) in net position	\$ <u>(15,563)</u>	\$ <u>(19,886)</u>	\$ <u>18,539</u>

Statements of Net Position

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

Net position is divided into three major categories. The first category, investment in capital assets, net of related debt, reflects the equity in property, plant, and equipment owned by UAMS. 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

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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

	June 30		
	2018	2017	2016
	(In thousands)		
Assets:			
Current assets	\$ 420,039	\$ 319,420	\$ 323,346
Noncurrent assets			
Investments	63,693	179,152	154,907
Capital assets, net	745,618	771,955	797,640
Other	33,531	20,234	16,938
Total assets	<u>1,262,881</u>	<u>1,290,761</u>	<u>1,292,831</u>
Deferred outflows of resources	<u>12,438</u>	<u>12,431</u>	<u>8,518</u>
Liabilities:			
Current liabilities	174,579	180,944	153,165
Noncurrent liabilities	375,127	385,966	397,343
Total liabilities	<u>549,706</u>	<u>566,910</u>	<u>550,508</u>
Deferred inflows of resources	<u>8,278</u>	<u>3,384</u>	<u>1,096</u>
Net position:			
Investment in capital assets, net of related debt	464,948	471,270	467,792
Restricted:			
Expendable	143,298	170,781	159,676
Nonexpendable	36,053	34,457	30,464
Unrestricted	73,036	56,390	91,813
Total net position	<u>\$ 717,335</u>	<u>\$ 732,898</u>	<u>\$ 749,745</u>

Current assets consist of cash and cash equivalents, short-term investments, net accounts receivable, supply inventories, notes and net student loans receivable, and prepaid expenses. 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. Deferred outflows of resources consist of future expenses for pensions, postemployment benefits other than pensions, and loss on refunding of bond debt. Current liabilities consist primarily of accounts payable and accrued liabilities, unearned revenue, funds held in trust for others, estimated third-party payor settlements (Medicare and Medicaid), the current portion of compensated absences payable, liabilities from early retirement agreements, postemployment benefits other than pensions, bonds, notes, and capital leases payable. Noncurrent liabilities include deposits received, compensated absences payable, liabilities for postemployment benefits other than pensions, early retirement agreements, pensions, bonds, notes, and capital leases payable, net of current portion, in addition to federal capital contributions for Perkins Loan program. Deferred inflows of resources consist of future revenues from pensions, postemployment benefits other than pensions, and irrevocable split-interest agreements. Net position represents the residual interest in UAMS' assets and deferred outflows after liabilities and deferred inflows are deducted.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Fiscal Year 2018

UAMS' total assets decreased by \$27,880,000 in fiscal 2018. A review of the Statements of Net Position reveals that this net decrease consisted of increases in cash and equivalents of \$6,043,000 and deposits and funds held in trust by others of \$13,969,000 while decreases occurred in investments of \$5,474,000, patients accounts receivable of \$8,949,000, nonpatient accounts receivable of \$2,516,000, supplies of \$1,064,000, notes and student loans receivable of \$359,000, prepaid expenses of \$308,000, and net capital assets of \$26,337,000.

Current assets increased by \$100,619,000 in fiscal 2018. This net increase came from increases in short-term investments of \$107,100,000, cash and cash equivalents of the amounts noted above, and the current portion of notes and student loans receivable of \$313,000 while decreases occurred in patient and nonpatient accounts receivable, supplies, and prepaid expenses of the amounts also noted above. The increase in short-term investments was due to Management's decision in 2018 to move excess operating cash from previously used long-term investments to short-term investments until the cash is needed for operations.

Noncurrent assets decreased by \$128,499,000 in fiscal 2018. This net decrease resulted from decreases in long-term investments of \$115,459,000, the long-term portion of notes and student loans receivable of \$672,000, and net capital assets of \$26,337,000 while an increase occurred in noncurrent deposits and funds held in trust by others of \$13,969,000. The decrease in long-term investments was due to the transfer of excess operating cash to short-term investments, as noted above. The increase in noncurrent deposits and funds held in trust by others resulted primarily from equipment financing obtained in June 2018 with the funds to be drawn periodically as the equipment is installed. The decrease in net capital assets primarily consisted of net asset additions totaling \$26,975,000 less net depreciation and amortization of \$53,312,000.

Deferred outflows of resources increased by \$7,000 in fiscal 2018. UAMS' deferred outflows of resources resulted from liabilities for pensions and postemployment benefits other than pensions along with the deferred loss on the refunding of certain outstanding bonds in past years. The actuarially determined deferred outflow related to pension liabilities increased by \$310,000. The deferred outflow related to postemployment benefits other than pensions resulted from the implementation of GASB Statement No. 75 in 2018 with a required restatement of fiscal 2017. Therefore, this deferred outflow decreased \$12,000 in fiscal 2018 based on actuarial calculations. The bond 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, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, these losses are presented as a deferred outflow of resources. The deferred outflows related to the loss on refunding of bonds decreased in fiscal year 2018 by \$291,000 from the amortization for the year.

Total liabilities decreased by \$17,204,000 in fiscal 2018. This net decrease consisted of decreases in accounts payable and accrued liabilities of \$13,624,000, unearned income of \$1,738,000, liability for postemployment benefits other than pensions of \$3,409,000, and bonds, notes, and capital leases of

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

\$6,060,000 while increases occurred in funds held in trust for others of \$56,000, estimated third-party payor settlements of \$4,865,000, deposits of \$4,000, compensated absences payable of \$351,000, and liabilities for pensions of \$2,304,000, and early retirements agreements of \$47,000.

Current liabilities decreased by \$6,365,000 in fiscal 2018. This net decrease came from decreases in accounts payable and accrued liabilities and unearned income of the amounts noted above while increases occurred in funds held in trust for others and estimated third-party payor settlements in the amounts noted above, as well as in the current portions of compensated absences of \$309,000, early retirement agreements of \$22,000, and bonds, notes, and capital leases of \$3,757,000.

Noncurrent liabilities decreased by \$10,839,000 in fiscal 2018. This net decrease was due to decreases in the noncurrent portion of bonds, notes, and capital leases payable of \$9,817,000 and the liability for postemployment benefits other than pensions of the amount noted above, while increases occurred in the noncurrent portion of compensated absences of \$42,000 and early retirement agreements of \$25,000 along with increases in deposits and liabilities for pensions of the amounts noted above. The decrease in the noncurrent portion of bonds, notes, and capital leases payable was primarily due to the reduction of the noncurrent portion of debt via regular debt service payments.

Deferred inflows of resources increased by \$4,894,000 in fiscal 2018. UAMS' deferred inflows of resources resulted from pensions as well as two items resulting from the implementation of two new GASB pronouncements in fiscal 2018, both of which required restatement of fiscal 2017. The actuarially determined deferred inflows related to pensions decreased by \$90,000. The previously described GASB Statement No. 75 resulted in an increase of \$4,952,000 in deferred inflows related to postemployment benefits other than pensions. Additionally, GASB Statement No. 81 resulted in an increase of \$32,000.

Fiscal Year 2017

UAMS' total assets decreased by \$4,051,000 in fiscal year 2017. A review of the Statements of Net Position reveals that this net decrease consisted primarily of decreases in cash and equivalents of \$8,710,000, patients accounts receivable of \$4,043,000, and net capital assets of \$25,685,000, partially offset by increases in nonpatient accounts receivable of \$6,207,000, supplies of \$1,311,000, prepaid expenses of \$2,354,000, long-term investments of \$21,360,000, and deposits and funds held in trust of \$3,076,000.

Current assets decreased by \$3,022,000 in fiscal year 2017. This decrease came primarily from a decrease in cash and cash equivalents of \$8,710,000 as cash was used in capital and related financing activities during the year. Also, patient accounts receivable decreased by \$4,043,000 while nonpatient accounts receivable increased by \$6,207,000.

Noncurrent assets decreased by \$1,029,000 in fiscal year 2017. This total decrease was primarily the sum of a decrease in net capital assets of \$25,685,000 partially offset by increases in long-term investments of \$21,360,000 and noncurrent deposits and funds held in trust by others of \$3,076,000. The increase in noncurrent investments resulted mainly from unrealized gains from the positive investment market. The decrease in net capital assets primarily consisted of net asset additions totaling \$40,550,000 less net depreciation and amortization of \$66,021,000.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

UAMS' deferred outflows of resources result from pension liabilities and the defeasance of certain outstanding bonds in past years. The deferred outflow related to pension liabilities increased by \$3,491,000. The bond 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 related to the loss on refunding of bonds decreased in fiscal year 2017 by \$292,000 from the amortization for the year.

Total liabilities increased by \$17,306,000 in fiscal year 2017. Current liabilities increased by \$27,969,000 in fiscal year 2017, primarily due to increases in accounts payable and accrued liabilities of \$17,680,000, and estimated third-party payor settlements of \$17,835,000, resulting from the refining of estimates related to the Medicare and Medicaid programs. These increases were partially offset by decreases in the current portion of bonds, notes, and capital leases in the amount of \$5,536,000. Noncurrent liabilities decreased in 2017 by \$8,338,000. This net decrease was mostly due to a decrease in the noncurrent portion of bonds, notes, and capital leases payable of \$20,640,000, partially offset by increases in the noncurrent portion of compensated absences payable of \$5,050,000, net pension liability of \$4,955,000, and postemployment benefits other than pensions of \$2,096,000. The decrease in the noncurrent portion of bonds, notes, and capital leases payable was primarily due to the reduction of the noncurrent portion of debt via regular debt service payments.

UAMS' deferred inflows of resources related to pensions decreased by \$597,000.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Statements of Revenues, Expenses, and Changes in Net Position

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

	Years ended June 30		
	2018	2017	2016
	(In thousands)		
Operating revenues:			
Student tuition and fees, net of scholarship allowances	\$ 48,034	\$ 43,975	\$ 41,982
Net patient services	1,231,064	1,186,364	1,176,856
Meaningful use	193	1,766	4,033
Sponsored programs	123,855	113,486	111,909
Other	118,357	100,567	92,855
Total operating revenues	<u>1,521,503</u>	<u>1,446,158</u>	<u>1,427,635</u>
Operating expenses:			
Compensation and benefits	1,044,269	987,945	928,619
Supplies and other services	490,499	477,733	436,193
Scholarships and fellowships	824	880	2,024
Depreciation and amortization	65,200	66,021	65,768
Total operating expenses	<u>1,600,792</u>	<u>1,532,579</u>	<u>1,432,604</u>
Operating loss	<u>(79,289)</u>	<u>(86,421)</u>	<u>(4,969)</u>
Nonoperating revenues (expenses):			
State appropriations, net	33,275	31,259	7,898
Gifts	19,908	19,673	24,655
Investment gain (loss), net of expense	16,120	23,783	(4,171)
Other	(10,444)	(10,636)	(11,146)
Total nonoperating revenues, net	<u>58,859</u>	<u>64,079</u>	<u>17,236</u>
Income (loss) before other changes in net assets	<u>(20,430)</u>	<u>(22,342)</u>	<u>12,267</u>
Other changes in net position:			
Capital gifts and appropriations	4,669	1,285	6,299
Interagency disposition	198	21	(27)
Equity in ARHealth Ventures, Inc.	-	1,150	-
Total other changes in net position	<u>4,867</u>	<u>2,456</u>	<u>6,272</u>
Increase (decrease) in net position	<u>(15,563)</u>	<u>(19,886)</u>	<u>18,539</u>
Net position:			
Beginning of year	732,898	749,745	731,206
Cumulative effect of GASB No. 75 adoption	-	3,039	-
End of year	<u>\$ 717,335</u>	<u>\$ 732,898</u>	<u>\$ 749,745</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Fiscal Year 2018

The Statements of Revenues, Expenses, and Changes in Net Position reflect a loss before other changes in net position of \$20,430,000 and a decrease of \$15,563,000 in net position for fiscal year 2018. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$44,700,000, or 3.8%. The increase in net patient service revenue is due primarily to an increase in both inpatient and outpatient volumes.

Sponsored programs, which include federal grants and contracts, as well as state and local government and nongovernmental (i.e., nonfederal) grants and contracts, increased by a total of \$10,369,000, or 9.1%. This increase was mainly due to an increase in federal grants and contracts of \$7,779,000, or 11.1%. Nonfederal grants and contracts increased by \$2,590,000, or 6.0%. Net student tuition and fees increased \$4,059,000, or 9.2%, due to tuition rate increases and higher enrollment. Other operating revenues increased by \$16,328,000, or 29.2%, mainly resulting from increased contractual pharmacy activity. Total operating revenue increased over the prior year by \$75,345,000, or 5.2%.

The following factors affected operating expenses in 2018:

Operating expenses increased by \$68,213,000, or 4.5%. Primarily, drivers of this increase were higher compensation and benefits expense, along with supplies and other services expense. Compensation and benefits expenses increased by \$56,324,000, or 5.7%, in fiscal year 2018. This increase was primarily due to the staffing required to support higher inpatient and outpatient volumes and higher group health insurance costs. Total supplies and other services increased by \$12,766,000, or 2.7%, largely due to increases in medical supplies, primarily for a higher surgery volume, and drugs and medicines for patient care.

The following factors affected nonoperating revenue (expense) in 2018:

Nonoperating revenue (expense) decreased by \$5,220,000, or 8.1%. The largest contributor to this change was a decrease in investment income of \$7,663,000, or 32.2%, resulting from unrealized gains in the positive investment markets. Additionally, net state appropriations increased by \$2,016,000, or 6.4%, due to lower Medicaid match payments, which net against gross state appropriation, as described below. Further, there was an increase in gifts of \$235,000, or 1.2%.

State appropriations are reported in the Statements of Revenues, Expenses, and Changes in Net Position as Nonoperating revenues, net of the Medicaid match payments required under various contracts between UAMS and the Arkansas Department of Human Services (DHS).

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Net state appropriations revenue for the years ended June 30, 2018, 2017, and 2016 was as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(In thousands)		
Gross state appropriations revenue	\$ 113,022	\$ 112,001	\$ 107,049
Less Medicaid match payments	<u>79,747</u>	<u>80,742</u>	<u>99,151</u>
Net state appropriations revenue	<u>\$ 33,275</u>	<u>\$ 31,259</u>	<u>\$ 7,898</u>

Fiscal Year 2017

The Statements of Revenues, Expenses, and Changes in Net Position reflect a loss before other changes in net position of \$22,342,000 and a decrease of \$19,886,000 in net position for fiscal year 2017. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$9,508,000, or 0.8%. The increase in net patient service revenue is due primarily to an increase in both inpatient and outpatient volumes.

Sponsored programs, which include federal grants and contracts, as well as state and local government and nongovernmental (i.e., nonfederal) grants and contracts, increased by a total of \$1,577,000, or 1.4%. This increase was mainly due to an increase in federal grants and contracts of \$2,919,000, or 4.3%. Nonfederal grants and contracts decreased by \$1,342,000, or 3.0%. Net student tuition and fees increased \$1,993,000, or 4.7%, due to tuition rate increases and higher enrollment. Other operating revenues increased by \$7,712,000, or 8.3%, mainly resulting from increased contractual pharmacy activity. Total operating revenue increased over the prior year by \$18,523,000, or 1.3%.

The following factors affected operating expenses in 2017:

Operating expenses increased by \$99,975,000, or 7.0%. Primarily, drivers of this increase were higher compensation and benefits expense, along with supplies and other services expense. Compensation and benefits expenses increased by \$59,326,000, or 6.4%, in fiscal year 2017. This increase was primarily due to the staffing required to support higher inpatient and outpatient volumes and higher group health insurance costs. Total supplies and other services increased by \$41,540,000, or 9.5%, largely due to increases in medical supplies, primarily for a higher surgery volume, and drugs and medicines for patient care.

The following factors affected nonoperating revenue (expense) in 2017:

Nonoperating revenue (expense) increased by \$46,843,000, or 271.8%. The largest contributor to this change was an increase in investment income of \$27,954,000, or 670.2%, resulting from unrealized gains in the positive investment markets. Additionally, net state appropriations increased by \$23,361,000, or 295.8%, due to lower Medicaid match payments, which net against gross state

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

appropriation, as described below. Offsetting these increases was a decrease in gifts of \$4,982,000, or 20.2%.

State appropriations are reported in the Statements of Revenues, Expenses, and Changes in Net Position as Nonoperating revenues, net of the Medicaid match payments required under various contracts between UAMS and DHS.

Net state appropriations revenue for the years ended June 30, 2017, 2016, and 2015 was as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(In thousands)	
Gross state appropriations revenue	\$ 112,001	\$ 107,049	\$ 106,602
Less Medicaid match payments	<u>80,742</u>	<u>99,151</u>	<u>85,075</u>
Net state appropriations revenue	<u>\$ 31,259</u>	<u>\$ 7,898</u>	<u>\$ 21,527</u>

Results of Operations

Fiscal Year 2018

In fiscal year 2018, UAMS experienced a net loss before other changes in net position of \$20,430,000 and a decrease in net position of \$15,563,000.

Total operating revenues increased, with increases in student tuition and fees of \$4,059,000, or 9.2%, and net patient service revenue of \$44,700,000, or 3.8%. Additionally, revenue from sponsored programs increased by \$10,369,000, or 9.1%, and Other operating revenue increased by \$16,328,000, or 29.2%.

While a 5.2% increase in operating revenue was experienced in fiscal year 2018, UAMS incurred higher operating expenses during the year, resulting in an operating loss of \$79,289,000. Leading this increase were compensation and benefits expenses, which increased by \$56,324,000, or 5.7%. This increase was primarily due to the staffing required to support higher inpatient and outpatient volumes. Also, supplies and other services increased by \$12,766,000, or 2.7%, largely for medical supplies, primarily for surgeries, and drugs and medicines for both inpatient and outpatient care.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Net investment income recognized in fiscal year 2018 included gains of \$16,120,000, which was a 32.2% decrease from the prior year when a more positive investment market was experienced.

Net state appropriations increased by \$2,016,000. As a share of UAMS' revenue, gross state appropriations for fiscal year 2018 decreased to 7.4% from 7.7% in fiscal year 2017.

Fiscal Year 2017

In fiscal year 2017, UAMS experienced a net loss before other changes in net position of \$22,342,000 and a decrease in net position of \$19,886,000.

Total operating revenues increased, with increases in Student tuition and fees of \$1,993,000, or 4.7%, and net patient service revenue of \$9,508,000, or 0.8%. Additionally, revenue from Sponsored programs increased by \$1,577,000, or 1.4%, and Other operating revenue increased by \$7,712,000, or 8.3%.

While a 1.3% increase in operating revenue was experienced in fiscal year 2017, UAMS incurred higher operating expenses during the year, resulting in an operating loss of \$86,421,000. Leading this increase were compensation and benefits expenses, which increased by \$59,326,000, or 6.4%. This increase was primarily due to the staffing required to support higher inpatient and outpatient volumes. Also, supplies and other services increased by \$41,540,000, or 9.5%, largely for medical supplies, primarily for surgeries, and drugs and medicines for both inpatient and outpatient care.

Net investment income recognized in fiscal year 2017 included gains of \$27,954,000, which was a 670% increase over the prior year when a less positive investment market was experienced.

Net state appropriations increased by \$23,361,000. As a share of UAMS' revenue, gross state appropriations for fiscal year 2017 increased to 7.7% from 7.5% in fiscal year 2016.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, UAMS had \$745,618,000 invested in capital assets, net of accumulated depreciation and amortization of \$765,382,000. Depreciation and amortization expense totaled \$65,200,000 for the fiscal year ended June 30, 2018.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

UAMS' capital additions totaled \$39,317,000 in fiscal year 2018. Major additions to capital include the renovation of the Central Building A5 wing, a capital lease for clinical space for Kid's First in Fort Smith, an Alaris IV medication system, renovation of the Jones Eye Institute 9th floor, and a new CT scanner. Major construction projects completed in fiscal year 2018 and the sources that funded their acquisition included:

Project	Amount of additions	Funding source
	(In thousands)	
Renovation of Central Building A5 wing for code compliance	\$ 7,507	UAMS
Renovation of Jones Eye Institute 9th Floor for clinic space	1,304	UAMS
Renovation of Central Building space for additional faculty	737	UAMS
WPRCI conversion of shell space for grant activity	573	UAMS

Construction in progress at June 30, 2018 totaled \$3,171,000. The largest component of that balance consists of the consolidation of the AHEC electronic health and record systems. More detailed information about UAMS' capital assets is presented in note 7 to the financial statements.

Debt Administration

At June 30, 2018, UAMS had \$300,940,000 in outstanding debt, as shown in the following table:

	Amount outstanding
	(In thousands)
Obligation:	
Bonds payable	\$ 248,229
Notes payable	32,397
Obligations under capital leases	20,314
Total debt	\$ <u>300,940</u>

Moody's Investors Service has rated the UA System as Aa2 since May 2010. This rating was affirmed on July 3, 2018. As one of the campuses in the UA System, this rating applies to debt of UAMS. More detailed information about current and long-term liabilities is presented in notes 8 and 9 to the financial statements.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

Economic Outlook

UAMS closed fiscal year 2018 down \$15.6 million in net position, a much better outcome than the \$39.2 million deficit projected in the budget. UAMS was able to achieve this positive result through decreased spending in many of UAMS colleges and departments, a \$5 million state appropriation from the Governor's Rainy Day fund, reduced Medicaid match requirements, increases in investment income above budget and a workforce reduction initiated in January 2018, which produced a 600 full-time equivalent position reduction and annualized cost savings in excess of \$60 million. UAMS also completed a review and modification of revenue cycle procedures and practices over the course of the last year that have led to permanent revenue enhancements. UAMS is continuing to make improvements in revenue cycle operations in fiscal year 2019.

The fiscal year 2019 budget reflects a balance of projected revenues and expenditures, based on conservative estimates of revenue gains in patient services, and includes new budget control measures related to position management and hiring practices for key clinical support staff. With modest budgetary goals to sustain continued support for UAMS' mission and maintenance of quality service to patients and students, to build back university reserves and to increase funding for capital improvements, deferred maintenance, and infrastructure, UAMS expects to finish fiscal year 2019 with a slight increase in net position.

Despite extraordinary efforts this past year to reduce and control spending and increase revenues, UAMS expects continuing financial challenges in the near term. State appropriations will remain flat at best over the next several years. No significant downturn in state funding is anticipated.

There is continuing uncertainty as to how the changes in the Arkansas Works (Medicaid expansion program) will ultimately affect UAMS. The federal Department of Health and Human Services (DHHS) rejected the plan to lower the income limit. However, this is still in negotiation. DHHS did endorse the new work requirement and replacing Medicaid's 90-day retroactive eligibility program with a 30-day eligibility provision under the Arkansas program. The new work requirement went into effect June 2018, but is facing a legal challenge at the federal level, a lawsuit the state has joined. Although the changes are expected to have some negative effect on UAMS patient revenues, it is too early to measure the extent of any potential impact. Finally, UAMS anticipates continuing downward pressure on cost reimbursements. Arkansas Blue Cross and Blue Shield, for example, has announced plans to ratchet down payments closer to Medicare levels over time.

In summary, the economic outlook for UAMS is stable. However, it will require a continuing commitment to improve the performance and cost efficiency of operations, to manage within budget limits, and to carefully evaluate the financial opportunities and risks ahead.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Management's Discussion and Analysis (Unaudited)

June 30, 2018 and 2017

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 request for additional information should be addressed to William R. Bowes, Vice Chancellor for Finance and Administration and Chief Financial Officer, 4301 West Markham Street, #632, Little Rock, Arkansas 72205.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Statements of Net Position

June 30, 2018 and 2017

(In thousands)

Assets	2018	2017
Current assets:		
Cash and cash equivalents (note 4)	\$ 106,310	\$ 100,267
Investments (note 5)	109,460	2,360
Patient accounts receivable (net of allowance for doubtful accounts of \$319,668 in 2018 and \$331,482 in 2017, note 2)	130,932	139,881
Nonpatient accounts receivable (net of allowances of \$1,431 in 2018 and \$2,085 in 2017)	37,783	40,299
Supplies	24,534	25,598
Notes and student loans receivable, net (notes 6 and 14)	2,357	2,044
Prepaid expenses	8,663	8,971
Total current assets	420,039	319,420
Noncurrent assets:		
Investments (note 5)	63,693	179,152
Notes and student loans receivable, net (notes 6 and 14)	12,433	13,105
Deposits and funds held in trust by others (note 5)	21,098	7,129
Capital assets, net (note 7)	745,618	771,955
Total noncurrent assets	842,842	971,341
Total assets	1,262,881	1,290,761
Deferred Outflow of Resources		
Pensions (note 11)	6,884	6,574
Postemployment benefits other than pensions (note 12)	702	714
Loss on refunding of bonds	4,852	5,143
Total deferred outflows	12,438	12,431
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	94,965	108,589
Unearned revenue	11,237	12,975
Funds held in trust for others	500	444
Estimated third-party payor settlements (note 2)	34,404	29,539
Compensated absences payable, current portion (note 9)	3,756	3,447
Early retirement liability	746	724
Liability for postemployment benefits other than pensions (notes 9 and 12)	702	714
Bonds, notes, and capital leases payable, current portion (notes 9 and 10)	28,269	24,512
Total current liabilities	174,579	180,944
Noncurrent liabilities:		
Deposits	31	27
Compensated absences payable, net of current portion (note 9)	54,294	54,252
Liability for postemployment benefits other than pensions (notes 9 and 12)	29,578	32,975
Federal capital contribution for Perkins Loan Program, pending return as student loans are closed	1,911	1,911
Early retirement liability	327	302
Net pension liability	16,315	14,011
Bonds, notes, and capital leases payable, net of current portion (notes 9 and 10)	272,671	282,488
Total noncurrent liabilities	375,127	385,966
Total liabilities	549,706	566,910
Commitments and contingencies (notes 10 and 15)		
Deferred Inflows of Resources		
Pensions (note 11)	409	499
Postemployment benefits other than pensions (note 12)	4,952	-
Irrevocable split-interest agreements	2,917	2,885
Total deferred inflows of resources	8,278	3,384
Net Position		
Net investment in capital assets	464,948	471,270
Restricted:		
Expendable:		
Scholarships	26,503	27,181
Research	28,328	26,780
Capital projects	88,467	115,590
Other	-	1,230
Nonexpendable:		
Endowments	35,659	34,063
Scholarships, fellowships, and student loans	394	394
Unrestricted	73,036	56,390
Total net position	\$ 717,335	\$ 732,898

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Revenues:		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$3,628 in 2018 and \$3,330 in 2017)	\$ 48,034	\$ 43,975
Net patient services (note 2)	1,231,064	1,186,364
Meaningful use revenue	193	1,766
Sponsored programs:		
Federal grants and contracts	77,949	70,170
Nonfederal grants and contracts	45,906	43,316
Sales and services of educational departments	34,643	33,018
Auxiliary enterprises:		
Housing and food service	8,545	8,600
Other auxiliary enterprises	2,890	2,998
Other operating revenue	<u>72,279</u>	<u>55,951</u>
Total operating revenues	<u>1,521,503</u>	<u>1,446,158</u>
Expenses:		
Operating expenses (note 16):		
Compensation and benefits	1,044,269	987,945
Supplies and other services	490,499	477,733
Scholarships and fellowships	824	880
Depreciation and amortization (note 7)	<u>65,200</u>	<u>66,021</u>
Total operating expenses	<u>1,600,792</u>	<u>1,532,579</u>
Operating loss	<u>(79,289)</u>	<u>(86,421)</u>
Nonoperating revenues (expenses):		
State appropriations, net (note 3)	33,275	31,259
Gifts	19,908	19,673
Investment income, net of investment expense (notes 4 and 5)	16,120	23,783
Interest on debt	(10,299)	(10,769)
Gain (loss) on disposal of capital assets	<u>(145)</u>	<u>133</u>
Total nonoperating revenues, net	<u>58,859</u>	<u>64,079</u>
Loss before other changes in net position	<u>(20,430)</u>	<u>(22,342)</u>
Other changes in net position:		
Capital gifts	4,669	1,285
Other	<u>198</u>	<u>1,171</u>
Total other changes in net position	<u>4,867</u>	<u>2,456</u>
Decrease in net position	<u>(15,563)</u>	<u>(19,886)</u>
Net position:		
Beginning of year	732,898	749,745
Cumulative effect of GASB Statement No. 75 adjustments	-	3,039
End of year	<u>\$ 717,335</u>	<u>\$ 732,898</u>

See accompanying notes to financial statements.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Tuition and fees (net of scholarships)	\$ 50,744	\$ 47,207
Patient and insurance payments	1,194,921	1,206,624
Sponsored programs	124,316	113,307
Collection of student loans and interest	2,442	2,016
Auxiliary enterprise revenue:		
Housing and food service	8,604	8,652
Other auxiliary enterprises	3,163	4,345
Other receipts	154,649	88,249
Payments to suppliers	(488,306)	(461,332)
Payments to employees	(856,628)	(801,034)
Payments of employee benefits	(183,112)	(176,055)
Loans issued to students	(2,969)	(3,337)
Scholarships and fellowships	(824)	(880)
Other payments	(13,250)	(13,981)
Net cash and cash equivalents (used in) provided by operating activities	<u>(6,250)</u>	<u>13,781</u>
Cash flows from noncapital financing activities:		
State appropriations, net	33,158	32,069
Gifts	19,908	19,673
Repayment of loans	762	-
Interfund loan to UA System (eVersity)	-	(653)
Other agency funds (net)	56	(38)
Net cash and cash equivalents provided by noncapital financing activities	<u>53,884</u>	<u>51,051</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	17,793	4,330
Gifts	4,669	1,285
Proceeds from sale of capital assets	99	58
Purchases of capital assets	(35,869)	(35,885)
Principal paid on capital debt and leases	(28,459)	(33,011)
Interest and paying agent fees paid on debt and capital leases	(10,367)	(10,825)
Net cash and cash equivalents used in capital and related financing activities	<u>(52,134)</u>	<u>(74,048)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	178,584	48,274
Interest on investments (net of fees)	526	624
Purchases of investments	(168,567)	(48,392)
Net cash and cash equivalents provided by investing activities	<u>10,543</u>	<u>506</u>
Net increase (decrease) in cash and cash equivalents	6,043	(8,710)
Cash and cash equivalents:		
Beginning of year	<u>100,267</u>	<u>108,977</u>
End of year	<u>\$ 106,310</u>	<u>\$ 100,267</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (79,289)	\$ (86,421)
Adjustments to reconcile net operating loss to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	65,200	66,021
Changes in assets and liabilities:		
Patient and nonpatient accounts receivable, net	11,483	(2,875)
Supplies	1,064	(1,311)
Other assets	(96)	(2,497)
Deferred outflows	(6)	(3,199)
Accounts payable and accrued liabilities	(11,868)	16,482
Unearned revenue	(1,738)	(1,895)
Postemployment benefits other than pensions	(3,409)	2,096
Deposits	1	(16)
Compensated absences payable	351	4,986
Other liabilities	7,196	23,007
Deferred inflows	4,861	(597)
Net cash and cash equivalents (used in) provided by operating activities	<u>\$ (6,250)</u>	<u>\$ 13,781</u>
Noncash transactions:		
Change in capital assets acquired in year-end accounts payable	\$ 1,665	\$ (1,241)
Capital assets acquired by incurring capital lease obligations	4,606	3,213
Capital assets acquired by capital gift	4,669	1,285

See accompanying notes to financial statements.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

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

(a) *Basis of Presentation*

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

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

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

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

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School, and Northwest Arkansas Satellite Campus
- The University Hospital of Arkansas, a tertiary care referral center with 508 acute care beds in use at June 30, 2018
- Regional programs, including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state
- The Winthrop P. Rockefeller Cancer Institute
- Harvey and Bernice Jones Eye Institute
- Donald W. Reynolds Institute on Aging

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

- Myeloma Institute for Research and Therapy
- Psychiatric Research Institute
- Jackson T. Stephens Spine Neurosciences Institute
- Translational Research Institute.

UAMS utilizes approximately 7,130,000 square feet of office, clinical, research, educational, workshop, and general-purpose space, excluding space utilized at Arkansas Children's Hospital. This total is composed of approximately 5,390,000 square feet of owned space at the Little Rock campus and 1,740,000 of leased or owned space throughout the State of Arkansas.

(b) *Accrual Accounting*

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

(c) *Cash and Cash Equivalents*

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

(d) *Investments*

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

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

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(e) *Patient Accounts Receivable*

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

(f) *Nonpatient Accounts Receivable*

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

(g) *Notes and Student Loans Receivable*

Notes and student loans receivable represent the unpaid balances of student loans receivable, net of allowances, and notes receivable from related parties.

(h) *Loan Funds*

Loan funds, included in cash and cash equivalents in the statements of net position, consist of resources made available for financial loans to students of UAMS. These resources include federal funds, funds from other external sources, and UAMS funds.

(i) *Supplies*

Supplies, consisting primarily of medical supplies and drugs, are carried at the lower of cost or market on either the first-in, first-out basis or average-cost basis.

(j) *Capital Assets*

Capital assets are stated at cost at the date of acquisition or estimated acquisition value at the date of donation. If material, 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 \$1,000,000 for software, \$100,000 for buildings and building improvements, and \$5,000 for equipment and other assets. Depreciation and amortization are calculated using the straight-line method over

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

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.

(k) *Deferred Outflows of Resources*

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditure) until a future period. At June 30, 2018, deferred outflows resulted from participation in the Arkansas Teacher Retirement System (ARTRS) and the Arkansas Public Employees Retirement System (APERS) in the amount of \$6,884,000. Deferred outflows of \$702,000 resulted from postemployment benefits other than pensions. The balance of \$4,852,000 represents deferred loss on defeasance of bond debt.

(l) *Compensated Absences*

Vested or accumulated vacation and sick leave of UAMS employees are recorded as an expense and liability as the benefits are earned. Amounts recorded include salary expense as well as salary-related payments (e.g., Federal Insurance Contribution Act 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.

(m) *Early Retirement Liability*

UAMS has, from time to time, negotiated voluntary early retirement agreements with faculty and staff, which may include the provision of a stipend and healthcare or other benefits for future periods. The amount of liability established for these types of agreements was \$1,073,000 and \$1,026,000 for the years ended June 30, 2018 and 2017, respectively.

(n) *Deferred Inflows of Resources*

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period. At June 30, 2018, deferred inflows of \$409,000 resulted from participation in the

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

ARTRS and APERS pension systems. Also, deferred inflows of \$4,952,000 related to postemployment benefits other than pensions and deferred inflows of \$2,917,000 resulted from irrevocable split-interest agreements.

(o) *Unearned Revenue*

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

(p) *Operating Versus Nonoperating Revenue*

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

(q) *Net Patient Services Revenue*

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

(r) *Charity Care*

UAMS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not included in gross patient revenue.

(s) *Grants and Contracts*

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

Federal research grants and contracts normally provide for the recovery of direct and indirect costs, subject to adjustment based upon review by the granting agencies. UAMS recognizes

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

revenue associated with direct costs as the related costs are incurred. The recovery of indirect costs is recorded at predetermined rates negotiated with the federal government that are effective from July 1, 2017 through June 30, 2021.

(t) *Student Financial Aid*

Revenue and expenditures for student financial aid are recognized as such in the period earned. Tuition and fees are shown net of applicable scholarship allowances.

(u) *Endowment Income*

Endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income be utilized. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. While quasi-endowment funds have been established by the UA Board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended. As such, the expired portion of term endowments and all quasi-endowments are reflected as unrestricted net position in the statements of net position. UAMS employs a total-return policy in determining the amount of investment income to be spent.

(v) *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the ARTRS and APERS (the respective Systems), and additions to/deductions from the respective System's fiduciary net position have been determined on the same basis as they are reported by the respective Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(w) *Income Taxes*

UAMS is part of the UA System and, as such, is exempt from federal income taxes except for tax on unrelated business income. Management of UAMS is not aware of any significant unrelated business income.

(x) *Use of Restricted Resources*

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

(y) *Net Position*

Net Position restricted by outside sources is distinguished from unrestricted funds allocated for specific purposes by action of the UA Board. Externally restricted funds may only be

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

utilized in accordance with the purposes established by the donor or grantor, whereas unrestricted funds may be used by UAMS in achieving any of its institutional purposes.

(z) *Use of Estimates*

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

The most significant estimates affecting the financial statements of UAMS include the determination of allowances for uncollectible accounts, contractual adjustments, and estimated third-party payor settlements relating to patient services and postemployment benefits other than pensions (OPEB). Additionally, the majority of the investments of UAMS are professionally managed, through the UA Foundation, and subject to various investment risks and fair market valuations.

(aa) *Accounting Pronouncements*

The GASB issued the following statements, which became effective for the fiscal year ended June 30, 2018:

- Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- Statement No. 81, *Irrevocable Split-Interest Agreements*
- Statement No. 85, *Omnibus 2017*
- Statement No. 86, *Certain Debt Extinguishment Issues*

Management has determined that Statements No. 85 and 86 did not materially impact UAMS.

The primary objective of Statement No. 75 is to improve accounting and financial reporting by state and local governments for OPEB. The effect of implementing Statement No. 75 is discussed in detail at Notes 1(*bb*) and 12.

The objective of Statement No. 81 is to improve accounting and financial reporting for split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of such agreements. The effect of implementing Statement No. 81 is discussed in detail at Note 1(*bb*).

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Additionally, the GASB issued the following statements, which become effective for the future fiscal years noted below:

For the year ending June 30, 2019

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

For the year ending June 30, 2020

- Statement No. 84, *Fiduciary Activities*
- Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No.61*

For the year ending June 30, 2021

- Statement No. 87, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

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

(bb) Adoption of Accounting Pronouncements

Two of the accounting pronouncements noted above, GASB Statements No. 75 and No. 81, became effective during the fiscal year ended June 30, 2018 and required the restatement of the prior year. The effect of these restatements were as follows:

GASB Statement No. 75 required the restatement of the Statement of Net Position at June 30, 2017 for the recognition of deferred outflows of resources and a related current liability for postemployment benefits other than pensions each totaling \$702,000. Additionally, the noncurrent portion of the liability for postemployment benefits other than pensions was reduced by \$3,039,000. Therefore, the ending Net Position at June 30, 2017 was increased by this amount, with the related cumulative effect of the GASB Statement No. 75 adjustment reflected on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2017.

GASB Statement No. 81 required the restatement of the Statement of Net Position at June 30, 2017 for the recognition of UAMS' interest in irrevocable split-interest agreements. This recognition increased both investments and deferred inflows of resources by \$2,885,000, and, therefore, had no effect on total Net Position.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(cc) Reclassifications

Certain reclassifications have been made to the June 30, 2017 financial statements to conform to the June 30, 2018 presentation. A portion of Unrestricted Net Position was reclassified to Restricted Net Position. Total Net Position was unchanged.

(2) Net Patient Services Revenue and Charity Care

Patient care operations are included in the accompanying financial statements under accounting principles generally followed by governmental colleges and universities. Patient accounts receivable at June 30, 2018 and 2017 are recorded net of an allowance for doubtful accounts of \$319,668,000 and \$331,482,000, respectively.

Net patient services revenue for the year ended June 30, 2018 and 2017 is as follows:

	2018	2017
	(In thousands)	
Gross patient revenue	\$ 3,152,259	\$ 3,014,287
Less:		
Patient services contractual allowances	1,870,735	1,792,176
Provision for bad debts	50,460	35,747
Net patient services revenue	\$ 1,231,064	\$ 1,186,364

UAMS provided approximately \$59,210,000 and \$47,668,000 in charity care, based on established rates, during the years ended June 30, 2018 and 2017, 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, 2018 and 2017 includes approximately \$62,274,000 and \$78,269,000, 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, 2018 and 2017 also includes approximately \$38,286,000 and \$42,368,000, respectively, of net revenue from the Supplemental Medicaid program.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

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

(a) ***Hospital***

Medicare

Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some transplantation services are paid based upon a cost-reimbursement methodology. Outpatient services are paid based on a prospective payment system where services are classified into groups called Ambulatory Payment Classifications (APC). Services in each APC are similar clinically and in terms of the resources they require. The Hospital is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audit by the Medicare fiscal intermediary. As of June 30, 2018, the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2016.

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, 2018, the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2013.

(b) ***FGP and AHECs***

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

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated settlements resulted in no change to net patient services revenue for the years ended June 30, 2018 and 2017. Management believes that UAMS is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

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

(3) Net State Appropriations Revenue

State appropriations are reported in the statement of revenues, expenses, and changes in net position as 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, 2018 and 2017 was as follows:

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

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

UAMS' cash and cash equivalents at June 30, 2018 and 2017 include deposits that are insured or collateralized with securities held by UAMS or by its agent in UAMS' name.

	<u>Carrying amount</u>		<u>Bank balance</u>
	(In thousands)		
Cash at June 30, 2018	\$ 106,310	\$	100,267
Cash at June 30, 2017	100,267		106,095

At June 30, 2018 and 2017, cash and cash equivalents are composed of \$1,756,000 and \$1,198,000, respectively, of insured deposits and \$98,511,000 and \$104,897,000, respectively, of securities that are held in custody by the Federal Reserve Bank.

At June 30, 2018 and 2017, deposits and funds held in trust, as reported in the Statements of Net Position, include money market accounts of \$3,361,000 and \$3,322,000, respectively. Interest income on cash and cash equivalents as of June 30, 2018 and 2017 was \$903,000 and \$797,000, respectively.

(5) Investments

UAMS participates in the Pool, which is sponsored by the UA Board and the UA Foundation Board. The Pool was originally established in 1997 by the UA System and the UA Foundation. The Pool commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The participants of the Pool have adopted investment guidelines and performance objectives for the accounts within the Pool. In January 2010, the University of Arkansas Investment Committee approved an agreement that delegated authority to the UA Foundation to manage UA System funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives (the guidelines) for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

The Pool consists of the Total Return Pool and the Intermediate Pool. UAMS' pro rata allocation of each of these individual pools and of the total investment pool was as follows:

	<u>Total return pool</u>	<u>Intermediate pool</u>	<u>Total pool</u>
June 30, 2018	3.6 %	24.0 %	8.1 %
June 30, 2017	11.4 %	0.7 %	9.4 %

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

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

	Fair value	
	2018	2017
	(In thousands)	
Investment type:		
Equity:		
U.S.	\$ -	\$ 3
Exchange traded investments:		
U.S. equity	620	595
U.S. fixed income	173	177
	<u>793</u>	<u>772</u>
Other investments:		
Clinic investment	341	769
Funds held in trust	16,944	3,035
ARHealth Ventures, Inc.	294	446
Accountable Care	501	-
Split Interest Agreement	2,917	2,885
Investment pool	169,100	177,409
	<u>190,097</u>	<u>184,544</u>
	<u>\$ 190,890</u>	<u>\$ 185,319</u>

The activities during fiscal year 2018 affecting UAMS' pro rata allocation of investments are summarized below:

	Total return pool	Intermediate pool	Other investments	Total
	(In thousands)			
Balances at June 30, 2017	\$ 175,048	\$ 2,361	\$ 5,025	\$ 182,434
Income	1,434	351	38	1,823
Realized gains (losses)	6,144	(78)	(731)	5,335
Net increase (decrease) in the fair value of investments	9,038	30	(537)	8,531
Expenses paid	(439)	(1)	(87)	(527)
Purchases (sales), net	(131,586)	106,798	18,082	(6,706)
Balances at June 30, 2018	<u>\$ 59,639</u>	<u>\$ 109,461</u>	<u>\$ 21,790</u>	<u>\$ 190,890</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

The activities during fiscal year 2017 affecting UAMS' pro rata allocation of investments are summarized below:

	<u>Total return pool</u>	<u>Intermediate pool</u>	<u>Other investments</u>	<u>Total</u>
	(In thousands)			
Balances at June 30, 2016	\$ 154,135	\$ 2,371	\$ 1,462	\$ 157,968
Income	1,718	57	480	2,255
Realized gains (losses)	1,688	(37)	1	1,652
Net increase (decrease) in the fair value of investments	20,163	(29)	(71)	20,063
Expenses paid	(517)	(1)	(295)	(813)
Purchases (sales), net	<u>(2,139)</u>	<u>-</u>	<u>3,448</u>	<u>1,309</u>
Balances at June 30, 2017	<u>\$ 175,048</u>	<u>\$ 2,361</u>	<u>\$ 5,025</u>	<u>\$ 182,434</u>

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Arkansas Code

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

Arkansas Code Annotated Section 28-69-804 states, "Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditures by the institution."

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(6) Notes and Student Loans Receivable

The net unpaid balances of notes and student loans receivable on June 30, 2018 and 2017, net of allowances of \$3,142,000 and \$3,279,000, respectively, are as follows:

	<u>2018</u>		<u>2017</u>
	(In thousands)		
Perkins loans	\$ 920	\$	1,014
Health professional loans	4,771		4,945
Institutional funds loans	4,201		3,592
Other	7		-
University of Arkansas at Fayetteville note receivable	676		697
University of Arkansas System eVersity note receivable	1,307		1,305
Arkansas State Hospital note receivable	2,908		3,544
Arkansas Department of Health note receivable	-		52
	<hr/>		<hr/>
Total notes and student loans receivable, net	14,790		15,149
Less current portion	<hr/> (2,357) <hr/>		<hr/> (2,044) <hr/>
Notes and student loans receivable, noncurrent, net \$	<hr/> <u>12,433</u> <hr/>	\$	<hr/> <u>13,105</u> <hr/>

The Federal Perkins Loan Program is now expiring. Funds will be returned to the federal government as student loans are closed out.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(7) Capital Assets

Capital assets of UAMS at June 30, 2018 and 2017 were as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Transfers</u> (In thousands)	<u>Dispositions</u>	<u>June 30, 2018</u>
Nondepreciable:					
Land	\$ 12,435	\$ -	\$ -	\$ -	\$ 12,435
Construction in progress	2,218	2,620	(1,667)	-	3,171
Depreciable:					
Buildings and fixtures	1,042,826	14,226	1,655	(6)	1,058,701
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	292,897	20,506	12	(11,655)	301,760
Internally developed software	84,430	-	-	-	84,430
Leased property	36,491	1,965	-	-	38,456
Other	10,273	-	-	(679)	9,594
Total capital assets	1,484,023	39,317	-	(12,340)	1,511,000
Less accumulated depreciation and amortization:					
Buildings and fixtures	428,103	34,574	-	(3)	462,674
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	233,264	17,617	-	(11,205)	239,676
Internally developed software	26,584	8,173	-	-	34,757
Leased property	18,749	4,418	-	(1)	23,166
Other	2,915	418	-	(677)	2,656
Total accumulated depreciation and amortization	712,068	65,200	-	(11,886)	765,382
Capital assets, net	\$ 771,955	\$ (25,883)	\$ -	\$ (454)	\$ 745,618

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

	<u>June 30,</u> <u>2016</u>	<u>Additions</u>	<u>Transfers</u> <small>(In thousands)</small>	<u>Dispositions</u>	<u>June 30,</u> <u>2017</u>
Nondepreciable:					
Land	\$ 12,435	\$ -	\$ -	\$ -	\$ 12,435
Construction in progress	10,355	1,481	(9,618)	-	2,218
Depreciable:					
Buildings and fixtures	1,029,374	17,695	2,148	(6,391)	1,042,826
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	273,544	19,691	5,095	(5,433)	292,897
Internally developed software	76,783	173	7,474	-	84,430
Leased property	40,080	1,510	(5,099)	-	36,491
Other	10,276	-	-	(3)	10,273
Total capital assets	<u>1,455,300</u>	<u>40,550</u>	<u>-</u>	<u>(11,827)</u>	<u>1,484,023</u>
Less accumulated depreciation and amortization:					
Buildings and fixtures	399,807	34,687	-	(6,391)	428,103
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	214,518	18,476	5,492	(5,222)	233,264
Internally developed software	18,474	8,110	-	-	26,584
Leased property	20,077	4,164	(5,492)	-	18,749
Other	2,331	584	-	-	2,915
Total accumulated depreciation and amortization	<u>657,660</u>	<u>66,021</u>	<u>-</u>	<u>(11,613)</u>	<u>712,068</u>
Capital assets, net	<u>\$ 797,640</u>	<u>\$ (25,471)</u>	<u>\$ -</u>	<u>\$ (214)</u>	<u>\$ 771,955</u>

The buildings and fixtures above include \$13,395,000 and \$12,730,000 of assets under capital leases at June 30, 2018 and 2017, respectively. The leased property above includes other types of leased assets.

Due to its immateriality, there was no capitalized interest recorded for the year ended June 30, 2018 or 2017.

Library holdings comprise books and periodicals held by UAMS. The estimated fair value of the holdings at June 30, 2018 and 2017 was \$1,109,000 and \$1,316,000, respectively. UAMS has not reported library holdings in the accompanying statements of net position.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(8) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2018 and 2017:

	2018		2017	
	<u>(In thousands)</u>			
Trade payables	\$	27,298	\$	31,048
Accrued wages		49,707		49,067
Miscellaneous payables		17,960		29,378
Total accounts payable and accrued liabilities	\$	94,965	\$	109,493

(9) Long-Term Obligations

Changes in long-term obligations during fiscal year 2018 were as follows:

	Beginning balance		Additions		Reductions		Ending balance	
	<u>(In thousands)</u>							
Bonds payable	\$	257,014	\$	-	\$	8,785	\$	248,229
Notes payable		27,259		17,786		12,648		32,397
Capital leases		22,727		4,606		7,019		20,314
Total debt		307,000		22,392		28,452		300,940
Compensated absences		57,699		4,573		4,222		58,050
Other postemployment benefits		36,014		39,033		44,767		30,280
Early retirement liability		1,026		1,073		1,026		1,073
Total obligations	\$	401,739	\$	67,071	\$	78,467	\$	390,343

The current and long-term portions of the categories noted above were as follows at June 30, 2018:

	Current		Long term		Total	
	<u>(In thousands)</u>					
Bonds payable	\$	8,175	\$	240,054	\$	248,229
Notes payable		13,325		19,072		32,397
Capital leases		6,769		13,545		20,314
Total debt		28,269		272,671		300,940
Compensated absences		3,756		54,294		58,050
Other postemployment benefits		702		29,578		30,280
Early retirement liability		746		327		1,073
Total obligations	\$	33,473	\$	356,870	\$	390,343

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Changes in long-term obligations during fiscal year 2017 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
	(In thousands)			
Bonds payable	\$ 265,558	\$ -	\$ 8,544	\$ 257,014
Notes payable	40,149	3,621	16,511	27,259
Capital leases	27,469	3,213	7,955	22,727
Total debt	333,176	6,834	33,010	307,000
Compensated absences	52,713	7,043	2,057	57,699
Other postemployment benefits	33,918	3,212	1,116	36,014
Early retirement liability	822	1,026	822	1,026
Total obligations	\$ <u>420,629</u>	\$ <u>18,115</u>	\$ <u>37,005</u>	\$ <u>401,739</u>

The current and long-term portions of the categories noted above were as follows at June 30, 2017:

	<u>Current</u>	<u>Long term</u>	<u>Total</u>
	(In thousands)		
Bonds payable	\$ 7,205	\$ 249,809	\$ 257,014
Notes payable	10,809	16,450	27,259
Capital leases	6,498	16,229	22,727
Total debt	24,512	282,488	307,000
Compensated absences	3,447	54,252	57,699
Other postemployment benefits	714	32,975	33,689
Early retirement liability	724	302	1,026
Total obligations	\$ <u>29,397</u>	\$ <u>370,017</u>	\$ <u>399,414</u>

UAMS has bonds outstanding for various facilities. Revenues from clinical services are pledged to service those bonds. The bonds contain covenants that obligate the UA Board to maintain pledged revenues at a level greater than or equal to 125% than the related average annual debt service. For the year ended June 30, 2018, such pledged revenues were 461% of the related debt service.

UAMS has bonds outstanding for parking decks and lots, which produce parking fee revenue, which is pledged to service the bonds. Those bonds contain covenants that obligate the UA Board to maintain pledged revenues at a level greater than or equal to 120% of the related average annual debt service. For the year ended June 30, 2018, such pledged revenues were 295% of the related debt service.

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

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

A summary of the principal amount of outstanding bonds payable is as follows at June 30, 2018 and 2017:

		<u>2018</u>		<u>2017</u>
		(In thousands)		
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 2.00% to 4.50% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS	Par	\$ 1,940	\$	2,850
	Premium	62		124
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	Par	34,400		36,275
	Premium	1,791		1,935
Parking System Revenue Refunding Bonds, Series 2011, \$8,985,000 original amount, less a discount of \$55,000 due annually to 2034, used to advance refund the Series 2004 Parking System Revenue Construction Bonds, various fixed interest rates of 2.00% to 4.25% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS	Par	6,985		7,315
	Discount	(39)		(41)
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 1.00% to 5.00% over the life of the issue, collateralized by pledged revenue	Par	98,560		101,640
	Premium	12,683		13,460
Various Facility Revenue Bonds, Series 2014, \$86,035,000 original amount, \$12,713,000 premium due annually to 2024, used to advance refund the Series 2006 Various Facility Bonds, various fixed interest rates of 2.00% to 5.00% over the life of the issue, collateralized by pledged revenue	Par	81,255		82,265
	Premium	10,592		11,191
Total bonds payable		\$ 248,229	\$	\$ 257,014

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Scheduled maturities of bonds and notes payable are as follows:

	Bonds payable				Notes payable		
	Principal	Interest	Premium amortized	Total (In thousands)	Principal	Interest	Total
2019	\$ 8,175	\$ 10,261	\$ 1,580	\$ 20,016	\$ 13,325	\$ 622	\$ 13,947
2020	10,510	9,918	1,518	21,946	5,733	426	6,159
2021	9,940	9,451	1,518	20,909	3,902	330	4,232
2022	10,435	8,953	1,518	20,906	3,372	240	3,612
2023	10,955	8,430	1,518	20,903	2,122	164	2,286
2024–2028	63,650	33,308	7,589	104,547	3,943	113	4,056
2029–2033	73,310	16,184	7,216	96,710	-	-	-
2034–2038	36,165	2,229	2,632	41,026	-	-	-
	<u>\$ 223,140</u>	<u>\$ 98,734</u>	<u>\$ 25,089</u>	<u>\$ 346,963</u>	<u>\$ 32,397</u>	<u>\$ 1,895</u>	<u>\$ 34,292</u>

The Various Facility Revenue Refunding Bonds, Series 2014, was issued on December 17, 2014. The issue provided \$98,037,198 necessary to advance refund Various Facility Revenue Bond, Series 2006. The remaining bonds bear interest rates from 3.75% to 5.00%. Principal payments are made annually until March 2036. Interest payments are made semiannually. As a result of the advance refunding, UAMS reduced its total debt service requirements by \$10,012,000, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$9,313,000 and a deferred refunding loss of \$1,554,000 on the transaction, which will be amortized as a component of interest expense until March 2036.

The Various Facility Revenue Refunding Bonds, Series 2013, was issued on May 14, 2013. The issue provided \$128,468,519 necessary to advance refund Various Facility Revenue Refunding Bonds, Series 2004A, and Various Facility Revenue Construction Bonds, Series 2004B bonds. The remaining bonds bear interest rates from 3.25% to 5.00%. Principal payments are made annually until November 2034. Interest payments are made semiannually. The refunding resulted in an economic gain of \$13,600,000 and a deferred refunding loss of \$4,126,000 on the transaction, which will be amortized as a component of interest expense until November 2034.

The Parking System Revenue Refunding Bonds, Series 2011, were issued in November 2011. The 2011 issue provided \$8,786,825 necessary to advance refund the UA Board's Parking System Revenue Construction Bonds, Series 2004. The remaining 2011 bonds bear interest at various fixed interest rates from 2.40% to 4.25%. 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 continue to be amortized as a component of interest expense until July 2034.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

The Various Facility Revenue Refunding Bonds, Series 2010A, was issued on December 15, 2010. The issue provided \$42,680,000 for Patient Tower Building improvements, Winthrop P. Rockefeller Cancer Institute improvements, Central Energy Plant improvements, operating room and surgical suite improvements, and various other acquisitions and improvements. The remaining bonds bear interest rates from 4.0% to 5.0%. Principal payments are made annually until December 2030. Interest payments are made semiannually.

The Parking System Revenue Refunding Bonds, Series 2010, were issued in June 2010. The issue provided for \$8,959,613 to refund the Parking System Revenue Construction and Refunding Bonds, Series 1998. The issue enabled UAMS to take advantage of lower rates. The remaining 2010 Bonds bear interest at 4.5%. Principal payments are due annually, with interest payments due semiannually until July 2019. The refunding resulted in a net present value benefit of \$770,000.

(10) Commitments

(a) Capital Leases

Scheduled maturities of capital lease commitments outstanding as of June 30, 2018 are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
			(In thousands)		
2019	\$ 6,769	\$	512	\$	7,281
2020	4,369		354		4,723
2021	3,449		245		3,694
2022	2,462		152		2,614
2023	1,000		94		1,094
2024–2028	2,265		119		2,384
	<u>\$ 20,314</u>	\$	<u>1,476</u>	\$	<u>21,790</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(b) 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, 2018 (in thousands):

2019	\$	5,752
2020		3,209
2021		2,009
2022		1,360
2023		1,322
2024–2028		<u>4,578</u>
Total minimum payments required	\$	<u><u>18,230</u></u>

Rental expense for operating leases for the year ended June 30, 2018 and 2017 was approximately \$8,910,000 and \$9,042,000, respectively, and is included in supplies and other services in the accompanying statements of revenues, expenses, and changes in net position.

(c) Construction Projects

Construction in progress at June 30, 2018 included consolidating the existing AHEC financial systems. At June 30, 2018, construction contracts outstanding were approximately \$21,778,000.

(d) Outstanding Commitments

At June 30, 2018 and 2017, UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$244,417,000 and \$314,839,000, respectively.

(11) Retirement Benefits

All active employees of UAMS who work 20 or more hours a week participate in the ARTRS, APERS, or the University of Arkansas Optional Retirement Plan (UAORP), which is funded through TIAA (formerly, Teachers Insurance and Annuity Association – College Retirement Equities Fund or TIAA-CREF) and Fidelity Investments (Fidelity).

(a) University of Arkansas Optional Retirement Plan

Plan Description

The UAORP was established by the UA Board. These funds represent a defined-contribution plan as set forth in Sections 403(b) and 457(b) of the Internal Revenue Code. In a

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

defined-contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

UAMS automatically contributes 5% of an employee's regular salary to a TIAA or Fidelity 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.

Effective July 2016, employees were required to contribute a minimum of 1%. This percentage will increase by 1% each year until the mandatory employee contribution reaches 5% in July 2020. Also, the number of years one must work to become vested changes from one year to two years.

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 \$27,500 per employee, which is the Internal Revenue Service maximum for tax year 2018. The eligible salary earnings for UAMS employees covered by UAORP for the year ended June 30, 2018 were \$782,000,000. Total employer contributions during fiscal year 2018 to TIAA and Fidelity were \$60,139,000. Employee contributions to TIAA and the Fidelity in the fiscal year 2018 were \$71,102,000.

(b) *Arkansas Teacher Retirement System*

Plan Description

ARTRS is a cost-sharing, multiple-employer, defined-benefit pension plan administered by the State of Arkansas. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 266 of 1937. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of ARTRS is vested in the 15 members of the Board of Trustees of the Arkansas Teacher Retirement System (the ARTRS Board). Membership includes 11 members who are elected and consist of seven active members of ARTRS with at least five years of actual service, three retired members receiving an annuity from ARTRS, and one active or retired member from a minority racial ethnic group. There are also four ex officio members, including the State Bank Commissioner, the Treasurer of the State, the Auditor of the State, and the Commissioner of Education. ARTRS issues a publicly available financial report that can be obtained at <https://www.artrs.gov/publications>.

Benefits Provided

ARTRS provides retirement, disability, and death benefits. Benefit terms and assumptions are unchanged from the prior year. Retirement benefits are determined as a percentage of the member's highest three-year average compensation times the member's years of service. The

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory	2.15 %
Noncontributory	1.39 %

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

- At age 60 with 5 years of credited service
- At any age with 28 years of credited service

Members with 25 years of credited service who have not attained age 60 may retire with a reduced benefit.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Survivor benefits are payable to qualified survivors upon the death of an active member with 5 years of service. The monthly benefit paid to eligible spouse survivors is computed as if the member had retired and elected the joint and 100% survivor option. Minor child survivors receive a percentage of the member's highest salary earned. ARTRS also provides a lump-sum death benefit for active and retired members with 10 years of actual service. The amount for contributory members will be up to \$10,000 and up to \$6,667 for noncontributory members. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2011, new employees of UAMS are no longer eligible to participate in ARTRS. Existing ARTRS participants are allowed to continue ARTRS participation.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. ARTRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ARTRS. The noncontributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999, until July 1, 2000, to make an irrevocable choice to be contributory or noncontributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the ARTRS Board based on an actuary's determination of a rate required to fund the plan. UAMS contributed 14% of applicable compensation for the fiscal year ended June 30, 2018. This rate

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

is unchanged from the previous year. The gross payroll amount for UAMS employees covered by ARTRS for the year ended June 30, 2018 was \$173,286. UAMS and member's contributions for the year ended June 30, 2018 were \$24,260 and \$7,236, respectively.

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

At June 30, 2018, UAMS reported a liability of \$350,770 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. UAMS' proportion of the net pension liability was based on its share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2018, UAMS' proportion was 0.008344%.

For the year ended June 30, 2018, UAMS recognized pension expense credit of \$23,083. At June 30, 2018, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 4,861	\$ 8,598
Changes in proportion and differences between employer contributions and share of contributions	12,297	56,561
Net difference between projected and actual earnings on pension plan investments	-	24,776
Change of assumptions	93,728	-
UAMS contributions subsequent to the measurement date	<u>24,260</u>	<u>-</u>
Total	<u>\$ 135,146</u>	<u>\$ 89,935</u>

Deferred outflows of resources related to pensions, resulting from UAMS' contributions subsequent to the measurement date, totaled \$24,260 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30:	
2019	\$ (3,571)
2020	20,458
2021	11,475
2022	(10,727)
2023	3,316
Thereafter	-

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

**Schedule of Changes in Net Pension Liability
Year ended June 30, 2018
Arkansas Teachers Retirement System**

Total pension liability:	
Service cost	\$ 25,682
Interest on total pension liability	123,972
Changes of benefit terms	(39,151)
Difference between expected and actual experience	(6,409)
Changes of assumptions	114,726
Benefit payments, including refunds	<u>(92,103)</u>
Net changes in total pension liability	126,717
Total Pension liability, beginning of year	<u>1,582,858</u>
Total Pension liability, end of year	<u>1,709,575</u>
Plan fiduciary net position:	
Employer contributions	34,624
Employee contributions	11,107
Net investment income	191,062
Benefit payments, including refunds	(92,103)
Pension plan administrative expense	<u>(653)</u>
Net change in plan fiduciary net position	144,037
Plan fiduciary net position, beginning of year	<u>1,214,768</u>
Plan fiduciary net position, end of year	<u>1,358,805</u>
Net pension liability	<u>\$ 350,770</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Wage inflation	2.75%
Salary increases	2.75%–7.75%
Investment rate of return	7.50% compounded annually
Postretirement cost-of-living increases	3.00% Simple
Mortality table	Based on RP-2014 Mortality Table for males and females using Projection Scale MP-2017 from 2006 (94% for males and 84% for females)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2010–June 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in ATRS’s target asset allocation as of June 30, 2017 are summarized below:

Asset class	Target allocation	Long-term expected real rate of return
Total equity	50 %	5.0 %
Fixed income	20	1.2
Alternatives	5	4.8
Real assets	15	3.7
Private equity	10	0.5
Cash equivalents	-	0.3
Total	100 %	

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. It incorporates a municipal bond rate of 3.56% taken from the “20-Year Municipal GO AA

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Index” as of June 30, 2017. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14.00% of payroll. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents UAMS’ proportionate share of the net pension liability, using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50%) or one-percentage-point higher (8.50%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.50%)	Discount rate (7.50%)	1% Increase (8.50%)
\$ 561,849	\$ 350,770	\$ 175,785

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

UAMS reported payables to ARTRS of \$-0- at June 30, 2018.

(c) Arkansas Public Employees Retirement System

Plan Description

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

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Benefits Provided

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

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

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

- At age 65 with 5 years of service
- At any age with 28 years of actual service
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005).

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the joint and 75% survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Effective July 1, 2016, new employees of UAMS are no longer eligible to participate in APERS. Existing APERS participants are allowed to continue APERS participation.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5.00% of their salary. Employers are required to contribute at a rate established by the APERS Board based on an actuary's determination of a rate required to fund the plan. UAMS contributed 14.75% of applicable compensation for the fiscal year ended June 30, 2018. The gross payroll amount for UAMS employees covered by APERS for the

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

year ended June 30, 2018 was \$9,954,115. UAMS' and member's contributions for the year ended June 30, 2018 were \$1,468,232 and \$364,880, respectively.

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

At June 30, 2018, UAMS reported a liability of \$15,963,746 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. UAMS' proportion of the net pension liability was based on its share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2018, UAMS' proportion was 0.617758%.

For the year ended June 30, 2018, UAMS recognized pension expense of \$1,925,956. At June 30, 2018, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 309,465	\$ 313,971
Changes of assumptions	2,568,542	-
Changes in proportion and differences between employer contributions and share of contributions	1,733,587	4,685
Net difference between projected and actual earnings on pension plan investments	668,929	-
UAMS contributions subsequent to the measurement date	1,468,232	-
	<u> </u>	<u> </u>
Total	\$ <u>6,748,755</u>	\$ <u>318,656</u>

Deferred outflows of resources related to pensions, resulting from UAMS contributions subsequent to the measurement date, totaled \$1,468,232 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30:	
2019	\$ 1,498,410
2020	2,153,977
2021	1,364,981
2022	(55,501)
2023	-
Thereafter	-

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

**Schedule of Changes in Net Pension Liability
Year Ended June 30, 2018
Arkansas Public Employees Retirement System**

Total pension liability:	
Service cost	\$ 1,078,999
Interest on total pension liability	4,442,513
Difference between expected and actual experience	388,257
Changes of assumptions	2,570,780
Benefit payments, including refunds	<u>(3,224,468)</u>
Net changes in total pension liability	5,256,081
Total pension liability, beginning of year	<u>60,306,236</u>
Total pension liability, end of year	<u>65,562,317</u>
Plan fiduciary net position:	
Employer contributions	1,614,416
Employee contributions	356,517
Net investment income	5,330,173
Benefit payments, including refunds	(3,224,468)
Pension plan administrative expense	(58,662)
Other	<u>47,114</u>
Net change in plan fiduciary net position	4,065,090
Plan fiduciary net position, beginning of year	<u>45,533,481</u>
Plan fiduciary net position, end of year	<u>49,598,571</u>
Net pension liability	<u>\$ 15,963,746</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Amortization method	Level of percent of payroll, closed
Investment rate of return	7.15%
Salary increases	3.25% – 9.85%
Wage inflation	3.25%
Postretirement cost-of-living increases	3.00% Annual Compounded Increase
Mortality table	Based on RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females
Average remaining service life of all members	4.3774

The long-term expected rate of return on pension plan investments of 4.82% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of June 30, 2017 are summarized below:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Broad domestic equity	37 %	5.97 %
International equity	24	6.54
Real assets	16	4.59
Absolute return	5	3.15
Domestic fixed	18	0.83
Total	<u>100 %</u>	4.82 %

Assumption changes: Economic assumptions were updated in the June 30, 2017 valuation to a 7.15% investment return assumption and a 3.25% wage inflation assumption. The 3.25%

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

represents base inflation, excluding merit or seniority increases. These assumptions were unchanged in the June 30, 2017 valuation.

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. It incorporates a municipal bond rate of 3.56% based on the “Fidelity 20-Year Municipal GO AA Index” from the *Bond Buyer Index* of general obligation municipal bonds (based on the weekly rate closest to but not later than the measurement date).

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

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

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

Sensitivity of Discount Rate		
1% Decrease (6.15%)	Discount rate (7.15%)	1% Increase (8.15%)
\$ 24,310,729	\$ 15,963,746	\$ 9,032,866

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s net position is available in the separately issued APERS financial report. The pension plan’s net position is determined on the same basis of accounting, including policies with respect to benefit payments and valuation of pension plan investments.

Payables to the Pension Plan

UAMS reported payables to APERS of \$-0- at June 30, 2018.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Retiree Health, Dental, and Life Insurance

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

(12) Postemployment benefits other than pensions

UAMS offers postemployment health (including prescription drugs) and dental benefits along with life insurance (\$10,000 available coverage) to eligible retirees. Health and dental benefits are provided in the UA System's self-funded plan sponsored by the UA Board for current and retired employees of each of its campuses and related units. The plan is considered a single-employer, defined-benefit plan. The UA System manages and administers the plan. Although benefits are also provided under the UA System's plan for the UA Foundation and the University of Arkansas Winthrop Rockefeller Institute, no postemployment benefit is accrued by the UA System for these private entities. No assets are accumulated in a trust.

Governmental entities recognize and match other postemployment benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. Accordingly, UAMS accrued \$2,257,000 and \$2,096,000 in retiree healthcare expense during the fiscal years ended June 30, 2018 and 2017, respectively.

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

Participation

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

Benefit Provided

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

Required Contribution Ratio

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

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

Employees covered by benefit terms

As of July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees, beneficiaries or spouses of retirees:		
Medical	\$	136
Life		766
Active employees:		
Medical		10,342
Life		10,668

Total OPEB liability for the year ended June 30, 2018 was \$30,280,554, determined by actuarial valuations as of June 30, 2017, rolled forward.

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

University self-funded plan:

Valuation date	July 1, 2017 valuation for the fiscal year ended June 30, 2018
Valuation year	Census data was collected as of February 2018. Liabilities were measured as of July 1, 2017 valuation date.
Actuarial cost method	Entry Age Normal as of July 1, 2017 measurement date
Amortization method	30 years rolling, level percentage of payroll
Discount rate	3.58% as of July 1, 2017
Projected payroll growth rate	4.00%
Percent of retirees electing coverage	55.00% medical and 75.00% life
Rate of medical inflation	July 1, 2017 measurement date, 6.75% grading to 4.00% over 16 years
Rate of pharmacy inflation	July 1, 2017 measurement date 9.00% grading to 4.00% over 16 years
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs
Mortality table	RP-2014 Fully Generational Mortality Table, using mortality improvement based on projection scale MP-2014
The discount rate is based on high-quality AA/Aa or higher bond yields for 20-year tax-exempt general obligation municipal bonds using the Bond Buyer 20-Bond GO index.	

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

(b) Changes in Total OPEB Liability

Balance at June 30, 2016, rolled forward to 6/30/2017	\$ 33,689,190
Changes for the year:	
Service cost	\$ 2,234,061
Interest	1,013,709
Change of benefits	-
Difference between expected and actual experience	-
Change of assumptions	(5,942,336)
Contributions - employer	-
Contributions - member	-
Net investment income	-
Benefit payments	(714,070)
Administrative expense	-
Net changes	<u>(3,408,636)</u>
Balance at June 30, 2017, rolled forward to 6/30/2018	<u>\$ 30,280,554</u>

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

The following presents UAMS' total OPEB liability, using the discount rate of 3.58%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.58%) or one-percentage-point higher (4.58%) than the current rate:

Sensitivity of Discount Rate, as of June 30, 2018			
	1% Decrease (2.58%)	Discount rate (3.58%)	1% Increase (4.58%)
Total OPEB liability	\$ 34,465,991	\$ 30,280,554	\$ 26,848,153

(d) Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents UAMS' total OPEB liability as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

higher, as well as what total OPEB liability would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower than the current rate:

Sensitivity to Changes in the Healthcare Cost Trend Rate			
	1% Decrease	Healthcare Trend	1% Increase
Total OPEB liability	\$ 27,855,963	\$ 30,280,554	\$ 33,107,493

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

For the year ended June 30, 2018, UAMS recognized OPEB expense of \$2,257,000. At June 30, 2018, UAMS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	4,951,947
UAMS benefits paid subsequent to the measurement date	702,009	-
	<u>\$ 702,009</u>	<u>\$ 4,951,947</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in the financial statements as follows:

Year ending June 30:	
2019	\$ (990,389)
2020	(990,389)
2021	(990,389)
2022	(990,389)
2023	(990,391)
Thereafter	-

(13) Affiliated Entities

The UA Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. It was established to benefit the UA System, or its students, faculty, and staff. The Board of Directors of the UA Foundation includes four members who are also members, or former members, of the UA Board. Support by the UA Foundation on behalf of UAMS was \$23,965,000

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

and \$20,050,000 for the years ended June 30, 2018 and 2017, respectively. These amounts are included in Gifts and Capital gifts in the financial statements.

Based on unaudited information provided by the UA Foundation, during the years ended June 30, 2018 and 2017, revenue of \$40,366,000 and \$49,645,000, respectively, was received by the UA Foundation for the benefit of UAMS.

(14) Related-Party Transactions

Notes receivable from related parties at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
University of Arkansas at Fayetteville	\$ 676	\$ 697
Arkansas State Hospital	2,908	3,544
Arkansas Department of Health	-	52
University of Arkansas System (eVersity)	<u>1,307</u>	<u>1,305</u>
Total included in notes and student loans receivable (note 6)	<u>\$ 4,891</u>	<u>\$ 5,598</u>

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

(15) Contingencies

Amounts received and expended by UAMS under various federal and state programs are subject to audit by governmental agencies. Management believes that adjustments, if any, which might result from such audits would not have a significant impact on the financial position of UAMS. Immunity provisions in Arkansas law prohibit suits naming the UA Board or UAMS as a defendant in Arkansas State courts. Employees of UAMS acting in good faith in the course and scope of their employment may be sued in state courts but only to the extent of maintained insurance coverage. UAMS maintains malpractice insurance for certain employees under a claims-made policy. Premiums are accrued based on estimated claims, with the final premium amount determined based on actual claims experience. The cost of this policy is included in supplies and other expenses. During each of the years ended June 30, 2018 and 2017, UAMS incurred costs of \$3,311,000 and \$2,891,000, respectively, for this insurance. A party may bring an action against UAMS through the Arkansas State Claims Commission (the Claims Commission). The Claims Commission may award a claim of up to \$15,000 without further review or appropriation. Awards that the Claims Commission approves in excess of \$15,000 must be approved and appropriated by the Arkansas State Legislature. Appropriations of this type, if any, reduce appropriations from the state to UAMS in the period in which the claim is appropriated.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

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

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

In fiscal year 2006, the Arkansas Development Finance Authority (the Authority) issued \$36,775,000 in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the UA Board to fund an expansion to the Arkansas Cancer Research Center, now known as the Winthrop P. Rockefeller Cancer Institute. The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for \$22,158,000 of serial bonds and beginning in 2036 through 2046 for \$14,617,000 of term bonds.

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

If Debt Service Revenues would have been considered insufficient at June 30, 2018, UAMS would have incurred a liability of \$66,369,000 related to the issue. This amount includes drawdown of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

The revenues pledged by UAMS to secure the loan agreement consist of inpatient service fees and fees collected from other ancillary, therapeutic, and diagnostic services provided within the walls

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

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

(16) Functional Classification of Expenses

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

	Year ended June 30, 2018				Total
	Compensation and benefits	Supplies and other services	Scholarships and fellowships	Depreciation and amortization	
			(In thousands)		
Patient care	\$ 650,347	\$ 367,657	\$ -	\$ -	\$ 1,018,004
Instruction	105,274	10,728	-	-	116,002
Research	81,055	43,099	-	-	124,154
Public services	22,438	10,374	-	-	32,812
Academic support	26,136	3,887	-	-	30,023
Student services	1,710	2,356	-	-	4,066
Institutional support	110,764	22,360	-	-	133,124
Operation and maintenance of plant	41,317	13,972	-	-	55,289
Scholarships and awards	-	-	824	-	824
Auxiliary	1,068	1,189	-	-	2,257
Depreciation and amortization	-	-	-	65,200	65,200
Other	4,160	14,877	-	-	19,037
	<u>\$ 1,044,269</u>	<u>\$ 490,499</u>	<u>\$ 824</u>	<u>\$ 65,200</u>	<u>\$ 1,600,792</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Notes to Financial Statements

June 30, 2018 and 2017

	Year ended June 30, 2017				
	Compensation and benefits	Supplies and other services	Scholarships and fellowships	Depreciation and amortization	Total
	(In thousands)				
Patient care	\$ 608,796	\$ 361,330	\$ -	\$ -	\$ 970,126
Instruction	101,762	12,301	-	-	114,063
Research	74,178	38,796	-	-	112,974
Public services	21,535	7,612	-	-	29,147
Academic support	26,993	6,094	-	-	33,087
Student services	1,680	2,537	-	-	4,217
Institutional support	110,745	21,253	-	-	131,998
Operation and maintenance of plant	38,053	14,633	-	-	52,686
Scholarships and awards	-	-	880	-	880
Auxiliary	970	934	-	-	1,904
Depreciation and amortization	-	-	-	66,021	66,021
Other	3,233	12,243	-	-	15,476
	<u>\$ 987,945</u>	<u>\$ 477,733</u>	<u>\$ 880</u>	<u>\$ 66,021</u>	<u>\$ 1,532,579</u>

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Required Supplementary Information (Unaudited)

June 30, 2018 and 2017

Retirement Benefits

(a) Arkansas Teacher Retirement System

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Wage inflation	2.75%
Salary increases	2.75%–7.75%
Investment rate of return	7.50% compounded annually
Postretirement cost-of-living increases	3.00% simple
Mortality table	Based on RP-2014 Mortality Table for males and females using Projection Scale MP-2017 from 2006 (94% for males and 84% for females)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition, last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2010–June 30, 2015

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Required Supplementary Information (Unaudited)

June 30, 2018 and 2017

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

Fiscal Ending June 30	UAMS	UAMS	UAMS		Plan Net Position as a Percentage of Total Pension Liability
	Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	UAMS Covered Payroll	Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	
2015(a)	0.0096 %	\$ 252,882	\$ 286,668	88.21 %	84.98%
2016(b)	0.0098 %	320,396	299,045	107.14 %	82.20%
2017(c)	0.0102 %	450,267	247,312	182.06 %	76.75%
2018(d)	0.0083 %	350,770	173,286	202.42 %	79.48%

- (a) The amounts presented were determined as of June 30, 2014, rolled forward to June 30, 2015.
- (b) The amounts presented were determined as of June 30, 2015, rolled forward to June 30, 2016.
- (c) The amounts presented were determined as of June 30, 2016, rolled forward to June 30, 2017.
- (d) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.

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

Fiscal Year Ended June 30	Contributions in Relation to			Contribution Deficiency (Excess)	UAMS Covered Payroll	Contributions as a Percentage of Covered Payroll
	Contractually Required Contribution	Contractually Required Contribution				
2015	\$ 40,133	\$ (40,133)	\$ -	\$ 286,668	14.00%	
2016	41,866	(41,866)	-	299,045	14.00%	
2017	34,624	(34,624)	-	247,312	14.00%	
2018	24,260	(24,260)	-	173,286	14.00%	

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Required Supplementary Information (Unaudited)

June 30, 2018 and 2017

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

Total Pension Liability

Fiscal Year	Service Cost	Interest on Total Pension Liability	Changes of Benefit Items	Difference between Expected and Actual Experience	Changes of Assumptions	Benefit Payments, including Refunds	Net Changes in Total Pension Liability	Total Pension Liability, Beginning of Year
2015	\$ 31,392	\$ 127,364	\$ (2,631)	\$ (9,890)	-	\$ (88,775)	\$ 57,460	\$ 1,620,742
2016	29,217	\$ 134,374	-	12,105	-	(96,186)	79,510	1,678,202
2017	3,119	\$ 146,244	-	(1,565)	-	(106,703)	69,095	1,757,712
2018	25,682	\$ 123,972	(39,151)	(6,409)	114,726	(92,103)	126,717	1,582,858

Net Pension Liability

Fiscal Year	Employer Contributions	Employee Contributions	Net Investment Income	Benefit Payments, including Refunds	Pension Plan Expense	Net Changes in Plan Fiduciary Net Position	Plan Fiduciary Net Position, Beginning of Year	Plan Fiduciary Net Position, End of Year	Net Pension Liability
2015	\$ 40,133	\$ 13,306	\$ 229,789	\$ (88,775)	\$ (771)	\$ 193,682	\$ 1,231,638	\$ 1,425,320	\$ 252,882
2016	41,866	10,929	56,174	(96,186)	(787)	11,996	1,425,320	1,437,316	320,396
2017	34,624	7,861	4,264	(106,703)	(822)	(60,776)	1,437,316	1,376,540	450,267
2018	34,624	11,107	191,062	(92,103)	(653)	144,037	1,214,768	1,358,805	350,770

Per the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which UAMS implemented in fiscal year 2015, this schedule will continue to add future fiscal years to report the required most recent 10 years of plan data, starting with the implementation year.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Required Supplementary Information (Unaudited)

June 30, 2018 and 2017

(b) Arkansas Public Employees Retirement System

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed
Investment rate of return	7.15%
Salary increases	3.25%–9.85%
Wage inflation	3.25%
Postretirement cost-of-living increases	3.00% annual compounded increase
Mortality table	Based on RP-2000 Combined Healthy Mortality Table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females
Average remaining service life of all members	4

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

Fiscal Year Ended June 30	UAMS Proportion of Net Pension Liability	UAMS Proportionate Share of Net Pension Liability	UAMS Covered Payroll	UAMS Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Net Position as a Percentage of Total Pension Liability
2015(a)	0.4600 %	\$ 6,527,329	\$ 8,415,014	77.57 %	84.21%
2016(b)	0.4743 %	8,735,105	10,271,365	85.04 %	80.39%
2017(c)	0.5671 %	13,560,583	11,016,761	123.09 %	75.50%
2018(d)	0.6177 %	15,963,746	9,954,115	160.37 %	75.65%

- (a) The amounts presented were determined as of June 30, 2014, rolled forward to June 30, 2015.
- (b) The amounts presented were determined as of June 30, 2015, rolled forward to June 30, 2016.
- (c) The amounts presented were determined as of June 30, 2016, rolled forward to June 30, 2017.
- (d) The amounts presented were determined as of June 30, 2017, rolled forward to June 30, 2018.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Required Supplementary Information (Unaudited)

June 30, 2018 and 2017

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

Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	UAMS Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 1,242,056	\$ (1,242,056)	\$ -	\$ 8,415,014	14.76%
2016	1,489,348	(1,489,348)	-	10,271,365	14.50%
2017	1,597,426	(1,597,426)	-	11,016,761	14.50%
2018	1,468,232	(1,468,232)	-	9,954,115	14.75%

Total Pension Liability

Fiscal Year	Service Cost	Interest on Total Pension Liability	Changes of Benefit Items	Difference between Expected and Actual Experience	Assumption Changes	Benefit Payments, including Refunds	Net Changes - Total Pension Liability	Total Liability, Beginning of Year	Total Pension Liability, End of Year
2015	\$ 737,345	\$ 3,018,814	-	\$ (102,017)	\$ 985,232	\$ (1,943,611)	\$ 2,695,763	\$ 38,338,313	\$ 41,034,076
2016	800,675	3,235,758	-	(652,983)	911,954	(2,201,279)	2,094,125	41,034,076	43,128,201
2017	959,039	3,925,528	-	16,517	-	(2,802,075)	2,099,009	43,128,201	45,227,210
2018	1,078,999	4,442,513	-	388,257	2,570,780	(3,224,468)	5,256,081	60,306,236	65,562,317

Net Pension Liability

Fiscal Year	Employer Contributions	Employee Contributions	Net Investment Income	Benefit Payments, including Refunds	Pension Plan Expense	Other	Net Changes in Plan Fiduciary Net Position	Plan Fiduciary Net Position, Beginning of Year	Plan Fiduciary Net Position, End of Year	Net Pension Liability
2015	\$ 1,242,056	\$ 308,525	\$ 5,367,852	\$ (1,943,611)	\$ (31,452)	\$ 38,191	\$ 4,981,561	\$ 29,525,186	\$ 34,506,747	\$ 6,527,329
2016	1,489,348	390,368	208,879	(2,201,279)	(32,960)	31,993	(113,651)	34,506,747	34,393,096	8,735,105
2017	1,597,426	423,792	(1,943,715)	(2,802,075)	(39,295)	37,398	(2,726,469)	34,393,096	31,666,627	13,560,583
2018	1,614,416	356,517	5,330,173	(3,224,468)	(58,662)	47,114	4,065,090	45,533,481	49,598,571	15,963,746

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Required Supplementary Information (Unaudited)

June 30, 2018 and 2017

Per the requirements of GASB Statement No. 68, which UAMS implemented in fiscal year 2015, this schedule will continue to add future fiscal years to report the required most recent 10 years of plan data, starting with the implementation year.

Changes in Assumptions

Economic assumptions were updated in the June 30, 2017 valuation to a 7.15% investment return assumption (from 7.50%) and a 3.25% wage inflation assumption. The 3.25% represents base inflation, excluding merit or seniority increases. The wage inflation assumption was unchanged from the June 30, 2016 valuation.

(c) Postemployment benefits other than pensions

Actuarial Assumptions

University self-funded plan:

Valuation date	July 1, 2017 valuation for the fiscal year ended June 30, 2018
Valuation year	Census data was collected as of February 2018. Liabilities were measured as of July 1, 2017 valuation date.
Actuarial cost method	Entry Age Normal as of July 1, 2017 measurement date
Amortization method	30 years rolling, level percentage of payroll
Discount rate	3.58% as of July 1, 2017
Projected payroll growth rate	4.00%
Percent of retirees electing coverage	55.00% medical and 75.00% life
Rate of medical inflation	July 1, 2017 measurement date, 6.75% grading to 4.00% over 16 years
Rate of pharmacy inflation	July 1, 2017 measurement date 9.00% grading to 4.00% over 16 years
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs,
Mortality table	RP-2014 Fully Generational Mortality Table using mortality improvement based on projection scale MP-2014

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

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Required Supplementary Information (Unaudited)

June 30, 2018 and 2017

CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Year Ended June 30, 2018

Total OPEB liability

Service cost	\$ 2,234,061
Interest	1,013,709
Change of benefits	-
Difference between expected and actual experience	-
Change of assumptions	(5,942,336)
Benefit payments	(714,070)
Net change in OPEB liability	<u>(3,408,636)</u>
Total OPEB liability, beginning of the year	<u>33,689,190</u>
Total OPEB liability, end of the year	<u><u>30,280,554</u></u>
Covered-employee payroll	782,000,000
Total OPEB liability as a percentage of covered-employee payroll	3.87%

Note: This is a 10-year schedule. Years after FY 2018 are to be added as they become available.