

# **University of Arkansas for Medical Sciences**

**Report on Federal Awards in  
Accordance with OMB Uniform Guidance  
June 30, 2016 and 2015**

# University of Arkansas for Medical Sciences

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June 30, 2016 and 2015

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# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2016, and 2015

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This discussion and analysis provides an overview of the financial position and changes in net position of the University of Arkansas for Medical Sciences (UAMS) for the fiscal years ended June 30, 2016 and 2015. UAMS is one of eighteen campuses and related units operating within the University of Arkansas System, organized under various laws of the State of Arkansas and governed by the University's ten-member Board of Trustees (UA Board). 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 2,869 and faculty numbering 1,376;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 510 acute care beds in use at June 30, 2016;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute (PRI);
- Jackson T. Stephens Spine and Neurosciences Institute; and
- Translational Research Institute.

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

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

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

The Statement of Net Position presents the financial position of UAMS and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. The sum of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources is net position, which is an indicator of the current financial condition of UAMS. 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.

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The Statement of Revenues, Expenses, and Changes in Net Position reflects 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 Statement of Cash Flows provides relevant information about the cash receipts and cash payments of UAMS. The Statement of Cash Flows also helps 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, 2016 and 2015, with comparative information for the fiscal year ended June 30, 2014. Beginning Net Position for 2015 was restated due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. As a result, beginning Net Position was reduced by \$7,491,793 to reflect the net effect of recognizing UAMS' proportionate share of the net pension liability and deferred outflows of resources attributed to the year ended June 30, 2014. Therefore, the following discussion and analysis of 2015 operating results focuses on results before the cumulative effect of the adoption of GASB Statement No. 68.

#### Financial Highlights

UAMS' net position increased in fiscal year 2016 by \$18,539,000 with assets and deferred outflows of resources totaling \$1,301,349,000 and liabilities and deferred inflows of resources totaling \$551,604,000. 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 \$749,745,000 at June 30, 2016. 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, 2016, 2015, and 2014 as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 1,427,635	\$ 1,274,336	\$ 1,174,740
Operating expenses	(1,432,604)	(1,337,064)	(1,279,022)
Nonoperating revenues	17,236	32,678	85,185
Other changes in net position	<u>6,272</u>	<u>3,991</u>	<u>4,563</u>
Increase (decrease) in net position	<u>\$ 18,539</u>	<u>\$ (26,059)</u>	<u>\$ (14,534)</u>

#### Statements of Net Position

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

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

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From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of UAMS. They are also able to determine how much UAMS owes vendors and lending institutions. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) and its availability for expenditure by UAMS.

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

<i>(in thousands)</i>	<b>June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Current assets	\$ 323,346	\$ 262,944	\$ 286,927
Noncurrent assets			
Investments	154,907	160,525	136,242
Capital assets, net	797,640	828,033	848,886
Other	16,938	18,451	21,244
Total assets	<u>1,292,831</u>	<u>1,269,953</u>	<u>1,293,299</u>
<b>Deferred outflows of resources</b>	<u>8,518</u>	<u>7,781</u>	<u>4,431</u>
<b>Liabilities</b>			
Current liabilities	153,165	123,990	117,026
Noncurrent liabilities	397,343	419,771	415,427
Total liabilities	<u>550,508</u>	<u>543,761</u>	<u>532,453</u>
<b>Deferred inflows of resources</b>	<u>1,096</u>	<u>2,767</u>	<u>-</u>
<b>Net position</b>			
Invested in capital assets, net of related debt	467,792	474,003	494,033
Restricted			
Expendable	138,469	133,160	121,944
Nonexpendable	30,464	31,437	31,747
Unrestricted	113,020	92,606	117,553
Total net position	<u>\$ 749,745</u>	<u>\$ 731,206</u>	<u>\$ 765,277</u>

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

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#### ***Fiscal Year 2016***

UAMS' total assets increased by \$22,878,000 in fiscal year 2016. A review of the Statements of Net Position reveals that this increase consisted primarily of an increase in cash and equivalents of \$68,097,000, an increase in patients accounts receivable of \$33,460,000, an increase in supplies of \$3,027,000, a decrease in current investments of \$44,529,000, a decrease in noncurrent investments of \$5,618,000, a decrease in net capital assets of \$30,393,000, and a decrease in deposits and funds held in trust for others of \$963,000.

Current assets increased by \$60,402,000 in fiscal year 2016. This increase came primarily from an increase in cash and cash equivalents of \$68,097,000, as cash was provided by the sale of investments, both short term and long term as noted below. Patient accounts receivable also increased by \$33,460,000 and supplies increased by \$3,027,000. These increases were offset by the decrease in current investments of \$44,529,000.

Noncurrent assets decreased by \$37,521,000 in fiscal year 2016. This total decrease was primarily the sum of decreases in noncurrent investments of \$5,618,000 as noted above, decreases in net capital assets of \$30,393,000, and a decrease in noncurrent deposits and funds held in trust by others of \$963,000. The decrease in noncurrent investments resulted mainly from investment losses. The decrease in net capital assets primarily consisted of net asset additions totaling \$27,647,000 less net depreciation and amortization of \$58,040,000.

UAMS' deferred outflows of resources results from the defeasance of certain outstanding bonds in past years and pension liabilities. 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 2016 by \$291,000 from the amortization for the year. The deferred outflow related to pension liabilities increased by \$1,028,000.

Total liabilities increased by \$6,747,000 in fiscal year 2016. Current liabilities increased by \$29,175,000 in fiscal year 2016 primarily due to an increase in accounts payable and accrued liabilities of \$7,976,000, an increase of \$6,395,000 in unearned revenue, an increase in estimated third-party payor settlements related to the Medicare and Medicaid programs of \$10,633,000 and an increase in the current portion of bonds, notes and capital leases payable of \$3,924,000. Noncurrent liabilities decreased in 2016 by \$22,428,000. This net decrease was mostly due to a decrease in the noncurrent portion of bonds, notes and capital leases payable of \$29,059,000 offset by increases in net pension liability of \$2,276,000, for other postemployment benefits of \$3,504,000 and the liability for the noncurrent portion of compensated absences payable of \$1,545,000. 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 \$1,671,000.

#### ***Fiscal Year 2015***

UAMS' total assets decreased by \$23,346,000 in fiscal year 2015. A review of the Statements of Net Position reveals that this decrease consisted primarily of a decrease in noncurrent deposits and funds held in trust by others of \$2,056,000, a decrease in net capital assets of \$20,853,000, an increase in noncurrent investments of \$24,283,000, and a decrease in patient accounts receivable of \$1,699,000.

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Current assets decreased by \$23,983,000 in fiscal year 2015. This decrease came primarily from a decrease in cash and cash equivalents of \$24,840,000, as cash was used to purchase investments, both short term and long term as noted below. This decrease was offset by transfers to short-term investments of \$11,877,000 and additional transfers to noncurrent investments noted below.

Noncurrent assets increased by \$637,000 in fiscal year 2015. This total increase was primarily the sum of increases in noncurrent investments of \$24,283,000, as noted above, and decreases in net capital assets of \$20,853,000 and noncurrent deposits and funds held in trust by others of \$2,056,000. The increase in noncurrent investments resulted mainly from transfers of cash and cash equivalents noted above. The decrease in net capital assets primarily consisted of net asset additions totaling \$45,202,000 less depreciation and amortization of \$65,502,000.

UAMS' deferred outflows of resources results from the defeasance of certain outstanding bonds in past years and pension liabilities. 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 increased in fiscal year 2015 by \$1,295,000. The deferred outflow related to pension liabilities resulted from the implementation of GASB Statement No. 68 in fiscal year 2015.

Total liabilities increased by \$11,308,000 in fiscal year 2015. Current liabilities increased by \$6,964,000 in fiscal year 2015 primarily due to an increase in accounts payable and accrued liabilities offset by a decrease in estimated third-party payor settlements related to the Medicare and Medicaid programs of \$5,264,000. Noncurrent liabilities increased in 2015 by \$4,344,000. This net increase was mostly composed of increases from the net pension liability of \$6,780,000 in accordance with the adoption of GASB Statement No. 68 in 2015, increases in the liability for other postemployment benefits of \$3,268,000, the liability for the noncurrent portion of compensated absences payable of \$2,231,000 offset by the reduction of the noncurrent portion of bonds, notes and capital leases payable by \$7,274,000 primarily due to the reduction of the noncurrent portion of debt via regular debt service payments.

UAMS' deferred inflows of resources of \$2,767,000 results from the liability related to pensions in accordance with GASB Statement No. 68, which was adopted in fiscal year 2015.

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

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

<i>(in thousands)</i>	<b>Years Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Operating revenues</b>			
Student tuition and fees, net of scholarship allowances	\$ 41,982	\$ 37,499	\$ 32,273
Net patient services	1,175,658	1,021,183	919,366
Meaningful use	4,033	3,256	2,434
Sponsored programs	148,317	155,163	169,778
Other	57,645	57,235	50,889
Total operating revenues	<u>1,427,635</u>	<u>1,274,336</u>	<u>1,174,740</u>
<b>Operating expenses</b>			
Compensation and benefits	928,619	878,619	852,919
Supplies and other services	436,193	392,010	366,504
Scholarships and fellowships	2,024	1,169	369
Depreciation and amortization	65,768	65,266	59,230
Total operating expenses	<u>1,432,604</u>	<u>1,337,064</u>	<u>1,279,022</u>
Operating loss	<u>(4,969)</u>	<u>(62,728)</u>	<u>(104,282)</u>
<b>Nonoperating revenues (expenses)</b>			
State appropriations, net	7,898	21,527	51,492
Gifts	24,655	16,815	25,062
Investment gain (loss), net of expense	(4,171)	7,706	22,203
Other	(11,146)	(13,370)	(13,572)
Total nonoperating revenues, net	<u>17,236</u>	<u>32,678</u>	<u>85,185</u>
Income (loss) before other changes in net assets	<u>12,267</u>	<u>(30,050)</u>	<u>(19,097)</u>
<b>Other changes in net position</b>			
Capital gifts and appropriations	6,299	5,962	1,917
Federal grants for capital projects	-	83	2,727
Interagency disposition	(27)	(2,054)	(81)
Total other changes in net position	<u>6,272</u>	<u>3,991</u>	<u>4,563</u>
Increase (decrease) in net position	<u>18,539</u>	<u>(26,059)</u>	<u>(14,534)</u>
<b>Net position</b>			
Beginning of year	731,206	765,277	779,811
Cumulative effect of GASB 68 adoption	-	(8,012)	-
End of year	<u>\$ 749,745</u>	<u>\$ 731,206</u>	<u>\$ 765,277</u>



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#### ***Fiscal Year 2016***

The Statement of Revenues, Expenses, and Changes in Net Position reflects a gain before other changes in net position of \$12,267,000, and an increase of \$18,539,000 in net position for fiscal year 2016. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$154,475,000, or 15.1%. The increase in net patient service revenue is due primarily to an increase in both inpatient and outpatient volumes. In fiscal year 2016, patient care operations were merged to create the Integrated Clinical Enterprise for the purpose of achieving greater efficiency in providing patient care.

UAMS continually monitors the allowances established for its patient accounts receivable. During fiscal year 2016, UAMS determined that the historical collection trends, on which its accounts receivable allowances were based, were not indicative of more recent actual collections and, therefore, decreased these allowances by \$36,500,000. This adjustment is reflected in fiscal year 2016 operating results and is the result of enhancements to UAMS' revenue recognition process in response to improved information from its integrated clinical information system and complexities in the healthcare industry.

Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, decreased by a total of \$6,846,000, or 4.4%. Included in this total was a decrease in Nonfederal grants and contracts of \$5,846,000 or 6.7%. Federal grants and contracts declined by \$1,000,000, or 1.5%. Net student tuition and fees increased \$4,483,000, or 12.0%, due to tuition rate increases and higher enrollment. Total operating revenue increased over the prior year by \$153,299,000, or 12.0%.

The following factors affected operating expenses in 2016:

Operating expenses increased by \$95,540,000, or 7.1%. Primarily, drivers of this increase were higher compensation and benefits expense along with supplies and other services expense. Compensation and benefits expenses increased by \$50,000,000, or 5.7%, in fiscal year 2016. This increase was primarily due to the staffing required to support higher inpatient and outpatient volumes, an across the board pay increase for nonclassified staff effective January 1, 2015 and for classified staff effective July 1, 2015 and higher group health insurance costs. Total supplies and other services increased by \$44,183,000, or 11.3%, 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 2016:

Nonoperating revenue (expense) decreased by \$15,442,000, or 47.3%. The largest contributor to this change was an decrease in net state appropriations of \$13,629,000, or 63.3%. This decrease in state appropriations is primarily due to an increase of \$14,076,000, or 16.6%, in Medicaid match payments, which are reported as a decrease to state appropriation revenue, as noted in the table below. There was also a loss on investments of \$4,171,000 compared to a gain in the prior year, resulting in a net reduction of investment income of \$11,877,000, or 154.1%, due to a weaker investment market during the year. Offsetting these negatives were an increase in gifts of \$7,840,000, or 46.6%, and a decrease of \$1,971,000 or 14.8% in interest on debt.

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

Net state appropriations revenue for the years ended June 30, 2016, 2015, and 2014 was as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Gross state appropriations revenue	\$ 107,049	\$ 106,602	\$ 120,112
Less: Medicaid match payments	<u>99,151</u>	<u>85,075</u>	<u>68,620</u>
Net state appropriations revenue	<u>\$ 7,898</u>	<u>\$ 21,527</u>	<u>\$ 51,492</u>

***Fiscal Year 2015***

The Statement of Revenues, Expenses, and Changes in Net Position reflects a loss before other changes in net position of \$30,050,000, and a decrease of \$26,059,000 in net position for fiscal year 2015.

Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$101,817,000, or 11.1%. The increase in net patient service revenue is due primarily to an increase in both inpatient and outpatient volumes, lower rates of uncompensated care and higher acuity cases. Hospital patient service revenue was up \$52,713,000, or 9.3%, College of Medicine patient service revenue was up \$38,446,000, or 16.5%. All other divisions providing patient services experienced a combined increase in patient service revenues of \$10,658,000, or 9.0%. Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, decreased by a total of \$14,615,000, or 8.6%. Included in this total was a decrease in Federal grants and contracts of \$21,304,000, or 23.8% which resulted primarily from decreased research grant funding from the Department of Health and Human Services. Offsetting this decline was an increase in Nonfederal grants and contracts of \$6,689,000 or 8.3%. Net student tuition and fees increased \$5,226,000, or 16.2%, due to tuition rate increases and higher enrollment. Other operating revenue increased by \$6,937,000, or 87.2%, primarily from other services provided. Total operating revenue increased over the prior year by 8.5%.

The following factors affected operating expenses in 2015:

Operating expenses increased by \$58,042,000, or 4.5%. Contributing almost equally to and dominating this increase were higher compensation and benefits expense along with supplies and other services expense. Compensation and benefits expenses increased by \$25,700,000, or 3%, in fiscal year 2015. Compensation and benefits expense related to patient care increased by \$34,226,000, or 6.7%, primarily due to the staffing required to support higher inpatient and outpatient volumes. This increase was partially offset by reductions in compensation and benefits in divisions not providing direct patient care. Total supplies and other services increased by \$25,506,000, or 7.0%. The largest component of this increase came from the Hospital, which increased by \$32,772,000, or 13.0%. This increase is due mainly to increases in medical supplies, primarily for a higher surgery volume, and drugs and medicines for patient care. Partially offsetting the clinical increases in the cost of supplies and other services was a decrease in professional services required for the three year Broadband Technology Opportunities Program (BTOP) federal grant, which was completed in the first quarter. Also affecting the increase in operating expenses in 2015 was an increase of \$6,036,000, or 10.2%, in depreciation and amortization expenses. This increase is primarily due to fiscal 2015 being the first full year of depreciation of the Epic integrated clinical information system, which was placed in service in May 2014.

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The following factors affected nonoperating revenue (expense) in 2015:

Nonoperating revenue (expense) decreased by \$52,507,000, or 61.6%. The largest contributor to this decrease was a decrease in net state appropriations \$29,965,000, or 58.2%. This decrease in state appropriations is due to (1) a reduction in appropriations from the state budget of \$13,510,000, or 11.3%, and (2) an increase of \$16,455,000, or 24.0%, in Medicaid match payments, which are reported as a decrease to state appropriated revenue, as noted in the table below. Also contributing was a decrease in net investment income of \$14,497,000, or 65.3%, due to a weaker investment market during the year. Additionally, gift revenue decreased by \$8,247,000, or 32.9%.

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

Net state appropriations revenue for the years ended June 30, 2015, 2014, and 2013 was as follows:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Gross state appropriations revenue	\$ 106,602	\$ 120,112	\$ 114,638
Less: Medicaid match payments	<u>85,075</u>	<u>68,620</u>	<u>64,638</u>
Net state appropriations revenue	<u>\$ 21,527</u>	<u>\$ 51,492</u>	<u>\$ 50,000</u>

**Results of Operations**

***Fiscal Year 2016***

In fiscal year 2016, UAMS experienced a net gain before other changes in net position of \$12,267,000 and an increase in net position of \$18,539,000.

Total operating revenues increased, led primarily by an increase in net patient service revenue of \$154,475,000, or 15.1%. The increase in net patient service revenue is due primarily to an increase in both inpatient and outpatient volumes, lower rates of uncompensated care due to Arkansas' private option Medicaid program and higher acuity cases.

While a 12.0% increase in operating revenues was experienced in fiscal year 2016, UAMS incurred higher operating expenses during the year, resulting in an operating loss of \$4,969,000. Compensation and benefits expenses increased by \$50,000,000, or 5.7%. This increase was primarily due to the staffing required to support higher inpatient and outpatient volumes. There were also expense increases in supplies and other services for medical supplies, primarily for surgeries, and drugs and medicines for both inpatient and outpatient care.

Net investment income recognized in fiscal year 2016 was a loss of \$4,171,000, which was a 154.1% decrease over the prior year when a more positive investment market was experienced.

Net state appropriations decreased by \$13,629,000. As a share of UAMS' revenue, gross state appropriations for fiscal year 2016 decreased to 7.4% from 8.1% in fiscal year 2015.

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#### ***Fiscal Year 2015***

In fiscal year 2015, UAMS experienced a net loss before other changes in net position of \$30,050,000 and a decrease in net position of \$26,059,000.

Total operating revenues increased, led primarily by an increase in net patient service revenue of \$101,817,000, or 11.1%. The increase in net patient service revenue is due primarily to an increase in both inpatient and outpatient volumes, lower rates of uncompensated care due to Arkansas' private option Medicaid program and higher acuity cases.

While an 8.5% increase in operating revenues was experienced in fiscal year 2015, UAMS incurred much higher operating expenses during the year, resulting in an operating loss of \$62,728,000. Compensation and benefits expenses increased \$25,700,000, or 3.0%. This increase was primarily due to the staffing required to support higher inpatient and outpatient volumes. Large expense increases were also noted in supplies and other services for medical supplies, primarily for surgeries, and drugs and medicines for both inpatient and outpatient care. Additionally, higher depreciation expense was incurred in 2015 due to this being the first full year of depreciation on the Epic integrated clinical information system implemented in May 2014.

Net investment income recognized in fiscal 2015 was \$7,706,000, which was a 65.3% decrease over the prior year when a more positive investment market was experienced.

The primary component of other changes in net position was a capital gift valued at \$4,270,000 for a partially donated building in Jonesboro, Arkansas. This building now serves as the headquarters for the regional programs for northeast Arkansas.

Gross state appropriations decreased by \$13,510,000. As a share of UAMS revenue, gross state appropriations for fiscal year 2015 decreased to 8.1% from the percentage in fiscal year 2014 of 9.4%.

#### **Capital Assets and Debt Administration**

##### ***Capital Assets***

At June 30, 2016, UAMS had \$797,640,000 invested in capital assets, net of accumulated depreciation and amortization of \$657,660,000. Depreciation and amortization charges totaled \$65,768,000 for the fiscal year ended June 30, 2016.

UAMS' capital additions totaled \$37,369,000 in fiscal year 2016. Capital additions were primarily composed of the completion of the renovation of the Texarkana AHEC building, the purchase of a molecular imaging system, and development of the student information system. Major capital additions in fiscal year 2016 and the sources that funded their acquisition included:

*(in thousands)*

<b>Project</b>	<b>Amount of Additions</b>	<b>Funding Source</b>
Completion of Texarkana AHEC building renovation	\$ 2,800,000	UAMS
PET/CT molecular imaging system	2,068,143	UAMS
Expansion and extension of Kids First lease	1,417,000	UAMS
Winthrop P. Rockefeller Cancer Institute dermatology clinical space	1,161,000	UAMS
Construction in process:		
Student information software	2,108,000	UAMS
Fort Smith AHEC building addition and renovation	1,380,000	UAMS

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2016, and 2015

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Construction in progress at June 30, 2016 totaled \$10,355,000. More detailed information about UAMS' capital assets is presented in Note 7 to the financial statements.

#### **Debt Administration**

At June 30, 2016, UAMS had \$333,176,000 in outstanding debt, as shown in the following table:

<i>(in thousands)</i>	<b>Amount Outstanding</b>
<b>Obligation</b>	
Bonds payable	\$ 265,558
Notes payable	40,149
Obligations under capital leases	<u>27,469</u>
Total debt	<u><u>\$ 333,176</u></u>

Moody's Investors Service raised the rating of the University of Arkansas System from Aa3 to Aa2 in May 2010, which was affirmed on March 3, 2016. UAMS, as one of the colleges in the University of Arkansas System, benefits from this rating increase. More detailed information about current and long-term liabilities is presented in Notes 8 and 9 to the financial statements.

#### **Economic Outlook**

UAMS' financial performance in fiscal 2016 exceeded budget expectations. The positive change in net position for the 2016 fiscal year of \$18,539,000 represents a \$36,628,000 improvement over initial budget projections for the year, projections that had anticipated a decline in net position. While much of the positive result can be attributed to adjustments in collections allowances, management finds that operational changes implemented in fiscal 2016, most notably the transition to an integrated clinical strategy and different budget approach for the university, also contributed significantly to this outcome.

Heading into the current fiscal year, management recognizes that challenges persist. State appropriations are up for fiscal 2017 reflecting a decision by the governor and legislature to add \$4,500,000 to the UAMS budget. This is a welcome and needed change but, reflects a 'one-time' only adjustment, clearly not indicative of a longer term commitment to increase state funding for the UAMS. The governor and legislature may consider tax reductions in the next budget cycle which will no doubt affect UAMS' state appropriations, as they will other University of Arkansas institutions. All things considered, state funding for UAMS is expected to remain flat or declining in the next few years.

Federally sponsored research grants and contracts declined by \$1,000,000 or 1.5% in fiscal 2016. Management anticipates that the university will see an increase in federally funded research in fiscal 2017 due to a few known significant grants awards to be announced during the year. The influx of new research faculty in the areas of bioinformatics, pharmacy and radiation oncology, along with UAMS' implementation of expanded research administrative support, using a shared services approach adopted in April 2016, should help reverse recent downward financial trends.

# University of Arkansas for Medical Sciences

## Unaudited Management's Discussion and Analysis

### June 30, 2016, and 2015

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Continued growth in patient services revenues is expected in the near term, though likely at a rate less than that experienced in fiscal 2016. UAMS has plans underway to improve care management, revenue cycle operations and the capabilities of its electronic medical records system in order to sustain growth into the future. While generally optimistic about the benefit these efforts will yield, uncertainty regarding future Medicare and Medicaid payments cannot be underestimated. The State of Arkansas passed the Arkansas Works program last year, essentially a revision of the state's private option Medicaid expansion. The impact of the state's Medicaid expansion has been a reduction in UAMS' percentage of self-pay patients, now hovering close to 2.2% or roughly the same level experienced in fiscal 2015, the first full year of Medicaid expansion. It remains questionable whether the state legislature will continue to support the program in its current form next year and beyond. The termination of the program could produce a revenue loss as much as \$65,000,000 for UAMS.

Although predicted declines in Medicare reimbursement have yet to materialize, new value-based payment initiatives of the Centers for Medicaid and Medicare Services (CMS), and the passage of the federal Medicare Access and CHIP Reauthorization Act (MACRA), are expected to bring about further changes in Medicare payments which will put greater emphasis on healthcare quality. MACRA establishes a merit-based incentive payment system for physicians using 2017 as the base performance year for payment adjustments - plus or minus 4% - that would occur in 2019.

However, the new law also allows for a different payment pathway, called alternative payment models, which offer incentives to physicians to participate in new models of health care delivery that ultimately will require providers to assume some financial risk. UAMS plans to take advantage of this opportunity in its overall clinical strategy by participating in the CMS comprehensive primary care initiative (CPC plus) and by exploring the feasibility of joining an Accountable Care Organization. At this early stage, it is difficult to predict with any precision how participation in these new initiatives will impact UAMS' finances long term.

Regardless of how the UAMS payment structure changes, reducing cost while enhancing the quality and efficiency of service delivery across the UAMS mission is critical. Management also recognizes that the current dependency on clinical revenues, which account for more than 75% of total revenues, must be sustained into the future. To that end, UAMS, with a full year of experience gained using the service line model and strategic clinical initiatives to improve care management and revenue cycle operations, is well-positioned to deal with pending changes in reimbursement methods. Adding to this are the creation of two new primary care clinics, which should aid in growing patient referrals, and the expansion of a recently created orthopedics clinic, which will help increase UAMS' margin.

In summary, the economic outlook for UAMS is generally positive. Much will depend on whether or not the state continues its support of Medicaid expansion, whether or not the state implements budget reductions next year and how successfully UAMS is able to navigate the anticipated changes coming from Medicare and Medicaid. Management remains committed to continuing cost savings initiatives, many of which have already achieved substantial positive financial results. Management is committed also to continuing to improve performance across the mission, but particularly with respect to its clinical operations.

#### **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.



## **Report of Independent Auditors**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas, as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which consist of the statements of net position and the related statements of revenues, expenses and changes in net position and statements of cash flows of UAMS.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to 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 UAMS'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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Arkansas for Medical Sciences as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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, 2016 and 2015, 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*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the required supplementary information on pages 1 through 12 and 50 through 54 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 the 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016 on our consideration of the University of Arkansas for Medical Sciences' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Arkansas for Medical Sciences' internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Little Rock, AR  
October 6, 2016



# University of Arkansas for Medical Sciences

## Statements of Net Position

### June 30, 2016 and 2015

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 4)	\$ 108,977	\$ 40,880
Investments (Note 5)	2,370	46,899
Patient accounts receivable (net of allowance for doubtful accounts of \$404,672 in 2016 and 421,761 in 2015, Note 2)	144,828	111,368
Nonpatient accounts receivable (net of allowances of \$2,085 in 2016 and \$2,521 in 2015)	34,092	33,864
Supplies	24,287	21,260
Notes and student loans receivable, net (Notes 6 and 14)	2,175	2,262
Prepaid expenses	6,617	6,411
Total current assets	323,346	262,944
Noncurrent assets		
Investments (Note 5)	154,907	160,525
Notes and student loans receivable, net (Notes 6 and 14)	12,885	13,432
Deposits and funds held in trust by others (Note 5)	4,053	5,016
Funds held in trust for others	-	3
Capital assets, net (Note 7)	797,640	828,033
Total noncurrent assets	969,485	1,007,009
Total assets	1,292,831	1,269,953
<b>Deferred Outflow of Resources</b>		
Pensions (Note 11)	3,083	2,055
Loss on refunding of bonds	5,435	5,726
Total deferred outflows	8,518	7,781
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	91,813	83,837
Unearned revenue	14,870	8,475
Funds held in trust for others	482	-
Estimated third-party payor settlements (Note 2)	11,704	1,071
Compensated absences payable, current portion (Note 9)	3,511	3,127
Early retirement liability	737	1,356
Bonds, notes, and capital leases payable, current portion (Notes 9 and 10)	30,048	26,124
Total current liabilities	153,165	123,990
Noncurrent liabilities		
Deposits	43	196
Compensated absences payable, net of current portion (Note 9)	49,202	47,657
Liability for other postemployment benefits (Notes 9 and 12)	33,918	30,414
Federal capital contribution for Perkins Loan Program	1,911	1,911
Early retirement liability	85	626
Net pension liability	9,056	6,780
Bonds, notes, and capital leases payable, net of current portion (Notes 9 and 10)	303,128	332,187
Total noncurrent liabilities	397,343	419,771
Total liabilities	550,508	543,761
Commitments and contingencies (Notes 10 and 15)		
Total liabilities and contingencies	1,096	2,767
<b>Deferred Inflows of Resources Related to Pensions</b>		
Total deferred inflows of resources related to pensions	1,096	2,767
<b>Net Position</b>		
Net investment in capital assets	467,792	474,003
Restricted		
Expendable		
Scholarships	2,618	2,083
Research	26,279	29,000
Capital projects	107,191	98,971
Other	2,381	3,106
Nonexpendable		
Endowments	30,070	31,043
Scholarships, fellowships, student loans	394	394
Unrestricted	113,020	92,606
Total net position	\$ 749,745	\$ 731,206

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

**University of Arkansas for Medical Sciences**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2016 and 2015**

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$2,909 in 2016 and \$3,503 in 2015)	\$ 41,982	\$ 37,499
Net patient services (Note 2)	1,175,658	1,021,183
Meaningful use revenue	4,033	3,256
Sponsored programs		
Federal grants and contracts	67,251	68,251
Nonfederal grants and contracts	81,066	86,912
Sales and services of educational departments	30,686	29,694
Auxiliary enterprises		
Housing and food service	8,889	9,163
Bookstore	497	541
Other auxiliary enterprises	3,365	2,943
Other operating revenue	14,208	14,894
Total operating revenues	<u>1,427,635</u>	<u>1,274,336</u>
<b>Expenses</b>		
Operating expenses (Note 16)		
Compensation and benefits	928,619	878,619
Supplies and other services	436,193	392,010
Scholarships and fellowships	2,024	1,169
Depreciation and amortization (Note 7)	65,768	65,266
Total operating expenses	<u>1,432,604</u>	<u>1,337,064</u>
Operating loss	<u>(4,969)</u>	<u>(62,728)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations, net (Note 3)	7,898	21,527
Gifts	24,655	16,815
Investment income, net of investment expense (Notes 4 and 5)	(4,171)	7,706
Interest on debt	(11,323)	(13,294)
Gain (Loss) on disposal of capital assets	177	(76)
Total nonoperating revenues, net	<u>17,236</u>	<u>32,678</u>
Income (loss) before other changes in net position	<u>12,267</u>	<u>(30,050)</u>
<b>Other changes in net position</b>		
Capital gifts	6,299	5,962
Capital appropriations	-	-
Federal grants for capital projects	-	83
Other	(27)	(2,054)
Total other changes in net position	<u>6,272</u>	<u>3,991</u>
Increase (decrease) in net position	18,539	(26,059)
<b>Net position</b>		
Beginning of year	731,206	765,277
Cumulative effect of GASB 68 adjustments (Note 1)	-	(8,012)
End of year	<u>\$ 749,745</u>	<u>\$ 731,206</u>

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

**University of Arkansas for Medical Sciences**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Tuition and fees (net of scholarships)	\$ 41,817	\$ 37,769
Patient and insurance payments	1,125,598	1,029,490
Sponsored programs	155,394	157,922
Collection of student loans and interest	2,196	2,070
Auxiliary enterprise revenue		
Housing and food service	8,889	9,159
Bookstore	497	541
Other auxiliary enterprises	2,380	2,928
Other receipts	46,035	44,468
Payments to suppliers	(419,595)	(380,451)
Payments to employees	(751,341)	(703,400)
Payments of employee benefits	(172,512)	(164,645)
Loans issued to students	(2,366)	(2,600)
Scholarships and fellowships	(2,024)	(1,169)
Other payments	(13,100)	(11,701)
Net cash and cash equivalents used in operating activities	<u>21,868</u>	<u>20,381</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	40,194	24,726
Gifts and grants	24,655	16,815
Repayment of loans	-	-
Interfund loan to UA System (eVersity)	(653)	-
Other agency funds	484	(362)
Net cash and cash equivalents provided by noncapital financing activities	<u>64,680</u>	<u>41,179</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of debt	15	104,335
Federal grants for capital projects	-	83
Gifts and grants	6,299	5,962
Capital appropriations	-	-
Proceeds from sale of capital assets	109	109
Purchases of capital assets	(32,696)	(34,536)
Principal paid on capital debt and leases	(27,751)	(122,442)
Interest and paying agent fees paid on debt and capital leases	(11,367)	(13,513)
Net cash and cash equivalents used in capital and related financing activities	<u>(65,391)</u>	<u>(60,002)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	139,621	41,265
Interest on investments (net of fees)	417	(518)
Purchases of investments	(93,098)	(67,145)
Net cash and cash equivalents provided by (used in) investing activities	<u>46,940</u>	<u>(26,398)</u>
Net increase (decrease) in cash and cash equivalents	68,097	(24,840)
<b>Cash and cash equivalents</b>		
Beginning of year	40,880	65,720
End of year	<u>\$ 108,977</u>	<u>\$ 40,880</u>

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

**University of Arkansas for Medical Sciences**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

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<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
<b>Operating loss</b>	\$ (4,969)	\$ (62,728)
Adjustments to reconcile net operating loss to net cash and cash equivalents (used in) provided by operating activities		
Depreciation and amortization	65,768	65,266
Other postemployment benefits	3,504	3,269
Changes in assets and liabilities		
Patient and nonpatient accounts receivable, net	(62,325)	1,335
Supplies	(3,027)	(164)
Other assets	142	(2,160)
Deferred outflows	(736)	(3,871)
Accounts payable and accrued liabilities	8,511	11,217
Unearned revenue	4,526	1,318
Deposits	(153)	11
Compensated absences payable	1,929	2,364
Other liabilities	10,369	1,757
Deferred Inflows	(1,671)	2,767
Net cash and cash equivalents provided by operating activities	<u>\$ 21,868</u>	<u>\$ 20,381</u>
<b>Noncash transactions</b>		
Other postemployment benefits	\$ 3,504	\$ 3,269
Change in capital assets acquired in year end accounts payable	1,110	(238)
Capital assets acquired by incurring capital lease obligations	2,551	10,730
Capital assets acquired by capital gift	6,299	-

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

# University of Arkansas for Medical Sciences

## Notes to the Financial Statements

### June 30, 2016 and 2015

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#### 1. Summary of Significant Accounting Policies

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

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

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 University of Arkansas 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 62 requires enterprise funds to adhere to all applicable GASB pronouncements as well as those statements and interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

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

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School and Northwest Arkansas Satellite Campus;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 510 acute care beds in use at June 30, 2016;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute;
- Jackson T. Stephens Spine Neurosciences Institute; and
- Translational Research Institute.

# University of Arkansas for Medical Sciences

## Notes to the Financial Statements

### June 30, 2016 and 2015

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UAMS utilizes approximately 6,580,000 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 1,190,000 of leased or owned space throughout the State of Arkansas.

#### **Accrual Accounting**

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

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

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

#### **Investments**

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

The UA Board and the University of Arkansas Foundation (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 external investment pool is exempt from registration with the SEC. The UA Board and the UA Foundation Board of Trustees are the sponsors of this investment pool and are responsible for operation and oversight for the pool. All participation in this investment pool is voluntary. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. Detailed disclosure information about the Pool may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas 72207-3608, 501-686-2500.

#### **Patient Accounts Receivable**

Patient accounts receivable are shown net of contractual 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.

#### **Nonpatient Accounts Receivable**

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

#### **Notes and Student Loans Receivable**

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

#### **Loan Funds**

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

# University of Arkansas for Medical Sciences

## Notes to the Financial Statements

June 30, 2016 and 2015

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### Supplies

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

### Capital Assets

Capital assets are stated at cost at the date of acquisition or estimated 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 \$5,000 for all capital assets other than software. The software capitalization threshold is \$1,000,000 for purchased and internally developed software. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives generally as established by the American Hospital Association or the lease term as follows:

Buildings and fixtures	15 to 40 years
Equipment	3 to 15 years
Internally developed software	10 years
Leased assets	Dependent on lease term Generally, 3 to 10 years
Other	3 to 15 years

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

### 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.

### Compensated Absences

Vested or accumulated vacation and sick leave of UAMS employees are recorded as an expense and liability as the benefits are earned. Amounts recorded include salary expense as well as salary-related payments (e.g., FICA taxes, retirement, etc.). No liability is recorded for nonvested accumulated rights to receive sick leave benefits. The current portion of compensated absences is determined using the average balance paid annually in the prior two-year period.

### Early Retirement Liability

UAMS has, from time to time, negotiated voluntary early retirement agreements with faculty and staff which may include the provision of a stipend and healthcare or other benefits for future periods. The amount of liability established for these type agreements was \$822,000 and \$1,982,000 for the years ended June 30, 2016 and 2015 respectively.

### 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.

### 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.

# University of Arkansas for Medical Sciences

## Notes to the Financial Statements

### June 30, 2016 and 2015

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

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

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

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

#### **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.

#### **Grants and Contracts**

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

Federal research grants and contracts normally provide for the recovery of direct and indirect costs, subject to adjustment based upon review by the granting agencies. UAMS recognizes revenue associated with direct costs as the related costs are incurred. The recovery of indirect costs is recorded at predetermined rates negotiated with the federal government that are effective from July 1, 2013 through June 30, 2017.

#### **Student Financial Aid**

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

#### **Endowment Income**

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



# University of Arkansas for Medical Sciences

## Notes to the Financial Statements

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### **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 Arkansas Public Employees Retirement System and the Arkansas Teacher Retirement System (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. Investments are reported at fair value.

### **Income Taxes**

UAMS is part of the University of Arkansas System and, as such, is exempt from federal income taxes except for tax on unrelated business income. Management of UAMS is not aware of any significant unrelated business income. Accordingly, no provision for income taxes is made in the accompanying financial statements.

### **Use of Restricted Resources**

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

### **Net Position**

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

### **Use of Estimates**

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

### **Accounting Pronouncements**

The GASB issued the following statements, which became effective for the fiscal year ended June 30, 2016:

- Statement No. 72, *Fair Value Measurement and Application*,
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*,
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*,
- Statement No. 79, *Certain External Investment Pools and Pool Participants*

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Management has determined these statement did not materially impact UAMS.

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

*For the year ending June 30, 2017*

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*,
- Statement No. 77, *Tax Abatement Disclosures*,
- Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*,
- Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*,
- Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

*For the year ending 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*

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

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

In fiscal year 2016, patient care operations were merged to create the Integrated Clinical Enterprise for the purpose of achieving greater efficiency in providing patient 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, 2016 and 2015 are recorded net of an allowance for doubtful accounts and contractual adjustments of \$404,672,000 and \$421,761,000, respectively.

Net patient services revenue for the year ended June 30, 2016 and 2015 is as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Gross patient revenue	\$ 2,863,337	\$ 2,606,345
Less: Patient services contractual allowances	1,651,452	1,487,439
Less: Provision for bad debts	36,227	97,723
Net patient services revenue	<u>\$ 1,175,658</u>	<u>\$ 1,021,183</u>

UAMS continually monitors the allowances established for its patient accounts receivable. During fiscal year 2016, UAMS determined that the historical collection trends, on which its accounts receivable allowances were based, were not indicative of more recent actual collections and, therefore, decreased these allowances by \$36,500,000. This change in estimate is reflected in fiscal year 2016 operating results and is the result of enhancements to UAMS' revenue recognition process in response to improved information from its integrated clinical information system and complexities in the healthcare industry.

# University of Arkansas for Medical Sciences

## Notes to the Financial Statements

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UAMS provided approximately \$77,654,000 and \$72,726,000 in charity care, based on established rates, during the year ended June 30, 2016 and 2015, 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 year ended June 30, 2016 and 2015 includes approximately \$73,891,000 and \$77,666,000, 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 year ended June 30, 2016 and 2015 also includes approximately \$35,520,000 and \$39,052,000, respectively, of net revenue from the Supplemental Medicaid program.

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:

### **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, 2016, the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2014.

#### ***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, 2016, the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2011.

### **FGP and AHECs**

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated settlements resulted in no change to net patient services revenue for the years ended June 30, 2016 and 2015. 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.

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## Notes to the Financial Statements

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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.

#### **Out of Period Adjustments to Medicaid Programs**

During 2016, UAMS corrected the following errors that existed in its previously reported financial statements.

In prior periods, cost reimbursement revenue related to certain Medicaid programs was recorded when the reimbursement was received, which was in the following fiscal year. Accordingly, no account receivable amount was properly recorded for the accrued revenue earned in the respective year. A correction was made in 2016 to recognize the revenue earned in 2016 and to establish the related Medicaid receivable for which payment had not been made. The impact to revenue in 2016 was a \$28,200,000 increase. Additionally, the required Medicaid match (as described in Note 2) on these revenues was historically recorded when the match was paid, which was in the year following when the amount should have been accrued. A correction was made in 2016 to recognize the Medicaid match owed in 2016 and to establish the related match payable for which payment had not been made. The impact to state appropriations was an \$8,715,000 decrease in 2016. As such, there is out of period revenue and Medicaid match (which is recorded as a reduction to state appropriations), related to the 2015 amounts, included within the 2016 financial information. The total impact to net position in 2016 is a \$19,485,000 increase. These amounts are not considered material to the current or any previously-reported financial statements.

In prior years, the required Medicaid match on certain other Medicaid program revenue was recorded as of the date the match was paid, a portion of which was in the year following the year the expense was incurred. A correction was made in 2016 to recognize the Medicaid match owed in 2016 and to establish the related match payable for which payment had not been made. The impact to state appropriations is a \$21,487,000 decrease in 2016. As such, there is out of period Medicaid match, related to the 2015 amounts, included within the 2016 financial information. The total impact to net position in 2016 is a \$21,487,000 decrease. These amounts are not considered material to the current or any previously-reported financial statements.

An overstatement of \$5,528,000 of Medicaid match was identified related to 2015 and an out of period correction was recorded in 2016, which resulted in an understatement of Medicaid match (which is recorded as a reduction to state appropriations) of the same amount. These amounts are not considered material to the current or any previously-reported financial statements. The net effect of the above corrections in 2016 is \$3,526,000, which is not considered material to the financial statements and the net effects applicable to prior periods are also not considered material.

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**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 year ended June 30, 2016 and 2015 is as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Gross state appropriations revenue	\$ 107,049	\$ 106,602
Less: Medicaid match payments	<u>99,151</u>	<u>85,075</u>
Net state appropriations revenue	<u>\$ 7,898</u>	<u>\$ 21,527</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 statement of net position as cash and cash equivalents. The carrying amount differs from the bank balance shown below due to timing differences of clearing outstanding checks and deposits.

UAMS' deposits at June 30, 2016 and 2015 are categorized below to give an indication of the level of risk assumed by UAMS at each year-end. Category 1 includes deposits that are insured or collateralized with securities held by UAMS or by its agent in UAMS' name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in UAMS' name. Category 3 includes uncollateralized deposits or deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in UAMS' name.

<i>(in thousands)</i>	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Category</b>		
			<b>1</b>	<b>2</b>	<b>3</b>
Cash at June 30, 2016	\$ 108,977	\$ 113,397	\$ 113,397	\$ -	\$ -
Cash at June 30, 2015	\$ 40,880	\$ 47,355	\$ 47,355	\$ -	\$ -

At June 30, 2016 and 2015, Category 1 is composed of \$725,000 and \$417,000, respectively, of insured deposits and \$112,672,000 and \$46,938,000, respectively, of securities that are held in custody by the Federal Reserve Bank.

The following schedule reconciles the reported amount of deposits to the statement of net position as of June 30, 2016 under GASB Statement No. 3 (GASB 3), *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Reported amount of deposits under GASB 3 as reported in the statements of net assets	<u>\$ 108,977</u>	<u>\$ 40,880</u>
Cash and cash equivalents	<u>\$ 108,977</u>	<u>\$ 40,880</u>

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At June 30, 2016 and 2015, deposits and funds held in trust, as reported in the statement of net position, include money market accounts of \$3,362,000 and \$4,339,000, respectively. Interest income on cash and cash equivalents as of June 30, 2016 and 2015 was \$531,000 and \$581,000, respectively.

**5. Investments**

UAMS participates in an investment pool (the Pool), which is sponsored by the UA Board and the UA Foundation Board. The Pool was originally established in 1997 by the University 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 which delegated authority to the UA Foundation to manage University funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives (the guidelines) for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

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

<i>(in thousands)</i>	<b>Total Return Pool</b>	<b>Intermediate Pool</b>	<b>Total Pool</b>
June 30, 2016	11.2%	0.7%	9.3%
June 30, 2015	11.0%	14.2%	11.6%

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

<i>(in thousands)</i>	<b>Fair Value</b>	
	<b>2016</b>	<b>2015</b>
<b>Investment type</b>		
Equity		
U.S.	\$ 3	\$ 4
Exchange Traded Investments:		
U.S. equity	509	482
U.S. fixed income	180	181
	<u>689</u>	<u>663</u>
Other investments		
Clinic investment	769	883
Escrow accounts	1	14
External investment pool	156,506	206,536
	<u>157,276</u>	<u>207,433</u>
	<u>\$ 157,968</u>	<u>\$ 208,100</u>

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The activities during fiscal year 2016 affecting UAMS' pro rata allocation of investments are summarized below:

<i>(in thousands)</i>	<b>Total Return Pool</b>	<b>Intermediate Pool</b>	<b>Other Investments</b>	<b>Total</b>
<b>Balances at June 30, 2015</b>	\$ 159,637	\$ 46,900	\$ 1,563	\$ 208,100
Income	1,564	782	14	2,360
Realized gains	(2,431)	209	1	(2,221)
Net increase (decrease) in the fair value of investments	(3,694)	(498)	(135)	(4,327)
Expenses paid	(486)	(22)	(60)	(568)
Purchases (sales), net	(455)	(45,000)	79	(45,376)
<b>Balances at June 30, 2016</b>	<u>\$ 154,135</u>	<u>\$ 2,371</u>	<u>\$ 1,462</u>	<u>\$ 157,968</u>

The activities during fiscal year 2015 affecting UAMS' pro rata allocation of investments are summarized below:

<i>(in thousands)</i>	<b>Total Return Pool</b>	<b>Intermediate Pool</b>	<b>Other Investments</b>	<b>Total</b>
<b>Balances at June 30, 2014</b>	\$ 136,234	\$ 35,022	\$ 718	\$ 171,974
Income	1,423	1,167	24	2,614
Realized gains	6,128	312	30	6,470
Net increase (decrease) in the fair value of investments	(432)	(1,070)	22	(1,480)
Expenses paid	(433)	(31)	(11)	(475)
Purchases (sales), net	16,717	11,500	780	28,997
<b>Balances at June 30, 2015</b>	<u>\$ 159,637</u>	<u>\$ 46,900</u>	<u>\$ 1,563</u>	<u>\$ 208,100</u>

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

**Arkansas Code**

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

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

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**6. Notes and Student Loans Receivable**

The net unpaid balances of notes and student loans receivable on June 30, 2016 and 2015, net of allowances of \$3,493,000 and \$4,131,000, respectively, are as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Perkins loans	\$ 1,162	\$ 1,213
Health professional loans	4,809	5,098
Institutional funds loans	3,206	3,239
University of Arkansas at Fayetteville	717	738
University of Arkansas System eVersity note receivable	653	-
Arkansas State Hospital note receivable	4,157	4,749
Arkansas Department of Health note receivable	356	649
Other	-	8
Total notes and student loans receivable, net	<u>15,060</u>	<u>15,694</u>
Less: Current portion	<u>(2,175)</u>	<u>(2,262)</u>
Notes and student loans receivable, noncurrent, net	<u><u>\$ 12,885</u></u>	<u><u>\$ 13,432</u></u>

**7. Capital Assets**

Capital assets of UAMS at June 30, 2015 and 2016 were as follows:

<i>(in thousands)</i>	<b>June 30, 2015</b>	<b>Additions</b>	<b>Transfers</b>	<b>Dispositions</b>	<b>June 30, 2016</b>
<b>Nondepreciable</b>					
Land	\$ 12,435	\$ -	\$ -	\$ -	\$ 12,435
Construction in progress	8,763	4,684	(3,092)		10,355
<b>Depreciable</b>					
Buildings and fixtures	1,019,572	10,850	1,452	(2,500)	1,029,374
Improvements other than buildings	2,453				2,453
Equipment	258,725	20,954	1,087	(7,222)	273,544
Internally developed software	75,150		1,633		76,783
Leased property	40,339	821	(1,080)		40,080
Other	10,216	60			10,276
Total capital assets	<u>1,427,653</u>	<u>37,369</u>	<u>-</u>	<u>(9,722)</u>	<u>1,455,300</u>
<b>Less: Accumulated depreciation and amortization</b>					
Buildings and fixtures	366,267	34,165		(625)	399,807
Improvements other than buildings	2,453				2,453
Equipment	201,524	19,411	708	(7,125)	214,518
Internally developed software	11,134	7,340			18,474
Leased property	16,495	4,290	(708)		20,077
Other	1,747	584			2,331
Total accumulated depreciation and amortization	<u>599,620</u>	<u>65,790</u>	<u>-</u>	<u>(7,750)</u>	<u>657,660</u>
Capital assets, net	<u><u>\$ 828,033</u></u>	<u><u>\$ (28,421)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,972)</u></u>	<u><u>\$ 797,640</u></u>



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<i>(in thousands)</i>	June 30, 2014	Additions	Transfers	Dispositions	June 30, 2015
<b>Nondepreciable</b>					
Land	\$ 12,405	\$ 30	\$ -	\$ -	\$ 12,435
Construction in progress	8,638	4,182	(4,057)	-	8,763
<b>Depreciable</b>					
Buildings and fixtures	996,989	18,592	3,991	-	1,019,572
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	255,084	14,648	(5,327)	(5,680)	258,725
Internally developed software	78,702	1,030	(4,582)	-	75,150
Leased property	23,963	6,708	9,975	(307)	40,339
Other	10,355	12	-	(151)	10,216
Total capital assets	<u>1,388,589</u>	<u>45,202</u>	<u>-</u>	<u>(6,138)</u>	<u>1,427,653</u>
<b>Less: Accumulated depreciation and amortization</b>					
Buildings and fixtures	332,250	34,021	(4)	-	366,267
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	188,063	19,537	(757)	(5,319)	201,524
Internally developed software	3,966	7,244	(76)	-	11,134
Leased property	11,711	4,063	837	(116)	16,495
Other	1,260	637	-	(150)	1,747
Total accumulated depreciation and amortization	<u>539,703</u>	<u>65,502</u>	<u>-</u>	<u>(5,585)</u>	<u>599,620</u>
Capital assets, net	<u>\$ 848,886</u>	<u>\$ (20,300)</u>	<u>\$ -</u>	<u>\$ (553)</u>	<u>\$ 828,033</u>

The buildings and fixtures above include \$13,828,000 and \$15,512,000 of net assets under capital leases at June 30, 2016 and 2015, respectively. This is in addition to the leased property noted.

Interest in the amount of \$105,725 was capitalized as part of the cost of the Student Information System for the year ended June 30, 2016. Due to its immateriality, there was no capitalized interest recorded for the year ended June 30, 2015.

Library holdings comprise books and periodicals, including old and rare books, held by UAMS. The estimated fair value of the holdings at June 30, 2016 and 2015 was \$1,292,000 and \$1,280,000, respectively. UAMS has not reported library holdings in the accompanying statement of net position.

**8. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following at June 30, 2016 and 2015:

<i>(in thousands)</i>	2016	2015
Trade payables	\$ 24,536	\$ 21,095
Accrued wages	46,293	46,014
Miscellaneous payables	20,984	16,728
Total accounts payable and accrued liabilities	<u>\$ 91,813</u>	<u>\$ 83,837</u>

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**9. Long-Term Obligations**

Changes in long-term obligations during fiscal year 2016 were as follows:

<i>(in thousands)</i>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Bonds payable	\$ 273,903	\$ -	\$ 8,345	\$ 265,558
Notes payable	50,770	65	10,686	40,149
Capital leases	33,638	2,551	8,720	27,469
Total debt	<u>358,311</u>	<u>2,616</u>	<u>27,751</u>	<u>333,176</u>
Compensated absences	50,784	4,146	2,217	52,713
Other postemployment benefits	30,414	3,504	-	33,918
Early retirement liability	1,982	822	1,982	822
Total obligations	<u>\$ 441,491</u>	<u>\$ 11,088</u>	<u>\$ 31,950</u>	<u>\$ 420,629</u>

The current and long-term portions of the categories noted above were as follows at June 30, 2016:

<i>(in thousands)</i>	<b>Current</b>	<b>Long Term</b>	<b>Total</b>
Bonds payable	\$ 6,965	\$ 258,593	\$ 265,558
Notes payable	15,722	24,427	40,149
Capital leases	7,361	20,108	27,469
Total debt	<u>30,048</u>	<u>303,128</u>	<u>333,176</u>
Compensated absences	3,511	49,202	52,713
Other postemployment benefits	-	33,918	33,918
Early retirement liability	737	85	822
Total obligations	<u>\$ 34,296</u>	<u>\$ 386,333</u>	<u>\$ 420,629</u>

Changes in long-term obligations during fiscal year 2015 were as follows:

<i>(in thousands)</i>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Bonds payable	\$ 279,173	\$ 98,748	\$ 104,018	\$ 273,903
Notes payable	55,620	5,588	10,438	50,770
Capital leases	30,896	10,730	7,988	33,638
Total debt	<u>365,689</u>	<u>115,066</u>	<u>122,444</u>	<u>358,311</u>
Compensated absences	48,420	3,364	1,000	50,784
Other postemployment benefits	27,146	3,268	-	30,414
Early retirement liability	2,423	1,982	2,423	1,982
Total obligations	<u>\$ 443,678</u>	<u>\$ 123,680</u>	<u>\$ 125,867</u>	<u>\$ 441,491</u>

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The current and long-term portions of the categories noted above were as follows at June 30, 2015:

<i>(in thousands)</i>	<b>Current</b>	<b>Long Term</b>	<b>Total</b>
Bonds payable	\$ 6,765	\$ 267,138	\$ 273,903
Notes payable	10,611	40,159	50,770
Capital leases	8,748	24,890	33,638
Total debt	<u>26,124</u>	<u>332,187</u>	<u>358,311</u>
Compensated absences	3,127	47,657	50,784
Other postemployment benefits	-	30,414	30,414
Early retirement liability	1,356	626	1,982
Total obligations	<u>\$ 30,607</u>	<u>\$ 410,884</u>	<u>\$ 441,491</u>

UAMS has bonds outstanding for various facilities. Revenues from clinical services are pledged to service those bonds. The bonds contain covenants which 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, 2016, such pledged revenues were 4,533% 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 which 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, 2016, such pledged revenues were 276% of the related debt service.

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

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A summary of the principal amount of outstanding bonds payable is as follows at June 30, 2016 and 2015:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Parking System Revenue Refunding Bonds, Series 2010, \$7,605,000 original amount plus a premium of \$560,000, due annually to 2019, various fixed interest rates of 2.0% to 4.5% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	<b>PAR</b> \$ 3,720 <b>Premium</b> 185	<b>PAR</b> \$ 4,555 <b>Premium</b> 247
Various Facility Revenue Bonds, Series 2010A, \$42,680,000 original amount plus a premium of \$2,876,000 due annually to 2030, various fixed interest rates of 2.00% to 5.00%, collateralized by pledged revenue.	<b>PAR</b> 38,080 <b>Premium</b> 2,079	39,820 2,223
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.	<b>PAR</b> 7,640 <b>Discount</b> (44)	7,960 (46)
Various Facility Revenue Bonds, Series 2013, \$112,665,000 original amount, \$16,667,000 premium due annually to 2034. Used to advance refund the Series 2004A and 2004B Various Facility Bonds. Various fixed interest rates of 1.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	<b>PAR</b> 104,630 <b>Premium</b> 14,237	107,550 15,014
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 2.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	<b>PAR</b> 83,240 <b>Premium</b> 11,791	84,190 12,390
Total bonds payable	<u>\$ 265,558</u>	<u>\$ 273,903</u>

Scheduled maturities of bonds and notes payable are as follows:

<i>(in thousands)</i>	<b>Bonds Payable</b>				<b>Notes Payable</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Premium Amortized</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 6,965	\$ 10,842	\$ 1,580	\$ 19,387	\$ 15,722	\$ 579	\$ 16,301
2018	7,205	10,576	1,580	19,361	9,988	314	10,302
2019	8,175	10,261	1,580	20,016	10,150	151	10,301
2020	10,510	9,917	1,518	21,945	2,648	33	2,681
2021	9,940	9,451	1,518	20,909	1,090	15	1,105
2022-2026	57,690	39,256	7,589	104,535	551	2	553
2027-2031	73,630	23,197	7,505	104,332	-	-	-
2032-2036	63,195	6,652	5,379	75,226	-	-	-
	<u>\$ 237,310</u>	<u>\$ 120,152</u>	<u>\$ 28,248</u>	<u>\$ 385,711</u>	<u>\$ 40,149</u>	<u>\$ 1,094</u>	<u>\$ 41,243</u>

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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%. Principal payments are made annually until 2036. Interest payments are made semi-annually. 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 \$112,665,000 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% to 5%. 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 October 2034.

The Parking System Revenue Refunding Bonds, Series 2011, were issued in November 2011. The 2011 issue provided \$8,985,000 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 2.00% 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.

The Parking System Revenue Refunding Bonds, Series 2010, were issued in June 2010. The 2010 Bonds were issued to refund the Parking System Revenue Construction and Refunding Bonds, Series 1998. The \$7,605,000 issue enabled UAMS to take advantage of lower rates. The remaining 2010 Bonds bear interest at 4.5%. Principal payments are due annually, with interest payments due semiannually until the year 2019. The refunding resulted in a net present value benefit of \$770,000.

**10. Commitments**

**Capital Leases**

Scheduled maturities of capital lease commitments outstanding as of June 30, 2016 are as follows:

<i>(in thousands)</i>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 7,362	\$ 623	\$ 7,985
2018	5,777	466	6,243
2019	5,250	352	5,602
2020	3,243	249	3,492
2021	2,400	165	2,565
2022–2026	3,437	200	3,637
	<u>\$ 27,469</u>	<u>\$ 2,055</u>	<u>\$ 29,524</u>

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**Operating Leases**

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2016:

*(in thousands)*

2017	\$	6,400
2018		3,652
2019		1,514
2020		548
2021		405
2022-2026		1,481
Total minimum payments required	\$	<u>14,000</u>

Rental expense for operating leases for the year ended June 30, 2016 and 2015 was approximately \$7,523,000 and \$7,845,000, respectively, and is included in supplies and other services in the accompanying statement of revenues, expenses, and changes in net position.

**Construction Projects**

Construction in progress at June 30, 2016 included the renovation of the new AHEC Fort Smith facility, and a student information system. At June 30, 2016 construction contracts outstanding were approximately \$9,395,000.

**Outstanding Commitments**

At June 30, 2016 and 2015 UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$295,328,000 and \$190,421,000, respectively.

**11. Retirement Benefits**

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

**University of Arkansas Optional Retirement Plan**

***Plan Description***

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

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

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Effective July 2016, employees will be 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 1 year to 2 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 \$26,500 per employee, which is the IRS maximum for tax year 2016. The eligible salary earnings for UAMS employees covered by UAORP for the years ended June 30, 2016 was \$671,488,000. Total employer contributions during fiscal year 2016 to TIAA-CREF and Fidelity were \$52,989,000. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal year 2016 were \$59,605,000.

### **Arkansas Teacher Retirement System (ARTRS)**

#### ***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 the System is vested in the fifteen members of the Board of Trustees of the Arkansas Teacher Retirement System (the Board). Membership includes eleven 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 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory	2.15 %
Noncontributory	1.39 %

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

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

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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 the Arkansas Teacher Retirement System (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 Board of Trustees of ARTRS 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, 2016. This rate is unchanged from the previous year. The gross payroll amount for UAMS employees covered by ARTRS for the year ended June 30, 2016 was \$299,045. UAMS and member's contributions for the year ending June 30, 2016, were \$41,866 and \$10,929, respectively.

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

At June 30, 2016, UAMS reported a liability of \$320,396 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2016, UAMS' proportion was 0.009837 percent.

For the year ended June 30, 2016, UAMS recognized pension expense of \$20,102. At June 30, 2016, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 10,011	\$ (6,565)
Changes in Proportion and Differences Between Employer Contributions and Share of Contributions	6,446	
Net difference between projected and actual earnings on pension plan investments	42,358	(83,267)
UAMS contributions subsequent to the measurement date	41,866	
<b>Total</b>	<b>\$ 100,681</b>	<b>\$ (89,832)</b>

\$41,866 was reported as deferred outflows of resources related to pensions resulting from UAMS' contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows or



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

<b>Years Ended June 30,</b>	
2016	
2017	\$ (15,433)
2018	(15,433)
2019	(15,433)
2020	12,897
2021	2,385
Thereafter	-

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 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	3.25%
Salary increases	3.25-9.10%
Investment rate of return	8%
Post-retirement cost-of-living increases	3% Simple
Mortality table	Based on RP-2000 Mortality table for males and females, projected 25 years using Projection Scale AA, (95% for men & 87% for women)
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, 2005 – June 30, 2010

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 the System's target asset allocation as of June 30, 2015 are summarized below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global equity	50 %	4.7 %
Fixed income	20	0.9
Alternatives	5	4.4
Real assets	15	4.3
Private equity	10	6.5
Cash equivalents	0	0.1
<b>Total</b>	<b>100 %</b>	<b>4.1 %</b>

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### Discount Rate

A single discount rate of 8.0% 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 8.0%. It incorporates a municipal bond rate of 3.80% taken from Federal Reserve statistical release (H.15) as of June 25, 2015. 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% 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's proportionate share of the net pension liability using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
\$ 532,103	\$ 320,396	\$ 142,930

### 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, 2016.

### Arkansas Public Employees Retirement System (APERS)

#### *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 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>.

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### Benefits Provided

APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-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 7/1/2005	2.07%
Contributory, on or after 7/1/2005	2.03%
Non-Contributory	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 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 & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

### 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% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan. UAMS contributed 14.5% of applicable compensation for the fiscal year ended June 30, 2016. The gross payroll amount for UAMS employees covered by APERS for the year ended June 30, 2016 was \$10,271,365. UAMS' and member's contributions for the year ending June 30, 2016, were \$1,489,348 and \$390,368, respectively.

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

At June 30, 2016 UAMS reported a liability of \$8,735,105 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2016, UAMS' proportion was 0.47428717 percent.

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For the year ended June 30, 2016, UAMS recognized pension expense of \$403,354. At June 30, 2016, 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
Differences between expected and actual experience		\$ (572,660)
Changes of assumptions	\$ 1,289,116	
Changes in Proportion and Differences Between Employer Contributions and Share of Contributions	\$ 203,901	
Net difference between projected and actual earnings on pension plan investments		\$ (433,391)
UAMS contributions subsequent to the measurement date	\$ 1,489,348	
Total	\$ 2,982,365	\$ (1,006,051)

\$1,489,348 was reported as deferred outflows of resources related to pensions resulting from UAMS contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:

Years Ended June 30,	
2016	
2017	\$ 37,083
2018	37,083
2019	(42,606)
2020	455,406
Thereafter	-

**Actuarial Assumptions**

The total pension liability in the June 30, 2015 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	7.50%
Salary increases	3.25 – 9.85%
Wage Inflation	3.25%
Post-Retirement Cost-of-Living Increases	3% 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 Service Life of All Members	4.5972

The long-term expected rate of return on pension plan investments of 5.25% 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

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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, 2015 are summarized below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Broad Domestic Equity	42%	6.82%
International Equity	25%	6.88%
Real Assets	12%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	16%	0.83%
Total	100%	5.25%

Assumption Changes: Economic assumptions were updated in the June 30, 2015 valuation to a 7.50% investment return assumption and a 3.25% wage inflation assumption. The 3.25% represents base inflation, excluding merit or seniority increases.

**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 3.80% based on the *Bond Buyer 20-Bond Index* of general obligation municipal bonds as of June 26, 2015 (i.e., 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's 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 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

<b>Sensitivity of Discount Rate</b>		
<b>1% Decrease (6.50%)</b>	<b>Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
\$ 14,388,972	\$ 8,735,105	\$ 4,033,076

**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.

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#### **Payables to the Pension Plan**

UAMS reported payables to APERS of \$0 at June 30, 2016.

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

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

Governmental entities recognize and match other postretirement benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. Accordingly, UAMS accrued \$3,504,000 and \$3,269,000 in retiree healthcare expense during the fiscal year ended June 30, 2016 and 2015, respectively.

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

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

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

**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 the Financial Statements

### June 30, 2016 and 2015

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#### Summary of Key Actuarial Methods and Assumptions

##### University Self-funded Plan

Valuation date	July 1, 2015 valuation for the fiscal year ended June 30, 2016
Valuation year	Census data was collected as of January 1, 2015. Liabilities were measured as of July 1, 2015 valuation date.
Actuarial cost method	Projected unit credit
Amortization method	30 years open, level percentage of payroll
Asset valuation method	N/A
Discount rate	4.50%
Projected payroll growth rate	4.00%
Medical trend rate	Initial rate of 6% for 1 year, increasing to 7% for FY 2016 and FY 2017, then dropping by .25% every 2 years afterwards until FY 2028 when the rate drops .25% per year until it reaches a final rate of 4.5%.
Dental trend rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs.

#### General Overview of the Valuation Methodology

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

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

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

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

#### Changes in Actuarial Assumptions and Methods

There have been no changes in actuarial assumptions or methods since the prior valuation.

#### Medical Coverage – Retirees not Eligible for Medicare

Claim experience for the period January 1, 2013 through February 28, 2015 was used to develop the claims cost for non-Medicare eligible retirees. The paid claims data was converted to an incurred basis using a completion factor approach. This experience includes 1,037 life years of exposure and was deemed to be 61% credible for medical claims and 86% credible for prescription drug claims. The experience was combined with the active claims experience adjusted for demographic differences to produce the per capita claims costs used in the valuation. Adjustment factors were then applied to develop expected claims by age to be used in the valuation.

**University of Arkansas for Medical Sciences**  
**Notes to the Financial Statements**  
**June 30, 2016 and 2015**

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**Medical Coverage – Retirees Eligible for Medicare**

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

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

<i>(in thousands)</i>	<b>July 1,</b>	
	<b>2016</b>	<b>2015</b>
Unfunded actuarial accrued liability	\$ 36,342	\$ 32,917
<b>Annual Required Contribution (ARC)</b>		
Normal cost	2,592	2,480
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	1,297	1,175
Interest	175	165
Annual Required Contribution (ARC)	<u>4,064</u>	<u>3,820</u>
<b>Annual OPEB Cost</b>		
Interest on net OPEB obligation	1,369	1,221
ARC amortization adjustment	(1,135)	(1,013)
Annual OPEB Cost	<u>4,298</u>	<u>4,028</u>
Less: Expected employer contributions	<u>(794)</u>	<u>(760)</u>
End-of-year accrual	3,504	3,268
Beginning of year liability	30,414	27,146
End of year of year liability	<u>\$ 33,918</u>	<u>\$ 30,414</u>

**Schedule of Employer Contributions**

<i>(in thousands)</i>	<b>Annual Contributions</b>	<b>Expected Contributions</b>	<b>Percentage Contributed</b>
<b>Fiscal Years Ended</b>			
June 30, 2016	\$ 4,298	\$ 794	18.47 %
June 30, 2015	\$ 4,028	\$ 760	18.87 %

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



**University of Arkansas for Medical Sciences**  
**Notes to the Financial Statements**  
**June 30, 2016 and 2015**

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**13. Affiliated Entities**

The UA Foundation operates as a non-profit benevolent corporation for charitable educational purposes. It was established to benefit the University, or its students, faculty, and staff. The Board of Directors of the UA Foundation includes four members who are also members, or former members, of the University of Arkansas System Board of Trustees. Support, by the UA Foundation on behalf of UAMS, was \$29,923,000 and \$16,556,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, revenue of \$18,302,000 and \$30,628,000, respectively, was received by the UA Foundation for the benefit of UAMS.

**14. Related-Party Transactions**

Notes receivable from related parties at June 30, 2016 and 2015 are as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
University of Arkansas at Fayetteville	\$ 717	\$ 738
Arkansas State Hospital	4,157	4,749
Arkansas Department of Health	356	649
University of Arkansas System (eVersity)	653	-
Total included in notes and student loans receivable (Note 6)	<u>\$ 5,883</u>	<u>\$ 6,136</u>

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

A member of the UA Board is the Chairman of the privately-held First Security Bancorp, based in Searcy, Arkansas. As a result of a competitive proposal process, UAMS has used the related First Security Bank for primary banking services since September 1, 2011. At June 30, 2016, bank balances held at First Security Bank totaled \$102,093,546, with the related UAMS book balances totaling \$98,264,571, which are included in the Statement of Net Position.

# University of Arkansas for Medical Sciences

## Notes to the Financial Statements

### June 30, 2016 and 2015

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#### 15. Contingencies

Amounts received and expended by UAMS under various federal and state programs are subject to audit by governmental agencies. Management believes that adjustments, if any, which might result from such audits would not have a significant impact on the financial position of UAMS. Immunity provisions in Arkansas law prohibit suits naming the Board of Trustees of the University of Arkansas System or UAMS as a defendant in Arkansas State courts. Employees of UAMS acting in good faith in the course and scope of their employment may be sued in state courts, but only to the extent of maintained insurance coverage. UAMS maintains malpractice insurance for certain employees under a claims-made policy. Premiums are accrued based on 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. UAMS incurred costs of \$4,000,000 for this insurance during each of the year ended June 30, 2016 and 2015. A party may bring an action against UAMS through the Arkansas State Claims Commission (the Claims Commission). The Claims Commission may award a claim of up to \$15,000 without further review or appropriation. Awards that the Claims Commission approves in excess of \$15,000 must be approved and appropriated by the Arkansas State Legislature. Appropriations of this type, if any, reduce appropriations from the state to UAMS in the period in which the claim is appropriated.

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

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

In fiscal year 2006, the Arkansas Development Finance Authority (the Authority) issued \$36,775,000 in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the UA Board to fund an expansion to the Arkansas Cancer Research Center, 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

**University of Arkansas for Medical Sciences**  
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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, 2016, UAMS would have incurred a liability of \$60,170,540 related to the issue. This amount includes drawdown of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

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

**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:

*(in thousands)*

	Year Ended June 30, 2016				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 564,627	\$ 325,389	\$ -	\$ -	\$ 890,016
Instruction	108,319	11,975	-	-	120,294
Research	74,988	32,574	-	-	107,562
Public services	18,916	9,201	-	-	28,117
Academic support	18,222	4,864	-	-	23,086
Student services	1,591	2,247	-	-	3,838
Institutional support	106,696	17,279	-	-	123,975
Operation and maintenance of plant	32,264	23,033	-	-	55,297
Scholarships and awards	-	-	2,024	-	2,024
Auxiliary	1,184	1,416	-	-	2,600
Depreciation and amortization	-	-	-	65,768	65,768
Other	1,813	8,214	-	-	10,027
	<u>\$ 928,620</u>	<u>\$ 436,192</u>	<u>\$ 2,024</u>	<u>\$ 65,768</u>	<u>\$ 1,432,604</u>

*(in thousands)*

	Year Ended June 30, 2015				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 487,687	\$ 280,069	\$ -	\$ -	\$ 767,756
Instruction	131,720	12,051	-	-	143,771
Research	80,501	32,119	-	-	112,620
Public services	16,473	8,556	-	-	25,029
Academic support	20,888	5,325	-	-	26,213
Student services	1,726	1,921	-	-	3,647
Institutional support	99,770	22,483	-	-	122,253
Operation and maintenance of plant	33,856	13,976	-	-	47,832
Scholarships and awards	-	-	1,169	-	1,169
Auxiliary	4,241	2,929	-	-	7,170
Depreciation and amortization	-	-	-	65,266	65,266
Other	1,758	12,580	-	-	14,338
	<u>\$ 878,620</u>	<u>\$ 392,009</u>	<u>\$ 1,169</u>	<u>\$ 65,266</u>	<u>\$ 1,337,064</u>

**University of Arkansas for Medical Sciences**  
**Required Supplementary Information**  
**June 30, 2016 and 2015**

**Employee Benefits**

<b>Schedule of UAMS' Proportional Share of the Net Pension Liability Arkansas Teacher Retirement System</b>		
	<u>2016*</u>	<u>2015**</u>
UAMS' proportion of net pension liability	0.0098%	0.0096 %
UAMS' proportionate share of net pension liability	\$ 320,396	\$ 252,882
UAMS' covered payroll	\$ 299,045	\$ 286,668
UAMS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	107.14 %	88.21 %
Plan fiduciary net position as a percentage of the total pension liability	82.20 %	84.98 %
* The amounts presented were determined as of 6/30/15		
** The amounts presented were determined as of 6/30/14		

<b>Schedule of UAMS' Contributions Arkansas Teacher Retirement System</b>		
	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 41,866	\$ 40,133
Contributions in relation to the contractually required contribution	(41,866)	(40,133)
Contribution deficiency (excess)	\$ -	\$ -
UAMS' covered payroll	\$ 299,045	\$ 286,668
Contributions as a percentage of covered-employee payroll	14.00 %	14.00 %

**University of Arkansas for Medical Sciences**  
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<b>Schedule of UAMS' Proportional Share of the Net Pension Liability</b> <b>Arkansas Public Employees Retirement System</b>		
	<b>2016*</b>	<b>2015**</b>
UAMS' proportion of net pension liability	0.4743 %	0.4600 %
UAMS' proportionate share of net pension liability	\$ 8,735,105	\$ 6,527,329
UAMS' covered payroll	\$ 10,271,365	\$ 8,415,014
UAMS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.04 %	77.57 %
Plan fiduciary net position as a percentage of the total pension liability	80.39 %	84.21 %
* The amounts presented were determined as of 6/30/15		
** The amounts presented were determined as of 6/30/14		

<b>Schedule of UAMS' Contributions</b> <b>Arkansas Public Employees Retirement System</b>		
	<u><b>2016</b></u>	<u><b>2015</b></u>
Contractually required contribution	\$ 1,489,348	\$ 1,242,056
Contributions in relation to the contractually required contribution	<u>(1,489,348)</u>	<u>(1,242,056)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
UAMS' covered payroll	\$ 10,271,365	\$ 8,415,014
Contributions as a percentage of covered-employee payroll	14.50 %	14.76 %

**Changes in Assumptions**

Amounts reported in 2016 reflect a change in economic assumptions used in the valuation. The investment return assumption used was 7.50% and the wage rate assumption used was 3.25%.

**Other Postemployment Benefits**  
***General Overview of the Valuation Methodology***

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

# University of Arkansas for Medical Sciences

## Required Supplementary Information

### June 30, 2016 and 2015

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

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

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

**Changes in Actuarial Assumptions and Methods** There have been no changes in actuarial assumptions or methods since the prior valuation.

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

Claim experience for the period January 1, 2013 through February 28, 2015 was used to develop the claims cost for non-Medicare eligible retirees. The paid claims data was converted to an incurred basis using a completion factor approach. This experience includes 1,037 life years of exposure and was deemed to be 61% credible for medical claims and 86% credible for prescription drug claims. The experience was combined with the active claims experience adjusted for demographic differences to produce the per capita claims costs used in the valuation. Adjustment factors were then applied to develop expected claims by age to be used in the valuation.

#### **Medical Coverage – Retirees Eligible for Medicare**

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

**University of Arkansas for Medical Sciences**  
**Required Supplementary Information**  
**June 30, 2016 and 2015**

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

<i>(in thousands)</i>	<b>July 1,</b>	
	<b>2016</b>	<b>2015</b>
Unfunded actuarial accrued liability	\$ 36,342	\$ 32,917
<b>Annual Required Contribution (ARC)</b>		
Normal cost	2,592	2,480
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	1,297	1,175
Interest	175	165
Annual Required Contribution (ARC)	4,064	3,820
<b>Annual OPEB Cost</b>		
Interest on net OPEB obligation	1,369	1,221
ARC amortization adjustment	(1,135)	(1,013)
Annual OPEB Cost	4,298	4,028
Less: Expected employer contributions	(794)	(760)
End-of-year accrual	3,504	3,268
Beginning of year liability	30,414	27,146
End of year of year liability	\$ 33,918	\$ 30,414

**Schedule of Employer Contributions**

<i>(in thousands)</i>	<b>Annual Contributions</b>	<b>Expected Contributions</b>	<b>Percentage Contributed</b>
<b>Fiscal Years Ended</b>			
June 30, 2016	\$ 4,298	\$ 794	18.47 %
June 30, 2015	\$ 4,028	\$ 760	18.87 %
June 30, 2014	\$ 2,794	\$ 457	16.36 %

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

**University of Arkansas for Medical Sciences**  
**Required Supplementary Information**  
**June 30, 2016 and 2015**

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**Schedule of Funding Progress (Unaudited)**

*(in thousands)*

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
<b>Fiscal Years Ended</b>						
June 30, 2016	\$ -	\$ 36,342	\$ 36,342	\$ -	\$ 682,058	5 %
June 30, 2015	-	32,917	32,917	-	650,219	5
June 30, 2014	-	23,253	23,253	-	633,209	4





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

To the Board of Trustees  
The University of Arkansas System:

We have audited, in accordance with 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, the financial statements of the University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon, which included an additional paragraph concerning Management's Discussion and Analysis and Required Supplementary Information, dated October 6, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University of Arkansas of Medical Sciences' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UAMS's internal control. Accordingly, we do not express an opinion on the effectiveness of UAMS's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001, which we consider to be significant deficiency.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Little Rock, AR  
October 6, 2016



**Report of Independent Auditors on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on Internal  
Control Over Compliance in Accordance with the OMB Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

We have audited the University of Arkansas for Medical Sciences' (UAMS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of UAMS's major federal programs for the year ended June 30, 2016. UAMS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of UAMS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UAMS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, UAMS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

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

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

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

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

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Little Rock, AR  
November 9, 2016

# University of Arkansas for Medical Sciences Schedule of Expenditures of Federal Awards June 30, 2016

Federal grantor/pass-through program or cluster title	CFDA No	Pass through Entity	Pass through Entity Identifying Number	Total Expenditures	Subrecipients Expenditures
Research and Development Cluster					
United States Department of Agriculture					
Agriculture and Food Research Initiative (AFRI)	10.310	University of Arkansas - Fayetteville	2011-68001-30014/JA AES 91086	379,955	2,545
Cooperative Extension Service	10.500	University of Arkansas - Fayetteville	MOA 21687-01	15,496	
Total for United States Department of Agriculture				<u>\$ 395,451</u>	<u>\$ 2,545</u>
United States Department of Defense					
Issue of Department of Defense excess equipment	12.000	Battelle Memorial Institute	W911NF-11-D-0001	52,644	
Issue of Department of Defense excess equipment	12.000	University of Washington	W81XWH-16-2-004	4,339	
Military Medical Research and Development	12.420	University of Arkansas at Little Rock	W81XWH1-11-0795	-3,491	
Military Medical Research and Development	12.420	University of Tennessee	W81XWH-12-2-0020	21,330	
Military Medical Research and Development	12.420		W81XWH-15-1-0489	365,660	
Military Medical Research and Development	12.420		W81XWH-15-1-0716	306,248	
Basic Scientific Research	12.431		W911NF-10-1-0058	6,415	
Total for United States Department of Defense				<u>\$ 753,145</u>	<u>\$ -</u>
National Aeronautics and Space Administration					
Miscellaneous National Aeronautics and Space Administration	43Unknown	Loma Linda University Medical Center	607195-3102	596	
Miscellaneous National Aeronautics and Space Administration	43Unknown	National Space Biomedical Research Institute	RE03701/RE04001	1,024,273	
Cooperative Agreements	43.001	University of Arkansas at Little Rock	UAMS-241140-ASGC24, 23, Adv	27,815	
Education	43.001	University of Arkansas at Little Rock	NNX13AB29A	6,957	
Total for National Aeronautics and Space Administration				<u>\$ 1,059,641</u>	<u>\$ -</u>
National Science Foundation					
Biological Sciences	47.074			25,955	
Education and Human Resources	47.076			48,861	
Office of International Science and Engineering	47.079	Arkansas Economic Development Commission	16_EPS3-0003	428,414	
Total for National Science Foundation				<u>\$ 503,230</u>	<u>\$ -</u>
United States Department of Health and Human Services					
Maternal and Child Health Federal Consolidated Programs	93.110			16,654	263,651
Environmental Health	93.113			350,669	19,803
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135			659,396	33,314
Research Related to Deafness and Communication Disorders	93.173			66,179	
Research Related to Deafness and Communication Disorders	93.173	Appalachian State University	15-0031 (UAMS)	18,464	
Research on Healthcare Costs, Quality and Outcome	93.226	University of Alabama-Birmingham	1R01HS023345-0/00504400-001	32,127	
Mental Health Research Grants	93.242	Brown University	823	37,775	
Mental Health Research Grants	93.242	University of Massachusetts	6121802/RFS2011038	306	
Mental Health Research Grants	93.242	University of Massachusetts	WA00318975RFS201600	26,085	
Mental Health Research Grants	93.242	Electrical Geodesics, Inc.	R44 MH106421	27,697	
Mental Health Research Grants	93.242			369,361	68,543
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	Benton County Drug Court	5 H79 TI02125-03	44,751	
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243			406,372	
Occupational Safety and Health Program	93.262	Univ. of Texas Health Center at Tyler	SC16-02	14,748	
Occupational Safety and Health Program	93.262			831,339	
Alcohol Research Programs	93.273			272,966	
Drug Abuse and Addiction Research Programs	93.279	University of Kentucky Research Foundation	7 R01 DA026837-04/3048110037-13-138/3048111525-15-034	139,495	

**University of Arkansas for Medical Sciences  
Schedule of Expenditures of Federal Awards (continued)  
June 30, 2016**

Federal grantor/pass-through program or cluster title	CFDA No	Pass through Entity	Pass through Entity Identifying Number	Total Expenditures	Subrecipients Expenditures
Drug Abuse and Addiction Research Programs	93.279	Intervexion	40665/41779	361,882	
Drug Abuse and Addiction Research Programs	93.279	RTI	R01DA034627/888-14-16-45	203,563	
Drug Abuse and Addiction Research Programs	93.279			2,458,524	172,907
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			542,449	52,759
Minority Health and Health Disparities Research	93.307			1,446,138	265,132
Trans-NIH Research Support	93.310	Brown University	U24AA022000/740	50,465	
Trans-NIH Research Support	93.310	Emory University	U01NS038455/T088976	76,891	
National Center for Advancing Translational Research	93.350			127,368	
RESEARCH INFRASTRUCTURE PROGRAMS	93.351			491,528	
National Center for Research Resources	93.389	University of Arkansas- Fayetteville		57	
Cancer Cause and Prevention Research	93.393			692,062	
Cancer Cause and Prevention Research	93.393	University of Minnesota	R01CA122320/P004057501	-54,771	
Cancer Detection and Diagnosis Research	93.394			1,158,423	275,382
Cancer Treatment Research	93.395	CTSU-CALGB	CALGB 90601	-519	
Cancer Treatment Research	93.395	Arkansas Research Alliance	HHSF223201510172	91,178	
Cancer Treatment Research	93.395	Southwest Oncology Group	SWOG 0709, s0931, 203056	-1,240	
Cancer Treatment Research	93.395	University of Alabama-Birmingham	000401263-001	7,364	
Cancer Treatment Research	93.395	EMMES Corporation	U01CA121947-04/168GNA643	44,939	
Cancer Treatment Research	93.395	Gynecologic Oncology Group	202890	12,298	
Cancer Treatment Research	93.395	Oregon Health & Science Univeristy	1UGCA189974	13,507	
Cancer Treatment Research	93.395	University of Arizona	1R01CA197178-01A1	8,478	
Cancer Treatment Research	93.395	UCLA	1568 G TA614	255,239	
Cancer Treatment Research	93.395			1,805,750	121,573
Cancer Biology Research	93.396			265,409	
Cancer Biology Research	93.396	Yale University	U01CA16067/M15A11872(A09908)	4,783	
Cancer Centers Support Grants	93.397	Mayo Clinic	UNI-208331	32,948	
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	ARKANSAS CHILDREN'S HOSPITAL	018287-3	812,611	
Health Care Innovation Challenge	93.610			74,958	38,768
Cardiovascular Diseases Research	93.837			139,456	
Blood Diseases and Resources Research	93.839	University of Iowa	W000732411	196,246	
Blood Diseases and Resources Research	93.839			546,526	10,780
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			1,200,938	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Biostrategies, LLC	R43AR066388	1,596	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Memphis	5-40387	3,146	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Jaeb Center for Health Research	Protocol R/202426	-755	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	MT SINAI MED CT	0255-8161-4609	74,027	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			1,312,988	10,012
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Alabama-Birmingham	5 U01 NS041588/000426787-006	469	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Univ. of Medicine/Dental, New Jersey	R01 NS38384	7,729	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			153,987	
Allergy, Immunology and Transplantation Research	93.855	Boston University	4500001387/4500001889	30,143	
Allergy, Immunology and Transplantation Research	93.855	Duke Clinical Research	5 U19 AI067798	16,420	
Allergy, Immunology and Transplantation Research	93.855	HIV Prevention Trials Network	UM1 AI068619/0080.0182/980	-279	

# University of Arkansas for Medical Sciences

## Schedule of Expenditures of Federal Awards (continued)

### June 30, 2016

Federal grantor/pass-through program or cluster title	CFDA No	Pass through Entity	Pass through Entity Identifying Number	Total Expenditures	Subrecipients Expenditures
Allergy, Immunology and Transplantation Research	93.855	Indiana University	1 R01 AI099278/IN-4689724-UA	99,242	
Allergy, Immunology and Transplantation Research	93.855	University of Alabama-Birmingham	5 R01 AI093692/000410050-001	15,680	
Allergy, Immunology and Transplantation Research	93.855	University of Alabama-Birmingham	U011AI08509/000504111-001	99,960	
Allergy, Immunology and Transplantation Research	93.855	University of Alabama-Birmingham	U48DP005037/000504191-005	9,845	
Allergy, Immunology and Transplantation Research	93.855			1,779,974	
Microbiology and Infectious Diseases Research	93.856	University of Alabama-Birmingham	HHSN266200400073C/000209764-026	2,934	
Biomedical Research and Research Training	93.859	Johns Hopkins University	2002965188	61,724	
Biomedical Research and Research Training	93.859			12,588,399	2,565,183
Child Health and Human Development Extramural Research	93.865			79,626	
Child Health and Human Development Extramural Research	93.865	University of Alabama-Birmingham	1R01HD0824124	41,778	
Aging Research	93.866	Medical University of South Carolina	R01AG046543/MUSC14-076	47,488	
Aging Research	93.866	ESSENTIAL BLENDS	R41AG050375	48,024	
Aging Research	93.866			2,617,200	74,724
Vision Research	93.867			159,626	
Medical Library Assistance	93.879	University of Pittsburgh	0040478 124095	39,683	
Medical Library Assistance	93.879	University of Washington	R01LM012222	114,016	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	Arkansas Research Alliance	HHSF223201210189C	103,315	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	Arkansas Research Alliance	HHSF223201400079	46,239	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	Arkansas Research Alliance	N/A	12,384	
Miscellaneous US Department of Health and Human Services Programs	93.000	University of Arizona	Advance Account	8,478	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	Case Western Reserve University	CDC 200-2009-32598	37,205	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	University of California at San Diego	7399sc	5,304	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	Washington/Madison County Adult Drug Court	1H79T1024160-01/2012-125	54,749	
Miscellaneous US Department of Health and Human Services Programs	93Unknown		HHSN27520130009	223,806	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	University of Alabama-Birmingham	000500918-T010-SC00	9,156	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	University of Alabama-Birmingham	500918-T009-SC001	16,974	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	University of Alabama-Birmingham	HHSN27200006/00500918-T005-SC01	47,200	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	Washington University	WU-16-223	22,212	
Miscellaneous US Department of Health and Human Services Programs	93Unknown		HHSF223201400183C	385,564	42,815
Miscellaneous US Department of Health and Human Services Programs	93Unknown		HHS010020111000-45C	2,556,960	1,444,985
Total for United States Department of Health and Human Services				\$ 39,314,047	\$ 5,460,331
Total for Research and Development Cluster				\$ 42,025,514	\$ 5,462,876
Head Start Cluster					
United States Department of Health and Human Services					
Head Start - Class Room	93.600		06CH709501/502	\$ 7,334,106	\$ -
Total for United States Department of Health and Human Services				\$ 7,334,106	\$ -
Total for Head Start Cluster				\$ 7,334,106	\$ -
Student Financial Aid Cluster					
United States Department of Education					
Federal Supplemental Educational Opportunity Grants	84.007		E P007A140203	3,323	
Federal Pell Grant Program	84.063		E P063P051089	1,144,871	

**University of Arkansas for Medical Sciences  
Schedule of Expenditures of Federal Awards (continued)  
June 30, 2016**

Federal grantor/pass-through program or cluster title	CFDA No	Pass through Entity	Pass through Entity Identifying Number	Total Expenditures	Subrecipients Expenditures
Federal Direct Student Loans	84.268		Direct loans	53,178,521	
Federal Perkins Loan Program	84.038		Perkins	1,178,211	
Total for United States Department of Education				<u>\$ 55,504,926</u>	<u>\$ -</u>
United States Department of Health and Human Services					
Nurse Faculty Loan Program (NFLP)	93.264			2,507	
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342			4,639,863	
Nursing Student Loans	93.364			357,455	
Total for United States Department of Health and Human Services				<u>\$ 4,999,825</u>	<u>\$ -</u>
Total Student Financial Aid Cluster				<u>\$ 60,504,751</u>	<u>\$ -</u>
Other					
United States Department of Labor					
H-1B Job Training Grants	17.268	Department of Workforce Services (ESD)	05-R10-APNF-83	802,696	
Total for United States Department of Labor				<u>\$ 802,696</u>	<u>\$ -</u>
United States Department of Transportation					
National Priority Safety Programs	20.616	Arkansas State Police	M2CPS-2016-02-07 & M8*OP-2016-03-10	268,689	
Total for United States Department of Transportation				<u>\$ 268,689</u>	<u>\$ -</u>
National Aeronautics and Space Administration					
Miscellaneous National Aeronautics and Space Administration	43Unknown		RE04001	75,003	
Total for National Aeronautics and Space Administration				<u>\$ 75,003</u>	<u>\$ -</u>
United States Environmental Protection Agency					
Environmental Education Grants	66.951		NE-00F65601-0	13,277	
Total for United States Department of Defense				<u>\$ 13,277</u>	<u>\$ -</u>
United States Department of Health and Human Services					
Birth Defects and Developmental Disabilities	93.073			419,371	
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107			142,473	
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	Arizona State University	15U77HP03035	669,528	
Maternal and Child Health Federal Consolidated Programs	93.110			776,999	263,651
Injury Prevention and Control Research and State and Community Based Programs	93.136	Arkansas Department of Health	4600031067/4501469216	346,748	133,430
AIDS Education and Training Centers	93.145			-1,273	
Nursing Workforce Diversity	93.178			375,744	
Telehealth Programs	93.211			524,387	
Advanced Nursing Education Grant Program	93.247			502,930	



**University of Arkansas for Medical Sciences  
Schedule of Expenditures of Federal Awards (continued)  
June 30, 2016**

Federal grantor/pass-through program or cluster title	CFDA No	Pass through Entity	Pass through Entity Identifying Number	Total Expenditures	Subrecipients Expenditures
Poison Center Support and Enhancement Grant Program	93.253			165,415	
Children's Hospitals Graduate Medical Education Payment Program	93.255			380,096	
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283			26,360	506
Cancer Treatment Research	93.395	Oregon Health Science Center	9009627_UARMS	21,186	
Cancer Centers Support Grants	93.397	Washington University	1U54CA199092	32,186	
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	Arkansas Children's Hospital	D809MC23141-02	441,030	
Child Care and Development Block Grant (CCDBG)	93.575	Arkansas Dept of Human Services		100	
Children's Justice Grants to States	93.643			173,023	
PPHF: Racial & Ethnic Approaches to Community Heal	93.738			1,065,378	110,495
Grants for Training in Primary Care Medicine and Dentistry	93.884			-3,836	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Department of Human Services	4600027465	302,132	
Geriatric Education Centers	93.969			607,871	124,491
Preventive Health and Health Services Block Grant	93.991	Arkansas Department of Health	PO4501476938	69,401	
Miscellaneous US Department of Health and Human Services Programs	93Unknown	LEIDOS BIOMEDICAL RESEARCH, INC	16X011-#1 thru #4	456,552	6,929
Miscellaneous US Department of Health and Human Services Programs	93Unknown	Houston Academy of Med. - Texas Med Ctr	HHSN-276-2011-00007	3,263	
Total for United States Department of Health and Human Services				<u>\$ 8,023,411</u>	<u>\$ 639,502</u>
Total for Other Federal Expenses				<u>\$ 9,183,076</u>	<u>\$ 639,502</u>
Total or Fiscal Year 2016				<u>\$ 119,047,447</u>	<u>\$ 6,102,378</u>

**University of Arkansas for Medical Sciences**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2016**

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**1. Basis of Accounting**

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

**2. Loans and Loan Guarantees**

Federal awards expended under the following loan programs were determined based on the value of new loans made during the year, plus the balance of loans from previous years, for which the federal government imposes continuing compliance requirements, cash, or administrative cost allowance received. The outstanding balance as of June 30, 2016 of these loans is:

Federal Perkins Loan Programs	CFDA No. 84.038	<b>1,178,211</b>
Health Professions Student Loans	CFDA No. 93.342	<b>4,639,863</b>
Nursing Student Loans	CFDA No. 93.364	<b>357,455</b>
Nurse Faculty Loan Program	CFDA No. 93.264	<b>2,507</b>
		<b><u>6,178,036</u></b>

UAMS currently participates in the Federal Direct Student Loan Program (Direct Loan Program). Proceeds under the Direct Loan Program are disbursed by the federal government, rather than a lending institution, with UAMS providing various administrative support. As UAMS is only responsible for certain administrative duties, outstanding loans are not included in UAMS' financial statements.

**3. Indirect Costs**

UAMS does not charge indirect costs to their federal awards based on the 10% de minimis cost rate, as described in Section 200.414 of the Uniform Guidance as it is not applicable to UAMS.

**University of Arkansas for Medical Sciences**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2015**

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

**Consolidated Financial Statements**

Type of auditor's report issued:

**Unmodified**

Internal control over financial reporting:

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

Noncompliance material to consolidated financial statements noted?

Yes  No

**Federal Awards**

Internal control over major programs:

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

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

**Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) of Uniform Guidance

Yes  No

Identification of major programs:

<b>CFDA Numbers</b>	<b>Name of Federal Program</b>
Various 93.738	Student Financial Aid – Cluster PPHF: Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**University of Arkansas for Medical Sciences**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

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**Part II. Financial Statement Findings Section**

**Finding Number 2016-001**

**Criteria**

Financial Reporting, Medicaid Accruals, Revenue Recognition and Matching Principle rules per GAAP

**Condition, Cause, Affect**

UAMS meets quarterly with the Department of Human Services (DHS) to discuss actual and estimated future Medicaid settlement activity. The activity discussed primarily relates to amounts due or expected to be due to UAMS related to certain cost reimbursement agreements (recorded as patient service revenue) and the associated Medicaid match on these funds which UAMS is required to remit to DHS using State Appropriations (recorded as contra-state appropriations revenue, essentially as an offset to funding received).

As it relates to the Pediatrics (PEDS) and Psychiatric Research Institute (PRI) cost reimbursement agreements, the annual cost reimbursement payments are received by UAMS subsequent to the year in which the amounts were earned (typically in April of the following UAMS fiscal year). Similarly, the related Medicaid match due is paid by UAMS subsequent to fiscal year end. In addition, the Medicaid match payments made by UAMS related to certain other funds received (non PEDS and PRI) are estimated and paid quarterly. Each year, the fourth quarter payment is made by UAMS subsequent to year end. Through participation in the quarterly meetings with DHS and per review of the related quarterly schedules provided by DHS, which detail actual and estimated amounts due to/from UAMS, management determines the appropriate amount to record as revenue and contra-revenue each year. Prior to the current fiscal year, revenue and contra-revenue have been recorded as cash is received and/or paid, and as such a deficiency in internal control exists around Medicaid accruals.

The practice of recognizing revenue for the PEDS and PRI settlements when received, rather than when earned, evolved from an agreement between UAMS and DHS dating back to the origins of these programs. From the programs' beginnings, UAMS management has viewed payments coming from these negotiated settlements to be more uncertain in nature. The conservative practice of recognizing revenue was further encouraged with the more recent changes in the healthcare environment, which includes a desire by payors to move away from such cost based reimbursements. Additionally, the dynamic environment of other DHS-managed Medicaid programs led to uncertainties in the related amounts due to/from UAMS and DHS. Nevertheless, the past practices resulted in financial statement errors.

As a result of the deficiency, no receivables or payables have historically been recorded within the Statement of Net Position related to amounts owed/due to UAMS for the items discussed above, and the amounts recorded as revenue and contra-state appropriations within the Statement of Changes in Net Position have historically included amounts which relate to prior years.

The current year impact to the financial statements related to prior period adjustments is an increase in Net Position of \$3,526,000. See Note 2 of the financial statements for more detail on the adjustments.

**University of Arkansas for Medical Sciences**  
**Schedule of Findings and Questioned Costs (continued)**  
**June 30, 2016**

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**Recommendation**

Management should ensure that through discussions with DHS and through review of the quarterly schedules provided by DHS, that all current year revenues (and related receivables) and contra-revenues (and related payables) have been considered and have been recorded within the appropriate fiscal year within the Statement of Changes in Net Position. As it relates to cash receipts or payments subsequent to year end, which relate to the prior year, management should ensure that any related accruals have been appropriately identified, estimated, and recorded within the appropriate fiscal year within the Statement of Net Position. Lastly, management should ensure that the unpaid balances have been appropriately considered when preparing the Statement of Cash Flows (i.e. changes in receivables relate to 'Patient and Insurance Payments' and changes in payables relate to 'State Appropriations').

**University of Arkansas for Medical Sciences**  
**Schedule of Findings and Questioned Costs (continued)**  
**June 30, 2016**

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**Finance Department**

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**Management Response**

Management concurs with the recommendation. In fiscal 2016, Management recorded the revenue, associated contra-state appropriation (i.e., match) and receivables based on an estimated amount earned in that fiscal year. As a result, the timing of revenue recognition now matches with the year related costs are incurred. This practice will continue into future fiscal years. Additionally, Management will continue to work closely with DHS in monitoring the PEDS and PRI settlement programs as well as other Medicaid programs. Ken Harrison, Assistant Vice Chancellor for Finance and Controller, will oversee the above process to ensure that revenue, contra-state appropriation, and receivables are booked based on the revenue recognition GAAP policy.

**University of Arkansas for Medical Sciences  
Schedule of Findings and Questioned Costs (continued)  
June 30, 2016**

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

No matters were reported.

# University of Arkansas for Medical Sciences

## Summary of Status of Prior Audit Findings

### June 30, 2016

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#### Summary of Status of Prior Audit Findings

#### Finding Number 2015-001

#### Criteria

Information Technology (IT) Environment

#### Condition

The UAMS Information Services Department manages several applications that support the production of the financial statements. These applications include SAP, Oasis, and Epic. Our audit procedures are designed to assess the design effectiveness of the underlying Information Technology General Controls (ITGCs) for these applications. Broadly defined, underlying ITGCs are controls within the domains of Security, Application Change Management, and Application Development that provide the foundation to support the completeness, accuracy, and validity of transactions processed for financial reporting. We noted that the prior year issues related to HBOC have been removed as HBOC is no longer an in scope application. While we noted through our design assessments that management has remediated the deficiency related to the review of Oasis application access and administrative user access, our assessment of the design effectiveness of the information technology general controls for the period ended June 30, 2015 resulted in ongoing exceptions related to the design effectiveness of Logical Security Controls for the following:

- **User Access Review:** Based on our inquiries with management, a process has been designed to support the periodic review of user access to SAP and an initial implementation of this review process has started. However, the periodic review of user access to SAP was not in place to provide coverage for the entire period..
- **Terminated Users:** Terminated users continued to have user transaction access privileges to SAP, Oasis and Epic subsequent to their termination date. The access was not removed timely because HR back-dated the terminations.
- **Administrative Access and Review:** Although an Epic operating system (“OS”) privileged access review is performed, it is incomplete in that it does not include a review of superuser (“su”) log activity which would allow management to detect inappropriate root access through superuser (“su”).Effect
- **Access to Production:** Individuals with development responsibilities have the ability to access the production environment for EPIC. Based on our inquiries with management, while management implemented an informal process to periodically review that developers did not promote their own code outside of the change management process, the control is not consistently performed and documented with relevant action items arising out of the review.

Inappropriate elevated access, coupled with developer access to production, could result in unapproved changes impacting financial reporting being promoted to the production environment and key financial data/programs (e.g., general ledger data) being intentionally or unintentionally modified.



# University of Arkansas for Medical Sciences

## Summary of Status of Prior Audit Findings (continued)

### June 30, 2016

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#### Recommendation

PwC recommended we continue to formalize our control activities related to Information Technology General Controls. Additionally, we should continue ongoing controls education and awareness sessions around the responsibility of the control owners for executing the controls and creating and maintaining the related documentation evidencing that controls are operating consistently, timely, and effectively. Where necessary, these sessions should also extend to those control owners residing outside of Information Services that have responsibility for user access controls.

#### Status

UAMS implemented controls that resolved all of the significant deficiency noted above. See details listed below.

**User Access Review:** Periodic access reviews were in place consistently for the period and a review of superuser ("su") log activity was included for Epic.

**Terminated Users:** The system will no longer allow employees to back date the termination date. The system will record the termination date and automatically terminates user access to domain and SAP.

**Administrative Access and Review:** Periodic access reviews were in place consistently for the period and a review of superuser ("su") log activity was included for Epic.

**Access to Production:** To mitigate the risk of developer access to production, management implemented weekly and quarterly monitoring reviews of EPIC changes to ensure all changes are performed by authorized users and the changes created in the development environment correspond to a change moved into production. The weekly reports are consolidated each quarter and sent to the VP for review and sign off. All review notes and supporting documentation are consistently retained.

PwC notes that all prior year design deficiencies have been resolved.

**University of Arkansas for Medical Sciences**  
**Summary of Status of Prior Audit Findings (continued)**  
**June 30, 2016**

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**Finding Number 2015-2**

<b>Program or Cluster Name</b>	H-1B Job Training Grants
<b>CFDA Numbers</b>	17.268
<b>Federal Award Number</b>	05-R10-APNF-83
<b>Federal Award Year</b>	Various
<b>Federal Agency</b>	Department of Labor

**Criteria**

The classification of awards on the Schedule of Expenditures and Federal Awards (SEFA) should be presented into clusters in accordance with guidelines in A-133 Section .310(b)(1). The SEFA should be broken down into program clusters including Research and Development, Student Financial Aid, and Other clusters as defined by the Compliance Supplement.

**Condition**

Per review of the Final SEFA it was noted that a training award was improperly classified in the Research and Development Cluster as a research and development award. This award should be listed under the Other awards section of the SEFA.

**Effect**

Classifying a federal award incorrectly on the SEFA could result in a program being overlooked as a Type A program for the purpose of Major Program Determination. The Major Program Determination is what drives the number of awards that have to be audited as Major Programs that are high risk and how many associated Type B Program awards that have to be audited (A-133, Section .520).

**Cause**

UAMS' process for classifying awards into a cluster for the SEFA is for the award document to be reviewed. The nature of the award is determined by this review and uploaded into the system. Then when the SEFA is generated the clusters are determined by what was uploaded into the system. Additionally, the SEFA is reviewed yearly when ran based on award name and additional information to ensure that awards are classified into the correct cluster. When this award was granted in 2012, the State of Arkansas reached out to the Department of Nursing at UAMS and informed the department they had a federal award they wanted to pass thru to the Department of Nursing. The Department of Nursing then reached out to Grants Accounting for the award to be set up. Grants Accounting set up an advance account for expenses based on information that was received from the Department of Nursing, which was under the impression the award would be a Research and Development award. When the award documentation was received and the advance account moved to an award account there was not a check in the system when the award documentation was reviewed to ensure that the cluster was set up correctly in the system. Resulting in the award being classified as Research and Development not Other per the SEFA.

**University of Arkansas for Medical Sciences**  
**Summary of Status of Prior Audit Findings (continued)**  
**June 30, 2016**

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**Recommendation**

PwC recommended that management implement a more robust review process for when award documentation is reviewed for when advanced accounts are moved to grant accounts to ensure the nature of the grant is uploaded correctly in the system. This will ensure that awards are classified correctly per the SEFA. Additionally, the review of the SEFA every year should involve a robust scrub of all awards to ensure proper classification.

**Status**

UAMS performed a review of all award documentation when advanced accounts are moved to grants accounts to ensure the nature of the grant is uploaded correctly in the system. UAMS performed a scrub of the SEFA before the final SEFA was finalized for the uniform guidance audit. PwC notes that there was no similar exception in current year.