

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES

Executive Summary of Larger Variances

All Funds except Agency Funds

For the Six Months Ended December 31, 2013

Overview:

UAMS experienced an operating loss of \$27.8 million in the first six months of fiscal 2014. As discussed in this report for the first quarter, UAMS is incurring expenses related to contracts that will be reimbursed by various customers. Virtually all of those contracts have been executed and invoices are currently being issued. However, College of Medicine revenue is still down approximately \$4 million in unbilled contracts, which is expected to be billed and collected in the last half of fiscal 2014. Another \$5 million of the loss is related to net patient service revenue resulting from unbilled charges due to the ramp up of the new Epic software, with the most affected departments being: Kids First, Pediatrics, Internal Medicine, Orthopedics, Neurosurgery, and Surgery. UAMS is beginning to see increased clinical production due to new physicians who have arrived subsequent to July 1, 2013. UAMS expects to recover most, if not all, of the net patient service revenue before fiscal year end.

UAMS has started incurring expenses from the new Epic clinical software system which cannot be capitalized, will be paid for from reserves as provided by the Board resolution and are reflected as operating expenses in the current fiscal year. These expenses accounted for \$1.1 million of the current period loss. The divisions experiencing the larger losses were: College of Medicine (\$12.7 million), Myeloma Institute (\$3.6 million), and Hospital (\$1.6 million). The balance of the loss was primarily related to unfunded building depreciation at the campus level, some of which is expected to be covered by non-operating revenue such as capital gifts and grants.

Revenue variances:

1. Net patient services – Actual vs. Budget, \$7.8 million (1.9%) under budget:

This variance is primarily composed of these unfavorable variances –

- \$2.7 million in the College of Medicine – This is due mainly to Faculty Group Practice billing delays related to the Epic software implementation and physician turnover experienced in the first quarter.
- \$2.5 million in the Hospital – This is the result of a 2.4% negative variance in budgeted adult discharges.
- \$783,000 in Regional Programs – This resulted from lower patient volumes.
- \$680,000 in Radiation Oncology – This is also due to billing delays related to the Epic software implementation noted above.

2. Net patient services – Actual vs. Prior Year, \$4.0 million (1.0%) more than prior period:

Favorable variances from the prior period were noted in both the College of Medicine and the Hospital, where revenues increased by 2.3% and 1.4%, respectively. The College of Medicine increase is due to continued growth in clinical production, which started in the later part of the first quarter, and is

attributed to the hiring of new physicians. The Hospital's increase results from the combination of increased third party payor rates, which went into effect in July, increased discharges and higher acuity cases in the last two months of the current period.

3. Meaningful use – Actual vs. Prior Year, \$2.0 million (66.8%) less than prior period:
This variance is a function of the timing of meeting the thresholds required to qualify for this financial incentive to meaningfully use electronic health records technology. The majority of such revenue for this fiscal year is expected in the later half the year.
4. Federal grants and contracts – Actual vs. Budget, \$12.5 million (30.3%) over budget:
This favorable variance is due primarily to the completion of activity on the College of Medicine BTOP grant, which was originally scheduled to be completed by the end of fiscal 2013. The three month extension on the BTOP grant was completed during the first quarter of fiscal 2014, resulting in the receipt of the final grant funding of \$16.7 million.
5. Federal grants and contracts - Actual vs. Prior Year, \$2.6 million (5.2%) more than prior period:
This favorable variance is primarily due to the increase in BTOP funds noted above, partially offset by a 9% decrease between the two quarters in Federal grants not related to the BTOP grant.
6. Other operating revenue – Actual vs. Prior Year, \$9.1 million (12.0%) less than prior period:
This decrease is due primarily to the nonrecurring recognition in the prior period of \$13.5 million in IRS refunds of employer FICA taxes paid on medical residents in 1996-1999.

Expense variances:

1. Compensation and benefits – Actual vs. Budget, \$6.0 million (1.4%) under budget:
The largest components of this overall favorable variance are:
 - College of Medicine - \$6.4 million
 - Regional Programs - \$2.0 million
 - Psychiatric Research Institute - \$1.3 millionThe Hospital had an unfavorable variance of \$2.4 million due to higher staffing levels resulting from a higher than budgeted adult length of stay.
2. Compensation and benefits – Actual vs. Prior Year, \$19.1 million (4.7%) more than prior period:
This increase from the prior period is due primarily to increases in Hospital staffing and College of Medicine clinical programs totaling \$5.0 million and \$6.8 million, respectively.

3. Supplies and services – Actual vs. Budget, \$10.1 million (5.1%) over budget:
This unfavorable variance is largely attributable to \$15.8 million in expenses during the first quarter associated with the completion of the BTOP grant, as noted in #4 in the Revenue variance section above. The Hospital experienced a favorable variance of \$1.2 million. The College of Medicine experienced a favorable variance, excluding BTOP related expenses, of \$1.6 million.
4. Supplies and services – Actual vs. Prior Year, \$10.2 million (5.2%) more than prior period:
This increase from the prior year is dominated by the increased activity in the BTOP grant noted previously, which resulted in \$8.2 million more in expenses this period compared to the same period last year.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES
Statement of Revenues, Expenses and Changes in Net Position
All Funds except Agency Funds

	Fiscal 2014				Fiscal 2013				Actual vs. Budget				Year to Year Change		% of Annual Budget Achieved
	Annual Budget	12/31/14		Year to Date Budget	% Actual Revenue	Year to Date Actual	% Actual Revenue	Over (Under)		\$	%	\$	%		
		Year to Date Actual	Year to Date Budget					\$	%						
OPERATING REVENUES:															
Student tuition & fees	\$ 37,425,063	\$ 17,649,331	\$ 18,853,170	2.6%	\$ 16,685,761	2.5%	\$ (1,203,839)	-6.4%	\$ 963,570	5.8%	47.2%				
Net patient services	852,393,457	411,299,700	419,135,491	60.8%	407,261,925	60.0%	\$ (7,835,791)	-1.9%	4,037,775	1.0%	48.3%				
Meaningful use	4,231,953	992,294	1,245,976	0.1%	2,989,104	0.4%	\$ (253,682)	-20.4%	(1,996,810)	-66.8%	23.4%				
Federal grants & contracts	82,111,067	53,620,969	41,153,982	7.9%	50,975,746	7.5%	\$ 12,466,987	30.3%	2,645,223	5.2%	65.3%				
State & local grants & contracts	15,413,478	8,989,863	7,564,585	1.3%	8,289,896	1.2%	\$ 1,425,278	18.8%	699,967	8.4%	58.3%				
Nongovernmental grants & contracts	9,438,661	5,688,218	4,719,331	0.8%	6,000,238	0.9%	\$ 968,887	20.5%	(312,020)	-5.2%	60.3%				
Sales & services - education activities	33,276,089	16,877,511	16,638,045	2.5%	16,599,649	2.4%	\$ 239,466	1.4%	277,862	1.7%	50.7%				
Auxiliary enterprises	13,424,695	6,363,573	6,717,685	0.9%	5,248,879	0.8%	\$ (354,112)	-5.3%	1,114,694	21.2%	47.4%				
State appropriations	114,372,982	57,687,917	57,349,028	8.5%	58,562,144	8.6%	\$ 338,889	0.6%	(874,227)	-1.5%	50.4%				
Gifts	16,658,991	6,403,412	8,329,796	0.9%	6,956,094	1.0%	\$ (1,926,384)	-23.1%	(552,682)	-7.9%	38.4%				
Investment income, net	1,778,898	1,012,708	668,497	0.1%	1,483,506	0.2%	\$ 344,211	51.5%	(470,798)	-31.7%	56.9%				
Intra-university revenue	50,779,291	22,928,885	25,250,148	3.4%	21,743,908	3.2%	\$ (2,321,263)	-9.2%	1,184,977	5.4%	45.2%				
Other operating revenues	135,316,632	66,530,760	66,864,609	9.8%	75,636,104	11.1%	\$ (333,849)	-0.5%	(9,105,344)	-12.0%	49.2%				
Total Operating Revenues	1,366,621,257	676,045,141	674,490,343	100.0%	678,432,954	100.0%	1,554,798	0.2%	(2,387,813)	-0.4%	49.5%				
OPERATING EXPENSES:															
Compensation & benefits	862,697,115	423,266,113	429,273,923	62.6%	404,202,589	59.6%	(6,007,810)	-1.4%	19,063,524	4.7%	49.1%				
Supplies & services	390,409,871	207,280,972	197,169,588	30.7%	197,058,149	29.0%	10,111,384	5.1%	10,222,823	5.2%	53.1%				
Scholarships & fellowships	4,432,274	2,543,952	2,403,623	0.4%	2,451,537	0.4%	140,329	5.8%	92,415	3.8%	57.4%				
Interest on capital	14,856,491	6,826,955	7,428,664	1.0%	7,603,688	1.1%	(601,709)	-8.1%	(776,733)	-10.2%	46.0%				
Loss on disposal of capital assets	52,785	100,081	26,394	0.0%	247,771	0.0%	73,687	279.2%	(147,690)	-59.6%	189.6%				
Medicaid match payments	65,991,252	34,522,282	32,995,624	5.1%	31,072,380	4.6%	1,526,658	4.6%	3,449,902	11.1%	52.3%				
Depreciation & amortization	54,698,829	29,292,980	27,349,412	4.3%	27,242,036	4.0%	1,943,568	7.1%	2,050,944	7.5%	53.6%				
Total Operating Expenses	1,393,138,617	703,833,335	696,647,228	104.1%	669,878,150	98.7%	7,186,107	1.0%	33,955,185	5.1%	50.5%				
OPERATING GAIN (LOSS)	\$ (26,517,360)	\$ (27,788,194)	\$ (22,156,885)	-4.1%	\$ 8,554,804	1.3%	\$ (5,631,309)	-25.4%	\$ (36,342,998)	-424.8%	104.8%				
*OTHER CHANGES IN NET POSITION															
Investment gains (losses)	\$ 2,060,100	\$ 4,841,210	\$ 530,050	0.7%	\$ 5,269,696	0.8%	\$ 4,311,160	813.3%	\$ (428,486)	-8.1%	235.0%				
Federal grants for capital projects	-	2,726,851	-	0.4%	581,832	0.1%	2,726,851	0.0%	2,145,019	368.7%	0.0%				
Capital gifts and transfers	26,682,569	21,632	11,915,040	0.0%	1,875,967	0.3%	(11,893,408)	-99.8%	(1,854,335)	-98.8%	0.1%				
Capital expenditures	6,938,081	457,591	3,692,940	0.1%	390,256	0.1%	(3,235,349)	-87.6%	67,335	-17.3%	6.6%				
Capital appropriations	-	-	-	0.0%	250,000	0.0%	-	0.0%	(250,000)	-100.0%	0.0%				
Budgeted margin	(9,163,390)	-	(3,073,237)	0.0%	-	0.0%	3,073,237	100.0%	-	0.0%	0.0%				
Total Other Changes in Net Position	26,517,360	8,047,284	13,064,793	1.2%	8,367,751	1.2%	(5,017,509)	-38.4%	(320,467)	-3.8%	30.3%				
INCREASE (DECREASE) IN NET POSITION	\$ -	\$ (19,740,910)	\$ (9,092,092)	-2.9%	\$ 16,922,555	2.5%	\$ (10,648,818)	-117.1%	\$ (36,663,465)	-216.7%	0.0%				

* Other Changes in Net Position are included here to align this income statement presentation with that of the annual audited financial statements.

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES
Statement of Revenues, Expenses and Changes in Net Position
All Funds except Agency Funds
HOSPITAL

	Fiscal 2014				Fiscal 2013		Actual vs. Budget		Year to Year Change		% of Annual Budget Achieved
	Annual Budget	12/31/13		% Actual Revenue	Year to Date Actual	% Actual Revenue	Over (Under)		Increase (Decrease)		
		Year to Date Actual	Year to Date Budget				\$	%	\$	%	
OPERATING REVENUES:											
Student tuition & fees	\$ 3,504	\$ -	\$ 1,752	0.0%	\$ -	0.0%	\$ (1,752)	-100.0%	\$ -	0.0%	0.0%
Net patient services	554,639,717	276,830,175	279,372,524	96.1%	273,110,304	96.6%	(2,542,349)	-0.9%	3,719,871	1.4%	49.9%
Meaningful use	2,005,453	1,002,744	1,002,726	0.3%	1,500,000	0.5%	18	0.0%	(497,256)	-33.2%	50.0%
Federal grants & contracts	500,004	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	0.0%
State & local grants & contracts	15,000	-	250,002	0.0%	4,161	0.0%	(250,002)	-100.0%	(4,161)	-100.0%	0.0%
Nongovernmental grants & contracts	6,559,020	2,500	7,500	0.0%	2,500	0.0%	(5,000)	-66.7%	-	0.0%	16.7%
Sales & services - education activities	-	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	0.0%
Auxiliary enterprises	-	3,114,035	3,279,510	1.1%	2,890,645	1.0%	(165,475)	-5.0%	223,390	7.7%	47.5%
State appropriations	83,004	-	41,502	0.0%	-	0.0%	-	0.0%	-	0.0%	0.0%
Gifts	-	54,658	-	0.0%	23,135	0.0%	13,156	31.7%	31,523	136.3%	0.0%
Investment income, net	1,187,304	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	0.0%
Intra-university revenue	10,779,456	614,219	593,652	0.2%	574,616	0.2%	20,567	3.5%	39,603	6.9%	51.7%
Other operating revenues	575,772,462	6,320,042	5,389,728	2.2%	4,603,460	1.6%	930,314	17.3%	1,716,582	37.3%	58.6%
Total Operating Revenues		287,938,373	289,938,896	100.0%	282,708,821	100.0%	(2,000,523)	-0.7%	5,229,552	1.8%	50.0%
OPERATING EXPENSES:											
Compensation & benefits	237,085,586	119,036,678	116,601,676	41.3%	114,012,063	40.3%	2,435,002	2.1%	5,024,615	4.4%	50.2%
Supplies & services	235,206,869	120,090,280	121,297,348	41.7%	118,184,876	41.8%	(1,207,068)	-1.0%	1,995,404	1.6%	51.1%
Scholarships & fellowships	100,000	70,300	49,998	0.0%	17,250	0.01%	20,302	40.6%	53,050	307.5%	70.3%
Interest on capital	455,943	133,190	227,970	0.0%	226,580	0.1%	(94,780)	-41.6%	(93,390)	-41.2%	29.2%
Loss on disposal of capital assets	52,785	62,775	26,394	0.0%	18,549	0.01%	36,381	137.8%	44,226	238.4%	118.9%
Medicaid match payments	36,450,000	19,336,986	18,225,000	6.7%	19,179,295	6.78%	1,111,986	6.1%	157,691	0.8%	53.1%
Debt Service transfers	14,700,621	7,350,312	7,350,312	2.6%	7,348,404	2.60%	-	0.0%	1,908	0.0%	50.0%
Campus overhead transfers	38,275,736	19,160,703	19,137,870	6.7%	18,723,597	6.62%	22,833	0.1%	437,106	2.3%	50.1%
Operating transfers	(299,392)	(953,382)	(149,694)	-0.3%	(76,557)	6.69%	(803,688)	-536.9%	(876,825)	-1145.3%	318.4%
Depreciation & amortization	11,350,000	5,277,090	5,674,998	1.8%	5,493,516	1.9%	(397,908)	-7.0%	(216,426)	-3.9%	46.5%
Total Operating Expenses	573,378,148	289,564,932	288,441,872	100.6%	283,127,573	100.1%	1,123,060	0.4%	6,437,359	2.3%	50.5%
OPERATING GAIN (LOSS)	\$ 2,394,314	\$ (1,626,559)	\$ 1,497,024	-0.6%	\$ (418,752)	-0.1%	\$ (3,123,583)	-208.7%	\$ (1,207,807)	-288.4%	-67.9%

***OTHER CHANGES IN NET POSITION**

Capital transfers	\$ -	\$ (713,887)	\$ -	-0.2%	\$ (2,526,793)	-0.9%	\$ (713,887)	0.0%	\$ 1,812,906	71.7%	0.0%
Capital expenditures	-	(66,178)	-	0.0%	(456,539)	-0.2%	(66,178)	0.0%	390,361	85.5%	0.0%
Fund balance transfer	-	(2,200)	-	0.0%	-	0.0%	(2,200)	0.0%	(2,200)	0.0%	0.0%
Budgeted margin	(2,394,314)	-	(1,497,024)	0.0%	-	0.0%	1,497,024	100.0%	-	0.0%	0.0%
Total Other Changes in Net Position	(2,394,314)	(782,265)	(1,497,024)	-0.3%	(2,983,332)	-1.1%	714,759	47.7%	2,201,067	73.8%	32.7%
INCREASE (DECREASE) IN NET POSITION	\$ -	\$ (2,408,824)	\$ -	-0.8%	\$ (3,402,084)	-1.2%	\$ (2,408,824)	0.0%	\$ 993,260	29.2%	0.0%

* Other Changes in Net Position are included here to align this income statement presentation with that of the annual audited financial statements.

University of Arkansas for Medical Sciences
Balance Sheet
December 31, 2013

	Current Funds		
	Unrestricted	Restricted	Total
Assets			
Cash & cash equivalents	\$ 104,783,230	\$ 9,932,548	\$ 114,715,778
Investments	22,073,101	2,092,742	24,165,843
Fund held in trust by others	-	660,822	660,822
Patient accounts receivable	127,219,111	-	127,219,111
Other receivables	64,528,575	21,086,205	85,614,781
Notes receivable	3,533	-	3,533
Inventories	19,663,449	-	19,663,449
Prepaid expenses	5,044,971	38,249	5,083,219
Land, buildings and equipment	1,647,290	15,276	1,662,566
Total assets	\$ 344,963,260	\$ 33,825,842	\$ 378,789,102
Liabilities			
Accounts payable and accrued expenses	\$ 96,773,761	\$ 5,931,226	\$ 102,704,988
Deferred revenues and deposits	3,012,021	12,758,169	15,770,190
Fund held in trust for others	-	-	-
Compensated absences payable	48,381,656	-	48,381,656
Estimated third-party payor settlements	23,121,744	-	23,121,744
Other Post Employment Benefits	26,345,234	-	26,345,234
Deposits	163,895	1,232	165,127
Total liabilities	197,798,310	18,690,627	216,488,937
Fund Balances			
Unrestricted	147,164,949	-	147,164,949
Restricted	-	15,135,215	15,135,215
Total fund balances	147,164,949	15,135,215	162,300,165
Total liabilities and fund balances	\$ 344,963,260	\$ 33,825,842	\$ 378,789,102

UNIVERSITY OF ARKANSAS FOR MEDICAL SCIENCES
FINANCIAL HIGHLIGHTS
December 31, 2013

Cash & Investments

Unrestricted Current Funds	\$ 126,856,331
Restricted Current Funds	12,686,112
Loan Funds	4,626,970
Endowment Funds	44,432,499
Plant Funds	15,911,708
Agency Funds	289,500

Short Term Indebtedness \$ 195,639,657

Long Term Indebtedness \$ 374,471,153

REVENUES & EXPENDITURES

E & G Unrestricted

Revenues	\$ 93,344,517
Expenditures	91,357,464
Excess Revenue over Expenditures	<u>\$ 1,987,054</u>

Patient Care

Revenues	\$ 480,096,280
Expenditures	493,036,213
Excess Revenue over Expenditures	<u>\$ (12,939,933)</u>

Auxiliary Enterprises

Revenues	\$ 3,544,602
Expenditures	2,812,817
Excess Revenue over Expenditures	<u>\$ 731,785</u>

FALL TERM

Student Enrollment (11 day headcount)	2,867
% Change over Prior Year	2.06%
Student Enrollment (11 day FTE count)	2,512
% Change over Prior Year	1.53%
Housing Occupancy	164
% Change over Prior Year	-0.61%