# Financial Report

*June 30, 2016*

*The University of Mississippi*
*Medical Center • Jackson*

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The University of Mississippi Medical Center ("the Medical Center") presents its financial statements for fiscal year 2016 with fiscal years 2015 and 2014 presented for comparative purposes. Management's discussion and analysis provides an overview of the Medical Center's financial activities.

The Medical Center Educational Building Corporation (the Corporation) is a nonprofit corporation and was incorporated in the State of Mississippi with the approval of the Board of Trustees of the State Institutions of Higher Learning (the Board) for the State of Mississippi on June 26, 1991. The purpose of the Corporation is for the acquisition, construction, and equipping of facilities and land for the Medical Center. The Corporation operates on a June 30 fiscal year-end for financial and tax reporting purposes.

The Corporation is a blended component unit of the Medical Center in accordance with Governmental Accounting Standards Board Statement Number 39. The financial statements of the Medical Center include the Corporation due to the composition of the Corporation's Board of Directors and the purpose of the Corporation.

The Medical Center's financial statements consist of three basic financial statements that provide information on the Medical Center as a whole: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. Each one of these statements will be discussed.

## The Medical Center

The Medical Center is five health profession schools, including medicine, and a graduate school in the health sciences. Our graduates make up the backbone - and include many of the leaders – of Mississippi's health-care workforce.

The Medical Center is an integrated health system that trains doctors, nurses, and allied health professionals, offers some of the state's most advanced medical services and serves as a safety net for our most vulnerable citizens. The Medical Center is also a biomedical and clinical research center, seeking new treatments and cures for diseases and conditions that affect Mississippians and sharing that new knowledge with our trainees.

These three missions – education, research, and healthcare – are intertwined to provide the best possible education for the state's brightest students and cutting-edge health services for our patients.

## Statement of Net Position

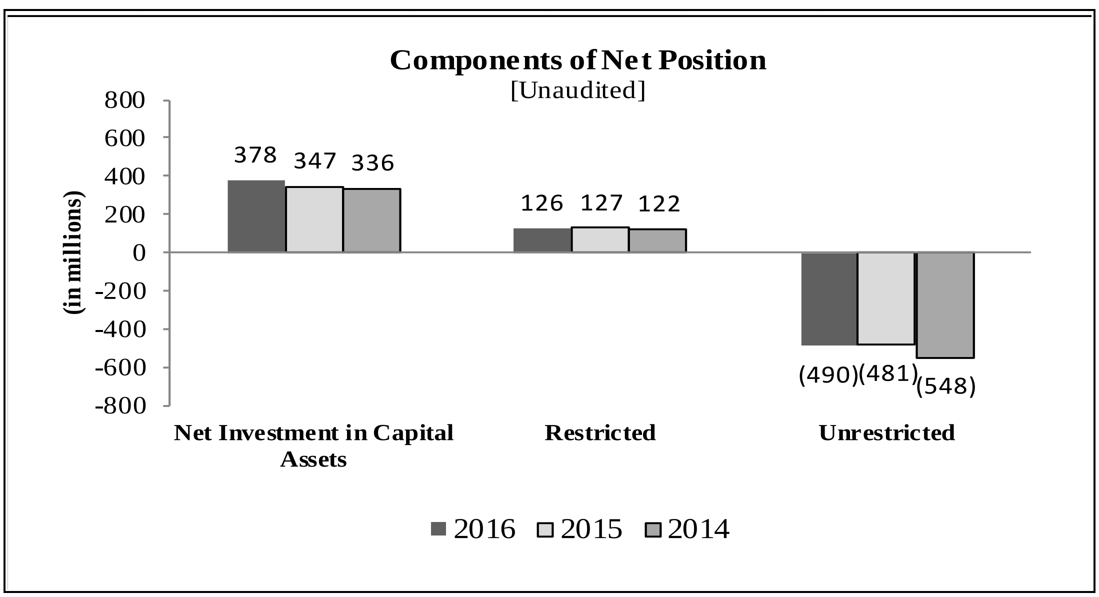
The Statement of Net Position presents the assets, liabilities, and the net position components of the Medical Center using the accrual basis of accounting. The Statement of Net Position is a point in time financial statement. The Statement of Net Position presents end-of-year data concerning Assets (current and noncurrent), Deferred Outflows, Liabilities (current and noncurrent), Deferred Inflows and the components of Net Position (Assets and Deferred Outflows minus Liabilities and Deferred Inflows).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Medical Center. They also are able to determine how much the institution owes vendors and other lending institutions.

Finally, the Statement of Net Position provides a picture of the components of net position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditure by the institution.

The components of Net Position are divided into three major categories. The first category, net investment in capital assets, provides the Medical Center's equity in capital assets owned by the institution. The next category is restricted, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted resources are available for expenditure by the institution 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. Unrestricted assets are available to the institution for any lawful purpose of the institution.

The following graph illustrates the comparative change in net position by category for fiscal years 2016, 2015 and 2014:



## Statement of Net Position (continued)

| Statement of Net Position (in thousands) [Unaudited] | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Assets and Deferred Outflows** | | | |
| Current Assets | $ 500,370 | $ 461,412 | $ 431,261 |
| Capital Assets, Net | 611,917 | 560,606 | 544,364 |
| Other Assets | 279,302 | 298,780 | 253,635 |
| Deferred Outflows of Resources | 238,463 | 112,340 | 69,884 |
| Total Assets and Deferred Outflows | 1,630,052 | 1,433,138 | 1,299,144 |
| **Liabilities and Deferred Inflows** | | | |
| Current Liabilities | 165,085 | 159,263 | 144,069 |
| Noncurrent Liabilities | 1,425,723 | 1,162,233 | 1,245,094 |
| Deferred Inflows of Resources | 25,671 | 119,073 | - |
| Total Liabilities | 1,616,479 | 1,440,569 | 1,389,163 |
| **Net Position** | | | |
| Net Investment in Capital Assets | 378,230 | 346,778 | 335,512 |
| Restricted - Expendable | 99,746 | 102,237 | 97,754 |
| Restricted - Nonexpendable | 25,636 | 25,033 | 24,719 |
| Unrestricted | (490,039) | (481,479) | (548,004) |
| Total Net Position | $ 13,573 | $ (7,431) | $ (90,019) |

At June 30, 2016 current assets totaled $500.4 million and consisted primarily of cash and cash equivalents, short term investments and net receivables. Current assets increased 8.4% ($39.0 million) from 2015. Cash, cash equivalents, and short-term investments constituted approximately 53.4% of current assets as of June 30, 2016 while accounts receivables constituted approximately 38.1% of current assets. Approximately 76.7% of these receivables were related to patient care receivables.

At June 30, 2015 current assets totaled $461.4 million and consisted primarily of cash and cash equivalents, short term investments and net receivables. Current assets increased 7.0% ($30.2 million) from 2014. Cash, cash equivalents, and short-term investments constituted approximately 60.7% of current assets as of June 30, 2015 while accounts receivables constituted approximately 32.9% of current assets. Approximately 78.2% of these net receivables were related to patient care receivables.

Capital assets, net of accumulated depreciation, increased by $51.3 million from 2015 and $16.2 million from 2014. Additional detail on capital assets can be found in Note 5 of the *Notes to the Financial Statements*.

## Statement of Net Position (continued)

At June 30, 2016 current liabilities equaled $165.1 million and consisted primarily of accounts payable and accrued liabilities, and other current liabilities. Other current liabilities include amounts due to third party payors. Current liabilities increased 3.7% ($5.8 million) from 2015. Accounts payable and accrued liabilities increased $11.0 million and other current liabilities decreased $7.7 million.

At June 30, 2015 current liabilities equaled $159.3 million and consisted primarily of accounts payable and accrued liabilities, and other current liabilities. Other current liabilities include amounts due to Medicaid and other third party payors. Current liabilities increased 10.5% ($15.2 million) from 2014. Significant increases were incurred in the areas of accounts payable and accrued liabilities ($6.8 million) and other current liabilities ($6.7 million).

The Medical Center implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during fiscal year 2015. As a result, deferred outflows of resources of $234.0 million, $107.6 million and $65.1 million has been recorded for 2016, 2015 and 2014. Deferred inflows of resources of $25.7 million and $119.1 million has been recorded for 2016 and 2015. Net pension liability (classified as a noncurrent liability) of $1.088 billion, $821.4 million and $902.2 million has been recorded for 2016, 2015 and 2014.

Noncurrent liabilities are those liabilities due and payable more than twelve months from year-end (June 30th). At June 30, 2016 noncurrent liabilities increased 22.7% ($263.5 million) from 2015. The principal reason for the increase was due to the increase in the net pension liability ($266.1 million). At June 30, 2015 noncurrent liabilities decreased 6.7% ($82.9 million) from 2014. The principal reason for the decrease was due to the reduction in the net pension liability ($80.8 million).

The consumption of assets follows the Medical Center's policy to use available resources to meet the goals of the institution in the areas of instruction, research, patient care and public service. At June 30, 2016, the total assets of the Medical Center increased $70.8 million from 2015 and $91.5 million from 2014. Total liabilities increased $269.3 million from 2015 and decreased $67.7 million from 2014. Unrestricted net position decreased $8.6 million from 2015 and increased $66.5 million from 2014.

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

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the Statement of Revenues, Expenses, and Changes in Net Position is to present the revenues received, both operating and nonoperating, and the expenses paid, operating and nonoperating, and any other revenues, expenses, gains and losses received or disbursed by the Medical Center.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the Medical Center. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Medical Center. The net result of operating activities is presented as operating income or loss. The Medical Center has historically reported an operating loss due to type and nature of revenues classified as nonoperating. For example, state appropriations, a material source of revenue, are classified as nonoperating. Therefore, "change in net position" is more indicative of overall financial results for the fiscal year. Nonoperating revenues are revenues received for which goods and services are not provided.

## Statement of Revenues, Expenses and Changes in Net Position (continued)

**Statement of Revenues, Expenses and Changes in Net Position (in thousands)**
[Unaudited]

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Operating Revenues | $ 1,247,626 | $ 1,181,137 | $ 1,042,567 |
| Operating Expenses | 1,447,268 | 1,305,235 | 1,209,323 |
| Operating Loss | (199,642) | (124,098) | (166,756) |
| Net Nonoperating Revenues and Expenses | 185,642 | 192,700 | 189,224 |
| Income Before Other Revenues, Expenses, Gains or Losses | (14,000) | 68,602 | 22,468 |
| Other Revenues, Expenses, Gains or Losses | 35,004 | 13,986 | 7,786 |
| Change in Net Position | 21,004 | 82,588 | 30,254 |
| Net Position, beginning of year, as originally reported | (7,431) | (90,019) | 716,822 |
| Cumulative Effect of Changes in Accounting Principle | - | - | (902,224) |
| Net Position, beginning of year, restated | (7,431) | (90,019) | (185,402) |
| Impact of GASB No. 68 Implementation | - | - | 65,129 |
| Net Position, end of year | $ 13,573 | $ (7,431) | $ (90,019) |

The largest sources of operating revenues were from patient care, and grants and contracts. Net patient care revenues totaled $1.086 billion, $1.043 billion and $911.1 million, an increase of 4.1% and 14.5% from 2015 to 2016 and 2014 to 2015, respectively. While a portion of the increase in patient revenues is from the Grenada hospital lease acquisition on January 1, 2014, the Medical Center has also experienced revenue growth due to increasing outpatient volumes and higher acuity inpatient cases.

The Medical Center receives grant and contract revenue from federal, state, and private agencies. Grant and contract revenue totaled $65.1 million, 63.4 million and $63.5 million, an increase of 2.7% from 2015 to 2016 and a decrease of 0.2% from 2014 to 2015.

Tuition and fees, net of scholarship allowances, totaled $26.0 million, $25.3 million and $24.5 million, an increase of 2.6% and 3.1% from 2015 to 2016 and 2014 to 2015. This increase was due to tuition increases.

The largest category of operating expenses is salaries, wages and fringe benefits, representing 64.2%, 63.0% and 64.2% for the years ending June 30, 2016, 2015 and 2014. Salaries, wages and fringe benefits totaled $929.0 million, $821.6 million and $776.9 million, an increase of 13.1% and 5.8 % from 2015 to 2016 and 2014 to 2015. Significant increases were from the Grenada hospital lease acquisition on January 1, 2014, volume increases and service mix changes, and the implementation of GASB No. 68 *Accounting and Financial Reporting for Pensions.*

### Statement of Revenues, Expenses and Changes in Net Position (continued)

The Medical Center relies on funding from state appropriations. The Medical Center recognized state educational appropriations from the State of Mississippi totaling $185.7 million, $189.3 million and $185.5 million, which is included as nonoperating revenue in 2016, 2015 and 2014. The Medical Center also recognized capital appropriations from the State of Mississippi totaling $22.2 million, $5.4 million and $4.6 million, which is included as a component of other revenues, expenses, gains, or losses in 2016, 2015 and 2014.

### Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the Medical Center during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the Medical Center. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

**Cash Flows for the Years ended June 30, (in thousands)**

[Unaudited]

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash provided (used) by: | | | |
| Operating Activities | $ (148,745) | $ (64,582) | $ (92,035) |
| Noncapital financing activites | 193,845 | 199,255 | 189,541 |
| Capital and related financing activites | (82,367) | (66,147) | (54,661) |
| Investing activities | 7,336 | (1,175) | (35,231) |
| Net Change in Cash | (29,931) | 67,351 | 7,614 |
| Cash and cash equivalents, beginning of the year | 375,291 | 307,940 | 300,326 |
| Cash and cash equivalents, end of the year | $ 345,360 | $ 375,291 | $ 307,940 |

The condensed statements illustrate the composition of cash sources and uses of funds for fiscal years 2016, 2015 and 2014. The Medical Center used $148.7 million, $64.6 million and $92.0 million of cash for operating activities, offset by $193.8 million, $199.3 million and $189.5 million of cash provided by noncapital financing activities in 2016, 2015 and 2014, respectively. Noncapital financing activities include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses.

Cash of $82.4 million, $66.1 million and $54.7 million in 2016, 2015 and 2014, respectively, was used for capital and related financing activities, primarily purchases of capital assets and principal and interest payments on long-term debt, partially offset by sources that included grants and contracts for capital purposes. Cash provided by (used) in investing activities totaled $7.3 million, $(1.2) million and $(35.2) million in 2016, 2015 and 2014, respectively.

## Long-Term Liability and Debt Activities

For the Medical Center to continue its service to the community it must have state of the art health and teaching facilities. Medical Center management continues to support funding for the repair and replacement of physical facilities and equipment in support of the missions of education, research, and healthcare.

The Medical Center has continued to make significant investments in capital assets. The total bonded debt of the Medical Center decreased by $5.6 million from 2015 and $5.4 million from 2014. Additional detail on bonded debt can be found in Note 9 of the *Notes to the Financial Statements*.

## Financial Highlights

Operating revenues have increased from $1.04 billion in 2014 to $1.18 billion in 2015 and to $1.25 billion in 2016. This represents an increase of operating revenues of $205.1 million over a three year period. Patient care revenues represent the majority of the increase. Total operating expenses have increased $237.9 million since 2014. $46.3 million of the increase in operating expenses is related to the net effect of GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

The Medical Center's revenue financial results are a product of many different factors. Management continues to grow clinical volumes and track and collect revenues owed on receivables.

On June 1, 2012, the Medical Center transitioned to the new electronic health record system (Epic). The Epic system promotes efficient and effective clinical care in day-to-day operations, research and teaching. The system impacts every aspect of the clinical and patient experience from admission and registration, through all clinical interaction, discharge and billing.

On September 1, 2012, the Medical Center consolidated the business operations related to University Physicians under the Medical Center umbrella. The assets and liabilities related to University Physicians prior to the consolidation date remained in University Physicians PLLC, a separate legal entity. The assets and liabilities generated after the consolidation date are included in these financial statements. This consolidation represents the Medical Center's focus on improving efficiency and effectiveness in operations. With a consolidation of the Medical Center and University Physicians there is one patient billing system and statement, a single electronic health record, and a consolidated use of the financial software (Lawson) for key business processes and financial reporting.

On September 1, 2013, the Medical Center began managing the Grenada Lake Medical Center (Grenada). At the August 2013 meeting of the governing board of the Mississippi Institutions of Higher Learning, the Medical Center was given permission to begin managing Grenada on September 1, 2013. On January 1, 2014 the Medical Center entered into a lease to become fully responsible for the operation of the 156-bed hospital.

## Economic Outlook

The Medical Center continues to see a smaller percentage of total revenues from State Appropriations. During the operating year subsequent to the fiscal year reported, the Medical Center's State Appropriation has been cut by $8 million. Although only a small percentage of our overall revenue, state appropriations are devoted primarily to and critical for our education mission. That mission focuses on training future physicians who will provide health care to Mississippians, including the indigent. In spite of modest economic growth, Mississippi tax collections remain below budgeted projections. Currently, the focus in Mississippi is reducing spending rather than increasing tax revenue to close this gap. Growth in future state appropriations to the Medical Center are not expected in the near term, with reductions in appropriations more likely. The majority of the Medical Center's total revenues come from the Health System. It is critical for the Medical Center to provide the highest quality and most efficient patient care possible. Unexpected financial events have always been and will continue to be a challenge. For example, in December of 2016 we learned our Medicaid Disproportionate Share Hospital (DSH) payment would be drastically reduced.

Medical Center management continues to successfully manage the challenge of recruiting and retaining qualified faculty, staff, and trained medical personnel in a very competitive environment. At the same time, costs for medical equipment and supplies continue to grow faster than general inflation. Uncertainty on the national level with the future of the Affordable Care Act creates challenges in strategic and financial planning for the future of the institution.

Medical Center management, faculty, and staff are committed to improving the health status of all Mississippians through our missions of education, research, and healthcare. Even while facing the challenges and uncertainties of the health care industry, Medical Center management believes its investment in information technology and strategic planning for targeted growth positions the Medical Center for success.

## UNIVERSITY OF MISSISSIPPI MEDICAL CENTER
## STATEMENT OF NET POSITION
[Unaudited]

| | | June 30 2016 | | June 30 2015 |
|---|---|---|---|---|
| **Assets and Deferred Outflows** | | | | |
| **Current Assets:** | | | | |
| Cash and Cash Equivalents (note # 2) | $ | 195,110,639 | $ | 201,730,129 |
| Short Term Investments (note # 2) | | 71,857,734 | | 78,534,473 |
| Accounts Receivable, Net (note # 3) | | 190,753,570 | | 151,608,382 |
| Student Notes Receivable, Net (note # 4) | | 615,512 | | 560,544 |
| Inventories | | 26,151,794 | | 24,916,578 |
| Prepaid Expenses | | 6,849,049 | | 3,547,415 |
| Other Current Assets | | 9,031,684 | | 515,000 |
| **Total Current Assets** | | **500,369,982** | | **461,412,521** |
| **Noncurrent Assets:** | | | | |
| Cash Designated for Capital and Debt Activities (note # 2) | | 92,274,734 | | 87,369,334 |
| Restricted Cash and Cash Equivalents (note # 2) | | 57,975,065 | | 86,191,103 |
| Restricted Short Term Investments (note # 2) | | 2,501,365 | | 1,225,921 |
| Endowment Investments (note # 2) | | 72,974,850 | | 75,467,735 |
| Other Long Term Investments (note # 2) | | 42,496,345 | | 37,030,997 |
| Accounts Receivable, Net (note # 3) | | 4,259,720 | | 4,568,464 |
| Student Notes Receivable, net (note # 4) | | 6,820,202 | | 6,926,801 |
| Capital Assets, Net (note # 5) | | 611,916,560 | | 560,605,683 |
| **Total Noncurrent Assets** | | **891,218,841** | | **859,386,038** |
| **Total Assets** | | **1,391,588,823** | | **1,320,798,559** |
| **Deferred Outflows of Resources** (note#6) | | **238,463,586** | | **112,340,347** |
| **Total Assets and Deferred Outflows of Resources** | **$** | **1,630,052,409** | **$** | **1,433,138,906** |
| **Liabilities, Deferred Inflows and Net Position** | | | | |
| **Current Liabilities:** | | | | |
| Accounts Payable and Accrued Liabilities (note # 7) | $ | 110,720,185 | $ | 99,762,168 |
| Unearned Revenues (note # 8) | | 16,340,417 | | 14,229,300 |
| Accrued Leave Liabilities - Current Portion (note # 9) | | 4,394,887 | | 4,277,538 |
| Long Term Liabilities - Current Portion (note # 9) | | 10,791,690 | | 10,409,690 |
| Other Current Liabilities | | 22,837,974 | | 30,584,361 |
| **Total Current Liabilities** | | **165,085,153** | | **159,263,057** |
| **Noncurrent Liabilities:** | | | | |
| Accrued Leave Liabilities (note # 9) | | 54,312,156 | | 50,770,285 |
| Long Term Liabilities (note # 9) | | 251,002,988 | | 256,810,679 |
| Net Pension Liability (note # 13) | | 1,087,561,173 | | 821,435,313 |
| Other Non-Current Liabilities (note # 9) | | 32,846,322 | | 33,216,985 |
| **Total Noncurrent Liabilities** | | **1,425,722,639** | | **1,162,233,262** |
| **Total Liabilities** | | **1,590,807,792** | | **1,321,496,319** |
| **Deferred Inflows of Resources** | | **25,670,867** | | **119,073,103** |
| **Total Liabilities and Deferred Inflows of Resources** | **$** | **1,616,478,659** | **$** | **1,440,569,422** |
| **Net Position:** | | | | |
| Net Investment in Capital Assets | | 378,230,555 | | 346,778,255 |
| Restricted for: | | | | |
| Nonexpendable - | | | | |
| Other Purposes | | 25,636,660 | | 25,033,429 |
| Expendable - | | | | |
| Scholarships and Fellowships | | 3,492,880 | | 4,049,782 |
| Research | | 27,739,181 | | 26,807,184 |
| Debt Service | | 1,101,328 | | 1,082,081 |
| Loans | | 4,390,355 | | 4,034,988 |
| Other Purposes | | 63,022,151 | | 66,262,262 |
| Unrestricted | | (490,039,360) | | (481,478,497) |
| **Total Net Position** | **$** | **13,573,750** | **$** | **(7,430,516)** |

See accompanying notes to financial statements.

# UNIVERSITY OF MISSISSIPPI MEDICAL CENTER
## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
**[Unaudited]**

| | June 30 2016 | June 30 2015 |
|---|---|---|
| **Operating Revenues:** | | |
| Tuition and Fees | $ 30,957,146 | $ 29,114,499 |
| Less: Scholarship Allowances | (4,908,602) | (3,794,006) |
| Less: Bad Debt Expense | (66,076) | - |
| Net Tuition and Fees | 25,982,468 | 25,320,493 |
| Federal Grants and Contracts | 42,230,081 | 41,768,790 |
| State Grants and Contracts | 13,547,847 | 10,896,693 |
| Nongovernmental Grants and Contracts | 9,303,049 | 10,686,486 |
| Sales and Services of Educational Departments | 974,901 | 846,359 |
| Auxiliary Enterprises: | | |
| Bookstore | 2,480,056 | 2,349,158 |
| Other Auxiliary revenues | 1,389,454 | 3,178,218 |
| Interest Earned on Loans to Students | 194,038 | 107,159 |
| Patient Care Revenues, Net | 1,086,205,305 | 1,043,115,837 |
| Other Operating Revenues | 65,318,709 | 42,867,944 |
| **Total Operating Revenues** | **1,247,625,908** | **1,181,137,137** |
| **Operating Expenses:** | | |
| Salaries and Wages | 698,343,090 | 651,448,954 |
| Fringe Benefits | 184,374,220 | 174,418,213 |
| Net GASB 68 Pension Expense Adjustment | 46,321,745 | (4,214,627) |
| Travel | 5,917,391 | 5,358,009 |
| Contractual Services | 170,535,434 | 164,720,851 |
| Utilities | 11,998,884 | 14,772,452 |
| Scholarships and Fellowships | 6,321,715 | 6,321,367 |
| Commodities | 279,166,712 | 247,374,287 |
| Depreciation | 44,132,768 | 44,249,006 |
| Other Operating Expenses | 155,579 | 786,082 |
| **Total Operating Expenses** | **1,447,267,538** | **1,305,234,594** |
| **Operating Loss** | **(199,641,630)** | **(124,097,457)** |
| **Nonoperating Revenues (Expenses):** | | |
| State Appropriations | 185,663,575 | 189,256,003 |
| Gifts and Grants | 7,305,548 | 11,495,454 |
| Investment Income (Loss), Net of Investment Expense | 3,710,895 | 3,801,785 |
| Interest Expense on Capital Asset-Related Debt | (11,037,850) | (11,869,113) |
| Other Nonoperating Revenues | - | 15,931 |
| **Total Nonoperating Revenues (Expenses), Net** | **185,642,168** | **192,700,060** |
| **Income Before Other Revenues, Expenses, Gains and Losses** | **(13,999,462)** | **68,602,603** |
| Capital Grants and Gifts | 13,636,792 | 10,710,764 |
| State Appropriations Restricted for Capital Purposes | 22,195,345 | 5,395,245 |
| Additions to Permanent Endowments | 98,231 | 214,133 |
| Other Deletions | (926,640) | (2,334,432) |
| **Change in Net Position** | **21,004,266** | **82,588,313** |
| **Net Position** | | |
| Net Position - Beginning of Year, as Adjusted (note # 1) | (7,430,516) | (90,018,829) |
| **Net Position - End of Year** | **$ 13,573,750** | **$ (7,430,516)** |

See accompanying notes to financial statements.

## UNIVERSITY OF MISSISSIPPI MEDICAL CENTER
## STATEMENT OF CASH FLOWS
[Unaudited]

| | June 30 2016 | June 30 2015 |
|---|---|---|
| **Operating Activities:** | | |
| Tuition and Fees | $ 26,206,226 | $ 25,294,338 |
| Grants and Contracts | 66,847,181 | 67,886,022 |
| Sales and Services of Educational Departments | 976,772 | 769,405 |
| Payments to Suppliers | (455,743,300) | (411,785,387) |
| Payments to Employees for Salaries and Benefits | (872,601,399) | (819,304,208) |
| Payments for Utilities | (11,998,844) | (15,032,452) |
| Payments for Scholarships and Fellowships | (6,321,715) | (6,321,367) |
| Loans Issued to Students | (1,559,546) | (1,865,184) |
| Collection of Loans to Students | 1,656,097 | 1,824,731 |
| Auxiliary Enterprise Charges: | | |
| Bookstore | 2,469,110 | 2,479,016 |
| Other Auxiliary Enterprises | 1,390,120 | 3,177,508 |
| Patient Care Services | 1,042,311,163 | 1,043,904,871 |
| Interest Earned on Loans to Students | 194,038 | 107,159 |
| Other Receipts | 57,584,722 | 44,681,435 |
| Other Payments | (155,579) | (398,117) |
| **Net Cash Used in Operating Activities** | **(148,744,954)** | **(64,582,230)** |
| **NonCapital Financing Activities:** | | |
| State Appropriations | 186,619,567 | 188,234,396 |
| Gifts and Grants for Other Than Capital Purposes | 7,305,548 | 11,495,454 |
| Private Gifts for Endowment Purposes | 98,231 | 214,133 |
| Federal Loan Program Receipts | 32,687,768 | 32,690,189 |
| Federal Loan Program Disbursements | (32,688,758) | (32,682,088) |
| Other Sources | - | 15,931 |
| Other Uses | (176,885) | (712,648) |
| **Net Cash Provided by Noncapital Financing Activities** | **193,845,471** | **199,255,367** |
| **Capital and Related Financing Activities:** | | |
| Cash Paid for Capital Assets | (74,439,468) | (59,757,733) |
| Capital Grants and Contracts Received | 8,447,094 | 10,609,743 |
| Proceeds from Sales of Capital Assets | 966,450 | 3,935 |
| Principal Paid on Capital Debt and Leases | (5,355,000) | (5,150,000) |
| Interest Paid on Capital Debt and Leases | (11,985,543) | (11,853,629) |
| **Net Cash Used in Capital and Related Financing Activities** | **(82,366,467)** | **(66,147,684)** |
| **Cash Flows from Investing Activities:** | | |
| Proceeds from Sales and Maturities of Investments | 159,287,445 | 129,980,736 |
| Interest Received on Investments | 1,866,993 | 9,584,678 |
| Purchases of Investments | (153,818,616) | (140,740,501) |
| **Net Cash Provided by (Used in) Investing Activities** | **7,335,822** | **(1,175,087)** |
| **Net Change in Cash and Cash Equivalents** | **(29,930,128)** | **67,350,366** |
| **Cash and Cash Equivalents - Beginning of the Year** | **375,290,566** | **307,940,200** |
| **Cash and Cash Equivalents - End of the Year** | **$ 345,360,438** | **$ 375,290,566** |

See accompanying notes to financial statements.

# UNIVERSITY OF MISSISSIPPI MEDICAL CENTER
## STATEMENT OF CASH FLOWS
[Unaudited]

| | June 30 2016 | June 30 2015 |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES** | | |
| Operating Loss | (199,641,630) | (124,097,457) |
| Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities: | | |
| Depreciation Expense | 44,132,768 | 44,249,006 |
| Self-insured Claims Expense | 5,533,396 | 3,864,484 |
| Bad Debt Expense | 151,111,702 | 112,810,256 |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Assets: | | |
| Receivables, Net | (186,639,218) | (114,757,627) |
| Loans to Students | 529,984 | 475,587 |
| Inventories | (1,235,216) | (1,260,179) |
| Prepaid Expenses | (3,548,337) | 355,832 |
| Other Assets | (8,516,684) | 824,652 |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable and Accrued Liabilities | 10,717,010 | 9,522,481 |
| Unearned Revenues | 2,111,117 | 1,621,092 |
| Accrued Leave Liabilitiy | 3,659,220 | 3,121,156 |
| Net Pension Liability | 46,321,745 | (4,214,627) |
| Other Liabilities | (13,280,811) | 2,903,114 |
| Total Adjustments | 50,896,676 | 59,515,227 |
| **Net Cash Used in Operating Activities** | **(148,744,954)** | **(64,582,230)** |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION** | | |
| Cash and Cash Equivalents Classified as Current Assets | 195,110,639 | 201,730,129 |
| Cash and Cash Equivalents Classified as Noncurrent Assets | 150,249,799 | 173,560,437 |
| | **345,360,438** | **375,290,566** |
| **NON-CASH TRANSACTIONS** | | |
| 1.) Unrealized gain/(loss) on fair value of investments | $ 1,714,080 | $ (5,761,625) |
| 2.) Bureau of Buildings and Grounds - construction in progress and buildings | 22,195,345 | 5,395,245 |
| 3.) Donation of capital assets | 159,984 | 101,021 |

See accompanying notes to financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## Note 1 – Summary of Significant Accounting Policies

**Nature of Operations** – As the only academic health center in the State of Mississippi, the University of Mississippi Medical Center (Medical Center) is dedicated to the education and training of health care professionals, research, patient care, and public service.

**Reporting Entity** – The Mississippi Constitution was amended in 1943 to create a Board of Trustees of State Institutions of Higher Learning (Board). This constitutional Board provides management and control of Mississippi's system of universities. The Medical Center is a member of the State of Mississippi of Institutions of Higher Learning.

The current twelve Board members were appointed by the Governor and approved by the Senate for twelve year terms as follows: one from each of the seven congressional districts, one from each of the three Supreme Court Districts, and two appointed from the state-at-large. The Mississippi Constitution was amended in 2003 to change the length of terms and appointment districts for Board members. New appointments will occur from three current Supreme Court districts for terms of nine years.

The Medical Center's financial statements include the accounts of the University of Mississippi Medical Center Educational Building Corporation (MCEBC), an educational building corporation and a nonprofit corporation incorporated in the State of Mississippi established in accordance with Section 37-101-61 of the Mississippi Code Annotated of 1972. The purpose of this corporation is for the acquisition, construction, and equipping of facilities and land for the Medical Center. In accordance with Governmental Accounting Standards Board Statement (GASB) No. 61, *The Financial Reporting Entity: Omnibus*, this educational building corporation is deemed to be a material component unit of the Medical Center and is reported as a blended component unit. See Note 14 for detailed MCEBC activities.

The State of Mississippi Institutions of Higher Learning is considered a component unit of the State of Mississippi reporting entity.

**Basis of Presentation** – The financial statements have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the GASB. The Medical Center's financial statements follow the "business-type activities" reporting which provides a comprehensive one-look at the Medical Center's financial activities.

**Basis of Accounting** – The financial statements of the Medical Center have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Grant and contract revenues, which are received or receivable from external sources, are recognized as revenues to the extent of related expenses or satisfaction of eligibility requirements. State appropriations are recognized as nonoperating revenues when eligibility requirements are satisfied.

## Note 1 – Summary of Significant Accounting Policies (continued)

**Use of Estimates** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates also include the determination of allowances for uncollectible accounts and contractual adjustments and estimated third-party payor settlements, included as other current assets and as other current liabilities, relating to the Medical Center's patient services. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs could change by a material amount in the near term.

Included in other non-current liabilities are unpaid claim liabilities relating to the Medical Center's tort claim fund. The liabilities for these unpaid claims are determined using both evaluations of each claim and statistical analyses and represent the estimated ultimate net cost of all claims and expenses incurred through the end of the reporting period. The determinations of claims payable include estimates that are particularly susceptible to change in the near term. Management believes that liabilities established for these unpaid claims at June 30, 2016 and 2015 are adequate to cover the ultimate net cost of claims, but these liabilities are necessarily based upon estimates and, accordingly, the amount ultimately paid will be more or less than such estimates. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in operations currently.

The Medical Center's investments are invested in various types of investment securities and in various companies within various markets. Investment securities are exposed to several risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Medical Center's financial statements.

**Cash Equivalents** – The Medical Center considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Short-term Investments** – Short-term investments are investments that are not cash equivalents but mature within the next fiscal year.

**Accounts Receivable, Net** – Accounts receivable consist of patient fees and tuition and fee charges to students. Accounts receivable also include amounts due from federal and state governments, and non-governmental sources, in connection with reimbursement of allowable expenses made pursuant to the Medical Center's grants and contracts. Accounts receivable are recorded net of an allowance for doubtful accounts.

## Note 1 – Summary of Significant Accounting Policies (continued)

**Student Notes Receivable, Net** – Student notes receivable consist of federal, state, and institutional loans made to students for the purpose of paying tuition and fee charges. Loan balances expected to be paid during the next fiscal year are presented on the statement of net position as current assets. Those balances that are either in deferment status or expected to be paid back beyond the next fiscal year are presented as noncurrent assets on the statement of net position.

**Inventories** – Inventories consist of various hospital inventories, dental school gold, central supply inventories, auxiliary inventories, printing, and storeroom inventories. These inventories are generally valued at the lower of cost or market, on either the first-in, first-out (FIFO) basis or the average cost basis.

**Prepaid Expenses** – Recorded items consist of expenditures that are related to projects, programs, activities, or revenues of future fiscal periods.

**Restricted Cash and Cash Equivalents, and Restricted Short-term Investments** – Cash and cash equivalents, and short-term investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net position.

**Endowment Investments –** Endowment investments are generally subject to the restrictions of donor gift instruments. They include donor restricted endowments, which are funds received from a donor with the restrictions that only the income is to be utilized or for which the donor has stipulated that the principal may be expended only after a stated period or upon occurrence of a certain event, and funds functioning as endowments, which are funds established by the governing board to function like an endowment fund but may be fully expended at any time at the discretion of the governing board.

**Investments** – Substantially all investments are reported at fair value. Unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position. Investments in partnerships for which there are no quoted market prices are valued at net asset value.

**Capital Assets** – Capital assets are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. For movable property, the Medical Center's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life greater than one year. Renovations to buildings and improvements other than buildings that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. The Medical Center uses the composite method for library book depreciation if the books are considered to have a useful life of greater than one year.

## Note 1 – Summary of Significant Accounting Policies (continued)

**Capital Assets (continued**) – The Medical Center is subject to federal cost reporting requirements, and uses capitalization and depreciation policies of the Centers for Medicare and Medicaid Services (CMS) to ensure compliance with federal regulations. These capitalization policies include recognizing one-half year of depreciation in the year of acquisition and in the final year of useful life. See Note 5 for additional details concerning useful life, salvage values, and capitalization thresholds. Expenditures for construction in progress are capitalized as incurred. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose if material.

**Deferred Inflows and Outflows –** The Medical Center has deferred inflows of resources. The deferred inflows or resources are an acquisition of net assets by the Medical Center that are applicable to a future reporting period and include pension related deferred inflows.

The Medical Center has deferred outflows of resources. The deferred outflows of resources are consumption of net assets by the Medical Center that are applicable to a future reporting period and in the unamortized amounts for losses on the refunding of bond debt and pension related deferred outflows.

Deferred inflows and outflows related to pensions are related to the implementation of GASB 68, which was effective at the beginning of fiscal year 2015. See Note 13.

**Net Pension Liability –** 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 Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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.

**Accounts Payable and Accrued Liabilities** – Recorded items consist of amounts owed to vendors, contractors, or accrued amounts such as interest, wages, and salaries.

**Compensated Absences/Accrued Leave –** Twelve-month employees earn and accrue annual personal leave at a rate of 12 hours per month for zero to three years of service; 14 hours per month for three to eight years of service; 16 hours per month for eight to fifteen years of service; and 18 hours per month for fifteen years of service or more. There is no requirement that annual leave be taken, and there is no maximum accumulation. At termination, employees are paid for up to 240 hours of accumulated annual leave.

**Unearned Revenues** – Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Noncurrent Liabilities** – Noncurrent liabilities include: (1) principal amounts of revenue bonds payable and notes payable; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; (3) net pension liability and (4) other liabilities, that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

## Note 1 – Summary of Significant Accounting Policies (continued)

**Income Taxes** – As a state institution of higher learning, the income of the Medical Center is generally exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code; however, income generated from activities unrelated to the Medical Center's exempt purpose is subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B).

**Classification of Revenues and Expenditures** – The Medical Center has classified its revenues and expenditures as either operating or non-operating according to the following criteria:

*Operating revenues and expenses* – Operating revenues and expenses have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most federal, state, and local grants and contracts; (4) patient care services; and (5) interest on institutional student loans. Examples of operating expenses include (1) employee compensation, benefits, and related expense; (2) scholarships and fellowships, net of scholarship discounts and allowances; (3) utilities, commodities (supplies), and contractual services; (4) professional fees; and (5) depreciation expense related to certain capital assets.

*Non-operating revenues and expenses* – Non-operating revenues and expenses have the characteristics of non-exchange transactions. Examples of non-operating revenues include state appropriations, gifts, investment income, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34. Examples of non-operating expenses include interest on capital asset related debt and bond expenses.

**Auxiliary Enterprise Activities** – Auxiliary enterprises typically exist to furnish goods or services to students, faculty, or staff, and that charge a fee directly related to, although not necessarily equal to, the cost of the goods or services. One distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities.

Auxiliary enterprises include bookstore, student union, and vending operations. The general public may be served incidentally by auxiliary enterprises.

**Patient Care Revenues** – The Medical Center's hospital and clinical service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including contractual allowances and estimated retroactive adjustments under reimbursement programs with third-party payors, less an allowance for doubtful accounts. Retroactive adjustments are accrued in future periods, as final settlements are determined.

Inpatient acute care services and substantially all outpatient services rendered to Medicare and Medicaid 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. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare and Medicaid intermediaries.

## Note 1 – Summary of Significant Accounting Policies (continued)

**Patient Care Revenues (continued)** – Revenue from the Medicare and Medicaid programs accounted for approximately 28.5% and 31.2 %, respectively, of the Medical Center's net patient service revenues for the year ended June 30, 2016, and approximately 27.2% and 31.7%, respectively, for the year ended June 30, 2015. Laws and regulations governing the Medicare and Medicaid programs are extremely 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 Medical Center also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**Electronic Health Record Incentive Program** – The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Medical Center utilizes a grant accounting model to recognize EHR incentive revenues. The Medical Center records EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period is based on the federal fiscal year, which runs from October 1 through September 30. The Medical Center received and recorded $4,793,693 and $1,570,796 for EHR incentive revenue for the fiscal year ending June 30, 2016 and 2015. This amount has been included in other operating revenues.

**Hospital Reimbursement** – The University Hospitals and Health System (UHHS) Medicare cost reports have been audited and settled by the fiscal intermediary through the cost reports filed for the year ended June 30, 2012 for the Jackson Campus and June 30, 2013 for Holmes County Hospital. No cost reports for UMMC Grenada have been audited.

During FY 2009, UHHS received notification that Medicare had designated the Recovery Audit Contractor (RAC) for the region that includes the State of Mississippi. The RAC program is intended to identify and recover improper Medicare payments made to health care providers as far back as three years from the current date. While UHHS believe all claims submitted to Medicare are supported by the services provided, the RAC could make adjustments based on differing interpretation of the regulations. Audits of Medicare claims began in FY 2010 and are expected to continue in the future. Based on recent audit experiences and reviews of planned audit activities, the reserve balance at the end of fiscal year 2016 was $2.25 million.

## Note 1 – Summary of Significant Accounting Policies (continued)

**Hospital Reimbursement (continued)** – Over seven years ago, the Division of Medicaid (DOM) notified all providers in the State of Mississippi of a change in the methodology used to reimburse outpatient services. DOM had adopted a payment methodology for outpatient services at a fixed cost to charge ratio that was increased each year by an inflationary index. At that time, DOM issued letters to all providers of an updated reimbursement percentage based on more current cost data. They also stated they intend to apply the revised methodology back to October 1, 2005. As a result of this change, UHHS recorded a reserve in the amount of $12.7 million as of June 30, 2008, as an estimate of potential outpatient claims adjustments to be made by DOM. Other reserves have been established each fiscal year for anticipated adjustments to estimated verses final payment rates for both inpatient and outpatient services. Since that time UHHS has repaid approximately $21.8 million through FY 2015 and repaid $3.4 million in FY 2016 to DOM for these and other claims adjustments. At June 30, 2016, UHHS maintains a reserve of approximately $12.8 million for Medicaid rate recalculations and other adjustments for prior fiscal years.

**Scholarship Discounts and Allowances** – Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending, is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as scholarship allowances, which reduce operating revenues. The amount reported as operating expenses represents the portion of aid that was provided to the student in the form of cash.

Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

**Net Position** – The IHL System adopted GASB Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in fiscal year 2013, and, as a result, began reporting equity balances (previously referred to as Net Assets) as "Net Position". Net Position represents the difference between assets and liabilities in a statement of financial position and is displayed in three components – net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

*Net Investment in Capital Assets* reflect the Medical Center's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of net investment in capital assets.

*Restricted, nonexpendable* net position consists of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

## Note 1 – Summary of Significant Accounting Policies (continued)

**Net Position (continued)** – *Restricted, expendable* net position includes resources that the Medical Center is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

*Unrestricted* net position represents resources derived from student tuition and fees, state appropriations, net patient service revenue, and sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board, they are available for use at the discretion of the governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Medical Center addresses each situation of a case-by-case basis prior to determining the resources to be used to satisfy the obligation.

**New Accounting Standards** – The Medical Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the year ended June 30, 2015. The Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result, costs related to the pension plan previously expensed were adjusted through an adjustment to net position as of July 1, 2013.

The implementation of this standard resulted in a net pension liability and the effect of adoption is a reduction of beginning net position. The following schedule summarizes the impact on net position for fiscal year 2014.

| | |
|---|---|
| Net position - beginning of period, as previously reported | $ 716,821,918 |
| Less: proportionate share of net pension liability | (902,224,103) |
| Beginning of period, as adjusted | (185,402,185) |
| Changes in net position, as previously reported | 30,253,709 |
| Impact of GASB No. 68 implementation | 65,129,647 |
| Change in net position, as adjusted | 95,383,356 |
| Net position - end of period, as adjusted | $ (90,018,829) |

During fiscal year 2015, the Medical Center adopted GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term government combinations is used in this Statement to refer to a variety of arrangements including mergers and acquisitions.

## Note 2 – Cash and Investments

### Policies

**Cash, Cash Equivalents and Short-term Investments** – Investment policies as set forth by the IHL Board of Trustees policy and state statute authorize the Medical Center to invest in demand deposits and interest-bearing time deposits such as savings accounts, certificates of deposit, money market funds, U.S. Treasury bills and notes, and repurchase agreements.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by State statute (Section 27-105-5, MS Code Ann. 1972). Under this program, the Medical Center's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**Investments** – Investment policies at the Medical Center are governed by State statute (Section 27-105-33, Mississippi Code Annotated, 1972) and the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Mississippi in 2012. Under UPMIFA, the Medical Center may appropriate for spending as much of the endowment as the institution deems prudent for the uses, benefits, purposes and duration for which the particular endowment fund was established, subject to evaluation of several specific factors including general economic conditions and the fund's purpose. The Medical Center has adopted investment and spending policies for endowments as recommended by the University's Joint Committee on Investments. Substantially all investments are reported at fair value.

## Note 2 – Cash and Investments (continued)

A summary of cash and investments as of June 30, 2016 and 2015 is as follows:

| Investment Type | 2016 | 2015 |
|---|---|---|
| Cash | $ 195,110,639 | $ 201,730,129 |
| Cash Designated for Capital and Debt Activities | 92,274,734 | 87,369,334 |
| Restricted Cash and Cash Equivalents | 57,975,065 | 86,191,103 |
| Certificates of deposit | 8,637,234 | 12,582,565 |
| Collateralized mortgage obligations | 10,291,599 | 5,705,275 |
| Equity hedge fund | 3,553,610 | 8,609,260 |
| Fixed income hedge | 2,835,224 | 3,001,446 |
| International equity mutual funds | 4,758,159 | 8,079,396 |
| Mortgage backed securities | 354,574 | 438,219 |
| Multi-strategy hedge fund | 5,117,618 | 6,335,334 |
| Municipal obligations | 10,227,944 | 12,241,494 |
| Mutual funds tax exempt | 23,787 | 23,510 |
| Mutual funds fixed income | 8,063,095 | 9,549,192 |
| Mutual funds equity | 8,923,859 | 11,637,167 |
| Mutual Fund - dividend reinvest held by bank | 9,213,005 | - |
| U.S. Treasury Bills | 1,999,800 | - |
| Partnerships | 30,254,688 | 27,470,644 |
| Short term investments | 176,470 | 709,423 |
| U.S. Government agency obligations | 79,624,305 | 85,876,201 |
| Land | 5,775,323 | - |
| | $ 535,190,732 | $ 567,549,692 |

### Custodial Credit Risk

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered with securities held by the counterparty's trust department or agent, but not held in the government's name. The Medical Center had no investments exposed to custodial credit risk as of June 30, 2016.

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## Note 2 – Cash and Investments (continued)

### Interest Rate Risk

Interest rate risk is defined as the risk a government may face should interest rate variances adversely affect the fair value of investments. As of June 30, 2016 and 2015, the Medical Center had the following investments subject to interest rate risk:

2016

| Investment Type | Fair Value | Years to Maturity: Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
|---|---|---|---|---|---|
| Collateralized mortgage obligations | $ 10,291,599 | $ - | $ - | $ - | $ 10,291,599 |
| Mortgage backed securities | 354,574 | - | - | - | 354,574 |
| Municipal obligations | 10,227,944 | 501,565 | 6,200,999 | 1,580,740 | 1,944,640 |
| Mutual funds - fixed income | 8,063,095 | - | 8,047,225 | 7,896 | 7,974 |
| U. S. Government agency obligations | 79,624,305 | 63,220,500 | 3,768,199 | 12,635,606 | - |
| Total | $ 108,561,517 | $ 63,722,065 | $ 18,016,423 | $ 14,224,242 | $ 12,598,787 |

2015

| Investment Type | Fair Value | Years to Maturity: Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
|---|---|---|---|---|---|
| Collateralized mortgage obligations | $ 5,705,275 | $ - | $ - | $ - | $ 5,705,275 |
| Mortgage backed securities | 438,219 | - | - | - | 438,219 |
| Municipal obligations | 12,241,494 | 1,225,920 | 5,283,986 | 3,940,898 | 1,790,690 |
| Mutual funds - fixed income | 9,549,192 | - | 3,377,426 | 6,171,766 | - |
| U. S. Government agency obligations | 85,876,201 | 58,508,025 | 10,841,427 | 10,697,978 | 5,828,771 |
| Total | $ 113,810,381 | $ 59,733,945 | $ 19,502,839 | $ 20,810,642 | $ 13,762,955 |

## Note 2 – Cash and Investments (continued)

### Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2016 and 2015, the Medical Center had the following investments in credit risk:

2016

| Investment Type | Fair Value | Credit Risk Ratings: Aa2 | Aa3 | Aaa | Not Rated | Rating Not Available |
|---|---|---|---|---|---|---|
| Collateralized mortgage obligations | $ 10,291,599 | $ - | $ - | $ - | $ 10,291,599 | $ - |
| Mortgage backed securities | 354,574 | - | - | 55,337 | 285,448 | 13,789 |
| Municipal obligations | 10,227,944 | 9,296,876 | - | - | 931,068 | - |
| Mutual funds - fixed income | 8,063,095 | - | - | - | 8,063,095 | - |
| U.S. Government agency obligations | 79,624,305 | - | - | 77,888,945 | 735,410 | 999,950 |
| Total | $ 108,561,517 | $ 9,296,876 | $ - | $ 77,944,282 | $ 20,306,620 | $ 1,013,739 |

2015

| Investment Type | Fair Value | Credit Risk Ratings: Aa2 | Aa3 | Aaa | Not Rated | Rating Not Available |
|---|---|---|---|---|---|---|
| Collateralized mortgage obligations | $ 5,705,275 | $ - | $ - | $ - | $ - | $ 5,705,275 |
| Mortgage backed securities | 438,219 | - | - | 52,362 | - | 385,857 |
| Municipal obligations | 12,241,494 | 11,085,171 | - | - | 1,156,323 | - |
| Mutual funds - fixed income | 9,549,192 | - | - | - | - | 9,549,192 |
| U.S. Government agency obligations | 85,876,201 | - | - | 82,876,181 | - | 3,000,020 |
| Total | $ 113,810,381 | $ 11,085,171 | $ - | $ 82,928,543 | $ 1,156,323 | $ 18,640,344 |

The credit risk ratings listed above are issued upon standards set by Moody's Investor Services or Standard and Poor's.

### Concentration of Credit Risk

Concentration of credit risk is defined by GASB Statement No. 40 as the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2016 and 2015, the Medical Center had the following issuers holding investments that exceeded 5% of total investments:

| Issuer | 2016 Fair Value | 2016 % | 2015 Fair Value | 2015 % |
|---|---|---|---|---|
| Federated U.S. Treasury Cash Reserve Fund | $ 21,713,380 | 11.44% | $ - | 0.00% |
| Federal Farm Credit Bank Notes | $ 14,989,200 | 7.90% | $ - | 0.00% |
| Federal Home Loan Bank Notes | $ 11,020,350 | 5.81% | $ 24,998,900 | 13.00% |

## Note 2 – Cash and Investments (continued)

### Foreign Currency Risk

Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The Medical Center investment policy requires diversification with respect to currency and country exposure. As of June 30, 2016 and 2015, the Medical Center had the following exposure to foreign currency risk summarized and categorized by currency:

| International Equity Mutual Funds | 2016 | 2015 |
|---|---|---|
| European Euro | $ 256,941 | $ 1,424,914 |
| United Kingdom Pounds | 568,600 | 1,098,333 |
| Japan Yen | 540,051 | 1,260,218 |
| Switzerland Francs | - | 140,559 |
| Canada Dollars | - | 320,535 |
| Hong Kong Dollars | 199,846 | 199,163 |
| Australia Dollars | - | 182,618 |
| India Rupee | 563,842 | 654,743 |
| China Renminbi | - | 179,741 |
| Sweden Krona | - | 118,271 |
| Singapore Dollars | - | 49,609 |
| South Africa Rand | - | 89,691 |
| Denmark Kroner | - | 58,596 |
| All other currency | 623,319 | 894,132 |
| | $ 2,752,599 | $ 6,671,123 |

### Fair Value Measurement

GASB No. 72, *Fair Value Measurement and Application*, enhances comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. The standard establishes a hierarchy of inputs used to measure fair value that prioritizes the inputs into three categories—Level 1, Level 2, and Level 3 inputs—considering the relative reliability of the inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted (unadjusted) prices in active markets for identical financial assets or liabilities that the Medical Center has the ability to access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the financial asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment risk.

## Note 2 – Cash and Investments (continued)

The following tables present the financial assets carried at fair value by level within the valuation hierarchy as of June 30, 2016 and 2015:

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment strategy: | | | | |
| Fixed income: | | | | |
| U.S. Government securities | | $ 81,978,679 | | $ 81,978,679 |
| Certificates of deposit | | 8,637,234 | | 8,637,234 |
| Municipal Obligations | | 10,227,944 | | 10,227,944 |
| Other fixed income securities | | 10,291,599 | | 10,291,599 |
| Total fixed income | - | 111,135,456 | - | 111,135,456 |
| Equities: | | | | |
| Mutual funds | 26,223,746 | | | 26,223,746 |
| International Equity | 4,758,159 | | | 4,758,159 |
| Partnerships | | | 30,254,688 | 30,254,688 |
| Total equities | 30,981,905 | - | 30,254,688 | 61,236,593 |
| Hedge funds | | | | |
| Equity Hedge Fund | | | 3,553,610 | 3,553,610 |
| Multi-strategy Hedge fund | | | 5,117,618 | 5,117,618 |
| Fixed Income Hedge | | | 2,835,224 | 2,835,224 |
| Land | | | 5,775,323 | 5,775,323 |
| Other short-term investments | | 176,470 | | 176,470 |
| Total investments | $ 30,981,905 | $ 111,311,926 | $ 47,536,463 | $ 189,830,294 |

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment strategy: | | | | |
| Fixed income: | | | | |
| U.S. Government securities | | $ 86,314,420 | | $ 86,314,420 |
| Certificates of deposit | | 12,582,565 | | 12,582,565 |
| Municipal Obligations | | 12,241,494 | | 12,241,494 |
| Other fixed income securities | | 5,705,275 | | 5,705,275 |
| Total fixed income | - | 116,843,754 | - | 116,843,754 |
| Equities: | | | | |
| Mutual funds | 21,209,869 | | | 21,209,869 |
| International Equity | 8,079,396 | | | 8,079,396 |
| Partnerships | | | 27,470,644 | 27,470,644 |
| Total equities | 29,289,265 | - | 27,470,644 | 56,759,909 |
| Hedge funds | | | | |
| Equity Hedge Fund | | | 8,609,260 | 8,609,260 |
| Multi-strategy Hedge fund | | | 6,335,334 | 6,335,334 |
| Fixed Income Hedge | | | 3,001,446 | 3,001,446 |
| Land | | | - | - |
| Other short-term investments | | 709,423 | | 709,423 |
| Total investments | $ 29,289,265 | $ 117,553,177 | $ 45,416,684 | $ 192,259,126 |

## Note 2 – Cash and Investments (continued)

The following table includes a roll forward of the amounts for the years ended June 30, 2016 and 2015 for investments classified within Level 3:

| | Equities | Diversifying strategies | Other | Total |
|---|---|---|---|---|
| Fair value at June 30, 2014 | $ 7,425,226 | 8,500,737 | 19,622,534 | 35,548,497 |
| Acquisitions | 15,730,428 | - | 1,840,546 | 17,570,974 |
| Dispositions | (3,243,337) | (50,757) | (1,067,118) | (4,361,212) |
| Net realized and unrealized gains (losses) | (2,741,648) | (54,685) | (545,242) | (3,341,575) |
| Fair value at June 30, 2015 | 17,170,669 | 8,395,295 | 19,850,720 | 45,416,684 |
| Acquisitions | 99,083 | 750,000 | 13,979,105 | 14,828,188 |
| Dispositions | (11,861,865) | | (4,890,927) | (16,752,792) |
| Net realized and unrealized gains (losses) | (449,266) | (741,871) | 5,235,520 | 4,044,383 |
| Fair value at June 30, 2016 | $ 4,958,621 | $ 8,403,424 | $ 34,174,418 | $ 47,536,463 |

The tables below represent a summary of the fair value, unfunded commitments, eligible redemption frequency and expected life of the respective investments as of June 30, 2016 and 2015:

| Investment | Fair Value 6/30/2016 | Unfunded Commitments | Redemption frequency (if eligible) | Redemption notice period |
|---|---|---|---|---|
| Hedge funds (Level 3): | | | | |
| Equity Hedge Fund | $ 3,553,610 | $ 903,591 | - | - |
| Multi-strategy Hedge fund | 5,117,618 | - | - | - |
| Fixed Income Hedge | 2,835,224 | - | - | - |
| | 11,506,452 | 903,591 | | |

| Investment | Fair Value 6/30/2015 | Unfunded Commitments | Redemption frequency (if eligible) | Redemption notice period |
|---|---|---|---|---|
| Hedge funds (Level 3): | | | | |
| Equity Hedge Fund | $ 8,609,260 | $ 1,516,300 | - | - |
| Multi-strategy Hedge fund | 6,335,334 | - | - | - |
| Fixed Income Hedge | 3,001,446 | - | - | - |
| | 17,946,040 | 1,516,300 | | |

## Note 3 – Accounts Receivable

Accounts receivable consisted of the following at June 30, 2016 and 2015, respectively:

| | 2016 | 2015 |
|---|---|---|
| Student tuition | $ 4,544,572 | $ 3,950,073 |
| Auxiliary enterprises and other operating activities | 28,286 | 18,006 |
| Federal, state, and private grants and contracts | 19,921,977 | 20,811,306 |
| Contributions and gifts | 5,029,714 | - |
| State appropriations | 639,622 | 1,595,614 |
| Accrued interest | 347,914 | 218,093 |
| Patient income | 688,843,630 | 578,693,300 |
| Other | 18,426,561 | 11,078,926 |
| Total accounts receivable | 737,782,276 | 616,365,318 |
| Less allowance for doubtful accounts | 542,768,986 | 460,188,472 |
| Net accounts receivable | $ 195,013,290 | $ 156,176,846 |
| | | |
| Current portion of Accounts Receivable | $ 190,753,570 | $ 151,608,382 |
| Non-current portion of Accounts Receivable | 4,259,720 | 4,568,464 |
| Net accounts receivable | $ 195,013,290 | $ 156,176,846 |

## Note 4 – Notes Receivable from Students

Notes receivable from students are payable in installments over a period of up to ten years, commencing three to twelve months from the date of separation from the Medical Center. The following is a schedule of interest rates and unpaid balances for the different types of notes receivable held by the Medical Center at June 30, 2016 and 2015, respectively:

| | Interest Rates | 2016 | Current Portion | Non-Current Portion |
|---|---|---|---|---|
| Perkins student loans | 3% to 5% | $ 5,842,045 | $ 270,885 | $ 5,571,160 |
| Nursing student loans | 3% to 5% | 679,498 | 90,361 | 589,137 |
| Medical student loans | 3% to 5% | 169,517 | 12,772 | 156,745 |
| Dental student loans | 3% to 5% | 460,519 | 39,665 | 420,854 |
| Institutional loans | 0% to 10% | 2,253,979 | 270,219 | 1,983,760 |
| Total notes receivable | | 9,405,558 | 683,902 | 8,721,656 |
| Less allowance for doubtful accounts | | 1,969,844 | 68,390 | 1,901,454 |
| Net notes receivable | | $ 7,435,714 | $ 615,512 | $ 6,820,202 |

| | Interest Rates | 2015 | Current Portion | Non-Current Portion |
|---|---|---|---|---|
| Perkins student loans | 3% to 5% | $ 6,170,985 | $ 273,334 | $ 5,897,651 |
| Nursing student loans | 3% to 5% | 730,393 | 84,800 | 645,593 |
| Medical student loans | 3% to 5% | 184,033 | 6,964 | 177,069 |
| Dental student loans | 3% to 5% | 449,560 | 28,572 | 420,988 |
| Institutional loans | 0% to 10% | 2,400,571 | 229,157 | 2,171,414 |
| Total notes receivable | | 9,935,542 | 622,827 | 9,312,715 |
| Less allowance for doubtful accounts | | 2,448,197 | 62,283 | 2,385,914 |
| Net notes receivable | | $ 7,487,345 | $ 560,544 | $ 6,926,801 |

## Note 5 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2016 and 2015, respectively, is presented as follows:

| | 06/30/2015 | Additions | Deletions / Transfers | 06/30/2016 |
|---|---|---|---|---|
| Nondepreciable Capital Assets: | | | | |
| Land | $ 9,269,480 | $ 711,554 | $ 1,528,956 | $ 8,452,078 |
| Construction in Progress | 51,724,510 | 72,326,875 | 8,955,115 | 115,096,270 |
| Total Nondepreciable Capital Assets | $ 60,993,990 | $ 73,038,429 | $ 10,484,071 | $ 123,548,348 |
| Depreciable Capital Assets: | | | | |
| Buildings | $ 485,641,104 | $ 1,609,816 | $ 1,019,765 | $ 486,231,155 |
| Improvements other than Buildings | 11,794,472 | 1,094,320 | - | 12,888,792 |
| Equipment | 367,014,418 | 28,882,494 | 9,823,417 | 386,073,495 |
| Library Books | 51,355,302 | 3,148,609 | 60,610 | 54,443,301 |
| Total Depreciable Capital Assets | $ 915,805,296 | $ 34,735,239 | $ 10,903,792 | $ 939,636,743 |
| Total Capital Assets | $ 976,799,286 | $ 107,773,668 | $ 21,387,863 | $ 1,063,185,091 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | $ 148,890,189 | $ 11,565,099 | $ 20,403 | $ 160,434,885 |
| Improvements other than Buildings | 6,366,518 | 523,067 | - | 6,889,585 |
| Equipment | 221,629,260 | 29,428,538 | 8,976,827 | 242,080,971 |
| Library Books | 39,307,636 | 2,616,064 | 60,610 | 41,863,090 |
| Total Accumulated Depreciation | $ 416,193,603 | $ 44,132,768 | $ 9,057,840 | $ 451,268,531 |
| Capital Assets, Net | $ 560,605,683 | $ 63,640,900 | $ 12,330,023 | $ 611,916,560 |

| | 6/30/2014 | Additions | Deletions / Transfers | 6/30/2015 |
|---|---|---|---|---|
| Nondepreciable Capital Assets: | | | | |
| Land | $ 6,785,095 | $ 2,484,385 | $ - | $ 9,269,480 |
| Construction in Progress | 55,471,903 | 26,990,693 | 30,738,086 | 51,724,510 |
| Total Nondepreciable Capital Assets | $ 62,256,998 | $ 29,475,078 | $ 30,738,086 | $ 60,993,990 |
| Depreciable Capital Assets: | | | | |
| Buildings | $ 451,326,313 | $ 36,473,849 | $ 2,159,058 | $ 485,641,104 |
| Improvements other than Buildings | 11,768,639 | 25,833 | - | 11,794,472 |
| Equipment | 349,322,878 | 24,645,023 | 6,953,483 | 367,014,418 |
| Library Books | 48,655,430 | 2,947,363 | 247,491 | 51,355,302 |
| Total Depreciable Capital Assets | $ 861,073,260 | $ 64,092,068 | $ 9,360,032 | $ 915,805,296 |
| Total Capital Assets | $ 923,330,258 | $ 93,567,146 | $ 40,098,118 | $ 976,799,286 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | $ 138,034,049 | $ 11,401,063 | $ 544,923 | $ 148,890,189 |
| Improvements other than Buildings | 5,845,290 | 521,228 | - | 6,366,518 |
| Equipment | 198,054,107 | 29,804,404 | 6,229,251 | 221,629,260 |
| Library Books | 37,032,816 | 2,522,311 | 247,491 | 39,307,636 |
| Total Accumulated Depreciation | $ 378,966,262 | $ 44,249,006 | $ 7,021,665 | $ 416,193,603 |
| Capital Assets, Net | $ 544,363,996 | $ 49,318,140 | $ 33,076,453 | $ 560,605,683 |

## Note 5 – Capital Assets (continued)

Depreciation is computed on a straight-line basis with the exception of library books for which depreciation is computed using a composite method. The following useful life, salvage values and capitalization thresholds are used to compute depreciation:

| | Estimated Useful Life | Salvage Value | Capitalization Threshold |
|---|---|---|---|
| Buildings | 40 years | 0% | $ 50,000 |
| Improvements other Than Buildings | 20 years | 0% | 25,000 |
| Equipment | 3-25 years | 0% | 5,000 |
| Software & Implementation Costs | 3-10 years | 0% | 250,000 |
| Library Books | 10 years | 0% | - |

## Note 6 – Deferred Outflows of Resources

Deferred outflows of resources as of June 30, 2016 and 2015, respectively, are as follows:

| | **2016** | **2015** |
|---|---|---|
| Implementation of GASB 68 - Accounting and Reporting for Pensions: | | |
| Difference between Expected and Actual Experience | $ 24,941,765 | $ 12,814,159 |
| Changes in Assumptions | 93,689,698 | - |
| Changes in Proportionate Share | 43,580,232 | 26,078,336 |
| Contributions Subsequent to the Measurement Date | 71,818,771 | 68,736,092 |
| Accumulated Deferred Amount of Debt Refunding | 4,283,040 | 4,518,800 |
| Acquisition of Grenada Radiology Imaging | 150,080 | 192,960 |
| | $ 238,463,586 | $ 112,340,347 |

## Note 7 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2016 and 2015, respectively, are as follows:

| | 2016 | 2015 |
|---|---|---|
| Payable to vendors and contractors | $ 58,038,813 | $ 45,790,990 |
| Accrued salaries, wages and employee withholdings | 44,648,660 | 40,082,023 |
| Accrued interest | 1,074,875 | 1,093,567 |
| Due to University Physicians, PLLC | 6,584,181 | 12,609,972 |
| Other | 373,656 | 185,616 |
| Total | $ 110,720,185 | $ 99,762,168 |

All amounts are considered current and expected to be settled within one year.

## Note 8 – Unearned Revenues

Unearned revenues as of June 30, 2016 and 2015, respectively, are as follows:

| | 2016 | 2015 |
|---|---|---|
| Unearned school revenue | $ 6,305,335 | $ 5,518,007 |
| Unearned grants and contracts revenue | 10,033,732 | 8,711,293 |
| Other unearned revenue | 1,350 | - |
| Total | $ 16,340,417 | $ 14,229,300 |

All amounts are considered current and will be fully recognized within one year.

## Note 9 – Long-term Liabilities

Long-term liabilities of the Medical Center consist of notes and bonds payable and certain other liabilities that are expected to be liquidated at least one year from June 30, 2016 and 2015, respectively. Other long-term liabilities and notes payable consist of accrued leave liabilities, net pension liability, Federal portion of Federal student loans and tort claims.

Information regarding original issue amounts, interest rates and maturity dates for bonds and notes at June 30, 2016 and 2015, respectively, is listed in the following schedules.

## Note 9 – Long-term Liabilities (continued)

| | Original Issue | Annual Interest Rate | Maturity | June 30, 2015 | Additions | Deletions | June 30, 2016 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Bonded Debt | | | | | | | | |
| Series 1998B | $ 41,075,000 | 3.88% to 5.90% | 2024 | $ 23,670,000 | $ - | $ - | $ 23,670,000 | $ - |
| Series 2009 | $ 105,605,000 | 2.00% to 5.00% | 2034 | 84,548,689 | - | 5,004,405 | 79,544,284 | 5,199,405 |
| Series 2010A | $ 24,870,000 | 5.92% to 6.69% | 2032 | 24,870,000 | - | - | 24,870,000 | - |
| Series 2010B | $ 20,000,000 | 6.840% | 2035 | 20,000,000 | - | - | 20,000,000 | - |
| Series 2010C | $ 5,130,000 | 2.50% to 5.00% | 2020 | 2,905,416 | - | 534,083 | 2,371,333 | 564,083 |
| Series 2012A | $ 51,860,000 | 4.00% to 5.00% | 2041 | 53,009,264 | - | 44,203 | 52,965,061 | 44,202 |
| Series 2012B | $ 53,390,000 | 4.064% to 4.822% | 2038 | 53,390,000 | - | - | 53,390,000 | - |
| Total Bonded Debt | | | | 262,393,369 | - | 5,582,691 | 256,810,678 | 5,807,690 |
| Other Long-term Liabilities | | | | | | | | |
| Accrued leave liabilities | | | | 55,047,823 | 8,371,322 | 4,712,102 | 58,707,043 | 4,394,887 |
| Federal portion of Federal student loans | | | | 5,043,985 | 117,892 | 331,555 | 4,830,322 | - |
| Tort claim liability | | | | 33,000,000 | - | - | 33,000,000 | 4,984,000 |
| Net pension liability | | | | 821,435,313 | 339,073,151 | 72,947,291 | 1,087,561,173 | - |
| Total Other Long-term Liabilities | | | | 914,527,121 | 347,562,365 | 77,990,948 | 1,184,098,538 | 9,378,887 |
| Total | | | | $ 1,176,920,490 | $ 347,562,365 | $ 83,573,639 | $ 1,440,909,216 | $ 15,186,577 |
| Due within one year | | | | | | | 15,186,577 | |
| Total long-term liabilities | | | | | | | $ 1,425,722,639 | |

| | Original Issue | Annual Interest Rate | Maturity | June 30, 2014 | Additions | Deletions | June 30, 2015 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Bonded Debt | | | | | | | | |
| Series 1998B | $ 41,075,000 | 3.88% to 5.90% | 2024 | $ 23,670,000 | $ - | $ - | $ 23,670,000 | $ - |
| Series 2009 | $ 105,605,000 | 2.00% to 5.00% | 2034 | 89,363,094 | - | 4,814,405 | 84,548,689 | 5,004,405 |
| Series 2010A | $ 24,870,000 | 5.92% to 6.69% | 2032 | 24,870,000 | - | - | 24,870,000 | - |
| Series 2010B | $ 20,000,000 | 6.840% | 2035 | 20,000,000 | - | - | 20,000,000 | - |
| Series 2010C | $ 5,130,000 | 2.50% to 5.00% | 2020 | 3,424,499 | - | 519,083 | 2,905,416 | 534,083 |
| Series 2012A | $ 51,860,000 | 4.00% to 5.00% | 2041 | 53,053,466 | - | 44,202 | 53,009,264 | 44,202 |
| Series 2012B | $ 53,390,000 | 4.064% to 4.822% | 2038 | 53,390,000 | - | - | 53,390,000 | - |
| Total Bonded Debt | | | | 267,771,059 | - | 5,377,690 | 262,393,369 | 5,582,690 |
| Other Long-term Liabilities | | | | | | | | |
| Accrued leave liabilities | | | | 51,948,891 | 7,514,760 | 4,415,828 | 55,047,823 | 4,277,538 |
| Federal portion of Federal student loans | | | | 5,498,769 | 96,610 | 551,394 | 5,043,985 | - |
| Tort claim liability | | | | 32,265,000 | 735,000 | - | 33,000,000 | 4,827,000 |
| Net pension liability | | | | 937,683,135 | - | 116,247,822 | 821,435,313 | - |
| Total Other Long-term Liabilities | | | | 1,027,395,795 | 8,346,370 | 121,215,044 | 914,527,121 | 9,104,538 |
| Total | | | | $ 1,295,166,854 | $ 8,346,370 | $ 126,592,734 | $ 1,176,920,490 | $ 14,687,228 |
| Due within one year | | | | | | | 14,687,228 | |
| Total long-term liabilities | | | | | | | $ 1,162,233,262 | |

## Note 9 – Long-term Liabilities (continued)

### Revenue Bonds Payable

The Corporation issued $60,000,000 of revenue bonds, series 1993, dated December 15, 1993. The purpose of these revenue bonds was for the construction and equipping of a student union facility and various hospital facilities to be located on the campus of the Medical Center. On April 1, 1998, $40,455,000 of the series 1993 bonds was advanced refunded through the issuance of the series 1998B revenue refunding bonds. As part of the 2009 refunding issue, a portion of the 1998B bonds were refunded and the debt service schedule of the remaining balance of $23,670,000 was revised. The remaining bonds bear an interest rate of 5.50% with semi-annual interest payments due on June 1 and December 1, beginning June 2010. Principal matures from December 1, 2017 through December 1, 2023.

On October 22, 2009, the Corporation advance refunded the Series 2008A, 2008B, 1998A, and a portion of the 1998B bonds through the issuance of Series 2009 $105,605,000 revenue refunding bonds. Principal matures from June 1, 2010 through 2034, with interest due semiannually on June 1 and December 1 of each year beginning December 1, 2009. Repayment of the revenue bonds is secured by a pledge of rental payments per a lease agreement between the Corporation and the Medical Center.

Associated with the refunding is an amount related to the 2008A and 2008B bonds for the termination of an interest swap agreement. The termination payment is being amortized over 25 years, because at the date of refunding, the 2008A and 2008B bonds had a life remaining of less than the 2009 refunding bonds. The unamortized balance is being reported on the Statement of Net Position as a deferred amount of debt refunding, a deferred outflow of resources. The unamortized balance of the interest rate swap termination payment was $4,283,040 and $4,518,800 at June 30, 2016 and 2015, respectively.

On June 22, 2010, the Corporation issued $24,870,000, $20,000,000 and $5,130,000 of Series 2010A, 2010B and 2010C bonds, respectively. The purpose of these revenue bonds is to finance capital expenditures related to the expansion, renovation, furnishing and equipping of existing facilities located on the campus of the Medical Center.

The Series 2010A bond issue has been designated as “Build America Bonds” under the Recovery Act. The Recovery Act authorizes the Corporation to issue taxable bonds to finance capital expenditures for which it could issue tax-exempt bonds and elect to receive a payment contemporaneously with each interest payment, currently equal to thirty-five percent of the interest payable. Principal matures June 1, 2021 through 2032, with interest due semiannually on June 1 and December 1 of each year beginning December 1, 2010. Repayment of the revenue bonds is secured by a pledge of rental payments per a lease agreement dated May 1, 2010, between the Corporation and the Medical Center.

The Series 2010B bond issue has been designated as “Recovery Zone Economic Development Bonds” under the Recovery Act. The Recovery Act authorizes the Corporation to issue taxable bonds to finance capital expenditures for which it could issue tax-exempt bonds and elect to receive a payment contemporaneously with each interest payment, currently equal to forty-five percent of the interest payable. Principal matures June 1, 2032 through 2035 with interest due semiannually on June 1 and December 1 and of each year beginning December 1, 2010.

## Note 9 – Long-term Liabilities (continued)

The Series 2010C bonds are tax-exempt revenue bonds. Principal matures from June 1, 2011 through 2020, with interest due semiannually on June 1 and December 1 of each year beginning December 1, 2010. Repayment of the Series 2010A, 2010B, and 2010C bonds is secured by a pledge of rental payments per a lease agreement dated May 1, 2010, between the Corporation and the Medical Center.

On April 11, 2012, the Corporation issued $51,860,000 and $53,390,000 of Series 2012A revenue bonds and 2012B taxable revenue bonds, respectively. The purpose of these revenue bonds is to finance capital expenditures related to the expansion, renovation, furnishing, and equipping of existing and new health care, education and research facilities for the Medical Center.

The Series 2012A revenue bonds bear interest rates of 4.0% to 5.0% with interest due semi-annually on June 1 and December 1 of each year beginning June 1, 2012. Principal matures June 1, 2038 through 2041. Repayment of the revenue bonds is secured by a pledge of rental payments per a lease agreement dated March 1, 2012, between the Corporation and the Medical Center. A portion of the bond proceeds was set aside to pay interest expense through June 1, 2013, in the amount of $2,668,417.

The Series 2012B taxable revenue bonds bear interest rates of 4.064% to 4.822% with interest due semi-annually on June 1 and December 1 of each year beginning June 1, 2012. Principal matures June 1, 2025 through 2038. Repayment of the revenue bonds is secured by a pledge of rental payments per a lease agreement dated March 1, 2012, between the Corporation and the Medical Center. A portion of the bond proceeds was set aside to pay interest expense through June 1, 2013 in the amount of $2,895,192.

Scheduled maturities of bonded debt at June 30, 2016 are as follows:

| Fiscal Year Ended: | Principal | Interest | Total |
|---|---|---|---|
| 2017 | 5,807,690 | 12,639,163 | 18,446,853 |
| 2018 | 6,092,690 | 12,352,975 | 18,445,665 |
| 2019 | 6,372,690 | 12,071,138 | 18,443,828 |
| 2020 | 6,672,690 | 11,769,750 | 18,442,440 |
| 2021 | 6,983,607 | 11,460,646 | 18,444,253 |
| 2022-2026 | 38,808,036 | 51,694,631 | 90,502,667 |
| 2027-2031 | 47,088,036 | 41,072,983 | 88,161,019 |
| 2032-2036 | 60,659,226 | 27,532,961 | 88,192,187 |
| 2037-2041 | 78,326,013 | 10,823,689 | 89,149,702 |
| Totals | $ 256,810,678 | $ 191,417,936 | $ 448,228,614 |

## Note 10 – Operating Leases

Operating leases have been issued to cover rental of floor space at the Jackson Medical Mall, Grenada and various other locations in the state of Mississippi. The spaces are used as patient care facilities and administrative offices. The following is a schedule by years of the future minimum rental payments required under those operating leases:

| Year Ending June 30: | Amount |
|---|---|
| 2017 | $ 13,419,037 |
| 2018 | 13,038,335 |
| 2019 | 12,371,594 |
| 2020 | 11,520,516 |
| 2021 | 10,873,463 |
| 2022-2026 | 49,393,231 |
| 2027-2031 | 44,518,320 |
| 2032-2034 | 5,850,000 |
| Total Minimum Payments Required | $ 160,984,496 |

The total rental expense for all operating leases, except those renewed with terms of a month or less that were renewed, for the fiscal years ending June 30, 2016 and 2015 was $14,514,259 and $13,004,373, respectively.

## Note 11 – Natural Classifications with Functional Classifications

The Medical Center’s operating expenses by functional classification were as follows for the year ended June 30, 2016:

| Functional Classification | Salaries & Wages | Fringe Benefits | Travel | Contractual Services | Utilities | Scholarships & Fellowships | Commodities | Depreciation Expense | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Instruction | $ 98,430,898 | $ 30,193,429 | $ 573,811 | $ 4,863,253 | $ - | $ - | $ 4,259,819 | $ - | $ - | $ 138,321,210 |
| Hospital Instruction | 26,859,198 | 10,578,158 | - | 5,277,550 | - | - | 175,677 | - | - | 42,890,583 |
| Research | 15,802,695 | 5,318,875 | 715,751 | 5,504,370 | - | - | 5,092,651 | - | - | 32,434,342 |
| Public Service | 6,202,912 | 2,137,743 | 427,337 | 2,834,357 | 17,617 | - | 805,774 | - | - | 12,425,740 |
| Academic Support | 9,281,013 | 3,175,531 | 424,926 | 1,718,147 | - | - | 1,138,160 | - | - | 15,737,777 |
| Student Services | 901,639 | 333,306 | 11,250 | 58,129 | - | - | 128,571 | - | - | 1,432,895 |
| Institutional Support | 60,738,089 | 20,840,884 | 691,755 | 43,163,642 | - | - | 4,453,540 | - | - | 129,887,910 |
| Operation of Plant | 10,272,451 | 4,267,223 | 4,801 | 11,159,341 | 10,792,620 | - | 2,220,700 | - | - | 38,717,136 |
| Student Aid | - | - | - | - | - | 6,321,715 | - | - | - | 6,321,715 |
| Auxiliary Enterprises | 695,262 | 280,480 | 1,319 | 697,099 | 220,199 | - | 1,845,551 | - | - | 3,739,910 |
| Depreciation | - | - | - | - | - | - | - | 44,132,768 | - | 44,132,768 |
| Hospital | 469,158,933 | 153,570,336 | 3,066,441 | 95,259,546 | 968,448 | - | 259,046,269 | - | - | 981,069,973 |
| Loan Fund | - | - | - | - | - | - | - | - | 155,579 | 155,579 |
| Total Operating Expenses | 698,343,090 | 230,695,965 | 5,917,391 | 170,535,434 | 11,998,884 | 6,321,715 | 279,166,712 | 44,132,768 | 155,579 | 1,447,267,538 |

## Note 11 – Natural Classifications with Functional Classifications (continued)

The Medical Center’s operating expenses by functional classification were as follows for the year ended June 30, 2015:

| Functional Classification | Salaries & Wages | Fringe Benefits | Travel | Contractual Services | Utilities | Scholarships & Fellowships | Commodities | Depreciation Expense | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Instruction | $ 94,342,926 | $ 22,389,537 | $ 436,107 | $ 4,042,912 | $ 12,806 | $ - | $ 4,069,228 | $ - | $ - | $ 125,293,516 |
| Hospital Instruction | 24,860,418 | 8,048,728 | - | 5,379,233 | - | - | 167,045 | - | - | 38,455,424 |
| Research | 14,607,482 | 3,743,664 | 661,472 | 5,595,216 | - | - | 4,590,358 | - | - | 29,198,192 |
| Public Service | 5,793,994 | 1,623,348 | 369,887 | 2,394,813 | 21,544 | - | 1,265,811 | - | - | 11,469,397 |
| Academic Support | 8,397,047 | 2,323,954 | 473,905 | 5,509,669 | - | - | 803,927 | - | - | 17,508,502 |
| Student Services | 920,000 | 273,628 | 15,858 | 153,055 | - | - | 133,281 | - | - | 1,495,822 |
| Institutional Support | 55,894,927 | 15,288,393 | 518,691 | 40,934,861 | - | - | 4,727,807 | - | - | 117,364,679 |
| Operation of Plant | 9,327,043 | 3,229,771 | 10,675 | 8,621,271 | 13,298,699 | - | 1,843,588 | - | - | 36,331,047 |
| Student Aid | - | - | - | - | - | 6,321,367 | - | - | - | 6,321,367 |
| Auxiliary Enterprises | 735,563 | 251,786 | 2,570 | 3,319,239 | 219,066 | - | 2,016,646 | - | - | 6,544,870 |
| Depreciation | - | - | - | - | - | - | - | 44,249,006 | - | 44,249,006 |
| Hospital | 436,569,554 | 113,030,777 | 2,868,844 | 88,770,582 | 1,220,337 | - | 227,756,596 | - | - | 870,216,690 |
| Loan Fund | - | - | - | - | - | - | - | - | 786,082 | 786,082 |
| Total Operating Expenses | $ 651,448,954 | $ 170,203,586 | $ 5,358,009 | $ 164,720,851 | $ 14,772,452 | $ 6,321,367 | $ 247,374,287 | $ 44,249,006 | $ 786,082 | $ 1,305,234,594 |

## Note 12 – Construction Commitments and Financing

The Medical Center has contracted for various construction projects as of June 30, 2016. Estimated costs to complete the various projects and the sources of anticipated funding are presented below:

| | Total Costs to Complete | Funded by Federal Sources | State Sources | Institutional Funds | Other |
|---|---|---|---|---|---|
| Renovations Adult Emergency | $ 64,275 | $ - | $ 64,275 | $ - | $ - |
| School of Medicine | 37,982,685 | - | 37,982,685 | - | - |
| ECM Lighting Upgrades | 105,775 | - | 105,775 | - | - |
| Replace Generators 12, 13 & 14 | 318,656 | - | - | - | 318,656 |
| Renovate Lexington Hospital Emergency Dept | 1,071,746 | - | - | 820,284 | 251,462 |
| Cancer & Biomedical Research Center | 19,097,020 | 6,687,634 | - | 10,595,828 | 1,813,558 |
| School of Medicine Utilities Project | 400,851 | 400,851 | - | - | - |
| Parking Garage C | 4,842,026 | - | - | - | 4,842,026 |
| Surface Parking, Roadways & Infrastructure | 2,821,177 | 485,781 | - | - | 2,335,396 |
| Renovate SOD Restrooms | 163,180 | - | - | 163,180 | - |
| Install Modular Building Lexington Hospital | 393,500 | - | - | 393,500 | - |
| Renovate Women's Urgent Care | 687,426 | - | - | 687,426 | - |
| Renovate Pediatric Dialysis | 8,551 | - | - | 8,551 | - |
| Recoat Pavilion Building Roof | 66,157 | - | - | 66,157 | - |
| Renovate Rooms C656 & C657 | 11,060 | - | - | 11,060 | - |
| Renovate Interventional Radiology Waiting Area | 35,663 | - | - | 35,663 | - |
| Renovate W001-00 & M004-02 | 118,247 | - | - | 118,247 | - |
| Renovate CV003 Radiology | 3,684,204 | - | - | 3,684,204 | - |
| Replace Morgue Cooler | 58,116 | - | - | 58,116 | - |
| Renovate Gross Anatomy Lab N720 | 126,087 | - | - | 126,087 | - |
| Ticket Dispenser Replacement Lots 17 & 21 | 132,674 | - | - | 132,674 | - |
| Renovate SOM Exterior Entrance | 498,529 | - | - | 498,529 | - |
| Renovate Main Pharmacy | 2,795,848 | - | - | 2,795,848 | - |
| Renovate X505 Pharmacy | 16,059 | - | - | 16,059 | - |
| Renovate W259 | 83,080 | - | - | 83,080 | - |
| Renovate for Linear Accelerator | 621,604 | - | - | 621,604 | - |
| Construct Contractor's Parking Lot | 39,000 | - | - | 39,000 | - |
| Renovate 3 West Chief Medical Officer Suite | 187,247 | - | - | 187,247 | - |
| Install Sterilization Equipment in WC002 | 514,542 | - | - | 514,542 | - |
| Construct EDH Funded Project | 147,650 | - | - | 147,650 | - |
| Renovate Pavilion Coffee Shop | 217,492 | - | - | 217,492 | - |
| Reroof URC Building | 178,208 | - | - | 178,208 | - |
| Construct Accounting Office-JMM | 217,557 | - | - | 217,557 | - |
| Renovate MRI Grenada | 557,839 | - | - | 557,839 | - |
| Renovate Radiology Building | 699,305 | - | - | 699,305 | - |
| SOM Infrastructure Contract II | 1,674,361 | 1,674,361 | - | - | - |
| Renovate 2 West | 280,000 | - | - | 280,000 | - |
| Renovate E008-A | 506,670 | - | - | 506,670 | - |
| NE Wellness Repairs | 493,840 | - | - | 493,840 | - |
| Lakeland Wellness Repairs | 943,840 | - | - | 943,840 | - |
| Total | $ 82,861,747 | $ 9,248,627 | $ 38,152,735 | $ 25,899,287 | $ 9,561,098 |

## Note 13 – Pension Plan

### PERS Defined Benefit Plan

*Plan Description* – The IHL System participates in either the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan or the Optional Retirement Plan (ORP), a multiple-employer defined contribution plan established in 1990. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issued a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement IHL System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

*Vesting Period* – In 2007, the Mississippi Legislature amended the PERS Plan to change the vesting period from four to eight years for members who entered the IHL System after July 1, 2007. A member who entered the IHL System prior to July 1, 2007 is still subject to the four year vesting period provided that the member does not subsequently refund their account balance.

*Funding Policy* – PERS members are required to contribute 9.0% of their annual salary and the institution is required to contribute at an actuarially determined rate. The actuarially determined rate was 15.75% of annual covered payroll at June 30, 2016 and 2015. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Medical Center's contributions to PERS for the years ended June 30, 2016, 2015, and 2014, were $72,698,781, $69,227,945, and $65,129,647, respectively. Such contributions equaled the required contributions for each respective year.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At June 30, 2016 and 2015, the Medical Center reported a liability of $1.1 billion and $821.4 million, respectively, for its proportionate share of the net pension liability. The net pension liability for June 30, 2016 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. The Medical Center's proportion of the net pension liability was based on a projection of the Medical Center's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Medical Center's proportionate share of the net pension liability as of June 30, 2015 and 2014 was 7.04 and 6.76, respectively.

For the years ended June 30, 2016 and 2015, the Medical Center recognized pension expense of $119.0 million and $65.0 million, respectively. At June 30, 2016, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

## Note 13 – Pension Plan (continued)

| Deferred outflows of resources | | | | | Deferred inflows of resources | | | |
|---|---|---|---|---|---|---|---|---|
| Differences between expected and actual experience | Changes of assumptions | Changes in proportion and differences between Employer contributions and proportionate share of contributions | Contributions subsequent to the measurement date | Total deferred outflows of resources | Differences between expected and actual experience | Net difference between projected and actual investment earnings on pension plan investments | Changes of assumptions | Total deferred inflows of resources |
| 24,941,765 | 93,689,698 | 43,580,232 | 71,818,771 | 234,030,466 | - | 25,670,867 | - | 25,670,867 |

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)* – $71.8 million reported as deferred outflows of resources related to contributions subsequent to the measurement date 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 as pension expense as follows:

| Deferred outflow of resources year ended June 30 | | | | | |
|---|---|---|---|---|---|
| **2017** | **2018** | **2019** | **2020** | | **Total** |
| 43,605,294 | 43,605,294 | 43,605,294 | 31,395,813 | | 162,211,695 |

| Deferred inflow of resources year ended June 30 | | | | | |
|---|---|---|---|---|---|
| **2017** | **2018** | **2019** | **2020** | **2021** | **Total** |
| 5,134,173 | 5,134,173 | 5,134,173 | 5,134,173 | 5,134,175 | 25,670,867 |

*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:

| | |
|---|---|
| Valuation date | June 30, 2015 |
| Measurement date | June 30, 2015 |
| Actuarial cost method | Entry age |
| Actuarial assumptions: | |
| Discount rate | 7.75% |
| Inflation | 3.00% |
| Payroll growth | 3.75% |
| Projected salary increase | 3.75-19.00% (1) |
| Investment rate of return | 7.75% (2) |

(1) Depending on age, service, and type of employment, including inflation

(2) Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2016 with male rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

## Note 13 – Pension Plan (continued)

*Discount rate* – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those 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.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset class | Target allocation | Long-term expected real rate of return |
|---|---|---|
| U.S. Broad | 34.00% | 5.20% |
| International equity | 19.00% | 5.00% |
| Emerging markets equity | 8.00% | 5.45% |
| Fixed income | 20.00% | 0.25% |
| Real assets | 10.00% | 4.00% |
| Private equity | 8.00% | 6.15% |
| Cash | 1.00% | -0.50% |
| | 100.00% | |

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the Medical Center's proportionate share of the net pension liability, calculated using the discount rate of 7.75%, as well as what the IHL System's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

| | 1% Decrease (6.75%) | Current discount rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|
| Net pension liability | 1,433,505,231 | 1,087,561,173 | 800,492,245 |

*Pension Plan Fiduciary Net Position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

## Note 13 – Pension Plan (continued)

### ORP Defined Contribution Plan

The Optional Retirement Plan (ORP) was established by the Mississippi Legislature in 1990 to help attract qualified and talented institutions of higher learning faculty. The membership of the ORP is composed of teachers and administrators appointed or employed on or after July 1, 1990, who elect to participate in ORP and reject membership in PERS. The ORP provides funds at retirement for employees and in the event of death, provides funds for their beneficiaries, through an arrangement by which contributions are made to this plan. The current contribution rate of both the employee and the Medical Center are identical to that of the PERS defined benefit plan.

The ORP uses the accrual basis of accounting. Investments are reported at fair value, based on quoted market prices. Employees immediately vest in plan contributions upon entering the plan. The Medical Center's contributions to the ORP for the years ended June 30, 2016, 2015, and 2014 were $25,099,961, $22,626,639, and $21,411,984 respectively, which equaled its required contribution for each respective year.

## Note 14 – Material Component Unit of the Medical Center

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Medical Center Educational Building Corporation is deemed to be a material component unit of the Medical Center but is presented on a blended basis in the accompanying financial statements due to the significance of its activities to the Medical Center's operations. Condensed financial information as of June 30, 2016 and 2015 is listed in the following schedule:

| | 2016 | 2015 |
|---|---|---|
| Current assets | 6,654,876 | 6,448,568 |
| Noncurrent asset | 246,801,871 | 251,445,749 |
| Total assets | 253,456,747 | 257,894,317 |
| Deferred Outflows of Resources | 4,283,040 | 4,518,800 |
| Current liabilities | 6,654,875 | 6,451,427 |
| Noncurrent liabilities | 251,230,679 | 257,038,369 |
| Total liabilities | 257,885,554 | 263,489,796 |
| Total net position | (145,767) | (1,076,679) |
| Operating revenues | 12,001,672 | 12,225,929 |
| Operating expenses | 11,070,760 | 11,896,523 |
| Total operating income (loss) | 930,912 | 329,406 |
| Nonoperating revenues | - | - |
| Nonoperating expenses | - | - |
| Total nonoperating revenues (expenses) | - | - |
| Change in net position | 930,912 | 329,406 |

## Note 15 – Donor Restricted Endowments

The net appreciation on investments of donor restricted endowments that is available for authorization for expenditure was $14,204,245 and $13,570,324 as of June 30, 2016 and 2015, respectively. These amounts are included on the Statement of Net Position in “Net Position - Expendable for Other Purposes”.

Most endowments operate on the total-return concept as permitted by the Uniform Management of Institutional Funds Act (Sections 79-11-601 through 79-11-617, MS Code, Ann. 1972) as enacted in 1998. The annual spending rate for these endowments is 5% of the three-year moving average market value.

## Note 16 – Federal Loan Program Disbursements

The Medical Center distributed federal loan funds for the year ended June 30, 2016 and 2015 as follows:

| | 2016 | 2015 |
|---|---|---|
| William D. Ford Direct Loan Program | $ 31,571,765 | $ 31,210,392 |
| Federal Perkins Loan Program | 952,695 | 1,178,461 |
| Health and Human Services Loan Program | 164,298 | 293,235 |
| Total | $ 32,688,758 | $ 32,682,088 |

These distributions and their related funding sources are included as "Noncapital Financing" distributions in the Statement of Cash Flows.

## Note 17 – University of Mississippi Medical Center Tort Claims Fund

The Medical Center participates in the University of Mississippi Medical Center Tort Claims Fund (UMMC Tort Claims Fund). In accordance with Section 11-46-1, et seq., Mississippi Code Annotated (1972), the Mississippi Tort Claims Board has authorized the Board of Trustees of the State Institutions of Higher Learning to establish a fund in order to self-insure a certain portion of its liability under the Mississippi Tort Claims Act.

Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against the State Institutions of Higher Learning. A maximum limit liability of $500,000 per occurrence is currently permissible.

The Board of Trustees of State Institutions of Higher Learning has established a Medical Center Tort Claims fund to pay claims up to the maximum liability limits described above. Losses from professional and tort liability claims of the Medical Center are the responsibility of the Medical Center Tort Claims Fund.

# REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

## Schedule of Proportionate Share of Net Pension Liability
## For the years ended June 30, 2016 and 2015

| | Proportionate share of the net pension liability | Proportionate share of the net pension liability | Estimated Covered-employee payroll | Proportionate share of the net pension liability as a percentage of its covered-employee payroll | PERS fiduciary net position as a percentage of the total pension liability |
|---|---|---|---|---|---|
| 2016 | 7.04% | 1,087,561,173 | 439,542,508 | 247.43% | 61.70% |
| 2015 | 6.76% | 821,435,313 | 413,521,568 | 199.00% | 67.00% |

## Schedule of Proportionate Share of Contributions
## For the years ended June 30, 2016 and 2015

| | Proportionate share of contributions | Required contributions | Contribution deficiency (excess) | Actual Covered-employee payroll | Contribution as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2016 | 71,818,771 | (71,818,771) | - | 455,992,197 | 15.75% |
| 2015 | 68,736,092 | (68,736,092) | - | 436,419,632 | 15.75% |

# Notes to Required Supplementary Information
# June 30, 2016

## (1) Schedule of Proportionate Share of Net Pension Liability

This schedule presents historical trend information about the Medical Center's proportionate share of the net pension liability for its employees who participate in the PERS. The net pension liability is measured as the total pension liability(TPL) less the amount of the fiduciary net position of the plan. Information related to years prior to 2015 is not available, therefore, trend information will be accumulated to display a ten-year presentation.

## (2) Schedule of Proportionate Share of the Medical Center's Contributions

The required contributions and percentage of those contributions actually made are presented in the schedule. Information related to years prior to 2015 is not available, therefore, trend information will be accumulated to display a ten-year presentation.

## (3) Changes in Assumptions and Benefit Terms

*Changes of assumptions*: In 2015, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB, rather than the RP-2000 Mortality Table that was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table that was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates, and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, in 2016 the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

*Change of benefit terms*: Amounts reported for fiscal year 2016 and 2015 reflect no changes in benefit terms.