University of Arkansas for Medical Sciences

Financial Statements
June 30, 2016 and 2015

University of Arkansas for Medical Sciences
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Unaudited Management's Discussion and Analysis
June 30, 2016, and 2015

This discussion and analysis provides an overview of the financial position and changes in net position of the University of Arkansas for Medical Sciences (UAMS) for the fiscal years ended June 30, 2016 and 2015. UAMS is one of eighteen campuses and related units operating within the University of Arkansas System, organized under various laws of the State of Arkansas and governed by the University's ten-member Board of Trustees (UA Board). UAMS is a state-assisted academic health center composed of:

- The Colleges of Medicine, Pharmacy, Nursing, Health Professions, Public Health, Graduate School, and Northwest Arkansas Satellite Campus with a combined enrollment of 2,869 and faculty numbering 1,376;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 510 acute care beds in use at June 30, 2016;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute (PRI);
- Jackson T. Stephens Spine and Neurosciences Institute; and
- Translational Research Institute.

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

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

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

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

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

This discussion and analysis of UAMS' financial statements provides an overview of its financial activities for the fiscal years ended June 30, 2016 and 2015, with comparative information for the fiscal year ended June 30, 2014. Beginning Net Position for 2015 was restated due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. As a result, beginning Net Position was reduced by $7,491,793 to reflect the net effect of recognizing UAMS' proportionate share of the net pension liability and deferred outflows of resources attributed to the year ended June 30, 2014. Therefore, the following discussion and analysis of 2015 operating results focuses on results before the cumulative effect of the adoption of GASB Statement No. 68.

Financial Highlights

UAMS' net position increased in fiscal year 2016 by $18,539,000 with assets and deferred outflows of resources totaling $1,301,349,000 and liabilities and deferred inflows of resources totaling $551,604,000. Net position, which represents the residual interest in UAMS' assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was $749,745,000 at June 30, 2016. Changes in net position represent the activities of UAMS, which result from revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2016, 2015, and 2014 as follows:

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

Statements of Net Position

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

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

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

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

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

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

Fiscal Year 2016

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

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

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

UAMS' deferred outflows of resources results from the defeasance of certain outstanding bonds in past years and pension liabilities. The bond refundings resulted in losses (the difference between the acquisition price of the new debt and the net carrying amount of the old debt). In accordance with the adoption of GASB Statements No. 63 and No. 65, these losses are presented as a deferred outflow of resources. The deferred outflows related to the loss on refunding of bonds decreased in fiscal year 2016 by $291,000 from the amortization for the year. The deferred outflow related to pension liabilities increased by $1,028,000.

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

UAMS' deferred inflows of resources related to pensions decreased by $1,671,000.

Fiscal Year 2015

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

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

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

UAMS' deferred outflows of resources results from the defeasance of certain outstanding bonds in past years and pension liabilities. The bond refundings resulted in losses (the difference between the acquisition price of the new debt and the net carrying amount of the old debt). In accordance with the adoption of GASB Statements No. 63 and No. 65, these losses are presented as a deferred outflow of resources. The deferred outflows related to the loss on refunding of bonds increased in fiscal year 2015 by $1,295,000. The deferred outflow related to pension liabilities resulted from the implementation of GASB Statement No. 68 in fiscal year 2015.

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

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

Statement of Revenues, Expenses, and Changes in Net Position

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

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

Fiscal Year 2016

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

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

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

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

The following factors affected operating expenses in 2016:

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

The following factors affected nonoperating revenue (expense) in 2016:

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

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

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

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

Fiscal Year 2015

The Statement of Revenues, Expenses, and Changes in Net Position reflects a loss before other changes in net position of $30,050,000, and a decrease of $26,059,000 in net position for fiscal year 2015. Highlights of the information presented in this statement show how the following affected operating revenue:

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

The following factors affected operating expenses in 2015:

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

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

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

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

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

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

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

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

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

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

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

Fiscal Year 2015

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

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

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

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

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

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

Capital Assets and Debt Administration

Capital Assets

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

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

(in thousands)

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

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

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

(in thousands)		Amount Outstanding
Obligation		
Bonds payable	$	265,558
Notes payable		40,149
Obligations under capital leases		27,469
Total debt	$	333,176

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

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

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

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

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

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

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

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

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

Requests for Information

This financial report is designed to provide a general overview of UAMS' finances. Questions concerning any of the information provided in this report, or request for additional information should be addressed to William R. Bowes, Vice Chancellor for Finance and Administration and Chief Financial Officer, 4301 West Markham Street, #632, Little Rock, Arkansas 72205.

Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UAMS at June 30, 2016 and 2015, and the changes in its financial position and its cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of UAMS are intended to present the financial position, the changes in financial position and, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Arkansas System that is attributable to the transactions of UAMS. They do not purport to, and do not, present fairly the financial position of The University of Arkansas System as of June 30, 2016 and 2015, its changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplemental Information

The accompanying management's discussion and analysis on pages 1 through 12 and the required supplemental information on pages 50 through 54 respectively are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Little Rock, Arkansas
October 6, 2016

University of Arkansas for Medical Sciences
Statements of Net Position
June 30, 2016 and 2015

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

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

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

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

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

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

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

Basis of Presentation

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

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

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

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

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

UAMS utilizes approximately 6,580,000 square feet of office, clinical, research, educational, workshop, and general-purpose space, excluding space utilized at Arkansas Children's Hospital. This total is composed of approximately 5,390,000 square feet of owned space at the Little Rock campus and 1,190,000 of leased or owned space throughout the State of Arkansas.

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

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

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

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

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

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

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

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

Supplies

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

Capital Assets

Capital assets are stated at cost at the date of acquisition or estimated acquisition value at the date of donation. If material, interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings. UAMS has established a capitalization threshold of $5,000 for all capital assets other than software. The software capitalization threshold is $1,000,000 for purchased and internally developed software. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives generally as established by the American Hospital Association or the lease term as follows:

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

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

Deferred Outflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditure) until a future period.

Compensated Absences

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

Early Retirement Liability

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

Deferred Inflows of Resources

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

Unearned Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management has determined these statement did not materially impact UAMS.

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

For the year ending June 30, 2017

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

For the year ending June 30, 2018

- Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*,
- Statement No. 81, *Irrevocable Split-Interest Agreements*

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

2. Net Patient Services Revenue and Charity Care

In fiscal year 2016, patient care operations were merged to create the Integrated Clinical Enterprise for the purpose of achieving greater efficiency in providing patient care. Patient care operations are included in the accompanying financial statements under accounting principles generally followed by governmental colleges and universities. Patient accounts receivable at June 30, 2016 and 2015 are recorded net of an allowance for doubtful accounts and contractual adjustments of $404,672,000 and $421,761,000, respectively.

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

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

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

UAMS provided approximately $77,654,000 and $72,726,000 in charity care, based on established rates, during the year ended June 30, 2016 and 2015, respectively. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not included in gross patient revenue above. Net patient services revenue for the year ended June 30, 2016 and 2015 includes approximately $73,891,000 and $77,666,000, respectively, from the Medicaid program representing payments relating to Upper Payment Limit and Disproportionate Share reimbursements. These payments are available to state-operated teaching hospitals under Medicaid regulations. Net patient services revenue for the year ended June 30, 2016 and 2015 also includes approximately $35,520,000 and $39,052,000, respectively, of net revenue from the Supplemental Medicaid program.

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

Hospital

Medicare

Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some transplantation services are paid based upon a cost reimbursement methodology. Outpatient services are paid based on a prospective payment system where services are classified into groups called Ambulatory Payment Classifications (APC). Services in each APC are similar clinically and in terms of the resources they require. The Hospital is paid for cost-reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audit by the Medicare fiscal intermediary. As of June 30, 2016, the Hospital’s Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2014.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is paid at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital and audits by the Medicaid audit contractor. The Hospital is required to pay the federal match for the difference in reimbursement between the Tax Equity and Fiscal Responsibility Act inpatient rate and full cost. For outpatient services, the Hospital is required to pay the federal match for the difference reimbursed between the outpatient prospective rates and full cost. As of June 30, 2016, the Hospital’s Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2011.

FGP and AHECs

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated settlements resulted in no change to net patient services revenue for the years ended June 30, 2016 and 2015. Management believes that UAMS is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

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

Out of Period Adjustments to Medicaid Programs
During 2016, UAMS corrected the following errors that existed in its previously reported financial statements.

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

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

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

3. Net State Appropriations Revenue

State appropriations are reported in the statement of revenues, expenses, and changes in net position as Nonoperating Revenue, net of the Medicaid match payments required under various contracts between UAMS and the DHS.

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

(in thousands)	**2016**	**2015**
Gross state appropriations revenue	$ 107,049	$ 106,602
Less: Medicaid match payments	99,151	85,075
Net state appropriations revenue	$ 7,898	$ 21,527

4. Cash and Cash Equivalents

All cash deposits of UAMS are carried at cost. The carrying amount of deposits is separately displayed in the statement of net position as cash and cash equivalents. The carrying amount differs from the bank balance shown below due to timing differences of clearing outstanding checks and deposits.

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

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

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

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

(in thousands)	**2016**	**2015**
Reported amount of deposits under GASB 3 as reported in the statements of net assets	$ 108,977	$ 40,880
Cash and cash equivalents	$ 108,977	$ 40,880

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

5. Investments

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

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

(in thousands)	**Total Return Pool**	**Intermediate Pool**	**Total Pool**
June 30, 2016	11.2%	0.7%	9.3%
June 30, 2015	11.0%	14.2%	11.6%

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

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

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

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

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

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

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

Arkansas Code

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

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

6. Notes and Student Loans Receivable

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

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

7. Capital Assets

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

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

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

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

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

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

8. Accounts Payable and Accrued Liabilities

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

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

9. Long-Term Obligations

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

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

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

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

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

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

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

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

UAMS has bonds outstanding for various facilities. Revenues from clinical services are pledged to service those bonds. The bonds contain covenants which obligate the UA Board to maintain pledged revenues at a level greater than or equal to 125% than the related average annual debt service. For the year ended June 30, 2016, such pledged revenues were 4,533% of the related debt service.

UAMS has bonds outstanding for parking decks and lots which produce parking fee revenue, which is pledged to service the bonds. Those bonds contain covenants which obligate the UA Board to maintain pledged revenues at a level greater than or equal to 120% of the related average annual debt service. For the year ended June 30, 2016, such pledged revenues were 276% of the related debt service.

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

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

(in thousands)		2016	2015
Parking System Revenue Refunding Bonds, Series 2010, $7,605,000 original amount plus a premium of $560,000, due annually to 2019, various fixed interest rates of 2.0% to 4.5% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	**PAR**	$ 3,720	$ 4,555
	Premium	185	247
Various Facility Revenue Bonds, Series 2010A, $42,680,000 original amount plus a premium of $2,876,000 due annually to 2030, various fixed interest rates of 2.00% to 5.00%, collateralized by pledged revenue.	**PAR**	38,080	39,820
	Premium	2,079	2,223
Parking System Revenue Refunding Bonds, Series 2011, $8,985,000 original amount, less a discount of $55,000, due annually to 2034. Used to advance refund the Series 2004 Parking System Revenue Construction Bonds Various fixed interest rates of 2.00% to 4.25 % over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	**PAR**	7,640	7,960
	Discount	(44)	(46)
Various Facility Revenue Bonds, Series 2013, $112,665,000 original amount, $16,667,000 premium due annually to 2034. Used to advance refund the Series 2004A and 2004B Various Facility Bonds. Various fixed interest rates of 1.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	**PAR**	104,630	107,550
	Premium	14,237	15,014
Various Facility Revenue Bonds, Series 2014, $86,035,000 original amount, $12,713,000 premium due annually to 2024. Used to advance refund the Series 2006 Various Facility Bonds. Various fixed interest rates of 2.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	**PAR**	83,240	84,190
	Premium	11,791	12,390
Total bonds payable		$ 265,558	$ 273,903

Scheduled maturities of bonds and notes payable are as follows:

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

The Various Facility Revenue Refunding Bonds, Series 2014 was issued on December 17, 2014. The issue provided $98,037,198 necessary to advance refund Various Facility Revenue Bond Series 2006. The remaining bonds bear interest rates from 3.75% to 5%. Principal payments are made annually until 2036. Interest payments are made semi-annually. As a result of the advance refunding, UAMS reduced its total debt service requirements by $10,012,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $9,313,000, and a deferred refunding loss of $1,554,000 on the transaction which will be amortized as a component of interest expense until March 2036.

The Various Facility Revenue Refunding Bonds, Series 2013 was issued on May 14, 2013. The issue provided $112,665,000 necessary to advance refund Various Facility Revenue Refunding Bonds Series 2004A, and Various Facility Revenue Construction Bonds Series 2004B bonds. The remaining bonds bear interest rates from 3% to 5%. Principal payments are made annually until November 2034. Interest payments are made semiannually. The refunding resulted in an economic gain of $13,600,000, and a deferred refunding loss of $4,126,000 on the transaction which will be amortized as a component of interest expense until October 2034.

The Parking System Revenue Refunding Bonds, Series 2011, were issued in November 2011. The 2011 issue provided $8,985,000 necessary to advance refund the UA Board’s Parking System Revenue Construction Bonds, Series 2004. The remaining 2011 bonds bear interest at various fixed interest rates from 2.00% to 4.25%. Principal payments are made annually until July 2034. Interest payments are made semiannually. The refunding reduced cash flows by $668,000. There was a deferred refunding loss on the transaction of $589,000 which will continue to be amortized as a component of interest expense until July 2034.

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

10. Commitments

Capital Leases

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

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

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

(in thousands)

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

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

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

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

11. Retirement Benefits

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

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

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

Effective July 2016, employees will be required to contribute a minimum of 1%. This percentage will increase by 1% each year until the mandatory employee contribution reaches 5% in July 2020. Also, the number of years one must work to become vested changes from 1 year to 2 years.

For any contributions an employee makes in excess of 5% of regular salary, UAMS makes an equal contribution up to a maximum total UAMS contribution of 10% of regular salary up to a maximum of $26,500 per employee, which is the IRS maximum for tax year 2016.The eligible salary earnings for UAMS employees covered by UAORP for the years ended June 30, 2016 was $671,488,000. Total employer contributions during fiscal year 2016 to TIAA-CREF and Fidelity were $52,989,000. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal year 2016 were $59,605,000.

Arkansas Teacher Retirement System (ARTRS)

Plan Description

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

Benefits Provided

ARTRS provides retirement, disability and death benefits. Benefit terms and assumptions are unchanged from the prior year. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory	2.15 %
Noncontributory	1.39 %

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

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

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

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

Effective July 1, 2011, new employees of UAMS are no longer eligible to participate in the Arkansas Teacher Retirement System (ARTRS). Existing ARTRS participants are allowed to continue ARTRS participation.

Contributions
Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 7. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. ARTRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ARTRS. The noncontributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999, until July 1, 2000, to make an irrevocable choice to be contributory or noncontributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 of each fiscal year. Employers are required to contribute at a rate established by the Board of Trustees of ARTRS based on an actuary's determination of a rate required to fund the plan. UAMS contributed 14% of applicable compensation for the fiscal year ended June 30, 2016. This rate is unchanged from the previous year. The gross payroll amount for UAMS employees covered by ARTRS for the year ended June 30, 2016 was $299,045. UAMS and member's contributions for the year ending June 30, 2016, were $41,866 and $10,929, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions
At June 30, 2016, UAMS reported a liability of $320,396 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. UAMS' proportion of the net pension liability was based on its share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2016, UAMS' proportion was 0.009837 percent.

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

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

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

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

Actuarial Assumptions
The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Amortization method	Level of Percent of Payroll, closed
Wage inflation	3.25%
Salary increases	3.25-9.10%
Investment rate of return	8%
Post-retirement cost-of-living increases	3% Simple
Mortality table	Based on RP-2000 Mortality table for males and females, projected 25 years using Projection Scale AA, (95% for men & 87% for women)
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2005 – June 30, 2010

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015 are summarized below:

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

Discount Rate

A single discount rate of 8.0% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 8.0%. It incorporates a municipal bond rate of 3.80% taken from Federal Reserve statistical release (H.15) as of June 25, 2015. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents UAMS's proportionate share of the net pension liability using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

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

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

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

Arkansas Public Employees Retirement System (APERS)

Plan Description

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

Benefits Provided
APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005	2.03%
Non-Contributory	1.72%

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

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

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

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

Contributions
Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered. Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan. UAMS contributed 14.5% of applicable compensation for the fiscal year ended June 30, 2016. The gross payroll amount for UAMS employees covered by APERS for the year ended June 30, 2016 was $10,271,365. UAMS' and member's contributions for the year ending June 30, 2016, were $1,489,348 and $390,368, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions
At June 30, 2016 UAMS reported a liability of $8,735,105 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. UAMS' proportion of the net pension liability was based on its share of contributions to the pension plan relative to the total contributions of all participating employers. At June 30, 2016, UAMS' proportion was 0.47428717 percent.

For the year ended June 30, 2016, UAMS recognized pension expense of $403,354. At June 30, 2016, UAMS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ (572,660)
Changes of assumptions	$ 1,289,116	
Changes in Proportion and Differences Between Employer Contributions and Share of Contributions	$ 203,901	
Net difference between projected and actual earnings on pension plan investments		$ (433,391)
UAMS contributions subsequent to the measurement date	$ 1,489,348	
Total	$ 2,982,365	$ (1,006,051)

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

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

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Amortization method	Level of Percent of Payroll, Closed
Investment rate of return	7.50%
Salary increases	3.25 – 9.85%
Wage Inflation	3.25%
Post-Retirement Cost-of-Living Increases	3% Annual Compounded Increase
Mortality table	Based on RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females.
Average Service Life of All Members	4.5972

The long-term expected rate of return on pension plan investments of 5.25% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015 are summarized below:

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

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

Discount Rate
A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. It incorporates a municipal bond rate of 3.80% based on the *Bond Buyer 20-Bond Index* of general obligation municipal bonds as of June 26, 2015 (i.e., the weekly rate closest to but not later than the Measurement Date).

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents UAMS's proportionate share of the net pension liability using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

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

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

Payables to the Pension Plan
UAMS reported payables to APERS of $0 at June 30, 2016.

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

12. Other Postemployment Benefits (OPEB)

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

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

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

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

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

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

Summary of Key Actuarial Methods and Assumptions

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

General Overview of the Valuation Methodology

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

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

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

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

Changes in Actuarial Assumptions and Methods

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

Medical Coverage – Retirees not Eligible for Medicare

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

Medical Coverage – Retirees Eligible for Medicare

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

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

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

Schedule of Employer Contributions

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

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

13. Affiliated Entities

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

Based on unaudited information provided by the UA Foundation, during the years ended June 30, 2016 and 2015, revenue of $18,302,000 and $30,628,000, respectively, was received by the UA Foundation for the benefit of UAMS.

14. Related-Party Transactions

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

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

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

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

15. Contingencies

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

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

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

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

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

Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately $27,600,000 in 2046 with the first $5,000,000 dedicated to pay the debt service on the above bond issue.

If Debt Service Revenues would have been considered insufficient at June 30, 2016, UAMS would have incurred a liability of $60,170,540 related to the issue. This amount includes drawdown of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

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

16. Functional Classification of Expenses

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

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

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

Employee Benefits

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

	2016*	2015**
UAMS' proportion of net pension liability	0.0098%	0.0096 %
UAMS' proportionate share of net pension liability	$ 320,396	$ 252,882
UAMS' covered payroll	$ 299,045	$ 286,668
UAMS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	107.14 %	88.21 %
Plan fiduciary net position as a percentage of the total pension liability	82.20 %	84.98 %

* The amounts presented were determined as of 6/30/15
** The amounts presented were determined as of 6/30/14

Schedule of UAMS' Contributions
Arkansas Teacher Retirement System

	2016	2015
Contractually required contribution	$ 41,866	$ 40,133
Contributions in relation to the contractually required contribution	(41,866)	(40,133)
Contribution deficiency (excess)	$ -	$ -
UAMS' covered payroll	$ 299,045	$ 286,668
Contributions as a percentage of covered-employee payroll	14.00 %	14.00 %

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

	2016*	2015**
UAMS' proportion of net pension liability	0.4743 %	0.4600 %
UAMS' proportionate share of net pension liability	$ 8,735,105	$ 6,527,329
UAMS' covered payroll	$ 10,271,365	$ 8,415,014
UAMS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.04 %	77.57 %
Plan fiduciary net position as a percentage of the total pension liability	80.39 %	84.21 %

* The amounts presented were determined as of 6/30/15

** The amounts presented were determined as of 6/30/14

Schedule of UAMS' Contributions
Arkansas Public Employees Retirement System

	2016	2015
Contractually required contribution	$ 1,489,348	$ 1,242,056
Contributions in relation to the contractually required contribution	(1,489,348)	(1,242,056)
Contribution deficiency (excess)	$ -	$ -
UAMS' covered payroll	$ 10,271,365	$ 8,415,014
Contributions as a percentage of covered-employee payroll	14.50 %	14.76 %

Changes in Assumptions

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

Other Postemployment Benefits
General Overview of the Valuation Methodology

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

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

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

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

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

Medical Coverage – Retirees Not Eligible for Medicare
Claim experience for the period January 1, 2013 through February 28, 2015 was used to develop the claims cost for non-Medicare eligible retirees. The paid claims data was converted to an incurred basis using a completion factor approach. This experience includes 1,037 life years of exposure and was deemed to be 61% credible for medical claims and 86% credible for prescription drug claims. The experience was combined with the active claims experience adjusted for demographic differences to produce the per capita claims costs used in the valuation. Adjustment factors were then applied to develop expected claims by age to be used in the valuation.

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

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

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

Schedule of Employer Contributions

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

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

Schedule of Funding Progress (Unaudited)

(in thousands)

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