University of Arkansas for Medical Sciences

Financial Statements
June 30, 2015

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This discussion and analysis provides an overview of the financial position and changes in net position of the University of Arkansas for Medical Sciences (UAMS) for the fiscal years ended June 30, 2015 and 2014. 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 3,021 and faculty numbering 1,370;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 464 acute care beds in use at June 30, 2015;
- 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 reflect the results of UAMS' operations. The purpose of these statements is to present the revenues earned and expenses incurred by UAMS, both operating and nonoperating, and any other changes in net position of UAMS.

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

This discussion and analysis of UAMS' financial statements provides an overview of its financial activities for the fiscal years ended June 30, 2015 and 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 decreased in fiscal year 2015 by $26,059,000, with assets and deferred outflows of resources totaling $1,277,734,000 and liabilities and deferred inflows of resources totaling $546,528,000. 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 $731,206,000 at June 30, 2015. 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, 2015 and 2014, as follows:

(in thousands)	**2015**	**2014**
Operating revenues	$ 1,274,336	$ 1,174,740
Operating expenses	(1,337,064)	(1,279,022)
Nonoperating revenues	32,678	85,185
Other changes in net position	3,991	4,563
Increase (decrease) in net position	$ (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 fair 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 Statements of Net Position provide a picture of the net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) and its availability for expenditure by UAMS.

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

(in thousands)	June 30, 2015	June 30, 2014
Assets		
Current assets	$ 262,944	$ 286,927
Noncurrent assets		
Investments	160,525	136,242
Capital assets, net	828,033	848,886
Other	18,451	21,244
Total assets	1,269,953	1,293,299
Deferred outflows of resources	7,781	4,431
Liabilities		
Current liabilities	123,990	117,026
Noncurrent liabilities	419,771	415,427
Total liabilities	543,761	532,453
Deferred inflows of resources	2,767	-
Net position		
Invested in capital assets, net of related debt	474,003	494,033
Restricted		
Expendable	133,160	121,944
Nonexpendable	31,437	31,747
Unrestricted	92,606	117,553
Total net position	$ 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 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 from the amortization for the year. 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.

Fiscal Year 2014

UAMS' total assets decreased by $36,977,000 in fiscal year 2014. 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 $40,849,000, an increase in net capital assets of $17,394,000, a decrease in investments of $12,609,000, and an increase in patient accounts receivable of $4,669,000.

Current assets decreased by $33,193,000 in fiscal year 2014. This decrease came primarily from a decrease in short-term investments of $32,584,000, which were used mostly to assist in the funding of the implementation of a new integrated clinical information system. This decrease was partially offset by the increase in patient accounts receivable, which resulted from additional net patient service revenue experienced in the year.

Noncurrent assets decreased by $3,784,000 in fiscal year 2014. This total decrease was largely driven by the decrease in noncurrent deposits and funds held in trust by others of $40,849,000, which was due to the expenditure of funds held in escrow and drawn as needed to fund capital projects during the year. Partially offsetting this decrease were increases in noncurrent investments of $19,975,000 and net capital assets of $17,394,000. The increase in noncurrent investments resulted mainly from an increase in market values of the investments. The increase in net capital assets consisted of net asset additions totaling $76,624,000 less depreciation and amortization of $59,230,000.

UAMS' deferred outflows of resources results from the defeasance of certain outstanding bonds in past years. These 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 decreased in fiscal year 2014 by $218,000 from the amortization for the year.

Total liabilities decreased by $22,661,000 in fiscal year 2014. The majority of this decrease resulted from the reduction of debt via regular debt service payments.

Current liabilities decreased by $115,000 in 2014, primarily due to a decrease in accounts payable and accrued expenses offset by an increase in estimated third-party payor settlements related to the Medicare and Medicaid programs. Noncurrent liabilities decreased in 2014 by $22,546,000 primarily due to the reduction of the noncurrent portion of debt via regular debt service payments.

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)	**2015**	**2014**
Operating revenues		
Student tuition and fees, net of scholarship allowances	$ 37,499	$ 32,273
Net patient services	1,021,183	919,366
Meaningful use	3,256	2,434
Sponsored programs	155,163	169,778
Other	57,235	50,889
Total operating revenues	1,274,336	1,174,740
Operating expenses		
Compensation and benefits	878,619	852,919
Supplies and other services	392,010	366,504
Scholarships and fellowships	1,169	369
Depreciation and amortization	65,266	59,230
Total operating expenses	1,337,064	1,279,022
Operating loss	(62,728)	(104,282)
Nonoperating revenues (expenses)		
State appropriations, net	21,527	51,492
Gifts	16,815	25,062
Investment gain (loss), net of expense	7,706	22,203
Other	(13,370)	(13,572)
Total nonoperating revenues, net	32,678	85,185
Income (loss) before other changes in net assets	(30,050)	(19,097)
Other changes in net position		
Capital gifts and appropriations	5,962	1,917
Federal grants for capital projects	83	2,727
Interagency disposition	(2,054)	(81)
Total other changes in net position	3,991	4,563
Increase (decrease) in net position	(26,059)	(14,534)
Net position		
Beginning of year	765,277	779,811
Cumulative effect of GASB 68 adoption	(8,012)	-
End of year	$ 731,206	$ 765,277

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. Also included was a decrease in State grants and contracts of $929,000, or 5.3%, due to reduced activity from various sources. Offsetting these decreases was an increase in Nongovernmental grants and contracts of $7,618,000, or 12.2%, primarily due to increased contracting activity in the College of Medicine. 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 the Arkansas Department of Human Services (DHS).

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

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

Fiscal Year 2014
The Statement of Revenues, Expenses, and Changes in Net Position reflects a loss before other changes in net position of $19,097,000, and a decrease of $14,534,000 in net position for fiscal year 2014. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by $32,789,000 or 3.7%. The increase in net patient service revenue is due primarily to an increase in third party payor rates, higher acuity cases and an increase in professional fees. Hospital patient service revenue was up $14,755,000 or 2.7%, College of Medicine patient service revenue was up $12,674,000 or 5.8%. Regional Programs patient service revenue increased $1,736,000, also a 5.8% increase. Other divisions combined for a slight increase in patient service revenue. Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, decreased by a total of $3,825,000. Included in this total was a decrease in Federal grants and contracts of $6,482,000, which resulted primarily from decreased research grant funding from the Department of Health and Human Services. Also included was a decrease in State grants and contracts of $4,821,000 due to reduced activity from various sources. Offsetting these decreases was an increase in Nongovernmental grants and contracts of $7,478,000 primarily due to increased contract activity in the College of Medicine. Other operating revenue decreased by $18,090,000 due mainly to recognition and receipt in fiscal year 2013 of a nonrecurring refund from the Internal Revenue Service (IRS) of Federal Insurance Contributions Act (FICA) taxes paid by UAMS on wages earned for services performed by medical residents for calendar years 1996 through 1999 with interest, which is more fully described in Note 17 to the financial statements. The total operating revenue increase was 1%.

The following factors affected operating expenses in 2014:

Compensation and benefits expense was the major driver in operating expense increasing by $33,998,000 or 4.2% in fiscal year 2014. Compensation and benefits expense related to patient care increased by $16,646,000 or 3.9%, primarily due to the staffing required to support increases in the outpatient clinics and emergency room, and the clinical complexity of patients in the hospital. Also, contributing significantly to the increase in Compensation and benefits were additional staffing needed for the final year of the implementation phase of the new integrated clinical software system. These additions increased Compensation and benefits in 2014 by $4,663,000. Total supplies and other services increased by $12,739,000 or 3.6%. The largest component of this increase came from the Hospital, which increased by $9,430,000 or 3.8%, and is due mainly to increases in drugs and medicines for patient care. Another large increase in Supplies and other services was due to the final work on the Broadband Technology Opportunities Program (BTOP) federal grant. This work increased Supplies and other services in fiscal 2014 by $4,196,000.

The following factors affected nonoperating revenue (expense) in 2014:

> Nonoperating revenue (expense) increased by $6,322,000 or 8.0%. This was primarily caused by an increase in net investment income of $7,980,000 or 56.1%, which was due to a positive investment market during the year. Gross state appropriations increased $5,474,000 or 4.8%. Offsetting this increase was an increase of $3,982,000 in Medicaid match payments, which are reported as a decrease to state appropriated revenue.

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, 2014 and 2013 was as follows:

(in thousands)	2014	2013
Gross state appropriations revenue	$ 120,112	$ 114,638
Less: Medicaid match payments	68,620	64,638
Net state appropriations revenue	$ 51,492	$ 50,000

Results of Operations
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%.

Fiscal Year 2014
In fiscal year 2014, UAMS experienced a net loss before other changes in net position of $19,097,000 and a decrease in net position of $14,534,000.

Total operating revenues increased, led primarily by an increase in net patient service revenue of $32,789,000 or 3.7%. This increase resulted from increased third party payor rates, higher acuity cases and increases in professional fees. The increase in professional fees is attributed to improvements in capturing charges from the new integrated clinical software system and more collectible revenues from patients newly insured from Arkansas' private option Medicaid program.

While an increase in operating revenues was experienced in fiscal year 2014, UAMS incurred much higher operating expenses during the year, resulting in an operating loss of $104,282,000. Compensation and benefits expenses increased $33,998,000 or 4.2%. This increase was primarily in patient care due to higher acuity cases with longer length of stay. Also adding to this compensation increase was the cost of staff needed in the implementation phase of the new integrated clinical software system, which was completed in May 2014. Large expense increases were also noted in Supplies and other services for drugs and medicines for the Hospital and professional services for the completion of the BTOP grant.

Net investment income recognized in fiscal 2014 was $22,203,000, which was a 56.1% increase over the prior year and the largest annual net investment income since fiscal 2007.

Primary drivers of other changes in net position were Federal capital grants for the Cancer Institute totaling $2,727,000, and capital gifts for various projects.

Gross state appropriations increased by $5,474,000 and remained relatively unchanged as a share of UAMS revenue to approximately 9.4% and 9.1% for fiscal years 2014 and 2013, respectively.

Capital Assets and Debt Administration
Capital Assets
At June 30, 2015 UAMS had $828,033,000 invested in capital assets, net of accumulated depreciation and amortization of $599,620,000. Depreciation and amortization charges totaled $65,266,000 for the fiscal year ended June 30, 2015.

UAMS' capital additions totaled $45,202,000 in fiscal year 2015. Capital additions were primarily composed of the purchase and renovation of the Jonesboro AHEC building, expanding space on the Fayetteville campus for the Physical Therapy Doctorial Program, and an upgrade of the parking facilities at the UAMS Little Rock main campus. Major capital additions in fiscal year 2015 and the sources that funded their acquisition included:

(in thousands)

Project	Amount of Additions	Funding Source
Purchase and renovation of Jonesboro AHEC	12,501	UAMS and Gift
Molecular pathology lab	1,481	UAMS
Construction in progress		
Renovation of Texarkana AHEC Purchase	3,017	UAMS
Student information software	1,018	UAMS

Construction in progress at June 30, 2015 totaled $8,763,000. More detailed information about UAMS' capital assets is presented in Note 7 to the financial statements.

Debt Administration
At June 30, 2015 UAMS had $358,311,000 in outstanding debt, as shown in the following table:

(in thousands)		Amount Outstanding
Obligation		
Bonds payable	$	273,903
Notes payable		50,770
Obligations under capital leases		33,638
Total debt	$	358,311

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 5, 2015. UAMS, as one of the colleges in the University of Arkansas System, will benefit 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
For a second consecutive year, UAMS closed with a decrease in net position. Though a decrease had been anticipated in the approved budget for FY 2015, the net change of $26.1 million exceeded projections. Several factors contributed to this. One of the most significant was the unexpected increase in health insurance costs that required the university to absorb $3.4 million in added expense during the latter part of the fiscal year. Employee paid health insurance premiums were modified effective July 1, 2015 and other changes in the health insurance program were implemented to ensure that claims costs are covered moving forward. UAMS is continuing to monitor its healthcare costs under the current plan to determine if further adjustments may be necessary prior to the next open enrollment period.

Mid-year staff salary increases, both across the board raises and market-based adjustments, were effected to address mounting concerns about the competitiveness of current compensation at UAMS and its impact on staff retention. Staff at UAMS had not received raises for a period of three years, while other University of Arkansas institutions were granting salary increases. Though modest as a percentage increase against current compensation levels, the across the board raises and market adjustments added $6.7 million in unplanned expense.

UAMS also decided to make strategic investments this year which had not been considered when the FY 2015 budget was created. Property owned by the state Department of Human Services, which UAMS had been seeking to acquire to fulfill its long term facility plans, became available during the year. Because the property is critical to the university's future growth strategy, the decision was made to purchase it. Finally, UAMS launched a new orthopedics clinic. Despite high initial start-up costs, the clinic is expected to pay significant dividends in the future. As part of UAMS' strategy to expand its reach in Arkansas, two more primary care clinics are expected to open in FY 2016.

UAMS continues to see a decline in federal National Institute of Health funding support and overall sponsored program support. Funding for federal grants and contracts is down $21.3 million, or 24% from the prior year. Expanding research funding, however, is a high priority for UAMS as we head into FY 2016. UAMS will be resubmitting its Clinical Translational Science Award (CTSA) proposal this year as a cornerstone of renewed efforts to obtain external funding. We also anticipate that a research grant proposal submitted through the Myeloma Research Institute will receive approval and bring significant research dollars to UAMS. Changes to current research administrative support structures and processes are planned also to assist UAMS in competing for industry sponsored clinical trials and other external funding sources.

Federal funding for Medicaid and Medicare Disproportionate Share Hospital (DSH) payments to UAMS is expected to undergo a sharp decline in the future years as changes in the program begin to take effect. Medicaid DSH reductions are expected as part of the provisions of the federal Affordable Care Act (ACA). UAMS' Medicaid DSH payments could decline by 10% in FY 2016 and drop by as much as 44% from current levels in FY 2019. Although Medicare DSH payments may remain relatively high for UAMS due to the state's decision to expand Medicaid under the private option model, this is expected to change beginning in 2017 as Medicaid shifts from patient day reimbursement to supporting true costs associated with treating uninsured patients.

On the positive side, UAMS continues to experience a relatively low rate of uncompensated care due to the continuation of the private option expansion of Medicaid in Arkansas (2.4%, down from roughly 13.5% before the expansion). Other favorable factors include improved charge capture through the use of the Epic integrated clinical information system implemented in May 2014, increased patient volume and improved payer mix, all contributing to net patient revenues in FY 2015 that exceeded last year's figures by $101.8 million or 11.1%. UAMS benefited in FY 2015 through temporary and permanent state funding support to mitigate the impact of a $13.5 million decrease in budgeted state appropriations. For FY 2016, the state has granted a one-time $7 million reduction in the Medicaid matching funds UAMS provides to the state of Arkansas. State appropriations for FY 2016 remain relatively flat over the prior fiscal year.

UAMS completed the refinancing of its Series 2006 bonds this year. Due to very favorable interest rates, the refinancing yielded net present value savings exceeding $9 million, or 10%. Future capital investment plans are being assessed. No new bond issues are contemplated for the current fiscal year.

Fiscal year 2015 was a year of change at UAMS as performance improvement plans and organizational restructuring efforts began in earnest. The transition to service lines, a key part of UAMS' clinical integration strategy, was completed on July 1, 2015. The financial and operational integration of clinical functions is expected to reduce costs and create greater efficiency while preparing UAMS to better handle anticipated changes in reimbursement and payment methodologies.

Accompanying this change was a change in the budget process for FY 2016, essentially ending the ability of individual units and departments to budget both expenses and revenues. Instead, each department received an allocation, an expense budget, with revenues retained at the clinical or campus level. This has had a very positive effect on the university's ability to manage and control budgets and spending, to forecast revenues and to eliminate much of the 'internal commerce' or internal billing for services that added to cost.

Other organizational redesign efforts including the creation of a contract administration office, a shared services unit to support research administration, the consolidation of disparate continuing education units into a single entity and restructuring of administrative support within the College of Medicine are among the many projects UAMS expects to complete in FY 2016 to increase efficiency and effectiveness, provide improved service to its patients, students and employees and reduce unnecessary cost.

There are many positive changes underway at UAMS that will lead to a much leaner operating environment in the future. This will be essential to meet the challenges that are already occurring in the healthcare and higher education industries. Current leadership is firmly in support of these efforts to transform the university, and committed to achieving future success. Though the economic outlook remains uncertain, due in large measure to changes that might be implemented in the state's private option Medicaid program, UAMS is taking the right steps to meet the challenges ahead.

Requests for Information

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

Report of Independent Auditors

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

We have audited the accompanying financial statements of the University of Arkansas for Medical Sciences ("UAMS"), a campus of the University of Arkansas, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which consist of the statement of net position and the related statement of revenues, expenses and changes in net position and statement 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 audit. We conducted our audit 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 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 respective financial position of UAMS at June 30, 2015, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 900 South Shackleford Road, Suite 505, Little Rock, AR 72211
T: (501) 907 8080, F: (501) 907 8097, www.pwc.com/us

Other Matter

The accompanying management's discussion and analysis and the required supplemental information for the year ended June 30, 2015 on pages 1 through 12 and 51 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 audits 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, AR
October 6, 2015

University of Arkansas for Medical Sciences
Statement of Net Position
June 30, 2015

(in thousands)

Assets	
Current assets	
Cash and cash equivalents (Note 4)	$ 40,880
Investments (Note 5)	46,899
Patient accounts receivable (net of allowance for doubtful accounts of $ 421,761)	111,368
Nonpatient accounts receivable (net of allowances of $2,521 in 2015)	33,864
Supplies	21,260
Notes and student loans receivable, net (Notes 6 and 14)	2,262
Prepaid expenses	6,411
Total current assets	262,944
Noncurrent assets	
Investments (Note 5)	160,525
Notes and student loans receivable, net (Notes 6 and 14)	13,432
Deposits and funds held in trust by others (Note 5)	5,016
Funds held in trust for others	3
Capital assets, net (Note 7)	828,033
Total noncurrent assets	1,007,009
Total assets	1,269,953
Deferred Outflow of Resources	
Pensions (Note 11)	2,055
Loss on refunding of bonds	5,726
Total deferred outflows	7,781
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities (Note 8)	83,837
Unearned revenue	8,475
Estimated third-party payor settlements (Note 2)	1,071
Compensated absences payable, current portion (Note 9)	3,127
Early retirement liability	1,356
Bonds, notes, and capital leases payable, current portion (Notes 9 and 10)	26,124
Total current liabilities	123,990
Noncurrent liabilities	
Deposits	196
Compensated absences payable, net of current portion (Note 9)	47,657
Liability for other postemployment benefits (Notes 9 and 12)	30,414
Federal capital contribution for Perkins Loan Program	1,911
Early retirement liability	626
Net pension liability	6,780
Bonds, notes, and capital leases payable, net of current portion (Notes 9 and 10)	332,187
Total noncurrent liabilities	419,771
Total liabilities	543,761
Commitments and contingencies (Notes 10 and 15)	
Deferred Inflows of Resources Related to Pensions	2,767
Net Position	
Net investment in capital assets	474,003
Restricted	
Expendable	
Scholarships	2,083
Research	29,000
Capital projects	98,971
Other	3,106
Nonexpendable	
Endowments	31,043
Scholarships, fellowships, student loans	394
Unrestricted	92,606
Total net position	$ 731,206

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

University of Arkansas for Medical Sciences
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015

(in thousands)

Revenues	
Operating revenues	
Student tuition and fees (net of scholarship allowances of $3,503 in 2015)	$ 37,499
Net patient services (Note 2)	1,021,183
Meaningful use revenue	3,256
Sponsored programs	
Federal grants and contracts	68,251
State and local grants and contracts	16,613
Nongovernmental grants and contracts	70,299
Sales and services of educational departments	29,694
Auxiliary enterprises	
Housing and food service	9,163
Bookstore	541
Other auxiliary enterprises	2,943
Other operating revenue	14,894
Total operating revenues	1,274,336
Expenses	
Operating expenses (Note 16)	
Compensation and benefits	878,619
Supplies and other services	392,010
Scholarships and fellowships	1,169
Depreciation and amortization (Note 7)	65,266
Total operating expenses	1,337,064
Operating loss	(62,728)
Nonoperating revenues (expenses)	
State appropriations, net (Note 3)	21,527
Gifts	16,815
Investment income, net of investment expense (Notes 4 and 5)	7,706
Interest on debt	(13,294)
Loss on disposal of capital assets	(76)
Total nonoperating revenues, net	32,678
Income (loss) before other changes in net position	(30,050)
Other changes in net position	
Capital gifts	5,962
Federal grants for capital projects	83
Other	(2,054)
Total other changes in net position	3,991
Increase (decrease) in net position	(26,059)
Net position	
Beginning of year	765,277
Cumulative effect of GASB 68 adjustments (Note 1)	(8,012)
End of year	$ 731,206

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

University of Arkansas for Medical Sciences
Statement of Cash Flows
Year Ended June 30, 2015

(in thousands)

Cash flows from operating activities	
Tuition and fees (net of scholarships)	$ 37,769
Patient and insurance payments	1,029,490
Sponsored programs	157,922
Collection of loans and interest	2,070
Auxiliary enterprise revenue	
Housing and food service	9,159
Bookstore	541
Other auxiliary enterprises	2,928
Other receipts	44,468
Payments to suppliers	(380,451)
Payments to employees	(703,400)
Payments of employee benefits	(164,645)
Loans issued to students	(2,600)
Scholarships and fellowships	(1,169)
Other payments	(11,701)
Net cash and cash equivalents used in operating activities	20,381
Cash flows from noncapital financing activities	
State appropriations	24,726
Gifts and grants	16,815
Other agency funds	(362)
Net cash and cash equivalents provided by noncapital financing activities	41,179
Cash flows from capital and related financing activities	
Proceeds from issuance of debt	104,335
Federal grants for capital projects	83
Gifts and grants	5,962
Proceeds from sale of capital assets	109
Purchases of capital assets	(34,536)
Principal paid on capital debt and leases	(122,442)
Interest and paying agent fees paid on debt and capital leases	(13,513)
Net cash and cash equivalents used in capital and related financing activities	(60,002)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	41,265
Interest on investments (net of fees)	(518)
Purchases of investments	(67,145)
Net cash and cash equivalents provided by (used in) investing activities	(26,398)
Net increase (decrease) in cash and cash equivalents	(24,840)
Cash and cash equivalents	
Beginning of year	65,720
End of year	$ 40,880

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

University of Arkansas for Medical Sciences
Statement of Cash Flows
Year Ended June 30, 2015

(in thousands)

Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$	(62,728)
Adjustments to reconcile net operating loss to net cash and cash equivalents (used in) provided by operating activities		
Depreciation and amortization		65,266
Other postemployment benefits		3,269
Changes in assets and liabilities		
Patient and nonpatient accounts receivable, net		1,335
Supplies		(164)
Other assets		(2,160)
Deferred Outflows		(3,871)
Accounts payable and accrued liabilities		11,217
Unearned revenue		1,318
Deposits		11
Compensated absences payable		2,364
Other liabilities		1,757
Deferred Inflows		2,767
Net cash and cash equivalents provided by operating activities	$	20,381
Noncash transactions		
Other postemployment benefits	$	3,269
Change in capital assets acquired in year end accounts payable		(238)
Capital assets acquired by incurring capital lease obligations		10,730

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 thirteen campuses 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

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 464 acute care beds in use at June 30, 2015;
- 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.

The Little Rock campus includes approximately 5,460,000 square feet of office, clinical, research, educational, workshop, and general-purpose space, excluding space utilized at Arkansas Children's Hospital and leased space in the community.

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 Board of Trustees established an external 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 University of Arkansas 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 adjustments 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 fair 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 $1,982,000 for the year ended June 30, 2015.

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, these amounts are accounted for as a reduction of patient services revenue at the time the services are rendered.

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 three statements, which became effective for the fiscal year ended June 30, 2015:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,*
- Statement No. 69, *Government Combinations and Disposals of Government Operations,*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

Management has determined that Statement No. 69 did not materially impact UAMS. Statements No. 68 and No. 71 established standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions. The effect of implementing Statements No. 68 and 71 is discussed in detail at Note 11.

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

For the year ending June 30, 2016

- Statement No. 72, *Fair Value Measurement and Application,*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

For the year ending June 30, 2017

- 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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,*
- Statement No. 77, *Tax Abatement Disclosures*

For the year ending June 30, 2018

- Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

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

Adoption of Accounting Pronouncement

Beginning net position, as reported on the Statement of Revenues, Expenses and Changes in Net Position, was restated due to the implementation of GASB Statement 68, as amended. As a result, Net Position - beginning of the year was reduced by $7,492,000 to reflect the net effect of recognizing UAMS' proportionate share of the net pension liability and deferred outflows of resources attributable to the year ended June 30, 2014. Net Position was further reduced by $520,000 for the effects of adopting GASB No. 68 on fiscal 2015. Therefore, the Statement of Net Position includes a total reduction of Net Position for the cumulative effect of the adoption of GASB No. 68 of $8,012,000.

2. Net Patient Services Revenue and Charity Care

The Hospital is a division of UAMS, and the Faculty Group Practice (FGP) is the collective body of the College of Medicine faculty involved in professional practice at UAMS. FGP is an integral component of UAMS, functioning as an unincorporated division of the College of Medicine. As such, it is subject to the policies and regulations of the College of Medicine, UAMS, and the UA Board. 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, 2015 are recorded net of an allowance for doubtful accounts of $421,761,000.

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

Gross patient revenue	$ 2,606,345,000
Less: Patient services contractual allowances	1,487,439,000
Less: Provision for bad debts	97,723,000
Net patient services revenue	$ 1,021,183,000

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

The Hospital, 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, 2015 the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012.

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, 2015 the Hospital's Medicaid cost reports have been audited by the Medicaid audit contractor through June 30, 2010.

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 year ended June 30, 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.

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, 2015 is as follows:

Gross state appropriations revenue	$	106,602
Less: Medicaid match payments		85,075
Net state appropriations revenue	$	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, 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.

	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
Cash at June 30, 2015	$ 40,880	$ 47,355	$ 47,355	$ -	$ -

At June 30, 2015 Category 1 is composed of $417,000 of insured deposits and $46,938,000 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, 2015 under GASB Statement No. 3 (GASB 3), *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*:

Reported amount of deposits under GASB 3 as reported in the statements of net assets	$	40,880
Cash and cash equivalents	$	40,880

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

5. Investments

UAMS participates in an external investment pool (the Pool), which is sponsored by the University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Trustees. The Pool was originally established in 1997 by the University and the University of Arkansas Foundation. During 1998, the Walton Arts Foundation joined the Pool, and during 2003, the Fayetteville Campus Foundation joined the Pool. 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' ownership of each of these individual pools and of the total external investment pool was as follows:

	Total Return Pool	**Intermediate Pool**	**Total Pool**
June 30, 2015	11.0%	14.2%	11.6%

The following table lists the invested assets of UAMS at June 30, 2015:

	Fair Value
Investment type	
Equity	
U.S.	$ 4
Commingled funds	
U.S. equity	482
U.S. fixed income	181
	663
Other investments	
Clinic investment	883
Escrow accounts	14
External investment pool	206,536
	207,433
	$ 208,100

The activities during fiscal year 2015 affecting UAMS' investments are summarized below:

	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.

The following table contains information on the risk disclosure for the total external investment pool as of June 30, 2015:

External Investment Pool
Statement of Invested Assets

Investment Type	Fair Value *(includes accrued income)*
Fixed income	
Government bonds	$ 106,944
Corporate bonds	37,799
Other fixed income	284,394
	429,137
Venture capital and partnerships	
Partnerships	607,530
Commodities	
Funds - Commodity Linked	24,552
Equity	
Common stocks	511,151
Preferred stocks	16
	511,167
Hedge fund	
Hedge equity	172,469
Other	205
Cash/cash equivalents	
Short term investment funds	18,302
Cash	2,489
Invested cash	2,818
	23,609
	$ 1,768,669

In accordance with the guidelines, the Pool manages its exposure to credit risk by diversifying the portfolio. The Policy prohibits purchase of securities rated less than BBB-. Securities downgraded below BBB should not represent more than 5% of the portfolio at cost or market. The average quality of the portfolio shall be no less than AA. Except for U.S. Treasury and Agency obligations, the portfolio shall contain no more than 5% exposure to any issuer. The following tables present the credit risk associated with the fixed income portfolio of the total external investment pool and exclude the accrued income included in the Statement of Invested Assets above. Securities structured as a fund and, therefore, not individually rated, are included in the tables as Not Rated.

Credit Risk – S&P Quality Ratings at June 30, 2015

Investment Type	S&P Quality Rating by Fair Value						
	AAA	AA	A	BBB	Not Rated	U.S. Government Guaranteed	Total Fair Value
Corporate bonds	$ -	$ -	$ -	$ -	$ 37,629	$ -	$ 37,629
Government bonds	-	-	-	7	35,638	71,144	106,789
Other fixed income	-	-	-	-	284,394	-	284,394
Hedge event driven	-	-	-	-	32,525	-	32,525
Short term investment funds	-	-	-	-	18,302	-	18,302
	$ -	$ -	$ -	$ 7	$ 408,488	$ 71,144	$ 479,639

Investment Type	Investment Maturities in Years					
	Less Than 1	1–6	6–10	More Than 10	Maturity not Determined	Total Fair Value
Corporate bonds	$ -	$ -	$ -	$ 96	$ 37,533	$ 37,629
Government bonds	-	71,144	-	7	35,638	106,789
Other fixed income	-	-	-	-	284,394	284,394
Hedge event driven	-	-	-	-	32,525	32,525
Short term investment funds	-	-	-	-	18,302	18,302
	$ -	$ 71,144	$ -	$ 103	$ 408,392	$ 479,639

In accordance with the Policy, the Pool manages its exposure to credit risk by diversifying the portfolio, as follows as of June 30, 2015:

Investment Type	Fair Value	Effective Duration (Years)
Corporate bonds	$ 37,629	N/A
Government bonds	106,789	0.00
Other fixed income	284,394	N/A
Hedge event driven	32,525	N/A
Short term investment funds	18,302	N/A
	$ 479,639	

Arkansas Code

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

28-69-604 Rule of construction. 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.

28-69-607 Standard of conduct. In the administration of the powers to expend endowment funds, to make and retain investments, and to delegate investment management of institutional funds, members of a governing board shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In so doing they shall consider long- and short-term needs of the institution in carrying out its educational, religious, charitable, or other eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions, and the aggregate value of all endowment funds held by the institution.

6. Notes and Student Loans Receivable

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

Perkins loans	$ 1,213
Health professional loans	5,098
Institutional funds loans	3,239
University of Arkansas at Fayetteville	738
Arkansas State Hospital note receivable	4,749
Arkansas Department of Health note receivable	649
Other	8
Total notes and student loans receivable, net	15,694
Less: Current portion	(2,262)
Notes and student loans receivable, noncurrent, net	$ 13,432

7. Capital Assets

Capital assets of UAMS at June 30 were as follows:

	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

In addition to the leased property noted, the buildings and fixtures above include $18,512,000 of net assets under capital leases at June 30, 2015.

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, 2015 was $1,280,000. 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, 2015:

Trade payables	$ 21,095
Accrued wages	46,014
Miscellaneous payables	16,728
Total accounts payable and accrued liabilities	$ 83,837

9. Long-Term Obligations

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

	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:

	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 which produce revenue for clinical services, 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 125% than the related average annual debt service. For the year ended June 30, 2015, such pledged revenues were 3037% of the related debt service.

UAMS has bonds outstanding for parking decks and lots which produce parking fee revenue, which is pledge 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, 2015, such pledged revenues were 283% 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, 2015:

Various Facility Revenue Bonds, Series 2006, $107,500,000 original amount, plus a premium of $5,048,000, was due annually to 2036 with $35,305,000 in term bonds due 2036, various fixed interest rates of 3.40% to 5.00% collateralized by pledged revenue. Defeased by advance refunding	**PAR**	$ -
December of 2014	**Premium**	-
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	**PAR**	4,555,000
revenue derived from all parking facilities owned by UAMS.	**Premium**	247,266
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%,	**PAR**	39,820,000
collateralized by pledged revenue.	**Premium**	2,223,158
Parking System Revenue Refunding Bonds, Series 2011, $8,985,000 original amount, 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	**PAR**	7,960,000
by UAMS.	**Discount**	(46,246)
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%	**PAR**	107,550,000
over the life of the issue, collateralized by pledged revenue.	**Premium**	15,013,674
Various Facility Revenue Bonds, Series 2014, $86,035,000 original amount, $12,712,635 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	**PAR**	84,190,000
issue, collateralized by pledged revenue.	**Premium**	12,390,306
Total bonds payable		$ 273,903,158

Scheduled maturities of bonds and notes payable are as follows:

	Bonds Payable				Notes Payable		
	Principal	Interest	Premium Amortized	Total	Principal	Interest	Total
2016	$ 6,765	$ 11,050	$ 1,580	$ 19,395	$ 10,611	$ 754	$ 11,365
2017	6,965	10,842	1,580	19,387	15,741	579	16,320
2018	7,205	10,576	1,580	19,361	9,985	314	10,299
2019	8,175	10,261	1,580	20,016	10,147	151	10,298
2020	10,510	9,918	1,518	21,946	2,645	33	2,678
2021-2025	54,940	42,014	7,589	104,543	1,641	17	1,658
2026-2030	70,205	26,735	7,589	104,529	-	-	-
2031-2035	72,610	9,555	6,413	88,578	-	-	-
2036-2038	6,700	251	400	7,351	-	-	-
	$ 244,075	$ 131,202	$ 29,828	$ 405,106	$ 50,770	$ 1,848	$ 52,618

On December 17, 2014, UAMS issued revenue refunding bonds, Series 2014, of $86,035,000 (par value) with an interest rate of 2.52% to 3.17% to advance refund Various Facility Revenue Bond Series 2006 with remaining interest rates of 4.8% to 5.0% and a par value of $91,550,000. The 2006 bonds mature March 2036. The revenue refunding bonds were issued at a premium of $12,713,000 and, after paying issuance costs of $211,000 and underwriter's discount of $499,000. The net proceeds were $98,067,000. The net proceeds from the issuance of the revenue refunding bonds were used to purchase U.S. government securities to provide debt service payments on the 2006 bond issue. The advance refunding met the requirements of an in-substance debt defeasance and the 2006 Series bonds were removed from UAMS financial statements. 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. Principal payments are made annually until 2036. Interest payments are made semi-annually. There was a deferred refunding loss of $1,554,000 on the transaction which will be amortized as a component of interest expense until July 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 refunding 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 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 4.0 to 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 and a deferred refunding loss of $230,000, which will be amortized as a component of interest expense until June 30, 2020. For current and advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the refunded debt is deferred will continue to be amortized as a component of interest expense until July, 2019.

10. Commitments

Capital Leases

Scheduled maturities of capital lease commitments outstanding as of June 30, 2015 are as follows:

	Principal	Interest	Total
2016	$ 8,748	$ 1,012	$ 9,760
2017	6,916	725	7,641
2018	5,505	559	6,064
2019	4,982	428	5,410
2020	3,012	302	3,314
2021–2027	4,475	309	4,784
	$ 33,638	$ 3,335	$ 36,973

Operating Leases

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015:

2016	$ 4,868
2017	3,034
2018	900
2019	594
2020	176
2021-2027	936
Total minimum payments required	$ 10,508

Rental expense for operating leases for the year ended June 30, 2015 was approximately $7,845,000 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, 2015 included the renovation of the new AHEC Southwest facility in Texarkana, a student information system, and a performance analytics system. At June 30, 2015 construction contracts outstanding were approximately $5,600,000.

Outstanding Commitments

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

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.

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 2015. All contributions for faculty members and nonclassified employees are vested immediately. For classified employees, UAMS contributions will be vested when one of the following occurs: three years of service is completed; when the participant reaches the age of 70; or the participant contributes at least 5% of regular salary for at least six months. The eligible salary earnings for UAMS employees covered by UAORP for the years ended June 30, 2015 was $641,517,000. Total employer contributions during fiscal year 2015 to TIAA-CREF and Fidelity were $49,840,600. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal year 2015 were $55,551,600.

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. 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 14.00% of applicable compensation for the fiscal year ended June 30, 2015. This rate is unchanged from the previous year. The gross payroll amount for UAMS employees covered by ARTRS for the year ended June 30, 2015 was $286,700. UAMS and member's contributions for the year ending June 30, 2015, were $40,100 and $13,300, respectively.

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

At June 30, 2015, UAMS reported a liability of $253,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2015, UAMS' proportion was 0.009633703 percent.

For the year ended June 30, 2015, UAMS recognized pension expense of $18,300. At June 30, 2015, 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		$ (8,177)
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		$ (108,722)
University contributions subsequent to the measurement date	$ 40,100	
Total	$ 40,100	$ (116,899)

$40,100 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, 2016. Amounts reported as deferred inflows of resources related to pensions will be recognized in the pension expense in the financial statements as follows:

Years Ended June 30,	
2016	$ (28,928)
2017	$ (28,928)
2018	$ (28,928)
2019	$ (28,928)
2020	$ (1,187)
Thereafter	$ -

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age
Amortization method	Level of Percent of Payroll
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 of 4.4% 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, 2014 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	20 %	4.7 %
Global equity	30	5.0
Fixed income	20	2.0
Alternatives	5	5.0
Real assets	15	4.6
Private equity	10	6.6
Cash equivalents	0	1.2
Total	100 %	4.4

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 4.29% taken from Federal Reserve statistical release (H.15) as of June 26, 2014. 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%)
$ 452,435	$ 252,882	$ 84,997

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's net position is available in the separately issued ARTRS 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 ARTRS of $-0- at June 30, 2015.

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 exofficio 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 14.76% of applicable compensation for the fiscal year ended June 30, 2015. The gross payroll amount for UAMS employees covered by APERS for the year ended June 30, 2015 was $8,415,000. UAMS' and member's contributions for the year ending June 30, 2015, were $1,242,000 and $308,500 respectively.

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

At June 30, 2015 UAMS reported a liability of $6,527,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2015, UAMS' proportion was 0.46002348 percent.

For the year ended June 30, 2015, UAMS recognized pension expense of $743,800. At June 30, 2015, 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		$ (82,927)
Changes of assumptions	$ 773,184	
Net difference between projected and actual earnings on pension plan investments		$ (2,567,129)
UAMAS contributions subsequent to the measurement date	$ 1,242,000	
Total	$ 2,015,184	$ (2,650,056)

$1,242,000 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in your financial statements as follows:

Years Ended June 30,	
2016	$ (449,895)
2017	$ (449,895)
2018	$ (449,895)
2019	$ (527,187)
Thereafter	$ -

Actuarial Assumptions

The total pension liability in the June 30, 2014 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	7.75%
Salary increases	3.75 – 10.35% including inflation
Wage Inflation	3.75%
Post-Retirement Cost-of-Living Increases	3% Annual Compounded Increase
Mortality table	Based on RP-2000 Combined Health 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 5.91% 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, 2014 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income Domestic	9.0 %	0.50 %
Fixed Income Defensive	9.0	0.80
Large Cap Domestic Equity	20.0	6.65
Small/Mid Cap Domestic Equity	17.0	7.90
International Equity	12.0	7.00
Emerging Market Equity	12.0	9.20
Private Equity	2.5	11.30
Hedge Funds	2.5	3.19
Real Estate	16.0	5.10
Cash Equivalents	0.0	0.00
Total	100 %	5.91 %

Assumption Changes: Economic assumptions were updated in the June 30, 2014 valuation to a 7.75% investment return assumption and a 3.75% wage inflation assumption. The 3.75% represents base inflation, excluding merit or seniority increases.

Discount Rate
A single discount rate of 7.75% 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 7.75%. It incorporates a municipal bond rate of 4.29% based on the *Bond Buyer 20-Bond Index* of general obligation municipal bonds as of June, 2014 (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 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

Sensitivity of Discount Rate		
1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
$ 11,711,391	$ 6,527,329	$ 2,208,086

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, 2015.

Cumulative Effect of GASB 68 Adoption

In compliance with the adoption of GASB 68, UAMS has recorded an adjustment to net position of $8,012,000.

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. There were 589 retirees enrolled in health and dental plans and 652 retirees enrolled in the life insurance plan as of June 30, 2015.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 University of Arkansas Foundation, Inc. (the 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 $3,269,000 in retiree healthcare expense during the fiscal year ended June 30, 2015.

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, 2014 valuation for the fiscal year ended June 30, 2015
Valuation year	Census data was collected as of January 1, 2015. Liabilities were measured as of July 1, 2014 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
The mortality tables used were changed as of July 1, 2014, resulting in a decrease of $2,422,013 in the Actuarial Accrued Liability. The healthcare trend rate assumption was updated to better reflect anticipated future experience. This change increased the Actuarial Accrued Liability by $7,872,199 as of July 1, 2014. In addition, the life insurance administrative expense was lowered from 19.6% to 15%. This change decreased the Actuarial Accrued Liability by $858,088 as of July 1, 2014. These changes in total resulted in a net increase of $4,592,098 in Actuarial Accrued Liability at July 1, 2014.

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 nonMedicare-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

	July 1, 2014	July 1, 2013
Unfunded actuarial accrued liability	$ 32,917	$ 23,253
Annual Required Contribution (ARC)		
Normal cost	2,480	1,661
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	1,175	830
Interest	165	112
Annual Required Contribution (ARC)	3,820	2,603
Annual OPEB Cost		
Interest on net OPEB obligation	1,221	1,116
ARC amortization adjustment	(1,013)	(925)
Annual OPEB Cost	4,028	2,794
Less: Expected employer contributions	(760)	(457)
End-of-year accrual	3,268	2,337
Beginning of year liability	27,146	24,809
End of year of year liability	$ 30,414	$ 27,146

Schedule of Employer Contributions

	Annual Contributions	Expected Contributions	Percentage Contributed
Fiscal Years Ended			
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.

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 Foundation includes four members who are also members, or former members, of the University Of Arkansas System Board Of Trustees. Support, by the Foundation on behalf of UAMS, was $16,556,000 for the year ended June 30, 2015.

Based on information provided by the Foundation, during the year ended June 30, 2015 revenue of $30,628,000 was received by the Foundation for the benefit of UAMS. These revenue amounts are provided by the Foundation and are unaudited.

14. Related-Party Transactions

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

University of Arkansas at Fayetteville	$	738
Arkansas State Hospital		4,749
Arkansas Department of Health		649
Total included in notes and student loans receivable (Note 6)	$	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, 2015, bank balances held at First Security Bank totaled $46,572,458, with the related UAMS book balances totaling $39,790,335, 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 a retrospective rating plan. UAMS incurred costs of $4,000,000 for this insurance during each of the year ended June 30, 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. 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, 2015 UAMS would have incurred a liability of $57,292,000 related to 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:

	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

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

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

Schedule of UAMS' Contributions
Arkansas Teacher Retirement System

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

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

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

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

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Schedule of UAMS' Contributions
Arkansas Public Employees Retirement System

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

Changes in Assumptions
Amounts reported in 2015 reflect a change in economic assumptions used in the valuation. The investment return assumption used was 7.75% and the wage rate assumption used was 3.75%.

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.

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Schedule of Employer Contributions

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Schedule of Funding Progress (Unaudited)

	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, 2015	$ -	$ 32,917	$ 32,917	$ -	$ 650,219	5 %
June 30, 2014	-	23,253	23,253	-	633,209	4 %