



UofA

UNIVERSITY OF ARKANSAS

Financial Statements
Years Ended June 30, 2009 and 2008

University of Arkansas for Medical Sciences

Financial Statements

Years ended June 30, 2009 and 2008

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University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited)

This discussion and analysis provides an overview of the financial position and changes in net assets of the University of Arkansas for Medical Sciences (UAMS) for the fiscal years ended June 30, 2009 and 2008. UAMS is a state-assisted academic health center composed of:

- The Colleges of Medicine, Pharmacy, Nursing, Health Related Professions, Public Health, Graduate School and Northwest Arkansas Satellite Campus with a combined enrollment of 2,652 and faculty numbering 1,361;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 386 adult beds in use at June 30, 2009;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHEC) 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); and
- Jackson T. Stephens Spine and Neurosciences 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 provides a comprehensive, entity-wide perspective of UAMS' assets, liabilities, net assets, revenues, expenses, changes in net assets, 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.

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited) (continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Statements of Net Assets present the financial position of UAMS and include all assets and liabilities. The difference between total assets and total liabilities is net assets, 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 assets. When the reverse occurs, there is a decrease in net assets. Over time, increases or decreases in an institution's net assets are one, but not the only, indicator of whether its financial health is improving or diminishing.

The Statements of Revenues, Expenses, and Changes in Net Assets 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 assets of UAMS.

The Statements of Cash Flows provide relevant information about the cash receipts and cash payments of UAMS. The Statements 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, 2009 and 2008, with comparative information for the fiscal year ended June 30, 2007.

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited) (continued)

FINANCIAL HIGHLIGHTS

UAMS' net assets continued to grow in fiscal year 2009 with assets of \$1,100,243 and liabilities of \$ 457,829. Net assets, which represent the residual interest in UAMS' assets after liabilities are deducted, were \$642,414 at June 30, 2009. Changes in net assets represent the activities of UAMS, which result from revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2009, 2008, and 2007 as follows:

	Year ended June 30		
	2009	2008	2007
	<i>(in thousands)</i>		
Operating revenues	\$ 988,358	\$ 964,874	\$ 865,131
Operating expenses	(1,067,034)	(987,807)	(917,032)
Nonoperating revenues	35,561	60,695	71,477
Other changes in net assets	47,339	40,229	4,979
Increase in net assets	\$ 4,224	\$ 77,991	\$ 24,555

Statements of Net Assets

The Statements of Net Assets present the financial position of UAMS at the end of the fiscal year and include all assets, liabilities, and net assets of UAMS. Assets and liabilities 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 assets are 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 assets, which is divided into two subcategories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditures 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 assets, which are available for any lawful purpose of UAMS.

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Management's Discussion and Analysis (Unaudited) (continued)

From the data presented, readers of the Statements of Net Assets 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 Assets provide a picture of the net assets (assets minus liabilities) and their availability for expenditure by UAMS.

A summarization of UAMS' assets, liabilities, and net assets is as follows:

	June 30		
	2009	2008	2007
	<i>(in thousands)</i>		
Assets			
Current assets	\$ 283,988	\$ 342,620	\$ 283,407
Noncurrent assets:			
Investments	55,426	73,820	178,921
Capital assets, net	731,054	625,458	521,465
Other	29,775	52,397	13,897
Total Assets	1,100,243	1,094,295	997,690
Liabilities			
Current liabilities	104,367	122,322	115,186
Noncurrent liabilities	353,462	335,945	322,305
Total Liabilities	457,829	458,267	437,491
Net Assets			
Invested in capital assets, net of related debt	425,812	342,789	323,739
Restricted:			
Expendable	86,192	79,488	50,661
Nonexpendable	23,308	30,731	36,769
Unrestricted	107,101	183,019	149,030
Total Net Assets	642,414	638,190	560,199
Total Liabilities and Net Assets	\$ 1,100,243	\$ 1,094,295	\$ 997,690

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

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Management's Discussion and Analysis (Unaudited) (continued)

current portion, other postemployment benefits, net of current portion, and bonds, notes, and capital leases payable, net of current portion. Net assets represent the residual interest in UAMS' assets after liabilities are deducted.

Fiscal Year 2009

UAMS' total assets increased by \$5,948,000 for fiscal year 2009. A review of the Statements of Net Assets reveals that the increase was primarily due to an increase of \$105,596,000 in capital assets (net), a decrease in current assets of \$58,632,000, and a decrease in long-term investments of \$40,156,000.

The increase in capital assets was primarily due to an increase in construction in progress, buildings and fixtures, and equipment. A summary of additions to major capital projects is presented in the Capital Assets section of this Management's Discussion and Analysis.

The decrease in current assets was primarily due to an increase in cash and cash equivalents of \$26,780,000, an increase in patient accounts receivable, net, of \$12,024,000, an increase in nonpatient accounts receivable, net of \$7,571,000 and an increase in inventories of \$7,056,000 offset by a decrease in investments included in current assets of \$112,011,000. The increase in cash and cash equivalents was provided by the sales and maturities of investments discussed below. The increase in patient accounts receivable, net was partially due to increased patient admissions after the opening of the new patient tower in mid January 2009. The increase in nonpatient accounts receivable is primarily due to the timing of the receipt of state appropriations. The increase in inventory is due to supplies necessary to stock the new hospital and the use in fiscal year 2009 of an outside firm to count and value the inventory on hand. The outside firm counted more inventory in the operating room. The decrease in investments included in current assets is due to a \$1,862,000 decline in market value of the investments and the sale/maturities of investments to fund the start up cost of the new hospital and the building construction discussed in the Capital Assets section of this Management's discussion and Analysis. Also, \$101,226,000 in the Common Fund, which is classified as an investment in current assets was liquidated and moved into cash and cash equivalents as it was released by the trustee bank.

The decrease in long-term investments is due to an \$18,254,000 decline in market value of the investments and the use of bond proceeds to complete the construction of the new hospital discussed in the Capital Assets section of this Management's discussion and Analysis.

Total liabilities increased by \$1,724,000 for fiscal year 2009. The decrease was primarily due to a decrease of \$15,054,000 in accounts payable and accrued liabilities due to a decrease of \$6,613,000 in accounts payable related to building construction, a decrease of \$5,475,000 in trade and benefits payable and \$2,966,000 in interagency payables. Other current liabilities decreased by \$2,901,000 due to a decrease of \$6,085,000 in estimated

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Management's Discussion and Analysis (Unaudited) (continued)

third party payor settlements offset by an increase of \$1,997,000 in funds held in trust for others and \$1,257,000 in notes and capital leases payable. Offsetting the \$17,955,000 decrease in current liabilities was an increase in noncurrent liabilities of \$19,679,000.

The increase in noncurrent liabilities was primarily due to an increase of \$8,325,000 in compensated absences and other postemployment benefits, \$16,405,000 in notes and capital leases payable, offset by a decrease of \$7,195,000 in bonds payable.

Fiscal Year 2008

UAMS' total assets increased by \$96,605,000 for fiscal year 2008. A review of the Statements of Net Assets reveals that the increase was primarily due to an increase of \$103,993,000 in capital assets (net), an increase in current assets of \$59,213,000, an increase in noncurrent notes and student loans receivable (net) of \$9,923,000, and a decrease in long-term investments of \$76,341,000.

The increase in capital assets was primarily due to an increase in construction in progress, buildings and fixtures, and equipment. A summary of additions to major capital projects is presented in the Capital Assets section of this Management's Discussion and Analysis. The increase in current assets was primarily due to an increase in cash and cash equivalents of \$21,990,000, which was due to 18 months of payments from the Arkansas Physician Supplemental Medicaid Payment Program (APSP) of \$28,695,000, offset by transfers to current investment funds. In fiscal year 2007, the Center for Medicare and Medicaid Services (CMS) did not authorize the release of the physician supplemental payments totaling approximately \$12,717,000, net of Medicaid match payments. These funds along with the amount due for fiscal year 2008 were released and received by UAMS during fiscal year 2008. Additionally, funds were received from the State of Arkansas and private foundations dedicated to the construction of the Winthrop P. Rockefeller Cancer Institute, which increased current assets. The increase in notes receivable (net) was due to an agreement between UAMS and the Arkansas State Hospital (ASH) and the Arkansas Department of Health (ADH) where ASH and ADH agreed to make monthly payments to UAMS for their share of the West Central Energy Plant construction costs. Use of construction funds related to the major building projects discussed in the Economic Outlook section of this Management's Discussion and Analysis accounted for \$75,674,000 of the decrease in long-term investments.

Total liabilities increased by \$18,614,000 for fiscal year 2008. The increase was primarily due to an increase of \$8,222,000 in accounts payable and accrued liabilities primarily due to an increase of \$3,119,000 in trade accounts payable and \$5,016,000 in interagency payables. Due to the implementation of GASB Statement No. 45, which establishes standards for the measurement, recognition, and display of OPEB (other postemployment benefits), a liability was recorded in fiscal year 2008 of \$9,801,000. See note 13 to the financial statements for further discussion on OPEB and GASB 45.

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited) (continued)

Statements of Revenues, Expenses, and Changes in Net Assets

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

	Year ended June 30		
	2009	2008	2007
	<i>(in thousands)</i>		
Operating Revenues			
Student tuition and fees, net of scholarship allowances	\$ 20,374	\$ 19,951	\$ 13,566
Net patient services	781,472	765,358	672,528
Sponsored programs	145,962	137,003	140,148
Other	40,550	42,562	38,889
Total Operating Revenues	988,358	964,874	865,131
Operating Expenses			
Compensation and benefits	707,091	657,101	600,490
Supplies and other services	316,792	299,028	289,236
Scholarships and fellowships	3	244	143
Depreciation and amortization	43,148	31,434	27,163
Total Operating Expenses	1,067,034	987,807	917,032
Operating Loss	(78,676)	(22,933)	(51,901)
Nonoperating Revenues (Expenses)			
State appropriations, net	44,390	45,763	47,303
Gifts	18,143	13,864	9,241
Investment gain, net of expense	(14,585)	9,814	26,335
Other	(12,387)	(8,746)	(11,402)
Total Nonoperating Revenues (Expenses), net	35,561	60,695	71,477
Income (Loss) before Other Changes in Net Assets	(43,115)	37,762	19,576
Other Changes in Net Assets			
Capital gifts and appropriations	49,501	57,735	3,734
Reclassification of Federal Perkins Loan Capital Contribution	(2,162)	-	-
Bond proceeds from Act 1282 of 2005	-	12,730	-
Interagency disposition	-	(30,236)	1,245
Total Other Changes in Net Assets	47,339	40,229	4,979
Increase in Net Assets	4,224	77,991	24,555
Net Assets – beginning of year	638,190	560,199	535,644
Net Assets – end of year	\$ 642,414	\$ 638,190	\$ 560,199

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited) (continued)

Fiscal Year 2009

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a loss from income before other changes in net assets of \$43,115,000, and an increase of \$4,224,000 in net assets for fiscal year 2009. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$16,114,000 or 2.1%. In fiscal year 2009, UAMS received \$24,190,000 from the Arkansas Physician Supplemental Payment Program; in fiscal year 2008, UAMS received two years of payments from the Program, which totaled \$43,415,000. Net patient service revenue adjusted for the decrease in payments from the Arkansas Physician Supplemental Payment Program increased by \$35,339,000. The increase in adjusted net patient service revenue is due to growth in patient volume in part from the opening of the patient bed tower and the PRI building in the third quarter of fiscal year 2009. Hospital patient service revenue was up \$26,342,000 or 5.6%. Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, increased by \$8,959,000. Federal grants and contracts increased by \$154,000, state and local grants and contracts increase by \$4,403,000, and nongovernmental grants and contracts increased by \$4,402,000. Other revenue, which decreased by \$2,012,000, includes auxiliary enterprises and other miscellaneous revenue sources. The total operating revenue increase was 2.4%.

The following factors affected operating expenses in 2009:

Compensation and benefits expense was a major driver in operating expense in fiscal year 2009, increasing by \$49,990,000 or 7.6%. Compensation and benefits expense related to patient care increased by \$41,513,000 or 12.4% due to staffing to support increased patient volumes discussed above under net patient service revenue. This includes Hospital compensation and benefits which were up \$29,540,000 or 16.1%. The balance of the increase in compensation and benefits was the result of normal salary increases and increased benefits expense. Total supplies and other services increased by \$17,764,000. Supplies and other services related to patient care increased by \$7,758,000 due to the increase in patient volume discussed above, and utilities and insurance increased by \$5,043,000. Overall supplies and other services outside of construction increased 5.9% for the campus.

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Management's Discussion and Analysis (Unaudited) (continued)

The following factors affected nonoperating revenue (expense) in 2009:

Nonoperating revenue decreased by \$25,134,000. This was primarily caused by a decrease in investment gain, net of expense of \$24,399,000. The main driver of the decrease in investment gain was a change in the market value of investments. Realized and unrealized losses in fiscal year 2009 were \$19,269,000 more than fiscal year 2008. Additional investment income earned on investments decreased by \$5,130,000 primarily due to a decrease in invested construction funds and a decrease in the average rate of return paid on investments. The net loss on investments was \$14,585,000. In addition to the investment losses, interest expense increased by \$3,307,000 and net state appropriations decreased by \$1,373,000. Offsetting these decreases was an increase in gift revenue of \$4,279,000 from the University of Arkansas and private foundations.

Fiscal Year 2008

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase of \$77,991,000 in net assets for fiscal year 2008. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$92,830,000. The gross amount of the Arkansas Physician Supplemental Payment Program accounted for \$43,415,000 of this increase. As discussed above, funds related to this program for fiscal years 2007 and 2008 were received in 2008. The portion related to fiscal year 2007 was not accrued in that year due to the uncertainty surrounding the payment of these funds at June 30, 2007. The balance of the increase in net patient services revenue is due to growth in patient volume, increases in reimbursement rates, and changes in reimbursement for Medicaid disproportionate share, Medicaid Upper Payment Limit, and Cost report settlements. Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, decreased by \$3,145,000. State and local grants and contracts increased by \$360,000 while federal grants and contracts decreased by \$1,916,000 and nongovernmental grants and contracts decreased by \$1,589,000. The decrease in federal grants and contracts was due to a reduction of 2.9% in federal funding for all National Institute of Health awards as well as a decrease in the amount of new awards funded. Other revenue, which increased by \$3,673,000, includes auxiliary enterprises and other miscellaneous revenue sources.

University of Arkansas for Medical Sciences

Management’s Discussion and Analysis (Unaudited) (continued)

The following factors affected operating expenses in 2008:

Compensation and benefits expense was a major driver in operating expense in fiscal year 2008, increasing by \$56,611,000 or 9.4%. Compensation and benefits expense related to patient care increased by \$25,263,000 due to necessary staffing to support increased patient volumes. Additionally, as a result of implementing GASB No. 45 as discussed above and in note 12, UAMS accrued \$9,801,000 in retiree healthcare expenses for fiscal year 2008. The balance of the increase in compensation and benefits was the result of normal salary increases and increases in staffing levels. Total supplies and other services increased by \$9,792,000. Supplies and other services related to patient care increased by \$3,100,000 due to the increase in patient volume discussed above. Overall supplies and other services increased 3.4% for the campus.

The following factors affected nonoperating revenue (expense) in 2008:

Nonoperating revenue decreased by \$10,782,000. This was primarily caused by a decrease in investment gain, net of expense of \$16,521,000. The main driver of the decrease in investment gain was a change in the market value of investments. Unrealized gains were \$5,766,000 in fiscal year 2007 compared to unrealized losses of \$7,246,000 in fiscal year 2008, a decrease of \$13,012,000. Additional investment income earned on investments decreased by \$3,510,000 primarily due to a decrease in invested construction funds and a decrease in the average rate of return paid on investments. The net gain on investments was \$9,814,000. Offsetting this decrease was an increase in gift revenue of \$4,623,000 from the University of Arkansas and private foundations.

State appropriations are reported in the Statements of Revenues, Expenses, and Changes in Net Assets 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, 2009, 2008, and 2007 is as follows (*in thousands*):

	2009	2008	2007
Gross state appropriations revenue	\$106,404	\$ 109,557	\$ 97,101
Less Medicaid match payments	62,014	63,794	49,798
Net state appropriations revenue	\$ 44,390	\$ 45,763	\$ 47,303

University of Arkansas for Medical Sciences

Management's Discussion and Analysis (Unaudited) (continued)

Results of Operations

Fiscal Year 2009

In fiscal year 2009, UAMS experienced an income loss before other changes in net assets of \$43,115,000 and an increase in net assets of \$4,224,000. The primary driver of the net asset growth was \$49,501,000 in capital gifts and appropriations for building construction projects. A review of income before other changes in net assets, which exclude capital gifts and appropriations, reveals that UAMS lost \$43,115,000 for the fiscal year. The loss on investment income discussed above accounted for \$14,585,000 of the loss. Excluding the investment income loss UAMS lost \$28,530,000 from ongoing operations, which will be discussed below.

Other occurrences that adversely affected the financial position of UAMS:

Total compensation and employee benefits increased by \$49,990,000 or 7.6%, \$41,513,000 or 12.4% of this increase was related to patient care staffing to support the anticipated growth in patient volume primarily related to opening the new hospital and PRI. This includes Hospital compensation and benefits which were up \$29,540,000 of 16.1%.

Net patient service revenue adjusted for the decrease in payments from the Arkansas Physician Supplemental Payment Program, discussed above, increased by \$35,339,000 or 4.9%. The increase in adjusted net patient service revenue is due to growth in patient volume in part from the opening of the new patient bed tower and the Psychiatric Research Institute building in the third quarter of fiscal year 2009. Volumes and revenue from both inpatient and outpatient services were below anticipated levels.

Gross state appropriations declined by \$3,153,000 and continue to account for a decreasing share of UAMS revenue at approximately 10.1% and 10.6% of UAMS revenue for fiscal years 2009 and 2008, respectively.

Fiscal Year 2008

In fiscal year 2008, UAMS experienced an increase of 13.9% in net assets. The primary driver of the net asset growth was a 13.8% growth in net patient services revenue. Additionally, gifts continue to be an important component of UAMS' growth. Gifts supporting operating activities totaling \$13,864,000 were received in fiscal year 2008. Additionally, capital gifts totaling \$10,281,000 primarily for the construction of the Psychiatric Research Institute and capital appropriations totaling \$60,184,000 for the expansion of the Winthrop P. Rockefeller Cancer Institute were received in fiscal year 2008.

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Management's Discussion and Analysis (Unaudited) (continued)

Although the overall financial position improved in 2008, there were some occurrences that adversely affected the financial position.

Gross state appropriations accounted for approximately 10.6% and 10.2% of UAMS revenue for fiscal years 2009 and 2008, respectively.

Compensation and employee benefits increased by 9.4%, which reflects additional staffing needed to support the growth in patient volume as well as a new expense of \$9,801,000 related to accrued OPEB expenses.

Investment income decreased by 62.7% from fiscal year 2007 primarily due to changing market conditions and use of invested construction funds.

The new ASH was completed in May 2008 and transferred to the Arkansas DHS resulting in a reduction in net assets of \$32,171,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, UAMS had \$731,054,000 invested in capital assets, net of accumulated depreciation and amortization of \$331,526,000. Depreciation and amortization charges totaled \$43,148,000 for the fiscal year ended June 30, 2009.

UAMS' capital additions totaled \$156,198,000 in fiscal year 2009. Capital additions primarily comprised replacement, renovation, and new construction of academic, research, and hospital facilities, as well as investments in equipment. Major capital additions in fiscal year 2009 and the sources that funded their acquisition included:

Project	Amount of Additions <i>(in thousands)</i>	Funding Source
Winthrop P. Rockefeller Cancer Institute Tower	\$ 51,943	Winthrop P. Rockefeller Cancer Institute Foundation, State Appropriation, UAMS
Patient Bed Tower, Central Power Plant, Psychiatric Research Institute, and Hooper Drive Road Development	40,420	2004B & 2006 Bond Issuance, Psychiatry Institute Foundation, UAMS
Patient Bed Tower Equipment, including Radiology Equipment	38,603	2006 Bond Issuance, UAMS
College of Health Related Professions Buildings and Renovation	9,212	Arkansas State Hospital Transfer In, UAMS
Education West Building	6,054	Higher Education Bonds

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Management's Discussion and Analysis (Unaudited) (continued)

The Patient Bed Tower, the Psychiatric Research Institute, and the Education West building were all put into service in fiscal year 2009. Additionally, the College of Health Related Professions relocated to their renovated buildings in 2009.

Construction in progress at June 30, 2009 included the Winthrop P. Rockefeller Cancer Institute Tower. More detailed information about UAMS' capital assets is presented in Note 7 to the financial statements.

Debt Administration

At June 30, 2009, UAMS had \$367,299,000 in outstanding obligations (for additional information, see the Economic Outlook section of this Management's Discussion and Analysis), as shown in the following table:

Obligation	Amount Outstanding (in thousands)
Bonds payable	\$ 267,819
Notes payable	9,944
Obligations under capital leases	34,039
Compensated absences	41,787
Other postemployment benefits	13,710
	\$ 367,299

Moody's Investment Service raised the rating of the University of Arkansas System from A1 to Aa3 in August 2004, which was affirmed on April 2, 2009. UAMS, as one of the colleges in the University of Arkansas System, will benefit from this rating increase. More detailed information about short-term and long-term liabilities is presented in Notes 8 and 9 to the financial statements.

ECONOMIC OUTLOOK

UAMS' net assets increased in fiscal year 2009 as evidenced by a \$4,224,000 increase in Net Assets. However, as discussed above in results of operations for fiscal year 2009, excluding capital gifts and appropriations UAMS lost \$43,115,000 for the fiscal year. Investment income loss accounted for \$14,585,000 of the loss. Excluding the investment income loss UAMS lost \$28,530,000 from ongoing operations primarily due to patient utilization being under budgeted expectations and increases in compensation above revenue increases. Additionally, the PRI was budgeted to have a \$1,800,000 loss and the actual loss was \$2,728,000, which added to the negative operating margin.

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Management's Discussion and Analysis (Unaudited) (continued)

UAMS has a diverse stream of revenue that funds its operations, including tuition, patient services revenue, state appropriations, investment income, and philanthropic support from individuals, foundations, and corporations. However UAMS is highly dependent on patient service revenue, which is 75.4% of total revenue.

UAMS' hospital and clinics are experiencing the same challenges as the general healthcare sector in the current economic environment, including potential reimbursement pressures from third-party payers, rising charity care, and softening volumes. To mitigate the unfavorable impact of the current economic environment, UAMS will be required to seek other revenue and growth opportunities, reduce costs, or some combination of both.

This new hospital attracts more emergency room patients which carry a higher bad debt payor mix. Emergency room capacity has increased and utilization has increased from 3,286 average monthly visits in fiscal year 2008 to 4,333 average monthly visits in the first quarter of fiscal year 2010.

Management recognizes the absolute necessity of cost control. Management has identified expense reduction targets for the upcoming year and is actively developing strategies for future years. UAMS is continuing significant investments in information technology in order to generate necessary productivity gains more closely manage clinical practice and outcomes, continue to increase patient safety, and to remain compliant with an ever-growing regulatory burden. In addition to the above challenges the impact of the current health care legislation being debated in Congress is unknown at this time. Most of the healthcare reform plans include significant cuts in Medicare and Medicaid which compromise approximately 54% of UAMS' patient service revenue. This includes supplemental Medicare and Medicaid programs such as Disproportionate share, physician supplemental Medicaid, State operated teaching hospitals, graduate medical education, and upper payment limit. It is likely that this reimbursement will change under health reform but we can not estimate the impact until the final bill is voted into law. Overall payment levels for all providers may change and is unknown. Conversely UAMS may benefit under healthcare reform by having more of the patients insured and having less charity care and bad debt.

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Management's Discussion and Analysis (Unaudited) (continued)

State operating support, which represents 10.1% of UAMS' revenue, is also under pressure due to the current economic conditions. State fiscal year-to-date through September 30, 2009, net available general revenues are 3.3% below last year and 7.1% below the state general revenue forecast. In the first quarter of fiscal year 2010 the Arkansas Department of Finance and Administration reports the lowest revenue collections in 20 years. It is questionable whether or not State operating support may change based on this.

On the positive side American Recovery and Reinvestment Act (ARRA) Stimulus money has been awarded to UAMS. UAMS has been granted one of the highly sought after federal Center for Clinical and Translational Science awards to replace the long standing General Clinical Research Center.

With the fixed overhead associated with the new buildings put in service in fiscal year 2009 and the current economic environment fiscal year 2010 may be at best a breakeven year for UAMS. Additionally it may be necessary for UAMS to liquidate investments to meet operating cash flow needs and/or to provide funds to complete the construction of the Winthrop P. Rockefeller Cancer Institute Tower. UAMS understands its current operating challenges and is committed to establishing a plan to turn around the operating deficits in order to be in a more stable position to deal with the impact of healthcare reform.

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 requests for additional information should be addressed to Melony Goodhand, Vice Chancellor for Finance & Chief Financial Officer, 4301 West Markham, #632, Little Rock, Arkansas 72205.



KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Board of Trustees
University of Arkansas System:

We have audited the accompanying statements of net assets of the University of Arkansas for Medical Sciences (UAMS), a campus of the University of Arkansas System, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of UAMS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UAMS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements of UAMS are intended to present the statements of net assets, and the statements of revenues, expenses, and changes in net assets and cash flows of only that portion of the University of Arkansas System that is attributable to the transactions of UAMS. They do not purport to, and do not, present fairly the statements of net assets of the University of Arkansas System as of June 30, 2009 and 2008, the changes in its net assets and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UAMS as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2009 on our consideration of UAMS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 1 through 15 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 15, 2009

University of Arkansas for Medical Sciences
Statements of Net Assets
(in thousands)

	June 30	
	2009	2008
Assets		
Current Assets:		
Cash and cash equivalents (Note 4)	\$ 77,270	\$ 50,490
Investments (Note 5)	54,709	166,720
Patient accounts receivable, net (Note 2)	100,516	88,492
Nonpatient accounts receivable, (net of allowances of \$815 in 2009 and 2008)	31,101	23,530
Inventories	15,601	8,545
Notes and student loans receivable, net (Notes 6 and 15)	2,183	2,686
Prepaid expenses	2,608	2,157
Total Current Assets	283,988	342,620
Noncurrent Assets:		
Investments (Note 5)	55,426	73,820
Notes and student loans receivable, net (Notes 6 and 15)	19,572	20,238
Deposits and funds held in trust by others (Note 5)	6,999	28,760
Capital assets, net (Note 7)	731,054	625,458
Other noncurrent assets	3,204	3,399
Total Noncurrent Assets	816,255	751,675
Total Assets	\$ 1,100,243	\$ 1,094,295
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 8)	\$ 76,931	\$ 91,985
Deferred revenue	2,892	2,396
Funds held in trust for others	2,489	492
Estimated third-party payor settlements (Note 2)	5,964	12,049
Compensated absences payable, current portion (Note 9)	1,986	2,106
Liability for other postemployment benefits	-	686
Bonds, notes, and capital leases payable, current portion (Notes 9 and 10)	14,105	12,608
Total Current Liabilities	104,367	122,322
Noncurrent Liabilities:		
Deposits	92	110
Compensated absences payable, net of current portion (Note 9)	39,801	36,071
Liability for other postemployment benefits, net of current portion	13,710	9,115
Federal Capital Contribution for Perkins Loan Program	2,162	-
Bonds, notes, and capital leases payable, net of current portion (Notes 9 and 10)	297,697	288,487
Total Noncurrent Liabilities	353,462	333,783
Total Liabilities	457,829	456,105
Commitments and Contingencies (Notes 10, 12, 13, and 16)		
Net Assets		
Invested in capital assets, net of related debt	425,812	342,789
Restricted :		
Expendable	86,192	82,045
Nonexpendable	23,308	30,337
Unrestricted	107,101	183,019
Total Net Assets	642,414	638,190
Total Liabilities and Net Assets	\$ 1,100,243	\$ 1,094,295

University of Arkansas for Medical Sciences
 Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands)

	Year ended June 30	
	2009	2008
Revenues		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$2,848 in 2009 and \$2,661 in 2008)	\$ 20,374	\$ 19,951
Net patient services (Notes 2 and 9)	781,472	765,358
Sponsored programs:		
Federal grants and contracts	78,465	78,311
State and local grants and contracts	18,622	14,219
Nongovernmental grants and contracts	48,875	44,473
Sales and services of educational departments	26,894	25,443
Auxiliary enterprises:		
Housing and food service	5,664	3,905
Bookstore	693	665
Other auxiliary enterprises	2,533	2,747
Other operating revenue	4,766	9,802
Total Operating Revenues	988,358	964,874
Expenses		
Operating Expenses (Note 17):		
Compensation and benefits	707,091	657,101
Supplies and other services	316,792	299,028
Scholarships and fellowships	3	244
Depreciation and amortization (Note 7)	43,148	31,434
Total Operating Expenses	1,067,034	987,807
Operating Loss	(78,676)	(22,933)
Nonoperating Revenues (Expenses)		
State appropriations, net (Note 3)	44,390	45,763
Gifts	18,143	13,864
Investment income (loss), net of investment expense (Note 5)	(14,585)	9,814
Interest on debt	(11,938)	(8,631)
Loss on disposal of capital assets	(449)	(115)
Total Nonoperating Revenues (Expenses), net	35,561	60,695
Income (Loss) Before Other Changes in Net Assets	(43,115)	37,762

(Continued)

University of Arkansas for Medical Sciences
 Statements of Revenues, Expenses, and Changes in Net Assets (continued)
(in thousands)

	Year ended June 30	
	2009	2008
OTHER CHANGES IN NET ASSETS		
Capital gifts	\$ 14,070	\$ 10,281
Capital appropriations	35,431	47,454
Federal Perkins Loan Capital Contribution	(2,162)	-
Proceeds from Act 1282 of 2005	-	12,730
Interagency disposition (Note 11)	-	(30,236)
Total Other Changes in Net Assets	47,339	40,229
Increase in Net Assets	4,224	77,991
Net Assets – beginning of year	638,190	560,199
Net Assets – end of year	\$ 642,414	\$ 638,190

See accompanying notes to financial statements.

University of Arkansas for Medical Sciences
 Statements of Cash Flows
(in thousands)

	Year ended June 30	
	2009	2008
Cash Flows from Operating Activities		
Tuition and fees (net of scholarships)	\$ 23,262	\$ 20,756
Patient and insurance payments	763,515	768,343
Research grants and contracts	142,529	138,356
Collection of loans and interest	2,525	3,507
Auxiliary enterprise revenue:		
Housing and food service	5,663	3,917
Bookstore	692	665
Other auxiliary enterprises	2,520	2,741
Other receipts	31,967	28,184
Payments to suppliers	(336,311)	(299,935)
Payments to employees	(569,032)	(517,693)
Payments of employee benefits	(124,620)	(121,564)
Loans issued to students	(2,320)	(945)
Scholarships and fellowships	(3)	(244)
Other payments	(10,922)	(11,271)
Net cash and cash equivalents provided by (used in) operating activities	(70,535)	14,817
Cash Flows from Noncapital Financing Activities		
State appropriations	35,947	42,334
Gifts and grants	32,213	24,146
Other agency funds (net)	1,997	287
Net cash and cash equivalents provided by noncapital financing activities	70,157	66,767
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of debt	26,525	-
Capital appropriations	15,989	28,605
Proceeds from sale of capital assets	309	-
Proceeds from Act 1282 of 2005	-	12,730
Purchases of capital assets	(125,620)	(130,186)
Principal paid on capital debt and leases	(15,819)	(18,431)
Interest and paying agent fees paid on debt and capital leases	(11,808)	(13,979)
Net cash and cash equivalents used in capital and related financing activities	(110,424)	(121,261)

(Continued)

University of Arkansas for Medical Sciences
 Statements of Cash Flows (continued)
 (in thousands)

	Year ended June 30	
	2009	2008
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 240,626	\$ 203,839
Interest on investments (net of fees)	1,763	3,009
Purchases of investments	(104,807)	(145,181)
Net cash and cash equivalents provided by investing activities	137,582	61,667
Net increase in cash and cash equivalents	26,780	21,990
Cash and cash equivalents – beginning of year	50,490	28,500
Cash and cash equivalents – end of year	\$ 77,270	\$ 50,490
Operating loss	\$ (78,676)	\$ (22,933)
Adjustments to reconcile net operating loss to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	43,148	31,434
Changes in assets and liabilities:		
Patient and nonpatient accounts receivable, net	(14,779)	(11,548)
Inventories	(7,056)	917
Other assets	(95)	(560)
Accounts payable and accrued liabilities	(14,990)	8,278
Deferred revenue	496	223
Deposits	(18)	(12)
Compensated absences payable	3,611	3,502
Other liabilities	(2,176)	5,516
Net cash and cash equivalents provided by (used in) operating activities	\$ (70,535)	\$ 14,817
Noncash transactions:		
Fixed assets acquired by capital gift	\$ 14,070	\$ 10,281
Fixed asset acquisition paid for by State of Arkansas	\$ 19,442	\$ 18,849
Fixed assets acquired by incurring capital lease obligations	\$ 16,759	\$ 11,177
Fixed assets acquired by notes payable	\$ 9,766	\$ 9,292

See accompanying notes to financial statements.

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2009 and 2008

1. Summary of Significant Accounting Policies

The University of Arkansas 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 of Arkansas' ten-member Board of Trustees.

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. 20 (GASB 20), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. GASB 20 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 has elected not to adopt any FASB statements and interpretations issued after November 30, 1989, unless implementation is required by a GASB pronouncement.

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

- The Colleges of Medicine, Pharmacy, Nursing, Health-Related Professions, Public Health, Graduate School and Northwest Arkansas Satellite Campus with a combined enrollment of 2,652 and faculty numbering 1,361;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 386 adult beds in use at June 30, 2009;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHEC) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Multiple Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute; and
- Jackson T. Stephens Spine and Neurosciences Institute.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Little Rock campus includes approximately 3,800,000 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, real estate funds, and other investments is based on the most current information reported to UAMS by the respective investment managers and management concurs. All investment income, including changes in the fair value of investments, is reported as nonoperating revenue.

The University of Arkansas System Board of Trustees and the University of Arkansas Foundation Board of Trustees are the sponsors of an external investment pool (the Pool) and are responsible for the operation and oversight of the Pool. The Pool is not SEC-registered, and participation is voluntary. Participation in or withdrawal from the cash segment of the Pool is based on the daily market value of the units within the Pool. Participation in or withdrawal from the investment segment of the Pool is based on the market value per unit at the beginning of the calendar quarter in which the transaction takes place. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas 72207-3608, (501) 686-2500.

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

Notes and Student Loans Receivable – The unpaid balances of student loans receivable net of allowances and notes receivable from related parties.

Patient Accounts Receivable – Patient accounts receivable is shown net of contractual adjustments and an allowance for doubtful accounts. Credit balances representing refunds due are reported as accounts payable.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Loan Funds – Loan funds, included in cash and cash equivalents in the statements of net assets, 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.

Inventories – Inventories, 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. 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 \$2,500 for its capital assets. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives as established by the American Hospital Association (AHA) or the lease term as follows:

Buildings and fixtures	15 to 40 years
Equipment	3 to 15 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.

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). No liability is recorded for nonvested accumulated rights to receive sick pay benefits. The current portion of compensated absences is determined using the average balance paid in the prior two-year period.

Deferred Revenue – Consists of student tuition and fees applicable to subsequent accounting periods.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 monies 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, 2006 through June 30, 2010. The recovery of indirect costs will be recorded at a previously negotiated provisional rate after July 1, 2010, until such time as a new rate can be negotiated.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 Board of Trustees 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 assets in the statements of net assets. UAMS employs a total-return policy in determining the amount of investment income to be spent.

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 Assets – Net assets restricted by outside sources are distinguished from unrestricted funds allocated for specific purposes by action of the Board of Trustees. 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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

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 Board of Trustees of the University of Arkansas System. 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, 2009 and 2008 are recorded net of an allowance for doubtful accounts of \$423,624,000 and \$316,378,000, respectively.

Net patient services revenue for the years ended June 30, 2009 and 2008 is as follows (*in thousands*):

	<u>2009</u>	<u>2008</u>
Gross patient revenue	\$ 1,675,949	\$ 1,611,456
Less patient services contractual allowances	820,134	767,059
Less provision for bad debts	74,343	79,039
Net patient services revenue	<u>\$ 781,472</u>	<u>\$ 765,358</u>

UAMS provided approximately \$73,042,000 and \$84,901,000 in charity care, based on established rates, during the years ended June 30, 2009 and 2008, respectively. Because UAMS does not pursue collection of amounts determined to qualify as charity care, they are not included in gross patient revenue above. Net patient services revenue for the years ended June 30, 2009 and 2008 includes approximately \$66,626,000 and \$56,681,000, respectively, from the Medicaid program representing payments relating to Upper Payment Limit and Disproportionate Share reimbursements. These payments are available to state-operated teaching hospitals under Medicaid regulations. Net patient services revenue for the years ended June 30, 2009 and 2008 includes approximately \$24,190,000 and \$43,415,000, respectively, of net revenue from the Supplemental Medicaid program.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

2. Net Patient Services Revenue and Charity Care (continued)

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 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 or APCs. 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, 2009, the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2007.
- 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 fiscal intermediary. The Hospital is required to pay the federal match for the difference in reimbursement between the Tax Equity and Fiscal Responsibility Act (TEFRA) 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, 2009, the Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2007.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

2. Net Patient Services Revenue and Charity Care (continued)

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 an increase to net patient services revenue of \$1,824,000 and an increase of \$1,509,000 for the years ended June 30, 2009 and 2008, respectively. 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.

3. Net State Appropriations Revenue

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

Net state appropriations revenue for the years ended June 30, 2009 and 2008 is as follows (*in thousands*):

	<u>2009</u>	<u>2008</u>
Gross state appropriations revenue	\$ 106,404	\$ 109,557
Less Medicaid match payments	62,014	63,794
Net state appropriations revenue	<u>\$ 44,390</u>	<u>\$ 45,763</u>

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents

All cash deposits of UAMS are carried at cost. The carrying amount of deposits is separately displayed in the statements of net assets 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, 2009 and 2008 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. Amounts are shown in thousands.

	Carrying Amount	Bank Balance	Category		
			1	2	3
Cash at June 30, 2009	\$ 77,270	\$ 75,374	\$ 75,374	\$ -	\$ -
Cash at June 30, 2008	\$ 50,490	\$ 54,475	\$ 54,475	\$ -	\$ -

At June 30, 2009 and 2008, Category 1 is composed of \$1,035,000 and \$741,000, respectively, of insured deposits and \$74,339,000 and \$53,734,000, respectively, of securities that are held in custody by the Federal Reserve Bank.

The following schedule reconciles the reported amount of deposits to the statements of net assets under GASB Statement No. 3 (GASB 3), *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements (in thousands)*:

	June 30	
	2009	2008
Reported amount of deposits under GASB 3	\$ 77,270	\$ 50,490
Cash and cash equivalents as reported in the statements of net assets	\$ 77,270	\$ 50,490

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments

The investments of UAMS are governed by the University of Arkansas System's Investment Policy (the Policy). The Policy permits investment in varying amounts of managed external investment pools; U.S. Treasury and Agency issues, including mortgage-backed securities; state and local municipality bonds; banker's acceptances; corporate stocks and bonds; mutual funds, and short-term money funds.

The following table lists the invested assets of UAMS at June 30, 2009 (*in thousands*):

Statement of Invested Assets

<u>Investment Type</u>	<u>Fair Value</u>
Equity	\$ 5
U.S.	5
Commingled Funds	14,481
U.S. Equity	1,682
U.S. Fixed Income	908
Short Term Common Fund	10,522
Money Market Funds	1,369
Other Investments	102,648
Escrow Accounts	4,561
External Investment Pool	97,409
2004 Bond Funds held in Trust	678
Total	\$ 117,134

The activities during fiscal year 2009 affecting UAMS' investments are summarized below (*in thousands*):

	Total Return Pool	Short/ Intermediate Pool	Other Investments	Total
June 30, 2008	\$ 70,993	\$ 54,972	\$ 143,335	\$ 269,300
Income	989	2,332	913	4,234
Realized losses	(3,026)	(67)	(37)	(3,130)
Unrealized losses	(15,360)	(779)	(847)	(16,986)
Expenses paid	(373)	(71)	(21)	(465)
Sales	-	(12,200)	(123,619)	(135,819)
June 30, 2009	\$ 53,223	\$ 44,187	\$ 19,724	\$ 117,134

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

The activities during fiscal year 2008 affecting UAMS' investments are summarized below (*in thousands*):

	Total Return Pool	Short/ Intermediate Pool	Other Investments	Total
June 30, 2007	\$ 72,721	\$ 51,547	\$ 196,884	\$ 321,152
Income	1,356	2,529	6,838	10,723
Realized losses	6,031	329	38	6,398
Unrealized losses	(7,528)	653	(371)	(7,246)
Expenses paid	(372)	(86)	(57)	(515)
Sales	(1,215)	-	(59,997)	(61,212)
June 30, 2008	<u>\$ 70,993</u>	<u>\$ 54,972</u>	<u>\$ 143,335</u>	<u>\$ 269,300</u>

A substantial portion of the endowment investments is pooled, with participation in or withdrawal from the Pool based on the market value per unit at the beginning of the calendar quarter in which the transaction takes place.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

The following table summarizes the relationship between the pooled endowed assets and their earnings (*in thousands, except unit amounts*):

	June 30	
	2009	2008
Fair value at June 30	\$ 22,246	\$ 29,674
Number of units in Pool at June 30	463,340	463,285
Fair value per unit at June 30	48.01	64.05
Realized gains for the year	(1,264)	2,528
Income earned for the year	413	569
Realized gains per unit	(2.73)	5.46
Income earned per unit	0.89	1.23
Total income (loss) per unit	\$ (1.84)	\$ 6.69

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Additionally, realized gains and losses on investments held in more than one fiscal year and sold in fiscal years 2009 and 2008 were included as a change in the fair value of investments reported in fiscal years 2009 and 2008, respectively.

The following tables contain information on the risk disclosure for the Pool, which commingles (pools) the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The Pool was originally established in 1997 by the University of Arkansas 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 participants of the Pool have adopted investment guidelines and performance objectives for the accounts within the Pool. This information is provided in total for the pools, which includes the Total Return Pool, the Intermediate Pool, and the Cash Pool. UAMS owned 9.1% of the total of these pools as of June 30, 2009 and 2008, respectively.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

EXTERNAL INVESTMENT POOL

Statement of Invested Assets (in thousands)

Investment Type	Fair Value
Fixed Income	\$ 186,514
U.S. Government	36,797
U.S. Government Treasuries, Notes, Bonds	15,061
U.S. Government Agency	20,400
Other U.S. Government	1,336
Mortgage Backed	24,375
Government Pass-Through	24,375
Collateralized Mortgage Obligations	5,933
Government CMOs	5,933
Corporate	117,312
Corporate Bonds	65,154
Corporate Asset Backed	40,129
Private Placements	12,029
Municipals	1,854
Other Fixed Income	243
Convertible Preferred Stock	474
Equity	120,220
Common Stock	113,984
Real Estate Investment Trusts	6,150
Preferred Stock	86
Other Equities	-
Other Assets	744,692
Mutual Funds	654,468
Venture Capital	89,826
Private Equities	398
Short-Term Investments	17,381
Pooled and Mutual Funds	16,080
Treasuries	1,301
Cash and Cash Equivalents	(1,950)
Total	\$ 1,067,331

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

In accordance with the Policy, UAMS 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 table presents the credit risk associated with the portfolio.

Credit Risk – S&P Quality Ratings

Investment Type and Fair Value (in thousands)	TSY	AGY	AAA	AA	A	BBB	BB	B	NR, CCC and Below
Fixed Income	\$ 3,178	\$31,453	\$69,206	\$16,417	\$36,470	\$16,859	\$ 629	\$ 1,268	\$11,508
U.S. Government	\$ 3,178	520	30,937	791	862	498	-	-	11
U.S. Government Treas., Notes, Bonds	3,178	-	11,883	-	-	-	-	-	-
U.S. Government TIPS	-	-	-	-	-	-	-	-	-
U.S. Government Agency	-	520	19,054	-	815	-	-	-	11
Other U.S. Government	-	-	-	791	47	498	-	-	-
Mortgage Backed	-	23,787	588	-	-	-	-	-	-
Government Pass-Through	-	23,787	588	-	-	-	-	-	-
Corporate Pass-Through	-	-	-	-	-	-	-	-	-
Collateralized Mortgage Obligations	-	4,973	266	-	-	-	-	-	694
Government CMOs	-	4,973	266	-	-	-	-	-	694
Corporate	-	2,173	36,103	15,023	35,493	15,887	629	1,268	10,737
Corporate Bonds	-	-	4,351	11,814	32,234	15,107	251	187	1,211
Corporate Asset Backed	-	2,173	29,252	402	1,606	-	111	1,081	5,504
Private Placements	-	-	2,500	2,807	1,653	780	267	-	4,022
Municipals	-	-	1,069	603	115	-	-	-	66
Other Fixed Income	-	-	243	-	-	-	-	-	-
Convertible Preferred Stock	-	-	-	-	-	474	-	-	-
Total	\$ 3,178	\$31,453	69,206	\$16,417	\$36,470	\$16,859	\$ 629	\$ 1,268	\$11,508

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

Years to Maturity Investment Type (in thousands)	Investment Maturities (in years)				
	Fair Value	Less than 1	1 – 5	6 – 10	More than 10
Fixed Income	\$ 186,514	\$ 1,837	\$ 59,947	\$ 28,882	\$ 95,848
U.S. Government	36,797	-	23,166	4,495	9,137
U.S. Government Treas., Notes, Bonds	15,061	-	4,682	2,772	7,607
U.S. Government TIPS	-	-	-	-	-
U.S. Government Agency	20,400	-	17,692	1,676	1,032
Other U.S. Government	1,336	-	792	47	498
Mortgage Backed	24,375	-	1,271	499	22,606
Government Pass-Through	24,375	-	1,271	499	22,606
Collateralized Mortgage Obligations	5,933	-	123	2,462	3,348
Government CMOs	5,933	-	123	2,462	3,348
Corporate	117,312	1,837	34,318	21,002	60,154
Corporate Bonds	65,154	1,108	25,931	16,063	22,052
Corporate Asset Backed	40,129	-	1,501	2,117	36,510
Private Placements	12,029	729	6,886	2,822	1,592
Municipals	1,854	-	1,069	424	360
Other Fixed Income	243	-	-	-	243
Convertible Preferred Stock	474	-	-	-	474
Total	\$ 186,988	\$ 1,837	\$ 59,947	\$ 28,882	\$ 96,322

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

In accordance with the Policy, the Pool manages its exposure to interest rate risk by diversifying the portfolio. The weighted average duration should range between 80% and 115% of the benchmark's (the Lehman Brothers Intermediate Government Credit LB Int. G/c Index) duration.

Investment Type (<i>in thousands</i>)	Fair Value	Effective Duration (Years)
Fixed Income	\$ 186,514	4.89
U.S. Government	36,797	5.54
U.S. Government Treasuries, Notes, Bonds	15,061	8.28
U.S. Government TIPS	-	-
U.S. Government Agency	20,400	3.42
Other U.S. Government	1,336	7.07
Mortgage Backed	24,375	2.55
Government Pass-Through	24,375	2.55
Collateralized Mortgage Obligations	5,933	6.50
Government CMOs	5,933	6.50
Corporate	117,312	5.31
Corporate Bonds	65,154	6.56
Corporate Asset Backed	40,129	3.24
Private Placements	12,029	4.07
Municipals	1,854	6.49
Other Fixed Income	243	10.16
Convertible Preferred Stock	474	22.74
Total	\$ 186,988	4.90

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

COMMON FUND

The Common Fund Short Term Fund (the Fund) is a bank common trust fund and as such is regulated by the United States Treasury Department Office of the Comptroller of the Currency. UAMS used the Fund as a vehicle to invest daily operating funds. On September 29, 2008, as an investor in the Fund, UAMS received notice from Wachovia Bank, in its capacity as Trustee of the Fund, of its decision to initiate the termination of the Fund, to stop accepting deposits, to establish procedures for an orderly liquidation and distribution of the Fund's assets and to resign as Trustee of the Fund. The Trustee took this action upon recognizing that market conditions had become increasingly disrupted, and to ensure fair and equitable treatment of all investors in the Fund. Accordingly, Fund assets, which the Trustee considered less liquid in the current market environment and representing approximately 90% of the Fund's portfolio as of September 26, 2008, were placed in a separate account within the Fund identified as the "Intermediate/Longer-Term Tranche." The assets held in the Intermediate/Longer-Term Tranche were effectively frozen, and were not available for drawdown by investors. A separate pool, identified as the "Immediate Tranche," was also established and held the Fund assets that were readily converted to cash on a same or next-day basis, and available for drawdown.

In December 2008, Law Debenture Trust Company of New York (Law Debenture) was named successor Trustee to the Fund, and assumed all participant account record-keeping responsibilities as well as serving as paying agent for the Fund.

Assets of the Fund have been liquidated as they mature or as market conditions permit. As of June 30, 2009, UAMS had \$10,522,000 remaining in the Fund awaiting liquidation. Approximately, 89% of the funds held on September 26, 2008 have been disbursed as of June 30, 2009.

Interest rate risk. The Fund invested in securities with maturities from one day to five and one-half years, but the portfolio was structured so that it would approximate the volatility of three-month U.S. Treasury securities and not exceed the volatility of one-year U.S. Treasury securities. As the Fund has entered liquidation, the portfolio structure has changed significantly with securities maturing beyond five and one-half years. However, since the stated intentions of the Common Fund and the Fund Trustee are to return invested balances fully to the participants as soon as it is practical in light of market conditions, we do not believe the interest rate risk to be significantly changed.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

Credit risk. The Fund was restricted to investments in U.S. Treasury and government agency securities, high quality corporate securities, mortgage- and asset-backed securities, and commercial and bank paper. However, the Fund is not rated by an external rating agency.

Investment Type <i>(in thousands)</i>	Fair Value	Credit Risk		
		AAA/Aaa	AA/Aa	Not Rated
Bank Common Trust Fund	\$10,522			\$10,522

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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

6. Notes and Student Loans Receivable, Net

The net unpaid balances of notes and student loans receivable on June 30, 2009 and 2008, net of allowances of \$4,587,000 and \$4,540,000, respectively, are as follows (*in thousands*):

	June 30	
	2009	2008
Perkins Loans	\$ 1,951	\$ 2,129
Health Professional Loans	5,484	5,227
Institutional funds loans	2,935	3,110
University of Arkansas at Fayetteville	1,221	1,323
Arkansas State Hospital note receivable	7,889	8,350
Arkansas Department of Health note receivable	2,183	2,406
Miscellaneous	92	379
Total notes and student loans receivable, net	21,755	22,924
Less current portion	(2,183)	(2,686)
Notes and student loans receivable, noncurrent, net	\$ 19,572	\$ 20,238

7. Capital Assets

Capital assets of UAMS at June 30 were as follows (*in thousands*):

	June 30, 2008	Additions	Transfers	Dispositions	June 30, 2009
Nondepreciable:					
Land	\$ 7,042	\$ 89	\$ -	\$ (102)	\$ 7,029
Construction in progress	215,588	52,558	(188,661)	-	79,485
Depreciable:					
Buildings and fixtures	497,351	62,325	187,684	-	747,360
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	156,142	29,644	337	(6,551)	179,572
Leased property	18,914	10,760	640	(2,557)	27,757
Other	18,102	822	-	-	18,924
Total capital assets	915,592	156,198	-	(9,210)	1,062,580
Less accumulated depreciation and amortization:					
Buildings and fixtures	162,964	25,285	57	-	188,306
Improvements other than buildings	2,258	51	-	-	2,309
Equipment	112,277	13,840	2,031	(6,195)	121,953
Leased property	8,886	4,329	(2,088)	(1,268)	9,859
Other	3,749	5,350	-	-	9,099
Total accumulated depreciation and amortization	290,134	48,855	-	(7,463)	331,526
Capital assets, net	\$625,458	\$107,343	\$ -	\$ (1,747)	\$731,054

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

7. Capital Assets (continued)

	June 30, 2007	Additions	Transfers	Dispositions	June 30, 2008
Nondepreciable:					
Land	\$ 6,365	\$ -	\$ 677	\$ -	\$ 7,042
Construction in progress	156,507	121,237	(62,156)	-	215,588
Depreciable:					
Buildings and fixtures	456,404	22,618	50,618	(32,289)	497,351
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	138,586	16,265	3,079	(1,788)	156,142
Leased property	20,020	2,905	(3,081)	(930)	18,914
Other	2,557	4,682	10,863	-	18,102
Total capital assets	782,892	167,707	-	(35,007)	915,592
Less accumulated depreciation and amortization:					
Buildings and fixtures	148,383	14,565	16	-	162,964
Improvements other than buildings	2,206	52	-	-	2,258
Equipment	98,778	12,050	3,320	(1,871)	112,277
Leased property	9,606	3,506	(3,336)	(890)	8,886
Other	2,454	1,295	-	-	3,749
Total accumulated depreciation and amortization	261,427	31,468	-	(2,761)	290,134
Capital assets, net	\$521,465	\$136,239	\$ -	\$ (32,246)	\$625,458

The buildings and fixtures above include \$14,933,000 and \$14,667,000 of net assets under capital leases at June 30, 2009 and 2008, respectively. Included in the above additions are \$5,866,000 of depreciable assets and \$5,708,000 of accumulated depreciation and amortization on assets transferred to UAMS from the Arkansas State Department of Human Services.

Capitalized interest of \$1,863,000 net of interest income of \$169,000 for the year ended June 30, 2009 and capitalized interest of \$5,570,000 net of interest income of \$2,564,000 for the year ended June 30, 2008 were recognized during the respective years. For the fiscal year 2009, all of the \$1,863,000 was related to the Various Facility Construction Revenue Bonds, Series 2006. For fiscal year 2008, \$3,144,000 was related to the borrowing for the Various Facility Construction Revenue Bonds, Series 2004B. \$2,023,000 was related to the borrowing for the Various Facility Construction Revenue Bonds, Series 2006. Additionally, \$403,000 was related to the borrowing for the Parking System Revenue Construction Bonds, Series 2004.

Library holdings comprise books and periodicals, including old and rare books, held by UAMS. The estimated value of the holdings at June 30, 2009 and 2008 was \$1,689,000 and \$1,698,000, respectively. UAMS has not reported library holdings in the accompanying statements of net assets.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at year-end (*in thousands*):

	June 30	
	2009	2008
Trade payables	\$ 13,607	\$ 12,965
Accrued wages	44,020	38,144
Miscellaneous payables	19,304	40,876
Total accounts payable and accrued liabilities	\$ 76,931	\$ 91,985

9. Long-Term Obligations

Changes in long-term obligations during fiscal year 2009 were as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable	\$ 274,775	\$ -	\$ (6,956)	\$ 267,819
Notes payable	2,720	9,766	(2,542)	9,944
Capital leases	23,600	16,759	(6,320)	34,039
Total debt	301,095	26,525	(15,818)	\$ 311,802
Compensated absences	38,176	3,611	-	41,787
Other postemployment benefits	9,801	3,909	-	13,710
Total obligations	\$ 349,072	\$ 34,045	\$ (15,818)	\$ 367,299

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

The current and long-term portions of the categories noted above were as follows at June 30, 2009 (*in thousands*):

	Current	Long Term	Total
Bonds payable	\$ 6,564	\$ 261,255	\$ 267,819
Notes payable	1,772	8,172	9,944
Capital leases	5,769	28,270	34,039
Total debt	14,105	297,697	311,802
Compensated absences	1,986	39,801	41,787
Other postemployment benefits	-	13,710	13,710
Total obligations	\$ 16,091	\$ 351,208	\$ 367,299

UAMS has bonds outstanding for the Patient Bed Tower, Central Arkansas Radiation Therapy Institute (CARTI) Building, and the East Parking Deck. In addition, bonds have been issued for the following new construction projects: Patient Bed Tower, Residence Hall, Psychiatry Building, and the power plant. The income from the revenue-producing facilities, along with a portion of tuition and fees, is pledged to meet the principal and interest payments of certain bonds. 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 debt is as follows at June 30, 2009 and 2008 (*in thousands*):

	June 30	
	2009	2008
<i>Bonds Payable:</i>		
Parking System Revenue Construction and Refunding Bonds, Series 1998, \$14,260,000 original amount, due annually to 2013 with \$5,740,000 in term bonds due 2019, various interest rates of 4.60% to 5.05% and 4.55% to 5.05% during fiscal years 2009 and 2008, respectively, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	PAR	\$ 9,395
		\$ 10,030
Various Facility Revenue Refunding Bonds, Series 2004A, \$54,085,000 original amount plus a premium of \$4,797,000, due annually to 2018, various fixed interest rates of 4.00% to 5.00% collateralized by pledged revenue.	PAR	41,365
	Premium	3,215
		44,740
		3,558

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

	June 30	
	2009	2008
<i>Bonds Payable:</i>		
Various Facility Revenue Construction Bonds, Series 2004B, \$95,915,000 original amount, plus a premium of \$3,412,000, due annually to 2034, with \$42,855,000 in term bonds due 2034, various fixed interest rates of 2.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	PAR Premium	95,150 3,000
	94,880 2,886	
Parking System Revenue Construction Bonds, Series 2004, \$10,070,000 original amount plus a premium of \$162,000 due annually to 2035, various fixed interest rates of 2.15% to 5.00% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	PAR Premium	9,695 142
	9,500 137	
Various Facility Revenue and Refunding Bonds, Series 2006, \$107,500,000 original amount, plus a premium of \$5,048,000, 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.	PAR Premium	103,790 4,670
	101,940 4,501	
Total Bonds Payable	\$267,819	\$274,775
	2009	2008
<i>Notes Payable:</i>		
Floating rate, Arkansas Development Finance Authority note, \$1,500,000 original amount, due monthly through 2012, was refinanced through Bank of America in May 2008 by the University of Arkansas System. UAMS' portion of the note was \$495,000 at a fixed rate of 4.22%.	\$ 370	\$ 495
Miscellaneous Notes Payable	9,574	2,225
Total Notes Payable	\$ 9,944	\$ 2,720

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

Scheduled maturities of bonds and notes payable are as follows. Interest on variable rate debt is calculated based on the rate in effect at June 30, 2009 (*in thousands*):

	Bonds Payable				Notes Payable		
	Principal	Interest	Premium Amortized	Total	Principal	Interest	Total
2010	\$ 6,565	\$ 12,585	\$ 630	\$ 19,780	\$ 1,769	\$ 227	\$ 1,996
2011	6,840	12,310	630	19,780	1,730	180	1,910
2012	7,155	11,993	630	19,778	1,733	135	1,868
2013	7,510	11,638	630	19,778	1,622	92	1,714
2014	7,875	11,264	630	19,769	1,301	55	1,356
2015-2019	43,470	50,078	2,939	96,487	1,789	37	1,826
2020-2024	40,605	39,847	1,436	81,888	-	-	-
2025-2029	50,610	28,724	1,436	80,770	-	-	-
2030-2034	64,820	14,513	1,436	80,769	-	-	-
2035-2038	21,630	1,195	342	23,167	-	-	-
Total	\$ 257,080	\$ 194,147	\$ 10,739	\$ 461,966	\$ 9,944	\$ 726	\$ 10,670

The Board of Trustees of the University of Arkansas System Various Facility Revenue Bonds (UAMS Campus) Series 2006 was issued in March 2006. The 2006 issue provided an additional \$107,500,000 for the current expansion of the UAMS Hospital to include a new Patient Bed Tower, new Residence Hall, new Psychiatry Building, and a new power plant. The bonds bear interest at various fixed interest rates from 3.4% to 5.0%, and principal payments are due annually with interest payments due semiannually until the year 2036.

The Board of Trustees of the University of Arkansas System Various Facility Revenue Bonds (UAMS Campus) Series 2004A and 2004B was issued in November 2004. The 2004A issue refunded \$58,265,000 of the Various Facility Revenue Bonds 1998 at par value. The bonds bear interest at various fixed interest rates from 4.0% to 5.0%, and principal payments are due annually with interest payments due semiannually until the year 2018. The 2004B issue provided \$95,915,000 for the current expansion of the UAMS Hospital to include a new Patient Bed Tower, new Residence Hall, new Psychiatry Building, and a new power plant. The bonds bear interest at various fixed interest rates from 2.0% to 5.0%, and principal payments are due annually with interest payments due semiannually until the year 2034.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

The Various Facility 1998 Bonds that were issued, in part, to refund the 1994 Bond issue provided \$2,017,000 to the University of Arkansas at Fayetteville (UAF) for improvements of certain facilities. Under the Series 2004A bond issue, UAF is still responsible for its portion of the principal, interest, and agents' fees. Accordingly, a note receivable with a balance of \$1,221,000 and \$1,323,000 as of June 30, 2009 and 2008, respectively, has been recorded in the accompanying Statements of Net Assets (see note 14).

The refunding resulted in no difference in the reacquisition price and the net carrying amount of the refunded debt. In December 1993, the GASB issued GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* (GASB 23). For current and advance refunding resulting in defeasance of debt reported by entities such as UAMS, GASB 23 required, effective for financial statements issued for periods beginning after June 15, 1994, that the difference between the reacquisition price and the net carrying amount of the refunded debt be deferred and amortized as a component of interest expense, in a systematic and rational manner, over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The Board of Trustees of the University of Arkansas System Parking System Revenue Construction Bonds (UAMS Campus) Series 2004 was issued in December 2004. This issue provides \$10,070,000 for the building of an additional parking deck to be built in conjunction with the new Patient Bed Tower. The bonds bear interest at various fixed rates from 2.125% to 5.000%, with principal payments due annually and interest due semiannually until the year 2035.

The Arkansas Development Finance Authority note payable was issued in the amount of \$1,500,000 to fund various refurbishment projects. This note was refinanced through Bank of America by the University of Arkansas System in May 2008. UAMS' portion of the note was \$495,000 at 4.22% interest.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

10. Commitments

Capital Leases

Scheduled maturities of capital lease commitments outstanding as of June 30, 2009 are as follows (*in thousands*):

	Principal	Interest	Total
2010	\$ 5,769	\$ 1,504	\$ 7,273
2011	5,388	1,266	6,654
2012	4,708	1,054	5,762
2013	4,417	855	5,272
2014	3,254	668	3,922
2015-2019	10,503	1,858	12,361
Total	<u>\$ 34,039</u>	<u>\$ 7,205</u>	<u>\$ 41,244</u>

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, 2009 (*in thousands*):

2010	\$ 6,614
2011	3,689
2012	2,377
2013	1,975
2014	1,427
2015-2019	1,576
Total minimum payments required	<u>\$ 17,658</u>

Rental expense for operating leases for the years ended June 30, 2009 and 2008 was approximately \$6,614,000 and \$10,154,000, respectively, and is included in supplies and other services in the accompanying Statements of Revenue, Expenses, and Changes in Net Assets.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

10. Commitments (continued)

Construction Projects

Construction in progress at June 30, 2009 included the Winthrop Rockefeller Cancer Institute. At June 30, 2009, construction contracts outstanding were approximately \$23,544,000.

Outstanding Commitments

At June 30, 2009 and 2008, UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$161,957,000 and \$66,658,000, respectively.

11. Interagency Disposition

The majority of the balance was due at an agreement executed on February 23, 2005 between UAMS and the Arkansas Department of Human Services (DHS) in which DHS agreed to transfer to UAMS certain land and buildings adjacent to the UAMS campus in consideration for construction of a new Arkansas State Hospital building with an estimated construction cost of \$32,327,000. The construction began and the land was transferred to UAMS in fiscal year 2005. The majority of the project was funded by reducing the administrative fee contractual payments due to DHS by approximately \$26,227,000 over a four-year period with the remaining \$6,100,000 paid with UAMS unrestricted net assets.

12. Retirement Benefits

All active employees of UAMS who work 20 or more hours a week participate in either 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,

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Notes to Financial Statements (continued)

12. Retirement Benefits (continued)

ARTRS was established as an actuarial reserve system, with a financial base derived from employer and employee contributions and income from investments to pay future benefits. It pays retirement benefits based on length of service and an average of the three highest fiscal years' earnings. Benefit provisions are established and amended by State of Arkansas Statute (A.C.A. 266). UAMS' required contribution rate was 14% in 2009, 2008 and 2007. ARTRS issues a publicly available financial report, which may be obtained by writing or calling: ARTRS, 1400 West Third Street, Little Rock, AR 72201, (501) 682-1517. The gross payroll amount for UAMS employees covered by ARTRS for the years ended June 30, 2009 and 2008 was \$350,800 and \$249,300, respectively. UAMS' total salaries were \$575,176,000 and \$529,094,600 for fiscal years 2009 and 2008, respectively. Total employer contributions to ARTRS in fiscal years 2009, 2008, and 2007 were \$48,000, \$35,000, and \$27,000, respectively. Employee contributions to ARTRS in fiscal years 2009 and 2008 were \$12,600 and \$11,400, respectively.

APERS is a cost-sharing multiple-employer defined benefit plan administered by the State of Arkansas, which pays retirement benefits based on length of service and an average of the five highest fiscal years' earnings. Vesting is effective after 10 years of participation in the plan. Benefit provisions are established and amended by State of Arkansas Statute (A.C.A. 24). UAMS' required contribution rate was 11% in 2009 and 13% in 2008 and 2007. APERS issues a publicly available financial report, which may be obtained by writing or calling: APERS, One Union National Plaza, 124 W. Capitol, 5th Floor, Little Rock, AR 72201, (501) 682-7855. The gross payroll amount for UAMS employees covered by APERS for the years ended June 30, 2009 and 2008 was \$5,509,000 and \$4,701,000, respectively. Total employer contributions to APERS in fiscal years 2009, 2008, and 2007 were \$595,900, \$589,500, and \$516,000, respectively. Employee contributions to APERS in fiscal years 2009 and 2008 were \$101,600 and \$71,000, respectively.

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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

12. Retirement Benefits (continued)

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 \$24,500 per employee in calendar year 2009, \$23,000 in calendar year 2008. 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; the normal retirement age of 70 is attained; or the participant contributes at least 5% of regular salary for at least six months. The eligible salary earnings for UAMS employees covered by UAOPR for the years ended June 30, 2009 and 2008 was \$501,693,000 and \$434,963,000, respectively. Total employer contributions during fiscal years 2009 and 2008 to TIAA-CREF and Fidelity were \$40,036,000 and \$37,181,000, respectively. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal years 2009 and 2008 were \$43,349,000 and \$41,320,000, respectively.

In addition to providing retirement benefits, UAMS arranges health, dental, and life insurance for retired and disabled employees and their families. Substantially, all of UAMS' employees may become eligible for those benefits if they meet normal retirement requirements while still working for UAMS. The number of eligible retirees was 567 and 536 as of June 30, 2009 and 2008, respectively. The participants of this program incur the total premium for this insurance. There is no direct expense for these services incurred by UAMS.

13. Other Postemployment Benefits (OPEB)

The University of Arkansas (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 UAF, Little Rock (UALR), Medical Sciences (UAMS), Monticello (UAM), Pine Bluff (UAPB) 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. 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 of Arkansas consolidated financial report.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

13. Other Postemployment Benefits (OPEB) (continued)

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which became effective for the fiscal year ended June 30, 2008. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. As a result of the implementation of this statement, UAMS accrued \$3,909,000 and \$9,801,000 in retiree healthcare expense during the fiscal year ended June 30, 2009 and 2008, respectively.

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

Participation: Employees who retire with a combination of age and years of service of at least 70 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. Employer costs are funded on a pay-as-you-go basis.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

13. Other Postemployment Benefits (OPEB) (continued)

Summary of Key Actuarial Methods and Assumptions

University Self-Funded Plan

Valuation date	July 1, 2008 valuation for the fiscal year ended June 30, 2009
Valuation year	July 1, 2007 – July 1, 2008
Actuarial cost method	Projected unit credit
Amortization method	30 years closed, level % of payroll
Asset valuation method	N/A
Discount rate	4.5%
Projected payroll growth rate	4.0%
Medical inflation rate	Initial rate of 10.0% for 5 years; ultimate rate of 5.0%
Dental inflation 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. The results are highly dependent on two key assumptions: the rate at which it is assumed that medical costs will increase over time and the discount rate used to translate future payments into current dollars. The annual payments for retiree medical benefits are expected to rise sharply in coming years, both because medical costs are expected to rise over time and because more employees will retire and start to receive University-paid medical, dental, and life benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

13. Other Postemployment Benefits (OPEB) (continued)

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.

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

	July 1	
	2008	2007
Unfunded actuarial accrued liability	\$ 34,858	\$ 78,087
Annual Required Contribution (ARC)		
Normal Cost	2,966	7,248
Amortization of the unfunded actuarial accrued liability over 30 years using level percent of payroll amortization	1,245	2,788
ARC amortization adjustment	(366)	-
Interest	630	452
Annual Required Contribution (ARC)	4,475	10,488
Less: Expected Employer Contributions	(566)	(687)
End of year accrual	\$ 3,909	\$ 9,801

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions	Expected Contributions	Percentage Contributed
June 30, 2009	\$ 4,475	\$566	12.65%
June 30, 2008	\$10,488	\$687	6.55%

Since there is no funding, the expected contributions are any retiree premiums actually paid by the University plus 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. Expected contributions were based on actual contributions for the fiscal year ended June 30, 2008 and 2007 as it was expected that actual contributions for the fiscal year ended June 30, 2009 and 2008 would not have been materially different.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

13. Other Postemployment Benefits (OPEB) (continued)

Schedule of Funding Progress (Unaudited)

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
June 30, 2009	\$ -	\$ 34,858	\$ 34,858	-
June 30, 2008	\$ -	\$ 78,087	\$ 78,087	-

14. Affiliated Entities (Unaudited)

The University of Arkansas Foundation, Inc. (the Foundation) operates as a nonprofit benevolent corporation for charitable educational purposes. It was established to benefit the University of Arkansas, 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. Based on information provided by the Foundation, during the years ended June 30, 2009 and 2008, revenue of \$(7,119,000) and \$28,744,000 was received by the Foundation for the benefit of UAMS. Revenue for the year ended June 30, 2009 was negative due to a loss on investments. Support, by the Foundation on behalf of UAMS, was \$30,209,000 and \$20,756,000 for the years ended June 30, 2009 and 2008, respectively.

15. Related-Party Transactions

Notes receivable from related parties at June 30 are as follows (*in thousands*):

	2009	2008
University of Arkansas at Fayetteville	\$ 1,221	\$ 1,323
Arkansas State Hospital	7,889	8,350
Arkansas Department of Health	2,183	2,406
Total included in notes and student loans receivable (Note 6)	\$ 11,293	\$ 12,079

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

15. Related-Party Transactions (continued)

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.

16. 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 \$3,945,000 and \$4,265,000 for this insurance during the years ended June 30, 2009 and 2008, respectively. 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 \$7,500 without further review or appropriation. Awards that the Claims Commission approves in excess of \$7,500 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. UAMS has not recorded any other amounts in the financial statements related to the health plan.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

16. Contingencies (continued)

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 University of Arkansas Board of Trustees (UA Board) to fund an expansion to the Arkansas Cancer Research Center (ACRC). 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 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 latest *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 \$60,067,457 from the Tobacco Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately \$27.6 million in 2046 with the first \$5 million dedicated to pay the debt service on the above bond issue.

If Debt Service Revenues would have been considered insufficient at June 30, 2009, UAMS would have incurred a liability of \$42,694,000 related to issue. This amount includes draw down 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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

17. Functional Classification of Expenses

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

	Year ended June 30, 2009				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 376,456	\$ 222,579	\$ -	\$ -	\$ 599,035
Instruction	114,483	10,734	-	-	125,217
Research	58,688	34,100	-	-	92,788
Public services	15,123	7,550	-	-	22,673
Academic support	10,811	3,066	-	-	13,877
Student services	1,791	1,899	-	-	3,690
Institutional support	102,391	3,255	-	-	105,646
Operation and maintenance of plant	23,743	23,221	-	-	46,964
Scholarships and awards	-	-	3	-	3
Auxiliary	2,608	1,989	-	-	4,597
Depreciation and amortization	-	-	-	43,148	43,148
Other	997	8,399	-	-	9,396
Total	\$ 707,091	\$ 316,792	\$ 3	\$ 43,148	\$ 1,067,034

	Year ended June 30, 2008				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 334,943	\$ 214,821	\$ -	\$ -	\$ 549,764
Instruction	112,172	9,735	-	-	121,907
Research	66,180	34,187	-	-	100,367
Public services	14,856	7,925	-	-	22,781
Academic support	10,679	3,775	-	-	14,454
Student services	1,878	1,853	-	-	3,731
Institutional support	96,295	3,547	-	-	99,842
Operation and maintenance of plant	16,749	15,698	-	-	32,447
Scholarships and awards	-	-	244	-	244
Auxiliary	2,516	2,228	-	-	4,744
Depreciation and amortization	-	-	-	31,434	31,434
Other	833	5,259	-	-	6,092
Total	\$ 657,101	\$ 299,028	\$ 244	\$ 31,434	\$ 987,807

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

18. New Accounting Pronouncements

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes standards to require that all intangible assets, not specifically excluded by its scope provisions, to be classified as capital assets. Additionally, this statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated and provides guidance on recognizing internally generated computer software as an intangible asset. This statement's reporting requirement will become effective, for UAMS, for the June 30, 2010 fiscal year-end.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which becomes effective with the fiscal year ended June 30, 2009. The statement establishes consistent standards for the reporting of land and real estate held as investments by essentially similar entities. Management has determined that no land or other real estate is held by any endowment fund as an investment, and the requirements of this statement is not applicable.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which becomes effective with the fiscal year ending June 30, 2010. The statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by governments.

UAMS has not determined the effects of the implementation of this statement on the UAMS' financial statements.

19. Pollution Remediation

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which established standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. As of June 30, 2009, no obligating events have occurred.