



UofA

UNIVERSITY OF ARKANSAS

Financial Statements

Years Ended June 30, 2010 and 2009

**University of Arkansas
for Medical Sciences**

University of Arkansas for Medical Sciences

Financial Statements

Years ended June 30, 2010 and 2009

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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, 2010 and 2009. 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 2,775 and faculty numbering 1,352;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 373 acute care adult beds in use at June 30, 2010;
- 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, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities provides a comprehensive, entitywide 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.

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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, 2010 and 2009, with comparative information for the fiscal year ended June 30, 2008.

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

FINANCIAL HIGHLIGHTS

UAMS’ net assets continued to grow in fiscal year 2010 with assets of \$1,124,975,000 and liabilities of \$453,029,000. Net assets, which represent the residual interest in UAMS’ assets after liabilities are deducted, were \$671,946,000 at June 30, 2010. 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, 2010, 2009, and 2008 as follows:

	Year ended June 30		
	2010	2009	2008
	<i>(in thousands)</i>		
Operating revenues	\$ 1,056,582	\$ 988,358	\$ 964,874
Operating expenses	(1,114,611)	(1,067,034)	(987,807)
Nonoperating revenues	78,354	35,561	60,695
Other changes in net assets	9,207	47,339	40,229
Increase in net assets	\$ 29,532	\$ 4,224	\$ 77,991

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 are 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.

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.

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

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

	June 30		
	2010	2009	2008
	<i>(in thousands)</i>		
Assets			
Current assets	\$ 296,648	\$ 283,988	\$ 342,620
Noncurrent assets:			
Investments	64,956	55,426	73,820
Capital assets, net	738,483	731,054	625,458
Other	24,888	29,775	52,397
Total Assets	1,124,975	1,100,243	1,094,295
Liabilities			
Current liabilities	108,741	104,367	122,322
Noncurrent liabilities	344,288	353,462	333,783
Total Liabilities	453,029	457,829	456,105
Net Assets			
Invested in capital assets, net of related debt	442,187	425,812	342,789
Restricted:			
Expendable	81,448	86,192	82,045
Nonexpendable	22,726	23,308	30,337
Unrestricted	125,585	107,102	183,019
Total Net Assets	671,946	642,414	638,190
Total Liabilities and Net Assets	\$ 1,124,975	\$ 1,100,243	\$ 1,094,295

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), deposits and funds held in trust by others, 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, bonds, notes, and capital leases payable. Noncurrent liabilities include primarily compensated absences payable, other postemployment benefits, and bonds, notes, and capital leases payable, net of current portion. Net assets represent the residual interest in UAMS' assets after liabilities are deducted.

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

Fiscal Year 2010

UAMS' total assets increased by \$24,732,000 for fiscal year 2010. A review of the Statements of Net Assets reveals that the increase consisted of an increase in current assets of \$12,660,000, an increase in long-term investments of \$9,530,000, an increase of \$7,429,000 in capital assets, net, a decrease in noncurrent deposits and funds held in trust by others of \$3,629,000, and a decrease in noncurrent notes and student loans receivable, net, of \$1,183,000.

The increase in current assets consisted of an increase in cash and cash equivalents of \$16,280,000, an increase in patient accounts receivable, net, of \$7,713,000, an increase in inventories of \$2,147,000, and an increase in prepaid expenses of \$662,000 offset by a decrease in nonpatient accounts receivable, net, of \$9,064,000, and investments included in current assets of \$5,382,000. The increase in cash and cash equivalents was provided by the sales and maturities of investments discussed below and improved operating cash flow. The increase in patient accounts receivable, net, was due to the full year effect of increased patient admissions after the opening of the new patient tower in mid-January 2009 and an increase in days in patient accounts receivable. The increase in inventory is due to supplies necessary for increased patient volume. The increase in prepaid expense is primarily due to library subscriptions, which are paid in advance in return for credits in the accounts. The decrease in nonpatient accounts receivable is primarily due to the timing of the receipt of state appropriations. The decrease in investments included in current assets is due to \$10,522,000 in the Common Fund, which was classified as an investment in current assets in 2009, being liquidated and moved into cash and cash equivalents as released by the trustee bank. The Common Fund was fully liquidated in fiscal year 2010. The Common Fund liquidation was offset by increased market value of other investments in current assets. The decrease in noncurrent deposits and funds held in trust by others of \$3,629,000 was due to the use of escrowed funds for equipment purchases and debt service. The decrease in noncurrent notes and student loans receivable, net, of \$1,183,000 was due to scheduled repayments.

The increase in long-term investments is due to a cash purchase of investments of \$829,000, a transfer of \$200,000 from investments included in current assets, and an increase in market value of the investments.

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

Total liabilities decreased by \$4,800,000 for fiscal year 2010. The decrease was primarily due to a decrease of \$12,621,000 in bond, notes, and capital leases, an increase in estimated third-party payor settlements, and an increase in liability for other postemployment benefits. Other current liabilities increased by \$337,000 primarily due to

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

an increase of \$2,897,000 in deferred revenue and a decrease of \$2,676,000 in accounts payable and accrued liabilities. Offsetting the \$4,374,000 increase in current liabilities was a decrease in noncurrent liabilities of \$9,174,000.

The decrease in noncurrent liabilities was primarily due to a decrease of \$12,102,000 in bonds, notes, and capital leases payable, which was offset by an increase of \$3,212,000 in compensated absences and other postemployment benefits.

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.

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

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 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, and offset by a decrease of \$7,195,000 in bonds payable.

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		
	2010	2009	2008
	<i>(in thousands)</i>		
Operating Revenues			
Student tuition and fees, net of scholarship allowances	\$ 22,300	\$ 20,374	\$ 19,951
Net patient services	834,153	781,472	765,358
Sponsored programs	155,127	145,962	137,003
Other	45,002	40,550	42,562
Total Operating Revenues	1,056,582	988,358	964,874
Operating Expenses			
Compensation and benefits	740,442	707,091	657,101
Supplies and other services	325,071	316,792	299,028
Scholarships and fellowships	234	3	244
Depreciation and amortization	48,864	43,148	31,434
Total Operating Expenses	1,114,611	1,067,034	987,807
Operating Loss	(58,029)	(78,676)	(22,933)

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

	Year ended June 30		
	2010	2009	2008
	<i>(in thousands)</i>		
Nonoperating Revenues (Expenses)			
State appropriations, net	\$ 56,817	\$ 44,390	\$ 45,763
Gifts	17,754	18,143	13,864
Investment gain, net of expense	15,953	(14,585)	9,814
Other	(12,170)	(12,387)	(8,746)
Total Nonoperating Revenues (Expenses), net	78,354	35,561	60,695
Income (Loss) before Other Changes in Net Assets	20,325	(43,115)	37,762
Other Changes in Net Assets			
Capital gifts and appropriations	9,882	49,501	57,735
Federal Perkins Loan Capital Contribution	-	(2,162)	-
Bond proceeds from Act 1282 of 2005	-	-	12,730
Interagency disposition	(675)	-	(30,236)
Total Other Changes in Net Assets	9,207	47,339	40,229
Increase in Net Assets	29,532	4,224	77,991
Net Assets – beginning of year	642,414	638,190	560,199
Net Assets – end of year	\$ 671,946	\$ 642,414	\$ 638,190

Fiscal Year 2010

The Statement of Revenues, Expenses, and Changes in Net Assets reflects income before other changes in net assets of \$20,325,000, and an increase of \$29,532,000 in net assets for fiscal year 2010. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$52,681,000 or 6.7%. The increase in net patient service revenue is due to growth in patient volume in part due to the full year effect 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 \$33,998,000 or 6.7%, College of Medicine patient service revenue was up \$12,953,000 or 5.5%, PRI patient service revenue was up \$5,259,000 or 54.4%, and other UAMS divisions had a modest increase in patient service revenue. Sponsored Programs, which include federal grants and contracts, state and local grants and contracts, and nongovernmental grants and contracts, increased by \$9,165,000. Federal grants and contracts increased by \$11,145,000, of which \$9,030,000 was related to the American Recovery and Reinvestment Act (ARRA) with the balance being from normal grant activity, state and local grants and

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

contracts increased by \$1,377,000, and nongovernmental grants and contracts decreased by \$3,357,000 due to decreased activity in several of the divisions. Other revenue, which increased by \$4,452,000, includes auxiliary enterprises, which increased by \$1,715,000 primarily from housing and food services and other miscellaneous revenue sources. The total operating revenue increase was 6.9%.

The following factors affected operating expenses in 2010:

Compensation and benefits expense was a major driver in operating expense in fiscal year 2010, increasing by \$33,351,000 or 4.7%. Compensation and benefits expense related to patient care increased by \$13,284,000 or 3.5% due to staffing to support increased patient volume discussed above under net patient service revenue, coupled with a decrease of 393 full time equivalent employees (FTEs) in the second half of the year. Compensation and benefits related to research increased by \$6,349,000 or 10.8% primarily due to the ARRA funding. 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 \$8,279,000 or 2.6%. Supplies and other services related to patient care increased by \$1,974,000 due to the increase in patient volume discussed above. Supplies and other services related to research increased by \$2,370,000 primarily due to the ARRA funding.

The following factors affected nonoperating revenue (expense) in 2010:

Nonoperating revenue (expense) increased by \$42,793,000. This was primarily caused by an increase in investment income, net of expense, of \$30,538,000. The main driver of the increase in investment gain was a rebound in the market value of investments. The net gain on investments for 2010 was \$15,953,000. Realized and unrealized gains in fiscal year 2010 were \$31,883,000 more than fiscal year 2009. Additional investment income earned on investments decreased by \$1,292,000 primarily due to a decrease in invested funds held in trust and a decrease in the average rate of return received on investments. An increase of \$12,427,000 in net state appropriations and \$2,040,000 from a state appropriation of ARRA funds was offset by an increase in interest expense of \$2,046,000 and a decrease of \$389,000 from the University of Arkansas and private foundations.

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

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, 2010, 2009, and 2008 was as follows (*in thousands*):

	2010	2009	2008
Gross state appropriations revenue	\$ 114,213	\$106,404	\$109,557
Less Medicaid match payments	57,396	62,014	63,794
Net state appropriations revenue	\$ 56,817	\$ 44,390	\$ 45,763

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 increased 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%.

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

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.

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.

Results of Operations

Fiscal Year 2010

In fiscal year 2010, UAMS experienced income before other changes in net assets of \$20,325,000 and an increase in net assets of \$29,532,000. Investment income accounted for \$15,953,000 of the income. Excluding the investment income, UAMS had income of \$4,372,000 from ongoing operations, which will be discussed below. The primary driver of other changes in net assets was capital gifts for the expansion of the Winthrop P. Rockefeller Cancer Institute.

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

Although the overall financial position improved in 2010, there were some occurrences that adversely affected the financial position:

Total compensation and employee benefits increased by \$33,351,000, or 4.7%, with \$13,284,000, or 3.5%, of this increase was related to patient care. The overall increase in compensation and employee benefits was driven in part by spending related to the ARRA programs. UAMS implemented cost saving measures in the second quarter of fiscal year 2010 that contributed to the slowing of the increase in compensation and benefits from prior years. This included a reduction in FTEs of 393 over the second half of the year with the total FTE headcount decreasing from 9,800 at September 30, 2009 to 9,407 at June 30, 2010.

Net patient service revenue increased by \$52,681,000 or 6.7%. The increase in net patient service revenue is due to growth in patient volume in part from the opening of the new patient bed tower and the PRI 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 increased by \$7,809,000, primarily due to additional appropriations for fiscal year 2010 to support the UAMS – Healthcare Initiative, which is composed of:

<u>Program</u>	<u>Appropriation</u>
Area Health Education Centers	\$3,400,000
Arkansas Health Data Initiative	700,000
UAMS Northwest Arkansas Medical School	3,000,000
	<u>\$7,100,000</u>

Even with this increase in appropriation, gross state appropriation declined as a share of UAMS revenue to approximately 9.9% and 10.1% for fiscal years 2010 and 2009, respectively.

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.

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

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 PRI 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, UAMS had \$738,483,000 invested in capital assets, net of accumulated depreciation and amortization of \$375,090,000. Depreciation and amortization charges totaled \$48,864,000 for the fiscal year ended June 30, 2010.

UAMS’ capital additions totaled \$56,840,000 in fiscal year 2010. 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 2010 and the sources that funded their acquisition included:

Project	Amount of Additions	Funding Source
	<i>(in thousands)</i>	
Winthrop P. Rockefeller Cancer Institute Tower	\$ 23,116	Winthrop P. Rockefeller Cancer Institute Foundation, State Appropriation, UAMS
Information Technology Data Center	3,491	UAMS
Radiology Computer System Upgrade	1,148	UAMS
Institute on Aging	1,029	Donald W. Reynolds Foundation, UAMS
Psychiatry Research Institute Memorial Garden	252	Arkansas Historical Society

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

Construction in progress at June 30, 2010 included the Winthrop P. Rockefeller Cancer Institute Tower, the new Information Technology Data Center, and the Institute on Aging expansion. More detailed information about UAMS' capital assets is presented in Note 7 to the financial statements.

Debt Administration

At June 30, 2010, UAMS had \$358,006,000 in outstanding obligations, as shown in the following table:

Obligation	Amount Outstanding (in thousands)
Bonds payable	\$ 260,056
Notes payable	8,184
Obligations under capital leases	30,941
Compensated absences	42,174
Other postemployment benefits	16,651
	<u>\$ 358,006</u>

Moody's Investment Service raised the rating of the University of Arkansas System from Aa3 to Aa2 in May 2010, which was affirmed on June 8, 2010. 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 2010 as evidenced by a \$29,532,000 increase in net assets. As discussed above in results of operations for fiscal year 2010, excluding capital gifts and appropriations, UAMS had a gain of \$20,325,000 for the fiscal year. Investment income accounted for \$15,953,000 of the gain. Excluding investment income, UAMS had a gain of \$4,372,000 from ongoing operations.

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 72.6% of total revenue.

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

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 payors, 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.

With the larger emergency room capacity of the new hospital, UAMS has experienced more emergency room visits as noted by the average monthly visits increasing from 3,286 in fiscal year 2008 to 4,307 in fiscal year 2010. Such additional utilization of emergency room services brings the potential for an increase in bad debt expense. In September 2010, UAMS was the first hospital in Arkansas to receive a Level 1 designation from the Arkansas Department of Health for providing the highest level of trauma care. The system is intended to provide faster care for trauma patients who need urgent treatment. The statewide trauma care system is funded by an increase in state tobacco taxes.

Management recognizes the absolute necessity of cost control. To assist management, Navigant Consulting Inc. of Chicago (Navigant) was hired in February 2010 to identify expense reduction targets and income generating opportunities. Navigant has provided management with recommendations to enhance the UAMS bottom line and is actively engaged with UAMS staff in implementing the necessary changes. As an example, Navigant is assisting UAMS in improving patient billing procedures, staffing patterns, and medical supply contracts and utilization. UAMS will use some of the savings to continue significant investments in clinical and campus infrastructure 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. Additionally, management is committed to building cash reserves, which will be needed in part to navigate the upcoming changes in healthcare related to the *The Patient Protection and Affordable Care Act* (PPACA). UAMS is actively involved in planning for the opportunities and challenges provided by the PPACA. Opportunities include having more UAMS patients insured, having less charity care and bad debts and the ability, if feasible, to establish an Accountable Care Organization (ACO). Challenges include the reduction in federal payments to safety net providers, such as UAMS, who provide care to indigent patients, and the infrastructure cost required to comply with PPACA and to participate in new opportunities, such as the ACO.

State operating support, which represents 9.9% of UAMS' revenue, is also under pressure due to the current economic conditions. While the state's net available general revenues for the first quarter of its fiscal year 2011 were 2.1% above forecast, such revenues for September, the last month of that quarter, were 1.8% below the forecast. It is questionable whether state operating support may change based on these results.

University of Arkansas for Medical Sciences

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

On the positive side, as of June 30, 2010, UAMS has been awarded \$33,285,000 in ARRA stimulus funds. Subsequent to June 30, 2010, UAMS was awarded an additional \$102,131,000 in ARRA funds for the Broadband Technology Opportunities Program.

Management understands its current operating challenges and is committed to working with Navigant to generate an operating margin that will position UAMS to deal with the impact of healthcare reform and allow for investment in technology, research, and human capital.

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, AR 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, 2010 and 2009, 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, 2010 and 2009, 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 the University of Arkansas for Medical Sciences as of June 30, 2010 and 2009, 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, 2010 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 16 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, 2010

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

	June 30	
	2010	2009
Assets		
Current Assets:		
Cash and cash equivalents (Note 4)	\$ 93,550	\$ 77,270
Investments (Note 5)	49,327	54,709
Patient accounts receivable, net (Note 2)	108,229	100,516
Nonpatient accounts receivable (net of allowances of \$922 in 2010 and \$3,844 in 2009)	22,037	31,101
Inventories	17,748	15,601
Notes and student loans receivable, net (Notes 6 and 14)	2,487	2,183
Prepaid expenses	3,270	2,608
Total Current Assets	296,648	283,988
Noncurrent Assets:		
Investments (Note 5)	64,956	55,426
Notes and student loans receivable, net (Notes 6 and 14)	18,389	19,572
Deposits and funds held in trust by others (Note 5)	3,370	6,999
Capital assets, net (Note 7)	738,483	731,054
Other noncurrent assets	3,129	3,204
Total Noncurrent Assets	828,327	816,255
Total Assets	\$ 1,124,975	\$ 1,100,243
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 8)	\$ 74,255	\$ 76,931
Deferred revenue	5,789	2,892
Funds held in trust for others	1,938	2,489
Estimated third-party payor settlements (Note 2)	11,071	5,964
Compensated absences payable, current portion (Note 9)	2,102	1,986
Bonds, notes, and capital leases payable, current portion (Notes 9 and 10)	13,586	14,105
Total Current Liabilities	108,741	104,367
Noncurrent Liabilities:		
Deposits	59	92
Compensated absences payable, net of current portion (Note 9)	40,072	39,801
Liability for other postemployment benefits (Note 9)	16,651	13,710
Federal Capital Contribution for Perkins Loan Program	1,911	2,162
Bonds, notes, and capital leases payable, net of current portion (Notes 9 and 10)	285,595	297,697
Total Noncurrent Liabilities	344,288	353,462
Total Liabilities	453,029	457,829
Commitments and Contingencies (Notes 10, 11, 12, and 15)		
Net Assets		
Invested in capital assets, net of related debt	442,187	425,812
Restricted:		
Expendable	81,448	86,192
Nonexpendable	22,726	23,308
Unrestricted	125,585	107,102
Total Net Assets	671,946	642,414
Total Liabilities and Net Assets	\$ 1,124,975	\$ 1,100,243

See accompanying notes to financial statements.

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

	Year ended June 30	
	2010	2009
Revenues		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$3,872 in 2010 and \$2,848 in 2009)	\$ 22,300	\$ 20,374
Net patient services (Note 2)	834,153	781,472
Sponsored programs:		
Federal grants and contracts	89,610	78,465
State and local grants and contracts	19,999	18,622
Nongovernmental grants and contracts	45,518	48,875
Sales and services of educational departments	27,159	26,894
Auxiliary enterprises:		
Housing and food service	7,213	5,664
Bookstore	719	693
Other auxiliary enterprises	2,673	2,533
Other operating revenue	7,238	4,766
Total Operating Revenues	1,056,582	988,358
Expenses		
Operating Expenses (Note 16):		
Compensation and benefits	740,442	707,091
Supplies and other services	325,071	316,792
Scholarships and fellowships	234	3
Depreciation and amortization (Note 7)	48,864	43,148
Total Operating Expenses	1,114,611	1,067,034
Operating Loss	(58,029)	(78,676)
Nonoperating Revenues (Expenses)		
State appropriations, net (Note 3)	56,817	44,390
State appropriation of ARRA funds	2,040	-
Gifts	17,754	18,143
Investment income (loss), net of investment expense (Note 5)	15,953	(14,585)
Interest on debt	(13,984)	(11,938)
Loss on disposal of capital assets	(226)	(449)
Total Nonoperating Revenues (Expenses), net	78,354	35,561
Income (Loss) Before Other Changes in Net Assets	20,325	(43,115)

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

	Year ended June 30	
	2010	2009
OTHER CHANGES IN NET ASSETS		
Capital gifts	\$ 9,696	\$ 14,070
Capital appropriations	186	35,431
Federal Perkins Loan Capital Contribution	-	(2,162)
Other	(675)	-
Total Other Changes in Net Assets	9,207	47,339
Increase in Net Assets	29,532	4,224
Net Assets – beginning of year	642,414	638,190
Net Assets – end of year	\$ 671,946	\$ 642,414

See accompanying notes to financial statements.

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

	Year ended June 30	
	2010	2009
Cash Flows from Operating Activities		
Tuition and fees (net of scholarships)	\$ 25,009	\$ 23,262
Patient and insurance payments	831,384	763,515
Research grants and contracts	154,250	142,529
Collection of loans and interest	1,921	2,525
Auxiliary enterprise revenue:		
Housing and food service	7,211	5,663
Bookstore	719	692
Other auxiliary enterprises	2,655	2,520
Other receipts	32,867	31,967
Payments to suppliers	(319,416)	(336,311)
Payments to employees	(598,910)	(569,032)
Payments of employee benefits	(141,018)	(124,620)
Loans issued to students	(2,156)	(2,320)
Scholarships and fellowships	(234)	(3)
Other payments	(8,459)	(10,922)
Net cash and cash equivalents used in operating activities	(14,177)	(70,535)
Cash Flows from Noncapital Financing Activities		
State appropriations	66,536	35,947
Gifts and grants	19,795	32,213
Other agency funds (net)	(551)	1,997
Net cash and cash equivalents provided by noncapital financing activities	85,780	70,157
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of debt	8,165	26,525
Capital appropriations	100	15,989
Proceeds from sale of capital assets	47	309
Purchases of capital assets	(41,258)	(125,620)
Principal paid on capital debt and leases	(23,642)	(15,819)
Interest and paying agent fees paid on debt and capital leases	(14,169)	(11,808)
Net cash and cash equivalents used in capital and related financing activities	(70,757)	(110,424)

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

	Year ended June 30	
	2010	2009
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 41,683	\$ 240,626
Interest on investments (net of fees)	1,592	1,763
Purchases of investments	(27,841)	(104,807)
Net cash and cash equivalents provided by investing activities	15,434	137,582
Net increase in cash and cash equivalents	16,280	26,780
Cash and cash equivalents – beginning of year	77,270	50,490
Cash and cash equivalents – end of year	\$ 93,550	\$ 77,270
Operating loss	\$ (58,029)	\$ (78,676)
Adjustments to reconcile net operating loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	48,864	43,148
Changes in assets and liabilities:		
Patient and nonpatient accounts receivable, net	(10,869)	(14,779)
Inventories	(2,147)	(7,056)
Other assets	(629)	(95)
Accounts payable and accrued liabilities	(2,415)	(14,990)
Deferred revenue	2,897	496
Deposits	(33)	(18)
Compensated absences payable	387	3,611
Other liabilities	7,797	(2,176)
Net cash and cash equivalents used in operating activities	\$ (14,177)	\$ (70,535)
Noncash transactions:		
Fixed assets acquired by capital gift	\$ 9,696	\$ 14,070
Fixed asset acquisition paid for by State of Arkansas	86	19,442
Fixed assets acquired by incurring capital lease obligations	2,845	16,759
Fixed assets acquired by notes payable	11	9,766

See accompanying notes to financial statements.

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2010 and 2009

1. Summary of Significant Accounting Policies

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

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

UAMS has adopted GASB Statement No. 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 2,775 and faculty numbering 1,352;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 373 acute care adult beds in use at June 30, 2010;
- 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 4,800,000 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 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 established an external investment pool (the Pool). This arrangement commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The governmental external investment pool is exempt from registration with the SEC. The UA Board of Trustees and the University of Arkansas Foundation Board of Trustees are the sponsors of this investment pool and are responsible for operation and oversight for the pool. All participation in this investment pool is voluntary. Participation in or withdrawal from the 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. Detailed disclosure information about the Pool may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas 72207-3608, (501) 686-2500.

In January 2010, the University of Arkansas Investment Committee approved an agreement that delegated authority to the UA Foundation to manage University funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

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.

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 all capital assets other than software. The software capitalization threshold is \$500,000 for purchased software and \$1,000,000 for internally developed software. 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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Compensated Absences – Vested or accumulated vacation and sick leave of UAMS employees are recorded as an expense and liability as the benefits are earned. Amounts recorded include salary expense as well as salary-related payments (e.g., FICA taxes, retirement, etc.). No liability is recorded for nonvested accumulated rights to receive sick 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.

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), state appropriation of ARRA funds, nonoperating gifts, grants and bequests, capital contributions, loss on disposal of capital assets, investment income, interest on debt, and additions to endowments.

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

Charity Care – UAMS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UAMS does not pursue collection of amounts determined to qualify as charity care, these amounts are accounted for as a reduction of patient services revenue at the time the services are rendered.

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

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 were effective from July 1, 2010 through June 30, 2013.

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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

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, 2010 and 2009 are recorded net of an allowance for doubtful accounts of \$489,539,000 and \$423,624,000, respectively.

Net patient services revenue for the years ended June 30, 2010 and 2009 is as follows (*in thousands*):

	2010	2009
Gross patient revenue	\$ 1,816,197	\$ 1,675,949
Less patient services contractual allowances	894,369	820,134
Less provision for bad debts	87,675	74,343
Net patient services revenue	<u>\$ 834,153</u>	<u>\$ 781,472</u>

UAMS provided approximately \$106,226,000 and \$73,042,000 in charity care, based on established rates, during the years ended June 30, 2010 and 2009, 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, 2010 and 2009 includes approximately \$69,416,000 and \$66,626,000, 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, 2010 and 2009 includes approximately \$25,732,000 and \$24,190,000, 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, 2010, the Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.
- 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, 2010, the Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2008.

FGP and AHECs:

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

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

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

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 a decrease to net patient services revenue of \$2,939,000 and an increase of \$1,824,000 for the years ended June 30, 2010 and 2009, 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 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.

Net state appropriations revenue for the years ended June 30, 2010 and 2009 is as follows (*in thousands*):

	<u>2010</u>	<u>2009</u>
Gross state appropriations revenue	\$ 114,213	\$ 106,404
Less Medicaid match payments	57,396	62,014
Net state appropriations revenue	<u>\$ 56,817</u>	<u>\$ 44,390</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, 2010 and 2009 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, 2010	\$ 93,550	\$ 108,666	\$ 108,666	\$ -	\$ -
Cash at June 30, 2009	\$ 77,270	\$ 75,374	\$ 75,374	\$ -	\$ -

At June 30, 2010 and 2009, Category 1 is composed of \$1,005,000 and \$1,035,000, respectively, of insured deposits and \$107,661,000 and \$74,339,000, 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	
	2010	2009
Reported amount of deposits under GASB 3	\$ 93,550	\$ 77,270
Cash and cash equivalents as reported in the statements of net assets	\$ 93,550	\$ 77,270

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, 2010 (*in thousands*):

Statement of Invested Assets

<u>Investment Type</u>	<u>Fair Value</u>
Commingled Funds	\$ 3,311
U.S. Equity	1,882
U.S. Fixed Income	931
Money Market Funds	498
Other Investments	114,342
Escrow Accounts	1,762
External Investment Pool	111,902
2004 Bond Funds held in Trust	678
Total	<u><u>\$ 117,653</u></u>

The activities during fiscal year 2010 affecting UAMS' investments are summarized below (*in thousands*):

	Total Return Pool	Short/ Intermediate Pool	Other Investments	Total
June 30, 2009	\$ 53,223	\$ 44,187	\$ 19,724	\$ 117,134
Income	986	2,180	301	3,467
Realized gains (losses)	(2,666)	2,068	141	(457)
Unrealized gains	10,422	1,171	631	12,224
Expenses paid	(419)	(79)	(12)	(510)
Sales	1,029	(200)	(15,034)	(14,205)
June 30, 2010	<u><u>\$ 62,575</u></u>	<u><u>\$ 49,327</u></u>	<u><u>\$ 5,751</u></u>	<u><u>\$ 117,653</u></u>

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

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

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.

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

	June 30	
	2010	2009
Fair value at June 30	\$ 23,121	\$ 22,246
Number of units in Pool at June 30	463,402	463,340
Fair value per unit at June 30	\$ 49.89	\$ 48.01
Realized gains for the year	(1,006)	(1,264)
Income earned for the year	375	413
Realized gains per unit	(2.17)	(2.73)
Income earned per unit	0.81	0.89
Total income (loss) per unit	\$ (1.36)	\$ (1.84)

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 2010 and 2009 were included as a change in the fair value of investments reported in fiscal years 2010 and 2009.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

The following tables contain information on the risk disclosure for the Pool, which commingles (pools) the moneys 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 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 include the Total Return Pool, the Intermediate Pool, and the Cash Pool. UAMS owned 9.4% of the total of these pools as of June 30, 2010 and 2009.

EXTERNAL INVESTMENT POOL

Statement of Invested Assets (in thousands)

Investment Type	Fair Value
Fixed Income	\$ 440,838
Government Bonds	101,154
Corporate Bonds	86
Other Fixed Income	339,598
Venture Capital and Partnerships	390,370
Partnerships	390,370
Equity	284,861
Common Stock	284,831
Preferred Stock	30
Hedge Fund	59,317
Hedge Equity	59,317
Other	62
Cash/Cash Equivalents	11,606
Short Term Investment Funds	15,030
Cash	(3,958)
Invested Cash	534
Total	\$ 1,187,054

In accordance with the Policy, the Pool manages its exposure to credit risk by diversifying the portfolio. The Policy prohibits purchase of securities rated less than BBB-. Securities downgraded below BBB should not represent more than 5% of the portfolio at cost or market. The average quality of the portfolio shall be no less than AA. Except for U.S. Treasury and Agency obligations, the portfolio shall contain no more than 5% exposure to any issuer. The following table presents the credit risk associated with the portfolio.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

Credit Risk – S&P Quality Ratings

Investment Type	S&P Quality Rating by Fair Value (in thousands)						
	Total Fair Value	AAA	AA	A	BBB	NR, CCC and Below	U.S. Government Guaranteed
Corporate Bonds	\$ 86	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ -
Government Bonds	101,154	29,452	7,148	11,569	42	4,833	48,110
Other Fixed Income	339,598	-	-	-	-	339,598	-
Short Term Investment Funds	15,030	-	-	-	-	15,030	-
Total	\$ 455,868	\$ 29,452	\$ 7,148	\$ 11,569	\$ 42	\$ 359,547	\$ 48,110

Investment Type	Investment Maturities in Years (in thousands)					
	Total Fair Value	Less than 1	1 – 5	6 –10	More than 10	Maturity not Determined
Corporate Bonds	\$ 86	\$ -	\$ 86	\$ -	\$ -	\$ -
Government Bonds	101,154	50	25,524	61,975	13,605	-
Other Fixed Income	339,598	-	-	-	-	339,598
Short Term Investment Funds	15,030	-	-	-	-	15,030
Total	\$ 455,868	\$ 50	\$ 25,610	\$ 61,975	\$ 13,605	\$ 354,628

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	Fair Value (in thousands)	Effective Duration (Years)
Corporate Bonds	\$ 86	2.68
Government Bonds	101,154	7.42
Other Fixed Income	339,598	N/A
Short Term Investment Funds	15,030	N/A
Total	\$ 455,868	

For several years, UAMS invested daily operating funds in the Common Fund for Short Term Investments (the Fund). The Short Term 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. The UAMS used the Fund as a vehicle to invest daily operating funds. On September 29, 2008, as an investor in the Fund, the 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 that the Trustee considered less liquid in the current

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

5. Investments (continued)

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. Approximately 89% of the funds held on September 26, 2008 were disbursed as of June 30, 2009. The remaining assets were sold and distributed to participants in February 2010, and the Fund was dissolved. The aggregate value of cash distributed to investors equaled \$1.0058 for every \$1.00 of investor balances as of September 26, 2008, representing an internal rate of return (IRR) of just over 2%.

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, 2010 and 2009, net of allowances of \$4,549,000 and \$4,587,000, respectively, are as follows (*in thousands*):

	June 30	
	2010	2009
Perkins Loans	\$ 1,765	\$ 1,951
Health Professional Loans	5,491	5,484
Institutional funds loans	3,132	2,935
University of Arkansas at Fayetteville	1,117	1,221
Arkansas State Hospital note receivable	7,412	7,889
Arkansas Department of Health note receivable	1,952	2,183
Miscellaneous	7	92
Total notes and student loans receivable, net	20,876	21,755
Less current portion	(2,487)	(2,183)
Notes and student loans receivable, noncurrent, net	\$ 18,389	\$ 19,572

7. Capital Assets

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

	June 30, 2009	Additions	Transfers	Dispositions	June 30, 2010
Nondepreciable:					
Land	\$ 7,029	\$ -	\$ -	\$ -	\$ 7,029
Construction in progress	79,485	29,466	(6,930)	-	102,021
Depreciable:					
Buildings and fixtures	747,360	10,644	6,965	(4)	764,965
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	179,572	14,698	3,449	(5,663)	192,056
Leased property	27,757	2,021	(3,484)	(180)	26,114
Other	18,924	11	-	-	18,935
Total capital assets	1,062,580	56,840	-	(5,847)	1,113,573
Less accumulated depreciation and amortization:					
Buildings and fixtures	188,306	23,686	-	(3)	211,989
Improvements other than buildings	2,309	51	-	-	2,360
Equipment	121,953	15,191	3,369	(5,476)	135,037
Leased property	9,859	4,883	(3,369)	(120)	11,253
Other	9,099	5,352	-	-	14,451
Total accumulated depreciation and amortization	331,526	49,163	-	(5,599)	375,090
Capital assets, net	\$731,054	\$ 7,677	\$ -	\$ (248)	\$738,483

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

7. Capital Assets (continued)

	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	<u>915,592</u>	<u>156,198</u>	<u>-</u>	<u>(9,210)</u>	<u>1,062,580</u>
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	<u>290,134</u>	<u>48,855</u>	<u>-</u>	<u>(7,463)</u>	<u>331,526</u>
Capital assets, net	<u>\$625,458</u>	<u>\$107,343</u>	<u>\$ -</u>	<u>\$ (1,747)</u>	<u>\$731,054</u>

In addition to the leased property noted, the buildings and fixtures above include \$14,357,000 and \$14,933,000 of net assets under capital leases at June 30, 2010 and 2009, respectively.

There was no capitalized interest for the year ended June 30, 2010, but UAMS had capitalized interest of \$1,863,000 net of interest income of \$169,000 for the year ended June 30, 2009. For fiscal year 2009, all of the \$1,863,000 was related to the borrowing for the Various Facility Construction Revenue Bonds, Series 2006.

Library holdings comprise books and periodicals, including old and rare books, held by UAMS. The estimated value of the holdings at June 30, 2010 and 2009 was \$1,673,000 and \$1,689,000, 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	
	2010	2009
Trade payables	\$ 12,870	\$ 13,607
Accrued wages	41,177	44,020
Miscellaneous payables	20,208	19,304
Total accounts payable and accrued liabilities	\$ 74,255	\$ 76,931

9. Long-Term Obligations

Changes in long-term obligations during fiscal year 2010 were as follows (*in thousands*):

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable	\$ 267,819	\$ 8,160	\$ 15,923	\$ 260,056
Notes payable	9,944	11	1,771	8,184
Capital leases	34,039	2,845	5,943	30,941
Total debt	311,802	11,016	23,637	299,181
Compensated absences	41,787	387	-	42,174
Other postemployment benefits	13,710	2,941	-	16,651
Total obligations	\$ 367,299	\$ 14,344	\$ 23,637	\$ 358,006

The current and long-term portions of the categories noted above were as follows at June 30, 2010 (*in thousands*):

	Current	Long Term	Total
Bonds payable	\$ 6,145	\$ 253,911	\$ 260,056
Notes payable	1,732	6,452	8,184
Capital leases	5,709	25,232	30,941
Total debt	13,586	285,595	299,181
Compensated absences	2,102	40,072	42,174
Other postemployment benefits	-	16,651	16,651
Total obligations	\$ 15,688	\$ 342,318	\$ 358,006

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

UAMS has bonds outstanding for the Patient Bed Tower, Central Arkansas Radiation Therapy Institute (CARTI) Building, Residence Hall, Psychiatry Building, power plant, and the East Parking Deck. 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, 2010 and 2009 (*in thousands*):

	June 30	
	2010	2009
Bonds Payable:		
Parking System Revenue Construction and Refunding Bonds, Series 1998, \$14,260,000 original amount, refunded in June 2010 into Parking System Refunding Bonds, Series 2010.	PAR	\$ -
		\$ 9,395
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	37,855
	Premium	2,873
		41,365
		3,215
Various Facility Revenue Construction Bonds, Series 2004B, \$95,915,000 original amount, plus a premium of \$3,412,000, due annually to 2034, various fixed interest rates of 2.0% to 5.0% over the life of the issue, collateralized by pledged revenue.	PAR	94,605
	Premium	2,773
		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 2.125% to 5.000% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	PAR	9,300
	Premium	132
		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	100,025
	Premium	4,333
		101,940
		4,501

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

	June 30	
	2010	2009
Bonds Payable:		
Parking System Revenue Refunding Bonds, Series 2010, \$7,605,000 original amount plus a premium of \$ due annually to 2019, various fixed interest rates of 2.0% to 4.5% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.		
PAR	7,605	-
Premium	555	-
Total Bonds Payable	\$260,056	\$267,819

	June 30	
	2010	2009
Notes Payable:		
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%.		
	\$ 248	\$ 370
Miscellaneous Notes Payable	7,936	9,574
Total Notes Payable	\$8,184	\$9,944

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, 2010 (*in thousands*):

	Bonds Payable				Notes Payable		
	Principal	Interest	Premium Amortized	Total	Principal	Interest	Total
2011	\$ 6,145	\$ 12,063	\$ 692	\$ 18,900	\$ 1,732	\$ 181	\$ 1,913
2012	7,145	11,894	692	19,731	1,736	135	1,871
2013	7,500	11,557	692	19,749	1,624	92	1,716
2014	7,850	11,198	692	19,740	1,302	55	1,357
2015	8,230	10,820	692	19,742	1,016	30	1,046
2016-2020	43,080	47,846	2,844	93,770	774	7	781
2021-2025	41,525	37,815	1,436	80,776	-	-	-
2026-2030	53,175	26,156	1,437	80,768	-	-	-
2031-2035	68,115	11,224	1,364	80,703	-	-	-
2036-2038	6,625	331	125	7,082	-	-	-
Total	\$ 249,390	\$ 180,904	\$ 10,666	\$ 440,961	\$ 8,184	\$ 500	\$ 8,684

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

The Board of Trustees of the University of Arkansas Parking System Revenue Refunding Bonds (UAMS Campus), Series 2010 was issued in June 2010. The 2010 Bonds were issued to refund the 1998 Parking System Revenue Construction and Refunding Bonds, Series 1998. The \$7,605,000 issue enabled UAMS to take advantage of lower rates, with the 2010 Bonds bearing interest at various fixed rates from 2.0% to 4.5%. Principal payments are due annually, with interest payments due semiannually until the year 2019. The refunding resulted in a net present value benefit of \$770,000 and a deferred refunding loss of \$230,000, which will be amortized as a component of interest expense until June 30, 2020. For current and advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the refunded debt is deferred 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 Various Facility Revenue Bonds (UAMS Campus), Series 2006 was issued in March 2006. The 2006 issue provided an additional \$107,500,000 for the recent 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.

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 \$1,117,000 and \$1,221,000 as of June 30, 2010 and 2009,

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

9. Long-Term Obligations (continued)

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. The difference between the reacquisition price and the net carrying amount of the refunded debt is 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's (the 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.

10. Commitments

Capital Leases

Scheduled maturities of capital lease commitments outstanding as of June 30, 2010 are as follows (*in thousands*):

	Principal	Interest	Total
2011	\$ 5,710	\$ 1,504	\$ 7,214
2012	5,062	1,261	6,323
2013	4,789	1,027	5,816
2014	3,633	803	4,436
2015	2,628	626	3,254
2016-2019	9,119	1,414	10,533
Total	<u>\$ 30,941</u>	<u>\$ 6,635</u>	<u>\$ 37,576</u>

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

10. Commitments (continued)

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, 2010 (*in thousands*):

2011	\$ 5,840
2012	3,961
2013	2,867
2014	2,184
2015	1,334
2016-2019	<u>1,116</u>
Total minimum payments required	<u>\$ 17,302</u>

Rental expense for operating leases for the years ended June 30, 2010 and 2009 was approximately \$8,897,945 and \$6,614,000, respectively, and is included in supplies and other services in the accompanying statements of revenues, expenses, and changes in net assets.

Construction Projects

Construction in progress at June 30, 2010 included the Winthrop P. Rockefeller Cancer Institute and the new Data Center. At June 30, 2010, construction contracts outstanding were approximately \$2,477,000.

Outstanding Commitments

At June 30, 2010 and 2009, UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$162,745,000 and \$161,957,000, respectively.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

11. 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, 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 has been 14% since 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, 2010 and 2009 was \$427,300 and \$350,800, respectively. UAMS' total salaries were \$601,927,000 and \$575,176,000 for fiscal years 2010 and 2009, respectively. Total employer contributions to ARTRS in fiscal years 2010, 2009, and 2008 were \$60,000, \$48,000, and \$35,000, respectively. Employee contributions to ARTRS in fiscal years 2010 and 2009 were \$17,600 and \$12,600, 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 2010 and 2009. 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, 2010 and 2009 was \$5,687,000 and \$5,509,000, respectively. Total employer contributions to APERS in fiscal years 2010, 2009, and 2008 were \$619,900, \$595,900, and \$589,500, respectively. Employee contributions to APERS in fiscal years 2010 and 2009 were \$112,100 and \$101,600, 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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

11. Retirement Benefits (continued)

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

For any contributions an employee makes in excess of 5% of regular salary, UAMS makes an equal contribution up to a maximum total UAMS contribution of 10% of regular salary up to a maximum of \$24,500 per employee in calendar years 2010 and 2009. All contributions for faculty members and nonclassified employees are vested immediately. For classified employees, UAMS contributions will be vested when one of the following occurs: three years of service is completed; when the participant reaches the age of 65; 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, 2010 and 2009 was \$539,169,000 and \$501,693,000, respectively. Total employer contributions during fiscal years 2010 and 2009 to TIAA-CREF and Fidelity were \$42,430,000 and \$40,036,000, respectively. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal years 2010 and 2009 were \$45,946,000 and \$43,349,900, 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 572 and 567 as of June 30, 2010 and 2009, respectively. The participants of this program incur the total premium for this insurance. There is no direct expense for these services incurred by UAMS.

12. Other Postemployment Benefits (OPEB)

The University offers postemployment health (including prescription drugs) and dental benefits along with life insurance (\$10,000 available coverage) to eligible retirees. Health and dental benefits are provided in the University's self-funded plan sponsored by the Board of Trustees of the University of Arkansas System for current and retired employees of Fayetteville (UAF), Little Rock (UALR), Medical Sciences (UAMS), Monticello (UAM), Pine Bluff (UAPB), Phillips (PCCUA) and Batesville (UACCB) campuses, the Cooperative Extension Service of the Division of Agriculture (CES), the Arkansas School for Mathematics, Sciences, and the Arts (ASMSA), and the University of Arkansas System Administration (SYSTEM). The plan is considered a

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

12. Other Postemployment Benefits (OPEB) (continued)

single-employer defined benefit plan. The System Administration manages and administers the plan. Although benefits are also provided under the University's plan for the University of Arkansas Foundation, Inc. (the Foundation) and the University of Arkansas Winthrop Rockefeller Institute, no postemployment benefit is accrued by the University for these private entities. Financial activities of the plan are reported in the University's consolidated financial report.

Governmental entities recognize and match other postretirement benefit costs with related services received and also provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. Accordingly, UAMS accrued \$2,941,000 and \$3,909,000 in retiree healthcare expense during the fiscal years ended June 30, 2010 and 2009, respectively.

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

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

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

Required Contribution Ratio: Retirees pay 100% of premium. Employer costs are funded on a pay-as-you-go basis.

Summary of Key Actuarial Methods and Assumptions

University Self-Funded Plan

Valuation date	July 1, 2009 valuation for the fiscal year ended June 30, 2010
Valuation year	Census data was collected as of March 27, 2009. Liabilities were measured as of March 27, 2009 and rolled forward six months to the July 1, 2009 valuation date.
Actuarial cost method	Projected unit credit
Amortization method	30 years closed, level % of payroll

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

12. Other Postemployment Benefits (OPEB) (continued)

Asset valuation method	N/A
Discount rate	4.5%
Projected payroll growth rate	4.0%
Medical inflation rate	Initial rate of 10.0%, with a 0.5% decrease each year to an ultimate rate of 5.0% in the tenth year.
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. Future increases in healthcare costs are affected by many factors, including: medical inflation; change in utilization patterns; technological advances; cost shifting; cost leveraging; and changes to government medical programs, such as Medicare.

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

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

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

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

12. Other Postemployment Benefits (OPEB) (continued)

Changes in Actuarial Assumptions and Methods

For the fiscal year 2008 calculation, all retirees (both eligible and not eligible for Medicare) were combined and the assumption that the retiree contributions were not sufficient to fully cover the expected claims costs was applied to both groups. However, as discussed below, when the two groups were divided, the cost for Medicare eligible retirees was ultimately excluded from subsequent valuations. In fiscal year 2010, the withdrawal rates, the medical and Rx coverage election percentage for retirees not eligible for Medicare, and the election percentage assumptions for the life insurance were changed to better reflect recent plan experience and future expectations.

Medical Coverage – Retirees Not Eligible for Medicare

Claim experience for the period February 1, 2008 through January 31, 2009 was used to develop the claims cost for non-Medicare-eligible retirees. The paid claims data was converted to an incurred basis using a completion factor approach. This experience includes 340 life years of exposure and was deemed to be 50% credible. The experience was combined with the active claims experience adjusted for demographic differences to produce the per capita claims costs used in the valuation. Adjustment factors were then applied to develop expected claims by age to be used in the valuation. Expected retiree premiums were developed to represent the expected cost sharing level anticipated by the University. Retiree premiums were also age-adjusted for use in the valuation.

Medical Coverage – Retirees Eligible for Medicare

Medical and prescription drug claims for the period February 1, 2008 through January 31, 2009 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 1,300 life years of exposure and was deemed to be fully credible. Based on this analysis, it was concluded that the retiree contributions are sufficient to fully cover the expected claims costs as intended. As such, the cost for Medicare eligible retirees was excluded from this valuation.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

12. Other Postemployment Benefits (OPEB) (continued)

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

	July 1	
	2009	2008
Unfunded actuarial accrued liability	<u>\$29,252</u>	<u>\$34,858</u>
 <u>Annual Required Contribution (ARC):</u>		
Normal Cost	\$2,248	\$2,966
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	1,044	1,245
Interest	<u>148</u>	<u>189</u>
Annual Required Contribution (ARC)	3,440	4,400
 <u>Annual OPEB Cost:</u>		
Interest on net OPEB obligation	617	441
ARC amortization adjustment	<u>(511)</u>	<u>(366)</u>
Annual OPEB Cost	3,546	4,475
 Less: Expected Employer Contributions	 <u>(605)</u>	 <u>(566)</u>
 End of year accrual	 <u>\$2,941</u>	 <u>\$3,909</u>

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contributions	Expected Contributions	Percentage Contributed
June 30, 2010	\$ 3,546	\$605	17.06%
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 UAMS 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.

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

12. 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	Covered Payroll	UAAL as Percentage of Covered Payroll
June 30, 2010	\$ -	\$ 29,252	\$ 29,252	-	\$531,191	6%
June 30, 2009	-	34,858	34,858	-	505,421	7
June 30, 2008	-	78,087	78,087	-	467,273	17

13. Affiliated Entities (Unaudited)

The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. It was established to benefit the University, or its students, faculty, and staff. The Board of Directors of the Foundation includes four members who are also members, or former members, of the University of Arkansas System Board of Trustees. Based on information provided by the Foundation, during the years ended June 30, 2010 and 2009, revenue of \$81,301,000 and \$(7,119,000) 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 \$23,352,000 and \$30,209,000 for the years ended June 30, 2010 and 2009, respectively.

14. Related-Party Transactions

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

	2010	2009
University of Arkansas at Fayetteville	\$ 1,117	\$ 1,221
Arkansas State Hospital	7,412	7,889
Arkansas Department of Health	1,952	2,183
Total included in notes and student loans receivable (Note 6)	\$ 10,481	\$ 11,293

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

14. 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.

15. Contingencies

Amounts received and expended by UAMS under various federal and state programs are subject to audit by governmental agencies. Management believes that adjustments, if any, which might result from such audits would not have a significant impact on the financial position of UAMS. Immunity provisions in Arkansas law prohibit suits naming the Board of Trustees of the University of Arkansas System or UAMS as a defendant in Arkansas State courts. Employees of UAMS acting in good faith in the course and scope of their employment may be sued in state courts, but only to the extent of maintained insurance coverage. UAMS maintains malpractice insurance for certain employees under a claims-made policy. Premiums are accrued based on a retrospective rating plan. UAMS incurred costs of \$2,988,000 and \$3,945,000 for this insurance during the years ended June 30, 2010 and 2009, 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

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

15. Contingencies (continued)

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.

In fiscal year 2006, the Authority issued \$36,775,000 in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the UA Board to fund an expansion to the Arkansas Cancer Research Center (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, 2010, UAMS would have incurred a liability of \$44,839,000 related to issue. This amount includes drawdown of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

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

University of Arkansas for Medical Sciences

Notes to Financial Statements (continued)

16. Functional Classification of Expenses

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

	Year ended June 30, 2010				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 389,740	\$ 224,553	\$ -	\$ -	\$ 614,293
Instruction	121,826	9,675	-	-	131,501
Research	65,037	36,470	-	-	101,507
Public services	16,304	9,073	-	-	25,377
Academic support	10,066	2,425	-	-	12,491
Student services	1,863	1,919	-	-	3,782
Institutional support	105,601	7,584	-	-	113,185
Operation and maintenance of plant	26,822	23,876	-	-	50,698
Scholarships and awards	-	-	234	-	234
Auxiliary	2,777	1,691	-	-	4,468
Depreciation and amortization	-	-	-	48,864	48,864
Other	406	7,805	-	-	8,211
Total	\$ 740,442	\$ 325,071	\$ 234	\$ 48,864	\$ 1,114,611

	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