

University of Arkansas for Medical Sciences

**Financial Statements
June 30, 2012 and 2011**

University of Arkansas for Medical Sciences

Index

June 30, 2012 and 2011

	Page(s)
Unaudited Management's Discussion and Analysis	1-11
Report of Independent Auditors	12
Financial Statements	
Statements of Net Assets.....	13
Statements of Revenues, Expenses, and Changes in Net Assets	14
Statements of Cash Flows	15-16
Notes to Financial Statements	17-42

University of Arkansas for Medical Sciences

Unaudited Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. 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 3,189 and faculty numbering 1,339;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 438 acute care beds in use at June 30, 2012;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute (PRI);
- Jackson T. Stephens Spine and Neurosciences Institute; and
- Translational Research Institute.

The UAMS financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, provides a comprehensive, entity wide perspective of UAMS' assets, liabilities, net 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.

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, 2012 and 2011, with comparative information for the fiscal year ended June 30, 2010.

University of Arkansas for Medical Sciences
Unaudited Management's Discussion and Analysis
June 30, 2012 and 2011

Financial Highlights

UAMS' net assets continued to grow in fiscal year 2012 with assets of \$1,267,273,000 and liabilities of \$501,941,000. Net assets, which represent the residual interest in UAMS' assets after liabilities are deducted, were \$765,332,000 at June 30, 2012. 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, 2012, 2011, and 2010 as follows:

<i>(in thousands)</i>	2012	2011	2010
Operating revenues	\$ 1,180,953	\$ 1,111,413	\$ 1,057,249
Operating expenses	(1,244,286)	(1,140,792)	(1,115,278)
Nonoperating revenues	55,343	71,609	78,354
Other changes in net assets	41,909	17,237	9,207
Increase in net assets	<u>\$ 33,919</u>	<u>\$ 59,467</u>	<u>\$ 29,532</u>

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.

University of Arkansas for Medical Sciences
Unaudited Management's Discussion and Analysis
June 30, 2012 and 2011

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

<i>(in thousands)</i>	June 30,		
	2012	2011	2010
Assets			
Current assets	\$ 327,111	\$ 321,028	\$ 296,648
Noncurrent assets			
Investments	102,415	93,155	64,956
Capital assets, net	791,808	738,232	738,483
Other	45,939	75,708	24,888
Total assets	<u>\$ 1,267,273</u>	<u>\$ 1,228,123</u>	<u>\$ 1,124,975</u>
Liabilities			
Current liabilities	\$ 106,135	\$ 106,719	\$ 108,741
Noncurrent liabilities	395,806	389,991	344,288
Total liabilities	<u>501,941</u>	<u>496,710</u>	<u>453,029</u>
Net assets			
Invested in capital assets, net of related debt	477,589	448,381	442,187
Restricted			
Expendable	112,146	88,905	81,448
Nonexpendable	28,150	27,126	22,726
Unrestricted	147,447	167,001	125,585
Total net assets	<u>765,332</u>	<u>731,413</u>	<u>671,946</u>
Total liabilities and net assets	<u>\$ 1,267,273</u>	<u>\$ 1,228,123</u>	<u>\$ 1,124,975</u>

Current assets consist of cash and cash equivalents, short-term investments, net accounts receivable, inventories, prepaid expenses, and notes and net student loans receivable. Noncurrent assets include long-term investments, notes and net student loans receivable, deposits and funds held in trust by others, net capital assets, and other noncurrent assets. Current liabilities consist primarily of accounts payable and accrued liabilities, 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.

Fiscal Year 2012

UAMS' total assets increased by \$39,150,000 for fiscal year 2012. A review of the Statements of Net Assets reveals that the increase consisted of an increase in current assets of \$6,083,000, an increase in long-term investments of \$9,260,000, an increase of \$53,576,000 in net capital assets, a decrease in noncurrent deposits and funds held in trust by others of \$28,558,000, and a decrease in noncurrent notes and net student loans receivable of \$1,055,000.

Increases in current assets were noted in: cash and cash equivalents of \$7,978,000 due to the sale of investments; net patient accounts receivable of \$2,938,000 which was due to increased activity at College of Medicine's Faculty Group Practice (FGP); and, net nonpatient accounts receivable of \$3,966,000 primarily due to accrued contract and grant revenue. These increases were offset by decreases in: investments included in current assets of \$5,706,000 due to a repositioning of investments to higher yielding long-term investments; inventories of \$1,872,000 due to efforts to manage supplies more efficiently and prepaid expenses of \$1,241,000 primarily due to the recognition of software maintenance and licenses fees prepaid in the prior year.

University of Arkansas for Medical Sciences

Unaudited Management's Discussion and Analysis

June 30, 2012 and 2011

The increase in long-term investments is due to a repositioning of investments previously held in short-term investments and an increase in market values of the investments. The decrease in noncurrent deposits and funds held in trust by others was due to the use of funds from bonds and notes for capital construction and purchases. The funds are held in escrow and drawn as needed to fund the capital projects. The decrease in noncurrent notes and net student loans receivable was due to scheduled repayments.

Total liabilities increased by \$5,231,000 in fiscal year 2012. A large portion of this overall increase is due to UAMS' early fiscal 2012 decision to provide non-classified employees vested accumulated rights to receive sick leave benefits. The liability for this compensated absences benefit at June 30, 2012 totaled \$6,671,000. This decision was subsequently reversed in early fiscal year 2013. Therefore, fiscal year 2012 compensation and benefits expenses increased as a result of this liability.

Other larger contributors to the net increase in total liabilities for fiscal 2012 included \$4,592,000 in deferred revenue, primarily related to the Broadband Technology Opportunities Program (BTOP) federal grant, and \$2,952,000 in liabilities for postemployment benefits. Offsetting these increases were decreases of \$4,182,000 in bonds, notes, and capital leases payable, \$3,850,000 in accounts payable and accrued liabilities and \$3,202,000 in estimated third-party payor settlements.

Current liabilities decreased by \$584,000 in total, primarily due to the increases of \$4,592,000 in deferred revenue and \$1,702,000 in the current portion of bonds, notes, and capital leases payable offset by the decreases of \$3,850,000 in accounts payable and accrued liabilities and \$3,202,000 in estimated third-party payor settlements.

Fiscal Year 2011

UAMS' total assets increased by \$103,148,000 for fiscal year 2011. A review of the Statements of Net Assets reveals that the increase consisted of an increase in current assets of \$24,380,000, an increase in long-term investments of \$28,199,000, a decrease of \$251,000 in net capital assets, an increase in noncurrent deposits and funds held in trust by others of \$52,125,000, and a decrease in noncurrent notes and net student loans receivable of \$1,420,000.

The increase in current assets consisted of an increase in investments included in current assets of \$23,347,000, an increase in net nonpatient accounts receivable of \$5,405,000, an increase in inventories of \$2,827,000, and an increase in prepaid expenses of \$1,819,000 offset by a decrease in cash and cash equivalents of \$6,814,000 and a decrease in net patient accounts receivable of \$2,395,000. The decrease in cash and cash equivalents was due to the purchase of investments discussed below offset by improved operating cash flow. The decrease in net patient accounts receivable was due to a decrease in days in patient accounts receivable in the Hospital offset by increased activity at FGP. The increase in inventory is due to supplies necessary to support patient services. The increase in prepaid expense is primarily due to pre-payment of software maintenance and licenses fees. The increase in nonpatient accounts receivable is primarily due to accrued contract and grant revenue. The increase in investments included in current assets is due to a \$20,000,000 cash purchase of investments, and an increase in market value of the investments. The increase in noncurrent deposits and funds held in trust by others was due to the issuance of bonds and notes for capital construction and purchases. The funds are held in escrow and drawn as needed to fund the capital projects. The decrease in noncurrent notes and net student loans receivable was due to scheduled repayments.

The increase in long-term investments is due to a cash purchase of investments of \$16,700,000, and an increase in market value of the investments.

Total liabilities increased by \$43,681,000 for fiscal year 2011. The increase was primarily due to an increase of \$45,584,000 in bond, notes, and capital leases due to the issuance of the Various Facility Revenue Bonds, Series 2010A and 2010B. The issues provide \$46,360,000 for Patient Tower Building Improvements, Winthrop P. Rockefeller Cancer Institute Improvements, Central Energy Improvements, Operating Room and Surgical Suite Improvements, and various other acquisitions and improvements.

University of Arkansas for Medical Sciences
Unaudited Management's Discussion and Analysis
June 30, 2012 and 2011

Current liabilities decreased by \$2,022,000 primarily due to a decrease of \$3,418,000 in accounts payable and accrued expenses and a decrease of \$3,826,000 in estimated third-party payor settlements. Deferred revenues increased by \$2,686,000. Offsetting the \$2,022,000 decrease in current liabilities was an increase in noncurrent liabilities of \$45,703,000.

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:

(in thousands)	Years Ended June 30,		
	2012	2011	2010
Operating revenues			
Student tuition and fees, net of scholarship allowances	\$ 25,754	\$ 23,576	\$ 22,300
Net patient services	876,544	868,685	834,821
Meaningful Use	5,581	-	-
Sponsored programs	219,911	172,468	155,127
Other	53,163	46,684	45,001
Total operating revenues	1,180,953	1,111,413	1,057,249
Operating expenses			
Compensation and benefits (1)	801,330	757,978	740,442
Supplies and other services	392,072	331,131	325,738
Scholarships and fellowships	342	258	234
Depreciation and amortization	50,542	51,425	48,864
Total operating expenses	1,244,286	1,140,792	1,115,278
Operating loss	(63,333)	(29,379)	(58,029)
Nonoperating revenues (expenses)			
State appropriations, net	42,632	47,709	56,817
Gifts	20,608	19,516	17,754
Investment gain (loss), net of expense	7,062	17,738	15,953
Other	(14,959)	(13,354)	(12,170)
Total nonoperating revenues, net	55,343	71,609	78,354
Income (loss) before other changes in net assets	(7,990)	42,230	20,325
Other changes in net assets			
Capital gifts and appropriations	20,634	15,758	9,882
Federal grants for capital projects	22,496	1,479	-
Interagency disposition	(1,221)	-	(675)
Total other changes in net assets	41,909	17,237	9,207
Increase in net assets	33,919	59,467	29,532
Net assets			
Beginning of year	731,413	671,946	642,414
End of year	\$ 765,332	\$ 731,413	\$ 671,946

(1) Note: Compensation and benefits increased by \$6,671,000 due to UAMS' decision in fiscal 2012 to provide non-classified employees vested accumulated rights to receive sick leave benefits. This practice was subsequently reversed in early fiscal 2013. Therefore, fiscal year 2012 compensation and benefits expenses increased as a result of this liability.

University of Arkansas for Medical Sciences
Unaudited Management's Discussion and Analysis
June 30, 2012 and 2011

Fiscal Year 2012

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a net loss before other changes in net assets of \$7,990,000, and an increase of \$33,919,000 in net assets for fiscal year 2012. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$7,859,000 or 0.9%. The increase in net patient service revenue is due primarily to a growth in outpatient visits. Hospital patient service revenue was down \$1,087,000 or 0.2%, College of Medicine patient service revenue was up \$9,453,000 or 4.4%, and other UAMS divisions had a slight decrease 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 \$47,443,000. Federal grants and contracts increased by \$45,734,000, of which \$45,413,000 was related to the American Recovery and Reinvestment Act (ARRA) with the balance being from normal grant activity. Nongovernmental grants and contracts increased by \$1,742,000 primarily due to increased contract activity in the College of Medicine. The total operating revenue increase was 6.3%.

The following factors affected operating expenses in 2012:

Compensation and benefits expense was a major driver in operating expense in fiscal year 2012, increasing by \$43,352,000 or 5.7%. Compensation and benefits expense related to patient care increased by \$31,958,000 or 8.2%, primarily due to the staffing required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. Compensation and benefits related to research increased by \$10,587,000 or 15.9%, primarily due to internally funded research in the College of Medicine. Total supplies and other services increased by \$60,941,000 or 18.4%. Supplies and other services related to patient care increased by \$6,096,000 or 2.6%, primarily due to the supplies and other services required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. Supplies and other services related to public services increased by \$52,968,000 or 410.6%, primarily due to the ARRA stimulus funds for the Broadband Technology Opportunities Program. The balance of the change in supplies and other services were primarily related to auxiliary operations.

The following factors affected nonoperating revenue (expense) in 2012:

Nonoperating revenue (expense) decreased by \$16,266,000. This was primarily caused by a decrease of \$10,676,000 in net investment income and a decrease in net state appropriations. Gross state appropriations were up by \$262,000 or 0.2%. Offsetting the increase of \$5,077,000 was an increase of \$5,339,000 in Medicaid match payments, which are reported as a decrease to state appropriated revenue.

State appropriations are reported in the Statements of Revenues, Expenses, and Changes in Net Assets as Nonoperating Revenue, net of the Medicaid match payments required under various contracts between UAMS and the Arkansas Department of Human Services (DHS). The increase in Medicaid match payments was primarily due to the phase out of the ARRA stimulus funding.

Net state appropriations revenue for the years ended June 30, 2012, 2011, and 2010 was as follows:

<i>(in thousands)</i>	2012	2011	2010
Gross state appropriations revenue	\$ 114,777	\$ 114,515	\$ 114,213
Less: Medicaid match payments	72,145	66,806	57,396
Net state appropriations revenue	<u>\$ 42,632</u>	<u>\$ 47,709</u>	<u>\$ 56,817</u>

University of Arkansas for Medical Sciences

Unaudited Management's Discussion and Analysis

June 30, 2012 and 2011

Fiscal Year 2011

The Statement of Revenues, Expenses, and Changes in Net Assets reflects income before other changes in net assets of \$42,230,000, and an increase of \$59,467,000 in net assets for fiscal year 2011. Highlights of the information presented in this statement show how the following affected operating revenue:

Net patient services revenue increased by \$33,864,000 or 4.1 %. The increase in net patient service revenue is due to growth in Hospital patient discharges and in outpatient visits. Hospital patient service revenue was up \$15,142,000 or 2.9%, College of Medicine patient service revenue was up \$17,911,000 or 8.8%, 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 \$17,342,000. Federal grants and contracts increased by \$11,321,000, of which \$6,115,000 was related to the American Recovery and Reinvestment Act (ARRA) with the balance being from normal grant activity. Nongovernmental grants and contracts increased by \$5,868,000 primarily due to increased contract activity in the College of Medicine and in the Arkansas Center for Health Improvement. The total operating revenue increase was 5.1%.

The following factors affected operating expenses in 2011:

Compensation and benefits expense was a major driver in operating expense in fiscal year 2011, increasing by \$17,536,000 or 2.4%. Compensation and benefits expense related to patient care decreased by \$235,000, due to the staffing adjustments that were undertaken in fiscal year 2010. Compensation and benefits related to instruction, academic support and student services increased by \$5,531,000 or 4.1%, due to increased faculty and staff, which supports increased enrolment and programs and normal salary increases and increased benefit expense. Compensation and benefits related to research increased by \$3,457,000 or 5.3% 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 \$5,394,000 or 1.7%. Supplies and other services related to patient care decreased by \$2,434,000 or 1.1% due to the continuation of cost controls implemented in fiscal year 2010. Supplies and other services related to instruction, academic support, and student services increased by \$3,207,000 primarily to support increased enrolment and programs. Supplies and other services related to research increased by \$2,064,000 primarily due to the ARRA funding. The balance of the change in supplies and other services were primarily related to operations and maintenance of plant and other services.

The following factors affected nonoperating revenue (expense) in 2011:

Nonoperating revenue (expense) decreased by \$6,745,000. This was primarily caused by a decrease in \$9,108,000 in net state appropriations. Gross state appropriations were up by \$303,000 or 0.3%. Offsetting this small increase was an increase in Medicaid match payments, which are reported as a decrease to state appropriated revenue. The decrease in net state appropriations were partially offset by increased investment income and gifts from the University of Arkansas and private foundations.

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

University of Arkansas for Medical Sciences
Unaudited Management's Discussion and Analysis
June 30, 2012 and 2011

Net state appropriations revenue for the years ended June 30, 2011, 2010, and 2009 was as follows:

<i>(in thousands)</i>	2011	2010	2009
Gross state appropriations revenue	\$ 114,515	\$ 114,213	\$ 106,404
Less: Medicaid match payments	<u>66,806</u>	<u>57,396</u>	<u>62,014</u>
Net state appropriations revenue	<u>\$ 47,709</u>	<u>\$ 56,817</u>	<u>\$ 44,390</u>

Results of Operations

Fiscal Year 2012

In fiscal year 2012, UAMS experienced a net loss before other changes in net assets of \$7,990,000 and an increase in net assets of \$33,919,000. Excluding the increase in compensation and benefits of \$6,671,000 due to UAMS' decision in fiscal year 2012 to provide non-classified employees vested accumulated rights to receive sick leave benefits, as noted above, UAMS would have experienced a net loss before other changes in net assets of \$1,319,000 and an increase in net assets of \$40,590,000. Primary drivers of other changes in net assets were the BTOP grant and capital gifts for the expansion of the Winthrop P. Rockefeller Cancer Institute, Donald W. Reynolds Institute on Aging, and other renovation and construction projects.

Although the overall financial position improved in 2012, there were some occurrences that adversely affected the financial position:

Operating expense related to patient services increased by \$38,054,000 or 6.1%, primarily due to the staffing required to support the increase in emergency room and clinic visits, and the clinical complexity of patients in the hospital. However, net patient service revenue increased by \$7,859,000 or 0.9%. Net patient service revenue was adversely impacted by a 15.2% increase in charity care and bad debt expense.

Gross state appropriations increased by \$262,000, and continue to decline as a share of UAMS revenue to approximately 9.2% and 9.6% for fiscal years 2012 and 2011, respectively.

Fiscal Year 2011

In fiscal year 2011, UAMS experienced income before other changes in net assets of \$42,230,000 and an increase in net assets of \$59,467,000. Investment income accounted for \$17,738,000 of the income. Excluding the investment income, UAMS had income of \$24,492,000 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, the Donald W. Reynolds Institute on Aging, and other renovation and construction projects.

Although the overall financial position improved in 2011, there were some occurrences that adversely affected the financial position:

Total compensation and employee benefits increased by \$17,536,000 or 2.4%. 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 fiscal year 2010 that contributed to the slowing of the increase in compensation and benefits from prior years. This included a reduction in average FTEs of 189 in fiscal year 2011 from fiscal year 2010.

Net patient service revenue increased by \$33,864,000 or 4.1%. The increase in net patient service revenue is due to growth in Hospital patient discharges and in outpatient visits. However, volumes and revenue from both inpatient and outpatient services were below anticipated levels for the second year in a row.

Gross state appropriations increased by \$303,000, and continue to decline as a share of UAMS revenue to approximately 9.6% and 9.9% for fiscal years 2011 and 2010, respectively.

University of Arkansas for Medical Sciences

Unaudited Management's Discussion and Analysis

June 30, 2012 and 2011

Capital Assets and Debt Administration

Capital Assets

At June 30, 2012, UAMS had \$791,808,000 invested in capital assets, net of accumulated depreciation and amortization of \$462,140,000. Depreciation and amortization charges totaled \$50,542,000 for the fiscal year ended June 30, 2012.

UAMS' capital additions totaled \$104,564,000 in fiscal year 2012. 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 2012 and the sources that funded their acquisition included:

<i>(in thousands)</i>		Amount of Additions	Funding Source
Hospital 9th Floor & Operating Room Renovations and Equipment	\$	13,848	Bonds and Grant
Donald W. Reynolds Institute on Aging		13,562	Donald W. Reynolds Foundation
BTOP Equipment		13,049	Grant
Central Energy Plant Upgrade		12,898	UAMS and ABA loan
Winthrop P. Rockefeller Cancer Institute Construction		8,915	Bonds and Grant

Construction in progress at June 30, 2012, which totaled \$20,708,000, included the Donald W. Reynolds Institute on Aging expansion and the Central Energy Plant upgrade. More detailed information about UAMS' capital assets is presented in Note 7 to the financial statements.

Debt Administration

At June 30, 2012, UAMS had \$340,583,000 in outstanding debt, as shown in the following table:

<i>(in thousands)</i>		Amount Outstanding
Obligation		
Bonds payable	\$	292,166
Notes payable		14,984
Obligations under capital leases		33,433
Total debt	\$	<u>340,583</u>

Moody's Investors Service raised the rating of the University of Arkansas System from Aa3 to Aa2 in May 2010, which was affirmed on October 5, 2012. 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' financial position increased in fiscal year 2012 as evidenced by a \$33,919,000 increase in net assets. As discussed above in results of operations for fiscal year 2012, excluding capital gifts and appropriations, UAMS had a loss of \$7,990,000 for the fiscal year. Excluding the increase in compensation and benefits of \$6,671,000 due to UAMS' decision in fiscal year 2012 to provide non-classified employees vested accumulated rights to receive sick leave benefits, UAMS would have experienced a net loss before other changes in net assets of \$1,319,000 and an increase in net assets of \$40,590,000.

University of Arkansas for Medical Sciences

Unaudited Management's Discussion and Analysis

June 30, 2012 and 2011

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 70.1% of total revenue.

UAMS' hospital and clinics are experiencing the same challenges as the general healthcare sector in the current economic environment, including potential reimbursement pressures from third-party 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 4,516 and 4,757 in fiscal years 2011 and 2012, respectively.

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 designed 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. However, UAMS was adversely impacted by a 15.2% increase in charity care and bad debt expense in fiscal 2012.

UAMS must 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. To this end, at its meeting on May 24, 2012, the Board of Trustees of the University of Arkansas (Board of Trustees) approved the payment for an integrated clinical information system not to exceed \$87,000,000 from institutional reserves and a loan from a financial institution in the amount of \$60,000,000 for a period of 7 years and an interest rate not to exceed 2.2% per annum. Subsequent to the May 24, 2012 Board of Trustees meeting, a license and support agreement was executed with Epic Systems Corporation for an integrated clinical information system and with a financial institution for a \$60,000,000 loan with an interest rate of 1.66% per annum for a period of 7 years.

UAMS is actively involved in planning for the opportunities and challenges provided by the *Patient Protection and Affordable Care Act* (PPACA). Opportunities include having more UAMS patients insured and attempting to stop the eroding payor mix. Challenges include the possible reduction in federal payments to safety net providers, such as UAMS, who provide care to indigent patients, the infrastructure cost required to comply with PPACA and to participate in new opportunities, such as an Accountable Care Organization or clinically integrated network.

On the national scene, many of UAMS revenue streams are at risk. National Institute of Health (NIH) funding is being threatened with budget cuts. NIH provided \$75,034,000 in funds to UAMS during fiscal 2012. Medicare reimbursement is at risk on many fronts. Physician payments and annual updates are being reviewed with a goal of reducing payments. All Medicare patient care reimbursements are the subject of heightened audits by contractors incented to take back money from providers. Graduate Medical Education and, specifically, Indirect Medical Education, are targeted for 10% reductions. The drive for national deficit reduction is almost certain to impact federal reimbursement in the form of Medicaid, Medicare, NIH, and other agency funding.

State operating support, which represents 9.2% of UAMS' revenue, is also under pressure due to the current economic conditions.

On the positive side at its meeting on May 24, 2012, the Board of Trustees approved a Memorandum of Understanding (MOU) between the Board of Trustees acting for UAMS and Central Arkansas Radiation Therapy Institute (CARTI) for UAMS to purchase substantially all of the assets owned by CARTI and used exclusively in the operation of the CARTI radiation oncology treatment facility located on the UAMS

University of Arkansas for Medical Sciences
Unaudited Management's Discussion and Analysis
June 30, 2012 and 2011

campus and the termination of the existing lease agreement. The purchase price was \$9,500,000. The purchase transaction closed on June 29, 2012. On July 1, 2012, the radiation oncology treatment facility opened as the UAMS Radiation Oncology Center (ROC). The ROC is expected to generate approximately \$10,000,000 in new net patient service revenue in fiscal year 2013.

Management understands its current operating challenges and is committed to maintaining 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, Arkansas 72205.



Report of Independent Auditors

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

In our opinion, the accompanying statement of net assets and the related statement of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the University of Arkansas for Medical Sciences ("UAMS"), a campus of the University of Arkansas, at June 30, 2012 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of UAMS' management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of UAMS as of June 30, 2011 and for the year then ended were audited by other auditors whose report dated October 14, 2011, expressed an unqualified opinion on those statements.

As discussed in Note 1, the financial statements present only the transactions and balances attributable to UAMS and do not purport to, and do not, present fairly the financial position of the University of Arkansas System as of June 30, 2012 and 2011, or its changes in financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 1 through 11 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

November 1, 2012

University of Arkansas for Medical Sciences
Statements of Net Assets
June 30, 2012 and 2011

<i>(in thousands)</i>	2012	2011
Assets		
Current assets		
Cash and cash equivalents (Note 4)	\$ 94,714	\$ 86,736
Investments (Note 5)	66,968	72,674
Patient accounts receivable, net (Note 2)	108,772	105,834
Nonpatient accounts receivable (net of allowances of \$977 in 2012 and \$337 in 2011)	31,408	27,442
Supplies	18,703	20,575
Notes and student loans receivable, net (Notes 6 and 14)	2,698	2,678
Prepaid expenses	3,848	5,089
Total current assets	327,111	321,028
Noncurrent assets		
Investments (Note 5)	102,415	93,155
Notes and student loans receivable, net (Notes 6 and 14)	15,914	16,969
Deposits and funds held in trust by others (Note 5)	26,937	55,495
Capital assets, net (Note 7)	791,808	738,232
Other noncurrent assets	3,088	3,244
Total noncurrent assets	940,162	907,095
Total assets	\$ 1,267,273	\$ 1,228,123
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 66,987	\$ 70,837
Deferred revenue	13,067	8,475
Funds held in trust for others	461	550
Estimated third-party payor settlements (Note 2)	4,043	7,245
Compensated absences payable, current portion (Note 9)	2,859	2,596
Bonds, notes, and capital leases payable, current portion (Notes 9 and 10)	18,718	17,016
Total current liabilities	106,135	106,719
Noncurrent liabilities		
Deposits	180	20
Compensated absences payable, net of current portion (Note 9)	49,625	41,038
Liability for other postemployment benefits (Notes 9 and 12)	22,225	19,273
Federal Capital Contribution for Perkins Loan Program	1,911	1,911
Bonds, notes, and capital leases payable, net of current portion (Notes 9 and 10)	321,865	327,749
Total noncurrent liabilities	395,806	389,991
Total liabilities	501,941	496,710
Commitments and contingencies (Notes 10, 11, 12, and 15)		
Net Assets		
Invested in capital assets, net of related debt	477,589	448,381
Restricted		
Expendable	112,146	88,905
Nonexpendable	28,150	27,126
Unrestricted		
Total net assets	765,332	731,413
Total liabilities and net assets	\$ 1,267,273	\$ 1,228,123

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

University of Arkansas for Medical Sciences
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

<i>(in thousands)</i>	2012	2011
Revenues		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$4,347 in 2012 and \$4,759 in 2011)	\$ 25,754	\$ 23,576
Net patient services (Note 2)	876,544	868,685
Meaningful use revenue	5,581	-
Sponsored programs		
Federal grants and contracts	146,664	100,930
State and local grants and contracts	20,119	20,152
Nongovernmental grants and contracts	53,128	51,386
Sales and services of educational departments	31,279	29,746
Auxiliary enterprises		
Housing and food service	8,443	6,176
Bookstore	674	665
Other auxiliary enterprises	2,623	2,531
Other operating revenue	10,144	7,566
Total operating revenues	<u>1,180,953</u>	<u>1,111,413</u>
Expenses		
Operating expenses (Note 16)		
Compensation and benefits	801,330	757,978
Supplies and other services	392,072	331,131
Scholarships and fellowships	342	258
Depreciation and amortization (Note 7)	50,542	51,425
Total operating expenses	<u>1,244,286</u>	<u>1,140,792</u>
Operating loss	<u>(63,333)</u>	<u>(29,379)</u>
Nonoperating revenues (expenses)		
State appropriations, net (Note 3)	42,632	47,709
State appropriation of ARRA funds	-	2,040
Gifts	20,608	19,516
Investment income, net of investment expense (Note 5)	7,062	17,738
Interest on debt	(14,706)	(15,015)
Loss on disposal of capital assets	(253)	(379)
Total nonoperating revenues, net	<u>55,343</u>	<u>71,609</u>
Income before other changes in net assets	<u>(7,990)</u>	<u>42,230</u>
Other changes in net assets		
Capital gifts	20,634	15,405
Capital appropriations	-	353
Federal grants for capital projects	22,496	1,479
Other	(1,221)	-
Total other changes in net assets	<u>41,909</u>	<u>17,237</u>
Increase in net assets	<u>33,919</u>	<u>59,467</u>
Net assets		
Beginning of year	<u>731,413</u>	<u>671,946</u>
End of year	<u>\$ 765,332</u>	<u>\$ 731,413</u>

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

University of Arkansas for Medical Sciences
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

<i>(in thousands)</i>	2012	2011
Cash flows from operating activities		
Tuition and fees (net of scholarships)	\$ 26,585	\$ 26,270
Patient and insurance payments	865,055	862,751
Sponsored programs	222,082	170,334
Collection of loans and interest	2,217	2,195
Auxiliary enterprise revenue		
Housing and food service	8,446	6,176
Bookstore	674	665
Other auxiliary enterprises	2,810	2,734
Other receipts	43,966	36,395
Payments to suppliers	(379,360)	(326,721)
Payments to employees	(643,016)	(607,697)
Payments of employee benefits	(148,469)	(145,613)
Loans issued to students	(3,117)	(3,114)
Scholarships and fellowships	(342)	(258)
Other payments	(10,050)	(10,274)
	<u>(10,050)</u>	<u>(10,274)</u>
Net cash and cash equivalents (used in) provided by operating activities	<u>(12,519)</u>	<u>13,843</u>
Cash flows from noncapital financing activities		
State appropriations	43,639	48,208
Gifts and grants	45,072	38,442
Repayment of loans	(587)	-
Other agency funds (net)	(89)	(1,388)
	<u>(89)</u>	<u>(1,388)</u>
Net cash and cash equivalents provided by noncapital financing activities	<u>88,035</u>	<u>85,262</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of debt	17,911	55,114
Federal grants for capital projects	22,496	-
Capital appropriations	-	300
Proceeds from sale of capital assets	75	67
Purchases of capital assets	(98,557)	(39,166)
Principal paid on capital debt and leases	(27,470)	(21,385)
Interest and paying agent fees paid on debt and capital leases	(14,646)	(14,916)
	<u>(14,646)</u>	<u>(14,916)</u>
Net cash and cash equivalents used in capital and related financing activities	<u>(100,191)</u>	<u>(19,986)</u>

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

University of Arkansas for Medical Sciences
Statements of Cash Flows (continued)
Years Ended June 30, 2012 and 2011

<i>(in thousands)</i>	2012	2011
Cash flows from investing activities		
Proceeds from sales and maturities of investments	68,155	20,486
Interest on investments (net of fees)	1,011	670
Purchases of investments	<u>(36,513)</u>	<u>(107,089)</u>
Net cash and cash equivalents provided by (used in) investing activities	<u>32,653</u>	<u>(85,933)</u>
Net increase (decrease) in cash and cash equivalents	7,978	(6,814)
Cash and cash equivalents		
Beginning of year	<u>86,736</u>	<u>93,550</u>
End of year	<u><u>\$ 94,714</u></u>	<u><u>\$ 86,736</u></u>
 Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (63,333)	\$ (29,379)
Adjustments to reconcile net operating loss to net cash and cash equivalents (used in) provided by operating activities		
Depreciation and amortization	50,542	51,425
Changes in assets and liabilities		
Patient and nonpatient accounts receivable, net	(8,732)	(3,181)
Supplies	1,872	(2,827)
Other assets	1,363	(1,467)
Accounts payable and accrued liabilities	(3,753)	(3,632)
Deferred revenue	762	2,686
Deposits	160	(38)
Compensated absences payable	8,850	1,460
Other liabilities	<u>(250)</u>	<u>(1,204)</u>
Net cash and cash equivalents (used in) provided by operating activities	<u><u>\$ (12,519)</u></u>	<u><u>\$ 13,843</u></u>
Noncash transactions		
Fixed assets acquired by capital gift	\$ 20,633	\$ 15,405
Fixed asset acquisition paid for by State of Arkansas	-	52
Fixed assets acquired by incurring capital lease obligations	5,377	11,855
Fixed assets acquired by notes payable	9,570	5,878

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

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

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.

Additionally, certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These reclassifications did not impact income or net assets.

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;
- The University Hospital of Arkansas (the Hospital), a tertiary care referral center with 438 acute care beds in use at June 30, 2012;
- Regional programs including Tele-education, Rural Hospital Program, and eight Area Health Education Centers (AHECs) located throughout the state;
- The Winthrop P. Rockefeller Cancer Institute;
- Harvey and Bernice Jones Eye Institute;
- Donald W. Reynolds Institute on Aging;
- Myeloma Institute for Research and Therapy;
- Psychiatric Research Institute;
- Jackson T. Stephens Spine Neurosciences Institute; and
- Translational Research Institute.

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

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

Accrual Accounting

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

Cash and Cash Equivalents

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

Investments

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

The UA Board and the University of Arkansas Foundation Board of Trustees established an external investment pool (the Pool). This arrangement commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. The governmental external investment pool is exempt from registration with the SEC. The UA Board and the University of Arkansas Foundation Board of Trustees are the sponsors of this investment pool and are responsible for operation and oversight for the pool. All participation in this investment pool is voluntary. Participation in or withdrawal from the 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.

Patient Accounts Receivable

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

Nonpatient Accounts Receivable

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

Notes and Student Loans Receivable

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

Loan Funds

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

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

Supplies

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

Capital Assets

Capital assets are stated at cost at the date of acquisition or estimated fair value at the date of donation. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings. Effective July 1, 2011, UAMS increased its capitalization threshold for all capital assets other than software from \$2,500 to \$5,000. Also effective that date, the software capitalization threshold for purchased and internally developed software increased from \$500,000 to \$1,000,000. Depreciation and amortization are calculated using the straight-line method over the lesser of the estimated useful lives as established by the American Hospital Association (AHA) or the lease term as follows:

Buildings and fixtures	15 to 40 years
Equipment	3 to 15 years
Leased assets	Dependent on lease term; generally, 3 to 10 years
Other	3 to 15 years

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

Compensated Absences

Vested or accumulated vacation and sick leave of UAMS employees are recorded as an expense and liability as the benefits are earned. Amounts recorded include salary expense as well as salary-related payments (e.g., FICA taxes, retirement, etc.). No liability is recorded for nonvested accumulated rights to receive sick leave benefits. The current portion of compensated absences is determined using the average balance paid in the prior two-year period. In fiscal 2012, UAMS extended vested accumulated rights to receive sick leave benefits, already granted to classified employees, to non-classified employees. This increased fiscal 2012 expenses by \$6,671,000.

Deferred Revenue

Deferred revenue consists of student tuition and fees and other revenue 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 the 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.

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

Charity Care

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

Grants and Contracts

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

Federal research grants and contracts normally provide for the recovery of direct and indirect costs, subject to adjustment based upon review by the granting agencies. UAMS recognizes revenue associated with direct costs as the related costs are incurred. The recovery of indirect costs is recorded at predetermined rates negotiated with the federal government that are effective from July 1, 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 UA Board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended. As such, the expired portion of term endowments and all quasi-endowments are reflected as unrestricted net 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 UA Board. Externally restricted funds may only be utilized in accordance with the purposes established by the donor or grantor, whereas unrestricted funds may be used by UAMS in achieving any of its institutional purposes.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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 UA Board. Patient care operations are included in the accompanying financial statements under accounting principles generally followed by governmental colleges and universities. Patient accounts receivable at June 30, 2012 and 2011 are recorded net of an allowance for doubtful accounts of \$497,497,000 and \$501,990,000, respectively.

Net patient services revenue for the years ended June 30, 2012 and 2011 is as follows:

<i>(in thousands)</i>	2012	2011
Gross patient revenue	\$ 1,962,329	\$ 1,898,508
Less: Patient services contractual allowances	1,012,931	963,433
Less: Provision for bad debts	<u>72,854</u>	<u>66,390</u>
Net patient services revenue	<u>\$ 876,544</u>	<u>\$ 868,685</u>

UAMS provided approximately \$129,258,000 and \$109,050,000 in charity care, based on established rates, during the years ended June 30, 2012 and 2011, 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, 2012 and 2011 includes approximately \$74,044,000 and \$74,890,000, 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, 2012 and 2011 includes approximately \$31,402,000 and \$26,027,000, respectively, of net revenue from the Supplemental Medicaid program.

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

**Hospital
Medicare**

Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Some transplantation services are paid based upon a cost reimbursement methodology. Outpatient services are paid based on a prospective

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012, 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 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, 2012, 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.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net adjustments to estimated settlements resulted in an increase to net patient services revenue of \$7,461,000 and \$101,000 for the years ended June 30, 2012 and 2011, 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 DHS.

Net state appropriations revenue for the years ended June 30, 2012 and 2011 is as follows:

<i>(in thousands)</i>	2012	2011
Gross state appropriations revenue	\$ 114,777	\$ 114,515
Less: Medicaid match payments	<u>72,145</u>	<u>66,806</u>
Net state appropriations revenue	<u>\$ 42,632</u>	<u>\$ 47,709</u>

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011 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.

<i>(in thousands)</i>	Carrying Amount	Bank Balance	Category		
			1	2	3
Cash at June 30, 2012	\$ 94,714	\$ 114,750	\$ 114,750	\$ -	\$ -
Cash at June 30, 2011	86,736	103,415	103,415	-	-

At June 30, 2012 and 2011, Category 1 is composed of \$1,274,000 and \$1,689,000, respectively, of insured deposits and \$113,476,000 and \$101,726,000, 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*:

<i>(in thousands)</i>	2012	2011
Reported amount of deposits under GASB 3 as reported in the statements of net assets	\$ 94,714	\$ 86,736
Cash and cash equivalents	\$ 94,714	\$ 86,736

Deposits and funds held in trust as reported in the statements of net assets include money market accounts of \$25,395,000.

5. Investments

UAMS participates in an external investment pool which is sponsored by the University of Arkansas Board of Trustees and the University of Arkansas Foundation Board of Trustees. In January 2010, the University of Arkansas Investment Committee approved an agreement which delegated authority to the UA Foundation to manage University funds held in the Pool. The agreement included delegation of all responsibility for all investment guidelines and performance objectives for accounts within the Pool. The agreement also delegated to the UA Foundation authority for further delegation of portfolio implementation decisions to one or more investment managers. In January 2010, the UA Foundation entered into such an agreement with Cambridge Associates, LLC.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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

<i>(in thousands)</i> Investment Type	Fair Value	
	2012	2011
Commingled funds:		
U.S. equity	\$ 360	\$ 2,427
U.S. fixed income	146	926
	<u>506</u>	<u>3,353</u>
Other investments:		
Escrow accounts	1,049	6,796
External investment pool	169,383	163,006
	<u>170,432</u>	<u>169,802</u>
	<u>\$ 170,938</u>	<u>\$ 173,155</u>

The activities during fiscal year 2012 affecting UAMS' investments are summarized below:

<i>(in thousands)</i>	Total Return Pool	Short/ Intermediate Pool	Other Investments	Total
Balances at June 30, 2011	\$ 90,332	\$ 72,674	\$ 10,149	\$ 173,155
Income	942	1,842	89	2,873
Realized gains	1,071	1,374	10	2,455
Unrealized gains	(10)	1,138	12	1,140
Expenses paid	(361)	(60)	(4)	(425)
Sales	10,441	(10,000)	(8,701)	(8,260)
Balances at June 30, 2012	<u>\$ 102,415</u>	<u>\$ 66,968</u>	<u>\$ 1,555</u>	<u>\$ 170,938</u>

The activities during fiscal year 2011 affecting UAMS' investments are summarized below:

<i>(in thousands)</i>	Total Return Pool	Short/ Intermediate Pool	Other Investments	Total
Balances at June 30, 2010	\$ 62,575	\$ 49,327	\$ 5,751	\$ 117,653
Income	963	2,113	80	3,156
Realized gains	889	1,176	12	2,077
Unrealized gains	10,875	361	466	11,702
Expenses paid	(309)	(34)	(4)	(347)
Sales	15,339	19,731	3,844	38,914
Balances at June 30, 2011	<u>\$ 90,332</u>	<u>\$ 72,674</u>	<u>\$ 10,149</u>	<u>\$ 173,155</u>

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

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

The following table summarizes the relationship between the pooled endowed assets and their earnings:

<i>(in thousands, except unit amounts)</i>	2012	2011
Fair value at June 30	\$ 27,388	\$ 26,367
Number of units in Pool at June 30	495,890	463,474
Fair value per unit at June 30	\$ 55.23	\$ 56.89
Realized gains for the year	\$ 299	\$ 309
Income earned for the year	\$ 265	\$ 328
Realized gains per unit	\$ 0.60	\$ 0.66
Income earned per unit	0.53	0.71
Total income per unit	<u>\$ 1.13</u>	<u>\$ 1.37</u>

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 2012 and 2011 were included as a change in the fair value of investments reported in fiscal years 2012 and 2011.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

The following table contains 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 11.7% of the total of these pools as of June 30, 2012 and 11.5% as of June 30, 2011.

External Investment Pool

Statement of Invested Assets

(in thousands)

Investment Type	Fair Value	
	2012	2011
Fixed income:		
Government bonds	\$ 31,440	\$ 85,816
Corporate bonds	73	80
Other fixed income	401,158	412,178
	<u>432,671</u>	<u>498,074</u>
Venture capital and partnerships:		
Partnerships	565,298	494,674
Equity:		
Common stock	331,591	345,097
Preferred stock	58	74
	<u>331,649</u>	<u>345,171</u>
Hedge fund:		
Hedge equity	74,460	73,769
Other	<u>73</u>	<u>81</u>
Cash/cash equivalents:		
Short term investment funds	66,858	12,843
Cash	(30,289)	(4,743)
Invested cash	25	3
	<u>36,594</u>	<u>8,103</u>
	<u>\$ 1,440,745</u>	<u>\$ 1,419,872</u>

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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 tables present the credit risk associated with the portfolio.

Credit Risk – S&P Quality Ratings at June 30, 2012

<i>(in thousands)</i> Investment Type	S&P Quality Rating by Fair Value						Total Fair Value
	AAA	AA	A	BBB	NR, CCC, and Below	U.S. Government Guaranteed	
Corporate bonds	\$ -	\$ -	\$ -	\$ -	\$ 24,621	\$ -	\$ 24,621
Government bonds				39		31,401	31,440
Other fixed income					376,191		376,191
Short term investment funds					66,857		66,857
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 467,669</u>	<u>\$ 31,401</u>	<u>\$ 499,109</u>

<i>(in thousands)</i> Investment Type	Investment Maturities in Years					Total Fair Value
	Less than 1	1 - 5	6 - 10	More than 10	Maturity not Determined	
Corporate bonds	\$ -	\$ -	\$ -	\$ 73	\$ 24,548	\$ 24,621
Government bonds		31,401			39	31,440
Other fixed income					376,191	376,191
Short term investment funds					66,857	66,857
	<u>\$ -</u>	<u>\$ 31,401</u>	<u>\$ -</u>	<u>\$ 112</u>	<u>\$ 467,596</u>	<u>\$ 499,109</u>

Credit Risk – S&P Quality Ratings – at June 30, 2011

<i>(in thousands)</i> Investment Type	S&P Quality Rating by Fair Value						Total Fair Value
	AAA	AA	A	BBB	NR, CCC, and Below	U.S. Government Guaranteed	
Corporate bonds	\$ -	\$ -	\$ -	\$ -	\$ 80	\$ -	\$ 80
Government bonds	2,943	2,594	621	646	30,917	48,095	85,816
Other fixed income	-	-	-	-	412,178	-	412,178
Short term investment funds	-	-	-	-	12,843	-	12,843
	<u>\$ 2,943</u>	<u>\$ 2,594</u>	<u>\$ 621</u>	<u>\$ 646</u>	<u>\$ 456,018</u>	<u>\$ 48,095</u>	<u>\$ 510,917</u>

<i>(in thousands)</i> Investment Type	Investment Maturities in Years					Total Fair Value
	Less than 1	1 - 5	6 - 10	More than 10	Maturity not Determined	
Corporate bonds	\$ 52	\$ 28	\$ -	\$ -	\$ -	\$ 80
Government bonds	-	17,926	56,954	10,936	-	85,816
Other fixed income	-	-	-	-	412,178	412,178
Short term investment funds	-	-	-	-	12,843	12,843
	<u>\$ 52</u>	<u>\$ 17,954</u>	<u>\$ 56,954</u>	<u>\$ 10,936</u>	<u>\$ 425,021</u>	<u>\$ 510,917</u>

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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

<i>(in thousands)</i>				
Investment Type	2012 Fair Value	Effective Duration (Years)	2011 Fair Value	Effective Duration (Years)
Corporate bonds	\$ 24,621	N/A	\$ 80	2.68
Government bonds	31,440	1.99	85,816	7.52
Other fixed income	376,191	N/A	412,178	N/A
Short term investment funds	66,857	N/A	12,843	N/A
	\$ 499,109		\$ 510,917	

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
June 30, 2012 and 2011

6. Notes and Student Loans Receivable

The net unpaid balances of notes and student loans receivable on June 30, 2012 and 2011, net of allowances of \$4,198,000 and \$4,355,000, respectively, are as follows:

<i>(in thousands)</i>	2012	2011
Perkins loans	\$ 1,442	\$ 1,586
Health Professional loans	5,073	5,161
Institutional funds loans	3,330	3,255
University of Arkansas at Fayetteville	893	1,008
Arkansas State Hospital note receivable	6,403	6,916
Arkansas Department of Health note receivable	1,461	1,711
Miscellaneous	10	10
Total notes and student loans receivable, net	<u>18,612</u>	<u>19,647</u>
Less: Current portion	<u>(2,698)</u>	<u>(2,678)</u>
Notes and student loans receivable, noncurrent, net	<u>\$ 15,914</u>	<u>\$ 16,969</u>

7. Capital Assets

Capital assets of UAMS at June 30 were as follows:

<i>(in thousands)</i>	June 30, 2011	Additions	Transfers	Dispositions	June 30, 2012
Nondepreciable					
Land	\$ 10,797	\$ 1,773	\$ -	\$ -	\$ 12,570
Construction in progress	13,911	18,459	(11,662)		20,708
Depreciable					
Buildings and fixtures	881,231	42,723	10,046	(10)	933,990
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	202,420	29,167	2,304	(5,682)	228,209
Leased property	25,478	2,704	(1,836)	(195)	26,151
Other	18,981	9,738	1,148		29,867
Total capital assets	<u>1,155,271</u>	<u>104,564</u>	<u>-</u>	<u>(5,887)</u>	<u>1,253,948</u>
Less: Accumulated depreciation and amortization					
Buildings and fixtures	239,295	28,422	-	94	267,811
Improvements other than buildings	2,411	30			2,441
Equipment	145,811	17,010	1,617	(5,364)	159,074
Leased property	11,016	4,675	(1,617)	(171)	13,903
Other	18,506	405			18,911
Total accumulated depreciation and amortization	<u>417,039</u>	<u>50,542</u>	<u>-</u>	<u>(5,441)</u>	<u>462,140</u>
Capital assets, net	<u>\$ 738,232</u>	<u>\$ 54,022</u>	<u>\$ -</u>	<u>\$ (446)</u>	<u>\$ 791,808</u>

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

<i>(in thousands)</i>	June 30, 2010	Additions	Transfers	Dispositions	June 30, 2011
Nondepreciable					
Land	\$ 7,029	\$ 3,768	\$ -	\$ -	\$ 10,797
Construction in progress	102,021	8,194	(96,304)	-	13,911
Depreciable					
Buildings and fixtures	764,965	21,032	95,234	-	881,231
Improvements other than buildings	2,453	-	-	-	2,453
Equipment	192,056	16,670	3,134	(9,440)	202,420
Leased property	26,114	2,371	(2,064)	(943)	25,478
Other	18,935	46	-	-	18,981
Total capital assets	<u>1,113,573</u>	<u>52,081</u>	<u>-</u>	<u>(10,383)</u>	<u>1,155,271</u>
Less accumulated depreciation and amortization					
Buildings and fixtures	211,990	27,305	-	-	239,295
Improvements other than buildings	2,360	51	-	-	2,411
Equipment	135,036	15,528	4,237	(8,990)	145,811
Leased property	11,253	4,750	(4,237)	(750)	11,016
Other	14,451	4,055	-	-	18,506
Total accumulated depreciation and amortization	<u>375,090</u>	<u>51,689</u>	<u>-</u>	<u>(9,740)</u>	<u>417,039</u>
Capital assets, net	<u>\$ 738,483</u>	<u>\$ 392</u>	<u>\$ -</u>	<u>\$ (643)</u>	<u>\$ 738,232</u>

In addition to the leased property noted, the buildings and fixtures above include \$24,449,000 and \$20,949,000 of net assets under capital leases at June 30, 2012 and 2011, respectively.

There was no capitalized interest for the years ended June 30, 2012 and 2011.

Library holdings comprise books and periodicals, including old and rare books, held by UAMS. The estimated value of the holdings at June 30, 2012 and 2011 was \$1,366,000 and \$1,620,000, respectively. UAMS has not reported library holdings in the accompanying statements of net assets.

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at year-end:

<i>(in thousands)</i>	2012	2011
Trade payables	\$ 12,921	\$ 12,905
Accrued wages	39,884	41,779
Miscellaneous payables	14,182	16,153
Total accounts payable and accrued liabilities	<u>\$ 66,987</u>	<u>\$ 70,837</u>

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

9. Long-Term Obligations

Changes in long-term obligations during fiscal year 2012 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable	\$ 301,704	\$ 8,341	\$ 17,879	\$ 292,166
Notes payable	7,363	9,570	1,949	\$ 14,984
Capital leases	35,698	5,377	7,642	33,433
Total debt	<u>344,765</u>	<u>23,288</u>	<u>27,470</u>	<u>340,583</u>
Compensated absences	43,634	8,850	-	52,484
Other postemployment benefits	19,273	2,952	-	22,225
Total obligations	<u>\$ 407,672</u>	<u>\$ 35,090</u>	<u>\$ 27,470</u>	<u>\$ 415,292</u>

The current and long-term portions of the categories noted above were as follows at June 30, 2012:

	Current	Long Term	Total
Bonds payable	\$ 9,300	\$ 282,866	\$ 292,166
Notes payable	1,896	13,088	14,984
Capital leases	7,522	25,911	33,433
Total debt	<u>18,718</u>	<u>321,865</u>	<u>340,583</u>
Compensated absences	2,859	49,625	52,484
Other postemployment benefits	-	22,225	22,225
Total obligations	<u>\$ 21,577</u>	<u>\$ 393,715</u>	<u>\$ 415,292</u>

Changes in long-term obligations during fiscal year 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds payable	\$ 260,056	\$ 49,236	\$ 7,588	\$ 301,704
Notes payable	8,184	5,878	6,699	7,363
Capital leases	30,941	11,855	7,098	35,698
Total debt	<u>299,181</u>	<u>66,969</u>	<u>21,385</u>	<u>344,765</u>
Compensated absences	42,174	1,460	-	43,634
Other postemployment benefits	16,651	2,695	73	19,273
Total obligations	<u>\$ 358,006</u>	<u>\$ 71,124</u>	<u>\$ 21,458</u>	<u>\$ 407,672</u>

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

The current and long-term portions of the categories noted above were as follows at June 30, 2011:

<i>(in thousands)</i>	Current	Long Term	Total
Bonds payable	\$ 8,735	\$ 292,969	\$ 301,704
Notes payable	1,383	5,980	7,363
Capital leases	6,898	28,800	35,698
Total debt	<u>17,016</u>	<u>327,749</u>	<u>344,765</u>
Compensated absences	2,596	41,038	43,634
Other postemployment benefits	-	19,273	19,273
Total obligations	<u>\$ 19,612</u>	<u>\$ 388,060</u>	<u>\$ 407,672</u>

UAMS has bonds outstanding for the Patient Bed Tower, Radiation Oncology Center Building, Residence Hall, Psychiatry Building, power plant, the East Parking Deck and land and capital improvements. 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.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

A summary of the principal amount of outstanding debt is as follows at June 30, 2012 and 2011:

<i>(in thousands)</i>	2012	2011
Bonds Payable		
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 Premium	\$ 30,320 \$ 2,187
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 Premium	94,030 2,545
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 Premium	- 8,420 -
Various Facility Revenue Bonds, Series 2006, \$107,500,000 original amount, plus a premium of \$5,048,000, due annually to 2036 with \$35,305,000 in term bonds due 2036, various fixed interest rates of 3.40% to 5.00% collateralized by pledged revenue.	PAR Premium	95,985 3,996
Parking System Revenue Refunding Bonds, Series 2010, \$7,605,000 original amount plus a premium of \$560,000, due annually to 2019, various fixed interest rates of 2.0% to 4.5% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	PAR Premium	6,885 433
Various Facility Revenue Bonds, Series 2010A, \$42,680,000 original amount plus a premium of \$2,876,000 due annually to 2030, various fixed interest rates of 2.00% to 5.00%, collateralized by pledged revenue.	PAR Premium	42,295 2,656
Various Facility Revenue Bonds, Series 2010B (taxable), \$3,680,000 original amount, due annually to 2013, various fixed interest rates of 1.20% to 1.93% over the life of the issue, collateralized by pledged revenue.	PAR	2,475 3,680
Parking System Revenue Refunding Bonds, Series 2011, \$8,995,000 original amount, due annually to 2034. Used to advance refund the Series 2004 Parking System Revenue Construction Bonds. Various fixed interest rates of 2.00% to 4.25% over the life of the issue, collateralized by a pledge of gross revenue derived from all parking facilities owned by UAMS.	PAR Discount Deferred Loss Amortization	8,985 (53) (573) N/A
Total bonds payable	<u>\$ 292,166</u>	<u>\$ 301,704</u>

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012:

<i>(in thousands)</i>	Bonds Payable				Notes Payable		
	Principal	Interest	Premium Amortized	Total	Principal	Interest	Total
2013	\$ 9,300	\$ 13,435	\$ 805	\$ 23,540	\$ 1,896	\$ 209	\$ 2,105
2014	9,570	13,009	805	23,384	1,810	177	1,987
2015	9,995	12,591	805	23,391	1,732	182	1,914
2016	10,445	12,144	805	23,394	1,600	132	1,732
2017	10,925	11,661	805	23,391	6,484	109	6,593
2018–2022	51,305	50,849	2,484	104,638	1,462	-	1,462
2023–2027	63,005	31,055	2,501	96,561	-	-	-
2028–2032	49,680	27,050	1,876	78,606	-	-	-
2033–2037	66,179	5,009	876	72,064	-	-	-
	<u>\$ 280,404</u>	<u>\$ 176,803</u>	<u>\$ 11,762</u>	<u>\$ 468,969</u>	<u>\$ 14,984</u>	<u>\$ 809</u>	<u>\$ 15,793</u>

The Parking System Revenue Refunding Bonds, Series 2011, were issued in November 2011. The 2011 issue provided \$8,995,000 necessary to advance refund the UA Board's Parking System Revenue Construction Bonds, Series 2004. The bonds bear interest at various fixed interest rates from 2.00% to 4.125%.

The Various Facility Revenue Bonds, Series 2010A and 2010B, were issued in December 2010. The 2010A issue provided \$42,680,000 for Patient Tower Building Improvements, Winthrop P. Rockefeller Cancer Institute Improvements, Central Energy Improvements, Operating Room and Surgical Suite Improvements, and various other acquisitions and improvements. 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 2030. The 2010B (Taxable) issue provided \$3,680,000 for acquiring land and properties for expansion and other University related purposes. The bonds bear interest at various fixed interest rates from 1.20% to 1.93% and principal payments are due annually with interest payments due semiannually until the year 2013.

The Parking System Revenue Refunding Bonds, Series 2010, were issued in June 2010. The 2010 Bonds were issued to refund the Parking System Revenue Construction and Refunding Bonds, Series 1998. The \$7,605,000 issue enabled UAMS to take advantage of lower rates, 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 Various Facility Revenue Bonds, Series 2006, were 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.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

The Various Facility Revenue Bonds, Series 2004A and 2004B, were 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.

10. Commitments

Capital Leases

Scheduled maturities of capital lease commitments outstanding as of June 30, 2012 are as follows:

<i>(in thousands)</i>	Principal	Interest	Total
2013	\$ 7,522	\$ 1,387	\$ 8,909
2014	6,281	1,079	7,360
2015	5,212	824	6,036
2016	4,862	569	5,431
2017	2,971	327	3,298
2018–2022	6,585	752	7,337
	<u>\$ 33,433</u>	<u>\$ 4,938</u>	<u>\$ 38,371</u>

Operating Leases

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2012:

<i>(in thousands)</i>	
2013	\$ 7,875
2014	3,708
2015	2,065
2016	922
2017	280
2018–2022	92
Total minimum payments required	<u>\$ 14,942</u>

Rental expense for operating leases for the years ended June 30, 2012 and 2011 was approximately \$9,456,026 and \$10,051,716, 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, 2012 included the Donald W. Reynolds Institute on Aging and the Central Energy Plant upgrade. At June 30, 2012, construction contracts outstanding were approximately \$12,640,000.

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

Outstanding Commitments

At June 30, 2012 and 2011, UAMS had outstanding purchase orders for normal operating supplies and equipment amounting to approximately \$155,796,000 and \$267,699,000, respectively.

11. Retirement Benefits

All active employees of UAMS who work 20 or more hours a week participate in the Arkansas Teacher Retirement System (ARTRS), Arkansas Public Employee Retirement System (APERS), or the University of Arkansas Optional Retirement Plan (UAORP), which is funded through the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Fidelity Investments, 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, Arkansas 72201, 501-682-1517. The gross payroll amount for UAMS employees covered by ARTRS for the years ended June 30, 2012 and 2011 was \$439,800 and \$547,800, respectively. UAMS' total salaries were \$649,819,000 and \$611,514,000 for fiscal years 2012 and 2011, respectively. Total employer contributions to ARTRS in fiscal years 2012, 2011, and 2010 were \$61,500, \$77,000, and \$60,000, respectively. Employee contributions to ARTRS in fiscal years 2012 and 2011 were \$19,300 and \$25,000, 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 13.47% in 2012 and 12.46% in 2011. 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, Arkansas 72201, 501-682-7855. The gross payroll amount for UAMS employees covered by APERS for the years ended June 30, 2012 and 2011 was \$6,582,000 and \$6,326,000, respectively. Total employer contributions to APERS in fiscal years 2012, 2011, and 2010 were \$960,900, \$788,200, and \$619,900, respectively. Employee contributions to APERS in fiscal years 2012 and 2011 were \$210,500 and \$157,600, 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.

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, which is the IRS maximum since tax year 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 70; or the participant

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

contributes at least 5% of regular salary for at least six months. The eligible salary earnings for UAMS employees covered by UAORP for the years ended June 30, 2012 and 2011 was \$587,024,000 and \$545,843,000, respectively. Total employer contributions during fiscal years 2012 and 2011 to TIAA-CREF and Fidelity were \$45,552,000 and \$42,878,000, respectively. Employee contributions to TIAA-CREF and the Fidelity Fund in the fiscal years 2012 and 2011 were \$50,359,000 and \$46,880,000, respectively.

In addition to providing retirement benefits, UAMS arranges health, dental, and life insurance for retired and disabled employees and their families. Substantially, all of UAMS' employees may become eligible for those benefits if they meet normal retirement requirements while still working for UAMS. The number of eligible retirees was 688 and 633 as of June 30, 2012 and 2011, 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 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 \$2,952,000 and \$2,622,000 in retiree healthcare expense during the fiscal years ended June 30, 2012 and 2011, respectively.

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

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

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

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

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

Summary of Key Actuarial Methods and Assumptions University Self-Funded Plan

Valuation date	July 1, 2011 valuation for the fiscal year ended June 30, 2012
Valuation year	Census data was collected as of January 1, 2010. Liabilities were measured as of January 1, 2010 and rolled forward to the July 1, 2011 valuation date.
Actuarial cost method	Projected unit credit
Amortization method	30 years open, level percentage of payroll
Asset valuation method	N/A
Discount rate	4.50%
Projected payroll growth rate	4.00%
Medical inflation rate	Initial rate of 9.5%, with a 0.5% decrease each year to an ultimate rate of 5.0%.
Dental inflation rate	Dental benefits were excluded from the valuation since expected retiree contributions are sufficient to fully cover expected costs.

General Overview of the Valuation Methodology

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

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

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

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

Changes in Actuarial Assumptions and Methods

In fiscal year 2011, the mortality rates were changed from the RP-2000 Combined Healthy Mortality Table projected to 2009 by scale AA to the RP-2000 Combined Healthy Mortality Table projected to 2011 by scale AA to better reflect anticipated future mortality improvements. In fiscal year 2012, the mortality rates were changed to the RP-2000 Fully Generational Combined Healthy Mortality Table projected by scale AA to better reflect anticipated future mortality improvements. Also the healthcare trend rate assumption was changed to better reflect anticipated future experience.

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

Medical Coverage – Retirees Not Eligible for Medicare

Claim experience for the period May 1, 2010 through April 30, 2012 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 610 life years of exposure and was deemed to be 80% 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 May 1, 2010 through April 30, 2012 was used to develop per capita claims cost for Medicare-eligible retirees. This experience includes 2,900 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.

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

	July 1	
	2011	2010
Unfunded actuarial accrued liability	\$ 28,120	\$ 25,114
Annual Required Contribution (ARC)		
Normal Cost	2,102	1,920
Amortization of the unfunded actuarial accrued liability over 30 years using level percentage of payroll amortization	1,004	896
Interest	140	127
Annual Required Contribution (ARC)	3,246	2,943
Annual OPEB Cost		
Interest on net OPEB obligation	867	749
ARC amortization adjustment	(719)	(621)
Annual OPEB Cost	3,394	3,071
Less: Expected Employer Contributions	(442)	(449)
End-of-year accrual	2,952	2,622
Beginning of year liability	19,273	16,651
End of year of year liability	\$ 22,225	\$ 19,273

Schedule of Employer Contributions

	Annual Contributions	Expected Contributions	Percentage Contributed
Fiscal Years Ended			
June 30, 2012	\$ 3,394	\$ 442	13.02 %
June 30, 2011	3,071	449	14.62 %
June 30, 2010	3,546	605	17.06 %

University of Arkansas for Medical Sciences
Notes to Financial Statements
June 30, 2012 and 2011

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.

Schedule of Funding Progress (Unaudited)

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
Fiscal Years Ended						
June 30, 2012	\$ -	\$ 28,120	\$ 28,120	\$ -	\$ 594,046	5 %
June 30, 2011	-	25,114	25,114	-	552,717	5 %
June 30, 2010	-	29,252	29,252	-	531,191	6 %

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, 2012 and 2011, respectively, revenue of \$27,870,000 and \$49,273,000 was received by the Foundation for the benefit of UAMS. Support, by the Foundation on behalf of UAMS, was \$33,908,000 and \$29,981,000 for the years ended June 30, 2012 and 2011, respectively.

14. Related-Party Transactions

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

<i>(in thousands)</i>	2012	2011
University of Arkansas at Fayetteville	\$ 893	\$ 1,008
Arkansas State Hospital	6,403	6,916
Arkansas Department of Health	1,461	1,711
Total included in notes and student loans receivable (Note 6)	<u>\$ 8,757</u>	<u>\$ 9,635</u>

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 \$3,469,000 and \$3,221,000 for this insurance during the years

University of Arkansas for Medical Sciences

Notes to Financial Statements

June 30, 2012 and 2011

ended June 30, 2012 and 2011, respectively. A party may bring an action against UAMS through the Arkansas State Claims Commission (the Claims Commission). The Claims Commission may award a claim of up to \$7,500 without further review or appropriation. Awards that the Claims Commission approves in excess of \$7,500 must be approved and appropriated by the Arkansas State Legislature. Appropriations of this type, if any, reduce appropriations from the state to UAMS in the period in which the claim is appropriated.

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

UAMS employees and their eligible dependents may participate in the University of Arkansas System sponsored self-funded health plan, which is administered by third parties who are responsible for the processing of claims and administration of cost containment. The monthly premiums are established by the University of Arkansas System at a level sufficient to cover claims expected in the plan. UAMS and the employees share the cost of the monthly insurance premium with the total premium and the portion paid by UAMS varying depending on the insurance coverage chosen by the employee. The employee's portion and UAMS' portion of the premium are remitted the following month to the University of Arkansas System with UAMS recognizing as expense its portion of the premiums in the month to which it relates. UAMS has not recorded any other amounts in the financial statements related to the health plan.

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. The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for \$22,158,000 of serial bonds and beginning in 2036 through 2046 for \$14,617,000 of term bonds.

Funds received from the Arkansas Tobacco Settlement Funds Act of 2000 are pledged for debt service (Debt Service Revenues) and are the primary source of payment for the bonds. In accordance with a Loan Agreement dated June 1, 2006 between the UA Board and the Authority, the UA Board will be required to make debt service payments on the Series 2006 Bond issue in the event of a shortfall in tobacco settlement revenues. However, no such payments will be made unless the Debt Service Revenues are insufficient to make such payments. Management believes the Debt Service Revenues will be sufficient to service the entire principal and interest due. The *Global Insights USA, Inc.* report, prepared in August 2006, on the *Forecast of U.S. Cigarette Consumption (2004-2046)* indicates that tobacco consumption in 2046 is expected to decline by 54% from the 2003 level. For fiscal year 2003, Arkansas received \$60,067,457 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, 2012, UAMS would have incurred a liability of \$49,457,000 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
June 30, 2012 and 2011

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:

<i>(in thousands)</i>	Year Ended June 30, 2012				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 421,463	\$ 236,475	\$ -	\$ -	\$ 657,938
Instruction	118,569	10,372			128,941
Research	79,351	38,301			117,652
Public services	19,517	65,868			85,385
Academic support	17,001	4,733			21,734
Student services	2,025	1,764			3,789
Institutional support	107,191	7,510			114,701
Operation and maintenance of plant	31,486	10,919			42,405
Scholarships and awards	-	-	342		342
Auxiliary	3,943	3,081			7,024
Depreciation and amortization	-	-		50,542	50,542
Other	784	13,049			13,833
	<u>\$ 801,330</u>	<u>\$ 392,072</u>	<u>\$ 342</u>	<u>\$ 50,542</u>	<u>\$ 1,244,286</u>

<i>(in thousands)</i>	Year Ended June 30, 2011				
	Compensation and Benefits	Supplies and Other Services	Scholarships and Fellowships	Depreciation and Amortization	Total
Patient care	\$ 389,505	\$ 230,379	\$ -	\$ -	\$ 619,884
Instruction	127,138	12,229			139,367
Research	68,494	38,719			107,213
Public services	18,297	12,900			31,197
Academic support	10,126	2,922			13,048
Student services	2,022	2,081			4,103
Institutional support	109,861	4,208			114,069
Operation and maintenance of plant	28,988	11,562			40,550
Scholarships and awards	-	-	258		258
Auxiliary	2,918	1,898			4,816
Depreciation and amortization	-	-		51,425	51,425
Other	629	14,233			14,862
	<u>\$ 757,978</u>	<u>\$ 331,131</u>	<u>\$ 258</u>	<u>\$ 51,425</u>	<u>\$ 1,140,792</u>