REQUEST FOR PROPOSALS

FOR

FURNISHING AND DELIVERY

OF

INDEPENDENT FINANCIAL AUDITING SERVICES

FOR

THE CURATORS OF THE UNIVERSITY OF MISSOURI

ON BEHALF OF

UNIVERSITY OF MISSOURI SYSTEM

RFP # 31104

DUE DATE: APRIL 17, 2020

TIME: 2:00 P.M. CDT

THE CURATORS OF THE UNIVERSITY OF MISSOURI
Prepared by:
Kristen Meade
Director/CPO
University of Missouri System Procurement
2910 LeMone Industrial Blvd
Columbia, MO 65201

Date Issued: March 9, 2020

RFP # 31104

INDEPENDENT FINANCIAL AUDITING SERVICES

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NOTICE TO RESPONDENTS

The University of Missouri requests proposals for the Furnishing and Delivery of **Independent Financial Auditing Services**, **RFP #31104** which will be received by the undersigned at University of Missouri System Procurement, until **April 17, 2020 at 2:00 p.m. CDT.** **The University assumes no responsibility for any vendor's on-time receipt at the designated location for proposal opening. Faxed or emailed responses will not be considered.**

Specifications and the conditions of Request for Proposal together with the printed form on which Request for Proposals must be made may be obtained by accessing the following website: http://www.umsystem.edu/ums/fa/procurement/bids or from the Strategic Sourcing Specialist identified within this document.

In the event a Respondent chooses to use the Word version of the RFP to aid in preparation of its response, the Respondent should only complete the response information. Any modification by the Respondent of the specifications provided will be ignored, and the original wording of the RFP shall be the prevailing document.

If you have any questions regarding the RFP, please send them to:

Kristen Meade
University of Missouri System Procurement
2910 LeMone Industrial Blvd
Columbia, Missouri 65201
meadek@umsystem.edu

All questions regarding the RFP must be received no later than 5:00 p.m. CDT on March 27, 2020.

The University reserves the right to waive any informality in Request for Proposals and to reject any or all Request for Proposals.

THE CURATORS OF THE UNIVERSITY OF MISSOURI
Prepared by:
Kristen Meade
Director/CPO
University of Missouri System Procurement
2910 LeMone Industrial Blvd
Columbia, MO 65201

UNIVERSITY OF MISSOURI
REQUEST FOR PROPOSAL (RFP)
GENERAL TERMS AND CONDITIONS
&
INSTRUCTIONS TO RESPONDENTS

A. General Terms and Conditions

1. **Purpose:** The purpose of these specifications is to require the furnishing of the highest quality equipment, supplies, material and/or service in accordance with the specifications. These documents, and any subsequent addenda, constitute the complete set of specification requirements and proposal response forms.

2. **Governing Laws and Regulations:** Any contract issued as a result of this RFP shall be construed according to the laws of the State of Missouri. Additionally, the contractor shall comply with all local, state, and federal laws and regulations related to the performance of the contract to the extent that the same may be applicable.

3. **Taxes:** The contractor shall assume and pay all taxes and contributions including, but not limited to, State, Federal and Municipal which are payable by virtue of the furnishing and delivery of item(s) specified herein. Materials and services furnished the University are not subject to either Federal Excise Taxes or Missouri Sales Tax.

4. **Sovereign Immunity:** The Curators of the University of Missouri, due to its status as a state entity and its entitlement to sovereign immunity, is unable to accept contract provisions, which require The Curators to indemnify another party (537.600, RSMo). Any indemnity language in proposed terms and conditions will be modified to conform to language that The Curators are able to accept.

5. **Preference for Missouri Firms:** In accordance with University policy, preference shall be given to Missouri products, materials, services and firms when the goods or services to be provided are equally or better suited for the intended purpose. As long as quality is equal, preference by a differential not to exceed 5% shall be given. Firms are considered "Missouri firms" if they maintain a regular place of business in the State of Missouri.

6. **Appropriation:** The Curators of the University of Missouri is a public corporation and, as such, cannot create indebtedness in any one year (the fiscal year beginning July 1 to June 30) above what they can pay out of the annual income of said year as set forth in 172.250, RSMo. Therefore, if the University determines it has not received adequate appropriations, budget allocations or income to enable it to meet the terms of this contract, the University reserves the right to cancel this contract with 30 days' notice.

7. **Equal Opportunity and Non-Discrimination:** In connection with the furnishing of equipment, supplies, and/or services under the contract, the contractor and all

subcontractors shall agree not to discriminate against any recipients of services, or employees or applicants for employment on the basis of race, color, religion, national origin, sex, age, disability, or veteran status. The contractor shall comply with federal laws, rules and regulations applicable to subcontractors of government contracts including those relating to equal employment of minorities, women, persons with disabilities, and certain veterans. Contract clauses required by the United Sates Government in such circumstances are incorporated herein by reference.

8. **Supplier Diversity Participation:** The University of Missouri System is committed to and supports supplier diversity as an essential part of the University's mission and core values. To qualify as a Diverse Supplier, the company must be at least 51% owned and controlled by someone in one of the recognized groups (see below). These firms can be a sole proprietorship, partnership, joint venture or corporation. Diverse suppliers should be certified from a recognized certifying agency.

   The University of Missouri recognizes the following groups:

   - MBE (Minority Owned Business Enterprise)
     - African American
     - Asian American
       - Pacific Asian American
       - Subcontinent Asian American
     - Hispanic American
     - Native American
   - WBE (Women Owned Business Enterprise)
   - DVBE (Service Disabled Veteran Owned Business Enterprise)
   - VBE (Veteran Owned Business Enterprise)
   - LGBT (Lesbian, Gay, Bisexual, Transgender)
   - DBE (Disadvantaged Business Enterprise)

   Tier 2 Diverse Supplier Spending and Reporting: The University strongly encourages Supplier Diversity participation in all of its contracts for goods and services. Tier 2 spend is spend reported by primary (non-diverse) suppliers of the University of Missouri who subcontract work to, or make purchases from a diverse supplier. Depending upon the contract, primary (non-diverse) suppliers may be asked to submit Tier 2 information with Women and Diverse Owned Companies. Suppliers have two options in reporting Tier 2 dollars depending on the terms on the contract: Direct and Indirect.

   - <u>Direct dollars</u> – dollars directly spent with Women and Diverse Owned suppliers in the fulfillment of the contract.

   - <u>Indirect dollars</u> – dollars based on a percentage of revenue the University represents to the supplier. An example is as follows:
     1) Supplier's Total Revenues: $10,000,000

2) Revenues from University $: $4,000,000
3) University % of Total Revenues: 40% (#2 divided by #1)
4) Total MBE Dollars: $150,000
5) Total WBE Dollars: $150,000
6) Total University Attributable MBE $: $60,000 (#3 multiplied by #4)
7) Total University Attributable WBE $: $60,000 (#3 multiplied by #5)
8) Total University Attributable MWBE $: $120,000 (Sum of #6 and #7)
9) University % Attributable Revenue: 3% (#8 divided by #2)

Supplier Diversity Participation Form: If a respondent will be utilizing a diverse supplier as part of this contract, they must indicate their Supplier Diversity participation levels on the Supplier Diversity Participation Form included in this RFP (see Attachment A). The Respondent must describe what suppliers and/or how the Respondent will achieve the Supplier Diversity goals. Evaluation of proposals shall include the proposed level of Supplier Diversity participation. Proposals that do not meet the participation requirements for Supplier Diversity will not receive any of the points during proposal review.

Suppliers/contractors will be responsible for reporting Tier 2 diverse supplier participation on an agreed upon timing (e.g. quarterly, annually) when business is awarded.

The University will monitor the supplier/contractor's compliance in meeting the Supplier Diversity participation levels committed to in the awarded proposal. If the supplier/contractor's payments to participating diverse suppliers are less than the amount committed to in the contract, the University reserves the right to cancel the contract, suspend and/or debar the supplier/contractor from participating in future contracts.

9. **Applicable Laws and Regulations:** The University serves from time to time as a contractor for the United States government. Accordingly, the provider of goods and/or services shall comply with federal laws, rules and regulations applicable to subcontractors of government contracts including those relating to equal employment opportunity and affirmative action in the employment of minorities (Executive Order 11246), women (Executive Order 11375), persons with disabilities (29 USC 706 and Executive Order 11758), and certain veterans (38 USC 4212 formerly [2012]) contracting with business concerns with small disadvantaged business concerns (Publication L. 95-507). Contract clauses required by the Government in such circumstances are incorporated herein by reference.

10. **Applicable Digital Accessibility Laws and Regulations:** The University affords equal opportunity to individuals with disabilities in its employment, services, programs and activities in accordance with federal and state laws, including Section 508 of the Rehabilitation Act, 36 C.F.R., Pt. 1194. This includes effective communication and access to electronic and information communication technology resources, and the University expects that all products will, to the greatest extent possible, provide equivalent ease of use for individuals with disabilities as for non-disabled individuals. The University of Missouri has adopted the Web Content Accessibility Guidelines (WCAG), as specified by the University of Missouri Digital Accessibility Policy.

Supplier shall: (1) deliver all applicable services and products in reasonable compliance with University standards (Web Content Accessibility Guidelines 2.0, Level AA or above); (2) provide the University with an Accessibility Conformance Report detailing the product's current accessibility according to WCAG standards using the latest version of the Voluntary Product Accessibility Template (VPAT); (3) if accessibility issues exist, provide a "roadmap" plan for remedying those deficiencies on a reasonable timeline to be approved by the University; (4) promptly respond to assist the University with resolving any accessibility complaints and requests for accommodation from users with disabilities resulting from supplier's failure to meet WCAG guidelines at no cost to the University; and (5) indemnify and hold the University harmless in the event of any claims arising from inaccessibility.

When installation, configuration, integration, updates, or maintenance are provided, the supplier must ensure these processes are completed in a way that does not reduce the original level of WCAG conformance. If at any point after procurement it is determined that accessibility improvements need to be made in order to comply with the WCAG standards, the supplier agrees to work with the University to remedy the non-compliance by submitting a roadmap detailing a plan for improvement on a reasonable timeline. Resolution of reported accessibility issue(s) that may arise should be addressed as high priority, and failure to make satisfactory progress towards compliance with WCAG, as agreed to in the roadmap, shall constitute a breach of contract and be grounds for termination or non-renewal of the agreement.

11. **Applicable Health Related Laws and Regulations:** If these specifications or any resulting contract involves health care services or products, the Contractor agrees to maintain, and will further assure such compliance by its employees or subcontractors, the confidential nature of all information which may come to Contractor with regard to patients of the University. All services provided pursuant to this contract shall be provided in accordance with all applicable federal and state laws including The Health Insurance Portability and Accountability Act of 1996, Public Law 104-191, sections 261-264 (the Administrative Simplification sections) and the regulations promulgated pursuant thereto and regulations of the Joint Commission on Accreditation of Healthcare Organization and The Centers for Medicare & Medicaid Services (CMS).

    Respondents understand and agree that the Curators of the University of Missouri, in the operation of MU Health Care, is regulated under federal or state laws with regard to contracting with vendors. The Contractor represents that it is not currently excluded or threatened with exclusion from participating in any federal or state funded health care program, including Medicare and Medicaid. Contractor agrees to notify the University of any imposed exclusions or sanctions covered by this representation.

    The University will regularly check the "List of Excluded Individuals/Entities" (LEIE), maintained by the Office of Inspector General, United States Department of Health and Human Services ("OIG") to determine if any Respondents have been excluded from participation in federal health care programs, as that term is defined in 42 U.S.C. §1320a-7b(f). The University reserves the sole right to reject any respondents who are excluded by the OIG, who have been debarred by the federal government, or who have otherwise committed any act that could furnish a basis for such exclusion or debarment.

12. **Inventions, Patents, and Copyrights:** The Contractor shall pay for all royalties, license fees, patent or invention rights, or copyrights and defend all suits or claims for infringements of any patent or invention right or copyrights involved in the items furnished hereunder. The Contractor shall defend, protect, and hold harmless the University its officers, agents, servants and employees against all suits of law or in equity resulting from patent and or copyright infringement concerning the contractor's performance or products produced under the terms of the contract.

    Copyrights for any item developed for the University shall be the property of the University and inure to its benefit and the Contractor shall execute such documents as the University may require for the perfection thereof.

13. **Insurance:** The Contractor shall purchase and maintain such insurance as will protect the Contractor and the University against any and all claims and demands arising from the execution of the contract. Further, when stated in the Detailed Specifications and Special Conditions, the Contractor shall be required to procure and maintain the types and limits of insurance as specified.

14. **Performance Bond/Irrevocable Letter of Credit:** If a performance bond or irrevocable letter of credit is required in the Detailed Specifications and Special Conditions, the Contractor shall furnish to the University, along with their signed contract, a performance bond or unconditional irrevocable letter of credit payable to the Curators of the University of Missouri in the face amount specified in the Detailed Specifications and Special Conditions as surety for faithful performance under the terms and conditions of the contract.

15. **Vendor Gifts:** The contractor shall refrain in offering any offers of gifts to the University, and all University of Missouri employee's, in accordance with University of Missouri Policy #26301, Suppliers.

B. Instructions to Respondents

1. **Request for Proposal (RFP) Document:** Respondents are expected to examine the complete RFP document and all attachments including drawings, specifications, and instructions. Failure to do so is at Respondents' risk. It is the Respondents' responsibility to ask questions, request changes or clarifications, or otherwise advise the University if any language, specifications or requirements of the RFP appear to be ambiguous, contradictory, and/or arbitrary, or appear to inadvertently restrict or limit the requirements stated in the RFP to a single source.

Any and all communications from Respondents regarding specifications, requirements, competitive Request for Proposal process, etc., should be directed to the University buyer of record referenced in this RFP. It is the responsibility of the person or organization communicating the request to ensure that it is received.

The RFP document and any attachments constitute the complete set of specifications and Request for Proposal response forms. No verbal or written information that is obtained other than through this RFP or its addenda shall be binding on the University. No employee of the University is authorized to interpret any portion of this RFP or give information as to the requirements of the RFP in addition to that contained in or amended to this written RFP document. In case of any doubt or difference of opinion as to the true intent of the RFP, the decision of the University's Chief Procurement Officer shall be final and binding on all parties.

2. **Preparation of Request for Proposals:** All Request for Proposals must be submitted in the format and number of copies as specified in the detailed specifications and must be enclosed in a sealed envelope plainly marked: **Request for Proposal #31104 for Independent Financial Auditing Services**, **mailed and/or delivered to University of Missouri System Procurement, 2910 LeMone Industrial Blvd, Columbia, MO 65201, ATTN: Kristen Meade.**

   To receive consideration, Request for Proposals must be received, at the above address, prior to the Proposal due date and time stated in this RFP. It is the respondent's full responsibility for the actual delivery of Proposals during business hours at the specified address.

   Unless otherwise specifically stated in the RFP, all specifications and requirements constitute minimum requirements. All Requests for Proposals must meet or exceed the stated specifications or requirements. All equipment and supplies offered must be new, of current production, and available for marketing by the manufacturer unless the RFP clearly specifies that used, reconditioned, or remanufactured equipment and supplies may be offered. Unless specifically stated and allowed in the Detailed Specifications and Special Conditions, all pricing submitted in response to this RFP is firm and fixed.

   Whenever the name of a manufacturer, trade name, brand name, or model and catalog numbers followed by the words "or equal" or "approved equal" are used in the specifications, it is for the purpose of item identification and to establish standards of quality, style, and features. Proposals on equivalent items of the same quality are invited. However, to receive consideration, such equivalent proposals must be accompanied by sufficient descriptive literature and/or specifications to clearly identify the item and provide for competitive evaluation. The University will be the sole judge of equality and suitability. Whenever the name of a manufacturer is mentioned in the specifications and the words "or equal" do not follow, it shall be deemed that the words "or equal" follow unless the context specifies "no substitution." Unless noted on the Request for Proposal form, it will be deemed that the article furnished is that designated by the specifications. The University reserves the right to return, at contractor's expense, all items that are furnished which are not acceptable as equals to items specified and contractor agrees to replace such items with satisfactory items at the original proposal price.

Time will be of the essence for any orders placed as a result of this RFP. The University reserves the right to cancel any orders, or part thereof, without obligation if delivery is not made in accordance with the schedule specified by the respondents Proposal and accepted by the University. Unless otherwise specified in the Detailed Specifications and Special Conditions, all proposals shall include all packing, handling, and shipping charges FOB destination, freight prepaid and allowed.

3. **Submission of Proposals:** Respondent shall furnish information required by the solicitation in the form requested. The University reserves the right to reject proposals with incomplete information or which are presented on a different form. All proposals shall be signed, in the appropriate location, by a duly authorized representative of the Respondent's organization. Signature on the proposal certifies that the Respondent has read and fully understands all RFP specifications, plans, and terms and conditions.

   By submitting a proposal, the Respondent agrees to provide the specified equipment, supplies and/or services in the RFP, at the prices quoted, pursuant to all requirements and specifications contained therein. Furthermore, the Respondent certifies that: (1) the proposal is genuine and is not made in the interest of or on behalf of any undisclosed person, firm, or corporation, and is not submitted in conformity with any agreement or rules of any group, association, or corporation; (2) the Respondent has not directly or indirectly induced or solicited any other Respondent to submit a false or sham proposal; (3) the Respondent has not solicited or induced any person, firm, or corporation to refrain from responding; (4) the Respondent has not sought by collusion or otherwise to obtain any advantage over any other Respondent or over the University.

   Modifications or erasures made before proposal submission must be initialed in ink by the person signing the proposal. Proposals, once submitted, may be modified in writing prior to the exact date and time set for the RFP closing. Any such modifications shall be prepared on company letterhead, signed by a duly authorized representative, and state the new document supersedes or modifies the prior proposal. The modification must be submitted in a sealed envelope marked "Proposal Modification" and clearly identifying the RFP title, RFP number and closing date and time. Proposals may not be modified after the RFP closing date and time. Telephone and facsimile modifications are not permitted.

   Proposals may be withdrawn in writing, on company letterhead, signed by a duly authorized representative and received at the designated location prior to the date and time set for RFP closing. Proposals may be withdrawn in person before the RFP closing upon presentation of proper identification. Proposals may not be withdrawn for a period of sixty (60) days after the scheduled closing time for the receipt of proposals.

All proposals, information, and materials received by the University in connection with an RFP response shall be deemed open records pursuant to 610.021 RSMo. If a Respondent believes any of the information contained in the Respondent's response is exempt from 610.021 RSMo, the Respondent's response must specifically identify the material which is deemed to be exempt and cite the legal authority for the exemption; otherwise, the University will treat all materials received as open records. The University shall make the final determination as to what materials are or are not exempt

4. **Evaluation and Award:** Any clerical errors, apparent on its face, may be corrected by the Buyer before contract award. Upon discovering an apparent clerical error, the Buyer shall contact the Respondent and request clarification of the intended proposal. The correction shall be incorporated in the notice of award. The University reserves the right to request clarification of any portion of the Respondent's response in order to verify the intent. The Respondent is cautioned, however, that its response may be subject to acceptance or rejection without further clarification.

   The University reserves the right to make an award to the responsive and responsible Respondent whose product or service meets the terms, conditions, and specifications of the RFP and whose proposal is considered to best serve the University's interest. In determining responsiveness and the responsibility of the Respondent, the following shall be considered when applicable: the ability, capacity, and skill of the respondent to perform as required; whether the respondent can perform promptly, or within the time specified without delay or interference; the character, integrity, reputation, judgment, experience and efficiency of the respondent; the quality of past performance by the Respondent; the previous and existing compliance by the Respondent with related laws and regulations; the sufficiency of the Respondent's financial resources; the availability, quality and adaptability of the Respondents equipment, supplies and/or services to the required use; the ability of the respondent to provide future maintenance, service and parts.

   The University has established formal protest procedures. For more information about these procedures, contact the Buyer of Record.

   In case of any doubt or difference of opinion as to the items and/or services to be furnished hereunder, the decision of the Assistant Vice President Management Services, University of Missouri System shall be final and binding upon all parties.

   The University reserves the right to accept or reject any or all proposals and to waive any technicality or informality.

5. **Contract Award and Assignment:** The successful Respondent(s) shall, within ten (10) days after the receipt of formal notice of award of the contract, enter into a contract prepared by the University. The Contract Documents shall include the Advertisement for Request for Proposals, Specifications and Addenda, Exhibits, Request for Proposal Form, Form of

Contract, Statement of Work, Letter of Award, University Purchase Order, and Form of Performance Bond, if required.

The contract to be awarded and any amount to be paid thereunder shall not be transferred, sublet, or assigned without the prior approval of the University.

6. **Contract Termination for Cause:** In the event the Contractor violates any provisions of the contract, the University may serve written notice upon Contractor and Surety setting forth the violations and demanding compliance with the contract. Unless within ten (10) days after serving such notice, such violations shall cease and satisfactory arrangements for correction be made, the University may terminate the contract by serving written notice upon the Contractor; but the liability of Contractor and Surety for such violation; and for any and all damages resulting there from, as well as from such termination, shall not be affected by any such termination.

7. **Contract Termination for Convenience:** The University reserves the right, in its best interest as determined by the University, to cancel the contract by given written notice to the Contractor thirty (30) days prior to the effective date of such cancellation.

8. **Warranty and Acceptance:** The Contractor expressly warrants that all equipment, supplies, and/or services provided shall: (1) conform to each and every specification, drawing, sample or other description which was furnished or adopted by the University, (2) be fit and sufficient for the purpose expressed in the RFP, (3) be merchantable, (4) be of good materials and workmanship, (5) be free from defect. Such warranty shall survive delivery and shall not be deemed waived either by reason of the University's acceptance of or payment for such equipment, supplies, and/or services.

   No equipment, supplies, and/or services received by the University pursuant to a contract shall be deemed accepted until the University has had a reasonable opportunity to inspect said equipment, supplies and/or services. All equipment, supplies, and/or services which do not comply with specifications and/or requirements or which are otherwise unacceptable or defective may be rejected. In addition, all equipment, supplies, and/or services which are discovered to be defective or which do not conform to any warranty of the Contractor upon inspection (or at any later time if the defects contained were not reasonably ascertainable upon the initial inspection) may be rejected.

9. **Payment:** Preferred settlement method is through the use of Electronic Accounts Payable solutions. Payment terms associated with these forms of payment will be issued as net 30 after the date of invoice. Payment terms associated with settlement by check will be considered to be net 30 days. Cash discounts for prompt payment may be offered but they will not be considered in determination of award unless specifically stated in the Detailed Specifications and Special Conditions. The University may withhold payment or make such deductions as may be necessary to protect the University from loss or damage on account of defective work, claims, damages, or to pay for repair or correction of equipment or

supplies furnished hereunder. Payment may not be made until satisfactory delivery and acceptance by the University and receipt of correct invoice have occurred.

For consulting services and/or contract labor services performed for MU Health Care, the hourly rate and the number of hours worked must be included in the agreement and/or on the invoice submitted. Payment will not occur unless this information has been provided.

The University encourages suppliers to opt into its Single-Use Account (SUA) credit card program for payment of invoices. The SUA is an electronic, credit card-based payment solution that acts like a check. It provides a single 16-digit virtual account number for each payment. Similar to a check, the credit limit on each SUA is set to the specific payment amount. Payment terms for Suppliers who participate in the SUA program are Net 0 as opposed to the standard Net 30 terms.

10. **Accounting Practices:** The Contractor shall maintain, during the term of the contract, all books of account, reports, and records in accordance with generally accepted accounting practices and standard for records directly related to this contract. The Contractor agrees to make available to the University, during normal business hours, all book of account, reports and records relating to this contract for the duration of the contract and retain them for a minimum period of one (1) year beyond the last day of the contract term.

11. **Debarment and Suspension Certification:** The contractor certifies to the best of its knowledge and belief that it and its principals are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal department or agency in accordance with Executive Order 12549 (2/18/86).

12. **Cooperative Purchasing:** The intended coverage of this RFP, and any Agreement resulting from this solicitation, shall be for the use by all faculty, staff, students, departments, locations and affiliates of the University of Missouri, including MU Health Care.

    The University of Missouri System seeks to make the terms and prices of this contract available to other higher education institutions and public entities in the State of Missouri. Extension of the terms and prices to any or all other Missouri higher education institutions and public entities is at the discretion of respondents and shall not be considered in the award of this contract. The contractor shall further understand and agree that participation by other higher education institutions and public entities is discretionary on the part of these institutions, and the University of Missouri System bears no financial responsibility for any payments due the contractor by such entities, nor will the University be responsible for contract administration for other institutions.

UNIVERSITY OF MISSOURI
DETAILED SPECIFICATIONS AND SPECIAL CONDITIONS

1. OBJECTIVE

The Curators of the University of Missouri, a public organization, propose to contract on behalf of University of Missouri System (hereinafter referred to as "University") with an organization (hereinafter referred to as "Firm/Vendor"), to provide Independent Financial Auditing Services as described herein.

2. SCOPE

University of Missouri System is seeking proposals from qualified independent accounting firms interested in performing various audits required for the University of Missouri, MU Health Care and Capital Region Medical Center. The audits required during the term of this contract will include:

A. Audit of the financial statements of the University of Missouri System
Conduct an annual audit in compliance with generally accepted government auditing standards and render an independent audit opinion on the general purpose system-wide financial statements for the University of Missouri System and its blended component units. The University presents its dual year financial statements according to the business-type activity model allowed under GASB Statement No. 35. The University's single employer pension plan and other postemployment benefit plan are presented as part of the University's consolidated financial statements.

Fiscal Year 2019 Statistics:

- Total Assets and Deferred Outflows of Resources: $9.3 billion
- Total Operating Expenses: $3.6 billion
- Single Employer Defined Benefit Retirement Plan: $3.8 billion in Net Position Held in Trust
- Single Employer Other Postemployment Benefit Retirement Plan: $38 million in Net Position Held in Trust

Timeline: Accounting records are substantially complete by end of August after fiscal year end and a first draft of the financials are available in early September. Interim audit work can be completed prior to fiscal year end. The audit is generally completed by October 15th following the fiscal year end. Circumstances may dictate an earlier issuance, which will be mutually agreed upon by the University System Vice President of Finance & CFO and the awarded firm.

B. Compliance audit of the University of Missouri System in accordance with OMB Uniform Guidance

Conduct an annual, single audit to satisfy the audit requirement established by the U.S. Office of Management and Budget (OMB) Uniform Guidance for major federal financial assistance programs and sponsored activities administered by the University of Missouri System. The University anticipates no less than six major programs each audit year.

Fiscal Year 2019 Statistics:

- Total Expenditures of Federal Awards: $732,537,049
- Major Programs: 3

Timeline: The single audit is required to be completed by March 31st of each year. The University would prefer to have the single audit completed by December 31st each year. The University generally completes the schedule of expenditure of federal awards (SEFA) as follows: Interim in late May or early June, preliminary the first week of July and the final the second week of September.

C. Audit of the financial statement of MU Health Care

Maintain a separate audit team for the MU Health Care financial information in conjunction with the annual audit of the University in compliance with generally accepted government auditing standards. MU Health Care's financial performance is reflected in the University's consolidated financial report. A separate audit report will not be issued for MU Health Care.

Fiscal Year 2019 Statistics:

- Total Assets and Deferred Outflows of Resources: $1.3 billion
- Total Net Patient Revenues: $1.1 billion
- Total Operating Expenses: $984 million

Timeline: Must be completed with the University of Missouri System audit, which is generally completed by October 15th following the fiscal year end.

D. Audit of the financial statements of Capital Region Medical Center (CRMC)

Conduct an annual audit in compliance with generally accepted auditing standards and render an independent audit opinion on the general purpose financial statements for Capital Region Medical Center with a separate audit report. CRMC is a component unit in the University's consolidated financial report that reports under FASB Accounting Standards. In addition, an Auditor's Compliance Certificate is required as part of CRMC's outstanding Series 2011 and 2017 bonds.

Fiscal Year 2019 Statistics:

- Total Assets: $216 million
- Total Operating Expenses: $211 million

Timeline: The audit is generally completed by October 15th following the fiscal year end. Circumstances may dictate an earlier issuance, which will be mutually agreed upon by CRMC's Vice President of Finance and the awarded firm. The awarded firm will present its findings to both the Finance Committee and the Board of Directors at its regularly scheduled November meetings.

E. **Minimum agreed upon procedures required by the NCAA for the Intercollegiate Athletic Departments**
Conduct agreed upon procedures for the Columbia and Kansas City campuses annually and the Rolla and St. Louis campuses every third year (starting in fiscal year 2021).

Copies of the most recent financial statements for the University can be found at http://www.umsystem.edu/ums/fa/controller/financial-reports. Capital Region Medical Center financial statements are included as Attachment C. Firms submitting proposals must be willing to perform all audits referenced above.

Additional auditing services may be required by the University beyond those covered by this RFP. Should such services be necessary to fulfill the requirements of debt agreements, externally imposed audit requirements or other unforeseen requirements, the negotiation of the services and fees with the awarded firm will occur on an as needed basis. It is expected the hourly rates used to bill for these additional services will be consistent with the hourly rates in effect at that time for the annual audits.

3. BACKGROUND UNIVERSITY INFORMATION

The University of Missouri System was created in 1839 as a public educational institution under the Constitution and laws of the State of Missouri. The University is governed by a nine member Board of Curators that are appointed by the State's Governor and is a component unit of the State. The University System includes:

- College campuses in Columbia, Kansas City, Rolla and St. Louis
- MU Health Care, including University Hospital and Clinics, Ellis Fischel Cancer Center, Women's and Children's Hospital, the Missouri Orthopaedic Institute, and the Missouri Psychiatric Center, all based in Columbia, as well as 58 clinics.
- A statewide extension service with centers located in each county in the State

The University's financials also include several separate legal entities that are component units of the University, including but not limited to:

- Missouri Renewable Energy Corporation (a blended component unit of the University) – separately audited

- University of Missouri – Columbia Medical Alliance (a blended component unit of the University). The separately issued Capital Region Medical Center statements are combined with the Medical Alliance for financial reporting.
- Columbia Surgical Services (a blended component unit of the University)
- Columbia Family Medical Services (a blended component unit of the University)

University of Missouri Board of Curators
The University of Missouri Board of Curators will have final authority for appointing external auditors for the University. The Board is expected to appoint external auditors for the services described herein at its meeting on September 24, 2020. The Board's Audit Committee will meet prior to the full Board meeting to complete the selection process and develop a recommendation for the full Board. External auditors may be expected to meet with the committee or the committee chair during the course of the audit, as deemed necessary by the auditor or requested by the committee chair, and present audit results to the Audit Committee annually.

University of Missouri Division of Finance
The University of Missouri System Finance Division reports to Ryan Rapp and is part of the system office located in Columbia, MO. This unit prepares the system-wide financial statements and the Single Audit SEFA. The unit also accumulates data and compiles several of the more complex schedules centrally for all business units. Each academic campus maintains an accounting office that reports through the campus' Vice Chancellor of Finance. The accounting offices assist with the NCAA Agreed Upon Procedures (AUPs) and prepare campus-level financial statements.

Finance policies can be found on the University's website at:
https://www.umsystem.edu/ums/policies

MU Health Care
MU Health Care reports to Kay Davis, Interim Chief Financial Officer, and includes a Controller's office responsible for MUHC operations. The MUHC Controller's office prepares the financial statements for the health care system. Capital Region Medical Center's Finance is under the direction of Vice President – Finance, Tom Luebbering. Financial statements are reviewed by a top management team and presented monthly to the Finance Committee and Board of Directors.

University of Missouri Financial Reporting Systems
The University of Missouri utilizes PeopleSoft 9.2 to record all financial activity by fund. The University also utilizes the Human Resources and Student modules in PeopleSoft. PeopleSoft is utilized by all campuses, MU Health Care, and blended component units (excluding Capital Region Medical Center). The Financial Information Systems group in the UM System Controller's Office maintains the PeopleSoft Financials System and provides functional expertise for the PeopleSoft Finance modules. Access to the University's financial systems is controlled by each campus' accounting office.

University of Missouri Investments

The University of Missouri's investments are managed by the UM System Treasurer's Office in accordance with Collected Rules and Regulations. The University retains external investment managers, which are selected, monitored and retained in accordance with the Collected Rules and Regulations. The University utilizes Northern Trust as its custodian. Northern Trust provides a variety of services to the University including investment reporting and accounting. Accounting support is provided by the UM System Controller's Office. Alternative investments are valued as of March 31st each fiscal year with a roll-forward performed during the audit as statements are received.

4. TIMELINE

RFP Release: 3/09/2020
Vendor submission of written questions due on or before: 03/27/2020 at 5:00 p.m. CT
Post responses to vendor RFP questions: 04/03/2020
RFP responses due from bidding vendors: 04/17/2020
Select and Notify Vendors for Finalist Presentations: Week of 5/18/2020
Optional In Person Finalist Presentations (TBD by the University): 07/16/2020
Board Approval: 09/24/2020
Notice of Award & Begin Contract Execution: Week of 9/28/2020
Contract Start Date: 07/01/2021 with actual work to begin as mutually agreed upon

The dates in the timeline are estimated and subject to change at the sole discretion of the University.

5. CONTRACT PERIOD

The contract period will begin on a mutually agreed upon date for the audit of the fiscal year ending June 30, 2021. Assuming satisfactory services and reasonable fees, the awarded firm can be expected to be reappointed for (5) additional one-year periods. Assuming no change in scope of services, fees should not increase by a greater percentage than the increase in the Consumer Price Index – Urban or beyond proposed and agreed upon price escalations of the five-year period.

6. INSTRUCTIONS FOR PROPOSAL RESPONSE

Respondents are required to fully respond with compliance statements to each of the mandatory specifications. Respondents are required to fully respond with description of ability to meet (and how) the evaluation questions.

Respondents must be clear and concise in responses in order to be fully credited in the evaluation. Attach and reference any relevant documentation that would ensure the evaluating committee that specifications are met. If "no response" or insufficient response to substantiate compliance is provided, the University reserves the sole right to reject vendor's proposal from further consideration. Do not include responses that are superfluous or irrelevant to the specific question asked. These are not valuable in the volume of information the various evaluating teams must review.

Proposals must be submitted in the number and manner as specified below:

Volume I – Functional Section is to be submitted with eleven (11) total copies, one (1) original paper, nine (9) paper copies, and one (1) electronic copy via flash drive (not password protected) in PDF format and must contain:

*Response to Information for Respondents and General Conditions, Mandatory Specifications and vendor responses, and Desirable Specifications and vendor responses. If there is any vendor related contract that must be signed as part of doing business, it should also be included in this section. **This section includes all response information, except pricing information and Supplier Diversity Participation Form.**

Volume II – Financial Section must be submitted in a separately sealed envelope in triplicate (one original, one copy and one electronic copy via flash drive not password protected) and contain:

*Proposal Form with any supplemental pricing schedules, if applicable, and Financial Summary including additional costs, if any, for Desirable Specification Compliance, functional or technical. This section should also include the Supplier Diversity Participation Form. Financial statements that may be required are also to be included in this section.

Respondent must complete and return the University Proposal Form with proposal response. Vendor quote sheets are not acceptable forms of bidding and could cause rejection of response. **All proposals must be enclosed in a sealed envelope plainly marked: Request for Proposal #31104 for Independent Financial Auditing Services, mailed and/or delivered to University of Missouri System Procurement, 2910 LeMone Industrial Blvd., Columbia, MO 65201, Attn: Kristen Meade.**

Responses to this document must address issues in the order provided. **Please limit your proposal responses to no more than fifteen (15) pages in response to the criteria.**

Note: Any Respondent's Request for Proposal that makes material modifications to the University's Terms and Conditions may be found non-responsive, as solely determined by the University.

Confidentiality of Information:
All records received from a Supplier will be deemed public records and presumed to be open. If the supplier submits with the Request for Proposal any information claimed to be exempt under the Revised Statues of Missouri, Chapter 610, this information must be placed in a separate envelope and marked with:

"This data shall not be disclosed outside the University or be duplicated, used, or disclosed in whole or in part for any purpose other than to evaluate the Request for Proposal; however, if a contract is awarded to this Supplier as a result of or in connection with the submission of such information, the University shall have the right to duplicate, use, or disclose this information to the extent provided in the contract. This restriction does not limit the University's right to use information contained herein if it is obtained from another source."

7. EVALUATION AND CRITERIA FOR AWARD OF PROPOSAL

Respondents must meet the mandatory/limiting criteria to be "qualified" for scoring. If requirements are not met, the respondents are disqualified from further evaluation/award. Qualified remaining respondents will be scored on their ability to meet scored desirable criteria, which includes qualitatively, how specifications are met. A team of University individuals will evaluate and assign points to vendors' responses to the evaluation questions. At the sole option of the University, the functional/technical review team may decide to go on a site visit, at their expense, or request vendors to perform a presentation/demonstration to confirm specifications are met as provided in responses. The University could elect to not award to a potential respondent if site visits/presentations revealed compliance inconsistency.

The University may request vendors selected as finalists to come onsite to the University, at the vendor's expense, for presentations as part of the RFP selection. The decision to have finalist presentations will be at the sole discretion of the University.

Proposals will be awarded to one firm based upon the functional and financial evaluation.

8. PAYMENT TERMS AND CONDITIONS

Upon invoice approval by the University of Missouri System Controller, progress payments will be made against progress billing in accordance with a schedule agreed to by all parties in advance. Final payment will be made within 30 days following submission of all reports and completion of all agreed upon services.

9. MANDATORY CRITERIA

Respondents must meet all mandatory requirements in this section in order to continue with a response to this RFP. Any Respondent that does not meet all of the following requirements will be removed from further consideration. Respondents must provide a written, affirmative response to each of the criteria stated below and provide substantiating information to support your answer.

a. The firm must be registered to practice in the State of Missouri. Confirm Yes _____ or No _____ and provide substantiating information to support your answer.

b. The firm must maintain an office(s) in the State of Missouri. Confirm Yes _____ or No _____ and provide substantiating information to support your answer.

c. The firm must be a member of AICPA Division of CPA firms. Confirm Yes _____ or No _____ and provide substantiating information to support your answer.

d. The firm must be of sufficient size so that the University of Missouri engagement does not compromise either the firm's independence or its appearance of independence. Confirm Yes _____ or No _____ and provide substantiating information to support your answer.

10. DESIRABLE CRITERIA

It is the Respondent's responsibility to supply sufficient and complete information for a full evaluation of all items in this section, including detailed explanations.

Profile

a. Provide the location of the principle office from which the work is to be done and the number of partners, managers, seniors and other staff employed by that office. Identify the partners, managers, and senior auditors in charge who will be assigned to the engagement and include a brief resume for each individual, specifically noting their experience.

b. Describe the range of audit and other activities performed by the firm.

c. Describe the firm's experience in public higher education and academic health care environments.

Scope

a. Briefly describe the key elements of your audit approach, including pre-engagement planning, basic approach to the audit and evaluation of internal controls.

b. Describe the approach to the audit work on-site vs. off-site.

Additional Data

a. Indicate the principle reason you believe that your firm is better qualified to serve the University of Missouri than your competitors.

b. Briefly describe your firm's quality control program. If any issues have been identified by a PCAOB review relating to quality control and remain unresolved after 12 months, disclose the finding and the firm's planned response.

c. Provide a reference list of current clients in higher education and health care. For those clients, provide a listing of total debt outstanding and bond rating.

d. Indicate what liability insurance the firm carries for all of its liabilities, including but not limited to, auto liability, general liability, and professional errors and omissions coverage. Please specify whether these coverages are on an occurrence or "claims made" basis.

e. Disclose any other work done for the University of Missouri or related entities in 2018 or 2019.

REQUEST FOR PROPOSAL FORM

REQUEST FOR PROPOSALS
FOR
FURNISHING AND DELIVERY
OF
INDEPENDENT FINANCIAL AUDITING SERVICES
FOR
THE CURATORS OF THE UNIVERSITY OF MISSOURI
ON BEHALF OF
UNIVERSITY OF MISSOURI SYSTEM
RFP # 31104
DUE DATE: APRIL 17, 2020
TIME: 2:00 P.M. CDT

The undersigned proposes to furnish the following items and/or services in accordance with all requirements and specifications contained within this Request for Proposal issued by the University of Missouri.

Fees

1. Complete the table on the following page for the total fees for the engagement.

2. Indicate to what extent "first year start-up costs" are included in the fee and how this would impact future years' fees.

3. Indicate your willingness to limit future year's increases to no more than the percentage increase in the Consumer Price Index – Urban or, alternatively, provide estimates of future years' price escalations over the period of the agreement.

4. Indicate how you will price the additional work for NCAA Agreed Upon Procedures for the additional Division 2 schools every third year.

5. In addition to the fees below, provide pricing for issuing consent to include the audited financial statements in an official statement as a part of a debt issuance.

Fees for Engagement:

DESCRIPTION	System Audit and Management Letter	Single Audit for UM System	MU Health Care Team	Capital Region Medical Center Audit	NCAA AUP's (Columbia & Kansas City)	NCAA AUP's (Missouri S&T and St. Louis)	Total
Professional Hours Budget:							
Partners							
Managers							
Seniors							
Associates							
Total Hours							
Average Rate per Hour at Full Fees							
Fees at Full Rates							
Discount Percentage							
Fees at Discount Rate							
Expenses							
Total Fees							

AUTHORIZED RESPONDENT REPRESENTATION

Authorized Signature	Date
Printed Name	Title
Company Name	
Mailing Address	
City, State, Zip	
Phone No.	Federal Employer ID No.
Fax No.	E-Mail Address
Number of calendar days delivery after receipt of order: ______________________________	Payment Terms: _______________________ Note: Net 30 is default. Early pay discounts encouraged.
Select Payment Method: SUA ACH Check	
Circle one: Individual Partnership Corporation	
If a corporation, incorporated under the laws of the State of__________	
Licensed to do business in the State of Missouri? ____yes _____no	
Maintain a regular place of business in the State of Missouri? _____yes _____no	

This signature sheet must be returned with your proposal.

ATTACHMENT A
SUPPLIER DIVERSITY PARTICIPATION FORM

The University of Missouri System is committed to and supports supplier diversity as an essential part of the University's mission and core values. The University's Supplier Diversity efforts reflect this mission.

Tier 2 Supplier Diversity Information - The University strongly encourages Supplier Diversity participation in all of its contracts for goods and services. Tier 2 Spend is spend reported by primary (non-diverse) suppliers of the University of Missouri who subcontract work to, or make purchases from a diverse supplier. Depending upon the contract, primary (non-diverse) suppliers will be asked to submit Tier 2 information with Women and Diverse Owned companies. Suppliers have two options in reporting Tier 2 dollars depending on the terms of the contract: Direct and Indirect. Awarded suppliers may be asked to utilize CVM Solutions for reporting Tier 2 spend.

- Direct dollars - those dollars directly spent with Women and Diverse Owned suppliers in the fulfillment of the contract.

- Indirect dollars - based on a percentage of revenue the University represents to the supplier. An example is as follows:
    - Supplier's Total Revenues: $10,000,000
    - Revenues from University $: $ 4,000,000
    - University % of Total Revenues: 40% (#2 divided by #1)
    - Total MBE Dollars $: $ 150,000
    - Total WBE Dollars $: $ 150,000
    - Total University Attributable MBE $: $ 60,000 (#3 multiplied by #4)
    - Total University Attributable WBE $: $ 60,000 (#3 multiplied by #5)
    - Total University Attributable MWBE $: $ 120,000 (Sum of #6 and #7)
    - University % Attributable Revenue: 3% (#8 divided by #2)

1. Does your company have a Supplier Diversity Program? If so, describe efforts your company has made to increase business with Women and Diverse Owned businesses (i.e. does your company have a policy statement, participate in outreach activities, promote diverse firm subcontracting, publicize contract opportunities, provide certification assistance, etc.?) Please provide examples (use additional pages if needed): ____________________________________

____

____

____

2. If you are a non-diverse owned company, what percentage of your company's total contracting and procurement spend for the prior year was with Women and Diverse Owned businesses? Are you able to provide this information specific to University of Missouri business?

   ____

   ____

3. If you are a non-diverse owned company, complete the following table indicating the percentage your company will subcontract with certified Women and Diverse Owned businesses should your company be the successful bidder. Note: If your company does not plan to use Women and Diverse Owned businesses to fulfill your contract obligations, please explain why not.

Supplier Name	**% of Contract**	**Specify Direct or Indirect**

If there are questions regarding supplier diversity at the University, contact Teresa Vest, vestt@umsystem.edu.

--------------------------THIS FORM MUST BE SUBMITTED WITH THE RESPONSE------------------------

ATTACHMENT B
SUPPLIER REGISTRATION INFORMATION

Completion of this section is strongly encouraged. Please review and check ALL applicable boxes.

SMALL BUSINESS CONCERN: _____Yes _____No

The term "small business concern" shall mean a business as defined pursuant to Section 3 of the Small Business Act and relevant regulations issued pursuant thereto. Generally, this means a small business concern organized for profit, which is independently owned and operated, is not dominant in the field of operations in which it is bidding. We would consider any firm with 500 employees or less a "small business concern".

WOMAN OWNED BUSINESS (WBE): ______Yes _____No

A woman owned business is defined as an organization that is 51% owned, controlled and/or managed, by a woman. The determination of WBE status depends solely on ownership and operation and is not related to employment. The firm should be certified by a recognized agency (e.g., state, local, federal, etc.). Please see Public Law 106-554 for more detail.

MINORITY BUSINESS ENTERPRISE (MBE): _____Yes _____No

A minority business is defined as an organization that is 51% owned, controlled and/or managed by minority group members. The determination of minority status depends solely on ownership and operation and is not related to employment. The firm should be certified by a recognized agency (e.g., state, local, federal, etc.). Please see Public Law 95-507 for more detail. Place an X by the appropriate space below.

1. Asian-Indian - A U.S. citizen whose origins are from India, Pakistan and Bangladesh _____ (A)

2. Asian-Pacific - A U.S. citizen whose origins are from Japan, China, Indonesia, Malaysia, Taiwan, Korea, Vietnam, Laos, Cambodia, the Philippines, Thailand, Samoa, Guam, the U.S. Trust Territories of the Pacific or the Northern Marianas. _______ (P)

3. Black - A U.S. citizen having origins in any of the Black racial groups of Africa. _______ (B)

4. Hispanic - A U.S. citizen of true-born Hispanic heritage, from any of the Spanish-speaking areas Mexico, Central America, South America and the Caribbean Basin only. _______ (H)

5. Native American - A person who is an American Indian, Eskimo, Aleut or Native Hawaiian, and regarded as such by the community of which the person claims to be a part. _______ (N)

A Veteran or Service Disabled Veteran business is defined as an organization that is 51% owned, controlled and/or managed by Veterans. The firm should be certified by a recognized agency (e.g., state, local, federal, etc.). Please see Public Law 109-461 for more detail.

VETERAN BUSINESS ENTERPRISE _____Yes ______No

SERVICE DISABLED VETERAN BUSINESS ENTERPRISE _____Yes _____No

MISSOURI FIRM: _____Yes _____No

A Missouri Firm is defined as an organization which has and maintains within the State of Missouri a regular place of business for the transaction of their business.

BUSINESS TYPE:

Manufacturer	_____ (M)
Distributor/Wholesaler	_____ (D)
Manufacturer's Representative	_____ (F)
Service	_____ (S)
Retail	_____ (R)
Contractor	_____ (C)
Other	_____ (O)

SOLE PROPRIETORSHIP: _____Yes _____No

SUPPLIER'S CERTIFICATION:

The undersigned hereby certifies that the foregoing information is a true and correct statement of the facts and agrees to abide by the laws of the State of Missouri and the rules and regulations of the University of Missouri System now in effect including any subsequent revisions thereof. Supplier acknowledges that it is his/her responsibility to keep the information current by notifying the University of Missouri of any changes.

____

Signature of Person Authorized to Sign this Supplier Registration Information Form

Title: ______________________________________ Date: __________________

Attachment C

Capital Region Medical Center

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018

Capital Region Medical Center
June 30, 2019 and 2018

Contents

BKD
CPAs & Advisors
910 E. St. Louis Street, Suite 200 | P.O. Box 1190 | Springfield, MO 65801-1190
417.865.8701 | Fax 417.865.0682 | bkd.com

Independent Auditor's Report

Board of Directors
Capital Region Medical Center
Jefferson City, Missouri

We have audited the accompanying financial statements of Capital Region Medical Center, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Region Medical Center as of June 30, 2019 and 2018, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in *Note 2* to the financial statements, in 2019, the Medical Center adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* ASU 2014-19, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

BKD, LLP

Springfield, Missouri
October 15, 2019

Capital Region Medical Center

Balance Sheets

June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 4,503,783	$ 3,400,436
Assets limited as to use – current	3,377,985	3,297,262
Patient accounts receivable, net of 2018 allowance of $2,880,000	21,158,204	18,417,406
Other receivables	1,820,582	645,669
Estimated amounts due from third-party payers	-	1,973,277
Supplies	4,480,236	4,078,934
Prepaid expenses	3,647,510	3,662,555
Total current assets	38,988,300	35,475,539
Assets Limited As To Use		
Internally designated for capital improvements	83,908,239	77,813,931
Held by trustee under indenture agreement	4,666,275	4,596,622
	88,574,514	82,410,553
Less amount required to meet current obligations	3,377,985	3,297,262
	85,196,529	79,113,291
Property and Equipment, At Cost		
Land and land improvements	10,482,787	10,405,632
Buildings and improvements	151,660,620	151,433,619
Equipment	92,678,511	89,460,759
Construction in progress	8,230,837	1,482,701
	263,052,755	252,782,711
Less accumulated depreciation	180,729,344	172,238,606
	82,323,411	80,544,105
Other Assets		
Interest in net assets of Capital Region Medical Foundation	3,964,205	4,022,361
Long-term receivables and other noncurrent assets	5,561,770	4,739,196
	9,525,975	8,761,557
Total assets	$ 216,034,215	$ 203,894,492

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 3,191,892	$ 3,097,511
Accounts payable	8,701,650	7,489,506
Accrued transfer to University of Missouri - Columbia Medical Alliance (UMC - MA)	2,134,415	1,440,270
Accrued pension	686,355	892,471
Accrued payroll	1,660,099	1,397,380
Accrued vacation pay	3,840,593	3,690,693
Accrued employee health insurance	1,770,883	2,100,000
Payroll taxes and other accrued liabilities	3,864,745	3,630,706
Accrued interest payable	186,093	199,751
Estimated amounts due to third-party payers	3,260,969	1,651,719
Total current liabilities	29,297,694	25,590,007
Long-term debt	33,905,799	37,013,653
Other long-term liabilities	7,953,716	7,479,524
Total liabilities	71,157,209	70,083,184
Net Assets		
Without donor restriction	140,912,801	129,788,947
With donor restriction	3,964,205	4,022,361
Total net assets	144,877,006	133,811,308
Total liabilities and net assets	$ 216,034,215	$ 203,894,492

Capital Region Medical Center

Statements of Operations

Years Ended June 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Net patient service revenue (net of contractual discounts and allowances)		$ 201,424,106
Provision for uncollectible accounts		(4,848,524)
Patient care service revenue	$ 213,441,454	196,575,582
Other revenue	6,567,701	5,377,160
Total revenues, gains and other support without donor restriction	220,009,155	201,952,742
Expenses		
Salaries and wages	86,142,600	84,845,461
Employee benefits	18,421,827	21,408,534
Supplies and other	70,599,082	62,304,251
Purchased services and professional fees	22,373,367	16,030,920
Depreciation and amortization	11,632,350	11,884,142
Interest	1,526,700	1,632,103
(Gain) loss on sale of assets	15,272	(635)
Total expenses	210,711,198	198,104,776
Operating Income	9,297,957	3,847,966
Other Income		
Investment return, net	2,396,191	1,913,109
Contributions	67,157	31,839
Total other income	2,463,348	1,944,948
Excess of Revenues Over Expenses	11,761,305	5,792,914
Contributions for capital acquisitions		
Investment return - change in unrealized gains	528,823	350,843
on other than trading securities	221,017	197,871
Transfers to UMC - MA	(1,387,291)	(1,440,270)
Increase in Net Assets Without Donor Restrictions	$ 11,123,854	$ 4,901,358

Capital Region Medical Center

Statements of Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	$ 11,761,305	$ 5,792,914
Investment return - change in unrealized gains on other than trading securities	221,017	197,871
Contributions for capital acquisitions	528,823	350,843
Transfers to UMC - MA	(1,387,291)	(1,440,270)
Increase in net assets without donor restrictions	11,123,854	4,901,358
Net Assets With Donor Restrictions		
Change in interest in net assets of Capital Region Medical Foundation	(58,156)	26,271
Increase (decrease) in net assets with donor restrictions	(58,156)	26,271
Change in Net Assets	11,065,698	4,927,629
Net Assets, Beginning of Year	133,811,308	128,883,679
Net Assets, End of Year	$ 144,877,006	$ 133,811,308

Capital Region Medical Center

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018 (Adjusted - *Note 2*)
Operating Activities		
Change in net assets	$ 11,065,698	$ 4,927,629
Adjustments to reconcile change in net assets to net cash		
Depreciation and amortization	11,632,350	11,884,142
Provision for uncollectible accounts	-	4,848,524
Net gain on investments	(221,017)	(329,166)
(Gain) loss on sale of property and equipment	15,272	(635)
Transfers to UMC - MA	1,387,294	1,440,270
Undistributed portion of the change in interest in net assets of Capital Region Medical Foundation	58,156	(26,271)
Changes in		
Patient accounts receivable	(2,740,798)	(5,183,348)
Other receivables	(1,174,913)	239,112
Supplies, prepaid expenses and other	(1,187,996)	(910,254)
Accounts payable and accrued expenses	1,074,602	1,419,685
Other current and long-term liabilities	474,192	(32,612)
Estimated amounts due to and due from third-party payers	3,582,527	(2,255,116)
Net cash provided by operating activities	23,965,367	16,021,960
Investing Activities		
Purchases of property and equipment	(13,131,168)	(10,851,802)
Purchases of assets limited as to use	(12,000,000)	(11,445,000)
Sales of assets limited as to use	4,756,154	6,269,607
Proceeds from sale of property and equipment	2,751	3,879
Net cash used in investing activities	(20,372,263)	(16,023,316)
Financing Activities		
Principal payments on long-term debt	(3,097,510)	(3,009,130)
Transfers paid to UMC - MA	(693,149)	(991,823)
Net cash used in financing activities	(3,790,659)	(4,000,953)
Decrease in Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents	(197,555)	(4,002,309)
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, Beginning of Year	16,946,993	20,949,302
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents, End of Year	$ 16,749,438	$ 16,946,993

Capital Region Medical Center

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 4,503,783	$ 3,400,436
Cash and cash equivalents in assets limited as to use	12,245,655	13,546,557
	$ 16,749,438	$ 16,946,993
Supplemental Cash Flows Information		
Accounts payable incurred for property and equipment	$ 511,534	$ 746,843
Interest paid (net of amount capitalized)	$ 1,447,006	$ 1,596,230

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Capital Region Medical Center (Medical Center) is an acute care hospital located in Jefferson City, Missouri. The Medical Center operates as a two-campus hospital system, which consists of the Southwest Campus and Madison Campus complemented by community medical clinics. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Jefferson City, Missouri, area. It also operates medical clinics in the surrounding communities. The operating results of both facilities and clinics are presented in the financial statements. The Medical Center is served by a group of admitting physicians, which account for a significant portion of the Medical Center's net revenues. Additionally, the Medical Center is also associated with the Capital Region Medical Foundation (the "Foundation"), which is intended to support the interest of the Medical Center and does so by raising and holding funds for the benefit of the Medical Center.

The Curators of the University of Missouri (the "University"), for and on behalf of the University of Missouri Healthcare, and the Medical Center entered into an Affiliation Agreement dated August 5, 1997. Pursuant to the Affiliation Agreement, the University created the University of Missouri-Columbia Medical Alliance, a Missouri nonprofit corporation (Medical Alliance). The Medical Alliance together with CRMC, Inc. own and control the Medical Center. CRMC, Inc. is also comprised of a governing board which each member is approved by the Medical Alliance. The Medical Alliance's purpose is to develop a network of healthcare providers to support the missions of the University of Missouri Healthcare.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Medical Center considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts. The Medical Center may enter into overnight repurchase agreements which are specified U.S. government and agency securities with an obligation to resell them the following day. Securities purchased under agreements to resell are recorded at face value and reported as cash and cash equivalents.

At June 30, 2019, the Medical Center's cash accounts exceeded federally insured limits by approximately $6,362,000.

Assets Limited As To Use

Assets limited as to use include (1) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes and (2) assets held by trustee. Assets held by trustee are required by the bond indenture to be used primarily for debt service. Amounts required to meet current liabilities of the Medical Center are included in current assets.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in equity investees are reported on the equity method of accounting. Other investments, including land held for investment, are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in assets without donor restrictions. Other investment return is reflected in the statements of operations and changes in net assets with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Patient Accounts Receivable

Subsequent to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

Patient accounts receivable reflects the outstanding amount of consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Medical Center bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Bad debt expense was not significant for the year ended June 30, 2019.

Prior to Adoption of ASU 2014-09, Revenues from Contracts with Customers (Topic 606)

Accounts receivable were reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzed its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviewed data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzed contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates if negotiated or provided by policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Medical Center at the end of the year.

Contract assets are included in patient accounts receivable at June 30, 2019. At June 30, 2018, amounts related to health care services provided to patients which have not been billed and did not meet the conditions of an unconditional right to payment as of the year then ended are included on the balance sheet in accounts receivable, net of allowance.

Contract assets were not significant for the year ended June 30, 2019.

Supplies

The Medical Center states supply inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	3 - 25 years
Buildings and improvements	5 - 40 years
Equipment	3 - 20 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The Medical Center evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2019 or 2018.

Interest in Net Assets of Capital Region Medical Foundation

The Medical Center and the Foundation are financially interrelated organizations. Accordingly, the Medical Center is required to recognize its interest in the net assets of the Foundation and adjust that interest for its share of the change in net assets of the Foundation.

The Medical Center periodically requests funds from the Foundation for capital or other needs. Such requests are received by the Foundation and, if approved, funds are transferred to the Medical Center. Such transfers of funds are reported in the accompanying financial statements as contributions. The Medical Center's interest in the net assets with and without donor restrictions of the Foundation and its share of the change in those net assets are reported in the accompanying financial statements in net assets with donor restrictions.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Self-Insurance

The Medical Center has elected to self-insure certain costs related to employee health and workers' compensation programs. Costs resulting from noninsured losses are charged to income when incurred.

The Medical Center is self-insured for the first $1,000,000 per claim on an occurrence basis for workers' compensation. In addition, the Medical Center has entered into a letter of credit for $300,000 with the Missouri Department of Labor. This letter of credit is secured by a certificate of deposit in the amount of $300,000 with a local financial institution.

Professional Liability Claims

The Medical Center recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 8*.

Contributions

Contributions are provided to the Medical Center either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on the Medical Center overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.*, the donor imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Net Assets with Donor Restrictions

Net assets with donor restrictions include those whose use by the Medical Center has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Medical Center.

Patient Service Revenue

Patient service revenue is recognized as the Medical Center satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. The Medical Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policies and implicit price concessions provided to uninsured patients.

The Medical Center determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Medical Center determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The costs for services furnished under its charity care policy are discussed in *Note 11*.

Income Taxes

The Medical Center has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

The Medical Center files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Medical Center is no longer subject to U.S. federal examinations by tax authorities for years before 2016.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

Revisions

Certain immaterial corrections have been made to the 2018 financial statements for the estimated claim liability in *Note 8*. These revisions did not have a significant impact on the financial statement line items impacted.

Subsequent Events

On July 27, 2018, MU Healthcare signed a nonbinding letter of intent to purchase two hospitals, SSM Health St. Mary's-Audrain and SSM Health St. Mary's Jefferson City, from SSM Health. The original letter of intent was effective through September 30, 2018. The parties have subsequently extended the term of the letter of intent and is currently in effect through October 31, 2019.

Subsequent events have been evaluated through October 15, 2019, which is the date the financial statements were issued.

Note 2: Changes in Accounting Principles

ASU 2016-14, Not-for-Profit Entities (Topic 958)

In 2019, the Medical Center adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is a follows:

Balance Sheets

The balance sheets distinguish between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statements of Operations

Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the balance sheet.

Expenses are reported by both nature and function in one location.

This change had no impact on previously reported total change in net assets and has been applied retrospectively to all periods presented.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

In 2019, the Medical Center adopted FASB Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective method of adoption to all contracts with patients at July 1, 2018.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to patients in amounts that reflect the consideration to which the Medical Center expects to be entitled in exchange for those goods or services.

The amount to which the Medical Center expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients.

Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements.

Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which the Medical Center does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Medical Center's estimation of the transaction price or revenue recorded.

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

ASU 2018-08, Not-for-Profit Entities (Topic 958)

ASU No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The new accounting guidance in ASU 2018-08 was issued to help entities in evaluating whether transactions are considered nonreciprocal transactions and should be accounted for as contributions or if the transactions are considered reciprocal and should be accounted for as exchange transactions, and help entities evaluate whether a contribution is conditional or unconditional.

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

In 2019, the Medical Center changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards Update 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows. This change was applied retrospectively to all periods presented, which resulted in the following changes within the statements of cash flows:

	June 30, 2018		
	As Previously Reported	As Adjusted	Adoption Impact
Consolidated Statements of Cash Flows			
Sales of assets limited as to use	$ 7,667,048	$ 6,269,607	$ 1,397,441
Net cash used in investing activities	(14,625,875)	(16,023,316)	1,397,441
Increase (decrease) in cash and cash equivalents	(2,604,868)	(4,002,309)	1,397,441
Cash and cash equivalents, beginning of year	6,005,304	20,949,302	(14,943,998)
Cash and cash equivalents, end of year	3,400,436	16,946,993	(13,546,557)

Note 3: Patient Care Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Medical Center bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Medical Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Medical Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Medical Center receiving inpatient acute care services or patients receiving services in its outpatient centers. The Medical Center measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Medical Center does not believe it is required to provide additional goods related to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Transaction Price

The Medical Center determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policy and implicit price concessions provided to uninsured patients. The Medical Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Medical Center determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Third-Party Payors

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.

Medicaid. Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Medical Center's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Medical Center. In addition, the contracts the Medical Center has with commercial payors also provides for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Medical Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved.

Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Patient and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Medical Center also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Medical Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Medical Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Medical Center has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Medical Center expects to collect based on its collection history with those patients.

Patients who meet the Medical Center's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Refund Liabilities

From time to time the Medical Center will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2019 and 2018, the Medical Center has a liability for refunds to third-party payors and patients recorded of approximately $810,000 and $780,000, respectively.

Revenue Composition

The Medical Center has determined that the nature, amount, timing and uncertainty of revenue and cash flows are primarily affected by factors including payors and service lines of reimbursement. Tables providing details of these factors are presented below.

The composition of patient care service revenue by primary payor for the year ended June 30, 2019, which includes the adoption of ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)* is as follows:

Medicare	$ 89,176,047
Medicaid	16,867,554
Other third-party payers	106,034,928
Patients	1,362,925
	$ 213,441,454

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the year ended June 30, 2018, was approximately:

Medicare	$ 81,156,430
Medicaid	19,452,870
Other third-party payers	96,865,467
Patients	3,949,339
	$ 201,424,106

The composition of patient care service revenue based on service lines for the year ended June 30 is as follows:

	2019
Hospital inpatient	$ 56,901,598
Hospital outpatient	106,127,802
Physician services	50,412,054
Total	$ 213,441,454

Financing Component

The Medical Center has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Medical Center’s expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payor pays for that service will be one year or less.

However, the Medical Center does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Note 4: Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2019 and 2018, is:

	2019	2018
Medicare	39%	28%
Medicaid	9%	9%
Other third-party payers	40%	45%
Patients	12%	18%
	100%	100%

Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use, at June 30, include:

	2019	2018
Internally designated for capital acquisition		
Mortgage-backed securities	$ 15,071,455	$ 8,760,067
Money market accounts	10,530,663	11,901,217
Corporate bonds	14,150,336	14,171,442
U.S. Treasury obligations	69,160	69,725
Mutual funds	34,557,411	29,985,258
Corporate stock	150,996	139,797
Certificates of deposit	9,378,218	12,786,425
	$ 83,908,239	$ 77,813,931
Held by trustee under indenture agreements		
Money market accounts	$ 1,714,992	$ 1,645,340
Certificates of deposit	2,951,283	2,951,282
	$ 4,666,275	$ 4,596,622

Total investment return is comprised of the following:

	2019	2018
Interest and dividend income	$ 2,396,191	$ 1,781,814
Realized gains (losses) on other than trading securities	-	131,295
Unrealized gains on other than trading securities	221,017	197,871
	$ 2,617,208	$ 2,110,980

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2019	2018
Net assets without donor restriction		
Other nonoperating income	$ 2,396,191	$ 1,913,109
Investment return – change in unrealized gains and losses on other than trading securities	221,017	197,871
	$ 2,617,208	$ 2,110,980

Unrealized Losses on Investments

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2019 and 2018, was $22,640,077 and $31,637,996, which is approximately 27 percent and 36 percent, respectively, of the Medical Center's assets limited as to use. These declines primarily resulted from recent increases in market interest rates, failure of certain investments to maintain consistent credit quality ratings, changes in the market's perception of the current risks or failure to meet projected earnings targets.

Management believes the declines in fair value for these securities are temporary.

Except as discussed below, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Medical Center's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2019 and 2018.

	June 30, 2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	$ -	$ -	$ 16,974,322	$ (667,100)	$ 16,974,322	$ (667,100)
Equity securities	5,665,755	(187,007)	-	-	5,665,755	(187,007)
Total temporarily impaired securities	$ 5,665,755	$ (187,007)	$ 16,974,322	$ (667,100)	$ 22,640,077	$ (854,107)

	June 30, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	$ 25,058,556	$ (516,443)	$ 4,337,668	$ (307,794)	$ 29,396,224	$ (824,237)
Equity securities	2,241,772	(71,366)	-	-	2,241,772	(71,366)
Total temporarily impaired securities	$ 27,300,328	$ (587,809)	$ 4,337,668	$ (307,794)	$ 31,637,996	$ (895,603)

Note 6: Interest in Net Assets of Capital Region Medical Foundation

Capital Region Medical Foundation (Foundation) was established to solicit contributions principally for funding a portion of the Medical Center's capital improvements and to provide operating support. Funds are distributed to the Medical Center as determined by the Foundation's Board of Directors. The Medical Center's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in the interest are included in change in net assets. Transfers of assets between the Foundation and the Medical Center are recognized as increases or decreases in the interest in the net assets of the Foundation with corresponding decreases or increases in the assets transferred and have no effect on change in net assets. The Medical Center's interest in the net assets of the Foundation is reported in the balance sheets and was $3,964,205 and $4,022,361 at June 30, 2019 and 2018, respectively.

The Foundation's contributions to the Medical Center for property and equipment additions during the years ended June 30, 2019 and 2018, were $528,823 and $350,843, respectively.

Note 7: Investments in and Advances to Equity Investees

LHCG CXXXXIII, LLC.

On August 1, 2018, the Medical Center entered into an Asset Purchase Agreement with LHCG CXXXXIII, LLC (LHC Group) to sell certain assets and liabilities of its home health practice resulting in a gain in the amount of $882,000, which is recorded within other operating revenue on the statements of operations. They have a 20 percent membership interest in the company for an initial investment of $174,400, and made an additional contribution of $450,000 during August 2019, which LHC Group utilized to acquire an additional home health agency. LHC Group is accounted for using the equity method of accounting in the accompanying financial statements.

Note 8: Professional Liability Coverage and Claims

The Medical Center purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Medical Center also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the Medical Center's claims experience, an accrual had been made for the Medical Center's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its medical malpractice insurance policy. Claim liabilities are to be determined without regard for recoveries. Expected recoveries are presented separately. As of June 30, 2019 and 2018, respectively, the Medical Center had recorded $1,955,605 and $1,692,710 of estimated insurance coverage receivables, and approximately $4,405,946 and $4,319,732 of estimated claims liabilities. It is reasonably possible that these estimates could change materially in the near term.

Note 9: Self-Insured Health Insurance and Workers' Compensation

Health Insurance

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for employee health coverage and has accrued an estimate of the ultimate costs for both reported claims and claims incurred but not reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors and is included in current accrued expenses on the balance sheets. The accrued liability for self-insured health insurance at June 30, 2019 and 2018, was $1,771,000 and $2,100,000, respectively. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term. The Medical Center has also purchased commercial stop-loss insurance that limits its exposure for individual health claims and that limits its aggregate exposure to $160,000 for the first employee claim and $100,000 for subsequent employee claims.

Workers' Compensation

The Medical Center has a self-insurance program to provide for workers' compensation claims. A trust fund has been established for this purpose and is included in assets limited as to use. The accrued liability for workers' compensation at June 30, 2019 and 2018, was $573,942 and $683,167, respectively. The Medical Center has also purchased commercial stop-loss insurance that limits its exposure for individual workers' compensation claims and that limits its aggregate exposure to $1,000,000 per claim on a per occurrence basis.

Note 10: Long-Term Debt

At June 30, 2019 and 2018, long-term debt consisted of the following:

	2019	2018
Health Facilities Revenue Bonds Series 2011, dated November 1, 2011, and maturing November 1, 2028, payable in graduated installments from November 1, 2012, to November 1, 2027, bearing interest ranging from 2.25% to 5.00%	$ 19,935,000	$ 21,930,000
Health Facilities Revenue Bonds Series 2017, dated March 9, 2017, and maturing March 1, 2032, payable in graduated installments from April 1, 2017, to March 1, 2032, bearing interest at 3.095%	17,549,828	18,652,338
	37,484,828	40,582,338
Less unamortized debt issuance costs and bond discounts	387,137	471,174
Less current maturities	3,191,892	3,097,511
Total long-term debt	$ 33,905,799	$ 37,013,653

Tax-exempt revenue bonds (Series 2011 Bonds) in the principal amount of $32,835,000 were issued by the Health and Education Facilities Authority of the State of Missouri (the "Authority") on behalf of the Medical Center dated November 1, 2011. The proceeds were used to refund all of the outstanding Series 1998 and 2004 Bonds and costs of issuance. The bond discount and the debt issuance costs on the Series 2011 Bonds are amortized using the effective interest method over the life of the respective bonds. The Series 2011 Bonds are secured by the revenues without donor restrictions of the Medical Center. Under the terms of the Master Indenture, the Medical Center is required to make payments of principal, premium, if any, and interest on the bonds. In addition, the Master Indenture contains certain restrictions on the operations and activities of the Medical

Center, including, among other things, covenants restricting the incurrence of additional indebtedness and the creation of liens on property, except as permitted by the Master Indenture. Unamortized debt issuance costs were $127,041 and $157,788 at June 30, 2019 and 2018, respectively. The unamortized bond discount remaining is $47,011 and $67,847 at June 30, 2019 and 2018, respectively.

The Master Indenture has mandatory sinking fund redemption requirements in which funds are required to be set aside beginning in 2021 for the Series 2011 Bonds.

Tax-exempt revenue bonds (Series 2017 Bonds) in the principal amount of $20,000,000 were issued by the Health and Education Facilities Authority of the State of Missouri (the "Authority") on behalf of the Medical Center dated March 9, 2017. The proceeds were used to reimburse the Medical Center for the construction of the medical office building completed in fiscal year 2016 and other capital costs. The debt issuance costs on the Series 2017 Bonds are amortized using the effective interest method over the life of the respective bonds. The Series 2017 Bonds are secured by the revenues without donor restrictions of the Medical Center. Under the terms of the Master Indenture, the Medical Center is required to make payments of principal, premium, if any, and interest on the bonds. In addition, the Master Indenture contains certain restrictions on the operations and activities of the Medical Center, including, among other things, covenants restricting the incurrence of additional indebtedness and the creation of liens on property, except as permitted by the Master Indenture. Unamortized debt issuance costs were $213,085 and $245,539 at June 30, 2019 and 2018, respectively.

The Master Indenture has mandatory sinking fund redemption requirements in which funds are required to be set aside on the first day of each calendar month for the Series 2017 Bonds.

The indenture agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets limited as to use held by the trustee in the financial statements. The indenture agreement also requires the Medical Center to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 1.25 to 1 and restrictions on incurrence of additional debt.

Aggregate annual maturities of long-term debt at June 30, 2019, were:

2020	$ 3,191,892
2021	3,299,173
2022	3,426,558
2023	3,549,877
2024	3,679,159
Thereafter	20,338,169
	$ 37,484,828

Note 11: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were approximately $2,878,000 and $3,370,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to charges to the gross uncompensated care charges.

Note 12: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, without one year of the balance sheet date, comprise the following:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	$ 4,503,783	$ 3,400,436
Assets limited as to use – current	3,377,985	3,297,262
Patient accounts receivable, net	21,158,204	18,417,406
Other receivables	1,820,582	645,669
Estimated amounts due from third-party payers	-	1,973,277
Interest in net assets of Foundation	3,964,205	4,022,361
Assets limited as to use	88,574,514	82,410,553
457(b) asset	3,394,141	3,008,862
Insurance receivable	1,955,605	1,692,710
Interest in net assets of LHCG CXXXXIII, LLC	174,400	-
Total financial assets	128,923,419	118,868,536
Less amounts not available to be used within one year		
Held by trustees	1,288,290	1,299,360
Interest in net assets of Capital Region Medical Foundation	3,964,205	4,022,361
457(b) asset	3,394,141	3,008,862
Insurance receivable	1,955,605	1,692,710
Interest in net assets of LHCG CXXXXIII, LLC	174,400	-
Financial assets not available to be used within one year	10,776,641	10,023,293
Financial assets available to meet general expenditures within one year	$ 118,146,778	$ 108,845,243

The Medical Center has certain board-designated assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year.

The Medical Center has other assets limited to use for debt service. These assets limited to use, are not available for general expenditure within the next year.

As part of the Medical Center's liquidity management, it has a policy to structure its financial assets to be available as it general expenditures, liabilities and other obligations come due. In addition, the Medical Center invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Medical Center has a committed line of credit of $300,000, which it could draw upon for worker's compensation liabilities.

Note 13: Functional Expenses

The Medical Center provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services and general and administrative expense classifications based on the direct assignment, expenses and other methods. The following schedules present the natural classification of expenses by function as follows:

2019

	Administrative and General	Fundraising	Health Care Services	Total
Expenses				
Salaries and wages	$ 9,474,749	$ 86,640	$ 76,581,211	$ 86,142,600
Employee benefits	2,172,977	19,533	16,229,317	18,421,827
Purchased services	5,797,796	5,063	16,570,508	22,373,367
Supplies and other	7,032,505	40,915	63,525,662	70,599,082
Depreciation	1,131,824	5,115	10,495,411	11,632,350
Interest	184,882	836	1,340,982	1,526,700
Loss on sale of assets	15,272	-	-	15,272
Total expenses	$ 25,810,005	$ 158,102	$184,743,091	$210,711,198

	2018			
	Administrative and General	Fundraising	Health Care Services	Total
Expenses				
Salaries and wages	$ 10,200,134	$ 83,451	$ 74,561,876	$ 84,845,461
Employee benefits	2,747,074	20,935	18,640,525	21,408,534
Purchased services	3,973,801	5,102	12,052,017	16,030,920
Supplies and other	5,423,129	38,085	56,843,037	62,304,251
Depreciation	1,165,361	5,249	10,713,532	11,884,142
Interest	197,578	893	1,433,632	1,632,103
Gain on sale of assets	(635)	-	-	(635)
Total expenses	$ 23,706,442	$ 153,715	$174,244,619	$198,104,776

Note 14: Operating Leases

The Medical Center leases certain computer and medical equipment under operating lease agreements. Rental expense under these lease agreements totaled $1,283,907 and $1,184,536 for the years ended June 30, 2019 and 2018, respectively.

Noncancellable operating leases for office space and certain computer and medical equipment expire in various years through 2026. These leases generally contain renewal options and require the Medical Center to pay all executory costs (property taxes, maintenance and insurance). Future minimum lease payments at June 30, 2019, were:

2020	$ 461,344
2021	284,230
2022	191,414
2023	110,478
2024	84,000
Thereafter	147,000
	$ 1,278,466

Note 15: Significant Commitments

The Medical Center and Cerner Corporation (Cerner) have entered into a strategic information technology service agreement. Cerner has assumed operational and administrative responsibilities for the Medical Center's information technology environment and services, including remote hosting, monitoring and system performance capabilities. The agreement is effective from April 30, 2018, through June 30, 2025. At the end of the initial term, the agreement will renew in five-year increments. The payments on these agreements are recognized as expense when incurred.

Future minimum payments required under these agreements at June 30, 2019, are summarized as follows:

2020	$ 6,616,639
2021	7,063,386
2022	7,280,502
2023	6,969,510
2024	5,981,622
Thereafter	6,123,198
	$ 40,034,857

Expenses under this agreement totaled $4,089,558 and $765,976 for the years ended June 30, 2019 and 2018, respectively.

Note 16: Pension Plans

Defined Contribution Plan

The Medical Center has a defined contribution pension plan covering substantially all employees. The Board annually determines the amount, if any, of the Medical Center's contributions to the plan. Pension expense was approximately $1,186,000 and $1,337,000 for 2019 and 2018, respectively.

Participants may elect to defer up to 90 percent of their compensation (subject to federally determined limits). The Medical Center will make matching contributions equal to 50 percent of salary deferrals not to exceed 4 percent of the employee's compensation. The Medical Center's expense for these matching contributions was $1,056,804 and $1,024,309 for the years ended June 30, 2019 and 2018, respectively.

Deferred Compensation Plan

The Medical Center funds deferred compensation plans 457(f) and 457(b) for the benefit of senior executives and physicians. The trust account assets are classified as other assets and a corresponding deferred compensation obligation has been recorded by the Medical Center in the amounts of $3,394,141and $3,008,862 at June 30, 2019 and 2018, respectively.

Note 17: Related Party Transactions

Pursuant to the Affiliation Agreement, described in *Note 1,* the Medical Center is required to make annual contributions to Medical Alliance for the purposes of the integrated healthcare delivery system created by the Affiliation Agreement. Each annual contribution represents 1 percent of the Medical Center's annual patient service revenues, and may not exceed 25 percent of the Medical Center's excess of revenues over expenses. No contribution is required to the extent such contribution would result in a violation of debt covenants contained in any of the Medical Center's financing documents. In 2019 and 2018, the Medical Center accrued a transfer of $2,134,415 and $1,440,270, respectively, to Medical Alliance.

Certain administrative expenses of the Foundation are paid by the Medical Center. Such expenses totaled $136,416 and $129,169 for the years ended June 30, 2019 and 2018, respectively.

In conjunction with the affiliation with the University of Missouri Health Sciences Center, the University has provided staffing assistance to the Medical Center for clinic management and managed care services. As of June 30, 2019 and 2018, the Medical Center owed the University $58,470 and $49,565, respectively, for those services. For the years ended June 30, 2019 and 2018, the Medical Center incurred $4,063,646 and $2,850,281, respectively, to the University of Missouri for these services.

In conjunction with the affiliation with the LHC Group, the Medical Center received $26,648 and $0 in rent payments for the years ended June 30, 2019 and 2018, respectively.

Note 18: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Mutual funds	$ 34,557,411	$ 34,557,411	$ -	$ -
Mortgage-backed securities	15,071,455	-	15,071,455	-
Money market accounts	12,245,655	12,245,655	-	-
U.S. Treasury obligations	69,160	69,160	-	-
Corporate bonds	14,150,336	-	14,150,336	-
Corporate stock	150,996	150,996	-	-
Deferred compensation assets (primarily domestic and international equities)	3,394,141	-	3,394,141	-
Total fair value of recurring measurements	$ 79,639,154	$ 47,023,222	$ 32,615,932	$ -
June 30, 2018				
Mutual funds	$ 29,985,258	$ 29,985,258	$ -	$ -
Mortgage-backed securities	8,760,067	-	8,760,067	-
Money market accounts	13,546,557	13,546,557	-	-
U.S. Treasury obligations	69,725	69,725	-	-
Corporate bonds	14,171,442	-	14,171,442	-
Corporate stock	139,797	139,797	-	-
Deferred compensation assets (primarily domestic and international equities)	3,008,862	-	3,008,862	-
Total fair value of recurring measurements	$ 69,681,708	$ 43,741,337	$ 25,940,371	$ -

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, U.S. Treasury obligations and short-term bond mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Pricing models are based on quoted prices for securities with similar coupons, ratings and maturities, rather than on specific bids and offers for a designated security. Level 2 securities include U.S. governmental agency and asset backed securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Medical Center has no securities classified as Level 3.

Note 19: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Medical Center’s conditional asset retirement obligations primarily relate to asbestos contained in pipe insulation that the Medical Center owns. Environmental regulations exist that require the Medical Center to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. As of June 30, 2019 and 2018, a liability has been recorded for asbestos remediation in the amount of $153,499 and $150,799, respectively. Additionally, there remains a liability that has not been recognized in the accompanying financial statements because the range of time over which the Medical Center may settle is unknown and cannot be reasonably determined. The Medical Center will recognize a liability when sufficient information is available to reasonably estimate fair value.

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *6*.

Admitting Physicians

Three physician groups admitted approximately 62 percent and 58 percent of the Medical Center's patients in 2019 and 2018, respectively.

Litigation and Other

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

The Medical Center is currently under investigation from the Office of Inspector General for potential billing of unnecessary procedures of which an nonemployed physician with hospital privileges performed. The Medical Center is in the process of resolving this matter and has recorded a liability of approximately $935,000 as of June 30, 2019 and 2018. Events could occur that would cause the estimate of ultimate loss in the matter to differ materially in the near term.

Investments

The Medical Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Note 21: Future Changes in Accounting Principles

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual and interim periods beginning after December 15, 2018. The Medical Center is evaluating the impact the standard will have on the financial statements.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for annual and interim periods beginning after December 15, 2019. The Medical Center is in the process of evaluating the impact the amendment will have on the financial statements.