UNIVERSITY HEALTH SYSTEM
(Previously Known as University of Missouri Health System)

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

UNIVERSITY HEALTH SYSTEM

(Previously Known as University of Missouri Health System)

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KPMG LLP
Suite 900
10 South Broadway
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Independent Auditors' Report

The Board of Curators
University of Missouri:

We have audited the accompanying financial statements of University Health System (the Health System) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Health System's financial statements as listed in the table of contents. These financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements of the Health System are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities of the University of Missouri (the University) that is attributable to the transactions of the Health System. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2010 and 2009, the changes in its financial position or its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health System as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 14, 2010, on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

KPMG LLP

St. Louis, Missouri
October 14, 2010

UNIVERSITY HEALTH SYSTEM
(Previously Known as University of Missouri Health System)

Management's Discussion and Analysis

(Unaudited)

The Health System

The University of Missouri (the University) owns and operates University Health System (the Health System), which is comprised of University of Missouri Hospitals and Clinics (UMHC, made up of: University of Missouri Hospital, Ellis Fischel Cancer Center, Children's Hospital, Missouri Psychiatric Center, and Missouri Orthopedic Institute); University Physicians Medical Practice Plan (University Physicians); Missouri Rehabilitation Center (MRC); and Columbia Regional Hospital (CRH).

UMHC and CRH are the primary teaching hospitals for the University of Missouri-Columbia School of Medicine, the Sinclair School of Nursing, and the School of Health Professions. University Physicians is the organized practice plan for the faculty of the University of Missouri-Columbia School of Medicine and provides patient care through a network of clinics and at the aforementioned hospitals. All of the facilities and the operations of the Health System are under the control of the University.

In fiscal year 2009, the University transferred the name University of Missouri Health System to an entity that includes the Health System as defined above, and the Schools of Medicine, Nursing, and Health Professions (Schools). The University Health System will coordinate the strategic direction, priorities, and activities to provide for the future growth and success of the Health System and Schools. The operations of the Schools are not reflected in the accompanying financial statements of the Health System. Prior to 2009, the name "University of Missouri Health System" was attributed to the collection of organizations now referred to as University Health System, as defined above.

Health System Accounting and Financial Reporting

This report consists of three financial statements: (1) Statements of Net Assets, (2) Statements of Revenues, Expenses, and Changes in Net Assets, and (3) Statements of Cash Flows, and the related notes to the financial statements. These statements provide information on the Health System as a whole and present a view of its finances. The statements include all accounts of the Health System and are based on the accrual basis of accounting.

Statements of Net Assets Information

The Health System's Statements of Net Assets present the financial position of the Health System as of a fiscal year-end. These statements present the assets, liabilities, and net assets of the Health System.

UNIVERSITY HEALTH SYSTEM
(Previously Known as University of Missouri Health System)

Management's Discussion and Analysis

(Unaudited)

A summary of the Statements of Net Assets at June 30, 2010, 2009, and 2008 is as follows (dollars in thousands):

	Fiscal Year		
	2010	**2009**	**2008**
Assets:			
Current assets	$ 191,150	$ 159,961	$ 159,086
Other noncurrent assets	309,664	198,640	192,713
Capital assets	325,852	272,063	260,540
Total assets	$ 826,666	$ 630,664	$ 612,339
Liabilities:			
Current liabilities	$ 77,645	$ 57,657	$ 64,191
Noncurrent liabilities	321,539	208,475	213,776
Total liabilities	399,184	266,132	277,967
Net assets:			
Invested in capital assets, net of related debt	102,673	114,968	98,688
Restricted	5,591	4,355	4,303
Unrestricted	319,218	245,209	231,381
Total net assets	427,482	364,532	334,372
Total liabilities and net assets	$ 826,666	$ 630,664	$ 612,339

Fiscal Year 2010 Compared to Fiscal Year 2009

Total assets increased $196.0 million from $630.7 million in fiscal year 2009 to $826.7 million in fiscal year 2010. Cash, cash equivalents, and investments increased $125.0 million due to increased cash collections, as well as $45.5 million of unspent bond proceeds related to the University's issuance of Series 2009 A and B System Facilities Revenue Bonds in July 2009. Additional increases occurred in third-party and other receivables, and capital assets. The increase in third-party and other receivables is primarily the result of $13.9 million in receivables from the State of Missouri for graduate medical education payments and a capital appropriation. Capital assets, net of accumulated depreciation increased by $53.8 million from $272.1 million in fiscal year 2009 to $325.9 million in fiscal year 2010. The Health System continues to invest in capital additions and improvements throughout its facilities. Investment in capital for fiscal year 2010 included, but was not limited to, $17.5 million on renovations, $39.0 million on new building construction, $19.8 million on patient monitoring and diagnostic equipment, including a 1.5T MRI, Cardiology Imaging System, Diagnostic Radiology Equipment, and $10.0 million for technology software.

Total liabilities increased by $133.1 million from $266.1 million in fiscal year 2009 to $399.2 million in fiscal year 2010. This increase is primarily due to the issuance of $118.3 million of additional long-term debt in July 2009.

For fiscal year 2010, the Health System's total net assets were $427.5 million, which was an increase of $63.0 million over fiscal year 2009 level of $364.5 million.

Fiscal Year 2009 Compared to Fiscal Year 2008

Total assets increased $18.4 million from $612.3 million in fiscal year 2008 to $630.7 million in fiscal year 2009. Of this increase, $22.5 million resulted from cash and investment increases due to the results of operations and increased collections of accounts receivables. Offsetting these increases was a $14.5 million decrease in patient accounts receivable, net. The decrease in patient accounts receivable, net is due to initiatives to increase cash collections and automate processes. Capital assets, net of accumulated depreciation increased by $11.6 million from $260.5 in fiscal year 2008 to $272.1 in fiscal year 2009. The Health System continues to invest in capital additions and improvements throughout its facilities. Investment in capital for fiscal year 2009 included, but was not limited to, $8.4 million on renovations, $15.7 million on new building construction, $8.3 million on patient monitoring and diagnostic equipment, including an Artis Zee Biplane System, 1.5T MRI, Ultrasound Equipment, and a Computed Radiography System, and $5.3 million for technology software.

Total liabilities decreased by $11.9 million from $278.0 million in fiscal year 2008 to $266.1 million in fiscal year 2009. This decrease is primarily due to a $9.8 million decline in accounts payable and third-party settlements and a decrease in debt liabilities of $4.3 million. These decreases were partially offset by a $1.4 million increase in accrued compensation. The decrease in accounts payable and third-party liabilities is the result of overall expense management, including University mandated expense reductions, and the settlement of liabilities on prior year cost reports.

For fiscal year 2009, the Health System's total net assets were $364.5 million, which was an increase of $30.2 million over fiscal year 2008 level of $334.3 million.

UNIVERSITY HEALTH SYSTEM
(Previously Known as University of Missouri Health System)
Management's Discussion and Analysis
(Unaudited)

Statements of Revenues, Expenses, and Changes in Net Assets Information

The Health System's Statements of Revenues, Expenses, and Changes in Net Assets present the results of operations and nonoperating activities. A summary of these statements for the years ended June 30, 2010, 2009, and 2008 is as follows (dollars in thousands):

	Fiscal Year		
	2010	**2009**	**2008**
Net patient service revenues	$ 718,687	$ 685,207	$ 663,227
Other operating revenues	16,855	17,153	17,812
Total operating revenues	735,542	702,360	681,039
Operating expenses:			
Salaries and benefits	284,323	279,740	276,329
Medical supplies and drugs	121,733	118,021	123,707
Administrative and support services	49,634	45,288	39,472
Depreciation	34,168	33,241	31,295
University Physicians distributions and other expense	135,136	125,605	119,260
Other expenses	90,631	81,404	84,228
Total operating expenses	715,625	683,299	674,291
Operating income before State appropriations	19,917	19,061	6,748
State appropriations	25,636	22,887	24,092
Income after State appropriations, before nonoperating revenues, net	45,553	41,948	30,840
Interest expense, net of capitalized interest of $2,943 and $673 in 2010 and 2009, respectively	(9,197)	(7,437)	(7,905)
Other nonoperating revenues, net	19,681	(4,441)	13,554
Total nonoperating revenues, net	10,484	(11,878)	5,649
Income before capital additions, contributions, and transfers	56,037	30,070	36,489
State capital appropriations	4,042	—	—
Contributed capital assets	3,826	—	—
Capital and endowment gifts	229	33	—
Income before transfers	64,134	30,103	36,489
Transfers, net	(1,184)	57	(3,642)
Change in net assets	62,950	30,160	32,847
Total net assets, beginning of year	364,532	334,372	301,525
Total net assets, end of year	$ 427,482	$ 364,532	$ 334,372

Fiscal Year 2010 Compared to Fiscal Year 2009

For fiscal year 2010, the Health System had an increase in net assets of $63.0 million compared to $30.2 million for fiscal year 2009. Operating revenues in fiscal year 2010 were $33.2 million greater than prior year and represent a 4.7% increase. The increase in operating revenues is principally due to the opening of the 61-bed Missouri Psychiatric Center (MUPC) in July 2009 at University Hospital. The MUPC facility, located adjacent to UMHC, primarily provides inpatient services and resulted in the addition of 2,254 admissions, 17,081 patient days, and $17.3 million in net patient revenues.

	UMHC Key Statistics		
	Fiscal Year		
	2010	**2009**	**2008**
Admissions	21,601	19,096	20,260
Patient days	127,822	113,218	125,074
Clinic visits	532,239	519,597	510,897
Outpatient equivalent days	85,060	72,437	68,436
Emergency room visits	48,936	45,409	42,995
Operating room cases, excluding labor and delivery	18,514	18,152	18,418

In addition to the increase in inpatient utilization due to the opening of MUPC, fiscal year 2010 continued to experience increases in clinical and outpatient areas. Clinic visits increased by 12,642 or 2.4% and outpatient equivalent days increased by 12,623 or 17.4%. Emergency room visits grew by 3,527, or 7.8% over fiscal year 2009, and operating room cases increased by 362, or 2.0%.

In fiscal year 2010, operating expenses were $32.3 million higher than the prior year, which represents a 4.7% increase. Salary and benefit expense increased slightly by $4.6 million or 1.6%. This increase is due to the opening of the 61-bed MUPC, which resulted in adding approximately 200 full-time equivalent (FTE) positions. This increase in FTE's was offset by the transfer of approximately 60 employees to the University for purchasing services and information technology support, as well as providing the Cerner Corporation with approximately 100 FTE's for technology support and development services related to the Tiger Institute for Health Innovation agreement (TI Agreement). The TI Agreement provides information technology development and support of existing technology services, as well as a joint agreement for developing initiatives in health information systems.

Medical supplies and drugs increased 3.1% over prior year as a directly result of increased utilization. Administrative and support services expenses increased $4.3 million, or 9.6%, and reflects increased support to the University of Missouri-Columbia School of Medicine, as well as to the University of Missouri System for purchasing services and information technology support. An increase of $9.2 million in other expenses reflects increased contracted service fees related to the TI Agreement, and start-up costs associated with the May 2010 opening of the Missouri Orthopedic Institute. University Physicians distributions and other expenses increased by $9.5 million or 7.6% over fiscal year 2009 due to the higher patient revenue from physician services.

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Fiscal Year 2009 Compared to Fiscal Year 2008

For fiscal year 2009, the Health System had an increase in net assets of $30.2 million compared to $32.8 million for fiscal year 2008. Operating revenues in fiscal year 2009 were $21.3 million greater than prior year and represented a 3.1% increase. The increase in operating revenues is attributable to higher payment levels for patient services and greater outpatient activity including increased clinic visits, 8,700 over the prior year, and outpatient equivalent days, 4,001 over fiscal year 2008.

The increase in clinical and outpatient areas is directly offset by changes in inpatient areas. A decline in inpatient areas is reflected in the 5.7% decrease in consolidated admissions from 20,260 in fiscal year 2008 to 19,096 in fiscal year 2009. This decline is also shown in patient days with a decrease of 11,856 or 9.5%, as physicians continue to focus on patient centered care, and less invasive procedures. Emergency room visits grew by 5.6% over fiscal year 2008, which were offset by a slight decline in operating room cases of 1.4%.

In fiscal year 2009, operating expenses were $9.0 million higher than the prior year, which represents a 1.3% increase. Salary and benefit expense increased by 1.2% as a result of 4.0% average merit increases, plus market adjustments. The market and merit increases were offset by a decline in full-time equivalent staffing due to attrition, as well as decreased usage of third-party agency staff. Medical supplies and drugs decreased 4.6% over prior year as a directly result of decreases in patient days and operating room cases. Administrative and support services expenses increased $5.8 million, or 14.7%, and reflects increased support to the University of Missouri-Columbia School of Medicine. University Physicians distributions and other expenses increased by $6.3 million or 5.3% over fiscal year 2008 due to the higher patient revenue from physician services.

Statements of Cash Flows

The Health System's Statements of Cash Flows provide the sources and uses of cash resources. The cash flow statements for the years ended June 30, 2010, 2009, and 2008 are summarized as follows (dollars in thousands):

	Fiscal Year		
	2010	**2009**	**2008**
Cash provided by (used in):			
Operating activities	$ 57,412	$ 61,006	$ 34,480
Noncapital financing activities	24,134	23,768	21,689
Capital and related financing activities	23,983	(57,035)	(63,194)
Investing activities	(80,379)	(11,012)	(6,384)
Net increase (decrease) in cash and cash equivalents	25,150	16,727	(13,409)
Cash and cash equivalents, beginning of year	36,224	19,497	32,906
Cash and cash equivalents, end of year	$ 61,374	$ 36,224	$ 19,497

Fiscal Year 2010 Compared to Fiscal Year 2009

During fiscal year 2010, the Health System's cash increased by $25.2 million as compared to a $16.7 million increase in fiscal year 2009. For fiscal year 2010, operating activities generated $57.4 million, primarily through increased revenues as a result of increased utilizations in both the inpatient and outpatient areas. These funds were utilized to purchase routine capital expenditures in patient care areas. For noncapital financing activities in fiscal year 2010, the Health System had an increase in cash of $24.1 million, which resulted primarily from the receipt of $25.6 million in State appropriations. Capital and related financing activities resulted in increased cash, versus utilization of cash in fiscal year 2009 and 2008, due to the issuance of $118.3 million of long-term debt in fiscal year 2010. These bond proceeds were utilized to support construction of inpatient and outpatient facilities throughout the Health System. Investing activities decreased cash by $80.4 million principally due to an increase in long-term investment holdings by the University and related gains on these investments during fiscal year 2010.

Fiscal Year 2009 Compared to Fiscal Year 2008

During fiscal year 2009, the Health System's cash increased by $16.7 million as compared to a $13.4 million decrease in fiscal year 2008. For fiscal year 2009, operating activities generated $61.0 million, which was used to fund $57.0 million in capital and related financing activities. Of the $57.0 million used, $45.3 million was reinvested in new equipment technology, buildings, and other capital improvements. For noncapital financing activities in fiscal year 2009, the Health System had an increase in cash of $23.8 million, which resulted from the receipt of $22.9 million in state appropriations, and $.9 million in gifts. Investing activities decreased cash by $11.0 million due principally to an increase in long-term investment holdings by the University and related realized losses on these investments during fiscal year 2009.

Health System Outlook

For fiscal year 2010, the Health System continued to see increasing revenues, even during a time of economic instability. As in the prior years, the Health System continues to focus on improving patient care, customer service, and quality. The State appropriation funding approved for fiscal year 2011 decreases slightly from fiscal year 2010. In April 2010, a 5% fee increase was implemented and continues into fiscal year 2011 with pricing revisions made throughout the year as needed. The Health System continues to focus on physician recruitment, patient satisfaction, and core service lines.

For the future, the Health System continues to pursue growth and its academic mission. During fiscal year 2010, the Health System successfully expanded services including the operation of a 61-bed inpatient Missouri Psychiatric Center, and placed in service a $48 million Missouri Orthopedic Institute. Currently, under construction is a $203 million patient care tower, which includes a replacement of the Ellis Fischel Cancer Center. The patient tower is scheduled to be completed in fiscal year 2013. These capital investments will assist in providing quality care to patients, and enhanced facilities for physician recruitments with the University of Missouri-Columbia School of Medicine.

In March 2010, the federal government passed the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, collectively referred to as 'Health Care Reform.' This legislation will significantly impact the future of healthcare. As the final regulations and requirements of the Acts are prepared, Health System management continues to review and monitor the effect that the legislation will have on the organization. The Health System has not determined the full financial statement effect of this new Health Care Reform legislation.

UNIVERSITY HEALTH SYSTEM
(Previously Known as University of Missouri Health System)

Statements of Net Assets

June 30, 2010 and 2009

(Dollars in thousands)

Assets		**2010**		**2009**
Current assets:				
Cash and cash equivalents	$	50,958	$	35,582
Cash and cash equivalents – restricted		10,416		642
Short-term investments – restricted		1,810		2,461
Short-term investments		7,960		17,565
Patient accounts receivable, less allowance for doubtful accounts of $23,656 and $26,126 in 2010 and 2009, respectively		79,234		81,626
Third-party and other receivables		24,045		6,254
Inventories and other assets		16,727		15,831
Total current assets		191,150		159,961
Noncurrent assets:				
Investments designated for capital		4,535		3,157
Investments restricted for capital		34,358		—
Restricted investments		4,427		1,535
Long-term investments		260,023		188,515
Capital assets:				
Depreciable		291,729		242,013
Nondepreciable		34,123		30,050
Other assets		6,321		5,433
Total noncurrent assets		635,516		470,703
Total assets	$	826,666	$	630,664

See accompanying notes to financial statements.

(Continued)

Liabilities		**2010**		**2009**
Current liabilities:				
Accounts payable	$	25,994	$	14,764
Estimated third-party payor settlements		7,809		728
University Physicians distributions payable		11,765		13,586
Accrued interest		1,926		1,182
Accrued employee compensation		24,386		22,070
Deferred revenue		464		283
Capital lease obligations, current		591		544
Long-term debt, current		4,710		4,500
Total current liabilities		77,645		57,657
Noncurrent liabilities:				
Amount due University		55,000		55,000
Capital lease – less current portion		7,256		7,847
Long-term debt – less current portion		257,359		144,025
Deferred revenue – less current portion		1,924		1,603
Total noncurrent liabilities		321,539		208,475
Total liabilities		399,184		266,132
Net Assets				
Invested in capital assets, net of related debt		102,673		114,968
Restricted:				
Nonexpendable:				
Endowment		545		523
Expendable:				
Research and other		5,046		3,832
Unrestricted		319,218		245,209
Total net assets		427,482		364,532
Total liabilities and net assets	$	826,666	$	630,664

UNIVERSITY HEALTH SYSTEM
(Previously Known as University of Missouri Health System)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	2010	2009
Operating revenues:		
Net patient service revenues	$ 718,687	$ 685,207
Sales by auxiliary enterprises and other	16,855	17,153
Total operating revenues	735,542	702,360
Operating expenses:		
Salaries and benefits	284,323	279,740
Medical supplies and drugs	121,733	118,021
Administrative and support services	49,634	45,288
Depreciation	34,168	33,241
University Physicians distributions and other expenses	135,136	125,605
Other expenses	90,631	81,404
Total operating expenses	715,625	683,299
Operating income before State appropriations	19,917	19,061
State appropriations	25,636	22,887
Income after State appropriations, before Nonoperating revenues (expenses)	45,553	41,948
Nonoperating revenues (expenses):		
Investment income (loss)	19,032	(4,952)
Private gifts	997	824
Interest expense, net of amounts capitalized of $2,943 and $673 in 2010 and 2009, respectively	(9,197)	(7,437)
Loss on disposal, net	(348)	(313)
Total nonoperating revenues (expenses), net	10,484	(11,878)
Income before capital additions, contributions, and transfers	56,037	30,070
State capital appropriations	4,042	—
Contributed capital assets	3,826	—
Capital and endowment gifts	229	33
Income before transfers	64,134	30,103
Transfers (to) from the University, net	(2,501)	57
Transfers from the State	1,317	—
Change in net assets	62,950	30,160
Total net assets, beginning of year	364,532	334,372
Total net assets, end of year	$ 427,482	$ 364,532

See accompanying notes to financial statements.

UNIVERSITY HEALTH SYSTEM
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Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	2010	2009
Cash flows from operating activities:		
Cash proceeds from patient service revenue	$ 714,059	$ 695,968
Cash proceeds from other sales	17,056	17,748
Cash payments to employees	(218,969)	(218,392)
Cash payments for benefits	(63,038)	(59,993)
Cash payments to suppliers	(254,739)	(250,395)
Cash payments for University Physicians	(136,957)	(123,930)
Net cash provided by operating activities	57,412	61,006
Cash flows from noncapital financing activities:		
Transfers (to) from the University, net	(2,501)	57
State appropriations	25,636	22,887
Private and endowment gifts	999	824
Net cash provided by noncapital financing activities	24,134	23,768
Cash flows from capital and related financing activities:		
Capital expenditures	(77,316)	(45,333)
Cash proceeds from sales of capital assets	172	1,133
Capital state appropriations	345	—
Capital gifts	227	33
Proceeds on issuance of capital debt	118,264	—
Payments on cost of debt issuance	(1,149)	—
Principal payments on long-term debt	(4,500)	(4,295)
Capital lease principal payments	(544)	(501)
Interest paid on long-term debt	(11,516)	(8,072)
Net cash provided by (used in) capital and related financing activities	23,983	(57,035)
Cash flows from investing activities:		
Increase in investments	(100,518)	(6,564)
Cash proceeds from equity investees	638	790
Investment income (loss)	19,501	(5,238)
Net cash used in investing activities	(80,379)	(11,012)
Net change in cash and cash equivalents	25,150	16,727
Cash and cash equivalents, beginning of year	36,224	19,497
Cash and cash equivalents, end of year	$ 61,374	$ 36,224

(Continued)

UNIVERSITY HEALTH SYSTEM
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Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Dollars in thousands)

	2010	2009
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 19,917	$ 19,061
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	34,168	33,241
Provision for bad debts	51,267	43,254
Changes in assets and liabilities:		
Net patient receivables and third-party receivable	(55,888)	(32,493)
Inventories and other assets	(735)	(195)
Accounts payable and accrued expenses	8,683	(1,862)
Net cash provided by operating activities	$ 57,412	$ 61,006
Supplemental disclosures of noncash activities:		
Earnings from ownership interest of equity investments	$ 960	$ 605
Contributed capital assets	3,826	—
Conveyance of property from the State of Missouri, net	1,317	—

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Organization

University Health System, previously known as the University of Missouri Health System, (the Health System), is a part of the University of Missouri (the University). As a component unit of the State, the University is exempt from federal income tax under Section 115 of the Internal Revenue Code.

The Health System consists of the University of Missouri Hospital and Clinics (UMHC), a tertiary referral center located in Columbia, Missouri, comprised of University Hospital, Children's Hospital, Ellis Fischel Cancer Center, Missouri Psychiatric Center, and Missouri Orthopedic Institute; Columbia Regional Hospital (CRH), a Community Hospital; Missouri Rehabilitation Center (MRC) in Mt. Vernon, Missouri; and the University Physicians Medical Practice Plan (University Physicians). University Physicians is the organized practice plan for the University of Missouri-Columbia School of Medicine. The net revenues, expenses, patient accounts receivable, and distributions payable for University Physicians are reflected in the financial statements. Intercompany transactions within the Health System have been eliminated.

On July 1, 2009, the Health System began operating the Missouri Psychiatric Center, a 61-bed inpatient psychiatric services facility. Per enactment of House Bill 918, the facilities for this Center were conveyed to the University by agreement between the State of Missouri, the Missouri Department of Mental Health, and the Board of Curators (the Board).

In fiscal year 2009, the University transferred the name University of Missouri Health System to include both the Health System as defined above, and the Schools of Medicine, Nursing, and Health Professions (Schools). The University Health System will coordinate the strategic direction, priorities, and activities to provide for the future growth and success of the Health System and Schools. The operations of the Schools are not reflected in the accompanying financial statements of the Health System. Prior to 2009, the name "University of Missouri Health System" was attributed to the collection of organizations now referred to as University Health System, as defined above.

(b) Basis of Accounting

The financial statements of the Health System are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Health System applies all applicable GASB pronouncements and Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The Health System's resources are classified for accounting and reporting purposes into the following four net asset categories:

Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation and outstanding principal debt balances attributable to the acquisition, construction, or improvement of those assets.

Restricted – Nonexpendable – Net assets subject to externally imposed constraints that must be maintained permanently by the Health System. Such net assets include the Health System's permanent endowment funds.

Restricted – Expendable – Net assets whose use by the Health System is subject to externally imposed constraints that can be fulfilled by actions of the Health System pursuant to those stipulations or that expire by the passage of time. The Health System's policy is to utilize specifically restricted net assets prior to unrestricted net assets when both are available for use.

Unrestricted – Net assets that are not subject to externally imposed constraints nor related to capital assets. Unrestricted net assets may be designated for specific purposes by action of management or the Board.

(c) Cash and Cash Equivalents

The Health System participates in the University's pooled cash accounts. Cash and cash equivalents consists of the University's bank deposits, repurchase agreements, money market funds, and other investments with original purchased maturities of three months or less. Cash equivalents also include variable rate demand notes, which are debt securities with an original maturity beyond three months, but with a demand feature that allows for liquidity with advance notice of no more than seven days. All of the Health System's cash and cash equivalents are included in the University's pooled funds. These assets are stated at fair value.

(d) Inventories

Inventories, consisting primarily of drugs and medical supplies, are stated at the lower of cost (determined using the first-in, first-out method) or market.

(e) Investments

The Health System participates in the University's pooled investment accounts, which primarily include allocations of U.S. and foreign government agency obligations, corporate debt securities, with smaller allocations of other investments including corporate stocks, private equities, real estate, and hedge funds. Debt securities with a maturity less than one year are classified as short-term investments.

(f) Investments Designated for Capital

The Health System has set aside certain assets to be used for capital projects.

(g) Capital Assets

These assets are carried, if purchased, at cost or, if donated, at fair value at date of gift. Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets – generally 10 to 40 years for buildings and improvements, 8 to 25 years for infrastructure, and 3 to 15 years for equipment. Land is not depreciated. Net interest expense incurred during the construction of debt-financed facilities is generally included in the capitalization of the related facilities.

(Continued)

(Dollars in thousands)

(h) Long-Term Debt

Unamortized bond discounts and deferred financing fees are amortized on a straight-line basis over the lives of the bonds, which approximate the effective-interest method. The Health System amortizes on a straight-line basis the loss on defeased debt over the remaining life of the defeased bonds.

(i) Deferred Revenues

Deferred revenue primarily consists of the sale of the Health Pavilion capital lease to the Institute for Outpatient Surgery (IOS) in July 2002, which is being amortized over the remaining life of the lease through 2020.

(j) Net Patient Service Revenues

The Health System has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discount charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as estimates are refined and final settlements are determined. Net patient service revenue is also shown net of estimated uncollectible accounts.

Amounts receivable under Medicare and Medicaid reimbursement agreements are subject to examination and certain retroactive adjustments by the related programs. These adjustments decreased net patient services revenues by $560 for the year ended June 30, 2010, and increased net patient services revenues by $1,977 for the year ended June 30, 2009.

Both UMHC and CRH Medicare cost reports have been settled through June 30, 2007; MRC Medicare reports have been settled through June 30, 2008. The Medicaid program reimburses inpatient services on a prospective established per diem rate. The Medicaid program reimburses outpatient services under a combination of prospective and fee schedule amounts.

A percentage breakdown of gross patient accounts receivable by major payor classification of the Health System for the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Medicare	23%	26%
Commercial insurance	4	10
Medicaid	25	20
Self-pay and other	17	17
Managed care agreements	31	27
	100%	100%

(Dollars in thousands)

Patient services revenue includes the State of Missouri Federal Reimbursement Allowance Program (FRA Program) for uncompensated care. The Health System recognizes FRA Program revenue in the period earned.

The gross to net patient revenue detail is reflected below for both 2010 and 2009. Only net patient revenue is reflected on the Statements of Revenues, Expenses, and Changes in Net Assets.

		2010		2009
Gross patient revenue	$	1,543,685	$	1,449,220
Less deductions for contractual allowances		(773,731)		(720,759)
Less deductions for bad debt allowances		(51,267)		(43,254)
Net patient revenue	$	718,687	$	685,207

(k) Operating Revenues and Expenses

The Health System's policy for defining operating activities as reported on the Statements of Revenues, Expenses, and Changes in Net Assets are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all of the Health System's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, including state appropriations and investment income.

(l) Appropriation and Private Gifts

The State of Missouri provides direct appropriations to the Health System, which totaled $25,636 and $22,887 for the years ended June 30, 2010 and 2009, respectively. During 2010, the Health System also received capital appropriations from the State of Missouri of $4,042, primarily to fund renovation of the conveyed buildings and infrastructure related to the University of Missouri Psychiatric Center.

The Health System recognizes gifts in the period when all eligibility requirements are met. For recognition purposes, GASB defines eligibility requirements. The Health System received expendable gifts in 2010 and 2009 of $997 and $824, respectively. The Health System also received gifts for capital assets and endowments in 2010 and 2009 of $229 and $33, respectively.

(m) Contributed Capital Assets

As of January 2010, the Health System began a cooperative relationship with the Cerner Corporation referred to as the Tiger Institute for Health Innovation (the Tiger Institute). The Tiger Institute provides continued maintenance of information technology throughout the Health System, as well as developing new technology initiatives in health information systems within the clinical areas. Under the Tiger Institute agreements, the Health System received contributed capital assets of information technology systems in the amount of $3,826 in fiscal year 2010.

(Continued)

(Dollars in thousands)

(n) Uncompensated Care

In line with its mission, the Health System provides some services to patients without regard to their ability to pay for those services. For some of its patient services, the Health System receives no payment or payment that is less than the full cost of providing the services. The following are descriptions of uncompensated care:

Charity Care – The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient revenues.

Unreimbursed Cost under State and Local Government Assistance Programs – In addition, the Health System provides services to other patients under certain state and local government assistance programs, which pay providers amounts generally less than the cost of rendering the services. These cost amounts have been reduced by all payments received on these accounts, including amounts received from the FRA Program. Under the FRA Program, the Health System received net payments of $44,289 and $31,663, in fiscal years 2010 and 2009, respectively. Payments received under the FRA Program are subject to regulatory limits set by the Centers for Medicare and Medicaid Services (CMS). When CMS determines amounts have been reimbursed in excess of these limits, the excess is to be paid back to the State of Missouri and CMS by the provider. The Health System maintains $3,581 in estimated third-party payor settlements for potential repayments.

Uncollectible Accounts – Furthermore, services provided to certain patients of the Health System, who do not either apply for or qualify for charity care, are uncollectible.

The estimated cost of services provided by the Health System for charity care, estimated unreimbursed costs of providing services to state and local government assistance programs, and uncollectible accounts, for the years ended June 30, 2010 and 2009, respectively, are as follows:

	2010	2009
Cost of charity care	$ 12,379	$ 10,873
Unreimbursed cost under state and local government assistance programs, net of Medicaid disproportionate share funding, less Medicaid provider taxes	2,909	6,709
Cost of uncollectible accounts	23,696	19,269
Total	$ 38,984	$ 36,851

(o) University Physician Distributions and Other Expenses

In accordance with the University Physicians Medical Practice Plan, net collections of University Physicians billings are distributed to the University of Missouri-Columbia School of Medicine in support of departmental expenses, physician salaries and incentives, and overhead expenses. At

June 30, 2010, University Physician distributions payable reflects the amount owed physicians for patients accounts receivable not yet distributed.

(p) Use of Estimates

The preparation of the basic 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) New Accounting Pronouncements

Effective for fiscal year 2010, the Health System adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires all intangible assets not specifically excluded by its scope provisions be classified as capital assets and establishes guidance specific to their amortization. The statement also requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable and establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Adoption of GASB Statement No. 51 did not have an effect on the Health System's financial statements.

Effective for fiscal year 2010, the Health System adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The statement requires derivative instruments to be measured at fair value at the reporting date, with changes in fair value generally being reported as investment gains or losses. However, changes in fair value of hedging derivative instruments would be deferred until the related instrument ends or ceases to significantly reduce risk. Adoption of GASB Statement No. 53 did not have a material effect on the Health System's financial statements.

In June 2010, GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. The statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The University has not yet determined the effect that adoption of GASB Statement No. 59 may have on its financial statements, and as the Health System participates in the investment pools of the University, the Health System has also not determined the financial statement effect of implementing this statement.

(r) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

(2) Cash and Cash Equivalents

(a) Cash and Cash Equivalents

The Health System participates in the University's pooled cash and investment accounts, stated at fair value, and holds an equity investment in the pool. Cash and cash equivalents consist of the University's bank deposits, repurchase agreements, money market funds, and other investments with original maturities of three months or less. Cash equivalents also include variable rate demand notes, which are debt securities with an original maturity beyond three months, but with a demand feature that allows for liquidity with advance notice of no more than seven days.

(b) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of bank failure, the University's deposits may not be recovered. State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. Agencies, and instrumentalities of the State of Missouri; bonds of any city, county, school district, or special road district of the State of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The University's cash deposits, including the Health System's share, were fully insured or collateralized at June 30, 2010 and 2009.

(3) Investments

(a) Investments

The investment policies of the University are established by the Board. The policies ensure that the University funds are managed in accordance with Section 105.688 of the Revised Statutes of Missouri and with prudent investment practices. The use of external investment managers has been authorized by the Board. Substantially all cash and investments are managed centrally, as follows:

General Pool (Short-Term Funds) – The General Pool contains short-term University funds, including but not limited to cash and reserves, operating funds, bond funds, and plant funds. Subject to various limitations contained within the corresponding investment policy, the University's internally managed General Pool may be invested in the following instruments: U.S. Government securities; U.S. Government Agency securities; U.S. Government guaranteed securities; investment grade corporate bonds; certificates of deposit; repurchase agreements; commercial paper; and other similar short-term investment instruments of like or better quality. A limited component of the General Pool may be invested in the University's Balanced Pool; at June 30, 2010 and 2009, 18.0% and 25.0%, respectively, of General Pool funds were invested in the Balanced Pool.

Balanced Pool (Long-Term Funds) - The Balanced Pool, which is externally managed, is the primary investment vehicle for endowment funds. Subject to various limitations contained within the corresponding investment policy, the Balanced Pool is allowed to invest in the following asset sectors: U.S equity, international equity, emerging markets equity, absolute return strategies, private equity, real estate, global fixed income, and Treasury inflation-protected securities.

(Dollars in thousands)

The Health System's share of the University's investments, by investment type, is as follows:

	As of June 30, 2010	As of June 30, 2009
Debt Securities:		
U.S. Treasury	$ 35,053	$ 20,234
U.S. Agency	159,571	47,587
Asset-Backed Securities	1,789	9,688
Government - Foreign	5,869	10,561
Corporate - Domestic	44,284	26,793
Corporate - Foreign	4,730	7,407
Equity Securities:		
Domestic	13,008	37,953
Foreign	13,208	24,194
Commingled Funds:		
Absolute Return	4,873	7,586
Debt Securities - Domestic	2,709	–
Debt Securities - Foreign	4,717	–
Equity Securities - Domestic	5,092	–
Equity Securities - Foreign	10,866	9,187
Real Estate	1,173	2,815
Other	6,171	9,228
Total Investments	313,113	213,233
Money Market Funds	13,130	15,686
Commercial Paper	39,554	13,339
Variable Rate Demand Notes	7,330	5,840
Other	1,360	1,359
Total Cash and Cash Equivalents	61,374	36,224
Total Investments and Cash & Cash Equivalants	**$ 374,487**	**$ 249,457**

Total cash equivalents and investments include investments held by the University related to the $55,000 Amount due University (see note 10). The Health System does not earn investment income on these funds based on the loan agreement.

(b) Custodial Credit Risk

For investments, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the University will not be able to recover the value of the investments held by an outside party. In accordance with its policy, the University minimizes custodial credit risk by establishing limitations on the types of instruments held with qualifying institutions. Repurchase agreements must be collateralized by U.S. Government issues and/or U.S. Government Agency issues. All University investments are insured or registered and are held by the University or an agent in its' name.

(c) Concentration of Credit Risk

The concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. The investment policies for the General Pool and Balanced Pool all specify diversification requirements across asset sectors. The investment policy for the General Pool has specific single issuer limits in place for corporate bonds and commercial paper.

Excluding investments issued or guaranteed by the U.S. government, as well as investments in mutual funds and other pooled investments, as of June 30, 2010, of the Health System's share of the University's total cash and investments, 18.8% are issues of the Federal Home Loan Bank (FHLB), and 12.4% are issues of the Federal National Mortgage Association (FNMA). As of June 30, 2009, of the Health System's share of the University's total cash and investments, 7.5% are issues of FHLB, and 8.8% are issues of the FNMA.

(d) Credit Risk

Debt securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain debt securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

Nationally recognized statistical rating organizations, such as Moody's and Standard & Poor's (S&P), assign credit ratings to security issues and issuers that indicate a measure of potential credit risk to investors. Debt securities considered investment grade are those rated at least Baa by Moody's and BBB by S&P. For General Pool investments, the following minimum credit ratings have been established to manage credit risk: minimum long-term rating of A or better by S&P, with minimum rating of A-1/P-1 for commercial paper and other short-term securities. For Balanced Pool investments, the respective investment policies allow for debt securities rated investment-grade or better. In all cases, disposition of securities whose ratings have been downgraded after purchase is generally left to the discretion of the respective investment manager after consideration of individual facts and circumstances.

All holdings of commercial paper and variable rate demand notes were rated A-1/P-1 or better at June 30, 2010 and 2009, respectively. All holdings of money market funds were rated AAA at June 30, 2010 and 2009.

(Dollars in thousands)

Based on investment ratings provided by Moody's or S&P, the following represents the Health System's share of the University's investment exposure to credit risk:

	As of June 30, 2010	As of June 30, 2009
U.S. Treasury Obligations	$ 35,053	$ 20,234
U.S. Agency Obligations	159,571	47,587
Asset-Backed/Mortgage-Backed Securities		
Guaranteed by U.S. Agencies	926	7,929
Aaa/AAA	387	1,296
Aa/AA	68	123
A/A	147	77
Baa/BBB	21	26
Ba/BB and lower	82	237
Unrated	158	–
Government - Foreign		
Aaa/AAA	3,051	7,057
Aa/AA	1,183	3,034
A/A	864	308
Baa/BBB	170	162
Unrated	601	–
Corporate - Domestic		
Aaa/AAA	1,489	344
Aa/AA	13,906	6,385
A/A	25,787	18,913
Baa/BBB	76	837
Ba/BB and lower	2,442	–
Unrated	584	314
Corporate - Foreign		
Aaa/AAA	2,639	4,217
Aa/AA	486	1,611
A/A	904	981
Baa/BBB	79	300
Ba/BB and lower	185	–
Unrated	437	298
Total	**$ 251,296**	**$ 122,270**

(e) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Debt securities with longer maturities are likely to be subject to more variability in their fair values as a result of future changes in interest rates. The University does not have a formal policy that addresses interest rate risk. Such risk is managed by each individual investment manager, as applicable.

The University has investments in asset-backed securities, which consist primarily of mortgage-backed securities guaranteed by U.S. agencies and corporate collateralized mortgage obligations. These securities are based on cash flows from principal and interest payments on the underlying securities. An asset-backed security may have repayments that vary significantly with changes in market interest rates. The contractual final maturities reflected for asset-backed securities do not reflect actual projected cash flows.

(Dollars in thousands)

At June 30, 2010 and 2009, the maturities of the Health System's share of the University's investments are as follows:

	As of June 30,	
	2010	2009
U.S. Treasury Obligations		
Less than 1 year	$ 76	$ 607
1–5 years	15,565	5,281
6–10 years	16,254	7,607
More than 10 years	3,158	6,739
Total U.S Treasury Obligations	35,053	20,234
U.S. Agency Obligations		
Less than 1 year	5,064	14,756
1–5 years	80,142	12,598
6–10 years	51,945	5,266
More than 10 years	22,420	14,967
Total U.S. Agency Obligations	159,571	47,587
Asset-Backed Securities		
Less than 1 year	–	–
1–5 years	90	220
6–10 years	87	226
More than 10 years	1,612	9,242
Total Asset-Backed Securities	1,789	9,688
Government - Foreign		
Less than 1 year	283	195
1–5 years	1,999	1,941
6–10 years	2,426	6,193
More than 10 years	1,161	2,232
Total Government - Foreign	5,869	10,561
Corporate - Domestic		
Less than 1 year	3,907	4,073
1–5 years	33,737	15,971
6–10 years	6,372	6,348
More than 10 years	268	401
Total Corporate - Domestic	44,284	26,793
Corporate - Foreign		
Less than 1 year	438	395
1–5 years	3,001	3,901
6–10 years	822	1,908
More than 10 years	469	1,203
Total Corporate - Foreign	4,730	7,407
Total Debt Securities	**$ 251,296**	**$ 122,270**

(Dollars in thousands)

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a foreign investment. The University's investment policy allows for exposure to non-U.S. dollar denominated equities and fixed income securities. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency contracts. As of June 30, 2010 and 2009, 8.5% and 14.7%, respectively, of the Health System's share of the University's total investments and cash equivalents were denominated in foreign currencies. The Health System's share of the University's forward foreign currency contracts in notional amounts totaled $11,768 and $17,758 at June 30, 2010 and 2009, respectively. These contracts are marked to market and the changes in their market value are recorded in investment income on the Statements of Revenues, Expenses, and Changes in Net Assets.

	As of June 30, 2010	As of June 30, 2009
Debt Securities		
Euro	$ 4,414	$ 8,730
Australian dollar	841	992
Japanese yen	734	2,930
British pound sterling	558	1,434
Canadian dollar	524	637
Other	1,444	841
Total Debt Securities	8,515	15,564
Equity Securities		
Euro	4,206	8,335
Japanese yen	2,577	4,308
British pound sterling	2,267	3,578
Swiss franc	929	1,692
Australian dollar	605	811
Canadian dollar	445	1,064
Other	793	1,374
Total Equity Securities	11,823	21,162
Commingled Funds		
Various currency denominations:		
Debt securities – foreign	4,717	–
Equity securities – foreign	10,866	9,187
Total Commingled Funds	15,583	9,187
Cash and Cash Equivalents		
Euro	369	676
British pound sterling	15	112
Japanese yen	13	37
Australian dollar	5	19
Canadian dollar	5	11
Danish krone	2	–
Other	8	17
Total Cash and Cash Equivalents	416	872
Total Exposure to Foreign Exchange Risk	**$ 36,337**	**$ 46,785**

(Dollars in thousands)

(4) Capital Assets

Capital assets activity is summarized as follows:

	2010				
	Beginning balance	Additions/ Transfers	Transfer from State	Retirements	Ending balance
Capital assets, nondepreciable:					
Land	$ 4,946	$ —	$ 1	$ —	$ 4,947
Construction in progress	25,104	4,072	—	—	29,176
Total capital assets, nondepreciable	30,050	4,072	1	—	34,123
Capital assets, depreciable:					
Buildings and improvements	296,297	53,371	5,761	1,112	354,317
Infrastructure	2,876	4	18	13	2,885
Equipment	227,079	29,714	813	12,119	245,487
Total capital assets, depreciable	526,252	83,089	6,592	13,244	602,689
Less accumulated depreciation:					
Buildings and improvements	130,636	12,713	4,554	1,028	146,875
Infrastructure	1,434	169	9	4	1,608
Equipment	152,169	21,286	713	11,691	162,477
Total accumulated depreciation	284,239	34,168	5,276	12,723	310,960
Total capital assets, depreciable, net	242,013	48,921	1,316	521	291,729
Total capital assets, net	$ 272,063	$ 52,993	$ 1,317	$ 521	$ 325,852

(Continued)

(Dollars in thousands)

	2009			
	Beginning balance	**Additions/ Transfers**	**Retirements**	**Ending balance**
Capital assets, nondepreciable:				
Land	$ 4,946	$ —	$ —	$ 4,946
Construction in progress	10,890	14,214	—	25,104
Total capital assets, nondepreciable	15,836	14,214	—	30,050
Capital assets, depreciable:				
Buildings and improvements	289,296	7,538	537	296,297
Infrastructure	2,876	—	—	2,876
Equipment	215,222	24,254	12,397	227,079
Total capital assets, depreciable	507,394	31,792	12,934	526,252
Less accumulated depreciation:				
Buildings and improvements	119,637	11,411	412	130,636
Infrastructure	1,264	170	—	1,434
Equipment	141,789	21,660	11,280	152,169
Total accumulated depreciation	262,690	33,241	11,692	284,239
Total capital assets, depreciable, net	244,704	(1,449)	1,242	242,013
Total capital assets, net	$ 260,540	$ 12,765	$ 1,242	$ 272,063

The estimated cost to complete construction in progress at June 30, 2010 is $189,922 of which $98,607 is available from unrestricted net assets. The remaining costs will be funded from current unspent and future issued bond proceeds of $88,562 and $2,753 of future State capital appropriations. Included in capital assets is a building facility under a capital lease of $8,332 and related accumulated depreciation of $4,478 and $4,062 at June 30, 2010 and 2009, respectively.

(Continued)

(Dollars in thousands)

(5) Long-Term Debt

Long-term debt activity is summarized as follows:

	2010					
	Beginning of year	Issuance	Bond payments	Defeasance	Amortization	End of year
System Facilities Revenue Bonds						
2006 A	$ 148,855	$ —	$ (4,500)	$ —	$ —	$ 144,355
2009 A and B	—	115,251	—	—	—	115,251
Plus unamortized premium/discounts	7,162	3,013	—	—	(659)	9,516
Less loss on defeasance	(7,492)	—	—	—	439	(7,053)
Total long-term debt	148,525	$ 118,264	$ (4,500)	$ —	$ (220)	262,069
Less current portion	4,500					4,710
Long-term debt	$ 144,025					$ 257,359

	2009					
	Beginning of year	Issuance	Bond payments	Defeasance	Amortization	End of year
System Facilities Revenue Bonds						
2006A	$ 153,150	$ —	$ (4,295)	$ —	$ —	$ 148,855
Plus unamortized premium/discounts	7,585	—	—	—	(423)	7,162
Less loss on defeasance	(7,931)	—	—	—	439	(7,492)
Total long-term debt	152,804	$ —	$ (4,295)	$ —	$ 16	148,525
Less current portion	4,295					4,500
Long-term debt	$ 148,509					$ 144,025

On July 23, 2009, the Health System received $118,264 of bond proceeds from the University’s issuance of the Series 2009 A and B System Facilities Revenue Bonds. The proceeds consist of $91,063 in taxable Series 2009A Bonds designated as “Build America Bonds” under the Internal Revenue Code of 1986, as amended, and $27,201 in tax-exempt Series 2009B Bonds. The Series 2009A bonds bear interest at a stated rate of 5.96%. The University will receive a cash payment from the U.S. Treasury in an amount equal to 35% of the interest payable on each interest payment date. The all-in-true interest cost of the Series 2009A Bonds, after taking into account the 35% interest payment from the federal government, is 3.953%. The Series 2009B Bonds bear interest at rates of 3.0% to 5.0% with an average interest rate of 3.13%.

In 2006, the University issued $161,285 of System Facilities Revenue Bond Series 2006A to advance refund and defease the Health Facilities Revenue Bonds, Series 1996, and Series 1998 and to finance certain costs of issuance. The System Facilities Revenue Bond Series 2006A was issued with an interest cost of 3.1% to 5.0%.

(Dollars in thousands)

An $8,992 loss in connection with the defeasance of the Health Facilities 1996 and 1998 Series was included as a reduction of debt outstanding and is being amortized over the remaining life of the original Health Facilities 1996 and 1998 Series. The balance at June 30, 2010 and 2009 was $7,053 and $7,492, respectively. The defeasance decreased the aggregate debt service payments by $19,167.

Future minimum maturities on long-term debt as of June 30, 2010 for the next five fiscal years ending June 30 and beyond are as follows:

	Principal	Interest	Total
2011	$ 4,710	$ 11,446	$ 16,156
2012	6,665	11,193	17,858
2013	7,010	10,898	17,908
2014	7,276	10,572	17,848
2015	7,540	10,224	17,764
2016 – 2020	44,573	44,955	89,528
2021 – 2025	58,671	32,558	91,229
2026 – 2030	64,964	17,428	82,392
2031 – 2035	26,310	8,803	35,113
2036 – 2040	31,887	3,183	35,070
Total	$ 259,606	$ 161,260	$ 420,866

(6) Lease Obligations

The Health System leases various facilities and equipment through operating and capital leases. Facilities under capitalized leases are recorded at the present value of future minimum lease payments. Total rental expenses for operating leases for the years ended June 30, 2010 and 2009 was $2,086 and $2,271, respectively.

On September 30, 1999, the Health System entered into a capital lease obligation for a facility, which is used by CRH. Expenditures incurred on operating leases for rental payments are charged to current expenses.

(Dollars in thousands)

Capital lease activity is summarized as follows:

	2010			
	Beginning of year	Payments	Reclass to short term	End of year
Total capital lease obligation	$ 8,391	$ 544	$ —	$ 7,847
Less current capital lease obligation	544	—	47	591
Long-term capital lease obligation	$ 7,847	$ 544	$ 47	$ 7,256

	2009			
	Beginning of year	Payments	Reclass to short term	End of year
Total capital lease obligation	$ 8,892	$ 501	$ —	$ 8,391
Less current capital lease obligation	501	—	43	544
Long-term capital lease obligation	$ 8,391	$ 501	$ 43	$ 7,847

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2010 are as follows:

	Capital	Operating
Fiscal year:		
2011	$ 1,563	$ 1,969
2012	1,563	1,628
2013	1,563	1,152
2014	1,563	1,098
2015	1,563	709
2016 – 2020	6,642	926
Total future minimum payments	14,457	$ 7,482
Less amount representing interest	6,610	
Present value of future minimum lease payments	$ 7,847	

In addition to the above lease obligations, the Health System has outstanding commitments for the usage, and ongoing support of its information technology environment. As of January 2010, the Health System began contracting for software usage and maintenance fees, as well as, labor costs for approximately 100 full-time equivalent employees, with the Cerner Corporation. As of June 30, 2010, this contracted commitment totaled $147,726 and will be paid in the following amounts: $11,080 in 2011, $13,002 in 2012, $14,938 in 2013, $15,386 in 2014, $15,847 in 2015, and $77,473 thereafter.

(Continued)

(Dollars in thousands)

Description of Sublease Arrangement with IOS – Concurrent with the fiscal year 2003 sale of assets to IOS, the Health System entered into an agreement with IOS whereby IOS subleased certain building space from the Health System for a period of approximately 17 years at current market rates. The Health System recorded the transaction as a direct financing lease and recorded a minimum lease payment to be received of $6,375, unearned rental income of $3,233, and wrote off $3,142 of building and improvements related to the sublease. The total minimum lease payments to be received are reflected in the other assets lines in the Statements of Net Assets.

Total minimum lease payments to be received:		
Current	$	475
Noncurrent		3,922
Total		4,397
Less unearned rental income		2,134
Present value of future minimum lease payments	$	2,263

During 2010, the Health System received $447 of rental income from IOS. At June 30, 2010, minimum lease payments for each of the five succeeding fiscal years are as follows: $475 in 2011, $475 in 2012, $475 in 2013, $475 in 2014, $475 in 2015, and $2,020 thereafter.

(7) Insurance

(a) Malpractice

The Health System participates in the University’s Medical, Professional, and Patient General Liability Trust (the Trust), which was established by the Board effective July 1, 1978.

Payments from the Trust are limited to the settlement of medical, professional, and patient general liability claims and expenses. The assets of the Trust and the related estimated liabilities have been recorded by the University as part of its unrestricted funds.

The amounts funded by the Health System are actuarially determined, based principally on previous claim experience, to provide for settlement of claims arising out of the Health System’s operations. The amounts contributed by the Health System to the Trust were $2,707 and $3,053 for the years ended June 30, 2010 and 2009, respectively, and are reflected as other expense in the accompanying basic financial statements.

Currently various claims are pending against the University; however, in the opinion of the University’s administration and its legal counsel, liabilities, if any, arising from these claims are adequately covered by the Trust. The settlement of these claims is not expected to have a material effect on the Health System’s liquidity, operations, and financial position.

(b) Other

The Health System is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; injuries to employees; natural disasters; and various medically related benefit programs for employees. They participate in the University's plan, which funds these losses through a combination of self-insured retentions and commercially purchased insurance. The amount of self-insurance funds and commercial insurance maintained are based upon analysis of historical information and actuarial estimates. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. The Health System is charged a premium annually from the University for such coverage.

(8) Retirement Plan

(a) Plan Description

All qualified employees of the Health System participate in the University of Missouri Retirement, Disability, and Death Benefits Plan (the Plan), a single employer defined benefit plan.

All full-time employees of the Health System are eligible for benefits after five years of service. The annual lifetime pension of a member is calculated by multiplying the number of years of service by 2.2% of the compensation base. The compensation base is the average regular annual salary of the member for the five consecutive highest salary years. Benefits to pensioners may be increased at certain times to reflect cost-of-living changes. Full benefits are available to members who retire at age 65 or thereafter. Faculty and staff who have completed 25 years in service can retire at age 62 without an early retirement reduction in their benefits. Early retirement benefits are available at reduced rates to members age 55 to 60 with at least 10 years of credited service and members age 60 to 65 with at least five years of credited service. Total Health System payroll was $224,597 for the year ended June 30, 2010, of which $176,135 was covered by the Plan in 2010.

(b) Contributions

Contributions to the Plan are based upon actuarially determined rates using the entry age normal method. The Health System's contributions to the Plan are included in expenses within the Statements of Revenues, Expenses, and Changes in Net Assets. Contributions to the Plan during the years ended June 30, 2010, 2009, and 2008, based on actuarially determined contribution rates, totaled $8,631, $10,436, and $13,750, respectively. Contributions represented 4.9% of the Health System's current year covered payroll costs and 18.0% of the total current year actuarially determined contribution requirement for all University employees. Effective July 1, 2009, employees are required to contribute 1% of their salary up to $50,000 in a calendar year and 2% of their salary in excess of $50,000.

(9) Other Postemployment Benefits

In addition to the pension benefits described in note 8, the Health System participates in the University's postemployment benefits plan, which is a single-employer, defined benefit postemployment plan. The Plan provides medical, dental, life insurance, and long-term disability benefits to claimants who were vested in the University's retirement plan at the time their disability began and vested employees who retire directly from the Health System after attaining age 55 and before reaching age 60 with 10 years or more of service, or who retire after attaining age 60 with five or more years of service. Section 172.300 of the Revised

Statutes of Missouri gives the Board sole authority and discretion to determine the terms and conditions governing the postemployment benefits to which employees are entitled.

In June 2008, the University established an Other Post-Employment Benefits Trust Fund, the assets of which are irrevocable and legally protected from creditors and dedicated to providing postemployment benefits in accordance with terms of the plan. Postemployment benefits, other than long-term disability, were previously funded on a current basis, and expenses were recorded on a pay-as-you-go basis. Additional information regarding the University's postemployment benefits plan is disclosed in the University's annual financial report, which can be obtained at the Office of Finance and Administration, 215 University Hall, Columbia, MO 65211.

As of June 30, 2010 and 2009, 675 members receiving postemployment benefits were formerly employees of the Health System. Individual member's contributions depend on the medical, dental, and life insurance coverage options they have chosen. For fiscal year 2010, all University members contributed $12,146 or approximately 47.2% of the total premiums. The Health System paid the University $2,552 and $2,365 for the years ended June 30, 2010 and 2009, respectively. The Health System assumes no liability for postemployment benefits provided by the University other than its annual required contributions.

(10) Related-Party Transactions

The Health System and the other divisions of the University provide a variety of support services to each other, and these transactions are recorded as revenues and expenses in the financial statements. The cost of these services is allocated to the user on methods, which vary according to the service being furnished. These services are paid for by inter-University payments of funds, which are net reductions of operating expenses of the unit providing the service, and are included in the operating costs of the unit receiving the service. Administrative and purchased services paid for by the University and allocated to the Health System during the years ended June 30, 2010 and 2009 were $57,941 and $52,823 respectively. Administrative and purchased services paid for by the Health System and allocated to the University during the years ended June 30, 2010 and 2009 were $8,957 and $8,950, respectively, and are included as a reduction of other expenses in the accompanying basic financial statements. These amounts exclude University Physicians distributions.

The Health System obtained $50,000 of investments as a loan from the University in fiscal year 2001. The University committed to loan future funds if the days cash on hand goes below 85 days. The loan is to be repaid upon demand in whole or in part at such time that day's cash on hand of the Health System is not less than 85 days. An additional $5,000 loan was made accordingly in fiscal year 2002. Based upon the loan agreement, the Health System does not pay interest expense on the loan or receive interest income on the related assets. There were no additions to or repayments on the loan in 2010 or 2009. Management does not anticipate repayment of the loan in fiscal year 2011.

Certain operational services of the Health System, such as pharmacy, housekeeping, laundry, and other miscellaneous services are provided to the IOS. These services are invoiced at cost and are recorded in operating revenues. Total services provided by the Health System to IOS in fiscal years 2010 and 2009 totaled $207 and $217, respectively.

(11) Transfers

In addition to services purchased from the divisions of the University, the Health System also provides support to certain of these divisions through transfers. These transfers were approximately $2,500 at June 30, 2010 and 2009, and principally provide funding for recruitments and operational support to divisions. In fiscal year 2010, the State of Missouri conveyed capital assets, net of accumulated depreciation of $1,317 to the Health System in order to begin operating the University of Missouri Psychiatric Center, a 61-bed inpatient psychiatric services facility adjacent to University Hospital. In fiscal year 2009, these transfers to the University were offset by $2,550 of funds received from the University related to the 2007 sale of Missouri Care L.C., a component unit of the University. Missouri Care was a not-for-profit health maintenance organization that provided services to individuals throughout mid-Missouri, under certification from the Missouri Department of Social Services.

(12) Subsequent Events

In March 2010, the United States Internal Revenue Service accepted the position that medical residents are excepted from FICA taxes based upon the "student exception" for tax periods ending before April 1, 2005 when new regulations became effective. The University filed timely claims for the years ended 1995 – 2005 on behalf of the University for FICA for medical residents during the indicated years. The University is in the process of preparing all information required to be provided to the Internal Revenue Service to support its claims. Once submitted and accepted, the Internal Revenue Service will make refund payments in the manner detailed in the administrative process. Since the University is still in the process of compiling the required claims information, the refund amount is not estimatable. As a result, no amounts are recorded in the accompanying financial statements.