UNIVERSITY HEALTH SYSTEM

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

UNIVERSITY HEALTH SYSTEM

Table of Contents

KPMG LLP
Suite 900
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St. Louis, MO 63102-1761

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, 2011 and 2010, 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, 2011 and 2010, 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 University Health System as of June 30, 2011 and 2010, 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 11, 2011, 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 10 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 11, 2011

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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, Missouri Psychiatric Center, and Missouri Orthopedic Institute); University Physicians Medical Practice Plan (University Physicians); Missouri Rehabilitation Center (MRC); and Women's and Children's Hospital (WCH), previously known as Columbia Regional Hospital (CRH).

UMHC and WCH 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.

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.

A summary of the Statements of Net Assets at June 30, 2011, 2010, and 2009 is as follows (dollars in thousands):

	Fiscal Year		
	2011	**2010**	**2009**
Assets:			
Current assets	$ 233,489	$ 191,150	$ 159,961
Other noncurrent assets	369,245	309,664	198,640
Capital assets	363,371	325,852	272,063
Total assets	$ 966,105	$ 826,666	$ 630,664
Liabilities:			
Current liabilities	$ 97,969	$ 77,645	$ 57,657
Noncurrent liabilities	394,056	321,539	208,475
Total liabilities	492,025	399,184	266,132
Net assets:			
Invested in capital assets, net of related debt	111,518	102,673	114,968
Restricted	7,262	5,591	4,355
Unrestricted	355,300	319,218	245,209
Total net assets	474,080	427,482	364,532
Total liabilities and net assets	$ 966,105	$ 826,666	$ 630,664

Fiscal Year 2011 Compared to Fiscal Year 2010

Total assets increased $139.4 million from $826.7 million in fiscal year 2010 to $996.1 million in fiscal year 2011. Cash, cash equivalents, and investments increased $77.8 million due to increased cash collections, as well as additional bond proceeds related to the University's issuance of Series 2010A System Facilities Revenue Bonds in December 2010. Additional asset increases occurred in third-party and other receivables, and capital assets. The increase in third-party and other receivables is primarily the result of $24.9 million in receivables related to medical resident FICA refund claims and accrued interest income on the claims, for periods ending before April 1, 2005 due to notification from the Internal Revenue Service (IRS) of its intent to honor these claims. The net FICA refund to the Health System, after settlements to employees and other medical care entities, is $6.8 million plus $3.0 million in interest income. Capital assets, net of accumulated depreciation increased by $37.5 million from $325.9 million in fiscal year 2010 to $363.4 million in fiscal year 2011. The Health System continues to invest in capital additions and improvements throughout its facilities. Investment in capital for fiscal year 2011 included, but was not limited to, $16.2 million on renovations, $31.4 million on new building construction, $2.4 million on DaVinci Surgical System, $12.7 million on patient monitoring and diagnostic equipment, including patient monitors, x-ray systems, ultrasounds, sterilizers, surgical tables, chemistry analyzers, $2.9 million on technology infrastructure, and $7.9 million for technology software.

(Continued)

Total liabilities increased by $92.8 million from $399.2 million in fiscal year 2010 to $492.0 million in fiscal year 2011. This increase is primarily due to the issuance of $81.2 million of additional long-term debt in December 2010 and increases in accounts payable related to $15.1 million in FICA refunds and interest on refunds, due to former medical residents.

For fiscal year 2011, the Health System's total net assets were $474.1 million, which was an increase of $46.6 million over fiscal year 2010 level of $427.5 million.

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.

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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, 2011, 2010, and 2009 is as follows (dollars in thousands):

	Fiscal Year		
	2011	**2010**	**2009**
Net patient service revenues	$ 745,010	$ 718,687	$ 685,207
Other operating revenues	18,185	16,855	17,153
Total operating revenues	763,195	735,542	702,360
Operating expenses:			
Salaries and benefits	286,743	284,323	279,740
Medical supplies and drugs	126,357	121,733	118,021
Administrative and support services	56,846	49,634	45,288
Depreciation	34,703	34,168	33,241
University Physicians distributions and other expenses	146,553	135,136	125,605
Other expenses	103,770	90,631	81,404
Total operating expenses	754,972	715,625	683,299
Operating income before State appropriations	8,223	19,917	19,061
State appropriations	18,229	25,636	22,887
Income after State appropriations, before nonoperating revenues, net	26,452	45,553	41,948
Interest expense, net of capitalized interest of $4,893 and $2,943 in 2011 and 2010, respectively	(9,006)	(9,197)	(7,437)
Other nonoperating revenues, net	22,313	19,681	(4,441)
Total nonoperating revenues, net	13,307	10,484	(11,878)
Income before capital additions, contributions, and transfers	39,759	56,037	30,070
State capital appropriations	2,753	4,042	—
Contributed capital assets	6,003	3,826	—
Capital and endowment gifts	189	229	33
Income before transfers	48,704	64,134	30,103
Transfers, net	(2,106)	(1,184)	57
Change in net assets	46,598	62,950	30,160
Total net assets, beginning of year	427,482	364,532	334,372
Total net assets, end of year	$ 474,080	$ 427,482	$ 364,532

Fiscal Year 2011 Compared to Fiscal Year 2010

For fiscal year 2011, the Health System had an increase in net assets of $46.6 million compared to $63.0 million for fiscal year 2010. Operating revenues in fiscal year 2011 were $27.7 million greater than prior year and represent a 3.8% increase.

	UMHC Key Statistics		
	Fiscal Year		
	2011	2010	2009
Admissions	22,011	21,601	19,096
Patient days	123,572	127,822	113,218
Clinic visits	540,835	532,239	519,597
Outpatient equivalent days	87,636	85,060	72,437
Emergency room visits	49,276	48,936	45,409
Operating room cases, excluding labor and delivery	20,578	18,514	18,152

In addition to the increase in inpatient utilization due to the opening of the Missouri Orthopedic Institute in May 2010, fiscal year 2011 continued to experience increases in clinical and outpatient areas. Clinic visits increased by 8,596 or 1.6% and outpatient equivalent days increased by 2,576 or 3.0%. Emergency room visits grew by 340, or 0.7% over fiscal year 2010, and operating room cases increased by 2,064, or 11.1%.

In fiscal year 2011, operating expenses were $39.3 million higher than the prior year, which represents a 5.5% increase. Salary and benefit expense increased slightly by $2.4 million or 0.9%, including the net FICA refund of $6.8 million that reduced the overall benefits expense. Excluding the net FICA refund, salary and benefit expense increased by $9.2 million or 3.2%, as a result of market adjustments and staffing additions. Medical supplies and drugs increased 3.8% over prior year as a direct result of increased utilization. Administrative and support services expenses increased $7.2 million, or 14.5%, 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 $13.1 million in other expenses reflects a full year of contracted service fees related to the Tiger Institute for Health Innovation Agreement (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 $11.4 million or 8.4% over fiscal year 2010 due to the higher patient revenue from physician services.

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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.

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 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.

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, 2011, 2010, and 2009 are summarized as follows (dollars in thousands):

	Fiscal Year		
	2011	**2010**	**2009**
Cash provided by (used in):			
Operating activities	$ 39,390	$ 57,412	$ 61,006
Noncapital financing activities	17,092	24,134	23,768
Capital and related financing activities	2,477	23,983	(57,035)
Investing activities	(74,132)	(80,379)	(11,012)
Net increase (decrease) in cash and cash equivalents	(15,173)	25,150	16,727
Cash and cash equivalents, beginning of year	61,374	36,224	19,497
Cash and cash equivalents, end of year	$ 46,201	$ 61,374	$ 36,224

Fiscal Year 2011 Compared to Fiscal Year 2010

During fiscal year 2011, the Health System's cash decreased by $15.2 million as compared to a $25.2 million increase in fiscal year 2010. For fiscal year 2011, operating activities generated $39.4 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 2011, the Health System had an increase in cash of $17.1 million, which resulted primarily from the receipt of $18.2 million in State appropriations. Capital and related financing activities resulted in $2.5 million increase in cash, due to the issuance of $81.2 million of long-term debt in fiscal year 2011, which is being utilized to construct a new patient tower and other outpatient facilities. Investing activities decreased cash by $74.1 million principally due to an increase in long-term investment holdings by the University and related gains on these investments during fiscal year 2011.

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.

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Health System Outlook

For fiscal year 2011, the Health System continued to see increasing revenues. 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 2012 decreases by $8.2 million, and is offset by increased Medicaid payments for services under the MoHealthNet program. In April 2011, a 5% fee increase was implemented and continues into fiscal year 2012 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. 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 (the Acts), 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

Statements of Net Assets

June 30, 2011 and 2010

(Dollars in thousands)

Assets		2011		2010
Current assets:				
Cash and cash equivalents	$	32,493	$	49,881
Cash and cash equivalents designated for capital		534		1,077
Cash and cash equivalents restricted for capital		12,486		9,546
Cash and cash equivalents – restricted		688		870
Short-term investments designated for capital		567		183
Short-term investments restricted for capital		12,971		1,620
Short-term investments – restricted		711		190
Short-term investments		28,652		7,777
Patient accounts receivable, less allowance for doubtful accounts of $23,809 and $23,656 in 2011 and 2010, respectively		76,797		79,234
Third-party and other receivables		49,130		24,045
Inventories and other assets		18,460		16,727
Total current assets		233,489		191,150
Noncurrent assets:				
Investments designated for capital		3,473		4,535
Investments restricted for capital		71,409		34,358
Restricted investments		4,930		4,427
Long-term investments		283,352		260,023
Capital assets:				
Depreciable		302,266		291,729
Nondepreciable		61,105		34,123
Other assets		6,081		6,321
Total noncurrent assets		732,616		635,516
Total assets	$	966,105	$	826,666

See accompanying notes to financial statements.

Liabilities		2011		2010
Current liabilities:				
Accounts payable	$	33,298	$	25,994
Estimated third-party payor settlements		17,501		7,809
University Physicians distributions payable		11,985		11,765
Accrued interest		2,410		1,926
Accrued employee compensation		24,308		24,386
Deferred revenue		430		464
Capital lease obligations, current		641		591
Long-term debt, current		7,396		4,710
Total current liabilities		97,969		77,645
Noncurrent liabilities:				
Amount due University		55,000		55,000
Capital lease – less current portion		6,615		7,256
Long-term debt – less current portion		330,922		257,359
Deferred revenue – less current portion		1,519		1,924
Total noncurrent liabilities		394,056		321,539
Total liabilities		492,025		399,184
Net Assets				
Invested in capital assets, net of related debt		111,518		102,673
Restricted:				
Nonexpendable:				
Endowment		586		545
Expendable:				
Research and other		6,676		5,046
Unrestricted		355,300		319,218
Total net assets		474,080		427,482
Total liabilities and net assets	$	966,105	$	826,666

UNIVERSITY HEALTH SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	2011	2010
Operating revenues:		
Net patient service revenues	$ 745,010	$ 718,687
Sales by auxiliary enterprises and other	18,185	16,855
Total operating revenues	763,195	735,542
Operating expenses:		
Salaries and benefits	286,743	284,323
Medical supplies and drugs	126,357	121,733
Administrative and support services	56,846	49,634
Depreciation	34,703	34,168
University Physicians distributions and other expenses	146,553	135,136
Other expenses	103,770	90,631
Total operating expenses	754,972	715,625
Operating income before State appropriations	8,223	19,917
State appropriations	18,229	25,636
Income after State appropriations, before nonoperating revenues (expenses)	26,452	45,553
Nonoperating revenues (expenses):		
Investment income	22,241	19,032
Private gifts	1,192	997
Interest expense, net of amounts capitalized of $4,893 and $2,943 in 2011 and 2010, respectively	(9,006)	(9,197)
Loss on disposal, net	(1,120)	(348)
Total nonoperating revenues (expenses), net	13,307	10,484
Income before capital additions, contributions, and transfers	39,759	56,037
State capital appropriations	2,753	4,042
Contributed capital assets	6,003	3,826
Capital and endowment gifts	189	229
Income before transfers	48,704	64,134
Transfers to the University, net	(2,106)	(2,501)
Transfers from the State	—	1,317
Change in net assets	46,598	62,950
Total net assets, beginning of year	427,482	364,532
Total net assets, end of year	$ 474,080	$ 427,482

See accompanying notes to financial statements.

UNIVERSITY HEALTH SYSTEM

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	2011	2010
Cash flows from operating activities:		
Cash proceeds from patient service revenue	$ 753,302	$ 714,059
Cash proceeds from other sales	18,469	17,056
Cash payments to employees	(227,335)	(218,969)
Cash payments for benefits	(66,247)	(63,038)
Cash payments to suppliers	(292,466)	(254,739)
Cash payments for University Physicians	(146,333)	(136,957)
Net cash provided by operating activities	39,390	57,412
Cash flows from noncapital financing activities:		
Transfers to the University, net	(2,106)	(2,501)
State appropriations	18,229	25,636
Private and endowment gifts	969	999
Net cash provided by noncapital financing activities	17,092	24,134
Cash flows from capital and related financing activities:		
Capital expenditures	(66,705)	(77,316)
Cash proceeds from sales of capital assets	197	172
Capital state appropriations	6,450	345
Capital gifts	189	227
Proceeds on issuance of capital debt	81,193	118,264
Payments on cost of debt issuance	—	(1,149)
Principal payments on long-term debt	(4,710)	(4,500)
Capital lease principal payments	(591)	(544)
Interest paid on long-term debt	(13,546)	(11,516)
Net cash provided by capital and related financing activities	2,477	23,983
Cash flows from investing activities:		
Increase in investments	(93,683)	(100,518)
Cash proceeds from equity investees	731	638
Investment income	18,820	19,501
Net cash used in investing activities	(74,132)	(80,379)
Net change in cash and cash equivalents	(15,173)	25,150
Cash and cash equivalents, beginning of year	61,374	36,224
Cash and cash equivalents, end of year	$ 46,201	$ 61,374

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UNIVERSITY HEALTH SYSTEM

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 8,223	$ 19,917
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	34,703	34,168
Provision for bad debts	75,432	51,267
Changes in assets and liabilities:		
Net patient receivables and third-party receivable	(82,623)	(55,888)
Inventories and other assets	(1,435)	(735)
Accounts payable and accrued expenses	5,090	8,683
Net cash provided by operating activities	$ 39,390	$ 57,412
Supplemental disclosures of noncash activities:		
Earnings from ownership interest of equity investments	$ 540	$ 960
Contributed capital assets	6,003	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 (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, Ellis Fischel Cancer Center, Missouri Psychiatric Center, and Missouri Orthopedic Institute; Women's and Children's Hospital (WCH), previously known as Columbia Regional Hospital (CRH); 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).

(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 may 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. As of June 30, 2011, the University did not hold any variable rate demand notes. 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. Beginning in July 2010, the University established a structured investment program that provides a guaranteed return of 2.0% on designated investments. As of June 30, 2011, 85.1% of the Health System's pooled investments were maintained in these designated investments. The remaining Health System investments are held in equity fund-type pools, which continue to reflect actual earnings and market fluctuations.

(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.

(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 Tricare/Champus reimbursement agreements are subject to examination and certain retroactive adjustments by the related programs. These adjustments decreased net patient services revenues by $1,086 and $560 for the years ended June 30, 2011 and 2010, respectively.

Both UMHC and WCH Medicare cost reports have been settled through June 30, 2007; MRC Medicare reports have been settled through June 30, 2010. 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.

(Dollars in thousands)

A percentage breakdown of gross patient accounts receivable by major payor classification of the Health System for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Medicare	24%	23%
Commercial insurance	7	4
Medicaid	22	25
Self-pay and other	18	17
Managed care agreements	29	31
	100%	100%

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

The gross to net patient revenue detail is reflected below for both 2011 and 2010. Only net patient revenue is reflected on the Statements of Revenues, Expenses, and Changes in Net Assets.

		2011		2010
Gross patient revenue	$	1,639,043	$	1,543,685
Less deductions for contractual allowances		(818,601)		(773,731)
Less deductions for bad debt allowances		(75,432)		(51,267)
Net patient revenue	$	745,010	$	718,687

(k) 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 – 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.

(Dollars in thousands)

The FRA Program, approved by the Centers for Medicare and Medicaid Services, relies on federal regulations that permit states to include qualifying expenditures made by or on behalf of states serving Medicaid eligible or uninsured patients as the state's share of Medicaid payments. The FRA Program is part of the State of Missouri Medicaid Program, which is named MoHealthNet. Under the MoHealthNet Programs, the Health System receives payments for claims based upon historical cost amounts and supplemental payments under the FRA Program. Under the FRA Program, the Health System received net payments of $32,023 and $44,289 in fiscal years 2011 and 2010, respectively. Payments under the State's Medicaid Program, including patient claims, Medicaid direct, and disproportionate share payments (DSH), are subject to retrospective determination of actual costs once the Health Systems Medicare Cost Reports are audited. As of June 30, 2011, the Health System maintains an estimate for future DSH settlements payable of $8,403.

Uncollectible Accounts – 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, 2011 and 2010 are as follows:

	2011	2010
Cost of charity care	$ 10,370	$ 12,379
Unreimbursed cost under state and local government assistance programs, net of Medicaid disproportionate share funding, less Medicaid provider taxes	16,265	2,909
Cost of uncollectible accounts	32,469	23,696
Total	$ 59,104	$ 38,984

(l) 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.

(m) Appropriations and Private Gifts

The State of Missouri provides direct appropriations to the Health System, which totaled $18,229 and $25,636 for the years ended June 30, 2011 and 2010, respectively. During 2011 and 2010, the Health System also received capital appropriations from the State of Missouri of $2,753 and $4,042, respectively, primarily to fund renovation of the conveyed buildings and infrastructure related to the Missouri Psychiatric Center.

(Continued)

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 2011 and 2010 of $1,192 and $997, respectively. The Health System also received gifts for capital assets and endowments in 2011 and 2010 of $6,192 and $4,055, respectively. Refer to footnote 1(n) for further discussion.

The Health System receives unconditional promises to give through private donations (pledges). Revenue is recognized when a pledge is received and all eligibility requirements, including time requirements, are met. The total pledges receivable as of June 30, 2011 of $265, net of $42 in allowance for uncollectible pledges, have been recorded as pledges receivable current and long-term within third-party and other receivables and other assets, respectively, in the Statement of Net Assets and as private gift revenues on the Statement of Revenues, Expenses, and Changes in Net Assets, at the present value of the estimated future cash flows. An allowance has been made for uncollectible accounts based upon management's expectations regarding the collection of the pledges. There were no pledges receivable as of June 30, 2010.

(n) Contributed Capital Assets

In January 2010, the Health System began a cooperative relationship with the Cerner Corporation (Cerner) referred to as the Tiger Institute for Health Innovation (the Tiger Institute). Cerner, through the Tiger Institute, is the principal provider of information technology services for 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 $6,003 in fiscal year 2011 and $3,826 in fiscal year 2010.

(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, 2011, 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 2011, the University adopted GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting

(Continued)

and disclosure requirements of certain financial instruments and external investment pools. Adoption of GASB Statement No. 59 had no effect on the University's financial statements, and as the Health System participates in the investment pools of the University, GASB statement No. 59 did not have an effect on the Health System.

(r) Reclassifications

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

(2) Cash and Cash Equivalents

(a) 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, 2011 and 2010.

(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 – 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, 2011 and 2010, 17.7% and 18.0%, respectively, of General Pool funds were invested in the Balanced Pool. As of June 30, 2011, the Health System held investments of $385,081 in this pool, all of which are included in the structured investment 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. and international equity, emerging markets debt and equity, absolute return strategies, private equity, real estate, global fixed income, high-yield fixed income, bank loans, and Treasury inflation-protected securities. As of June 30, 2011, the Health System held investments of $67,185 on which actual earnings and market fluctuations were recorded.

(Dollars in thousands)

The Health System's share of the University's investments, by investment type, including both general and balance pool funds, is as follows:

	June 30 2011	June 30 2010
Debt securities:		
U.S. Treasury	$ 31,086	$ 35,053
U.S. Agency	172,741	159,571
Asset-backed securities	56,992	1,789
Government – foreign	5,588	5,869
Corporate – domestic	44,185	44,284
Corporate – foreign	6,209	4,730
Equity securities:		
Domestic	19,511	13,008
Foreign	17,752	13,208
Commingled funds:		
Absolute return	5,802	4,873
Debt securities – domestic	3,295	2,709
Debt securities – foreign	5,779	4,717
Equity securities – domestic	11,709	5,092
Equity securities – foreign	15,328	10,866
Real estate	1,451	1,173
Other	8,637	6,171
Total investments	406,065	313,113
Money market funds	2,871	13,130
Commercial paper	38,194	39,554
Variable rate demand notes	—	7,330
Other	5,136	1,360
Total cash and cash equivalents	46,201	61,374
Total investments and cash and cash equivalents	$ 452,266	$ 374,487

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, 2011, of the Health System's share of the University's total cash and investments, 16.1% are issues of the Federal Home Loan Bank (FHLB), and 8.7% are issues of the Federal National Mortgage Association (FNMA). 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 FHLB, and 12.4% 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 a blend of different credit ratings subject to certain restrictions by asset sector. 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, 2011 and 2010, respectively. All holdings of money market funds were rated AAA at June 30, 2011 and 2010.

(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:

	June 30	
	2011	**2010**
U.S. Treasury Obligations	$ 31,086	$ 35,053
U.S. Agency Obligations	172,741	159,571
Asset-backed/mortgage-backed securities:		
Guaranteed by U.S. Agencies	56,126	926
Aaa/AAA	356	387
Aa/AA	49	68
A/A	152	147
Baa/BBB	53	21
Ba/BB and lower	91	82
Unrated	165	158
Government – foreign:		
Aaa/AAA	1,629	3,051
Aa/AA	831	1,183
A/A	881	864
Baa/BBB	289	170
Unrated	1,958	601
Corporate – domestic:		
Aaa/AAA	1,449	1,489
Aa/AA	11,778	13,906
A/A	27,313	25,787
Baa/BBB	98	76
Ba/BB and lower	2,962	2,442
Unrated	585	584
Corporate – foreign:		
Aaa/AAA	2,990	2,639
Aa/AA	788	486
A/A	1,416	904
Baa/BBB	248	79
Ba/BB and lower	255	185
Unrated	512	437
Total	$ 316,801	$ 251,296

(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, 2011 and 2010, the maturities of the Health System's share of the University's investments are as follows:

	June 30 2011	June 30 2010
U.S. Treasury Obligations:		
Less than 1 year	$ 975	$ 76
1–5 years	13,234	15,565
6 – 10 years	13,828	16,254
More than 10 years	3,049	3,158
Total U.S Treasury Obligations	31,086	35,053
U.S. Agency Obligations:		
Less than 1 year	33,429	5,064
1–5 years	67,122	80,142
6 – 10 years	56,544	51,945
More than 10 years	15,646	22,420
Total U.S. Agency Obligations	172,741	159,571
Asset-Backed Securities:		
Less than 1 year	2	—
1–5 years	23	90
6 – 10 years	3,457	87
More than 10 years	53,510	1,612
Total Asset-Backed Securities	56,992	1,789
Government – foreign:		
Less than 1 year	160	283
1–5 years	2,028	1,999
6–10 years	2,505	2,426
More than 10 years	895	1,161
Total Government – foreign	5,588	5,869
Corporate – domestic:		
Less than 1 year	7,397	3,907
1–5 years	28,767	33,737
6–10 years	7,264	6,372
More than 10 years	757	268
Total Corporate – domestic	44,185	44,284
Corporate – foreign:		
Less than 1 year	938	438
1–5 years	3,428	3,001
6–10 years	1,146	822
More than 10 years	697	469
Total Corporate – foreign	6,209	4,730
Total debt securities	$ 316,801	$ 251,296

(Dollars in thousands)

(f) Foreign Exchange Risk

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. 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, 2011 and 2010, 9.2% and 8.5%, 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 $13,134 and $11,768 at June 30, 2011 and 2010, 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.

	June 30	
	2011	**2010**
Debt securities:		
Euro	$ 4,277	$ 4,414
Australian dollar	748	841
Japanese yen	577	734
British pound sterling	787	558
Canadian dollar	354	524
Other	1,939	1,444
Total debt securities	8,682	8,515
Equity securities:		
Euro	5,547	4,206
Japanese yen	3,184	2,577
British pound sterling	3,434	2,267
Swiss franc	1,386	929
Australian dollar	750	605
Canadian dollar	828	445
Other	1,217	793
Total equity securities	16,346	11,822
Commingled funds:		
Various currency denominations:		
Debt securities – foreign	5,779	4,717
Equity securities – foreign	15,328	10,866
Total commingled funds	21,107	15,583
Cash and cash equivalents:		
Euro	234	369
British pound sterling	34	15
Japanese yen	56	13
Australian dollar	10	5
Canadian dollar	—	5
Danish krone	1	2
Other	28	8
Total cash and cash equivalents	363	417
Total exposure to foreign exchange risk	$ 46,498	$ 36,337

(Dollars in thousands)

(4) Capital Assets

Capital assets activity is summarized as follows:

	2011			
	Beginning balance	Additions/ Transfers	Retirements	Ending balance
Capital assets, nondepreciable:				
Land	$ 4,947	$ —	$ —	$ 4,947
Construction in progress	29,176	26,982	—	56,158
Total capital assets, nondepreciable	34,123	26,982	—	61,105
Capital assets, depreciable:				
Buildings and improvements	354,317	11,470	2,095	363,692
Infrastructure	2,885	9,219	363	11,741
Equipment	245,487	25,869	6,069	265,287
Total capital assets, depreciable	602,689	46,558	8,527	640,720
Less accumulated depreciation:				
Buildings and improvements	146,875	12,282	1,459	157,698
Infrastructure	1,608	271	175	1,704
Equipment	162,477	22,150	5,575	179,052
Total accumulated depreciation	310,960	34,703	7,209	338,454
Total capital assets, depreciable, net	291,729	11,855	1,318	302,266
Total capital assets, net	$ 325,852	$ 38,837	$ 1,318	$ 363,371

(Dollars in thousands)

	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

The estimated cost to complete construction in progress at June 30, 2011 is $158,830 of which $95,785 is available from unrestricted net assets. The remaining costs will be funded from bond proceeds of $63,045. Included in capital assets is a building facility under a capital lease of $8,332 and related accumulated depreciation of $4,895 and $4,478 at June 30, 2011 and 2010, respectively.

(Dollars in thousands)

(5) Long-Term Debt

Long-term debt activity is summarized as follows:

	2011					
	Beginning of year	Issuance	Bond payments	Defeasance	Amortization	End of year
System Facilities Revenue Bonds						
2006 A	$ 144,355	$ —	$ (4,710)	$ —	$ —	$ 139,645
2009 A and B	115,251	—	—	—	—	115,251
2010A	—	81,193	—	—	—	81,193
Plus unamortized premium/discounts	9,516	—	—	—	(673)	8,843
Less loss on defeasance	(7,053)	—	—	—	439	(6,614)
Total long-term debt	262,069	$ 81,193	$ (4,710)	$ —	$ (234)	338,318
Less current portion	4,710					7,396
Long-term debt	$ 257,359					$ 330,922

	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

On December 21, 2010, the University issued $252,285 in taxable Series 2010A System Facilities Revenue Bonds designated as "Build America Bonds" under the Internal Revenue Code of 1986, as amended. With respect to the Series 2010A bonds, the University will receive a cash subsidy payment from the United States Treasury in an amount equal to 35% of the interest payable on each interest payment date. The Health System received $81,193 of bond proceeds from the University's issuance of the Series 2010A System Facilities Revenue Bonds. The University provided the proceeds to the Health System at an internal interest rate of 3.85%.

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

(Dollars in thousands)

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 3.95%. The Series 2009B Bonds bear interest at rates of 3.00% to 5.00% 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%.

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, 2011 and 2010 was $6,614 and $7,053, respectively. The defeasance decreased the aggregate debt service payments by $19,167.

Future minimum maturities on long-term debt as of June 30, 2011 for the next five fiscal years ending June 30 and beyond are as follows:

	Principal	Interest	Total
2012	$ 7,396	$ 14,319	$ 21,715
2013	8,514	13,982	22,496
2014	8,838	13,597	22,435
2015	9,163	13,188	22,351
2016	9,901	12,749	22,650
2017 – 2021	56,054	56,167	112,221
2022 – 2026	73,657	41,213	114,870
2027 – 2031	69,923	23,902	93,825
2032 – 2036	44,111	13,929	58,040
2037 – 2041	46,282	4,705	50,987
2042	2,250	44	2,294
Total	$ 336,089	$ 207,795	$ 543,884

(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, 2011 and 2010 were $2,368 and $2,086, respectively.

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

(Dollars in thousands)

Capital lease activity is summarized as follows:

	2011			
	Beginning of year	**Payments**	**Reclass to short term**	**End of year**
Total capital lease obligation	$ 7,847	$ 591	$ —	$ 7,256
Less current capital lease obligation	591	—	50	641
Long-term capital lease obligation	$ 7,256	$ 591	$ 50	$ 6,615

	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

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2011 are as follows:

	Capital	**Operating**
Fiscal year:		
2012	$ 1,563	$ 2,123
2013	1,563	1,710
2014	1,563	1,546
2015	1,563	1,157
2016	1,563	778
2017 – 2020	5,078	304
Total future minimum payments	12,893	$ 7,618
Less amount representing interest	5,637	
Present value of future minimum lease payments	$ 7,256	

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, 2011, this contracted commitment totaled $136,646 and will be paid in the following amounts: $13,002 in 2012, $14,938 in 2013, $15,386 in 2014, $15,847 in 2015, $16,322 in 2016, and $61,151 thereafter.

(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 other assets in the Statements of Net Assets.

Total minimum lease payments to be received:		
Current	$	475
Noncurrent		3,447
Total		3,922
Less unearned rental income		1,819
Present value of future minimum lease payments	$	2,103

During 2011, the Health System received $475 of rental income from IOS. At June 30, 2011, minimum lease payments for each of the five succeeding fiscal years are as follows: $475 in 2012, $475 in 2013, $475 in 2014, $475 in 2015, $475 in 2016, and $1,545 thereafter.

(7) Insurance and Other Commitments

(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 $2,263 and $2,707 for the years ended June 30, 2011 and 2010, respectively, and are reflected as other expenses 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) Medical Resident FICA Refunds

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. In December 2010, the University of Missouri perfected its claims for the refund of taxes withheld for the relevant periods. As of June 30, 2011, the Health System has recorded a receivable for this refund and related accrued interest income in the amount of $15,487 and $9,400, respectively, which reflects the estimated total refund from the Internal Revenue Service. In addition, other accrued liabilities increased by $15,126, representing the portion of the refund and accrued interest income due to individual residents and medical care entities. A net amount of $6,761 was recorded as a contra expense within salaries and benefits, and $3,000 was recorded in investment income.

(c) 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 $228,911 for the year ended June 30, 2011, of which $176,311 was covered by the Plan in 2011.

(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, 2011, 2010, and 2009, based on actuarially determined contribution rates, totaled $10,050, $8,631, and $10,436, respectively. Contributions represented 5.7% of the Health System's current year covered payroll costs and 17.5% of the total current year actuarially determined contribution requirement for all University employees. Effective July 1, 2009, employees are required to contribute 1.0% of their salary up to $50,000 in a calendar year and 2.0% 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 Other Postemployment Benefits (OPEB) Plan, which is a single-employer, defined benefit postemployment plan. The OPEB 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.

The University maintains an OPEB 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, 2011 and 2010, 780 and 675 members, respectively, 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 FY2011, all University members contributed $12,944 or approximately 47.6% of the total premiums. The Health System paid the University $2,519 and $2,552 for the years ended June 30, 2011 and 2010, respectively. The Health System assumes no liability for postemployment benefits provided by the University other than its annual required contributions.

 (Continued)

(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, 2011 and 2010 were $69,661 and $57,941, respectively. Administrative and purchased services paid for by the Health System and allocated to the University during the years ended June 30, 2011 and 2010 were $8,811 and $8,957, 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 2011 or 2010. Management does not anticipate repayment of the loan in fiscal year 2012.

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 2011 and 2010 totaled $250 and $207, 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 $2,110 and $2,500 at June 30, 2011 and 2010, respectively, 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.