



2000 *Financial*
Report

U N I V E R S I T Y O F M I S S O U R I

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UNIVERSITY OF MISSOURI

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The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of the University of Missouri (the "University") for the fiscal year ended June 30, 2006 and 2005, and should be read in conjunction with the financial statements and notes. This overview is required by Governmental Accounting Standards Board ("GASB") principles, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

UNIVERSITY ACCOUNTING AND FINANCIAL REPORTING

This report includes five financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows for the University of Missouri System and Aggregate Discretely Presented Component Units; and the Statement of Net Assets Held for Pension Benefits and the Statement of Changes in Net Assets Held for Pension Benefits for the University of Missouri Retirement Trust. The financial statements of the University are prepared in accordance with U.S. generally accepted accounting principles as prescribed by GASB. A summary of significant accounting policies followed by the University is included in Note 1 to the financial statements of this report. A more detailed unaudited financial report that includes information on each campus is available at the University of Missouri, 118 University Hall, Columbia, MO 65211.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. Assets and liabilities are generally measured using current values, with certain exceptions, such as capital assets which are stated at cost less accumulated depreciation, and long-term debt which is stated at cost. A summary of the University's assets, liabilities and net assets at June 30, 2006, 2005 and 2004, is as follows (in thousands of dollars):

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Assets:			
Current Assets	\$ 751,564	\$ 816,846	\$ 596,448
Long-Term Investments -			
Endowed and Quasi-Endowed Investments	854,365	744,372	709,227
Other Investments	597,013	387,926	504,110
Capital Assets, Net	1,926,942	1,795,513	1,700,324
Other Noncurrent Assets	83,357	86,702	70,806
Total Assets	<u>\$ 4,213,241</u>	<u>\$ 3,831,359</u>	<u>\$ 3,580,915</u>
Liabilities:			
Current Liabilities	\$ 489,987	\$ 404,328	\$ 370,280
Noncurrent Liabilities	728,273	622,997	631,587
Total Liabilities	<u>1,218,260</u>	<u>1,027,325</u>	<u>1,001,867</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,263,187	1,226,962	1,147,472
Restricted -			
Nonexpendable	624,821	555,658	484,370
Expendable	366,036	335,469	305,656
Unrestricted	740,937	685,945	641,550
Total Net Assets	<u>2,994,981</u>	<u>2,804,034</u>	<u>2,579,048</u>
Total Liabilities and Net Assets	<u>\$ 4,213,241</u>	<u>\$ 3,831,359</u>	<u>\$ 3,580,915</u>

TOTAL ASSETS

Total Assets increased 10.0%, or \$381.9 million, to \$4.2 billion as of June 30, 2006 compared to June 30, 2005. This compares to a 7.0% increase in **Total Assets** from fiscal year end 2004 to 2005. This growth reflects the University's continued efforts to strengthen its capital position and is primarily attributable to increases in **Long-Term Investments**, the expansion of **Capital Assets** across all of the campuses, and, in fiscal year 2005, an increase in **Cash and Cash Equivalents**.

CASH AND CASH EQUIVALENTS

The University held **Cash and Cash Equivalents** of \$315.8 million at the end of fiscal year 2006, a decrease of \$25.2 million from June 30, 2005. This compares to a \$124.1 million increase in fiscal year 2005 over the prior 2004 fiscal year end. The higher balance at fiscal year end 2005 was due to several factors including a heavier weighting in short-term commercial paper, release of state appropriation withholdings of \$61.7 million by the State of Missouri at the end of fiscal year 2005 that was invested in short-term instruments, and accumulation of the annual endowment distribution for fiscal year 2006 required by the Board of Curators spending policy as discussed in Note 3 of the financial statements.

INVESTMENTS

Long-Term and Short-Term Investment holdings of \$1.6 billion as of June 30, 2006, increased 19.3% over the prior year. This compares to a 0.5% increase from fiscal year end 2004 to 2005. Long-Term Investments in the University's endowment funds, comprised primarily of the Balanced and Fixed Income Pools, increased \$125.7 million in fiscal year 2006 due to receipt of gifts and positive total returns in the pools. The University's long-term investment in its General Pool increased \$119.8 million in fiscal year 2006 largely due to the temporary investment of the proceeds from additional debt issuance by the University in long-term instruments. Performance of the University's various investment pools for the year ended June 30, 2006, was as follows:

Long-Term and Short-Term Investments			
	Asset Distribution	Total Return	Benchmark Index Return
General Pool	\$ 666,898,000	2.5%	2.2%
Balanced Pool	815,197,000	13.0%	12.6%
Fixed Income Pool	56,816,000	1.3%	-1.5%
Other Investments	76,280,000	N/A	N/A

Benchmark index returns are calculated by independent investment consultants based on returns of similar security portfolios.

RECEIVABLES

In fiscal years 2006 and 2005, heightened efforts to diversify resources through fund raising continued on all four campuses with three of the four campuses significantly increasing their original capital campaign goals. These efforts directly resulted in increases in total **Pledges Receivable** (current and long-term) over each of the last three years.

CAPITAL ASSETS

Net capital asset additions during fiscal years 2006 and 2005 of \$242.3 million and \$197.6 million, respectively, are offset by \$110.9 million in depreciation in fiscal year 2006 and \$102.4 million in fiscal year 2005 resulting in net changes in **Capital Assets** of \$131.4 million and \$95.2 million, respectively, in fiscal years 2006 and 2005. Major additions to **Capital Assets** during fiscal year 2006 are shown in the following table. Refer to Note 7 for additional information.

Major Expenditures Related to Capital Assets Additions During Fiscal Year Ended June 30, 2006		
Campus	Expenditures	Source of Funding
Columbia:		
Southwest Campus Housing	\$ 32,890,000	Bond Proceeds
College Avenue Housing	17,193,000	Bond Proceeds
Brewer Fieldhouse Renovation	7,443,000	Bond Proceeds
Swine Facility	4,583,000	Bond Proceeds
Renovation Various Residential Halls	2,738,000	Bond Proceeds
Kansas City:		
Hospital Hill Parking Structure	\$ 13,914,000	Bond Proceeds
Health Sciences	7,522,000	State Appropriations and Gifts
Rolla:		
Mechanical Engineering Renovation	\$ 3,334,000	Gifts
Residence Hall	2,367,000	Future Bond Proceeds
St. Louis:		
South Campus Residential Hall	\$ 22,995,000	Bond Proceeds and Gifts

LIABILITIES

Total Liabilities increased \$190.9 million as of June 30, 2006 over June 30, 2005 and \$25.5 million in fiscal year 2005 as compared to June 30, 2004. Significant changes in **Current Liabilities** at fiscal year end 2006 include an increase in **Collateral for Securities on Loan** as a result of a strong stock market providing an increased market value of securities available to lend out; an increase in **Deferred Revenue** relating to grants; and an increase in **Accounts Payable** due primarily to timing and amounts payable as of June 30, 2006 related to construction of the Health Science Building and Hospital Hill parking structure in Kansas City.

DEBT

Bonds and Notes Payable, net of premium/discount and deferred losses on defeasance, increased \$101.9 million from fiscal year end 2005 to 2006. In February 2006, the University issued \$300.7 million of System Facilities Revenue Bonds to finance construction of new housing facilities and various other capital projects. A portion of the bond proceeds was used to advance refund and defease some of the existing System Facilities Revenue Bonds and all of the Health Facilities Revenue Bonds. The latter resulted in \$13 million in net present value savings for the health system due to decreased aggregate future debt service payments. **Bonds and Notes Payable**, net of premium/discount and deferred losses on defeasance, decreased \$11.1 million from fiscal year end 2004 to 2005 resulting from principal payments on outstanding bonds.

The following is a summary of long-term debt by type of debt instrument (in thousands of dollars):

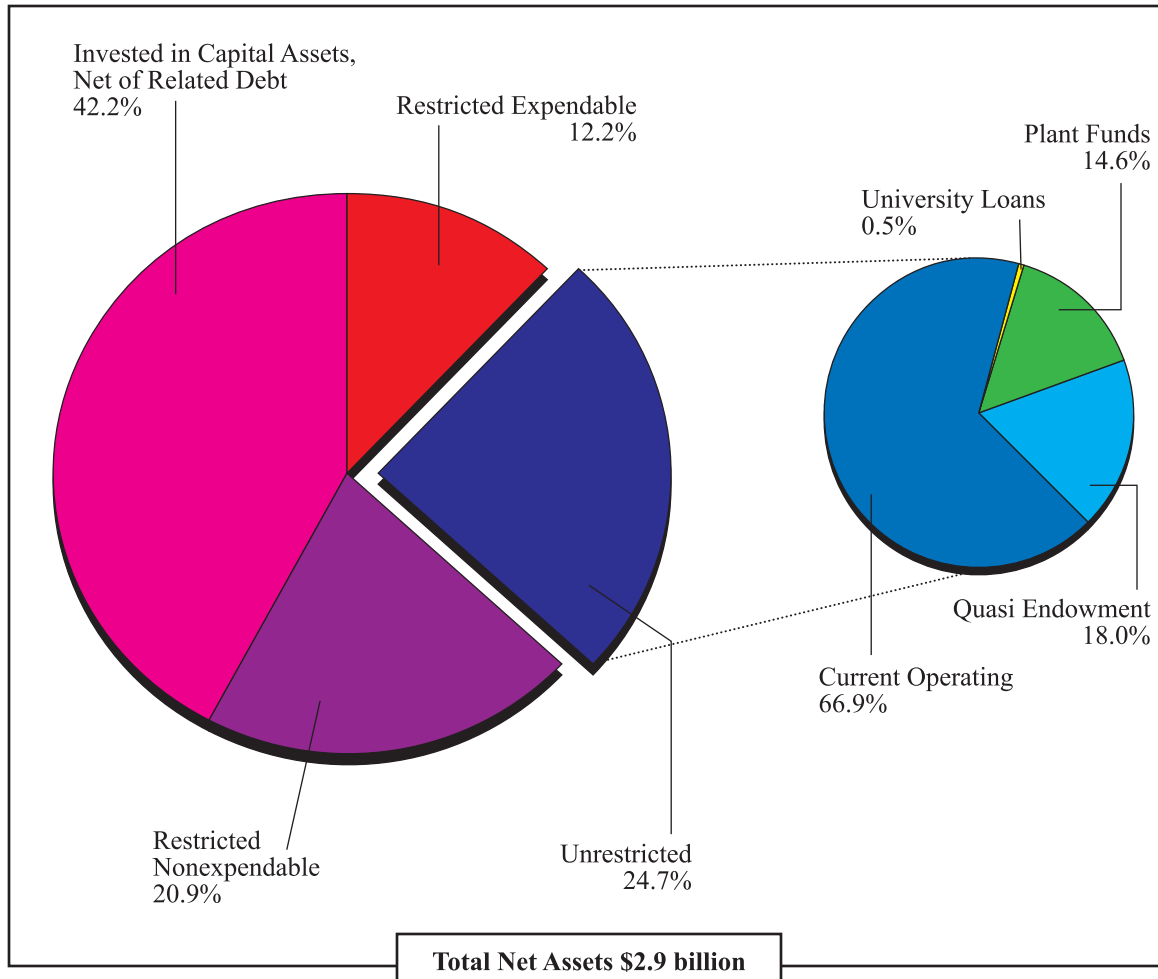
	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
System Facilities Revenue Bonds	\$ 660,585	\$ 400,025	\$ 408,295
Health Facilities Revenue Bonds		165,200	168,550
Unamortized Premium/Discount and Loss on Defeasance	6,869	312	(171)
	<u>667,454</u>	<u>565,537</u>	<u>576,674</u>
Capital Lease Obligations	<u>9,779</u>	<u>10,171</u>	<u>10,532</u>
	<u>\$ 677,233</u>	<u>\$ 575,708</u>	<u>\$ 587,206</u>

NET ASSETS

The **Net Assets** of the University increased in total by \$190.9 million in fiscal year 2006 and \$225.0 million in fiscal year 2005, excluding any changes in the University of Missouri Retirement Trust. An explanation of these changes, based on the four net asset categories, is as follows:

- **Invested in Capital Assets, Net of Related Debt**, represents capital holdings, net of accumulated depreciation and outstanding debt financing related to the acquisition, construction or improvement of those assets. The increases of \$36.2 million in fiscal year 2006 to \$1.26 billion as of June 30, 2006, and \$79.5 million in fiscal year 2005 to \$1.23 billion as of June 30, 2005, are due to the investment in buildings, equipment and infrastructure.
- **Restricted Nonexpendable Net Assets** are subject to externally imposed stipulations that they be maintained permanently by the University. This category of net assets represents the historical value (corpus) of gifts to the University's permanent endowment. The increases of 12.4%, or \$69.2 million, during fiscal year 2006 to \$624.8 million as of June 30, 2006, and 14.7%, or \$71.3 million, during fiscal year 2005 to \$555.7 million as of June 30, 2005, are primarily a result of additional gifts to the endowment and the increase in market value.
- **Restricted Expendable Net Assets** are subject to externally imposed stipulations governing their use. Restricted Expendable Net Assets of \$366.0 million as of June 30, 2006 and \$335.5 million as of June 30, 2005 increased 9.1% and 9.8% year to year, respectively. As of June 30, 2006 compared to June 30, 2005, this category includes net assets restricted for operations and endowment purposes of \$267.5 million compared to \$239.6 million; facilities of \$23.7 million compared to \$20.2 million; and student loan programs of \$74.8 million compared to \$75.7 million.
- **Unrestricted Net Assets** of \$740.9 million increased 8.0%, or \$55.0 million, at fiscal year end 2006 over the prior year compared to a 6.9% increase from fiscal year end 2004 to 2005. This category of net assets is not subject to externally imposed stipulations, although may be designated for specific purposes by action of management or the Board of Curators. Unrestricted Net Assets are used primarily for the instructional and public service missions and general operations of the University, and as of June 30, 2006 and 2005, consist of \$495.3 million and \$479.4 million, respectively, for these purposes. Unrestricted Net Assets designated for capital projects consist of \$108.3 million and \$81.4 million, respectively, as of June 30, 2006 and 2005 and \$3.9 million and \$3.4 million, respectively, for student loan programs. In addition, Unrestricted Net Assets include funds functioning as endowment of \$133.4 million as of June 30, 2006 and \$121.8 million as of June 30, 2005.

The distribution of the Net Asset balances, including additional details on unrestricted net assets by fund type, as of June 30, 2006, are as follows:



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

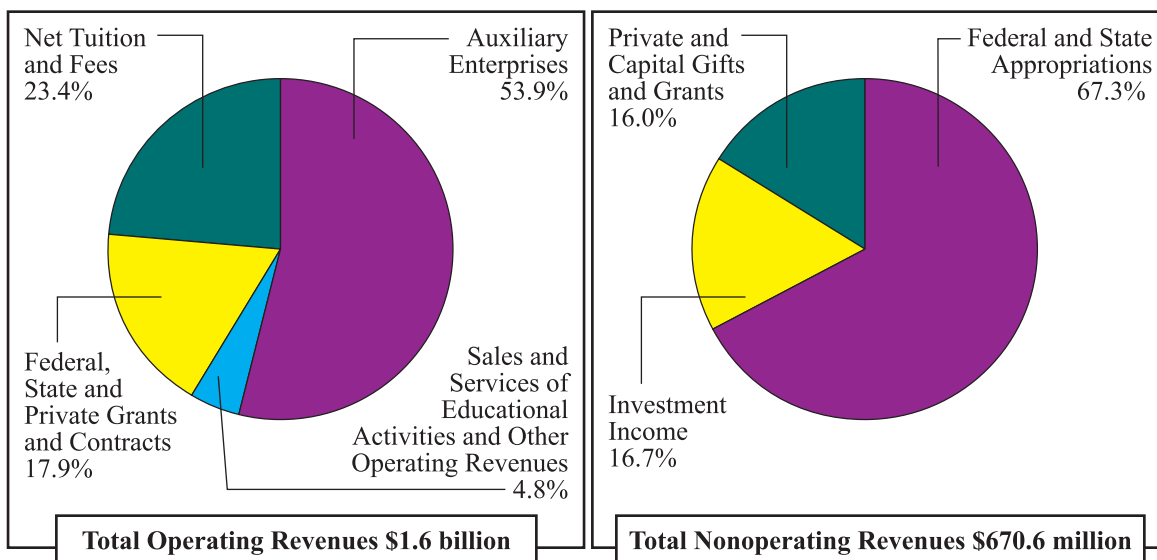
The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. The Statement distinguishes revenues and expenses between operating and nonoperating categories, and provides a view of the University's operating margin (in thousands of dollars).

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Operating Revenues:			
Net Tuition and Fees	\$ 374,926	\$ 355,516	\$ 311,778
Grants and Contracts	287,001	293,885	259,092
Patient Medical Services	620,577	566,394	492,229
Other Auxiliary Enterprises	241,517	236,217	214,621
Other Operating Revenues	75,592	80,797	65,401
Total Operating Revenues	<u>1,599,613</u>	<u>1,532,809</u>	<u>1,343,121</u>
Operating Expenses:			
Salaries, Wages and Staff Benefits	1,293,150	1,214,209	1,133,772
Supplies, Services and Other Operating Expenses	610,269	596,395	516,766
Other Operating Expenses	146,014	133,197	115,529
Total Operating Expenses	<u>2,049,433</u>	<u>1,943,801</u>	<u>1,766,067</u>
Operating Loss	(449,820)	(410,992)	(422,946)
State Appropriations	<u>428,893</u>	<u>430,127</u>	<u>421,434</u>
Income (Loss) after State Appropriations, before Nonoperating Revenues (Expenses)	(20,927)	19,135	(1,512)
Nonoperating Revenues (Expenses):			
Investment and Endowment Income	111,675	89,236	104,486
Private Gifts	55,980	73,504	36,143
Other Nonoperating Revenues (Expenses)	(15,679)	(8,982)	(10,627)
Net Nonoperating Revenues	<u>151,976</u>	<u>153,758</u>	<u>130,002</u>
Income before Capital Contributions and Additions to Permanent Endowments	131,049	172,893	128,490
State Capital Appropriations and State Bond Funds	8,503	4,686	54,239
Capital Gifts and Grants	16,285	13,056	21,749
Private Gifts for Endowment Purposes	<u>35,110</u>	<u>34,351</u>	<u>18,506</u>
Increase in Net Assets	190,947	224,986	222,984
Net Assets, Beginning of Year	<u>2,804,034</u>	<u>2,579,048</u>	<u>2,356,064</u>
Net Assets, End of Year	<u>\$ 2,994,981</u>	<u>\$ 2,804,034</u>	<u>\$ 2,579,048</u>

TOTAL REVENUES

Total **Operating Revenues** increased 4.4%, or \$66.8 million, over fiscal year 2005 to \$1.6 billion in fiscal year 2006 compared to a 14.1%, or \$189.7 million increase in fiscal year 2005 over 2004. These fluctuations are due to increases in tuition, patient medical services and revenues related to certain auxiliary operations. **Nonoperating Revenues** include funding sources such as State Appropriations, State Capital Appropriations, Federal Appropriations and Gift and Investment Income. These sources are categorized under GASB standards as nonoperating because they are not generated as a result of the University's core missions of teaching, research and public service. Nonoperating Revenues were essentially flat in fiscal year 2006 compared to fiscal years 2005 and 2004.

The following is a graphic illustration of revenues by source, including both operating and nonoperating revenue streams for fiscal year 2006.



OPERATING REVENUES

Tuition and Fees, net of **Scholarship Allowances**, which includes University resources used to reduce fees charged to students for related services, increased 5.5% or \$19.4 million in fiscal year 2006 over fiscal year 2005 and 14.0% or \$43.7 million in fiscal year 2005 over fiscal year 2004. The increases in both fiscal year 2006 and 2005 were due to Board-approved increases in resident and non-resident tuition and related enrollment fees of 3.5% and 7.5%, respectively, and increases in enrollments.

As a research institution, the University receives a substantial amount of funding through **Federal, State and Private Grants and Contracts**. The University experienced a decline of 2.3% from \$293.9 million in fiscal year 2005 to \$287.0 million in fiscal year 2006. While Federal grant funding grew during fiscal year 2006, decreases were noted in State grant funding and private grants and contracts. This compares to a 13.4% increase in fiscal year 2005. Federal grant funding and State grant funding increased significantly in fiscal year 2005 along with modest increases in private grants and contracts.

Patient Medical Services, which includes fees for services provided by the University Hospitals and Clinics and related health care units ("UHC") and the University Physicians Practice Plan, increased \$54.2 million or 9.6% in fiscal year 2006 over fiscal year 2005. Of this increase, \$16.3 million relates to the operations of the University Physicians and \$37.9 million relates to UHC. In fiscal year 2005, these revenues increased \$74.2 million or 15.1% over fiscal year 2004 of which \$4.0 million related to the operations of the University Physicians and \$70.2 million to UHC.

NONOPERATING REVENUES

In fiscal year 2006, the University received no increase in **State Appropriations** due to efforts by the State to balance its budget. This compares to a modest 2.1%, or \$8.7 million, increase in fiscal year 2005, following two years of consecutive cuts and withholdings.

Investment and Endowment Income includes interest and dividend income as well as realized and unrealized gains and losses. Investment and Endowment Income increased \$22.5 million, from \$89.2 million in fiscal year 2005 to \$111.7 million in fiscal year 2006. Contributing factors include an increase in the rate of return on the Balanced Pool from 9.6% in fiscal year 2005 to 13.0% in fiscal year 2006 and an increase in realized and unrealized net gains of \$12.8 million. This compares to a \$15.3 million decrease in investment and endowment income in fiscal year 2005 compared to 2004 due to lower domestic and international stock market returns and a decrease in realized and unrealized net gains of \$22.7 million.

PRIVATE GIFTS AND GRANTS

Gift income is reflected in three categories: **Private Gifts**, **Capital Gifts** (restricted for capital expansion) and **Private Gifts for Endowments** (restricted for the establishment of endowments). Total gifts to the University in fiscal year 2006 of \$107.2 million compare to \$117.4 million in fiscal year 2005 and \$74.2 million in fiscal year 2004. Private Gifts and Grants can fluctuate significantly from year to year due to the receipt of special gifts from donors as part of ongoing capital campaigns. There has been increased focus by the campuses on capital campaigns with three of the four campuses significantly increasing their original capital campaign goals due to the positive response from donors. Over the three-year period 2004 to 2006, there has been a significant increase in total giving.

CAPITAL CONTRIBUTIONS

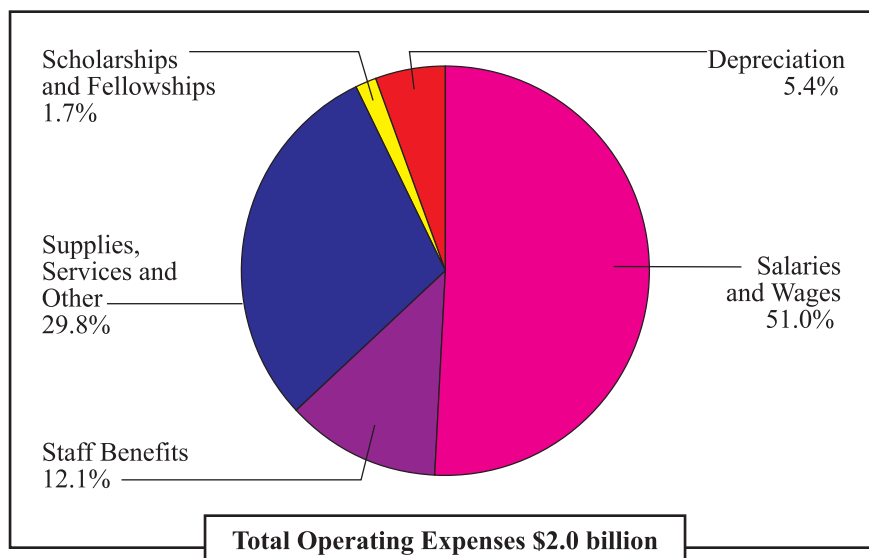
In fiscal years 2006 and 2005, **State Capital Appropriations and State Bond Funds**, of \$8.5 and \$4.7 million, respectively, consisted primarily of funding for the Health Sciences Center on the Kansas City campus. This compares to \$54.2 million in fiscal year 2004 released by the State of Missouri for the new sports arena and the Life Sciences Center on the Columbia campus and the Health Sciences Center in Kansas City.

Capital Grants of \$176.8 thousand in fiscal year 2006 and \$3.5 million in fiscal year 2005 represent funding received from Federal and State agencies to be used for the expansion of the University's physical plant. The decrease of \$3.3 million in fiscal year 2006 is primarily due to receipt of a significant portion of funds from a National Aeronautical Space Administration grant in fiscal year 2005.

OPERATING EXPENSES

Total Operating Expenses increased \$105.6 million or 5.4% in fiscal year 2006 compared to 2005 and \$177.7 million or 10.1% in fiscal year 2005 compared to 2004.

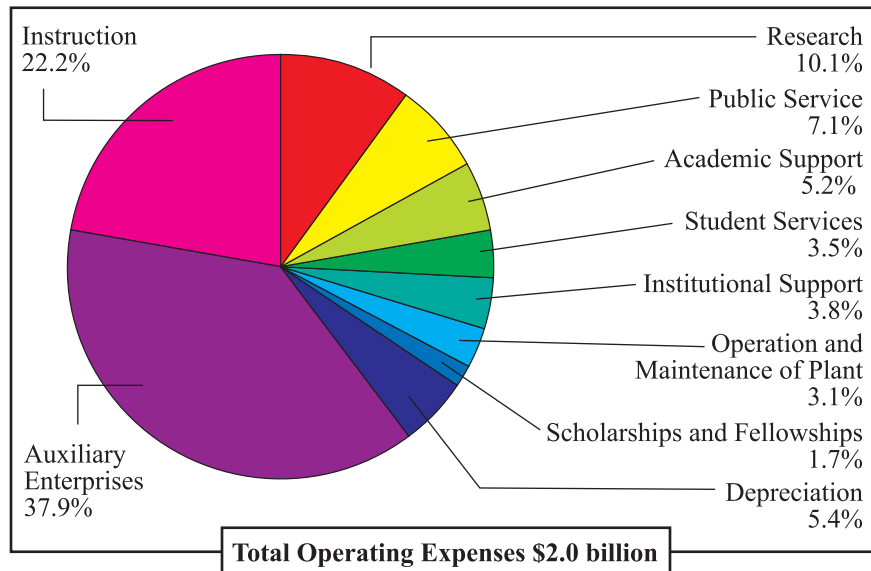
The following is a graphic illustration of total expenses by object of expenditure for fiscal year 2006:



During fiscal years 2006 and 2005, **Salaries and Wages** increased approximately 5.8% and 7.4%, respectively, over the prior fiscal year primarily due to Board approved merit increases for employees. Staff Benefits showed corresponding increases of 9.6% and 6.0% year over year related to employer costs associated with the University's medical, dental and life premiums, as well as retirement contributions.

In fiscal year 2006, the University's expenses related to **Supplies, Services and Other Operating** costs of \$610.3 million increased by 2.3% or \$13.9 million, compared to \$596.4 million in fiscal year 2005. This compares to a 15.4% or \$79.6 million increase in fiscal year 2005 over fiscal year 2004. Increased patient care operating costs at the University of Missouri Hospitals and Clinics directly correlated with an increase in services and patient care revenue, and accounted for \$8.1 million and \$42.0 million of the increases in fiscal years 2006 and 2005, respectively. In fiscal years 2006 and 2005, costs of goods sold that relate directly to increases in auxiliary revenue, increased \$7.0 million and \$6.7 million, respectively. In addition, in fiscal year 2005 the University experienced increases in costs related to maintenance, repair and replacement of certain components in its infrastructure and physical plant. These maintenance, repair and replacement costs, which do not meet the University's capitalization limit of \$5,000, accounted for approximately \$7.4 million in additional costs in fiscal year 2005 over fiscal year 2004.

In addition to their natural classification, it is also informative to review operating expenses by function. The core missions of instruction, research and public service account for the largest proportion of expenses at 39.4% for fiscal year 2006. Auxiliary Enterprises include the University of Missouri Hospitals and Clinics and constitute the next highest proportion at 37.9% of expenses for fiscal year 2005. The following graphic illustration presents total expenses by function for fiscal year 2006.



STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's sources and uses of cash and cash equivalents during the fiscal year. The following summarizes sources and uses of cash and cash equivalents into the four categories defined by GASB for the three years ended June 30, 2006 (in thousands of dollars):

	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Net Cash Used in Operating Activities	\$ (291,055)	\$ (295,534)	\$ (334,212)
Net Cash Provided by Noncapital Financing Activities	537,497	538,505	486,553
Net Cash Used in Capital and Related Financing Activities	(145,976)	(218,463)	(92,891)
Net Cash Provided by (Used in) Investing Activities	(125,700)	99,628	(117,442)
Net Increase (Decrease) in Cash and Cash Equivalents	(25,234)	124,136	(57,992)
Cash and Cash Equivalents, Beginning of Year	340,999	216,863	274,855
Cash and Cash Equivalents, End of Year	<u>\$ 315,765</u>	<u>\$ 340,999</u>	<u>\$ 216,863</u>

Net Cash Used in Operating Activities reflects the continued need for funding from the State of Missouri, as funding received from tuition and fees and related sales and services of auxiliary and educational activities are not sufficient to cover operational needs. In fiscal year 2006, cash used in operating activities of \$291.1 million decreased \$4.4 million from \$295.5 million in fiscal year 2005. This compares to a decrease of \$38.7 million from 2004 to 2005. These decreases in use of cash were impacted by increases in operating revenues such as tuition and fees, patient care revenues, and federal, state and private grant revenues.

The University's most significant source of cash, **Net Cash Provided by Noncapital Financing Activities**, includes funds provided by State and Federal appropriations and noncapital private gifts. This funding source of \$537.5 million for fiscal year 2006 and \$538.5 million for fiscal year 2005 directly offsets uses of funds.

Net Cash Used in Capital and Related Financing Activities of \$146.0 million in fiscal year 2006 decreased \$72.5 million from fiscal year 2005. In fiscal year 2006, the University issued new debt that helped offset funds used for capital expansion across all campuses. Net Cash Used in Capital and Related Financing Activities increased \$125.6 million in fiscal year 2005 over fiscal year 2004 as proceeds from debt issued in 2004 were used and no new debt was issued.

In fiscal year 2006, **Net Cash Used in Investing Activities** was \$125.7 million compared to **Net Cash Provided by Investing Activities** of \$99.6 million in fiscal year 2005. The University's investment pool was more heavily weighted in long-term investments as of June 30, 2006, resulting in more cash being used in purchase of long-term instruments. In fiscal year 2005, **Net Cash Provided by Investing Activities** was \$99.6 million compared to **Net Cash Used in Investing Activities** of \$117.5 million in fiscal year 2004, an increase in cash flows from investing activities of \$217.1 million. The University's investment pool was more heavily weighted in short-term investments as of June 30, 2005, as a result of year-end cash flows.

ECONOMIC OUTLOOK

The University of Missouri continues to provide quality service to students, patients and citizens across the state of Missouri and to strengthen its financial position through positive operating results. Although the University received no increase in state appropriations in fiscal year 2006 due to efforts to bring structural balance to the state's budget and end the state's dependence on one-time funds, improvements in the state's economic condition resulted in a 2.8% increase for fiscal year 2007. The University is optimistic about future increases in state funding for higher education in light of the continuing strong growth in state revenues and the recognition by State government leadership of the importance of investing in higher education.

Fiscal year 2006 was the third year in a row where gross tuition and fees surpassed state appropriations as the largest source of non-healthcare operating revenues. This is projected to continue in fiscal year 2007 and beyond. Following a 3.5% increase in fiscal year 2006, tuition increased 5% in fiscal year 2007 to compensate for flat state support. This increase coupled with continued enrollment growth on all four campuses has contributed to the University's ability to maintain positive operating results. Both headcount and full-time equivalent enrollment continue to reach historic highs. From fall 2001 to fall 2005, the University of Missouri full-time equivalent enrollments grew 14.5% and accounted for more than 80% of the increase in enrollments at the state's four-year higher education institutions. The University of Missouri, as the state's research and land-grant institution of higher education, enrolls the state's top students.

Increases in mandatory expenses such as health care benefits, retirement contributions, utilities and insurance, in conjunction with flat state support, rising enrollments, and the need to maintain affordability pose a budgetary challenge for the University. To meet this challenge, President Elson Floyd charged University leadership with identifying a ten percent, or \$12 million, reduction in administrative costs for reallocation to academic priorities by fiscal year 2008. The University exceeded its goal by identifying over \$20 million for reallocation. The results of this initiative will support the University's commitment to access and affordability into the future.

The University of Missouri Health System continues to improve its financial position ending fiscal year 2006 with a 6.1% excess margin providing approximately \$31.6 million for capital projects and other initiatives. In fiscal year 2006, the Health System successfully managed the financial impact of reductions in the state Medicaid program as a result of record hiring of specialty physicians and continuing increases in patient census, surgical volumes and deliveries; these changes are expected to continue to bolster performance. During fiscal year 2006, the Health System completed a strategic plan, a master facilities plan and a related financial plan. Recently the Board of Curators approved proceeding on the design and construction of a new \$150 million surgical tower and a \$45 million orthopedic institute.

The University continues to strengthen and diversify its funding sources through effective endowment management, increased private giving and record high Federal research funding. Investment performance of the endowment has consistently exceeded the long term benchmark return ensuring additional resources for University initiatives in the future. Three of the four campuses have significantly increased original capital campaign goals due to the positive response from donors. The University of Missouri-Columbia campus is one of a few public universities with a campaign goal of \$1.0 billion. Coupled with the University's increase in Federal funding is its success in recovering more of the facilities and administrative costs associated with sponsored research through the successful negotiation of a significant increase in its Facilities and Administrative (F & A) cost rate for the next three years.

With the addition of economic development as a fourth mission of the University and a recently appointed vice president for research and economic development, the University has accelerated its partnerships with the state of Missouri and the private sector in support of economic initiatives that build on the University's research strength. A new research park, Discovery Ridge, and a new incubator are under construction at the University of Missouri-Columbia campus and a new business technology park is under construction at the University of Missouri-St Louis campus. Anchor tenants from the private sector have been secured for both parks. The University's technology transfer operation has been reorganized and strengthened to ensure that the breakthroughs that are achieved in the laboratory benefit the citizenry as rapidly as possible.

Improvement in the state's economy with associated increases in state support, strong demand demonstrated by growing enrollments, highly successful capital campaigns, and robust research funding are all factors in the positive economic outlook for the University of Missouri. These factors combined with prudent financial and operational management point to continuing financial strength.



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Independent Auditor's Report

The Board of Curators
University of Missouri:

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the University of Missouri Retirement Trust of the University of Missouri, a component unit of the State of Missouri, as of and for the years ended June 30, 2006 and 2005, which collectively comprise the University of Missouri's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of Missouri's management. Our responsibility is to express opinions 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 University of Missouri'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the University of Missouri Retirement Trust of the University of Missouri as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006 on our consideration of the University of Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 13, the Schedule of Employer Contributions on page 49, and the Schedule of Funding Progress on page 49 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

St. Louis, Missouri
October 27, 2006

(in thousands of dollars)

	University		Discretely Presented Component Units	
	2006	2005	2006	2005
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 146,169	\$ 131,614	\$ 9,972	\$ 8,053
Restricted Cash and Cash Equivalents	169,596	209,385		
Short-Term Investments	75,830	95,309		
Restricted Short-Term Investments	87,983	126,782		
Accounts Receivable, Net	198,087	185,206	23,361	22,470
Pledges Receivable, Net	11,562	10,489		
Investment Settlements Receivable	6,266	6,373		
Notes Receivable, Net	14,848	10,301		
Due From (To) Component Units and Retirement	(3,976)	(2,616)	3,737	2,612
Inventories	31,886	29,872	2,552	2,232
Prepaid Expenses and Other Current Assets	13,313	14,131	1,486	1,120
Total Current Assets	751,564	816,846	41,108	36,487
Noncurrent Assets:				
Restricted Cash and Cash Equivalents			5,253	9,416
Pledges Receivable, Net	29,437	28,983		
Notes Receivable, Net	44,052	46,252		
Deferred Charges and Other Assets	9,868	11,467	1,360	1,310
Restricted Other Assets			2,831	1,640
Long-Term Investments	708,052	485,917	28,744	34,626
Restricted Long-Term Investments	743,326	646,381		
Capital Assets, Net	1,926,942	1,795,513	74,296	66,567
Total Noncurrent Assets	3,461,677	3,014,513	112,484	113,559
Total Assets	\$ 4,213,241	\$ 3,831,359	\$ 153,592	\$ 150,046
Liabilities				
Current Liabilities:				
Accounts Payable	\$ 114,302	\$ 91,834	\$ 5,063	\$ 5,434
Accrued Liabilities	111,646	103,974	16,677	18,233
Deferred Revenue	60,814	35,179		
Funds Held for Others	67,840	61,683		
Investment Settlements Payable	19,582	16,170		
Collateral for Securities on Loan	100,618	81,611		
Capital Lease Obligations	425	392	89	112
Bonds and Notes Payable	14,760	13,485	900	870
Total Current Liabilities	489,987	404,328	22,729	24,649
Noncurrent Liabilities:				
Capital Lease Obligations	9,354	9,779	40	95
Bonds and Notes Payable	652,694	552,052	37,995	38,895
Deferred Revenue	2,460	2,908		
Other Noncurrent Liabilities	63,765	58,258	200	
Total Noncurrent Liabilities	728,273	622,997	38,235	38,990
Total Liabilities	1,218,260	1,027,325	60,964	63,639

(continued)

(in thousands of dollars)

	<u>University</u>		<u>Discretely Presented Component Units</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,263,187	1,226,962	35,814	27,199
Restricted:				
Nonexpendable -				
Endowment	624,821	555,658		
Expendable -				
Scholarships, Research, Instruction and Other	267,514	239,585	2,831	1,640
Loans	74,825	75,670		
Capital Projects	23,697	20,214		
Unrestricted	740,937	685,945	53,983	57,568
Total Net Assets	<u>2,994,981</u>	<u>2,804,034</u>	<u>92,628</u>	<u>86,407</u>
Total Liabilities and Net Assets	<u>\$ 4,213,241</u>	<u>\$ 3,831,359</u>	<u>\$ 153,592</u>	<u>\$ 150,046</u>

See notes to the financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

(in thousands of dollars)

	<u>University</u>		<u>Discretely Presented Component Units</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating Revenues:				
Tuition and Fees (Net of Provision for Doubtful Accounts of \$5,323 in 2006 and \$4,609 in 2005)	\$ 501,347	\$ 471,240	\$ -	\$ -
Less: Scholarship Allowances	<u>126,421</u>	<u>115,724</u>	<u>-</u>	<u>-</u>
Net Tuition and Fees	<u>374,926</u>	<u>355,516</u>	<u>-</u>	<u>-</u>
Federal Grants and Contracts	199,436	193,473		
State and Local Grants and Contracts	41,255	43,638		
Private Grants and Contracts	46,310	56,774		
Sales and Services of Educational Activities	18,267	17,920		
Auxiliary Enterprises -				
Patient Medical Services, Net	620,577	566,394	204,752	160,947
Housing and Dining Services (Net of Scholarship Allowance of \$426 in 2006 and \$490 in 2005)	61,548	57,730		
Bookstores	54,308	50,422		
Other Auxiliary Enterprises (Net of Scholarship Allowance of \$5,634 in 2006 and \$5,472 in 2005)	125,661	128,065		
Notes Receivable Interest Income, Net of Fees	25	855		
Other Operating Revenues	<u>57,300</u>	<u>62,022</u>		
Total Operating Revenues	<u>1,599,613</u>	<u>1,532,809</u>	<u>204,752</u>	<u>160,947</u>
Operating Expenses:				
Salaries and Wages	1,044,462	987,240	48,506	46,952
Staff Benefits	248,688	226,969	12,269	12,018
Supplies, Services and Other Operating Expenses	610,269	596,395	129,778	87,365
Scholarships and Fellowships	35,090	30,783		
Depreciation	<u>110,924</u>	<u>102,414</u>	<u>8,823</u>	<u>7,758</u>
Total Operating Expenses	<u>2,049,433</u>	<u>1,943,801</u>	<u>199,376</u>	<u>154,093</u>
Operating Income (Loss)	(449,820)	(410,992)	5,376	6,854
State Appropriations	<u>428,893</u>	<u>430,127</u>		
Income (Loss) after State Appropriations, before Nonoperating Revenues (Expenses)	<u>(20,927)</u>	<u>19,135</u>	<u>5,376</u>	<u>6,854</u>
Nonoperating Revenues (Expenses):				
Federal Appropriations	14,203	15,776		
Investment and Endowment Income, Net of Fees	111,675	89,236	1,363	1,024
Private Gifts	55,980	73,504	10	42
Interest Expense	(28,563)	(23,497)	(1,534)	(1,340)
Other Nonoperating Revenues (Expenses)	<u>(1,319)</u>	<u>(1,261)</u>	<u>1,006</u>	<u>1,640</u>
Net Nonoperating Revenues (Expenses)	<u>151,976</u>	<u>153,758</u>	<u>845</u>	<u>1,366</u>
Income before Capital Contributions and Additions to Permanent Endowments	131,049	172,893	6,221	8,220
State Capital Appropriations and State Bond Funds	8,503	4,686		
Capital Gifts and Grants	16,285	13,056		
Private Gifts for Endowment Purposes	<u>35,110</u>	<u>34,351</u>		
Increase in Net Assets	190,947	224,986	6,221	8,220
Net Assets, Beginning of Year	<u>2,804,034</u>	<u>2,579,048</u>	<u>86,407</u>	<u>78,187</u>
Net Assets, End of Year	<u>\$ 2,994,981</u>	<u>\$ 2,804,034</u>	<u>\$ 92,628</u>	<u>\$ 86,407</u>

See notes to the financial statements.

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(in thousands of dollars)

Cash Flows from Operating Activities:

	2006	2005
Tuition and Fees	\$ 386,141	\$ 336,011
Federal, State and Private Grants and Contracts	288,822	288,307
Sales and Services of Educational Activities and Other Auxiliaries	145,647	174,492
Patient Care Revenues	618,193	558,141
Student Housing Fees	61,762	57,732
Bookstore Collections	54,312	50,058
Payments to Suppliers	(574,419)	(581,258)
Payments to Employees	(1,040,834)	(981,507)
Payments for Benefits	(248,688)	(226,969)
Payments for Scholarships and Fellowships	(35,090)	(30,783)
Student Loans Issued	(16,718)	(16,718)
Student Loans Collected	11,443	13,778
Student Loan Interest and Fees	1,074	1,160
Other Receipts, Net	57,300	62,022

Net Cash Used in Operating Activities

(291,055) (295,534)

Cash Flows from Noncapital Financing Activities:

State Appropriations	428,893	430,141
Federal Appropriations	14,203	15,776
Private Gifts	54,453	58,016
Endowment and Similar Funds Gifts	35,110	34,351
Other Payments	(1,319)	(1,261)
Deposits of Affiliates	6,157	1,482

Net Cash Provided by Noncapital Financing Activities

537,497 538,505

Cash Flows from Capital and Related Financing Activities:

Capital State Appropriations	8,678	7,377
Capital Gifts and Grants	16,285	13,056
Proceeds from Sales of Capital Assets		9,525
Purchase of Capital Assets	(247,092)	(211,567)
Proceeds from Issuance of Capital Debt, Net	314,852	
Principal Payments on Capital Debt	(13,485)	(11,620)
Proceeds from Capital Project Notes	80,700	166,240
Payments on Capital Project Notes	(80,000)	(168,000)
Payments on Capital Lease	(392)	(361)
Escrow Deposit on Defeasance	(199,447)	
Payments on Cost of Debt Issuance	(610)	
Interest Payments on Capital Debt	(25,465)	(23,113)

Net Cash Used in Capital and Related Financing Activities

(145,976) (218,463)

Cash Flows from Investing Activities:

Interest and Dividends on Investments	60,541	51,598
Purchase of Investments, Net of Sales and Maturities	(187,600)	48,190
Other Investing Activities	1,359	(160)

Net Cash Provided by (Used in) Investing Activities

(125,700) 99,628

Net Increase (Decrease) in Cash and Cash Equivalents

(25,234) 124,136

Cash and Cash Equivalents, Beginning of Year

340,999 216,863

Cash and Cash Equivalents, End of Year

\$ 315,765 \$ 340,999

	<i>(in thousands of dollars)</i>	
	<u>2006</u>	<u>2005</u>
Reconciliation of Operating Loss Used in Operating Activities:		
Operating Loss	\$ (449,820)	\$ (410,992)
Adjustments to Net Cash Used in Operating Activities -		
Depreciation Expense	110,924	102,414
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(13,056)	(3,422)
Inventory, Prepaid Expenses and Other Assets	3,543	699
Notes Receivable	(2,347)	(2,635)
Accounts Payable	21,770	5,244
Accrued Liabilities	12,288	14,927
Deferred Revenue	25,643	(1,769)
Net Cash Used in Operating Activities	<u>\$ (291,055)</u>	<u>\$ (295,534)</u>
Supplemental Disclosure of Noncash Activities:		
Net Increase (Decrease) in Fair Value of Investments	<u>\$ 1,657</u>	<u>\$ (6,447)</u>
<i>See notes to the financial statements.</i>		

Statement of Net Assets Held for Pension Benefits

AS OF JUNE 30, 2006 AND 2005

(in thousands of dollars)

	2006	2005
Assets		
Cash and Cash Equivalents	\$ 94,501	\$ 50,039
Collateral for Securities Lending	271,217	173,580
Due from the University of Missouri System	239	4
Investment Settlements Receivable	28,026	22,594
Investments:		
Government Obligations	389,504	301,689
Corporate Bonds and Notes	108,699	109,375
Corporate Stocks	1,904,159	1,783,813
Other	66,375	33,282
Total Assets	2,862,720	2,474,376
Liabilities		
Accounts Payable and Accrued Liabilities	2,363	2,228
Collateral for Securities Lending	271,217	173,580
Investment Settlements Payable	94,399	53,255
Total Liabilities	367,979	229,063
Net Assets Held for Pension Benefits	\$ 2,494,741	\$ 2,245,313

Statement of Changes in Net Assets Held for Pension Benefits

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

(in thousands of dollars)

	2006	2005
Net Revenues and Other Additions		
Investment Income:		
Interest and Dividend Income, Net of Fees	\$ 54,338	\$ 41,423
Net Appreciation in Fair Value of Investments	243,545	177,105
Net Investment Income	297,883	218,528
University Contribution	64,399	49,075
Total Net Revenues and Other Additions	362,282	267,603
Expenses and Other Deductions		
Administrative Expenses	1,760	1,457
Payments to Retirees and Beneficiaries	111,094	102,358
Total Expenses and Other Deductions	112,854	103,815
Increase in Net Assets Held for Pension Benefits	249,428	163,788
Net Assets Held for Pension Benefits, Beginning of Year	2,245,313	2,081,525
Net Assets Held for Pension Benefits, End of Year	\$ 2,494,741	\$ 2,245,313

See notes to the financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UNIVERSITY OF MISSOURI

Organization – The University of Missouri (the “University”), a Federal land grant institution, conducts education, research and public service and related activities principally at its four campuses in Columbia, Kansas City, Rolla and St. Louis, which include the University of Missouri Hospitals and Clinics and related health care facilities. The University also administers a statewide cooperative extension service with centers located in each county in the State. The University is a component unit of the State of Missouri (the “State”) and is governed by an appointed nine-member Board of Curators.

Reporting Entity – As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (“GASB”), the financial reporting entity consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or the nature and significance of their relationships with the primary government are such that exclusion would cause the primary government’s financial statements to be misleading or incomplete.

The following entities are considered component units of the University according to the criteria in GASB Statement No. 14, *The Financial Reporting Entity* and are discretely presented in the University’s financial statements.

- The University of Missouri-Columbia Medical Alliance (the “Medical Alliance”), a not-for-profit corporation, provides an integrated health care delivery system for mid-Missouri by establishing affiliations with various medical facilities. Capital Region Medical Center (“CRMC”) in Jefferson City, Missouri, operates as an affiliate of the Medical Alliance and provides inpatient, outpatient and emergency care services to the surrounding community. CRMC is a discretely presented component unit of the Medical Alliance and CRMC is a not-for-profit organization that follows generally accepted accounting principles under the Financial Accounting Standards Board (“FASB”). The purpose of the Medical Alliance is to develop a network of healthcare providers to support the missions of the University of Missouri Healthcare. The University appoints the Board of Directors of the Medical Alliance and can impose its will on the organization.
- Missouri Care L.C. is a not-for-profit health maintenance organization which provides services to patients in central Missouri under a certification from the Missouri Department of Social Services. Missouri Care L.C. has contracted with the University of Missouri Healthcare System as a major provider of health care services to the organization’s members. Missouri Care L.C. is organized exclusively for charitable purposes, in particular, to benefit its sole member, the Curators of the University of Missouri. The University appoints the Board of Directors of Missouri Care L.C. and can impose its will on the organization.

Complete financial statements for Missouri Care L.C. are available at the University of Missouri, 118 University Hall, Columbia, MO 65211. Financial statements for Medical Alliance are not available.

The University operates the University of Missouri Retirement, Disability and Death Benefit Plan (the “Plan”), which is a single employer, defined benefit plan. The assets of the Plan are held in trust and are restricted for use only to pay for benefits and expenses of the Plan. The Plan is reported as a fiduciary fund of the University.

Financial Statement Presentation – In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

The University has adopted GASB Statement No. 35, *Basic Financial Statement—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities. The financial statement

presentation provides a comprehensive entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows replacing the fund-group perspective previously required.

Basis of Accounting – The University's financial statements have been prepared using the economic resource focus and the accrual basis. The University reports as a Business Type Activity, as defined by GASB Statement No. 34. Business Type Activities are those that are financed in whole or in part by funds received from external parties for goods or services.

The University's policy for defining operating activities as reported on the Statement of Revenues, Expenses and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue as defined by GASB Statement No. 34. Nonoperating revenues include revenues from activities that have the characteristics of nonexchange transactions, such as State and Federal appropriations and investment income.

The University of Missouri Retirement Trust is a pension trust fund which accounts for the activity of the University of Missouri Retirement, Disability, and Death Benefit Plan. The financial statements of the trust fund have been prepared using the accrual basis of accounting.

Cash, Cash Equivalents and Investments – Cash and cash equivalents consist of the University's bank deposits and investments with original maturities of three months or less. Investment assets are carried at fair value based primarily on market quotations. Purchases and sales of investments are accounted for on the trade date basis. Investment settlements receivable and investment settlements payable represent investment transactions occurring on or before June 30, which settle after such date. Investment income is recorded on the accrual basis. Net unrealized gains (losses) are included in investment and endowment income in the Statement of Revenues, Expenses and Changes in Net Assets. Derivative instruments such as forward foreign currency contracts are recorded at fair value. The University enters into forward foreign currency contracts to reduce the risk related to fluctuations in currency exchange rates in their international investments. These contracts are marked to market and the changes in their market value are recorded in investment and endowment income on the Statement of Revenues, Expenses and Changes in Net Assets.

Pledges Receivable – The University receives unconditional promises to give (pledges) through private donations from corporations, alumni and various other supporters of the University. Revenue is recognized when a pledge is received and all eligibility requirements, including time requirements, are met. These pledges have been recorded as pledges receivable on the Statement of Net Assets and as private gift revenue on the Statement of Revenues, Expenses and Changes in Net Assets, at the present value of the estimated future cash flows. An allowance of \$3,739,000 and \$4,102,000 as of June 30, 2006 and 2005 has been made for uncollectible pledges based upon management's expectations regarding the collection of the pledges and the University's historical collection experience.

Inventories – These assets are stated at the lower of cost or market. Cost is determined on an average cost basis, with the exception of the University Hospitals and Clinics inventories, where cost is determined using the first-in, first-out method.

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 ten to forty years for buildings and improvements, eight to twenty-five years for infrastructure, seven to fifteen years for equipment and twenty years for library materials. Net interest expense incurred during the construction of debt-financed facilities is included in the capitalization of the related facilities. The University has capitalized works of art and continues to add to these collections. As these collections generally consist of historical artifacts and artworks, they are considered inexhaustible, as well as land, and have not been subject to depreciation. The University does not capitalize collections of historical treasures held for public exhibition, education, research and public service. These collections are not disposed of for financial gain. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of historical treasures must be applied to the acquisition of additional items for the same collection.

Deferred Revenue – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Net Assets – The University’s net assets are classified for financial reporting in the following net asset categories:

- Invested in capital assets, net of related debt: This component of net assets includes capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction or improvement of those assets.

- Restricted:

Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University’s permanent endowment funds. The University’s policy permits any realized and unrealized appreciation on the endowments to remain with the endowment after the 5% spending distribution discussed in Note 3.

Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Curators. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University’s policy is to first apply the expense towards restricted resources, and then towards unrestricted resources. Unrestricted net assets are used for expenses for academics and general operation of the University.

Scholarship Allowance – Tuition and fees and related housing, dining and other auxiliary enterprises revenues are presented net of scholarships and fellowships applied to student accounts, while scholarships, fellowships and other payments made directly to students are presented as scholarship and fellowship expenses.

Patient Medical Services, Net – Patient medical services revenues are reported net of contractual allowances and bad debt. Patient medical services are primarily provided through University of Missouri Hospitals and Clinics, Ellis Fischel Cancer Research Center, Columbia Regional Hospital, Missouri Rehabilitation Center and University Physicians (collectively, the “University of Missouri Healthcare”).

The University of Missouri Healthcare 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. Patient medical services 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. Patient medical services revenue is also shown net of estimated uncollectible accounts.

Amounts receivable under Medicare and Medicaid reimbursements agreements are subject to examination and certain retroactive adjustments by the related programs. These adjustments increased net patient services revenues by \$9,755,000 and \$5,518,000 for the years ended June 30, 2006 and 2005, respectively.

A percentage breakdown of gross patient accounts receivable by major payer classification of the University of Missouri Healthcare for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Medicare	26%	29%
Commercial Insurance	10%	10%
Medicaid	22%	24%
Self Pay and Other	14%	11%
Managed Care Agreements	<u>28%</u>	<u>26%</u>
	<u>100%</u>	<u>100%</u>

The gross to net patient medical services revenue detail is reflected below for fiscal years 2006 and 2005. The Statement of Revenues, Expenses and Changes in Net Assets reflect net patient medical services revenue as follows (in thousands of dollars):

	<u>2006</u>	<u>2005</u>
Patient Medical Services Revenue, Gross	\$ 1,218,078	\$ 1,063,495
Less Deductions for Contractuals	(545,108)	(464,970)
Less Bad Debt Deductions	<u>(52,393)</u>	<u>(32,131)</u>
Patient Medical Services Revenue, Net	<u>\$ 620,577</u>	<u>\$ 566,394</u>

Interest Rate Swap Agreements – The University enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net payments resulting from those agreements, no amounts related to the interest rate swaps are recorded in the financial statements.

New Accounting Pronouncements – The GASB issued GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, effective for fiscal years beginning after December 15, 2005 and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, effective for fiscal years beginning after December 15, 2006. The University’s postemployment benefit plan is self-insured and managed by the University; therefore, both statements are applicable. The statements provide standards for measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and supplementary information. The University has not yet determined the effect that adoption of GASB Statement No. 43 and GASB Statement No. 45 may have on the financial statements.

The GASB issued GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. The statement establishes criteria that will be used to determine whether certain transactions should be regarded as a sale or a collateralized borrowing. This statement also includes a provision that entities should not revalue assets that are transferred between the financial reporting entity components. The University has not yet determined the effect that adoption of GASB Statement No. 48 may have on the financial statements.

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

Use of Estimates – The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Nature of Operations – The Curators of the University of Missouri, for and on behalf of the University of Missouri Healthcare, and CRMC entered into an Affiliation Agreement dated August 5, 1997. Pursuant to the Affiliation Agreement, the University created the Medical Alliance. The Medical Alliance then became the sole member of CRMC. The Medical Alliance’s purpose is to develop a network of healthcare providers to support the missions of the University of Missouri Healthcare.

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

Net Assets – The Medical Alliance’s net assets are classified for financial reporting in the following net asset categories:

- Invested in capital assets, net of related debt: This component of net assets includes capital assets, net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction or improvement of those assets.
- Restricted:
 - Expendable – Net assets whose use by the Medical Alliance is subject to externally imposed stipulations that can be fulfilled by actions of the Medical Alliance pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors. When an expense is incurred that can be paid using either restricted or unrestricted resources, the Medical Alliance’s policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Capital Assets – Capital Assets are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset following guidelines of the American Hospital Association. Equipment under capital lease obligations is amortized on the straight-line basis over the shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Net Patient Medical Service Revenue – Net patient medical service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

2. CASH AND CASH EQUIVALENTS

Cash & Cash Equivalents – University – The University’s cash and cash equivalents include bank deposits, repurchase agreements and investments with original maturities of three months or less.

Custodial Credit Risk – Deposits – University – 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 following chart presents cash and cash equivalent deposits balances as of June 30, 2006 and 2005 (in thousands of dollars):

<u>2006</u>	<u>Uninsured and Uncollateralized</u>	<u>Unsecured and Collateralized with Securities held by Pledging Institution’s Trust Department Not in the University’s Name</u>	<u>Collateralized and Fully Insured Bank Balances</u>	<u>Total Carrying Value</u>
Cash and Cash Equivalent Deposits	\$ -	\$ -	\$ 135,366	\$ 135,366
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,366</u>	<u>\$ 135,366</u>

<u>2005</u>	<u>Uninsured and Uncollateralized</u>	<u>Unsecured and Collateralized with Securities held by Pledging Institution’s Trust Department Not in the University’s Name</u>	<u>Collateralized and Fully Insured Bank Balances</u>	<u>Total Carrying Value</u>
Cash and Cash Equivalent Deposits	\$ 532	\$ -	\$ 148,974	\$ 149,506
Total	<u>\$ 532</u>	<u>\$ -</u>	<u>\$ 148,974</u>	<u>\$ 149,506</u>

Custodial Credit Risk – Deposits – University of Missouri Retirement Trust – The University of Missouri Retirement Trust held deposits, consisting of cash and cash equivalents in the amount of \$330,181,000 and \$211,062,000 as of June 30, 2006 and 2005, respectively. These balances are fully secured and collateralized and are not exposed to custodial credit risk.

3. INVESTMENTS

UNIVERSITY OF MISSOURI

Investments - The investment policies of the University are established by its governing board, the Board of Curators. The policies are established to ensure that the University funds are managed in accordance with Section 105.688 of the Revised Statutes of Missouri. The University is authorized to use outside managers for its investments and may pool funds for investment purposes. The present policy further provides that short-term funds of the University may be invested in the following investment instruments: repurchase agreements collateralized by U.S. Government issues and U.S. Government Agency issues; U.S. Government securities (including principal or interest payments that have been “stripped” from U.S. Treasury instruments), U.S. Government Agency securities and U.S. Government guaranteed securities, including but not limited to direct obligations of the U.S. Government, Federal Farm Credit Banks, Federal Home Loan Banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Resolution

Funding Corporation and Student Loan Marketing Association; investment grade (A or better) corporate bonds; variable rate securities of authorized investment instruments; collateralized certificates of deposit at banks with which the University has a depository agreement; commercial paper with credit ratings of A-1+ or A-1 by Standard & Poor's and P-1 by Moody's; bankers' acceptances; and other similar short-term investment instruments of like or better quality. Investments for the University are managed in two major categories:

Pooled General Investments – The general investment pools, managed by the University, averaged a total return of 2.47% and 3.53%, including unrealized gains and losses, for the years ended June 30, 2006 and 2005, respectively.

Pooled Endowment Investments – Endowment and similar funds are pooled for investment purposes when appropriate and permissible. The investment objective is to achieve long-term total returns sufficient to preserve principal, after adjusting for inflation, and to meet the endowment spending targets. The endowment pools, managed by outside managers, are the balanced pool and the fixed income pool and earned a total return of 13.0% and 1.3%, respectively, including unrealized gains and losses, for the year ended June 30, 2006, and 9.6% and 4.8%, respectively, for the year ended June 30, 2005.

If the donor has not provided specific instructions or restrictions, state law permits the Board of Curators to appropriate for expenditure an amount of net appreciation, realized and unrealized, of the investments of endowment funds as the Board considers to be prudent. When administering the power to spend net appreciation, the Board is required to consider the University's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Any net appreciation expended is required to be spent for the purposes for which the endowment was established. The net appreciation on investments of donor-restricted endowments authorized for expenditure in fiscal year 2006 is approximately \$43,716,000.

The Board of Curators has adopted a total return philosophy in determining the spendable return for the endowments and similar funds. The spending formula distributes annually 5% of a trailing 12-quarter average of the endowment's total market value, with the understanding that this spending rate over the long term will not exceed total real return (net of inflations) from investments. However, to achieve uniformity in amounts to spend from one year to the next, the actual amount available to spend in any given year will not be less than 96% or more than 106% of the prior year's expenditure.

At June 30, 2006 and 2005, the University held investments, by investment type, as follows (in thousands of dollars):

	Carrying Value as of June 30, 2006	Carrying Value as of June 30, 2005
Government Obligations	\$ 736,554	\$ 571,579
Corporate Bonds and Notes	206,948	197,249
Corporate Stocks	637,243	563,042
Other	34,446	22,519
Total Short-Term and Long-Term Investments	<u>1,615,191</u>	<u>1,354,389</u>
Government Obligations	31,909	
Corporate Bonds and Notes	16,858	
Commercial Paper	130,765	179,590
Repurchase Agreements	867	11,903
Total Cash and Cash Equivalents	<u>180,399</u>	<u>191,493</u>
Total Investments	<u>\$ 1,795,590</u>	<u>\$ 1,545,882</u>

Custodial Credit Risk – The custodial credit risk for investments 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. In accordance with University policy, the University minimizes its custodial credit risk on deposits 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. Certificates of deposit must be collateralized and held at a bank with which the University has a depository agreement. The University’s investment in commercial paper of \$130,765,000 and \$179,590,000 at June 30, 2006 and 2005, respectively, is uninsured and uncollateralized. The University’s investment in repurchase agreements of \$867,000 and \$11,903,000 at June 30, 2006 and 2005, respectively, is held by the investment’s counterparty, not in the name of the University. All of the remaining University investments are insured and registered and are held by the University or an agent in its name.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University’s Pooled General Investments consist primarily of fixed income securities, with a specific limitation that no more than 15% of the pool consists of variable rate securities. As a means of ensuring the safety of principal invested in the Pooled Endowment Investments, the University’s investment policy requires diversification of the investment portfolio.

At June 30, 2006 and 2005, the maturities of the University’s investments are as follows (in thousands of dollars):

	As of June 30, 2006				
	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	\$ 91,035	\$ 424,406	\$ 38,082	\$ 11,850	\$ 565,373
U.S. Treasury Obligations	5,277	48,127	20,367	12,162	85,933
Foreign Government Obligations	995	47,403	14,356	22,494	85,248
U.S. Corporate Bonds & Notes	42,354	119,680	18,774	10,622	191,430
Foreign Corporate Bonds & Notes	681	5,185	3,802	5,850	15,518
Total	\$ 140,342	\$ 644,801	\$ 95,381	\$ 62,978	\$ 943,502

	As of June 30, 2005				
	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	\$ 141,148	\$ 263,293	\$ 33,964	\$ 15,364	\$ 453,769
U.S. Treasury Obligations	6,248	27,162	8,221	9,834	51,465
Foreign Government Obligations	637	30,807	22,997	11,904	66,345
U.S. Corporate Bonds & Notes	55,945	101,741	12,340	6,121	176,147
Foreign Corporate Bonds & Notes	1,952	6,979	7,050	5,121	21,102
Total	\$ 205,930	\$ 429,982	\$ 84,572	\$ 48,344	\$ 768,828

Credit Risk – The credit risk of investments is the risk that the issuer or other counterparty will not meet its obligations. This credit risk is typically measured by the credit quality ratings of investments in debt securities as described by a national recognized statistical rating organization such as Standard and Poor’s (S&P) and Moody’s. For portions of the University’s investments, specifically the Endowment Fund, the University’s policy states that investments in corporate bonds and other fixed income securities must have an S&P rating of A or better.

However, the University has elected to use Moody’s Investors Service investment ratings in the following table. Several securities within the Pooled Endowment have Moody’s ratings of Baa and Standard and Poor’s ratings in the A range (A-, A, & A+), which places those bonds within the parameters specified in the University’s policy.

The following represents the University’s investment exposure to credit risk, based on Moody’s investment ratings (in thousands of dollars):

	As of June 30, 2006					
	Aaa	Aa	A	Baa	Unrated	Total
U.S. Agency Obligations	\$ 483,672	\$ 53,214	\$ -	\$ -	\$ 28,487	\$ 565,373
U.S. Treasury Obligations	85,933					85,933
Foreign Government Obligations	63,098	284	18,820	1,204	1,842	85,248
U.S. Corporate Bonds & Notes	28,376	69,060	88,401	726	4,867	191,430
Foreign Corporate Bonds & Notes	7,447	1,105	3,580	1,004	2,382	15,518
Total	<u>\$ 668,526</u>	<u>\$ 123,663</u>	<u>\$ 110,801</u>	<u>\$ 2,934</u>	<u>\$ 37,578</u>	<u>\$ 943,502</u>

	As of June 30, 2005					
	Aaa	Aa	A	Baa	Unrated	Total
U.S. Agency Obligations	\$ 377,698	\$ 54,979	\$ 35	\$ -	\$ 21,057	\$ 453,769
U.S. Treasury Obligations					51,465	51,465
Foreign Government Obligations	50,083	1,331	11,582		3,349	66,345
U.S. Corporate Bonds & Notes	22,870	67,706	82,691	245	2,635	176,147
Foreign Corporate Bonds & Notes	11,315	2,877	3,189	680	3,041	21,102
Total	<u>\$ 461,966</u>	<u>\$ 126,893</u>	<u>\$ 97,497</u>	<u>\$ 925</u>	<u>\$ 81,547</u>	<u>\$ 768,828</u>

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a foreign investment. University policy allows 15-25% of the investment portfolio to be invested in international investments (13.2% and 12.1% denominated in foreign currency in fiscal years 2006 and 2005, respectively). To reduce the risk related to fluctuations in currency exchange rates, the University has entered into forward foreign currency contracts throughout the year. As of June 30, 2006 and 2005, 3.6% or \$57,851,000 and 4.7% or \$63,383,000, respectively, of the University’s total investment portfolio is invested in forward foreign currency contracts. These contracts are marked to market and the changes in their market value are recorded in investment and endowment income on the Statement of Revenues, Expenses and Changes in Net Assets. The following represents the University’s exposure to foreign currency risk as of June 30, 2006 and 2005 (in thousands of dollars):

Foreign Currency Risk International Investment Securities at Fair Value (in thousands of dollars)						
Currency	Cash and Cash Equivalents	Foreign Government Obligations	Foreign Corporate Bonds and Notes	Corporate Stocks	2006 Total	2005 Total
Australian Dollar	\$ -	\$ 500	\$ -	\$ 3,124	\$ 3,624	\$ 2,856
British Pound Sterling	291	22,172	1,385	9,462	33,310	27,112
Canadian Dollar		1,436		5,720	7,156	2,814
Chilean Peso				34	34	21
Chinese Yan Renminbi				781	781	
Danish Krone	13		269	286	568	911
Euro	2,902	38,724	11,115	28,860	81,601	65,203
Hong Kong Dollar	38			4,485	4,523	2,978
Israeli Shekel		328			328	166
Japanese Yen	205	17,091	2,556	44,307	64,159	42,062
Mexican New Peso	58	1,204			1,262	301
New Taiwan Dollar				187	187	42
New Zealand Dollar	3				3	67
Norwegian Krone		170		624	794	589
Polish Zloty				550	550	135
South African Comm Rand				1,438	1,438	425
Singapore Dollar		151		1,224	1,375	898
South Korean Won		1,198		236	1,434	98
Swedish Krona		2,274	193	3,283	5,750	4,527
Swiss Franc	53			15,181	15,234	12,124
Total	<u>\$ 3,563</u>	<u>\$ 85,248</u>	<u>\$ 15,518</u>	<u>\$ 119,782</u>	<u>\$ 224,111</u>	<u>\$ 163,329</u>

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investment pools).

For University funds invested through the Pooled General Investments category the following restrictions apply: 1) Corporate Bonds should not exceed 20% of the portfolio; 2) Variable Rate securities should not exceed 15% of the portfolio; and 3) Investments in obligations of the U.S. Government, U.S. Government Agency issues or U.S. Government guaranteed securities is unlimited.

For University funds invested through the Pooled Endowment Investments category, target asset mixes are assessed and evaluated to ensure diversification. The investment policy allows for a portfolio consisting of no more than 47.5% U.S. equity, 25% international equity, 10% emerging markets equity, 10% alternative investments (maximum of 5.0% in hedge funds), 10% real estate and 27.5% global fixed income.

Portions of the Pooled Endowment Investments are invested in a fixed income fund, called the Fixed Income Pool, which, due to donor restrictions, can only be invested in fixed income securities. Investments in this portfolio consist of U.S. Government, U.S. Government Agency issues, corporate fixed income, commercial paper and repurchase agreements.

As of June 30, 2006, of the University's total cash and investments, 14.8% are issues of the Federal Home Loan Bank (FHLB), 8.3% are issues of the Federal National Mortgage Association (FNMA), and 6.1% are issues of the Federal Home Loan Mortgage Corporation (FHLMC).

As of June 30, 2005, of the University's total cash and investments, 15.7% were issues of the Federal Home Loan Bank (FHLB) and 7.1% were issues of the Federal National Mortgage Association (FNMA).

Securities Lending Transactions – The University participates in an external investment pool securities lending program to augment income. The program is administered by the University's custodial agent bank, which lends equity, government and corporate securities for a predetermined period of time to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. Government securities, defined letters of credit or other collateral approved by the University. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The University has minimized its exposure to credit risk from borrower default by having the custodial agent bank determine daily that required collateral meets a minimum of 100% of the fair value of securities on loan for domestic securities lent and 105% for international securities lent. The fair value of collateral held for securities on loan totaled \$100,618,000 and \$81,611,000 at June 30, 2006 and 2005, respectively.

The University continues to receive interest and dividends during the loan period, as well as a fee from the borrower. In addition, the maturities of the investments made with the cash collateral generally match the maturities of the securities lent. At June 30, 2006 and 2005, the University has no credit risk exposure since the collateral held exceeds the value of the securities lent. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

In addition, at June 30, 2006 and 2005, letters of credit and security collateral, not meeting the criteria for inclusion in the Statement of Net Assets, totaled \$3,993,000 and \$3,170,000, respectively. At June 30, 2006 and 2005, the aggregate fair value of the securities lent and related collateral received was \$100,873,000 and \$81,799,000, respectively.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Investments – The investment policies of Medical Alliance are established by its board of directors. The policies are established to ensure that Medical Alliance funds are managed in accordance with the "Prudent Man Rule."

At June 30, 2006 and 2005, Medical Alliance held the following investments (in thousands of dollars):

	<u>2006</u>	<u>2005</u>
Internally Designated for Capital Improvements:		
Mortgage-backed securities	\$ 11,294	\$ 10,668
Money Market Accounts	10,170	13,766
Interest Receivable	91	57
U.S. Treasury Obligations	74	74
Certificates of Deposit	<u>8,350</u>	<u>11,271</u>
Subtotal	29,979	35,836
Held by Trustee Under Indenture Agreement:		
Money Market Accounts	4,194	8,381
Interest Receivable	4	8
Less Portion Required for Current Obligations	<u>(1,235)</u>	<u>(1,210)</u>
	<u>\$ 32,942</u>	<u>\$ 43,015</u>

UNIVERSITY OF MISSOURI RETIREMENT TRUST

Investments – Retirement Trust – The Board of Curators of the University of Missouri establishes the investment policies for the Retirement Trust. Retirement investments emphasize diversification across asset classes, dominated by equity securities, in order to maximize total investment returns. While pursuing this objective, the Retirement Trust maintains its fiduciary duties applicable to investments set forth in Section 105.688 of the Revised Statutes of Missouri. The Retirement Trust investments earned a total return of 13.7%, including unrealized gains and losses, for the year ended June 30, 2006, and 11.1% for the year ended June 30, 2005.

At June 30, 2006 and 2005, the Retirement Trust held investments, by investment type, as follows (in thousands of dollars):

	Carrying Value as of <u>June 30, 2006</u>	Carrying Value as of <u>June 30, 2005</u>
Government Obligations	\$ 389,504	\$ 301,689
Corporate Bonds and Notes	108,699	109,375
Corporate Stocks	1,904,159	1,783,813
Other	<u>66,375</u>	<u>33,282</u>
Total Short-Term and Long-Term Investments	<u>2,468,737</u>	<u>2,228,159</u>
Government Obligations	1,903	-
Corporate Bonds and Notes	4,349	-
Commercial Paper	<u>29,285</u>	<u>12,557</u>
Total Cash Equivalents	<u>35,537</u>	<u>12,557</u>
Total Investments	<u>\$ 2,504,274</u>	<u>\$ 2,240,716</u>

Custodial Credit Risk – The custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the Retirement Trust will not be able to recover the value of the investments that are in the possession of an outside party. The investment in commercial paper of \$29,285,000 and \$12,557,000 at June 30, 2006 and 2005, respectively, is uninsured and uncollateralized. The remainder of the Retirement Trust’s investments are insured or registered and are held by the Retirement Trust or an agent in its name.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of ensuring the safety of principal invested, the Retirement Trust’s investment policy requires diversification of the investment portfolio.

At June 30, 2006 and 2005, the maturities of the Retirement Trust's investments are as follows (in thousands of dollars):

	As of June 30, 2006				
	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	\$ 2,707	\$ 2,246	\$ 2,359	\$ 34,684	\$ 41,996
U.S. Treasury Obligations	312	56,402	32,281	17,533	106,528
Foreign Government Obligations	4,814	126,630	43,870	65,666	240,980
U.S. Corporate Bonds & Notes	1,558	23,442	11,336	24,816	61,152
Foreign Corporate Bonds & Notes	2,336	18,229	10,721	16,261	47,547
Total	<u>\$ 11,727</u>	<u>\$ 226,949</u>	<u>\$ 100,567</u>	<u>\$ 158,960</u>	<u>\$ 498,203</u>

	As of June 30, 2006				
	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	\$ 1,527	\$ 2,950	\$ 5,871	\$ 45,985	\$ 56,333
U.S. Treasury Obligations	8,414	4,883	5,665	11,787	30,749
Foreign Government Obligations	1,678	102,338	71,641	38,950	214,607
U.S. Corporate Bonds & Notes	3,047	13,436	11,320	14,547	42,350
Foreign Corporate Bonds & Notes	6,674	24,284	21,662	14,405	67,025
Total	<u>\$ 21,340</u>	<u>\$ 147,891</u>	<u>\$ 116,159</u>	<u>\$ 125,674</u>	<u>\$ 411,064</u>

Credit Risk – The credit risk of investments is the risk that the issuer or other counterparty will not meet its obligations. This credit risk is measured by the credit quality ratings of investments in debt securities as described by a nationally recognized statistical rating organization such as Standard and Poor's (S&P) and Moody's. The University's policy on investments for the Retirement Trust states that investments in corporate bonds and other fixed income securities must have a rating of A or better.

However, the University's Retirement Trust has elected to use Moody's Investors Service investment ratings in the following table. Several securities within the Retirement Trust have Moody's ratings of Baa and Standard and Poor's ratings in the A range (A-, A, & A+), which places those bonds within the parameters specified by University's policy on investments for the Retirement Trust.

The following represents the Retirement Trust's investment exposure to credit risk, based on Moody's investment ratings as of June 30, 2006 and 2005 (in thousands of dollars):

	As of June 30, 2006					
	Aaa	Aa	A	Baa	Unrated	Total
U.S. Agency Obligations	\$ 247	\$ 462	\$ -	\$ -	\$ 41,287	\$ 41,996
U.S. Treasury Obligations					106,528	106,528
Foreign Government Obligations	177,260	4,690	52,931	3,055	3,044	240,980
U.S. Corporate Bonds & Notes	21,841	13,742	14,761	1,971	8,837	61,152
Foreign Corporate Bonds & Notes	17,979	6,356	11,732	3,272	8,208	47,547
Total	\$ 217,327	\$ 25,250	\$ 79,424	\$ 8,298	\$ 167,904	\$ 498,203

	As of June 30, 2005					
	Aaa	Aa	A	Baa	Unrated	Total
U.S. Agency Obligations	\$ 6,088	\$ 974	\$ -	\$ -	\$ 49,271	\$ 56,333
U.S. Treasury Obligations					30,749	30,749
Foreign Government Obligations	160,096	7,005	39,190		8,316	214,607
U.S. Corporate Bonds & Notes	18,494	7,387	11,467	762	4,240	42,350
Foreign Corporate Bonds & Notes	34,352	7,099	9,768	2,126	13,680	67,025
Total	\$ 219,030	\$ 22,465	\$ 60,425	\$ 2,888	\$ 106,256	\$ 411,064

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investment pools). The Retirement Trust investment policy allows for a portfolio consisting of no more than 47.5% U.S. equity, 25% international equity, 10% emerging markets equity, 10% alternative investments (maximum of 5.0% in hedge funds), 10% real estate and 27.5% global fixed income. At June 30, 2006 and 2005, the Retirement Trust portfolio did not contain any investments from a single issuer which exceeded 5% of the total portfolio.

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 Retirement Trust invests a significant portion of its portfolio in international investments (28.5% and 23.8% denominated in foreign currency in fiscal years 2006 and 2005, respectively). To reduce the risk related to fluctuations in currency exchange rates, the Retirement Trust has entered into forward foreign currency contracts throughout the year. As of June 30, 2006 and 2005, 8.4% or \$206,451,000 and 9.7% or \$216,017,000, respectively, of the Retirement Trust’s investment portfolio is invested in forward foreign currency contracts. These contracts are marked to market and the changes in their market value are recorded in net appreciation (depreciation) in fair value of investments in the Statement of Changes in Net Assets Held for Pension Benefits. The following represents the Retirement Trust’s exposure to foreign currency risk as of June 30, 2006 and 2005 (in thousands of dollars):

Foreign Currency Risk International Investment Securities at Fair Value (in thousands of dollars)						
Currency	Cash and Cash Equivalents	Foreign Government Obligations	Foreign Corporate Bonds and Notes	Corporate Stocks	2006 Total	2005 Total
Australian Dollar	\$ 51	\$ 1,624	\$ -	\$ 7,758	\$ 9,433	\$ 8,582
British Pound Sterling	702	63,334	4,856	12,545	81,437	89,712
Canadian Dollar	16	4,333		23,148	27,497	18,281
Chilean Peso				103	103	72
Chinese Yan Renminbi				2,157	2,157	
Danish Krone	62		859	566	1,487	2,476
Euro	4,461	110,883	34,237	106,174	255,755	211,619
Hong Kong Dollar	20			11,945	11,965	8,206
Israeli Shekel		895			895	561
Japanese Yen	621	47,387	7,298	127,711	183,017	140,182
Mexican New Peso	148			3,056	3,204	1,014
New Taiwan Dollar	511				511	94
New Zealand Dollar	14				14	639
Norwegian Krone	1	509		1,277	1,787	1,417
Polish Zloty	124	1,358			1,482	453
South African Comm Rand				2,965	2,965	930
Singapore Dollar	12	411		3,019	3,442	3,582
South Korean Won		3,504		691	4,195	289
Swedish Krona	27	6,742	297	6,978	14,044	12,084
Swiss Franc	399			35,297	35,696	30,515
Total	\$ 7,169	\$ 240,980	\$ 47,547	\$ 345,390	\$ 641,086	\$ 530,708

Securities Lending Transactions – The Retirement Trust participates in an external investment pool securities lending program to augment income. The program is administered by the Retirement Trust’s custodial agent bank, which lends equity, government and corporate securities for a predetermined period of time to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. Government securities, defined letters of credit or other collateral approved by the Retirement Trust. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The Retirement Trust has minimized its exposure to credit risk from borrower default by having the custodial agent bank determine daily that required collateral meets a minimum of 100% of the fair value of securities on loan for domestic securities lent and 105% for international securities lent. The fair value of collateral held for securities on loan totaled \$271,217,000 and \$173,580,000 at June 30, 2006 and 2005, respectively.

The Retirement Trust continues to receive interest and dividends during the loan period, as well as a fee from the borrower. In addition, the maturities of the investments made with the cash collateral generally match the maturities of the securities lent. At June 30, 2006, the Retirement Trust has no credit risk exposure since the collateral held exceeds

the value of the securities lent. The Retirement Trust is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

In addition, at June 30, 2006 and 2005, letters of credit and security collateral, not meeting the criteria for inclusion in the Statement of Net Assets Held for Pension Benefits, totaled \$7,836,000 and \$11,014,000, respectively, for the Retirement Trust. At June 30, 2006 and 2005, the aggregate fair value of the securities lent and related collateral received was \$268,965,000 and \$177,170,000, respectively.

4. FUNDS HELD IN TRUST BY OTHERS

At June 30, 2006 and 2005, Funds Held in Trust by Others (principally endowment funds) aggregated \$73,252,000 and \$59,135,000, respectively, at fair value. Due to time restrictions or a legal event that has not occurred, these funds are not available to the University and are not included in the accompanying Statement of Net Assets. Income earned and distributed to the University for the years ended June 30, 2006 and 2005, aggregated \$1,864,000 and \$1,347,000, respectively.

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2006 and 2005, are summarized as follows (in thousands of dollars):

	2006	2005
Grants and Contracts	\$ 65,811	\$ 43,500
State Appropriations and State Bond Funds	660	835
Student Fees and Other Academic Charges	59,858	72,891
University Hospitals and Clinics Patient Services, Net of Contractual Allowances	99,297	80,364
University Physicians Patient Services, Net of Contractual Allowances	15,339	15,357
Subtotal	240,965	212,947
Less Provisions for Loss on Accounts Receivable:		
Grants and Contracts Allowance	1,776	3,885
University Hospitals and Clinics Patient Services Allowances	30,653	14,757
University Physicians Patient Services Allowances	5,126	4,490
Student Fees and Other Academic Charges	5,323	4,609
Subtotal	42,878	27,741
	\$ 198,087	\$ 185,206

6. NOTES RECEIVABLE

Notes receivable consist of resources available for financial loans to students. These resources are provided through Federal loan programs and University loan programs generally funded by external sources. Notes receivable at June 30, 2006 and 2005, are summarized as follows (in thousands of dollars):

	2006	2005
Federal Health Profession Loans	\$ 14,645	\$ 12,752
Carl D. Perkins National Loans	29,793	29,712
University Loan Programs	17,953	15,656
Subtotal	62,391	58,120
Less Provision for Loss on Notes Receivable	3,491	1,567
	\$ 58,900	\$ 56,553

7. CAPITAL ASSETS

UNIVERSITY OF MISSOURI

Capital assets activity for the years ended June 30, 2006 and 2005, is summarized as follows (in thousands of dollars):

	2006 Beginning Balance	Additions/ Transfers	Retirements	2006 Ending Balance
Capital Assets, Nondepreciable:				
Land	\$ 54,265	\$ 5,870	\$ 21	\$ 60,114
Artwork and Historical Artifacts	11,134	153	8	11,279
Construction in Progress	129,325	(19,572)	-	109,753
Total Capital Assets, Nondepreciable	<u>194,724</u>	<u>(13,549)</u>	<u>29</u>	<u>181,146</u>
Capital Assets, Depreciable:				
Buildings and Improvements	1,870,058	180,260	12,744	2,037,574
Infrastructure	187,717	19,000	36	206,681
Equipment	445,454	52,041	20,260	477,235
Library Materials	201,498	9,340	-	210,838
Total Capital Assets, Depreciable	<u>2,704,727</u>	<u>260,641</u>	<u>33,040</u>	<u>2,932,328</u>
Less Accumulated Depreciation:				
Buildings and Improvements	654,176	53,515	9,591	698,100
Infrastructure	67,397	7,564	36	74,925
Equipment	265,336	43,551	18,703	290,184
Library Materials	117,029	6,294	-	123,323
Total Accumulated Depreciation	<u>1,103,938</u>	<u>110,924</u>	<u>28,330</u>	<u>1,186,532</u>
Total Capital Assets, Depreciable, Net	<u>1,600,789</u>	<u>149,717</u>	<u>4,710</u>	<u>1,745,796</u>
Total Capital Assets, Net	<u>\$ 1,795,513</u>	<u>\$ 136,168</u>	<u>\$ 4,739</u>	<u>\$ 1,926,942</u>
	2005 Beginning Balance	Additions/ Transfers	Retirements	2005 Ending Balance
Capital Assets, Nondepreciable:				
Land	\$ 53,023	\$ 1,242	\$ -	\$ 54,265
Artwork and Historical Artifacts	16,379	167	5,412	11,134
Construction in Progress	196,678	(67,353)	-	129,325
Total Capital Assets, Nondepreciable	<u>266,080</u>	<u>(65,944)</u>	<u>5,412</u>	<u>194,724</u>
Capital Assets, Depreciable:				
Buildings and Improvements	1,697,801	183,707	11,450	1,870,058
Infrastructure	175,486	12,746	515	187,717
Equipment	412,899	69,154	36,599	445,454
Library Materials	193,022	8,476	-	201,498
Total Capital Assets, Depreciable	<u>2,479,208</u>	<u>274,083</u>	<u>48,564</u>	<u>2,704,727</u>
Less Accumulated Depreciation:				
Buildings and Improvements	615,822	48,461	10,107	654,176
Infrastructure	60,853	7,059	515	67,397
Equipment	258,551	39,603	32,818	265,336
Library Materials	109,738	7,291	-	117,029
Total Accumulated Depreciation	<u>1,044,964</u>	<u>102,414</u>	<u>43,440</u>	<u>1,103,938</u>
Total Capital Assets, Depreciable, Net	<u>1,434,244</u>	<u>171,669</u>	<u>5,124</u>	<u>1,600,789</u>
Total Capital Assets, Net	<u>\$ 1,700,324</u>	<u>\$ 105,725</u>	<u>\$ 10,536</u>	<u>\$ 1,795,513</u>

The estimated cost to complete construction in progress at June 30, 2006, is \$427,389,000 of which \$96,933,000 is available from unrestricted net assets. The remaining costs are expected to be funded from \$66,838,000 of State appropriations, \$59,891,000 of gifts, \$16,812,000 of grants, and \$186,915,000 of bond proceeds.

Capital assets include a building facility under a capital lease of \$8,332,000 and related accumulated depreciation of \$2,812,000 and \$2,396,000 at June 30, 2006 and 2005, respectively.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Capital assets at June 30, 2006 and 2005 are summarized as follows (in thousands of dollars):

	<u>2006</u>	<u>2005</u>
Land and Improvements	\$ 6,594	\$ 6,623
Buildings	97,744	77,229
Movable Equipment	52,936	47,101
Construction in Progress	<u>2,379</u>	<u>14,591</u>
	159,653	145,544
Less Accumulated Depreciation	<u>85,357</u>	<u>78,977</u>
Total Capital Assets, Net	<u>\$ 74,296</u>	<u>\$ 66,567</u>

8. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2006 and 2005, are summarized as follows (in thousands of dollars):

	<u>2006</u>	<u>2005</u>
Accrued Salaries, Wages and Related Benefits	\$ 37,461	\$ 36,836
Accrued Vacation	36,310	33,806
Accrued Self Insurance Claims	33,067	29,417
Interest Payable	<u>4,808</u>	<u>3,915</u>
	<u>\$ 111,646</u>	<u>\$ 103,974</u>

9. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities at June 30, 2006 and 2005, are summarized as follows (in thousands of dollars):

Fiscal Year 2006	Beginning of Year	Additions	Payments	Total End of Year	Less Current Portion	Noncurrent End of Year
Accrued Vacation	\$ 43,291	\$ 36,957	\$ (33,956)	\$ 46,292	\$ (36,310)	\$ 9,982
Accrued Self-Insurance Claims	78,190	152,042	(143,382)	86,850	(33,067)	53,783
	<u>\$ 121,481</u>	<u>\$ 188,999</u>	<u>\$ (177,338)</u>	<u>\$ 133,142</u>	<u>\$ (69,377)</u>	<u>\$ 63,765</u>

Fiscal Year 2005	Beginning of Year	Additions	Payments	Total End of Year	Less Current Portion	Noncurrent End of Year
Accrued Vacation	\$ 39,852	\$ 34,559	\$ (31,120)	\$ 43,291	\$ (33,806)	\$ 9,485
Accrued Self-Insurance Claims	68,996	155,415	(146,221)	78,190	(29,417)	48,773
	<u>\$ 108,848</u>	<u>\$ 189,974</u>	<u>\$ (177,341)</u>	<u>\$ 121,481</u>	<u>\$ (63,223)</u>	<u>\$ 58,258</u>

10. BONDS PAYABLE

UNIVERSITY OF MISSOURI

As of June 30, 2006 and 2005, \$667,454,000 and \$565,537,000, respectively, of bonds were outstanding, net of unamortized premium/discount and loss on defeasance of \$6,869,000 and \$312,000, respectively. These outstanding bonds are comprised of \$667,454,000 in System Facilities Revenue Bonds at June 30, 2006, and \$400,025,000 in System Facilities Revenue Bonds and \$165,200,000 in Health Facilities Revenue Bonds at June 30, 2005. The bonds are payable, both as to principal and interest, from net income or designated revenues from the related financed activities. These bonds bear interest at fixed and variable rates ranging from 2.0% to 5.8% per annum and mature at various dates through November 2035. Interest on the variable rate System Facilities Revenue Bonds is paid at the Bond Market Association™ daily bond rate.

Bonds Payable activity by series of issuance for the years ended June 30, 2006 and 2005, was as follows (in thousands of dollars):

	2006 Beginning Balance	Issuance	Payments	Defeasance	Amortization	2006 Ending Balance
System Facilities Revenue Bonds:						
Series 1997	\$ 3,235	\$ -	\$ (1,025)	\$ -	\$ -	\$ 2,210
Series 1998	51,875		(2,390)	(30,150)		19,335
Series 2000	69,195		(2,785)			66,410
Series 2001	82,235		(720)			81,515
Series 2002	40,000					40,000
Series 2003	153,485		(3,050)			150,435
Series 2006	-	300,680				300,680
Less Unamortized Premium/Discount	4,061	14,172			(419)	17,814
Less Loss on Defeasance	(1,931)			(9,643)	629	(10,945)
Health Facilities Revenue Bonds:						
Series 1996A	107,655		(1,440)	(106,215)		-
Series 1998A	57,545		(2,075)	(55,470)		-
Less Unamortized Premium/Discount	(1,152)			1,152		-
Less Loss on Defeasance	(666)			666		-
	<u>565,537</u>	<u>\$314,852</u>	<u>\$ (13,485)</u>	<u>\$ (199,660)</u>	<u>\$ 210</u>	<u>667,454</u>
Less Current Portion	13,485					14,760
	<u>\$ 552,052</u>					<u>\$ 652,694</u>

	2005 Beginning Balance	Issuance	Payments	Defeasance	Amortization	2005 Ending Balance
System Facilities Revenue Bonds:						
Series 1997	\$ 4,210	\$ -	\$ (975)	\$ -	\$ -	\$ 3,235
Series 1998	54,165		(2,290)			51,875
Series 2000	71,830		(2,635)			69,195
Series 2001	82,925		(690)			82,235
Series 2002	40,000					40,000
Series 2003	155,165		(1,680)			153,485
Less Unamortized Premium/Discount	4,171				(110)	4,061
Less Loss on Defeasance	(2,364)				433	(1,931)
Health Facilities Revenue Bonds:						
Series 1996A	109,035		(1,380)			107,655
Series 1998A	59,515		(1,970)			57,545
Less Unamortized Premium/Discount	(1,206)				54	(1,152)
Less Loss on Defeasance	(772)				106	(666)
	<u>576,674</u>	<u>\$ -</u>	<u>\$ (11,620)</u>	<u>\$ -</u>	<u>\$ 483</u>	<u>565,537</u>
Less Current Portion	11,620					13,485
	<u>\$ 565,054</u>					<u>\$ 552,052</u>

As of June 30, 2006, the total of principal and interest (in thousands of dollars) due on bonds during the next five years and in subsequent five-year periods is as follows:

Fiscal Year	Principal	Interest	Net Payments (Funds Received) on Swap Agreement
2007	\$ 14,760	\$ 29,921	\$ (8)
2008	16,975	29,295	(8)
2009	17,720	28,565	(8)
2010	18,550	27,744	-
2011	18,530	26,890	(12)
2012-2016	94,390	121,763	(40)
2017-2021	114,355	96,864	(36)
2022-2026	142,395	66,384	(49)
2027-2031	141,020	30,748	(40)
2032-2036	81,890	5,702	253
	<u>\$ 660,585</u>	<u>\$ 463,876</u>	<u>\$ 52</u>

Future interest payment requirements for variable rate debt are determined using the rate in effect at June 30, 2006, of 4.0%. The above interest payments also include estimated payments on the interest rate swap agreement, as discussed below, at a fixed rate of 3.95%, net of the funds received from the counterparty to the transaction at a rate effective at June 30, 2006, of 3.97%.

On February 7, 2006, the University issued \$300,680,000 of System Facilities Revenue Bonds, consisting of \$260,975,000 in Series 2006A bonds at the interest cost of 3.1% and \$39,705,000 of Series 2006B bonds with variable rates. Proceeds from the issuance of the Series 2006 A and B bonds were used to finance construction of new housing facilities on the Columbia, Kansas City and St. Louis campuses, various other projects and the cost of issuance. A portion of the proceeds from the issuance of the Series 2006A bonds was used to advance refund and defease a portion of the St. Louis campus debt issued in the University of Missouri System Facilities Revenue Bonds, Series 1998 in the amount of \$30,150,000 and Health Facilities Revenue Bonds, Series 1996 and Series 1998 of \$161,685,000 and to finance certain costs of issuance.

A \$9,643,000 loss in connection with the defeasance of the System Facilities Series 1998 Bonds and Health Facilities 1996 and 1998 Series is included as a reduction of debt outstanding and will be amortized over the remaining life of the original System Facilities Series 1998 and Health Facilities 1996 and 1998 Series. The defeasance decreased aggregate debt service payments by \$22,597,000 resulting in an economic gain (difference between the present values of the old and new debt service payments) to the University of \$15,905,000.

On June 14, 2005, the University entered into an interest rate swap agreement on \$134,425,000, notional amount, to hedge the interest rate risk associated with future Tax-Exempt Bonds. Under the terms of the swap, the University made payments based on a fixed rate of 3.353% and received payments from the counterparty based on a floating rate of 70% of LIBOR. Net payments commenced on December 1, 2005 and continued on a monthly basis until the swap terminated on January 19, 2006. The 2006A and 2006B System Facilities Revenue Bonds were issued on February 7, 2006.

On the termination date, interest rates had risen, enabling the University to receive a net payment of \$1,038,111 from the counter party, thereby reducing the amount needed to be borrowed and lowering debt service to the same level had the bonds been issued on the date to which the swap was agreed.

In addition, the University maintains a thirty-year interest rate swap agreement on \$40,000,000, notional amount, of its variable rate System Facilities Revenue Bonds. The purpose of the interest rate swap agreement is to convert variable rate debt to fixed rate debt. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.95% to the counterparty to the swap. In return, the counterparty owes the University interest based on a variable rate set weekly. The \$40,000,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The University will revert to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the University making or receiving a termination payment.

As of June 30, 2006, the swap had a fair value of (\$303,371), which represents the cost to the University to terminate the swap. The fair value was developed using the zero coupon method and proprietary models, and was prepared by the counterparty, J.P. Morgan Chase Bank, a major U.S. financial institution. The zero coupon method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each net settlement of the swap.

As of June 30, 2006, the University was not exposed to credit risk on the termination payment because the swap had a negative fair value and the University would have owed the payment. However, should interest rates change and the fair value of the swap become positive, the University would be exposed to credit risk. The swap counterparty was rated AA- by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2006. In the event a ratings downgrade occurs, the counterparty may be required to provide collateral if the University's overall exposure exceeds predetermined levels. Permitted collateral investments include U.S. Treasuries, U.S. government agencies, cash and commercial paper rated A1/P1 by Standard & Poor's and Moody's, respectively. Collateral may be held by the University or by a third party custodian.

The swap exposes the University to basis risk should the weekly BMA rate paid by the counterparty fall below the daily interest rate due on the bonds. This basis risk can be the result of a downgrade of the University's rating, daily rates becoming higher than weekly rates, or the pricing of the University's bonds by the remarketing agent at rates higher than the BMA index.

At June 30, 2006 and 2005, in-substance defeased bonds aggregating \$242,550,000 and \$52,205,000, respectively, are outstanding.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Bonds payable activity by series of issuance for the years ended June 30, 2006 and 2005, was as follows (in thousands of dollars):

	2006 Beginning Balance	Issuance	Payments	2006 Ending Balance
Health Facilities Revenue Bonds Series 1998, dated December 1, 1998 and maturing November 1, 2028, payable in graduated installments from November 1, 1999 to November 1, 2028, bearing interest ranging from 3.35% to 5.30%	\$ 22,265	\$ -	\$ (505)	\$ 21,760
Health Facilities Revenue Bonds Series 2004, dated June 1, 2004 and maturing November 1, 2029, payable in graduated installments from November 1, 2005 to November 1, 2029, bearing interest ranging from 2.25% to 5.75%	17,500		(365)	17,135
	<u>39,765</u>	<u>\$ -</u>	<u>\$ (870)</u>	<u>38,895</u>
Less current maturities	(870)			(900)
	<u>\$ 38,895</u>			<u>\$ 37,995</u>

	2006 Beginning Balance	Issuance	Payments	2006 Ending Balance
Health Facilities Revenue Bonds Series 1998, dated December 1, 1998 and maturing November 1, 2028, payable in graduated installments from November 1, 1999 to November 1, 2028, bearing interest ranging from 3.35% to 5.30%	\$ 22,745	\$ -	\$ (480)	\$ 22,265
Health Facilities Revenue Bonds Series 2004, dated June 1, 2004 and maturing November 1, 2029, payable in graduated installments from November 1, 2005 to November 1, 2029, bearing interest ranging from 2.25% to 5.75%	17,500		(480)	17,500
	<u>40,245</u>	<u>\$ -</u>	<u>\$ (480)</u>	<u>39,765</u>
Less current maturities	(480)			(870)
	<u>\$ 39,765</u>			<u>\$ 38,895</u>

In June 2004, Medical Alliance issued \$17,500,000 of tax-exempt Health Facilities Revenue Bonds Series 2004 through the Health and Educational Facilities Authority of the State of Missouri. The bonds proceeds are being used primarily to pay or reimburse the costs of acquiring, constructing and equipping certain health facilities of Medical Alliance and to fund the future debt service requirement fund for these Series 2004 bonds.

Similar to the Series 1998 bonds, the Series 2004 bonds were issued pursuant to the Master Trust Indenture dated December 1, 1998, as supplemented on June 1, 2004. Under the terms of the Master Trust Indenture (the “Master Indenture”), Medical Alliance is required to make payments of principal, premium, if any, and interest on the bonds. The Series 1998 and 2004 bonds are secured by the unrestricted receivables of Medical Alliance. In addition, the Master Indenture contains certain restrictions on the operations and activities of Medical Alliance, including, among other things, covenants restricting the incurrence of additional indebtedness and the creation of liens on property, except as permitted by the Master Indenture.

The Master Indenture has mandatory sinking fund redemption requirements in which funds are required to be set aside beginning in 2014 and 2025 for the Series 1998 bonds and Series 2004 bonds, respectively.

Interest expense incurred on the bonds during the years ended June 30, 2006 and 2005 was \$2,033,000 and \$2,077,000, respectively, of which \$855,000 was capitalized during the year ended June 30, 2006.

As of June 30, 2006, the total of principal and interest (in thousands of dollars) due on bonds during the next five years and in subsequent five-year periods is as follows:

Year ending June 30:	<u>Principal</u>	<u>Interest</u>
2007	\$ 900	\$ 1,992
2008	935	1,957
2009	970	1,917
2010	1,010	1,874
2011	1,055	1,829
2012-2016	6,070	8,322
2017-2021	7,755	6,580
2022-2026	10,030	4,240
2026-2030	10,170	1,178
	<u>\$ 38,895</u>	<u>\$ 29,889</u>

11. SHORT-TERM BORROWINGS

During the years ended June 30, 2006 and 2005, the University sold \$80,000,000 and \$168,000,000 of capital project notes at an effective interest rate of 2.6% and 1.5%, respectively. The maximum amount of notes outstanding during fiscal year 2006 was \$80,000,000 and all were repaid in full by June 30, 2006. The maximum amount of notes outstanding during fiscal year 2005 was \$168,000,000 and all were repaid in full by June 30, 2005. Proceeds from the issuance of the capital project notes were used to fund various construction projects. Capital project note activity for the years ended June 30, 2006 and 2005 is as follows (in thousands of dollars):

	<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Issuance</u>	<u>Payments</u>	<u>End of Year</u>
Capital Project Notes, Series FY 2005-2006	2006	\$ -	\$ 80,000	\$ (80,000)	\$ -
Capital Project Notes, Series FY 2004-2005	2005	-	168,000	(168,000)	-

12. LEASE OBLIGATIONS AND COMMITMENTS

The University 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.

Capital lease obligations activity for the years ended June 30, 2006 and 2005, is as follows (in thousands of dollars):

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>	<u>Current Portion</u>
2006	\$ 10,171	\$ -	\$ (392)	\$ 9,779	\$ 425
2005	10,532	-	(361)	10,171	392

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2006, are as follows (in thousands of dollars):

Fiscal Year	Capital	Operating
2007	\$ 1,374	\$ 2,182
2008	1,374	1,505
2009	1,374	1,248
2010	1,374	798
2011	1,374	537
2012-2016	6,871	2,182
2017-2021	<u>4,466</u>	<u>158</u>
Total Future Minimum Payments	18,207	<u>\$ 8,610</u>
Less: Amount Representing Interest	<u>8,428</u>	
Present Value of Future Minimum Lease Payments	<u>\$ 9,779</u>	

Total rental expenditures for operating leases for the years ended June 30, 2006 and 2005, were \$15,350,000 and \$14,121,000, respectively.

In addition to the above lease obligations, the University has outstanding commitments for the acquisition, usage and ongoing support of certain software for its patient clinical systems. As of June 30, 2006, these commitments totaled \$16,829,000 and will be paid in the following amounts: \$3,960,000 in year 2007 and \$12,869,000 in years 2008-2011.

Description of Sublease Arrangement with Institute for Outpatient Surgery ("IOS") – Concurrent with the sale of assets to IOS on July 1, 2002, the University entered into an agreement with IOS whereby IOS subleased certain building space from the University for a period of approximately 17 years at current market rates. The University recorded the transaction as a direct financing lease and recorded a minimum lease payment to be received of \$6,375,000, unearned rental income of \$3,233,000 and a write-off of \$3,142,000 of building and improvements related to the sublease. The future minimum lease payments to be received under this sublease as of June 30, 2006, are as follows (in thousands of dollars):

Total Minimum Lease Payments to be Received:	
Current	\$ 449
Noncurrent	<u>5,090</u>
Total	5,539
Less: Unearned Rental Income	<u>(2,768)</u>
Present Value of Future Minimum Lease Payments Receivable	<u>\$ 2,771</u>

During fiscal years 2006 and 2005, the University received \$319,000 and \$303,000, respectively, of rental income from IOS.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

The Medical Alliance leases certain computer and medical equipment through operating and capital leases. Equipment under capitalized leases is recorded at the present value of future minimum lease payments.

Capital lease obligations activity for the years ended June 30, 2006 and 2005, is as follows (in thousands of dollars):

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Payments</u>	<u>End of Year</u>	<u>Current Portion</u>
2006	\$ 207	\$ 34	\$ (112)	\$ 129	\$ 89
2005	291	24	(108)	207	112

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2006, are as follows (in thousands of dollars):

<u>Fiscal Year</u>	<u>Capital</u>	<u>Operating</u>
2007	\$ 94	\$ 286
2008	18	269
2009	13	246
2010	9	120
2011	3	84
Total Future Minimum Payments	137	<u>\$ 1,005</u>
Less: Amount Representing Interest	8	
Present Value of Future Minimum Lease Payments	<u>\$ 129</u>	

Total rental expenditures for operating leases for the years ended June 30, 2006 and 2005, were \$568,000 and \$542,000, respectively.

13. RISK MANAGEMENT

The University 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. The University 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 liability for self-insurance claims at June 30, 2006 and 2005 of \$86,850,000 and \$78,190,000, respectively, represents the present value of amounts estimated to have been incurred by those dates, using discount rates ranging from 4.15% to 4.30% for fiscal year 2006 and 2.70% to 4.20% for fiscal year 2005, based on expected future investment yield assumptions. Additionally, at June 30, 2006, there is a range of self-insurance claims outstanding, from \$6,343,000 to \$6,453,000, which the University has determined there is a reasonable possibility that a loss contingency may be incurred but no accrual has been made within the financial statements because the loss is not both probable and estimable. Changes in this liability (in thousands of dollars) during fiscal years 2006 and 2005 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>New Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year</u>
2006	\$ 78,190	\$ 148,993	\$ (140,333)	\$ 86,850
2005	68,996	155,415	(146,221)	78,190
2004	58,275	137,746	(127,025)	68,996

14. CONTINGENCIES

The University does not have any contingencies that are probable or estimable as of June 30, 2006.

15. RETIREMENT, DISABILITY AND DEATH BENEFIT PLAN

Basis of Accounting – The University of Missouri Retirement, Disability, and Death Benefit Plan (the “Plan”) financial statements included herein are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan Description – The Plan is a single employer, defined benefit plan for all qualified employees. As authorized by State statute, the University’s Board of Curators administers the Plan and establishes its terms. Separate financial statements and supplemental schedules are not prepared for the Plan.

Total University payrolls were \$1,044,462,000 and \$987,240,000 for the years ended June 30, 2006 and 2005, respectively, of which \$814,150,000 and \$766,794,000 were covered by the Plan for the respective periods. At June 30, 2006 and 2005, membership in the Plan consisted of:

	2006	2005
Active members:		
Vested	9,809	9,382
Nonvested	7,481	7,470
Pensioners	6,530	6,443
Former Employees with Deferred Pensions	2,662	2,488
Total	<u>26,482</u>	<u>25,783</u>

Benefit Provisions – All full-time employees are eligible for benefits after five years of credited service. The annual lifetime annuity payable to a vested employee who retires at age 65 or later is calculated as 2.2% times the number of years of service times the compensation base. Compensation base is defined as the individual’s average compensation for the five consecutive highest salary years. Academic members who render summer teaching and research service receive an additional credit for such service. Pension adjustments may be approved at certain times, which increase the benefits paid existing pensioners.

Full benefits are available to members who retire at age 65 or after. Vested employees may retire prior to age 65, provided they are at least age 55 with at least ten years of credited service, or age 60 with five years of credited service. Benefits are reduced for those who retire early, unless they retire at age 62 or later with at least 25 years of credited service. At retirement, up to 30% of the value of the retirement annuity can be taken in a lump sum; also the single life annuity can be exchanged for an actuarially equivalent annuity option (elected from an array of annuities with joint and survivor, period certain, and guaranteed annual increase features).

Vested employees who terminate prior to eligibility for retirement may elect to have 100% of the actuarial equivalent of their benefit transferred to an Individual Retirement Annuity or into another employer’s qualified plan that accepts such rollovers. If the actuarial equivalent is less than \$20,000, it may be taken in the form of a lump sum payment.

The value of the accrued benefit to a vested employee at termination or at retirement is subject to a minimum value as provided by the Plan’s cash balance feature. This feature computes an accrual equal to 5% of the employee’s eligible compensation invested at 7.5% per annum.

The Plan includes a provision allowing vested employees, who become disabled, to continue to accrue service credit until they retire, and a provision which prescribes a pre-retirement death benefit for vested employees.

Contributions – The University’s contributions to the Plan are equal to the actuarially determined contribution requirement, as a percent of payroll, which averaged 7.9% and 6.4% for the years ended June 30, 2006 and 2005, respectively. The Plan is funded 100% by University contributions and does not require employee contributions. The contribution rate is updated annually, at the beginning of the University’s fiscal year on July 1, to reflect the actuarially

determined funding requirement from the most recent valuation, as of the preceding October 1, and the adoption of any Plan amendments during the interim.

SCHEDULE OF EMPLOYER CONTRIBUTIONS Required Supplementary Information - Unaudited				
(in thousands of dollars)				
Fiscal Year	Annual Required Contribution		Percentage Contributed	Net Pension Obligation
	As % of Payroll	In Dollars		
2001	4.4%	\$ 29,272	100%	\$ -
2002	3.6%	25,319	100%	-
2003	2.6%	17,962	100%	-
2004	6.7%	48,521	100%	-
2005	6.4%	49,075	100%	-
2006	7.9%	64,399	100%	-

The annual required contribution for the year ended June 30, 2006, was determined as part of the October 1, 2004, actuarial valuation, using the entry age normal actuarial cost method.

The annual required contribution for the year ended June 30, 2005, was determined as part of the October 1, 2003, actuarial valuation, using the entry age normal actuarial cost method.

Significant assumptions used in the valuations for the years ended June 30, 2006 and 2005 were:

	2006	2005
Assumed Annual Rate of Return on Investments	8.0%	8.0%
Projected Annual Average Salary Increases for Academic and Administrative Employees	5.2%	5.2%
Projected Annual Average Salary Increases for Clerical and Service Employees	4.5%	4.5%
Future Retiree Ad Hoc Increases or Cost of Living Adjustments	0.0%	0.0%

The actuarial value of assets is based on the cost of the Plan's underlying assets. Although a net pension obligation did not exist as of June 30, 2006, any future liabilities incurred would be amortized over 20 years using the level dollar method on an open basis.

The schedule of funding progress is as follows:

SCHEDULE OF FUNDING PROGRESS Required Supplementary Information - Unaudited						
(in thousands of dollars)						
Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funding Excess/ (Unfunded Liability)	Funded Ratio	Covered Payroll	Funding Excess/ (Unfunded Liability) as a % of Covered Payroll
10/1/00	\$ 1,906,678	\$ 1,686,684	\$ 219,994	113.0%	\$ 646,198	34.0 %
10/1/01	2,119,047*	1,813,018	306,029	116.9%	696,163	44.0 %
10/1/02	1,949,794	1,937,617	12,177	100.6%	654,575	1.9 %
10/1/03	2,067,727	2,030,613	37,114	101.8%	687,681	5.4 %
10/1/04	2,075,032	2,144,738	(69,706)	96.8%	753,266	(9.3)%
10/1/05	2,125,656	2,271,230	(145,574)	93.6%	795,758	(18.3)%

* The actuarial value of asset methodology changed effective October 1, 2001, from the book value method, adjusted, if necessary, to be within 20% of market, to the expected return asset valuation method, adjusted, if necessary, to be within 20% of market.

An ad hoc cost of living adjustment was approved beginning September 1, 2005, which resulted in an \$8,615,000 increase in the unfunded liability and an \$847,000 or .11% increase in annual employer contributions.

16. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 15, the University provides postretirement medical, dental and life insurance benefits to employees who retire from the University after attaining age 55 and before reaching age 60 with ten or more years of service, or, who retire after attaining age 60 with five or more years of service. As of June 30, 2006 and 2005, 5,504 and 5,475 retirees, respectively, met those eligibility requirements.

For employees retiring prior to September 1, 1990, the University contributes toward premiums at the same rate as for active employees; 2/3 of the premium for medical benefits and 1/2 of the dental plan premium. For employees who retired under the terms of the Retirement and Death Benefit Plan on September 1, 1990 or thereafter, the University contributes toward premiums on the basis of the employee's length of service and age at retirement.

The University makes available two group term life insurance options. Option A coverage is equal to the retiree's salary at the date of retirement and graded adjustments in coverage made at the attainment of specific age levels. This coverage is paid in full by the University. Option B coverage is equal to two times the retiree's salary at the date of retirement with graded adjustments in coverage made at the attainment of specific age levels. The University pays approximately 91% of the cost of Option B coverage. Coverage for group term life insurance ends on January 1 following the retiree's 70th birthday.

Postemployment medical, dental and life insurance benefits are also provided to those long-term disability claimants who were vested in the University's retirement plan at the date their disability began, provided the onset date of their disability was on or after September 1, 1990. As of June 30, 2006 and 2005, 232 and 228 long-term disability claimants, respectively, met those eligibility requirements.

The University makes available two long-term disability options to its employees. Option A coverage is equal to 60% of the employee's salary on the date the disability began, with full integration with benefits from other sources. Option B coverage is equal to 66 2/3% of the employee's salary, integrated with other benefits so that benefits from all sources will not exceed 85% of the employee's salary. Both options have a 149-day waiting period and provide benefits to age 65. The University pays for the full cost of Option A coverage; employees enrolled in Option B pay for the additional cost of Option B over Option A.

The terms and conditions governing the postemployment benefits to which employees are entitled are at the sole authority and discretion of the University's Board of Curators.

Postemployment benefit costs, other than long-term disability, are funded on a current basis and the amounts recorded as expense of \$14,310,000 and \$14,805,000 for the years ended June 30, 2006 and 2005, respectively, are on a pay-as-you-go basis. Long-term disability costs are recognized during the period in which the employee becomes eligible to receive disability benefits and amounted to \$3,080,000 and \$1,182,000 for the years ended June 30, 2006 and 2005, respectively.

17. SEGMENT INFORMATION

A segment is an identifiable activity reported within a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has two segments that meet the reporting requirements of GASB Statement No. 37.

As of June 30, 2006, the outstanding debt of the University consists of System Facility Revenue Bonds. The System Facility Revenue Bonds are issued in accordance with a Resolution adopted by the Board of Curators in October 1993. The Resolution provides that the bonds are payable from the gross income and revenues derived from the related facilities including student fees, housing, dining, bookstore and parking revenues and various other University revenues.

During fiscal year 2006, the University defeased the debt previously reported within the Health Facilities Revenue Bonds secured by revenues of the Health System. The Health System consists of the University of Missouri Hospitals and Clinics,

which includes the University of Missouri Hospital, Ellis Fischel Cancer Center, Rusk Rehabilitation Center and the Children's Hospital; the University Physicians Medical Practice Plan, which includes faculty of the University of Missouri-Columbia School of Medicine; and the Missouri Rehabilitation Center. Refer to Note 10 for additional information.

Summary financial information for the System Facility as of June 30, 2006 and 2005, and the Health Facilities Revenue Bonds as of June 30, 2005, is as follows (in thousands of dollars):

	System Facility Revenue Bonds		Health Facilities Revenue Bonds
	2006	2005	2005
Condensed Statement of Net Assets			
Assets:			
Current Assets	\$ 253,893	\$ 69,160	\$ 157,521
Capital Assets, Net	788,095	470,679	232,862
Noncurrent Assets	176,022	9,380	118,637
Total Assets	<u>\$ 1,218,010</u>	<u>\$ 549,219</u>	<u>\$ 509,020</u>
Liabilities:			
Current Liabilities	\$ 150,330	\$ 32,322	\$ 52,572
Noncurrent Liabilities	664,508	392,186	227,554
Total Liabilities	<u>814,838</u>	<u>424,508</u>	<u>280,126</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	125,675	72,066	60,328
Restricted -			
Nonexpendable	574		555
Expendable	8,117		2,919
Unrestricted	268,806	52,645	165,092
Total Net Assets	<u>403,172</u>	<u>124,711</u>	<u>228,894</u>
Total Liabilities and Net Assets	<u>\$ 1,218,010</u>	<u>\$ 549,219</u>	<u>\$ 509,020</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating Revenues:			
Net Patient Revenue	\$ 593,807	\$ -	\$ 542,150
Net Tuition and Fees	13,906	12,414	
Bookstore	54,308	50,422	
Housing and Related Food Service	61,480	57,668	
Parking	13,942	12,975	
Other Operating Revenue	17,976	1,368	14,789
Total Operating Revenues	<u>755,419</u>	<u>134,847</u>	<u>556,939</u>
Operating Expenses:			
Depreciation	44,482	13,707	26,121
All Other Operating Expenses	668,524	105,181	508,233
Total Operating Expenses	<u>713,006</u>	<u>118,888</u>	<u>534,354</u>
Operating Income	42,413	15,959	22,585
Nonoperating Revenues (Expenses)	4,180	(10,392)	15,652
Income Before Transfers	46,593	5,567	38,237
Transfer (To) From Other University Units	231,868	(1,082)	(4,602)
Increase in Net Assets	278,461	4,485	33,635
Net Assets, Beginning of Year	124,711	120,226	195,259
Net Assets, End of Year	<u>\$ 403,172</u>	<u>\$ 124,711</u>	<u>\$ 228,894</u>
Condensed Statement of Cash Flows			
Net Cash Flows Provided by Operating Activities	\$ 96,706	\$ 28,356	\$ 36,171
Net Cash Flows Provided by (Used In) Investing Activities	(37,476)	4,432	18,869
Net Cash Flows Used In Capital and Related Financing Activities	(46,841)	(83,003)	(55,800)
Net Cash Flows Provided by Noncapital Financing Activities	21,466		17,375
Net Increase (Decrease) in Cash and Cash Equivalents	33,855	(50,215)	16,615
Cash and Cash Equivalents, Beginning of Year	88,154	105,499	16,255
Cash and Cash Equivalents, End of Year	<u>\$ 122,009</u>	<u>\$ 55,284</u>	<u>\$ 32,870</u>

18. OPERATING EXPENSES BY FUNCTION

The operating expenses of the University are presented based on natural expenditure classifications. The University's operating expenses by functional classification are as follows:

For the Year Ended June 30, 2006

(in thousands of dollars)

Functional Classification	Salaries and Wages	Staff Benefits	Supplies, Services and Other Operating Expenses	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 322,294	\$ 76,232	\$ 56,608	\$ -	\$ -	\$ 455,134
Research	105,505	22,782	79,217			207,504
Public Service	71,656	18,782	54,819			145,257
Academic Support	64,765	11,788	30,488			107,041
Student Services	38,265	8,753	25,287			72,305
Institutional Support	78,837	21,246	(21,653)			78,430
Operation and Maintenance of Plant	31,412	8,790	21,898			62,100
Auxiliary Enterprises	331,728	80,315	363,605			775,648
Scholarships and Fellowships				35,090		35,090
Depreciation					110,924	110,924
Total Operating Expenses	<u>\$1,044,462</u>	<u>\$248,688</u>	<u>\$ 610,269</u>	<u>\$ 35,090</u>	<u>\$ 110,924</u>	<u>\$ 2,049,433</u>

For the Year Ended June 30, 2005

(in thousands of dollars)

Functional Classification	Salaries and Wages	Staff Benefits	Supplies, Services and Other Operating Expenses	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 307,880	\$ 67,272	\$ 49,924	\$ -	\$ -	\$ 425,076
Research	100,890	20,082	79,066			200,038
Public Service	69,608	17,024	54,809			141,441
Academic Support	66,679	16,197	27,344			110,220
Student Services	36,744	8,215	20,738			65,697
Institutional Support	79,771	19,932	(4,964)			94,739
Operation and Maintenance of Plant	28,932	7,487	20,971			57,390
Auxiliary Enterprises	296,736	70,760	348,507			716,003
Scholarships and Fellowships				30,783		30,783
Depreciation					102,414	102,414
Total Operating Expenses	<u>\$ 987,240</u>	<u>\$226,969</u>	<u>\$ 596,395</u>	<u>\$ 30,783</u>	<u>\$ 102,414</u>	<u>\$ 1,943,801</u>

19. DISCRETELY PRESENTED COMPONENT UNITS

The Discretely Presented Component Units columns in the financial statements include the financial data of the Medical Alliance and Missouri Care L.C.

The Medical Alliance, a not-for-profit corporation, provides an integrated health care delivery system for mid-Missouri by establishing affiliations with various medical facilities. Capital Region Medical Center in Jefferson City, Missouri, operates as an affiliate of the Medical Alliance and provides inpatient, outpatient and emergency care services to the surrounding community.

Missouri Care L.C. is a not-for-profit health maintenance organization which provides services to patients in central Missouri under a certification from the Missouri Department of Social Services. Missouri Care L.C. has contracted with the University of Missouri Healthcare System as a major provider of health care services to the organization's members.

The amounts shown in the Discretely Presented Component Units columns of the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets relate to the Medical Alliance, including Capital Region Medical Center, and Missouri Care L.C. In the Statement of Net Assets, Medical Alliance is presented as of June 30, 2006 and 2005 and Missouri Care L.C. as of December 31, 2005 and 2004, for fiscal years ended June 30, 2006 and 2005, respectively, to coincide with its calendar year end. In the Statement of Revenues, Expenses and Changes in Net Assets, Medical Alliance is presented for the years ended June 30, 2006 and 2005 and Missouri Care L.C. for the year ended December 31, 2005 and for the six months ended December 31, 2004 as reported in the University's financial statements for fiscal year ended June 30, 2005. The Condensed Statement of Net Assets and Condensed Statement of Revenues, Expenses and Changes in Net Assets for these periods are shown below (in thousands of dollars):

	2006			2005		
	Medical Alliance	Missouri Care L.C.	Total	Medical Alliance	Missouri Care L.C.	Total
Condensed Statement of Net Assets						
Assets:						
Current Assets	\$ 26,587	\$ 14,521	\$ 41,108	\$ 22,064	\$ 14,423	\$ 36,487
Capital Assets, Net	74,296		74,296	66,567		66,567
Noncurrent Assets	37,133	1,055	38,188	45,965	1,027	46,992
Total Assets	<u>\$ 138,016</u>	<u>\$ 15,576</u>	<u>\$ 153,592</u>	<u>\$ 134,596</u>	<u>\$ 15,450</u>	<u>\$ 150,046</u>
Liabilities:						
Current Liabilities	\$ 15,172	\$ 7,557	\$ 22,729	\$ 14,937	\$ 9,712	\$ 24,649
Noncurrent Liabilities	38,235		38,235	38,990		38,990
Total Liabilities	<u>53,407</u>	<u>7,557</u>	<u>60,964</u>	<u>53,927</u>	<u>9,712</u>	<u>63,639</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	35,814		35,814	27,199		27,199
Restricted -						
Expendable	2,831		2,831	1,640		1,640
Unrestricted	45,964	8,019	53,983	51,830	5,738	57,568
Total Net Assets	<u>84,609</u>	<u>8,019</u>	<u>92,628</u>	<u>80,669</u>	<u>5,738</u>	<u>86,407</u>
Total Liabilities and Net Assets	<u>\$ 138,016</u>	<u>\$ 15,576</u>	<u>\$ 153,592</u>	<u>\$ 134,596</u>	<u>\$ 15,450</u>	<u>\$ 150,046</u>

	2006			2005		
	Medical Alliance	Missouri Care L.C.	Total	Medical Alliance	Missouri Care L.C.	Total
Condensed Statement of Revenues, Expenses and Changes in Net Assets						
Operating Revenues:						
Net Patient Revenue	\$ 126,118	\$ -	\$ 126,118	\$ 123,745	\$ -	\$ 123,745
Other Operating Revenue		78,634	78,634		37,202	37,202
Total Operating Revenues	<u>126,118</u>	<u>78,634</u>	<u>204,752</u>	<u>123,745</u>	<u>37,202</u>	<u>160,947</u>
Operating Expenses:						
Salaries and Wages	48,506		48,506	46,952		46,952
Staff Benefits	12,269		12,269	12,018		12,018
Supplies, Services and Other Operating Expenses	53,425	76,353	129,778	51,244	36,121	87,365
Depreciation	8,823		8,823	7,758		7,758
Total Operating Expenses	<u>123,023</u>	<u>76,353</u>	<u>199,376</u>	<u>117,972</u>	<u>36,121</u>	<u>154,093</u>
Operating Income	<u>3,095</u>	<u>2,281</u>	<u>5,376</u>	<u>5,773</u>	<u>1,081</u>	<u>6,854</u>
Nonoperating Revenues (Expenses):						
Investment Income	1,363		1,363	1,024		1,024
Private Gifts	10		10	42		42
Interest Expense	(1,534)		(1,534)	(1,340)		(1,340)
Other Nonoperating Revenues (Expenses)	1,006		1,006	1,640		1,640
Net Nonoperating Revenues (Expenses)	<u>845</u>		<u>845</u>	<u>1,366</u>		<u>1,366</u>
Increase in Net Assets	3,940	2,281	6,221	7,139	1,081	8,220
Net Assets, Beginning of Year	<u>80,669</u>	<u>5,738</u>	<u>86,407</u>	<u>73,530</u>	<u>4,657</u>	<u>78,187</u>
Net Assets, End of Year	<u>\$ 84,609</u>	<u>\$ 8,019</u>	<u>\$ 92,628</u>	<u>\$ 80,669</u>	<u>\$ 5,738</u>	<u>\$ 86,407</u>

20. SUBSEQUENT EVENTS

On July 3, 2006, the University sold \$115,000,000 of capital project notes at an effective interest rate of 3.7%. The notes will be repaid in full by June 30, 2007. Proceeds from the issuance of the capital project notes will be used to fund various construction projects of the University.



PUBLISHED BY

**UNIVERSITY OF MISSOURI
OFFICE OF FINANCE AND ADMINISTRATION
215 UNIVERSITY HALL
COLUMBIA, MISSOURI 65211**