2008 Financial Report

UNIVERSITY OF MISSOURI

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UNIVERSITY OF MISSOURI

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Management's Discussion and Analysis provides an overview of the financial position and activities of the University of Missouri (the "University") for the fiscal years ended June 30, 2008, and 2007, and should be read in conjunction with the financial statements and notes. The University is a component unit of the State of Missouri and an integral part of the state's Comprehensive Annual Financial Report.

UNIVERSITY ACCOUNTING AND FINANCIAL REPORTING

This report includes five financial statements:

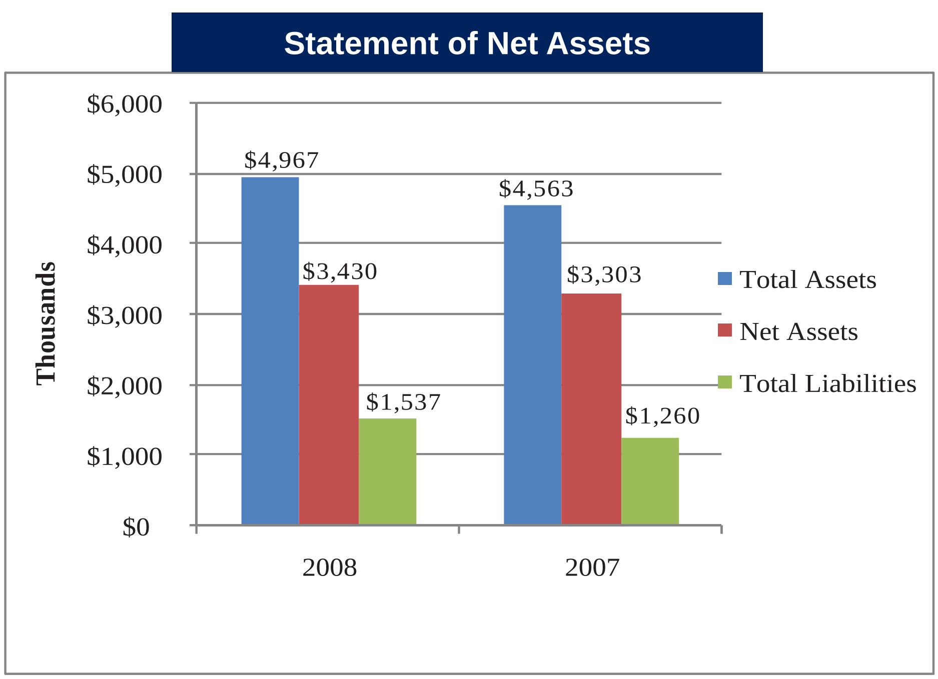
- The three financial statements for the University of Missouri System and its Aggregate Discretely Presented Component Unit(s) include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

- The two financial statements for the University's fiduciary funds, which include the Retirement and the Other Post-Employment Benefits Trust Funds, are the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets.

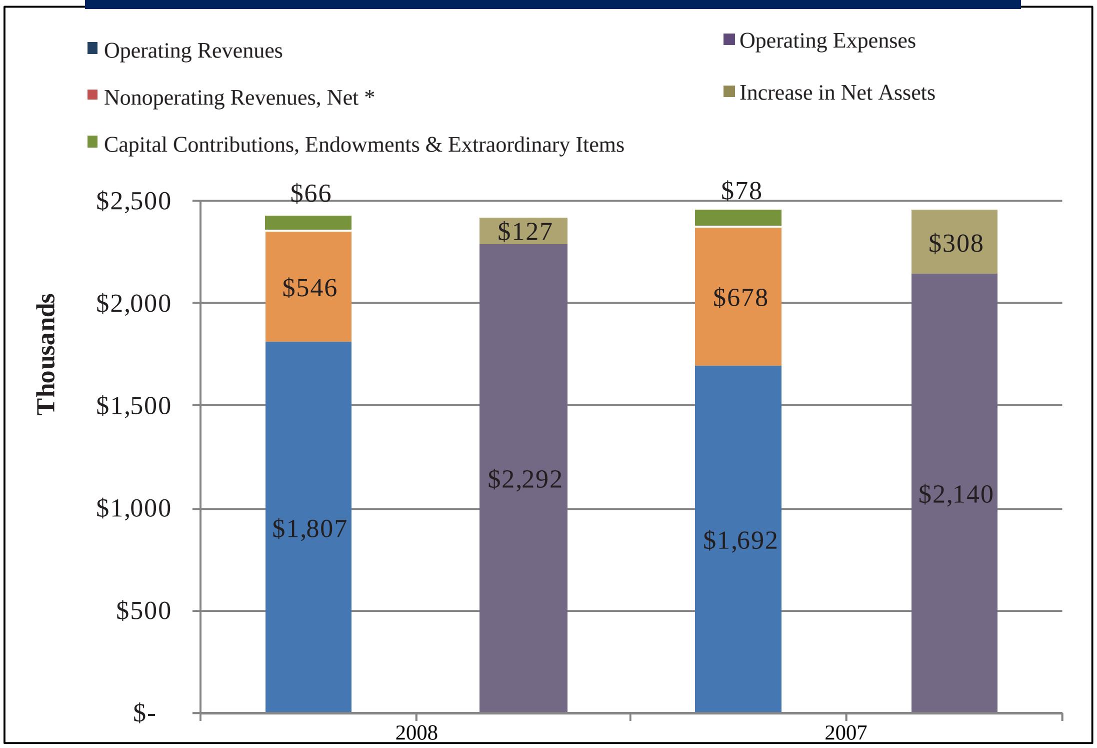
The University's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes financial reporting standards for public colleges and universities. The University's significant accounting policies are summarized in Note 1 to the financial statements of this report, including further information on the financial reporting entity. In addition, a more detailed unaudited financial report that includes campus-level financial statements is available at the University of Missouri, 118 University Hall, Columbia, MO 65211, and at www.umsystem.edu through the Finance and Administration page.

FINANCIAL HIGHLIGHTS

At June 30, 2008, the University's financial position continued to strengthen, with Total Assets of almost $5.0 billion. Net Assets, which represent the residual value of the University's assets after deducting liabilities, totaled $3.4 billion. When operating, non-operating, and other changes are included, Net Assets increased by approximately $127.2 million in fiscal year 2008, including a $19.9 million cumulative effect of a change in accounting principle. The following charts compare Total Assets, Liabilities, and Net Assets at June 30, 2008, and 2007, and the major components of changes in Net Assets for the years ended June 30, 2008, and 2007.



Statement of Revenues, Expenses, and Changes in Net Assets



* includes State Appropriations & Cumulative Effect of Change in Accounting Principle

During fiscal year 2008, the most significant growth in Total Assets was from capital asset expansion and gains in non-endowment investments. Issuance of new System Facilities Revenue Bonds increased Total Liabilities; the University typically issues new bonds every 2 to 3 years to finance development or improvement of capital assets. The fiscal year 2008 increase in total Net Assets primarily reflects growth in Invested in Capital Assets net of Debt and Unrestricted Net Assets.

CONDENSED STATEMENT OF NET ASSETS

The Statement of Net Assets presents the University's financial position at the end of the fiscal year, including all assets and liabilities of the University and segregating them into current and noncurrent components. 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.

The following table summarizes the University's assets, liabilities and net assets at June 30, 2008, 2007, and 2006:

Assets, Liabilities, and Net Assets
(in thousands of dollars)

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
Assets:			
Current Assets	$ 930,882	$ 971,247	$ 751,564
Long-Term Investments -			
Endowed and Quasi-Endowed Investments	944,492	880,884	854,365
Other Investments	785,527	593,781	597,013
Capital Assets, Net	2,227,427	2,039,069	1,926,942
Other Noncurrent Assets	78,442	77,765	83,357
Total Assets	$ 4,966,770	$ 4,562,746	$ 4,213,241
Liabilities:			
Current Liabilities	$ 629,224	$ 553,956	$ 489,987
Noncurrent Liabilities	907,104	705,584	728,273
Total Liabilities	1,536,328	1,259,540	1,218,260
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,439,753	1,379,098	1,263,187
Restricted -			
Nonexpendable	718,314	738,153	624,821
Expendable	367,519	370,616	366,036
Unrestricted	904,856	815,339	740,937
Total Net Assets	3,430,442	3,303,206	2,994,981
Total Liabilities and Net Assets	$ 4,966,770	$ 4,562,746	$ 4,213,241

ASSETS

Total Assets increased by $404.0 million, or 8.9%, to almost $5.0 billion as of June 30, 2008, compared to the prior year. From fiscal year 2006 to 2007, Total Assets increased by 8.3%. This continued growth reflects the University's efforts to strengthen its capital position, primarily through increasing **Long-Term Investments** and expanding **Capital Assets** across all of its campuses to meet housing, educational, and student recreational needs.

At June 30, 2008, the University's working capital, which is current assets less current liabilities, was $301.7 million, a decrease of $115.6 million from the previous year. With Current Assets at almost 1.5 times Current Liabilities, the University has adequate working capital reserves. At June 30, 2007, working capital totaled $417.3 million, an increase of $155.7 million over June 30, 2006.

At June 30, 2008, the University held $273.4 million in **Cash and Cash Equivalents**, a decrease of $134.3 million from June 30, 2007. The June 30, 2007 cash balances of $407.7 million were $140.7 million higher than fiscal year 2006's $267.0 million. The lower balance at the current fiscal year end relates to several factors, including moving cash into longer term investments to achieve better returns in the current market and using cash to establish the University's new Other Postemployment Benefits (OPEB) Trust Fund as discussed in Note 16.

Long-Term and Short-Term Investments totaled $2.0 billion as of June 30, 2008, representing an increase of 15.7% over the prior year. This compares to a 4.4% increase from fiscal year end 2006 to 2007. The higher June 30, 2008 investment balance reflected a shift from cash equivalents, which decreased by $126.4 million from the previous year end, into U.S. government obligations with 6-year or longer maturities, which increased by $204.9 million. Due to market conditions during fiscal year 2008 and resulting unrealized losses, investment and endowment income of $39.7 million declined by 80.4% compared to fiscal year 2007's $202.6 million. The University's endowment funds, comprised primarily of the Balanced and Fixed Income Pools, declined by 7.8% in fiscal year 2008 due to the performance of the U.S. and international equity markets. However, endowment gifts increased by $5.1 million, or 18.2%, over fiscal year 2007. Returns of the University's various investment pools for the year ended June 30, 2008, compared to benchmark indices were as follows:

Long-Term and Short-Term Investments
(in thousands of dollars)

	Asset Distribution	Total Return	Benchmark Index Return
General Pool	$ 906,997	6.5%	6.3%
Balanced Pool	921,507	-4.8%	-3.6%
Fixed Income Pool	65,594	6.1%	7.3%
Other Investments	100,015	N/A	N/A

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

In fiscal year 2008, **Accounts Receivable** increased by $13.7 million, or 5.8% over June 30, 2007. While the related contracts and grants, student tuition, State appropriations, and patient services revenue increased by 6.1% overall, timelier collection of amounts earned kept the increase in receivables lower.

In fiscal year 2008, **Pledges Receivable** declined by 14.0%, from $36.0 million to $30.9 million. The most notable decrease occurred with Current Pledges (those receivable in the coming year) decreasing from $13.0 million to $9.8 million, or 24.5%, while Long-Term Pledges decreased from $23.0 million to $21.1 million, or 8.1%. Only the Missouri University of Science and Technology (Missouri S&T) recognized an increase of Pledges Receivable for the year.

During fiscal year 2008, the University's investment in **Capital Assets** totaled $2.2 billion compared to fiscal year 2007's $2.0 billion. The University added $314.4 million in capital assets during fiscal year 2008, net of retirements, offset by depreciation of $126.0 million for the year. Fiscal year 2007 capital asset additions of $231.2 million, net of retirements, were offset by $119.1 million in depreciation. Note 7 presents additional information on changes by asset classification, but major additions to **Capital Assets** during fiscal year 2008 are shown in the following table.

Major Expenditures Related to Capital Asset Additions During Fiscal Year Ended June 30, 2008		
Campus	**Expenditures**	**Source of Funding**
Columbia:		
Mid-Campus Housing	$ 23,713,000	Bond Proceeds
Schurz/Bingham Halls	18,824,000	Bond Proceeds
Journalism Renovation	11,667,000	Gift
Kansas City:		
Central Utilities Performance Contract	$ 21,394,000	Bond Proceeds & Plant
Missouri S&T:		
Mechanical Engineering Building	$ 19,553,000	State Appropriations, Gifts, & Other
Thomas Jefferson North Renovation	8,060,000	Bond Proceeds
St Louis:		
South Campus Garage	$ 3,916,000	Plant

LIABILITIES

Total Liabilities increased $276.8 million as of June 30, 2008 over June 30, 2007 and $41.3 million in fiscal year 2007 over June 30, 2006. Issuance of new bonds, discussed below, represented the largest factor in increased liabilities. Significant changes in fiscal year 2008 year-end **Current Liabilities** include a $31.7 million decrease in **Collateral for Securities on Loan** as a result of lower demand from borrowers; a $95.6 million increase in **Investment Settlements Payable** for purchases of investments occurring on or before June 30, but settling after June 30; and a $3.5 million increase in **Deferred Revenue** related to the timing of grants and tuition activity.

The University issued $365.2 million of System Facilities Revenue Bonds at the beginning of fiscal year 2008, with $102.3 million used primarily to defease existing debt and $262.9 million to fund new projects. Bonds were last issued in fiscal year 2006 with $108.9 million for new projects and $191.8 million to defease existing debt. **Bonds Payable**, net of premium/discount and deferred losses on defeasance, increased by $215.4 million in fiscal year 2008, while decreasing by $14.7 million in fiscal year 2007.

The following is a summary of long-term debt by type of debt instrument, including the current and noncurrent portions:

Long-Term Debt Summary (in thousands of dollars)	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
System Facilities Revenue Bonds	$ 857,105	$ 645,825	$ 660,585
Unamortized Premium/Discount and Loss on Defeasance	11,102	6,960	6,869
	868,207	652,785	667,454
Notes Payable	2,460		
Capital Lease Obligations	8,892	9,354	9,779
	$ 879,559	$ 662,139	$ 677,233

NET ASSETS

Net Assets represent the value of the University's assets after liabilities are deducted. The University's total **Net Assets** increased by $127.2 million in fiscal year 2008, including $19.9 million for a change in accounting principle, and $308.2 million in fiscal year 2007. These increases in total **Net Assets** are reflected in the four component categories as follows:

- **Invested in Capital Assets, Net of Related Debt**, represents the University's investment in capital assets, net of accumulated depreciation and outstanding debt related to acquisition, construction or improvement of those assets. This category increased by $60.7 million to $1.4 billion in fiscal year 2008 and $115.9 million to $1.4 billion in fiscal year 2007 due to issuance of additional revenue bonds in fiscal years 2008 and 2006 and related investment in buildings, equipment, and infrastructure. To the extent that debt has been issued but not yet expended for capital assets, the amounts are not reflected in these totals.

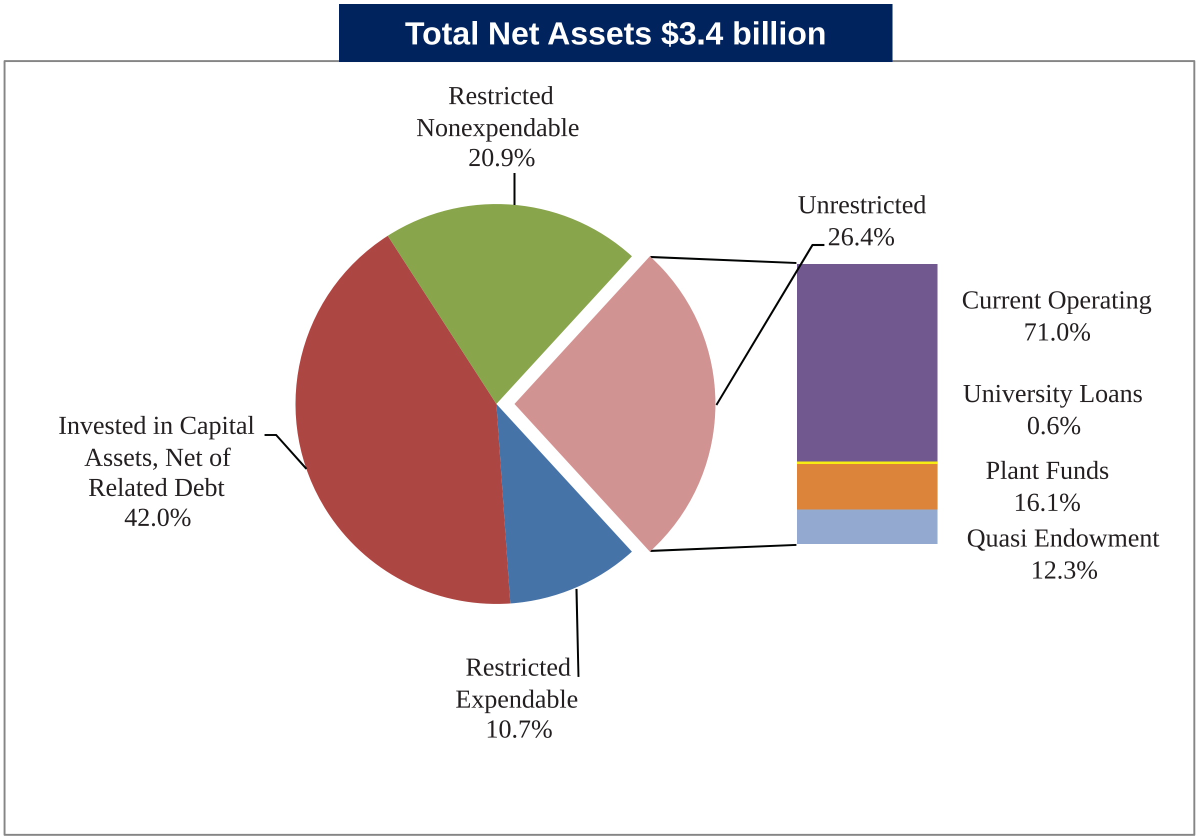
- **Restricted Nonexpendable Net Assets** include endowment and similar assets that are subject to externally imposed stipulations for the principal to be maintained in perpetuity by the University. This category represents the historical value (corpus) of gifts to the University's permanent endowment. Unrealized market losses contributed to a 2.7% decrease, or $19.8 million, in Restricted Nonexpendable Net Assets during fiscal year 2008, while additional gifts and market gains increased the value by 18.1%, or $113.3 million, during fiscal year 2007.

- **Restricted Expendable Net Assets** are resources that are subject to externally imposed stipulations regarding their use, but are not required to be maintained in perpetuity. During fiscal year 2008, this category also recognized a decrease of $3.1 million, or 0.8%, and in fiscal year 2007 realized an increase of $4.6 million, or 1.3%. As of June 30, 2008, this category includes:

  - $262.3 million of net assets restricted for operations and endowment purposes compared to $270.2 million at June 30, 2007;
  - $77.6 million for student loan programs compared to $75.8 million; and
  - $27.6 million for facilities compared to $24.6 million.

- **Unrestricted Net Assets** are not subject to externally imposed stipulations although these resources may be designated for specific purposes by the University's management or Board of Curators. This category increased by $89.5 million, or 11.0%, in fiscal year 2008 and by $74.4 million, or 10%, in fiscal year 2007 over the prior years. As of June 30, 2008, and 2007, capital project-designated funds totaled $145.9 million and $72.0 million, respectively; student loan program-designated funds totaled $5.6 million and $4.9 million, respectively; and unrestricted funds functioning as endowments totaled $111.5 million and $157.6 million respectively. The remaining Unrestricted Net Assets which are not designated and are available for the University's instructional and public service missions and its general operations totaled $641.8 million and $580.9 million at June 30, 2008, and 2007, respectively.

The distribution of the Net Asset balances, including additional details on unrestricted net assets by fund type, as of June 30, 2008, 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.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
Operating Revenues:			
Net Tuition and Fees	$ 417,205	$ 401,305	$ 374,926
Grants and Contracts	326,380	288,443	287,001
Patient Medical Services, Net	681,312	648,802	620,577
Other Auxiliary Enterprises	301,156	258,790	241,517
Other Operating Revenues	81,200	94,950	75,592
Total Operating Revenues	1,807,253	1,692,290	1,599,613
Operating Expenses:			
Salaries, Wages and Benefits	1,464,051	1,374,790	1,293,150
Supplies, Services and Other Operating Expenses	662,331	608,134	606,617
Other Operating Expenses	165,481	157,671	146,014
Total Operating Expenses	2,291,863	2,140,595	2,045,781
Operating Loss	(484,610)	(448,305)	(446,168)
State Appropriations	462,281	440,855	428,893
Loss after State Appropriations, before Nonoperating Revenues (Expenses)	(22,329)	(7,450)	(17,275)
Nonoperating Revenues (Expenses):			
Investment and Endowment Income, Net	39,673	202,633	111,675
Private Gifts	51,680	53,268	64,483
Other Nonoperating Revenues (Expenses)	(27,572)	(18,539)	(19,331)
Net Nonoperating Revenues	63,781	237,362	156,827
Income before Capital Contributions, Additions to Permanent Endowments and Extraordinary Item	41,452	229,912	139,552
State Capital Appropriations	15,532	18,138	8,503
Capital Gifts and Grants	17,341	12,941	16,285
Private Gifts for Endowment Purposes	32,995	27,917	26,607
Extraordinary Item		19,317	
Increase in Net Assets	107,320	308,225	190,947
Net Assets, Beginning of Year	3,303,206	2,994,981	2,804,034
Cumulative Effect of Change in Accounting Principle	19,916		
Net Assets, Beginning of Year, as Adjusted	3,323,122	2,994,981	2,804,034
Net Assets, End of Year	$ 3,430,442	$ 3,303,206	$ 2,994,981

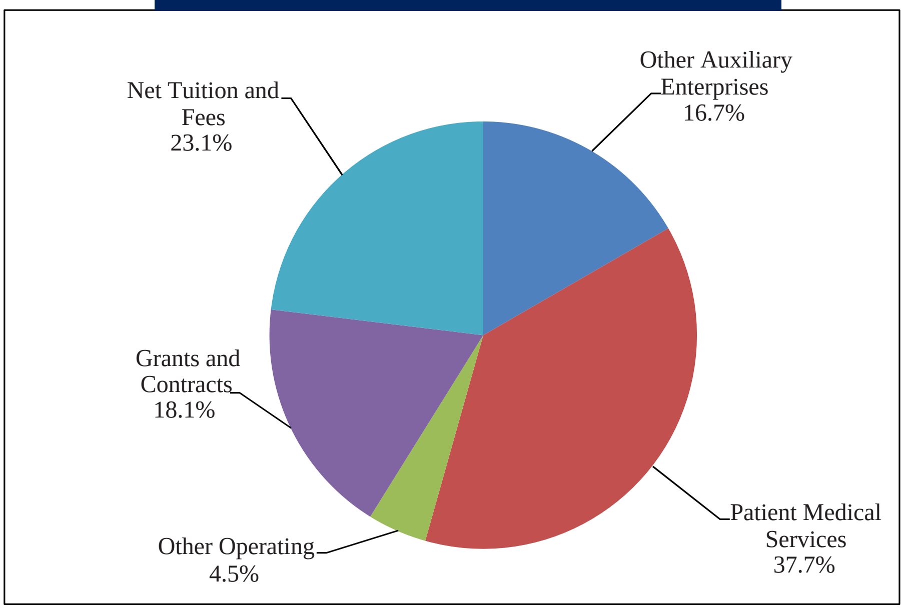
REVENUES

Operating Revenues represent resources generated by the University in fulfilling its instruction, research, and public service missions. Total **Operating Revenues** increased by almost $115.0 million, or 6.8% in fiscal year 2008, and by $92.7 million, or 5.8% in fiscal year 2007. **Grants and Contracts** and **Other Auxiliary Enterprises**

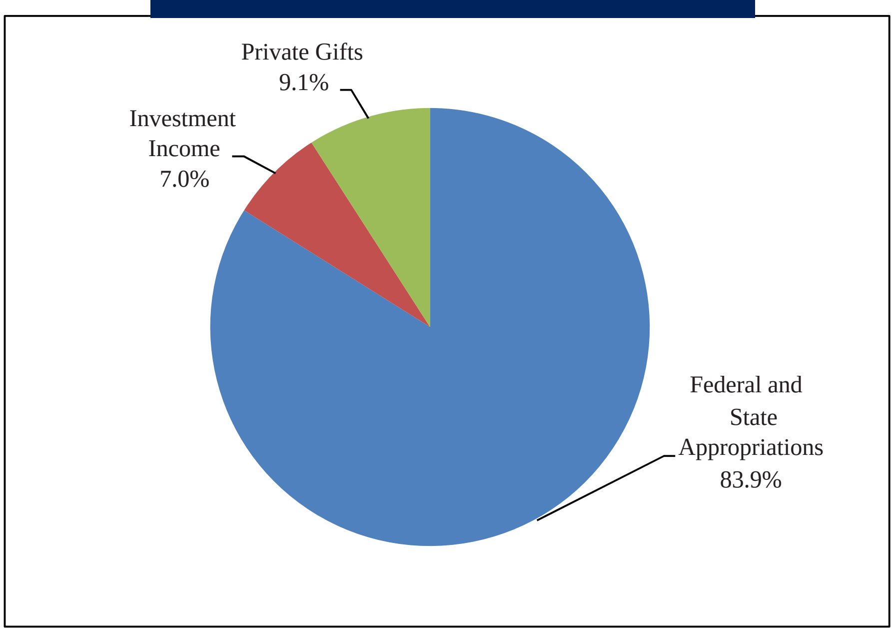
contributed most significantly to the operating revenue gain in fiscal year 2008 while tuition, **Patient Medical Services**, and other miscellaneous operating revenues had the largest gains in the previous year. **Nonoperating Revenues** are those not generated by the University's core missions and include such funding sources as State and Federal Appropriations and Gift and Investment Income. Investment and endowment income and gift income are the largest variable factors in this category.

The following are graphic illustrations of revenues by source, including both operating and nonoperating revenue streams for fiscal year 2008.

Total Operating Revenues $1.8 billion



Total Nonoperating Revenues $567.9 million



Operating Revenues

Tuition and Fees, net of **Scholarship Allowances,** increased by $15.9 million, or 4.0% in fiscal year 2008 and by $26.4 million, or 7.0% in fiscal year 2007. The increases in both fiscal year 2008 and 2007 reflect Board-approved increases in tuition and related enrollment fees of 3.8% and 5.0%, respectively, and increases in student enrollments.

As a research institution, the University receives a substantial amount of funding through **Federal, State and Private Grants and Contracts**. Overall, sponsored funding increased by $37.9 million, or 13.2% in fiscal year 2008 compared to a 0.5% increase in fiscal year 2007. The University's research programs, with increased funding from all sources, represented most of the fiscal year 2008 increase in sponsored funding. In addition, total federal grants and contracts increased by $24.5 million over the prior year. In fiscal year 2007, decreases in Federal grant funding were largely offset by increases in State grant funding and private grants and contracts.

The University's auxiliary enterprises include the University Health System, Housing and Dining Services, campus Bookstores, and other such supplemental activities. In fiscal year 2008, **Other Auxiliary Enterprises** contributed to a $42.4 million, or 16.4%, increase in Operating Revenues over the prior year. **Patient Medical Services**, which includes fees for services provided by the University Hospitals and Clinics and the University Physicians Practice Plan, increased by $32.5 million, or 5.0%, in fiscal year 2008.

Nonoperating Revenues

State Appropriations increased by $21.4 million, or 4.9%, in fiscal year 2008, and by $12.0 million, or 2.8%, in fiscal year 2007. As one of the more variable nonoperating revenues, **Investment and Endowment Income** includes interest and dividend income as well as realized and unrealized gains and losses. Unrealized market value losses and other activity affecting **Investment and Endowment Income** contributed to a $163.0 million, or 80.4%, decrease in fiscal year 2008, while in fiscal year 2007, unrealized market gains contributed to a $91.0 million, or 81.4%, increase in value.

Gift income is reflected in three categories: **Private Gifts, Capital Gifts and Grants** (which are restricted for adding or improving capital assets) and **Private Gifts for Endowments** (which are restricted for establishing endowments). Private Gifts and Grants can fluctuate significantly from year to year due to the voluntary nature of donors' gifts. In fiscal year 2008, the University received gifts totaling $102.0 million, compared to fiscal year 2007's $94.1 million and fiscal year 2006's $107.2 million.

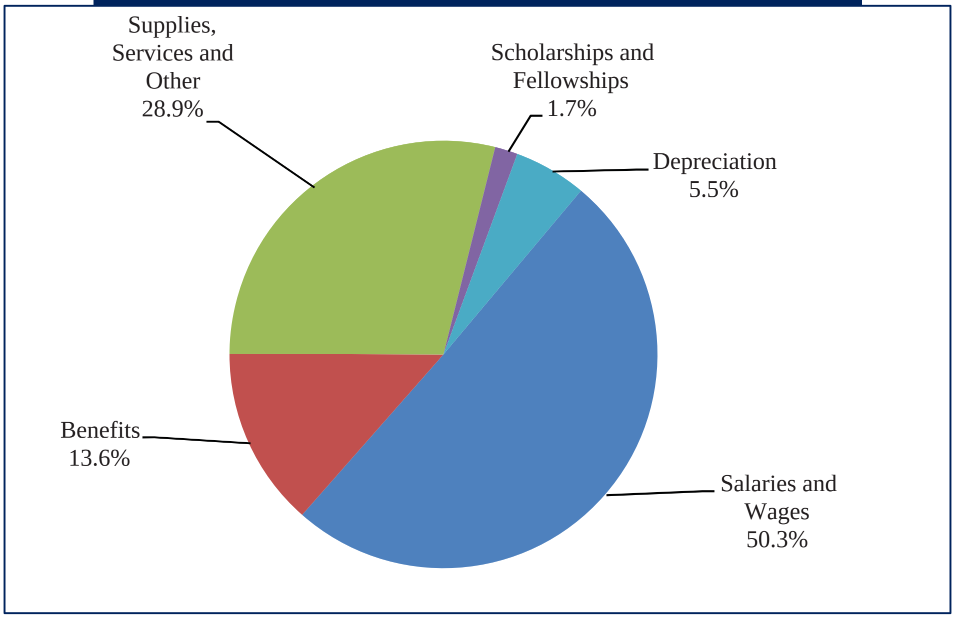
In fiscal year 2008, **State Capital Appropriations** of $15.5 million represented a decrease of $2.6 million from fiscal year 2007's $18.1 million. Fiscal year 2008 state capital appropriations include $15 million for a Mechanical Engineering Building on the University's Missouri S&T campus, of which $10.5 million was spent during the fiscal year, and $28.5 million for Benton and Stadler Halls on the St. Louis campus, of which about $200,000 was spent. In addition, state capital appropriations funded several smaller projects, such as $5 million for a plant science research facility in Mexico, Missouri. Almost all of fiscal year 2007's state capital appropriations, $18.1 million, funded the Health Sciences Center on the Kansas City campus.

In fiscal year 2007, the University received net proceeds of $19.3 million resulting from the sale of Missouri Care, L.C., a discretely presented component unit of the University. The transaction was recorded as an **Extraordinary Item** in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2007. Refer to Note 19 for additional information.

OPERATING EXPENSES

Total Operating Expenses increased by $151.3 million, or 7.1%, in fiscal year 2008 compared to an increase of $94.8 million or 4.6% in fiscal year 2007. The following graph illustrates the University's operating expenses by natural classification for fiscal year 2008:

Operating Expenses by Natural Classification – $2.3 billion

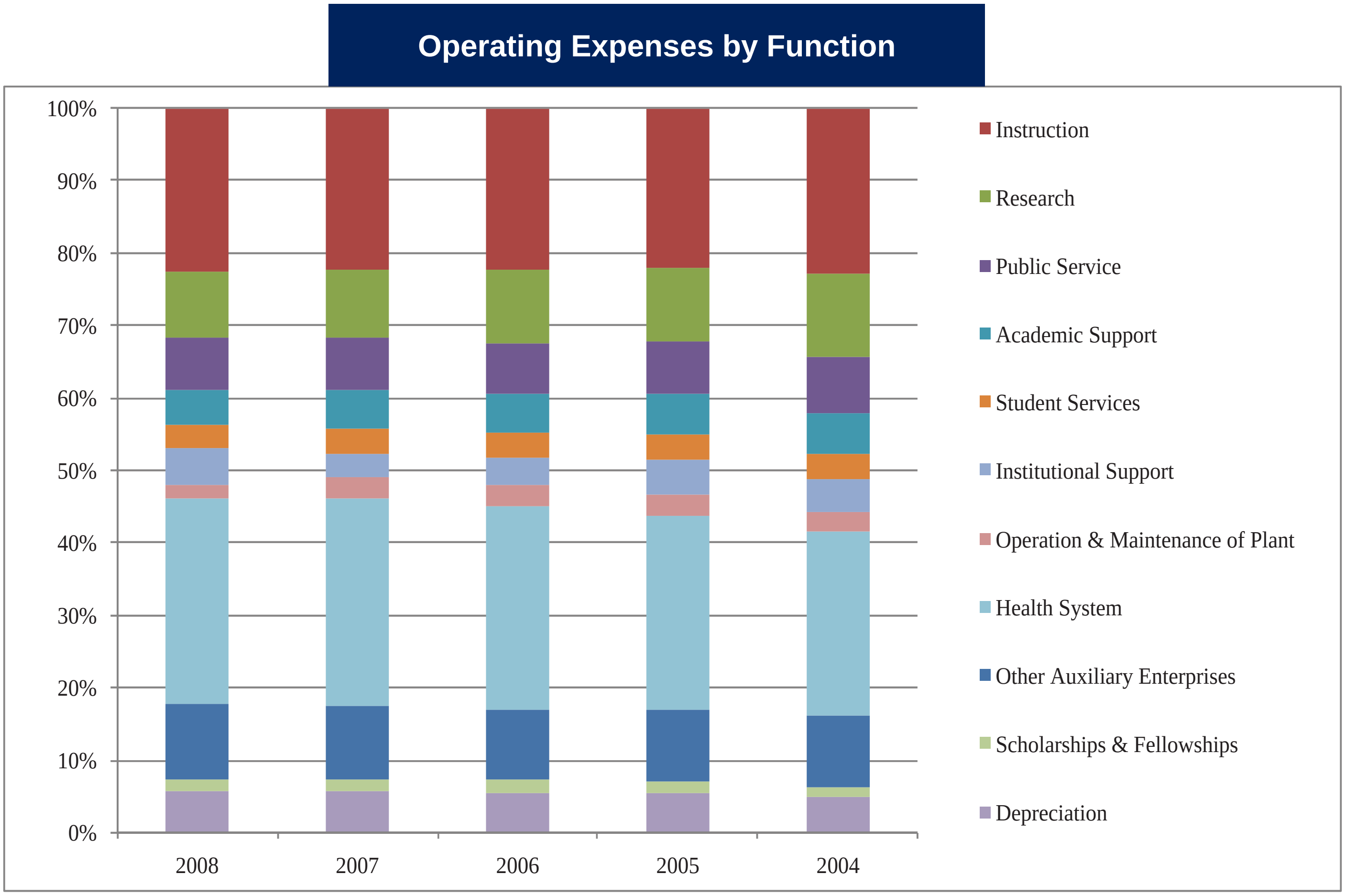


During fiscal years 2008 and 2007, **Salaries and Wages** increased approximately 4.7% and 5.5%, respectively, over the prior fiscal year primarily due to Board-approved employee merit increases and additional full-time equivalent employees. At the same time, **Benefits** increased by 13.7%, in fiscal year 2008, and 9.7%, in fiscal year 2007. In fiscal year 2008, the University contributed an initial $37 million to establish a trust fund for its other post-employment benefits as a new GASB standard requiring governments to recognize liabilities associated with future benefits became effective. The University contributed an additional $16.5 million in pay-as-you-go costs for these other post-employment benefits. Fiscal year 2007's increased benefits costs related to University contributions for medical, dental and life premiums, as well as contributions to the Retirement Trust Fund.

In fiscal year 2008, the University's **Supplies, Services, and Other Operating** expenses of $662.3 million increased by 8.9% over fiscal year 2007's $608.1 million. In contrast, Supplies, Services, and Other Operating expenses increased by $1.5 million, or 0.3%, in fiscal year 2007 compared to fiscal year 2006. In fiscal year 2008, the cost of goods sold, which directly relates to additional auxiliary enterprise revenues, increased by $7.9 million, or 7.7%.

The core missions of instruction, research, and public service account for the largest proportion of Operating Expenses at 38.9% for fiscal year 2008. The University of Missouri Health System constitutes the next highest proportion at 28.2% of expenses for fiscal year 2008. Further, these functions represent approximately the same percentages of operating expenses as in fiscal year 2007. Institutional support, which represents the core administrative operations of the University, was only 4 to 5 cents of each dollar during this 5-year period.

The following graph illustrates the University's operating expenses by function for the five years ended June 30, 2008:



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 for the three years ended June 30, 2008:

Statement of Cash Flows
(in thousands of dollars)

	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006
Net Cash Used in Operating Activities	$ (344,399)	$ (386,301)	$ (287,403)
Net Cash Provided by Noncapital Financing Activities	556,155	567,782	537,497
Net Cash Used in Capital and Related Financing Activities	(110,046)	(244,755)	(149,628)
Net Cash Provided by (Used in) Investing Activities	(236,064)	203,998	(174,466)
Net Increase (Decrease) in Cash and Cash Equivalents	(134,354)	140,724	(74,000)
Cash and Cash Equivalents, Beginning of Year	407,723	266,999	340,999
Cash and Cash Equivalents, End of Year	$ 273,369	$ 407,723	$ 266,999

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 2008, $41.9 million less cash was used in operating activities compared to fiscal year 2007 due to increased cash inflows from tuition and fees; federal, state, and private grant revenues; and patient revenues, as well as decreased cash outflows due to higher year-end payables for salaries, staff benefits, and vendor payments. In fiscal year 2007, cash used in operating activities increased by $98.9 million over fiscal year 2006 due to lower inflows of cash from operating activities and higher outflows for salaries, benefits, and vendor payments.

The University's most significant source of cash, **Net Cash Provided by Noncapital Financing Activities**, includes funding from State and Federal appropriations and noncapital private gifts. Cash from these sources totaling $556.2 million in fiscal year 2008, $567.8 million in fiscal year 2007, and $537.5 million in fiscal year 2006 directly offset the additional cash needs resulting from operations.

In fiscal year 2008, the University issued revenue bonds to finance capital expansions, therefore, **Net Cash Used in Capital and Related Financing Activities** decreased by $134.7 million compared to fiscal year 2007. Similar results were seen in fiscal year 2006 when the previous revenue bonds were issued, thus decreasing the net cash outflows from capital activities. In contrast, during the fiscal year 2007 the University used the previous year's bond-generated cash for capital expansion across all campuses.

Net Cash Provided by Investing Activities reflected outflows of $236.1 million in fiscal year 2008, compared to the cash inflows of $204.0 million in fiscal year 2007. Due to difficult market conditions in the current year, the University's investment pool experienced losses on sales and maturities of investments that were not fully offset by interest and dividend income, compared to significant gains during fiscal year 2007. In fiscal year 2006, cash outflows of $174.5 million included losses on sales and maturities of investments during the year exceeding gains from interest and dividend income.

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. The University received a 4.3% increase in state appropriations for operations for fiscal year 2008 and a 4.8% increase for FY 2009. Given turmoil in the financial markets, the University is closely monitoring the State's ability to continue to provide increased funding in the future.

For the fifth year in a row, gross tuition and fees continued to surpass State appropriations as the largest source of non-healthcare operating revenues. This is projected to continue in fiscal year 2009. Tuition rates increased 3.8% in fiscal year 2008 and 4.1% in FY 2009. Coupled with continued enrollment growth on all four campuses, tuition and fee increases ensure the University's ability to maintain positive operating results. Both headcount and full-time equivalent enrollment continue to reach historic highs. From fall 2000 to fall 2007, the University of Missouri full-time equivalent enrollments grew 19.7% and accounted for 72% of the increase in enrollments at the State's four-year higher education institutions. Enrollments are projected to be up significantly in the Fall 2008 as well based on preliminary enrollment numbers. In 2007, the University granted nearly 14,000 degrees contributing significantly to supporting an educated workforce in Missouri. This is a 32% increase over a 10-year period. The University of Missouri, as the State's research and land-grant institution of higher education, enrolls the state's top students.

The University faces increases in unavoidable costs, such as utilities, insurance, the cost of opening new buildings, and increases in the cost of ongoing operations, such as travel due to increased energy costs, information technology including security, licenses and maintenance, increased costs of compliance and training, libraries, and additional required maintenance and repair expenditures. Increasing costs, in conjunction with rising enrollments and the need to maintain affordability, pose a budgetary challenge for the University.

Cognizant of the many demands on the State's limited resources, the University of Missouri has worked to reduce expenditures through administrative efficiencies and increased revenues from other sources. For example, in fiscal year 2007, the University performed a comprehensive review of university administration with a goal of reducing expenses by 10 percent or $12.4 million. By the end of the review process the University had identified $20 million in administrative reductions for reinvestment in academic and strategic priorities. In fiscal year 2008, the Board of Curators requested a review of academic programs and processes which generated efficiencies equal to 1 percent of the operations budget, approximately $9 million, to fund the University's highest strategic priorities. For fiscal year 2009, the University will use a combination of internal reallocations and efficiencies to fund $8.1 million in cost increases and strategic investments.

Senate Bill 389 passed by the General Assembly in June 2007 has had and will continue to have an impact on higher education in Missouri in the coming years. The Legislation includes additional authority for the Department of Higher Education, limits on increases in tuition unless a waiver is granted, additional reporting requirements, and additional funding for student aid for Missouri students.

The University of Missouri Health System continues to improve its operating revenues and financial position in fiscal year 2008. As in prior years, the Health System is committed to improving patient care and has increased its focus on improvements in customer service and quality and growth in clinical areas. State funding for operations and facilities has helped in providing for uncompensated care and graduate medical education. An overall fee increase of 5% was implemented in fiscal year 2008 and pricing revisions continue as needed. For the future, the Health System continues to focus on its physician recruitment plans, patient satisfaction, and efforts to reduce the cost of operations. In addition, the Health System is beginning strategic capital improvements, which include constructing a $48.0 million Orthopedic Institute and replacing the Ellis Fischel Cancer Center using $31.2 million in State capital funding appropriated in 2008.

The University continues to strengthen and diversify its funding sources through effective endowment management, increased private giving, and additional Federal research funding. During fiscal year 2008, private giving across the University increased, but fiscal year 2009 will be challenging due to the current economic and financial uncertainties. The University's Columbia campus is concluding a $1.0 billion capital campaign in December 2008, while Missouri S&T is in the midst of a $200 million capital campaign slated to finish in 2010. Coupled with its growth in Federal grant funding, the University also has been recovering more of the facilities and administrative costs associated with sponsored research through negotiating an increased cost recovery rate for fiscal years 2007 through 2009. The University is currently in the process of negotiating its cost recovery rate for fiscal years 2010 through 2012 and is seeking further increases to more fully cover those costs for future research.

With the addition of economic development as its fourth mission, the University 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. Included are the new research park, Discovery Ridge, and newly-opened Life Sciences Business Incubator at the University of Missouri-Columbia campus, and the new business technology park at the University of Missouri-St Louis campus. Anchor tenants from the private sector are operating at 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.

The national and state economic downturn will likely pose budgetary challenges for the University in the immediate future. However, strong demand demonstrated by growing enrollments, highly successful capital campaigns, and robust research funding are all factors in the positive outlook for the University of Missouri.

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

Independent Auditors' 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 aggregate remaining fund information of the University of Missouri, a component unit of the State of Missouri, as of and for the years ended June 30, 2008 and 2007, 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 aggregate remaining fund information of the University of Missouri as of June 30, 2008 and 2007, 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.

Effective July 1, 2007, the University of Missouri implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and effective June 19, 2008, the University of Missouri implemented Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008 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 15, the schedules of employer contributions and the schedules of funding progress on pages 66 and 67 are not a required part 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 31, 2008

STATEMENT OF NET ASSETS
As of June 30, 2008 and 2007
(in thousands of dollars)

	University		Discretely Presented Component Unit(s)	
	2008	**2007**	**2008**	**2007**
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 57,987	$ 137,640	$ 5,054	$ 2,358
Restricted Cash and Cash Equivalents	215,382	270,083		
Short-Term Investments	172,294	131,311		
Restricted Short-Term Investments	91,800	117,735		
Accounts Receivable, Net	249,654	235,975	18,719	19,262
Pledges Receivable, Net	9,796	12,980		
Investment Settlements Receivable	72,878	3,617		
Notes Receivable, Net	13,747	14,599		
Due From (To) Component Units and Retirement	(4,355)	(4,062)	4,355	4,109
Inventories	33,063	33,121	2,690	2,331
Prepaid Expenses and Other Current Assets	18,636	18,248	1,219	2,137
Total Current Assets	**930,882**	**971,247**	**32,037**	**30,197**
Noncurrent Assets:				
Restricted Cash and Cash Equivalents			4,301	4,213
Pledges Receivable, Net	21,147	23,000		
Notes Receivable, Net	46,898	45,425		
Deferred Charges and Other Assets	10,397	9,340	1,384	1,377
Restricted Other Assets			2,963	4,904
Long-Term Investments	810,655	707,333	25,367	21,957
Restricted Long-Term Investments	919,364	767,332		
Capital Assets, Net	2,227,427	2,039,069	75,159	75,614
Total Noncurrent Assets	**4,035,888**	**3,591,499**	**109,174**	**108,065**
Total Assets	**$ 4,966,770**	**$ 4,562,746**	**$ 141,211**	**$ 138,262**
Liabilities				
Current Liabilities:				
Accounts Payable	$ 105,024	$ 101,330	$ 4,120	$ 4,134
Accrued Liabilities	120,967	114,976	9,895	8,874
Deferred Revenue	67,821	64,030		
Funds Held for Others	70,744	77,148		
Investment Settlements Payable	136,606	41,021		
Collateral for Securities on Loan	106,360	138,014		
Capital Lease Obligations	501	462	27	30
Bonds and Notes Payable	21,201	16,975	970	935
Total Current Liabilities	**629,224**	**553,956**	**15,012**	**13,973**
Noncurrent Liabilities:				
Capital Lease Obligations	8,391	8,892	44	71
Bonds and Notes Payable	849,466	635,810	36,090	37,060
Deferred Revenue	1,876	2,162		
Other Noncurrent Liabilities	47,371	58,720	703	635
Total Noncurrent Liabilities	**907,104**	**705,584**	**36,837**	**37,766**
Total Liabilities	**1,536,328**	**1,259,540**	**51,849**	**51,739**

(continued)

STATEMENT OF NET ASSETS
As of June 30, 2008 and 2007
(in thousands of dollars)

	University		Discretely Presented Component Unit(s)	
	2008	**2007**	**2008**	**2007**
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,439,753	1,379,098	38,463	38,006
Restricted:				
Nonexpendable -				
Endowment	718,314	738,153		
Expendable -				
Scholarships, Research, Instruction and Other	262,266	270,238	2,963	4,904
Loans	77,656	75,785		
Capital Projects	27,597	24,593		
Unrestricted	904,856	815,339	47,936	43,613
Total Net Assets	**3,430,442**	**3,303,206**	**89,362**	**86,523**
Total Liabilities and Net Assets	**$ 4,966,770**	**$ 4,562,746**	**$ 141,211**	**$ 138,262**

See notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2008 and 2007

(in thousands of dollars)

	University		Discretely Presented Component Unit(s)	
	2008	**2007**	**2008**	**2007**
Operating Revenues:				
Tuition and Fees (Net of Provision for Doubtful Accounts of $5,674 in 2008 and $4,810 in 2007)	$ 557,085	$ 537,832	$ -	$ -
Less: Scholarship Allowances	139,880	136,527		
Net Tuition and Fees	417,205	401,305		
Federal Grants and Contracts	211,648	187,130		
State and Local Grants and Contracts	54,414	47,045		
Private Grants and Contracts	60,318	54,268		
Sales and Services of Educational Activities	19,569	22,346		
Auxiliary Enterprises -				
Patient Medical Services, Net	681,312	648,802	147,932	217,796
Housing and Dining Services (Net of Scholarship Allowance of $502 in 2008 and $490 in 2007)	72,503	66,828		
Bookstores	61,423	56,930		
Other Auxiliary Enterprises (Net of Scholarship Allowance of $6,351 in 2008 and $6,343 in 2007)	167,230	135,032		
Notes Receivable Interest Income, Net of Fees	566	378		
Other Operating Revenues	61,065	72,226		
Total Operating Revenues	**1,807,253**	**1,692,290**	**147,932**	**217,796**
Operating Expenses:				
Salaries and Wages	1,153,676	1,101,867	57,984	51,911
Benefits	310,375	272,923	12,589	11,450
Supplies, Services and Other Operating Expenses	662,331	608,134	64,878	144,449
Scholarships and Fellowships	39,485	38,602		
Depreciation	125,996	119,069	10,061	10,132
Total Operating Expenses	**2,291,863**	**2,140,595**	**145,512**	**217,942**
Operating Income (Loss)	**(484,610)**	**(448,305)**	**2,420**	**(146)**
State Appropriations	462,281	440,855		
Income (Loss) after State Appropriations, before Nonoperating Revenues (Expenses)	**(22,329)**	**(7,450)**	**2,420**	**(146)**
Nonoperating Revenues (Expenses):				
Federal Appropriations	14,277	14,105		
Investment and Endowment Income, Net of Fees	39,673	202,633	1,844	1,500
Private Gifts	51,680	53,268	15	
Interest Expense	(37,099)	(29,497)	(1,760)	(1,813)
Other Nonoperating Revenues (Expenses)	(4,750)	(3,147)	320	1,378
Net Nonoperating Revenues	**63,781**	**237,362**	**419**	**1,065**

(continued)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and 2007
(in thousands of dollars)

	University		Discretely Presented Component Unit(s)	
	2008	**2007**	**2008**	**2007**
Income before Capital Contributions, Additions to Permanent Endowments and Extraordinary Items	**41,452**	**229,912**	**2,839**	**919**
State Capital Appropriations	15,532	18,138		
Capital Gifts and Grants	17,341	12,941		
Private Gifts for Endowment Purposes	32,995	27,917		
Extraordinary Items:				
Net Proceeds from Sale of Missouri Care		19,317		(19,317)
Gain from Sale of Missouri Care				12,293
Increase (Decrease) in Net Assets	**107,320**	**308,225**	**2,839**	**(6,105)**
Net Assets, Beginning of Year	**3,303,206**	**2,994,981**	**86,523**	**92,628**
Cumulative Effect of Change in Accounting Principle	19,916			
Net Assets, Beginning of Year, as Adjusted	**3,323,122**	**2,994,981**	**86,523**	**92,628**
Net Assets, End of Year	**$ 3,430,442**	**$ 3,303,206**	**$ 89,362**	**$ 86,523**

See notes to the financial statements.

STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007
(in thousands of dollars)

	2008	2007
Cash Flows from Operating Activities:		
Tuition and Fees	$ 417,719	$ 385,288
Federal, State and Private Grants and Contracts	336,045	274,560
Sales and Services of Educational Activities and Other Auxiliaries	181,217	160,880
Patient Care Revenues	671,091	641,648
Student Housing Fees	74,452	65,917
Bookstore Collections	61,769	56,764
Payments to Suppliers	(650,475)	(635,227)
Payments to Employees	(1,147,430)	(1,096,086)
Payments for Benefits	(310,375)	(272,923)
Payments for Scholarships and Fellowships	(39,485)	(38,602)
Student Loans Issued	(12,071)	(12,291)
Student Loans Collected	10,987	11,102
Student Loan Interest and Fees	1,092	443
Other Receipts, Net	61,065	72,226
Net Cash Used in Operating Activities	**(344,399)**	**(386,301)**
Cash Flows from Noncapital Financing Activities:		
State Appropriations	462,281	440,855
Federal Appropriations	12,810	13,554
Private Gifts	56,717	58,287
Endowment and Similar Funds Gifts	32,995	27,917
Other Receipts (Payments)	(2,244)	17,861
Deposits of Affiliates	(6,404)	9,308
Net Cash Provided by Noncapital Financing Activities	**556,155**	**567,782**
Cash Flows from Capital and Related Financing Activities:		
Capital State Appropriations	10,452	18,798
Capital Gifts and Grants	17,341	12,941
Proceeds From Sales of Capital Assets	1,083	1,649
Purchase of Capital Assets	(317,944)	(234,535)
Proceeds from Issuance of Capital Debt, Net	376,452	
Principal Payments on Capital Debt	(56,975)	(14,760)
Proceeds from Capital Project Notes	158,800	115,900
Payments on Capital Project Notes	(160,000)	(115,000)
Payments on Capital Lease	(462)	(425)
Escrow Deposit on Defeasance	(96,965)	
Loss on Defeasance	(3,844)	
Payments on Cost of Debt Issuance	(2,282)	
Interest Payments on Capital Debt	(35,702)	(29,323)
Net Cash Used in Capital and Related Financing Activities	**(110,046)**	**(244,755)**
Cash Flows from Investing Activities:		
Interest and Dividends on Investments	99,815	72,469
Purchase of Investments, Net of Sales and Maturities	(336,172)	131,443
Other Investing Activities	293	86
Net Cash Provided by (Used in) Investing Activities	**(236,064)**	**203,998**
Net Increase (Decrease) in Cash and Cash Equivalents	**(134,354)**	**140,724**
Cash and Cash Equivalents, Beginning of Year	**407,723**	**266,999**
Cash and Cash Equivalents, End of Year	**$ 273,369**	**$ 407,723**

(continued)

STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007
(in thousands of dollars)

	2008	2007
Reconciliation of Operating Loss Used in Operating Activities:		
Operating Loss	$ (484,610)	$ (448,305)
Adjustments to Net Cash Used in Operating Activities -		
Depreciation Expense	125,996	119,069
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(7,132)	(37,998)
Inventory, Prepaid Expenses and Other Assets	(330)	(6,170)
Notes Receivable	(621)	(1,124)
Accounts Payable	4,894	(13,872)
Accrued Liabilities	13,601	(1,270)
Deferred Revenue	3,803	3,369
Net Cash Used in Operating Activities	**$ (344,399)**	**$ (386,301)**
Supplemental Disclosure of Noncash Activities:		
Net Increase (Decrease) in Fair Value of Investments	$ (121,677)	$ 78,303
Noncash Gifts	$ 13,427	$ 18,929

See notes to the financial statements.

STATEMENT OF PLAN NET ASSETS
As of June 30, 2008 and 2007
(in thousands of dollars)

	2008	2007
Assets		
Cash and Cash Equivalents	$ 129,860	$ 79,714
Collateral for Securities Lending	294,781	382,023
Due to the University of Missouri System		(46)
Investment Settlements Receivable	181,062	23,659
Investments:		
Government Obligations	640,544	400,416
Corporate Bonds and Notes	281,693	182,837
Corporate Stocks	1,699,133	2,269,794
Other	220,180	104,832
Total Assets	**3,447,253**	**3,443,229**
Liabilities		
Accounts Payable and Accrued Liabilities	2,429	2,850
Collateral for Securities Lending	294,781	382,023
Investment Settlements Payable	400,142	127,322
Total Liabilities	**697,352**	**512,195**
Net Assets Held in Trust for Pension and OPEB *	**$ 2,749,901**	**$ 2,931,034**

STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Years Ended June 30, 2008 and 2007
(in thousands of dollars)

	2008	2007
Net Revenues and Other Additions		
Investment Income (Loss):		
Interest and Dividend Income, Net of Fees	$ 77,376	$ 62,749
Net Appreciation (Depreciation) in Fair Value of Investments	(243,951)	415,263
Net Investment Income (Loss)	(166,575)	478,012
Contributions:		
University	125,745	74,736
Members	12,231	
Other	2,503	
Total Contributions	140,479	74,736
Total Net Revenues and Other Additions	**(26,096)**	**552,748**
Expenses and Other Deductions		
Administrative Expenses	2,173	2,043
Payments to Retirees and Beneficiaries	152,864	114,412
Total Expenses and Other Deductions	**155,037**	**116,455**
Increase (Decrease) in Net Assets Held in Trust for Pension and OPEB	**(181,133)**	**436,293**
Net Assets Held in Trust for Pension and OPEB, Beginning of Year	**2,931,034**	**2,494,741**
Net Assets Held in Trust for Pension and OPEB, End of Year	**$ 2,749,901**	**$ 2,931,034**

See notes to the financial statements.

* OPEB represents Other Postemployment Benefits

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, public service, and related activities, which include the University of Missouri Hospitals and Clinics and related health care facilities, principally at its four campuses in Columbia, Kansas City, Rolla and St. Louis. 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 a nine-member Board of Curators appointed by the state's Governor.

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. The purpose of the Medical Alliance is to develop a network of health care providers to support the missions of the University of Missouri Healthcare. The 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, a not-for-profit organization that follows generally accepted accounting principles under the Financial Accounting Standards Board ("FASB"), is a discretely presented component unit of the Medical Alliance. The University appoints the Board of Directors of the Medical Alliance and can impose its will on the organization. Financial statements for the Medical Alliance are not available.

- Missouri Care L.C., a not-for-profit health maintenance organization, provided services to patients in Central Missouri under certification from the Missouri Department of Social Services. Missouri Care L.C., organized exclusively for charitable purposes to benefit its sole member, the Curators of the University of Missouri, contracted with the University of Missouri Healthcare System to provide health care services to its members. The University appointed Missouri Care L.C.'s Board of Directors and could impose its will on the organization. Refer to Note 19 for information regarding the January 2007 sale of Missouri Care L.C.

The University operates the University of Missouri Retirement, Disability, and Death Benefit Plan and the University of Missouri Other Postemployment Benefits Plan, which are single employer, defined benefit plans. The assets of each Plan are held in trust and are restricted for use to only pay the benefits and expenses of the respective Plans. The Plans are reported as fiduciary funds of the University. Combining financial statements are presented in Note 20.

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 follows 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.

Pursuant to GASB Statement No. 35, *Basic Financial Statement-and Management's Discussion and Analysis-for Public Colleges and Universities,* the University's activities are considered to be a single business-type activity and accordingly, are reported in a single column in the financial statement. Business-type activities are those that are financed in whole or part by funds received by external parties for goods or services.

Basis of Accounting – The University's financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred, regardless of the timing of cash flows.

On the Statement of Revenues, Expenses and Changes in Net Assets, the University defines operating activities as those generally resulting from an exchange transaction. Nearly all of the University's expenses are from exchange transactions, which involve the exchange of equivalent values such as payments for goods or services. Nonoperating revenues or expenses are those in which the University receives or gives value without directly giving or receiving equal value, 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 University of Missouri OPEB Trust is a trust fund which accounts for the activity of the University of Missouri Other Postemployment Benefits Plan. The financial statements for these fiduciary funds have been prepared using the accrual basis of accounting. Benefits and refunds are recognized when due and payable. Investments are reported at fair value. Combining financial statements for these funds are presented in Note 20.

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 that 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 foreign exchange rate of its international investments. These contracts are marked to market, with the changes in market value being reported 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 through private donations (pledges) 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 or capital gift revenues on the Statement of Revenues, Expenses, and Changes in Net Assets, at the present value of the estimated future cash flows. An allowance of $4,805,000 and $4,038,000 as of June 30, 2008, and 2007, respectively, 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 except for University Hospitals and Clinics' inventories, for which cost is determined using the first-in, first-out method.

Capital Assets – If purchased, these assets are carried at cost or, if donated, at fair value at the date of gift. Depreciation expense is computed using the straight-line method over the assets' estimated useful lives – generally ten to forty years for buildings and improvements, eight to twenty-five years for infrastructure, three to fifteen years for equipment and twenty years for library materials. Net interest expense incurred during the construction of debt-financed facilities is included when capitalizing resulting assets. The University capitalizes works of art as these collections generally consist of historical artifacts and artworks, they are considered inexhaustible and not 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 and, accordingly, are not capitalized for financial statement purposes. Proceeds from the sale, exchange, or other disposal of such items must be used to acquire additional items for the same collection. Land is considered inexhaustible and is not subject to depreciation.

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

Net Assets – The University's net assets are classified as follows:

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

- Restricted:

  Nonexpendable – These net assets subject to externally imposed stipulations that the principal be maintained in perpetuity, such as the University's permanent endowment funds. The University's policy permits any realized and unrealized appreciation to remain with these endowments after the spending distribution discussed in Note 3.

  Expendable – These net assets are subject to externally imposed stipulations on the University's use of the resources.

- Unrestricted: These net assets are not subject to externally imposed stipulations, but may be designated for specific purposes by the University's management or the Board of Curators. Unrestricted net assets are derived from tuition and fees, sales and services, unrestricted gifts, investment income, and other such sources, and are used for academics and the general operation of the University. When both restricted and unrestricted resources are available for expenditure, the University's policy is to first apply restricted resources, and then the unrestricted resources.

Tuition and Fees, Net of Scholarship Allowances – Student tuition and fees, housing, dining, and other similar auxiliary revenues are reported net of any related scholarships and fellowships applied to student accounts. However, scholarships and fellowships paid directly to students are separately reported as scholarship and fellowship expenses.

Patient Medical Services, Net – Patient medical services revenues are reported net of contractual allowances and bad debt allowances. 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 that differ from the entity's 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 net amounts estimated to be realizable from patients, third-party payors, and others. These estimated amounts include retroactive adjustments for reimbursement agreements with third-party payors. Retroactive adjustments are estimated and accrued in the period that related services are provided, and then adjusted in future periods as estimates are refined and final settlements are determined.

Amounts receivable under Medicare and Medicaid reimbursements agreements are subject to examination and certain retroactive adjustments by the related programs. These adjustments decreased net patient services revenue by $3,019,000 for the year ended June 30, 2008, and increased net patient services revenue by $4,907,000 for the year ended June 30, 2007.

For the years ended June 30, 2008, and 2007, the University of Missouri Healthcare's percentage of gross patient accounts receivable classified by major payor is as follows:

Percentage of Gross Patient Accounts Receivable
(by Major Payor)

	2008	2007
Medicare	30%	29%
Commercial Insurance	8%	9%
Medicaid	19%	18%
Self Pay and Other	17%	20%
Managed Care Agreements	26%	24%
	100%	100%

The Statement of Revenues, Expenses and Changes in Net Assets reflects the gross to net patient medical services revenue as follows:

Gross to Net Patient Medical Services Revenue
(in thousands of dollars)

	2008	2007
Patient Medical Services Revenue, Gross	$ 1,443,517	$ 1,320,091
Less Deductions for Contractuals	(711,031)	(618,699)
Less Bad Debt Deductions	(51,174)	(52,590)
Patient Medical Services Revenue, Net	$ 681,312	$ 648,802

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 – Effective for fiscal year 2008, the University adopted GASB Statements No. 43 and No. 45, which establish requirements for financial reporting for postemployment benefits other than pension plans. GASB Statement No. 45 requires the University to recognize actuarially estimated costs of its postemployment benefit plan and provide certain related disclosures. As the University established an irrevocable trust fund to manage its postemployment benefit costs in June 2008, Statement No. 43 is also applicable. GASB Statement No. 43 requires financial reporting and disclosures for postemployment benefit plans. In adopting these standards, the University recognized the effect of a change in accounting principle, which increased net assets by $19,916,000 as a result of writing off previously established benefit reserves that were not in accordance with the new requirements. In addition to these standards, the University also adopted GASB Statements No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues*, and No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. Certain additional disclosures were required, but no financial statement balances were restated for these new standards.

The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. The statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address current and potential effects of existing pollution through pollution remediation activities such as site assessments and cleanups. The statement requires disclosures about the nature of the remediation, size of the obligation, and the methods and assumptions used in evaluating the potential obligation. The University does not anticipate any material effect on its financial statements with the adoption of GASB Statement No. 49.

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. The statement requires all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The statement also requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. The University has not yet determined the effect that adoption of GASB Statement No. 51 may have on its financial statements.

The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for fiscal years beginning after June 15, 2008. The statement establishes accounting and financial reporting standards for land and other real estate held as investments by endowments. These assets are to be reported at fair value at the reporting date, with changes in fair value being reported as investment income. The University has not yet determined the effect that adoption of GASB Statement No. 52 may have on its financial statements.

The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. The statement requires derivative instruments to be measured at fair value at the reporting date, with changes in fair value generally being reported as investment gains or losses. However, changes in fair value of hedging derivative instruments would be deferred until the related instrument ends or ceases to significantly reduce risk. The University has not yet determined the effect that adoption of GASB Statement No. 53 may have on its financial statements.

Reclassifications – Certain prior year amounts have been reclassified to conform to current year presentation. As of June 30, 2007, the University presented certain investments as cash and cash equivalents within the basic financial statements based on the investments' current maturities rather than their original maturities. The University has reclassified these amounts as short-term investments in the accompanying Statement of Net Assets and Statement of Plan Net Assets and as investing activities in the Statement of Cash Flows.

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 the Capital Region Medical Center (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 the facilities and clinics are included in these financial statements. CRMC is served by a group of admitting physicians that 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 through its fundraising activities.

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 represents capital assets net of accumulated depreciation and outstanding principal debt balances related to the acquisition, construction, or improvement of those assets.

- Restricted expendable: These are assets subject to externally imposed stipulations on the Medical Alliance's use of the resources.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by 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 restricted resources, and then unrestricted resources.

Capital Assets – Capital Assets are recorded at cost and 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 cost of acquiring those assets.

Net Patient Medical Service Revenue – Net patient medical service revenue is reported at the net amounts to be realized from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments for reimbursement agreements with third-party payers. Retroactive adjustments are estimated and accrued in the period the related services are provided, and these amounts are 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 University's cash deposits of $167,280,000 and $175,272,000 as of June 30, 2008, and 2007, respectively, were fully insured and collateralized and not exposed to custodial credit risk.

Custodial Credit Risk – Deposits – University of Missouri Fiduciary Funds – The University of Missouri Retirement and OPEB Trust Funds held deposits totaling $399,211,000 and $440,332,000 as of June 30, 2008, and 2007, respectively. These balances were fully insured and collateralized and not exposed to custodial credit risk.

3. INVESTMENTS

UNIVERSITY OF MISSOURI

The University's investment policies are established by its governing board, the Board of Curators. The policies are established to ensure that University funds are managed in accordance with Section 105.688 of the Revised Statutes of Missouri and prudent investment. The University is authorized to use outside managers for its investments and may pool funds for investment purposes. Further, the policy provides that the University's short-term funds may be invested in the following instruments: repurchase agreements collateralized by U.S. Government 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 Ratings Group and P-1 by Moody's Investors Service; bankers' acceptances; and other similar short-term investment instruments of like or better quality.

The University's investments are managed in two major categories:

Pooled General Investments – The general investment pools managed by the University averaged total returns of 6.48% and 6.04%, including unrealized gains and losses, for the years ended June 30, 2008, and 2007, respectively.

Pooled Endowment Investments – When appropriate and permissible, endowment and similar funds are pooled for investment purposes, with the objective of achieving long-term returns sufficient to preserve principal by protecting against inflation and to meet endowment spending targets. There are two separate endowment pools that are managed by outside investment managers. These include a balanced pool and a fixed income pool, which earned total returns of (4.8)% and 6.1%, respectively, including unrealized gains and losses, for the year ended June 30, 2008, and 18.0% and 5.9%, respectively, for the year ended June 30, 2007.

If a donor has not provided specific restrictions, state law permits the Board of Curators to appropriate an amount of the endowment investment's net appreciation, realized and unrealized, as the Board considers to be prudent. In establishing this amount, the Board is required to consider the University's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. Further, any expenditure of net appreciation is required to be for the purposes for which the endowment was established. In fiscal year 2008, donor-restricted endowments depreciated by approximately $49,169,000, which primarily consisted of unrealized losses on investment.

The Board of Curators has adopted the total return concept (yield plus appreciation) in determining the spendable return for endowments and similar funds. Annually, the spending formula distributes 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 the total real return (net of inflation). However, to achieve uniformity from year to year, the actual amount made available in any given year will be not less than 96% or more than 106% of the prior year's expenditure.

At June 30, 2008, and 2007, the University held the following types of investments:

Investments by Type
(in thousands of dollars)

	Carrying Value as of June 30,	
	2008	**2007**
Government Obligations	$ 916,106	$ 710,818
Corporate Bonds and Notes	336,726	211,230
Corporate Stocks	646,801	734,390
Commercial Paper		3,140
Other	94,480	64,134
Total Short-Term and Long-Term Investments	1,994,113	1,723,712
Government Obligations		200
Commercial Paper	104,433	232,090
Repurchase Agreements	1,656	160
Total Cash Equivalents	106,089	232,450
Total Investments	$ 2,100,202	$ 1,956,162

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates over time 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 preserving the Pooled Endowment Investments' principal, the University's investment policy requires this pool to have a diversified investment portfolio.

At June 30, 2008, and 2007, the University's investments mature as follows:

Investments by Type and Maturity
(in thousands of dollars)

As of June 30, 2008

	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	$ 115,614	$ 371,629	$ 95,336	$ 49,813	$ 632,392
U.S. Treasury Obligations	9,103	39,064	54,017	91,705	193,889
Foreign Government Obligations	3,497	25,298	38,824	22,206	89,825
U.S. Corporate Bonds & Notes	59,991	140,713	87,833	24,842	313,379
Foreign Corporate Bonds & Notes	612	8,326	5,207	9,202	23,347
Total	$ 188,817	$ 585,030	$ 281,217	$ 197,768	$ 1,252,832

As of June 30, 2007

	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	$ 149,651	$ 342,038	$ 26,723	$ 33,713	$ 552,125
U.S. Treasury Obligations	16,050	18,589	16,163	9,392	60,194
Foreign Government Obligations	2,649	35,165	29,329	31,356	98,499
U.S. Corporate Bonds & Notes	30,684	133,900	11,088	22,178	197,850
Foreign Corporate Bonds & Notes	703	2,111	2,194	8,372	13,380
Total	$ 199,737	$ 531,803	$ 85,497	$ 105,011	$ 922,048

Credit Risk – An investment's credit risk is the risk that the issuer or other counterparty will not meet its obligations. For investments in debt securities, this credit risk is typically measured by the credit quality ratings provided by a nationally-recognized statistical rating organization such as Standard & Poor's Ratings Group and Moody's Investors Service. For Endowment Fund investments, the University's policy specifies that corporate bonds and other fixed income securities must have a Standard & Poor's rating of A or better.

In the following table, the University has elected to use Moody's investment ratings. Securities within the Pooled Endowment Investment category have Moody's ratings of Baa and Standard & Poor's ratings in the A range (A- to A+), which places those bonds within the parameters specified in the University's policy.

Based on Moody's investment ratings, the University's credit risk exposure as of June 30, 2008, and 2007, is as follows:

Investments by Type and Credit Rating
(in thousands of dollars)

	As of June 30, 2008					
	Aaa	Aa	A	Baa	Unrated	Total
U.S. Agency Obligations	$ 470,034	$ 3,111	$ 392	$ -	$ 158,855	$ 632,392
U.S. Treasury Obligations	193,889					193,889
Foreign Government Obligations	55,497	668	31,309	944	1,407	89,825
U.S. Corporate Bonds & Notes	53,500	109,514	137,050	7,574	5,741	313,379
Foreign Corporate Bonds & Notes	11,035	4,896	5,217	737	1,462	23,347
Total	$ 783,955	$ 118,189	$ 173,968	$ 9,255	$ 167,465	$ 1,252,832
	As of June 30, 2007					
	Aaa	Aa	A	Baa	Unrated	Total
U.S. Agency Obligations	$ 515,129	$ 125	$ -	$ -	$ 36,871	$ 552,125
U.S. Treasury Obligations	60,194					60,194
Foreign Government Obligations	64,071	136	23,813	1,748	8,731	98,499
U.S. Corporate Bonds & Notes	30,313	87,262	65,998	3,877	10,400	197,850
Foreign Corporate Bonds & Notes	2,725	832	3,223	368	6,232	13,380
Total	$ 672,432	$ 88,355	$ 93,034	$ 5,993	$ 62,234	$ 922,048

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the University will not be able to recover the value of the investments held by an outside party. In accordance with its policy, the University minimizes custodial credit risk by establishing limitations on the types of instruments held with qualifying institutions. Repurchase agreements must be collateralized by U.S. Government issues and/or U.S. Government Agency issues. Certificates of deposit must be collateralized and held at a bank with which the University has a depository agreement. At June 30, 2008, and 2007, the University's uninsured and uncollateralized investments consisted of commercial paper totaling $104,433,000 and $235,230,000, respectively. The University's investment in repurchase agreements held by the investment's counterparty and not in the name of the University totaled $1,656,000 and $160,000 at June 30, 2008, and 2007, respectively. All remaining University investments are insured or registered and are held by the University or an agent in its name.

Concentration of Credit Risk – The risk of loss attributed to the magnitude of investments in a single issuer is known as the concentration of credit risk. Investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investment pools are excluded from this category.

For University funds invested in 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 are unlimited. On December 15, 2006, the Board of Curators amended the investment policy for short-term funds to permit the following new investment categories: the University's Balanced Pool and absolute return funds.

For University funds invested in the Pooled Endowment Investments category, target asset mixes are evaluated to ensure appropriate diversification. The investment policy allows a portfolio consisting of no more than 37% U.S. equity, 24% international equity, 12.5% emerging markets equity, 10% private equity, 10% absolute return funds, 12.5% real estate, 22% global fixed income, and 12% Treasury Inflation-Protected Securities (TIPS). However, within the Pooled Endowment Investments category, due to donor restrictions certain monies can only be invested in fixed income securities. The Fixed Income Pool portfolio for these monies consists of U.S. Government, U.S. Government Agency issues, corporate fixed income, commercial paper and repurchase agreements.

As of June 30, 2008, of the University's total cash and investments, 14.1% are issues of the Federal Home Loan Bank (FHLB), 6.1% are issues of the Federal Home Loan Mortgage Corporation (FHLMC), and 5.6% are issues of Federal National Mortgage Association (FNMA).

As of June 30, 2007, of the University's total cash and investments, 16.1% are issues of the FHLB and 7.5% are issues of the FNMA.

Foreign Currency Risk –The risk that changes in exchange rates will adversely affect the fair value of a foreign investment is referred to as foreign currency risk. University policy allows 15 to 25% of the investment portfolio to be invested in international investments; 13.8% and 14.8% were denominated in foreign currency in fiscal years 2008, and 2007, respectively. To reduce its foreign currency risk, the University has entered into forward foreign currency contracts throughout the year. As of June 30, 2008, and 2007, 6.0% and 5.1%, respectively, of the University's total investment portfolio was invested in forward foreign currency contracts, totaling $115,688,000 and $84,367,000, respectively. 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 University's exposure to foreign currency risk as of June 30, 2008, and 2007, was as follows:

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	2008 Total	2007 Total
Australian Dollar	$ 95	$ 2,162	$ 921	$ 3,723	$ 6,901	$ 6,635
Brazilian Real			78	79	157	
British Pound Sterling	(6,781)	7,637	116	21,821	22,793	40,447
Canadian Dollar	8,214	2,541	494	1,419	12,668	10,470
Chilean Peso				34	34	35
Chinese Yan Renminbi				2,160	2,160	3,327
Danish Krone	10		560	254	824	811
Euro	10,638	35,807	17,113	50,595	114,153	105,431
Hong Kong Dollar	80			3,362	3,442	5,971
Hungarian Forint						1,180
Israeli Shekel		1,172		(396)	776	1,798
Japanese Yen	1	27,371	3,373	12,723	43,468	55,621
Malaysian Ringgit		2,421		1,729	4,150	1,920
Mexican New Peso	46	945		227	1,218	1,822
New Taiwan Dollar				199	199	183
New Zealand Dollar	28			(495)	(467)	(3,318)
Norwegian Krone	97	448		3,660	4,205	1,040
Polish Zloty	28	2,631		(253)	2,406	2,211
Russian Rubel				99	99	
South African Comm Rand				247	247	405
Singapore Dollar	17	3,836		1,375	5,228	4,162
South Korean Won		731		(135)	596	1,666
Swedish Krona	73	2,123	692	2,808	5,696	6,274
Swiss Franc	94			14,512	14,606	17,821
UAE Dirham				329	329	
Total	$ 12,640	$ 89,825	$ 23,347	$ 120,076	$ 245,888	$ 265,912

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. Loaned domestic securities are initially collateralized at 102% of their fair value, while loaned international securities are collateralized at 105% of fair value. 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 loaned domestic securities and 105% for loaned international securities. The fair value of collateral held for securities on loan totaled $106,360,000 and $138,014,000 at June 30, 2008, and 2007, 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, 2008, and 2007, 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, 2008 and 2007, letters of credit and security collateral not meeting the criteria for inclusion in the Statement of Net Assets totaled $15,238,000 and $11,607,000, respectively. At June 30, 2008 and 2007, the aggregate fair value of the securities lent and related collateral received was $113,629,000 and $144,351,000, 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, 2008, and 2007, Medical Alliance held the following investments:

Medical Alliance Investments
(in thousands of dollars)

	2008	2007
Internally Designated for Capital Improvements:		
Mortgage-backed securities	$ 5,695	$ 5,690
Money Market Accounts	5,721	8,804
Interest Receivable	65	77
U.S. Treasury Obligations	74	74
Certificates of Deposit	15,105	8,577
Subtotal	26,660	23,222
Held by Trustee Under Indenture Agreement:		
Money Market Accounts	4,299	4,209
Interest Receivable	2	4
Less Portion Required for Current Obligations	(1,293)	(1,264)
	$ 29,668	$ 26,171

UNIVERSITY OF MISSOURI FIDUCIARY FUNDS

At June 30, 2008, the University's newly-established OPEB Trust Fund held no investments as its balance was held in cash deposits. Disclosures for the University's Retirement Trust Fund are as follows:

Investments –The Board of Curators of the University of Missouri establishes the policy for Retirement Trust investments which emphasizes diversification across asset classes, dominated by equity securities to maximize investment returns. While pursuing this investment objective, the Retirement Trust also observes its fiduciary duties set forth in Section 105.688 of the Revised Statutes of Missouri to act in the interest of the Retirement Plan's participants and beneficiaries. The Retirement Trust investments earned a total return of (5.7) %, including unrealized gains and losses, for the year ended June 30, 2008, and 19.7% for the year ended June 30, 2007.

At June 30, 2008, and 2007, the Retirement Trust held the following types of investments:

Retirement Trust Investments By Type
(in thousands of dollars)

	Carrying Value as of June 30, 2008	2007
Government Obligations	$ 640,544	$ 400,416
Corporate Bonds and Notes	281,693	182,837
Corporate Stocks	1,699,133	2,269,794
Commercial Paper	1,285	1,169
Other	218,894	103,663
Total Short-Term and Long-Term Investments	2,841,549	2,957,879
Commercial Paper	25,431	21,404
Total Cash Equivalents	25,431	21,404
Total Investments	$ 2,866,980	$ 2,979,283

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 preserving invested principal, the Board of Curators' investment policy requires diversification of the Retirement Trust investment portfolio.

At June 30, 2008, and 2007, the maturities of the Retirement Trust's investments are as follows:

Retirement Trust Investments by Type and Maturity
(in thousands of dollars)

As of June 30, 2008	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	$ 1,433	$ 790	$ 6,570	$ 109,718	$ 118,511
U.S. Treasury Obligations	10,586	50,983	106,449	74,710	242,728
Foreign Government Obligations	7,497	63,028	131,864	76,916	279,305
U.S. Corporate Bonds & Notes	21,833	78,740	57,268	66,568	224,409
Foreign Corporate Bonds & Notes	1,422	23,377	14,603	17,882	57,284
Total	$ 42,771	$ 216,918	$ 316,754	$ 345,794	$ 922,237

As of June 30, 2007	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	$ 779	$ 6,984	$ 7,362	$ 92,336	$ 107,461
U.S. Treasury Obligations	13,190	5,399	15,853	12,258	46,700
Foreign Government Obligations	16,841	86,530	58,219	84,664	246,254
U.S. Corporate Bonds & Notes	10,307	43,477	17,672	75,001	146,457
Foreign Corporate Bonds & Notes	3,056	6,486	6,222	20,617	36,381
Total	$ 44,173	$ 148,876	$ 105,328	$ 284,876	$ 583,253

Credit Risk – An investment's credit risk is the risk that the issuer or other counterparty will not meet its obligations. For investments in debt securities, this risk is measured by the credit quality ratings provided by a nationally-recognized statistical rating organization, such as Standard & Poor's and Moody's. The Retirement Trust investment policy requires that corporate bond and other fixed income securities must have a Standard & Poor's rating of A or better.

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

The Retirement Trust's credit risk exposure based on Moody's investment ratings as of June 30, 2008, and 2007, is as follows:

Retirement Trust Investments by Type and Credit Rating
(in thousands of dollars)

	As of June 30, 2008					
	Aaa	**Aa**	**A**	**Baa**	**Unrated**	**Total**
U.S. Agency Obligations	$ 116,687	$ -	$ 1,824	$ -	$ -	$ 118,511
U.S. Treasury Obligations	242,728					242,728
Foreign Government Obligations	153,058	45,684	76,032	2,891	1,640	279,305
U.S. Corporate Bonds & Notes	81,383	69,296	52,488	12,629	8,613	224,409
Foreign Corporate Bonds & Notes	28,210	9,393	14,104	3,130	2,447	57,284
Total	$ 622,066	$ 124,373	$ 144,448	$ 18,650	$ 12,700	$ 922,237
	As of June 30, 2007					
	Aaa	**Aa**	**A**	**Baa**	**Unrated**	**Total**
U.S. Agency Obligations	$ 107,087	$ 374	$ -	$ -	$ -	$ 107,461
U.S. Treasury Obligations	46,700					46,700
Foreign Government Obligations	151,912	4,218	61,354	4,439	24,331	246,254
U.S. Corporate Bonds & Notes	71,259	28,911	22,685	1,949	21,653	146,457
Foreign Corporate Bonds & Notes	7,462	3,071	10,164	721	14,963	36,381
Total	$ 384,420	$ 36,574	$ 94,203	$ 7,109	$ 60,947	$ 583,253

Custodial Credit Risk – For investments, custodial credit risk 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 its investments held by an outside party. At June 30, 2008, and 2007, the Retirement Trust's uninsured and uncollateralized investments consisted of commercial paper totaling $26,717,000 and $22,573,000, respectively. Remaining investments are insured or registered and are held by the Retirement Trust or an agent in its name.

Concentration of Credit Risk – The risk of loss attributed to the magnitude of investments in a single issue is known as the concentration of credit risk. Investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investment pools are excluded from this category. The Retirement Trust investment policy allows for a portfolio consisting of no more than 37% U.S. equity, 24% international equity, 12.5% emerging markets equity, 10% private equity, 10% absolute return funds, 12.5% real estate, 22% global fixed income, and 12% TIPS. At June 30, 2008, and 2007, the Retirement Trust portfolio did not contain investments from any single issuer that exceeded 5% of the total portfolio.

Foreign Currency Risk –The risk that changes in exchange rates will adversely affect the fair value of a foreign investment is referred to as foreign currency risk. The Retirement Trust invests a significant portion of its portfolio in international investments; 26.3% and 31.1% were denominated in foreign currency in fiscal years 2008 and 2007, respectively. To reduce foreign currency risk, the Retirement Trust entered into forward foreign currency contracts throughout the year. As of June 30, 2008, and 2007, 10.7% and 9.4% respectively, of the Retirement Trust's investment portfolio is invested in forward foreign currency contracts, totaling $303,808,000 and $276,217,000. These contracts are marked to market and the changes in their market value are reported as net appreciation (depreciation) in fair value of investments in the Statement of Changes in Plan Net Assets.

As of June 30, 2008, and 2007, the Retirement Trust's exposure to foreign currency risk was as follows:

Retirement Trust 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	2008 Total	2007 Total
Australian Dollar	$ 254	$ 4,399	$ 2,939	$ 11,735	$ 19,327	$ 23,949
Brazilian Real			294	245	539	
British Pound Sterling	(17,201)	17,240	662	61,520	62,221	122,460
Canadian Dollar	25,433	2,498	7,282	(713)	34,500	37,371
Chilean Peso				104	104	105
Chinese Yan Renminbi				5,770	5,770	9,790
Danish Krone	63		2,213	65	2,341	2,015
Euro	76,403	143,763	36,992	39,740	296,898	315,207
Hong Kong Dollar	150			9,196	9,346	15,581
Hungarian Forint						2,812
Israeli Shekel		2,813		(845)	1,968	5,025
Japanese Yen	5,534	73,064	4,826	32,203	115,627	153,632
Malaysian Ringgit		5,806		4,433	10,239	6,148
Mexican New Peso	144	2,893		747	3,784	4,627
New Taiwan Dollar				543	543	501
New Zealand Dollar	42	591		(1,879)	(1,246)	(9,842)
Norwegian Krone	50	1,014		8,037	9,101	2,496
Polish Zloty	120	7,238		(907)	6,451	5,507
Russian Rubel				223	223	
South African Comm Rand				448	448	943
Singapore Dollar	45	9,618		2,905	12,568	11,310
South Korean Won		2,125		11	2,136	5,018
Swedish Krona	220	6,243	2,076	6,678	15,217	16,214
Swiss Franc	537			37,877	38,414	45,889
UAE Dirham				878	878	
Total	$ 91,794	$ 279,305	$ 57,284	$ 219,014	$ 647,397	$ 776,758

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. Loaned domestic securities are initially collateralized at 102% of their fair value, while loaned international securities are collateralized at 105% of fair value. 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 loaned domestic securities and 105% for loaned international securities. The fair value of collateral held for securities on loan totaled $294,781,000 and $382,023,000 at June 30, 2008, and 2007, 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, 2008, 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, 2008, and 2007, letters of credit and security collateral, not meeting the criteria for inclusion in the Statement of Plan Net Assets, totaled $20,336,000 and $38,795,000, respectively, for the Retirement Trust. At June 30, 2008, and 2007, the aggregate fair value of the securities lent and related collateral received was $303,713,000 and $404,849,000, respectively.

4. FUNDS HELD IN TRUST BY OTHERS

At June 30, 2008, and 2007, Funds Held in Trust by Others (principally endowment funds) aggregated $80,910,000 and $74,200,000, 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, 2008 and 2007, aggregated $1,115,000 and $2,807,000, respectively.

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008, and 2007, are summarized as follows:

Accounts Receivable
(in thousands of dollars)

	2008	2007
Grants and Contracts	$ 68,613	$ 81,801
Federal Appropriations	2,018	551
State Appropriations and State Bond Funds	5,080	
Student Fees and Other Academic Charges	84,007	73,422
University Hospitals and Clinics Patient Services, Net of Contractual Allowances	110,960	102,187
University Physicians Patient Services, Net of Contractual Allowances	18,758	18,038
Subtotal	289,436	275,999
Less Provisions for Loss on Accounts Receivable:		
Grants and Contracts Allowance	622	1,000
University Hospitals and Clinics Patient Services Allowances	26,779	28,286
University Physicians Patient Services Allowances	6,707	5,928
Student Fees and Other Academic Charges	5,674	4,810
Subtotal	39,782	40,024
Total	$ 249,654	$ 235,975

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, 2008, and 2007, are summarized as follows:

Notes Receivable
(in thousands of dollars)

	2008	2007
Federal Health Profession Loans	$ 13,955	$ 14,321
Carl D. Perkins National Loans	31,622	28,419
University Loan Programs	18,296	20,604
Subtotal	63,873	63,344
Less Provision for Loss on Notes Receivable	3,228	3,320
Total	$ 60,645	$ 60,024

7. CAPITAL ASSETS

UNIVERSITY OF MISSOURI

Capital assets activity for the years ended June 30, 2008, and 2007, is summarized as follows:

Capital Assets
(in thousands of dollars)

	2008 Beginning Balance	Additions/ Transfers	Retirements	2008 Ending Balance
Capital Assets, Nondepreciable:				
Land	$ 66,040	$ 759	$ 769	$ 66,030
Artwork and Historical Artifacts	11,575	88		11,663
Construction in Progress	102,600	77,786		180,386
Total Capital Assets, Nondepreciable	180,215	78,633	769	258,079
Capital Assets, Depreciable:				
Buildings and Improvements	2,188,407	148,016	14,397	2,322,026
Infrastructure	217,483	10,471	202	227,752
Equipment	511,539	71,417	25,681	557,275
Library Materials	218,306	9,406		227,712
Total Capital Assets, Depreciable	3,135,735	239,310	40,280	3,334,765
Less Accumulated Depreciation:				
Buildings and Improvements	747,082	61,309	12,862	795,529
Infrastructure	83,808	9,546	183	93,171
Equipment	316,286	47,530	24,415	339,401
Library Materials	129,705	7,611		137,316
Total Accumulated Depreciation	1,276,881	125,996	37,460	1,365,417
Total Capital Assets, Depreciable, Net	1,858,854	113,314	2,820	1,969,348
Total Capital Assets, Net	$ 2,039,069	$ 191,947	$ 3,589	$ 2,227,427

	2007 Beginning Balance	Additions/ Transfers	Retirements	2007 Ending Balance
Capital Assets, Nondepreciable:				
Land	$ 60,114	$ 6,018	$ 92	$ 66,040
Artwork and Historical Artifacts	11,279	296		11,575
Construction in Progress	96,757	5,843		102,600
Total Capital Assets, Nondepreciable	168,150	12,157	92	180,215
Capital Assets, Depreciable:				
Buildings and Improvements	2,037,574	159,726	8,893	2,188,407
Infrastructure	206,681	10,820	18	217,483
Equipment	490,231	44,364	23,056	511,539
Library Materials	210,838	7,468		218,306
Total Capital Assets, Depreciable	2,945,324	222,378	31,967	3,135,735
Less Accumulated Depreciation:				
Buildings and Improvements	698,100	56,712	7,730	747,082
Infrastructure	74,925	8,890	7	83,808
Equipment	290,184	47,085	20,983	316,286
Library Materials	123,323	6,382		129,705
Total Accumulated Depreciation	1,186,532	119,069	28,720	1,276,881
Total Capital Assets, Depreciable, Net	1,758,792	103,309	3,247	1,858,854
Total Capital Assets, Net	$ 1,926,942	$ 115,466	$ 3,339	$ 2,039,069

The estimated cost to complete construction in progress at June 30, 2008, is $656,224,000 of which $154,133,000 is available from unrestricted net assets. The remaining costs are expected to be funded from $101,320,000 of State appropriations, $57,065,000 of gifts, $4,529,000 of grants, and $339,177,000 of bond proceeds.

Capital assets include a building facility under a capital lease of $8,332,000 and related accumulated depreciation of $3,645,000 and $3,229,000 at June 30, 2008, and 2007, respectively.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Capital assets at June 30, 2008, and 2007 are summarized as follows:

Medical Alliance - Capital Assets
(in thousands of dollars)

	2008	2007
Land and Improvements	$ 6,109	$ 6,605
Buildings	102,071	98,934
Movable Equipment	65,570	60,359
Construction in Progress	4,922	4,296
	178,672	170,194
Less Accumulated Depreciation	103,513	94,580
Total Capital Assets, Net	$ 75,159	$ 75,614

8. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2008, and 2007, are summarized as follows:

Accrued Liabilities
(in thousands of dollars)

	2008	2007
Accrued Salaries, Wages and Related Benefits	$ 44,454	$ 40,534
Accrued Vacation	38,691	40,013
Accrued Self Insurance Claims	32,503	30,067
Accrued Interest Payable	5,319	4,362
	$ 120,967	$ 114,976

9. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities at June 30, 2008, and 2007, are summarized as follows:

Other Noncurrent Liabilities
(in thousands of dollars)

Fiscal Year 2008	Beginning of Year	Additions	Payments	Total End of Year	Less Current Portion	Noncurrent End of Year
Accrued Vacation	$ 49,001	$ 36,639	$ (34,313)	$ 51,327	$ (38,691)	$ 12,636
Accrued Self-Insurance Claims	79,799	136,343	(148,904)	67,238	(32,503)	34,735
	$ 128,800	$ 172,982	$ (183,217)	$ 118,565	$ (71,194)	$ 47,371

Fiscal Year 2007	Beginning of Year	Additions	Payments	Total End of Year	Less Current Portion	Noncurrent End of Year
Accrued Vacation	$ 46,292	$ 40,510	$ (37,801)	$ 49,001	$ (40,013)	$ 8,988
Accrued Self-Insurance Claims	86,850	139,294	(146,345)	79,799	(30,067)	49,732
	$ 133,142	$ 179,804	$ (184,146)	$ 128,800	$ (70,080)	$ 58,720

10. BONDS AND NOTES PAYABLE

UNIVERSITY OF MISSOURI

As of June 30, 2008, and 2007, bonds and notes payable totaled $870,667,000 and $652,785,000, respectively. Of these amounts, $868,207,000 and $652,785,000, respectively, were bonds outstanding, net of unamortized premium/discount and loss on defeasance totaling $11,102,000 and $6,960,000, respectively. The principal and interest of the bonds are payable from net income or designated revenues from the related financed activities. Designated revenues for the bonds include sales and services from the financed facilities, such as bookstore collections, housing and dining charges, patient services, and parking collections, as well as certain assessed fees. For fiscal years 2008 and 2007, available related revenues totaled $848,025,000 and $792,555,000, respectively, while the annual debt service payments totaled $16,975,000 and $14,760,000. This proportion is expected to continue to be less than 3% of pledged revenues in the future. 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 2037. Interest on the variable rate System Facilities Revenue Bonds is paid at the Bond Market Association™ daily bond rate.

The outstanding notes totaling $2,460,000 as of June 30, 2008, consisted of two loans from the state Department of Natural Resources Energy Efficiency Leveraged Loan Program. Interest is payable semiannually and ranges from 3.0% to 3.2%. One of these loans matures in February 2012, while the second loan matures in February 2016.

Bonds and Notes Payable activity by issuance series for the years ended June 30, 2008, and 2007, was as follows:

Bonds and Notes Payable Activity
(in thousands of dollars)

	2008 Beginning Balance	Issuance	Payments	Defeasance	Amortization	2008 Ending Balance
System Facilities Revenue Bonds:						
Series 1997	$ 1,135	$ -	$ (1,135)	$ -	$ -	$ -
Series 1998	16,840		(1,815)			15,025
Series 2000	63,425		(3,105)			60,320
Series 2001	80,760		(795)			79,965
Series 2002	40,000		(40,000)			-
Series 2003	147,280		(3,260)	(96,965)		47,055
Series 2006	296,385		(6,865)			289,520
Series 2007		365,220				365,220
Less Unamortized Premium/Discount	17,004	8,772		(2,696)	(1,037)	22,043
Less Loss on Defeasance	(10,044)			(1,610)	714	(10,941)
Notes Payable		2,460				2,460
	652,785	$ 376,452	$ (56,975)	$ (101,271)	$ (323)	870,667
Less Current Portion	(16,975)					(21,201)
	$ 635,810					$ 849,466

	2007 Beginning Balance	Issuance	Payments	Defeasance	Amortization	2007 Ending Balance
System Facilities Revenue Bonds:						
Series 1997	$ 2,210	$ -	$ (1,075)	$ -	$ -	$ 1,135
Series 1998	19,335		(2,495)			16,840
Series 2000	66,410		(2,985)			63,425
Series 2001	81,515		(755)			80,760
Series 2002	40,000					40,000
Series 2003	150,435		(3,155)			147,280
Series 2006	300,680		(4,295)			296,385
Less Unamortized Premium/Discount	17,814				(810)	17,004
Less Loss on Defeasance	(10,945)				901	(10,044)
	667,454	$ -	$ (14,760)	$ -	$ 91	652,785
Less Current Portion	(14,760)					(16,975)
	$ 652,694					$ 635,810

As of June 30, 2008, principal and interest due on bonds and notes during the next five years and in subsequent five-year periods is as follows:

Future Debt Service
(in thousands of dollars)

Fiscal Year	Principal	Interest	Net Payments (Funds Received) on Swap Agreement
2009	$ 21,201	$ 33,725	$ 3,127
2010	24,093	32,789	3,144
2011	24,295	31,735	3,084
2012	23,053	30,688	3,069
2013	24,093	29,667	3,068
2014-2018	138,220	131,578	14,623
2019-2023	164,835	99,956	11,538
2024-2028	200,375	63,000	6,683
2029-2033	150,740	29,469	1,509
2034-2038	88,660	9,278	
	$ 859,565	$ 491,885	$ 49,845

Future interest payment requirements for variable rate bond debt are determined using the rate in effect at June 30, 2008, ranging from 1.47 to 2.05%. The above interest payments also include estimated payments on two interest rate swap agreements, as discussed below, at fixed rates of 3.95% and 3.798%, net of the funds received from the counterparty to the transaction at a rate effective at June 30, 2008, of 1.55% and 1.67%, respectively.

On July 26, 2007, the University issued $365,220,000 of System Facilities Revenue Bonds, consisting of $262,970,000 in Series 2007A bonds at the interest cost of 4 to 5% and $102,250,000 of Series 2007B bonds with variable rates. Proceeds from the issuance of the Series 2007 A and B bonds were used to finance construction of new housing facilities on the Columbia and Missouri S&T campuses, various other projects and the cost of issuance. Proceeds from issuance of the Series 2007B bond were used to advance refund and defease $96,965,000 of the Series 2003A bonds.

The partial defeasance of the 2003A Series bonds resulted in a $1,610,000 loss that is included as a reduction of debt outstanding and will be amortized over the remaining life of the bonds. The defeasance decreased aggregate debt service payments by $14,672,000 resulting in an economic gain (difference between the present values of the old and new debt service payments) to the University of $9,505,000.

The University maintains a thirty-year interest rate swap agreement on 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 has two interest rate swaps. Through its first interest rate swap with a $40,000,000 notional amount, the University pays interest calculated at a fixed rate of 3.95% to the swap's counterparty. In return, the counterparty owes the University interest based on a variable rate set weekly. Through a second interest rate swap with a $102,250,000 notional amount, the University pays interest calculated at a fixed rate of 3.798% to the counterparty, while the counterparty pays the University interest based on a variable rate that is set monthly. The $142,250,000 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 interest rate 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, 2008, the two interest rate swaps had a fair value of ($12,596,000), which represents the cost to the University to terminate the swap. This fair value, developed using the zero coupon method and proprietary models, 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, 2008, the University was not exposed to credit risk on the termination payment because the interest rate 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 Aaa by Moody's Investors Service as of June 30, 2008. 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, 2008, and 2007, in-substance defeased bonds aggregating $147,935,000 and $96,320,000, respectively, are outstanding.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Bonds payable activity by series of issuance for the years ended June 30, 2008, and 2007, was as follows:

Medical Alliance - Bonds Payable
(in thousands of dollars)

	2008 Beginning Balance	Issuance	Payments	2008 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%	$ 21,235	$ -	$ (550)	$ 20,685
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%	16,760		(385)	16,375
	37,995	$ -	$ (935)	37,060
Less current maturities	(935)			(970)
	$ 37,060			$ 36,090

	2007 Beginning Balance	Issuance	Payments	2007 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%	$ 21,760	$ -	$ (525)	$ 21,235
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%	17,135		(375)	16,760
	38,895	$ -	$ (900)	$ 37,995
Less current maturities	(900)			(935)
	$ 37,995			$ 37,060

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, 2008, and 2007 was $1,960,000 and $1,999,000, respectively, of which $206,000 and $196,000 were capitalized during the years ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, the total of principal and interest due on bonds during the next five years and in subsequent five-year periods is as follows:

Future Debt Service
(in thousands of dollars)

Year ending June 30:	Principal	Interest
2009	$ 970	$ 1,917
2010	1,010	1,874
2011	1,055	1,828
2012	1,105	1,779
2013	1,155	1,725
2014-2018	6,680	7,689
2019-2023	8,590	5,726
2024-2028	11,140	3,093
2029-2030	5,355	309
	$ 37,060	$ 25,940

11. SHORT-TERM BORROWINGS

During the years ended June 30, 2008, and 2007, the University sold $160,000,000 and $115,000,000 of capital project notes at an effective interest rate of 3.7%. The maximum amount of notes outstanding was $160,000,000 and $115,000,000 and all were repaid in full by June 30, 2008, and 2007, respectively. 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, 2008, and 2007 is as follows:

Capital Project Notes
(in thousands of dollars)

	Fiscal Year	Beginning of Year	Issuance	Payments	End of Year
Series FY 2007-2008	2008	$ -	$ 160,000	$ (160,000)	$ -
Series FY 2006-2007	2007	-	115,000	(115,000)	-

Capital Projects Notes are secured by the University's unrestricted revenues (generally state appropriations for general operations, student fee revenue, and other operating revenues), plus unencumbered balances from prior fiscal years. These balances totaled approximately $1,600,000,000 in fiscal year 2008. Excluded are revenues from auxiliary enterprises (such as bookstore and housing operations), the Health System, and other such facilities pledged to repay System Facilities Revenue Bonds. Capital Project Notes are expected to continue to be 10% or less of available pledged balances.

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, 2008, and 2007, is as follows:

Capital Lease Obligations
(in thousands of dollars)

Fiscal Year	Beginning of Year	Additions	Payments	End of Year	Current Portion
2008	$ 9,354	$ -	$ (462)	$ 8,892	$ 501
2007	9,779	-	(425)	9,354	462

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2008, are as follows:

Future Lease Payments
(in thousands of dollars)

Fiscal Year	Capital	Operating
2009	$ 1,374	$ 5,053
2010	1,374	4,201
2011	1,374	3,035
2012	1,374	2,347
2013	1,374	2,143
2014-2018	6,870	8,971
2019-2022	1,718	2,061
Total Future Minimum Payments	15,458	$ 27,811
Less: Amount Representing Interest	(6,566)	
Present Value of Future Minimum Lease Payments	$ 8,892	

Total rental expenditures for operating leases for the years ended June 30, 2008, and 2007, were $15,047,000 and $16,724,000, 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, 2008, these commitments totaled $8,296,000 and will be paid in the following amounts: $3,644,000 in 2009, $3,708,000 in 2010, and $944,000 in 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.

As of June 30, 2008, the future minimum lease payments to be received under this sublease are as follows:

IOS - Future Minimum Lease Payments
(in thousands of dollars)

	Amount
Total Minimum Lease Payments to be Received:	
Current	$ 418
Noncurrent	4,285
Total	4,703
Less: Unearned Rental Income	(2,162)
Present Value of Future Minimum Lease Payments Receivable	$ 2,541

During fiscal years 2008, and 2007, the University received $418,000 of rental income from IOS each year.

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, 2008 and 2007, is as follows:

Medical Alliance - Capital Lease Obligations
(in thousands of dollars)

Fiscal Year	Beginning of Year	Additions	Payments	End of Year	Current Portion
2008	$ 101	$ -	$ (30)	$ 71	$ 27
2007	129	61	(89)	101	30

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2008, are as follows:

Medical Alliance - Future Lease Payments (in thousands of dollars)		
Fiscal Year	**Capital**	**Operating**
2009	$ 31	$ 531
2010	27	356
2011	21	313
2012		86
2013		84
2014-2017		231
Total Future Minimum Payments	79	$ 1,601
Less: Amount Representing Interest	(8)	
Present Value of Future Minimum Lease Payments	$ 71	

Total rental expenditures for operating leases for the years ended June 30, 2008, and 2007, were $719,000 and $550,000, 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, 2008, and 2007 of $67,238,000 and $79,799,000, respectively, represents the present value of amounts estimated to have been incurred by those dates, using discount rates ranging from 3.7% to 4.8% for fiscal year 2008 and 3.7% to 4.3% for fiscal year 2007, based on expected future investment yield assumptions. Additionally, at June 30, 2008, there are self-insurance claims outstanding, that range from $750,000 to $1,000,000, for which the University has determined there is a reasonable possibility that a loss contingency may be incurred, but no accrual has been made in the financial statements because the loss is not both probable and estimable.

Changes in the self-insurance liability during fiscal years 2008, 2007, and 2006 were as follows:

Self-Insurance Claims Liability
(in thousands of dollars)

Fiscal Year	Beginning of Year	New Claims and Changes in Estimates	Claim Payments	End of Year
2008	$ 79,799	$ 136,343	$ (148,904)	$ 67,238
2007	86,850	139,294	(146,345)	79,799
2006	78,190	148,993	(140,333)	86,850

14. CONTINGENCIES

The University does not have any contingencies that are probable and estimable as of June 30, 2008.

15. RETIREMENT, DISABILITY AND DEATH BENEFIT PLAN

Basis of Accounting – The University of Missouri Retirement, Disability, and Death Benefit Plan (the "Retirement Plan") financial statements are prepared using the accrual basis of accounting. Employer contributions to the Retirement 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 terms of the Retirement Plan.

Investment Valuation – Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value.

Plan Description – The Retirement Plan is a single employer, defined benefit plan for all qualified employees. As authorized by Section 172.300, Revised Statutes of Missouri, the University's Board of Curators administers the Retirement Plan and establishes its terms. Separate financial statements and supplemental schedules are not prepared for the Retirement Plan.

Retirement Plan Membership
(active members)

	2008	2007
Active members:		
Vested	10,094	10,015
Nonvested	7,760	7,439
Pensioners	6,773	6,695
Former Employees with Deferred Pensions	3,002	2,757
Total	27,629	26,906

Full-time employees vest in the Retirement Plan after five years of credited service and become eligible for benefits based on age and years of service. A vested employee who retires at age 65 or older is eligible for a lifetime annuity calculated at 2.2% times the credited service years times the compensation base. The employee's average compensation for the five highest consecutive salary years determines the compensation base. Academic members who provide summer teaching and research service receive additional summer service credit. At times, the Board of Curators may approve pension adjustments that increase the benefits paid to existing pensioners. However, vested members who leave the University system prior to eligibility for retirement are not eligible for these pension increases.

Vested employees who are at least age 55 and have ten years or more of credited service or age 60 with at least five years of service may choose early retirement with a reduced benefit. However, if the employee retires at age 62 and has at least 25 years of credited service, the benefit is not reduced. The Retirement Plan provides a minimum value feature for vested employees who terminate or retire. The member receives the greater of a benefit equal to the actuarial equivalent of 5% of the employee's eligible compensation invested at 7.5% per credited service year or the regularly calculated benefit. Up to 30% of the retirement annuity value can be taken in a lump sum payment. In addition, the standard annuity can be exchanged for an actuarially-equivalent annuity selected from an array of options with joint and survivor, period certain, and guaranteed annual increase features.

Vested employees who terminate prior to retirement eligibility may elect to transfer the actuarial equivalent of their benefit to an Individual Retirement Account or into another employer's qualified plan that accepts such rollovers. If the actuarial equivalent is less than $20,000, it may instead be taken in the form of a lump sum payment. The Retirement Plan allows vested employees who become disabled to continue accruing service credit until they retire, and also provides a pre-retirement death benefit for vested employees.

Contributions – The University's contributions to the Retirement Plan are equal to the actuarially determined Annual Required Contributions, which averaged 8.0 and 8.7% of payroll for the years ended June 30, 2008, and 2007, respectively. The Retirement Plan does not require employee contributions and is, instead, funded entirely by University contributions. The contribution rate is updated annually on July 1, at the beginning of the University's fiscal year, to the actuarially determined amount from the most recent valuation on the preceding October 1. This actuarial valuation reflects the adoption of any Retirement Plan amendments during the previous fiscal year.

The University's annual pension cost and net pension obligation to the Retirement Plan for the current year, along with three-year trend information, were as follows:

Three-Year Trend Information
(in thousands of dollars)

Fiscal Year	Annual Required Contribution (ARC)	Annual Pension Cost (APC)	Contributions Made	Percentage of APC Contributed	Net Pension Obligation
2006	$ 64,399	$ 64,399	$ 64,399	100%	$ -
2007	74,736	74,736	74,736	100%	-
2008	72,284	72,284	72,284	100%	-

Funded Status – As of the most recent actuarial valuation date, October 1, 2007, the Retirement Plan was 103.8% funded. The actuarial accrued liability for benefits was $2,555,592,000 and the actuarial value of the assets was $2,651,535,000, resulting in excess funding of $95,942,000. The covered payroll (annual payroll of active employees covered by the plan) was $891,648,000, and the ratio of excess funding to covered payroll was 10.8%.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – In the October 1, 2007 actuarial valuation, the entry age actuarial cost method was used. Actuarial assumptions included (1) an 8.0% rate of investment return net of administrative expenses, and (2) projected salary increases ranging from 4.5 to 5.2% per year. The assumptions did not include postretirement benefit increases. An approved ad hoc cost of living adjustment effective on September 1, 2007, resulted in a $17,420,000 increase in the actuarial accrued liability and a $1,712,000 or .20% increase in annual employer contributions. The actuarial value of assets was determined using techniques that spread effects of short-term volatility in the market value of investments over a 5-year period. The overfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 20 years from the October 1, 2007 valuation date.

16. OTHER POSTEMPLOYMENT BENEFITS

Plan Description – In addition to the pension benefits described in Note 15, the University operates a single-employer, defined benefit postemployment plan. The University's Other Postemployment Benefits (OPEB) Plan 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 after attaining age 60 with five or more years of services. As of June 30, 2008, and 2007, 5,642 and 5,579 retirees, respectively, were receiving benefits, and an estimated 17,854 active University employees may become eligible to receive future benefits under the plan. Postemployment medical, dental and life insurance benefits are also provided to long-term disability claimants who were vested in the University's Retirement Plan at the date the disability began, provided the onset date of the disability was on or after September 1, 1990. As of June 30, 2008, and 2007, 244 and 231 long-term disability claimants, respectively, met those eligibility requirements.

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.

Basis of Accounting – In June 2008, the University established its OPEB Trust Fund, the assets of which are irrevocable and legally protected from creditors and dedicated to providing postemployment benefits in accordance with terms of the plan. Previously, postemployment benefit costs other than long-term disability were funded on a current basis, and expenses were recorded on a pay-as-you-go basis. Long-term disability costs were recognized during the period in which the employee became eligible to receive disability benefits. The University's OPEB Trust Fund does not issue a separate financial report.

Contributions and Reserves – Contribution requirements of employees and the University are established and may be amended by the University's Board of Curators. For employees retiring prior to September 1, 1990, the University contributes toward premiums at the same rate as for active employees, which is 2/3 of the medical benefits premium and 1/2 of the dental plan premium. For employees who retired on or after September 1, 1990, the University contributes toward premiums based on 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, while Option B is equal to two times that amount. For each Option, graded decreases in coverage are made when the retiree attains specific age levels. The University pays the full cost of Option A and approximately 91% of the Option B premium, with the retiree paying the remainder. Coverage for group term life insurance ends on January 1 following the retiree's 70th birthday. For the year ended June 30, 2008, participants contributed $11,860,000 or approximately 46.5% of total premiums through their required contributions, which vary depending on the plan and coverage selection. Other contributions to the Plan were Medicare Part D retiree drug subsidies received from the federal government.

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, when integrated with benefits from all other sources. Option B coverage is equal to 66-2/3% of the employee's salary, integrated 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 until age 65. The University pays the full cost of the Option A premium, while employees enrolled in Option B pay the additional cost over the Optional A premium.

Further, the University currently plans to contribute to the trust fund an amount that, in addition to the current year premium contributions, is sufficient to fund 50% of the annual required contribution (ARC). The ARC, which is actuarially determined in accordance with the parameters of GASB Statement 45, represents the ongoing level of funding projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. In fiscal year 2008, the University contributed $53,460,000, or 100.2% of the ARC. The $53,310,000 ARC represents 5.9% of annual covered payroll.

The following table presents the OPEB cost for the year, the amount contributed, and changes in the OPEB obligation for fiscal year 2008:

Changes in Net OPEB Obligation (Asset)
(in thousands of dollars)

Annual required contribution/OPEB cost	$ 53,310
Contributions made	(53,460)
Increase in net OPEB obligation (asset)	(150)
Net OPEB obligation - beginning of year	-
Net OPEB obligation (asset) - June 30, 2008	$ (150)

Funding Status and Funding Progress – As of July 1, 2006, the actuarial accrued liability (AAL) for postemployment benefits was $546,058,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $546,058,000. The covered payroll (annual payroll of active employees covered by the plan) was $883,614,000, and the ratio of UAAL to covered payroll was 61.8%. The University implemented its OPEB Trust Fund in June 2008, after the July 1, 2006 actuarial valuation date. At the actuarial valuation date, there were no trust fund assets, but as of June 30, 2008, the fund had $34 million in net assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision of actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Actuarial Methods and Assumptions - Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The projected unit credit actuarial cost method was used in the July 1, 2006, actuarial valuation. Actuarial assumptions included a 6.75% investment rate of return, net of administrative expenses. The projected annual healthcare trend rate is 7.0 to 11.5% initially, reduced by 0.5% decrements to an ultimate rate of 4.5%. The UAAL is being amortized as a level dollar amount on an open basis, level percent of pay, over a 30-year amortization period.

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 one segment that meets the reporting requirements of GASB Statement No. 37.

As of June 30, 2008, the University's outstanding bond debt consists of System Facilities Revenue Bonds. The System Facilities 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, parking, and various other 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.

Summary financial information for the System Facilities Revenue Bonds as of June 30, 2008, and 2007, is as follows:

System Facilities Revenue Bonds Condensed Financial Statements
(in thousands of dollars)

	2008	2007
Condensed Statement of Net Assets		
Assets:		
Current Assets	$ 239,366	$ 254,967
Capital Assets, Net	966,244	817,585
Noncurrent Assets	351,557	180,695
Total Assets	$ 1,557,167	$ 1,253,247
Liabilities:		
Current Liabilities	$ 159,049	$ 146,927
Noncurrent Liabilities	857,675	646,864
Total Liabilities	1,016,724	793,791
Net Assets:		
Invested in Capital Assets, Net of Related Debt	181,352	160,375
Restricted -		
Nonexpendable	595	622
Expendable	10,874	10,460
Unrestricted	347,622	287,999
Total Net Assets	540,443	459,456
Total Liabilities and Net Assets	$ 1,557,167	$ 1,253,247
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating Revenues:		
Net Patient Revenue	$ 663,227	$ 620,241
Net Tuition and Fees	15,853	13,846
Bookstore	61,423	56,929
Housing and Related Food Service	72,382	66,730
Parking	15,218	14,035
Other Operating Revenue	19,922	20,774
Total Operating Revenues	848,025	792,555
Operating Expenses:		
Depreciation	52,784	51,175
All Other Operating Expenses	772,105	728,410
Total Operating Expenses	824,889	779,585
Operating Income	23,136	12,970
Nonoperating Revenues	13,515	9,368
Income Before Transfers	36,651	22,338
Transfer From Other University Units	44,336	33,946
Increase in Net Assets	80,987	56,284
Net Assets, Beginning of Year	459,456	403,172
Net Assets, End of Year	$ 540,443	$ 459,456
Condensed Statement of Cash Flows		
Net Cash Flows Provided by Operating Activities	$ 74,416	$ 53,283
Net Cash Flows Provided by (Used In) Investing Activities	(176,233)	4,611
Net Cash Flows Provided by (Used In) Capital and Related Financing Activities	21,554	(125,948)
Net Cash Flows Provided by Noncapital Financing Activities	21,689	58,341
Net Decrease in Cash and Cash Equivalents	(58,574)	(9,713)
Cash and Cash Equivalents, Beginning of Year	106,213	115,926
Cash and Cash Equivalents, End of Year	$ 47,639	$ 106,213

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:

Operating Expenses by Functional and Natural Classifications
(in thousands of dollars)

For the Year Ended June 30, 2008

Functional Classification	Salaries and Wages	Staff Benefits	Supplies, Services and Other Operating Expenses	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 362,929	$ 88,380	$ 66,971	$ -	$ -	$ 518,280
Research	104,556	22,787	80,702			208,045
Public Service	79,571	21,323	63,254			164,148
Academic Support	69,735	9,520	32,488			111,743
Student Services	35,535	8,978	25,578			70,091
Institutional Support	84,507	53,525	(20,357)			117,675
Operation and Maintenance of Plant	33,378	9,767	5,057			48,202
Auxiliary Enterprises	383,465	96,095	408,638			888,198
Scholarships and Fellowships				39,485		39,485
Depreciation					125,996	125,996
Total Operating Expenses	$ 1,153,676	$ 310,375	$ 662,331	$ 39,485	$ 125,996	$ 2,291,863

For the Year Ended June 30, 2007

Functional Classification	Salaries and Wages	Staff Benefits	Supplies, Services and Other Operating Expenses	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 338,850	$ 82,249	$ 54,267	$ -	$ -	$ 475,366
Research	107,630	23,532	73,259			204,421
Public Service	75,135	20,041	56,559			151,735
Academic Support	66,993	15,896	33,386			116,275
Student Services	40,597	9,639	24,561			74,797
Institutional Support	83,168	23,325	(41,111)			65,382
Operation and Maintenance of Plant	31,655	9,188	22,589			63,432
Auxiliary Enterprises	357,839	89,053	384,624			831,516
Scholarships and Fellowships				38,602		38,602
Depreciation					119,069	119,069
Total Operating Expenses	$ 1,101,867	$ 272,923	$ 608,134	$ 38,602	$ 119,069	$ 2,140,595

19. DISCRETELY PRESENTED COMPONENT UNIT(S)

The Discretely Presented Component Unit(s) 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. was organized as a not-for-profit health maintenance organization exclusively for charitable purposes, in particular to benefit its sole member, the Curators of the University of Missouri. During fiscal year 2007, Missouri Care L.C. contracted as a major provider of health care services for the University of Missouri Healthcare System. On January 31, 2007, Schaller Anderson Acquisition, Inc., purchased certain assets of Missouri Care L.C. and assumed its liabilities as part of the sales agreement. Therefore, in fiscal year 2008, Missouri Care L.C. is no longer a discretely presented component unit of the University.

In the accompanying financial statements, Medical Alliance is presented as of and for the years ended June 30, 2008, and 2007, while Missouri Care L.C. is presented as of and for the thirteen months ended January 31, 2007, to coincide with its final fiscal period, for fiscal year 2007. The Condensed Statement of Net Assets and Condensed Statement of Revenues, Expenses and Changes in Net Assets for these periods are shown below:

Discretely Presented Component Unit(s)
Condensed Financial Statements
(in thousands of dollars)

Condensed Statement of Net Assets	2008 Medical Alliance	2007 Medical Alliance	2007 Missouri Care L.C.	2007 Total
Assets:				
Current Assets	$ 32,037	$ 30,197	$ -	$ 30,197
Capital Assets, Net	75,159	75,614		75,614
Noncurrent Assets	34,015	32,451		32,451
Total Assets	$ 141,211	$ 138,262	$ -	$ 138,262
Liabilities:				
Current Liabilities	$ 15,012	$ 13,973	$ -	$ 13,973
Noncurrent Liabilities	36,837	37,766		37,766
Total Liabilities	51,849	51,739	-	51,739
Net Assets:				
Invested in Capital Assets, Net of Related Debt	38,463	38,006		38,006
Restricted - Expendable	2,963	4,904		4,904
Unrestricted	47,936	43,613		43,613
Total Net Assets	89,362	86,523	-	86,523
Total Liabilities and Net Assets	$ 141,211	$ 138,262	$ -	$ 138,262

(continued on next page)

Discretely Presented Component Unit(s)
Condensed Financial Statements
(in thousands of dollars)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	2008 Medical Alliance	2007 Medical Alliance	2007 Missouri Care L.C.	2007 Total
Operating Revenues:				
Net Patient Revenue	$ 147,932	$ 138,258	$ -	$ 138,258
Other Operating Revenue			79,538	79,538
Total Operating Revenues	147,932	138,258	79,538	217,796
Operating Expenses:				
Salaries and Wages	57,984	51,911		51,911
Staff Benefits	12,589	11,450		11,450
Supplies, Services and Other Operating Expenses	64,878	63,916	80,533	144,449
Depreciation	10,061	10,132		10,132
Total Operating Expenses	145,512	137,409	80,533	217,942
Operating Income (Loss)	2,420	849	(995)	(146)
Nonoperating Revenues (Expenses):				
Investment Income	1,844	1,500		1,500
Private Gifts	15			
Interest Expense	(1,760)	(1,813)		(1,813)
Other Nonoperating Revenues (Expenses)	320	1,378		1,378
Extraordinary Items:				
Net Proceeds from Sale of Missouri Care			(19,317)	(19,317)
Gain from Sale of Missouri Care			12,293	12,293
Net Nonoperating Revenues (Expenses)	419	1,065	(7,024)	(5,959)
Increase (Decrease) in Net Assets	2,839	1,914	(8,019)	(6,105)
Net Assets, Beginning of Year	86,523	84,609	8,019	92,628
Net Assets, End of Year	$ 89,362	$ 86,523	$ -	$ 86,523

20. FIDUCIARY FUNDS – PENSION TRUST FUNDS COMBINING STATEMENTS

Combining financial statements for the Fiduciary Funds – Pension Trust Funds, which encompass the University Retirement and OPEB Trust Funds, are as follows:

Statement of Plan Net Assets
(in thousands of dollars)

	2008			2007
	Pension	**OPEB**	**Total**	
Assets				
Cash and Cash Equivalents	$ 95,363	$ 34,497	$ 129,860	$ 79,714
Collateral for Securities Lending	294,781		294,781	382,023
Due to the University of Missouri System				(46)
Investment Settlements Receivable	181,062		181,062	23,659
Investments:				
Government Obligations	640,544		640,544	400,416
Corporate Bonds and Notes	281,693		281,693	182,837
Corporate Stocks	1,699,133		1,699,133	2,269,794
Other	220,180		220,180	104,832
Total Assets	**3,412,756**	**34,497**	**3,447,253**	**3,443,229**
Liabilities				
Accounts Payable and Accrued Liabilities	2,429		2,429	2,850
Collateral for Securities Lending	294,781		294,781	382,023
Investment Settlements Payable	400,142		400,142	127,322
Total Liabilities	**697,352**		**697,352**	**512,195**
Net Assets Held in Trust for Pension and OPEB	**$ 2,715,404**	**$ 34,497**	**$ 2,749,901**	**$ 2,931,034**

(continued on next page)

Statement of Changes in Plan Net Assets
(in thousands of dollars)

	2008			2007
	Pension	OPEB	Total	
Net Revenues and Other Additions				
Investment Income (Loss):				
Interest and Dividend Income, Net of Fees	$ 77,372	$ 4	$ 77,376	$ 62,749
Net Appreciation (Depreciation) in Fair Value of Investments	(243,951)		(243,951)	415,263
Net Investment Income (Loss)	(166,579)	4	(166,575)	478,012
Contributions:				
University	72,284	53,461	125,745	74,736
Members		12,231	12,231	
Other		2,503	2,503	
Total Contributions	72,284	68,195	140,479	74,736
Total Net Revenues and Other Additions	**(94,295)**	**68,199**	**(26,096)**	**552,748**
Expenses and Other Deductions				
Administrative Expenses	1,932	241	2,173	2,043
Payments to Retirees and Beneficiaries	119,403	33,461	152,864	114,412
Total Expenses and Other Deductions	**121,335**	**33,702**	155,037	**116,455**
Increase (Decrease) in Net Assets Held in Trust for Pension and OPEB	**(215,630)**	**34,497**	**(181,133)**	**436,293**
Net Assets Held in Trust for Pension and OPEB, Beginning of Year	**2,931,034**		**2,931,034**	**2,494,741**
Net Assets Held in Trust for Pension and OPEB, End of Year	**$ 2,715,404**	**$ 34,497**	**$ 2,749,901**	**$ 2,931,034**

21. EXTRAORDINARY ITEMS

On January 31, 2007, Schaller Anderson Acquisition, Incorporated, purchased certain assets of Missouri Care L.C., a discretely presented component unit of the University, and assumed its liabilities as part of the sales agreement. Missouri Care L.C. is described further in Note 19. The University received net proceeds of $19.3 million resulting from the sale which was recorded as an extraordinary item in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2007. An extraordinary gain of approximately $12.3 million was recorded by Missouri Care L.C. as a result of the sale.

22. SUBSEQUENT EVENTS

On July 2, 2008, the University sold $100,000,000 of capital project notes at an effective interest rate of 3.0%. The notes will be repaid in full by June 30, 2009. Proceeds from the issuance of the capital project notes will be used to fund various construction projects of the University.

Since June 30, 2008, the global financial markets have been experiencing a severe downturn, which in turn resulted in unrealized decreases in the fair market value of the University's long-term investment portfolio. As of the date of this report, it is unclear how long this downward pressure on investment values might continue and what other implications there will be for the overall U.S. and global economy. The University's management and its investment advisors are monitoring the situation to determine appropriate strategies and actions. The University's investment strategy is to take a long-term approach to maximizing investment return. Because of its ample liquidity and minimal exposure to troubled institutions, the University is well positioned to weather the problems and uncertainty in the markets.

RETIREMENT PLAN

Schedule of Funding Progress
(in thousands of dollars)

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL/ (Excess Funding) (b-a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL/(Excess) as a Percentage of Covered Payroll ([b-a] / c)
10/1/2002	$ 1,949,794	$1,937,617	$ (12,177)	100.6%	$ 654,575	-1.9%
10/1/2003	2,067,728	2,030,613	(37,115)	101.8%	687,681	-5.4%
10/1/2004	2,075,032	2,144,738	69,706	96.7%	753,266	9.3%
10/1/2005	2,125,656	2,271,230	145,574	93.6%	795,758	18.3%
10/1/2006	2,325,264	2,400,807	75,543	96.9%	846,884	8.9%
10/1/2007	2,651,535	2,555,592	(95,943)	103.8%	891,648	-10.8%

Schedule of Employer Contributions
(in thousands of dollars)

Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net Pension Obligation/ (Asset)
6/30/2003	10/1/2001	$ 17,962	100%	$ -
6/30/2004	10/1/2002	48,521	100%	-
6/30/2005	10/1/2003	49,075	100%	-
6/30/2006	10/1/2004	64,399	100%	-
6/30/2007	10/1/2005	74,736	100%	-
6/30/2008	10/1/2006	72,284	100%	-

OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

Schedule of Funding Progress
(in thousands of dollars)

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
7/1/2006	$ -	$ 546,058	$ 546,058	0.0%	$ 883,614	61.8%

Schedule of Employer Contributions
(in thousands of dollars)

Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation / (Asset)
6/30/2008	7/1/2006	$ 53,310	100.2%	$ (150)

"The mission of the four-campus University of Missouri System – a land-grant university and Missouri's only public research and doctoral-level institution – is to discover, disseminate, preserve and apply knowledge. The university facilitates lifelong-learning by its students and Missouri's citizens; fosters innovation to support economic development; and advances the health, cultural and social interests of the people of Missouri, the nation and the world."

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PUBLISHED BY

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