

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

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

The Board of Curators
University of Missouri:

We have audited the accompanying financial statements of University Health System (previously known as the University of Missouri Health System) (the Health System) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Health System's financial statements as listed in the table of contents. These financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements of the Health System are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities of the University of Missouri (the University) that is attributable to the transactions of the Health System. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2009 and 2008, the changes in its financial position or its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health System as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 22, 2009, on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and express no opinion on it.

KPMG LLP

St. Louis, Missouri
October 22, 2009

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

Management's Discussion and Analysis
(Unaudited)

The Health System

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

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

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

Health System Accounting and Financial Reporting

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

Statements of Net Assets Information

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

UNIVERSITY HEALTH SYSTEM
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Management's Discussion and Analysis
(Unaudited)

A summary of the Statements of Net Assets at June 30, 2009, 2008, and 2007 is as follows (dollars in thousands):

	Fiscal Year		
	2009	2008	2007
Assets:			
Current assets	\$ 159,961	\$ 159,086	\$ 164,296
Other noncurrent assets	198,640	192,713	171,652
Capital assets	272,063	260,540	241,855
Total assets	<u>\$ 630,664</u>	<u>\$ 612,339</u>	<u>\$ 577,803</u>
Liabilities:			
Current liabilities	\$ 57,657	\$ 64,191	\$ 57,436
Noncurrent liabilities	208,475	213,776	218,842
Total liabilities	<u>266,132</u>	<u>277,967</u>	<u>276,278</u>
Net assets:			
Invested in capital assets, net of related debt	114,968	98,688	75,458
Restricted	4,355	4,303	4,009
Unrestricted	245,209	231,381	222,058
Total net assets	<u>364,532</u>	<u>334,372</u>	<u>301,525</u>
Total liabilities and net assets	<u>\$ 630,664</u>	<u>\$ 612,339</u>	<u>\$ 577,803</u>

Fiscal Year 2009 Compared to Fiscal Year 2008

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

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

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

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Management's Discussion and Analysis
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Fiscal Year 2008 Compared to Fiscal Year 2007

Total assets increased \$34.5 million from \$577.8 million in fiscal year 2007 to \$612.3 million in fiscal year 2008. Of this increase, \$5.8 million resulted from cash and investment increases due to the results of operations, and \$10.3 million is due to an increase in patient accounts receivable, net, with the remaining increase relating to capital assets. Other noncurrent assets increased by \$21.1 million principally due to restructured long-term investment pools by the University. Capital assets, net of accumulated depreciation, increased by \$18.6 million from \$241.9 in fiscal year 2007 to \$260.5 in fiscal year 2008. The Health System continues to invest in capital additions and improvements throughout its facilities. Investment in capital for fiscal year 2008 primarily comprised \$11.0 million on renovations, \$13.0 million on new building construction, \$23.6 million on patient monitoring and diagnostic equipment, including a 64-Slice Somatom CT, Trilogy Linear Accelerator, and the DaVinci Surgical System, and \$3.2 million for technology software.

Total liabilities increased by \$1.7 million from \$276.3 million in fiscal year 2007 to \$278.0 million in fiscal year 2008. This increase is primarily due to a \$2.2 million increase in accrued compensation and a \$4.5 million increase in third-party payor settlements. These liability increases were partially offset by a decrease in long-term debt liabilities of \$5.1 million.

For fiscal year 2008, the Health System's total net assets were \$334.3 million, which was an increase of \$32.8 million over fiscal year 2007 level of \$301.5 million.

UNIVERSITY HEALTH SYSTEM
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Management's Discussion and Analysis
(Unaudited)

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

The Health System's Statements of Revenues, Expenses, and Changes in Net Assets present the results of operations and nonoperating activities. A summary of these statements for the years ended June 30, 2009, 2008, and 2007 is as follows (dollars in thousands):

	Fiscal Year		
	2009	2008	2007
Net patient service revenues	\$ 685,207	\$ 663,227	\$ 620,241
Other operating revenues	17,153	17,812	18,818
Total operating revenues	<u>702,360</u>	<u>681,039</u>	<u>639,059</u>
Operating expenses:			
Salaries and benefits	279,740	276,329	266,680
Medical supplies and drugs	118,021	123,707	115,552
Administrative and support services	45,288	39,472	39,676
Depreciation	33,241	31,295	32,650
University Physicians distributions	125,605	119,260	109,422
Other expenses	81,404	84,228	77,854
Total operating expenses	<u>683,299</u>	<u>674,291</u>	<u>641,834</u>
Operating income (loss)	<u>19,061</u>	<u>6,748</u>	<u>(2,775)</u>
State appropriations	22,887	24,092	22,879
Interest expense	(7,437)	(7,905)	(8,380)
Other nonoperating revenues, net	(4,410)	13,554	11,129
Total net nonoperating revenues, net	<u>11,040</u>	<u>29,741</u>	<u>25,628</u>
Income before contributions and transfers	30,101	36,489	22,853
Transfers (to) from the University, net, and endowment additions	59	(3,642)	16,598
Change in net assets	30,160	32,847	39,451
Total net assets, beginning of year	<u>334,372</u>	<u>301,525</u>	<u>262,074</u>
Total net assets, end of year	<u>\$ 364,532</u>	<u>\$ 334,372</u>	<u>\$ 301,525</u>

UNIVERSITY HEALTH SYSTEM
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Management's Discussion and Analysis
(Unaudited)

Fiscal Year 2009 Compared to Fiscal Year 2008

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

UMHC Key Statistics

	Fiscal Year		
	2009	2008	2007
Admissions	19,096	20,260	20,574
Patient days	113,218	125,074	120,370
Clinic visits	519,597	510,897	548,634
Outpatient equivalent days	72,437	68,436	66,192
Emergency room visits	45,409	42,995	41,243
Operating room cases	18,152	18,418	17,945

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

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

Fiscal Year 2008 Compared to Fiscal Year 2007

For fiscal year 2008, the Health System had an increase in net assets of \$32.8 million compared to \$39.4 million for fiscal year 2007. Operating revenues in fiscal year 2008 were \$42.0 million greater than prior year and represented a 6.6% increase.

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	UMHC Key Statistics		
	Fiscal Year		
	2008	2007	2006
Admissions	20,260	20,574	20,411
Patient days	125,074	120,370	127,913
Clinic visits	510,897	548,634	580,308
Emergency room visits	42,995	41,243	39,366
Operating room cases	18,418	17,945	17,204

Consolidated admissions saw a decrease, 314, in fiscal 2008 or 1.5% from fiscal year 2007. Although admissions have decreased, total patient days increased by 4,704 or 3.9% over fiscal year 2007. This increase in patient days is due to an increase in Case Mix and invasive surgical procedures such as implants. Operating room cases and emergency room visits grew 2.6% and 4.2%, respectively, over fiscal year 2007. Clinic visits are down by 6.9% from the prior year as a result of a reduction in the number of community clinics and the divestiture of the Health System behavioral health clinics in fiscal year 2007.

In fiscal year 2008, operating expenses were \$32.5 million higher than the prior year, which represents a 5.1% increase. Salary and benefit expense increased by 3.6% as a result of merit and staffing increases and market adjustments. Medical supplies and drugs increased 7.1% over prior years primarily due to increases in implant and related orthopedic procedures and overall increases in supply costs. University Physicians distributions increased by \$9.8 million or 9.0% over fiscal 2007 due to the higher patient revenue from physician services.

UNIVERSITY HEALTH SYSTEM
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Management's Discussion and Analysis
(Unaudited)

Statements of Cash Flows

The Health System's Statements of Cash Flows provide the sources and uses of cash resources. The cash flow statements for the years ended June 30, 2009, 2008, and 2007 are summarized as follows (dollars in thousands):

	Fiscal Year		
	2009	2008	2007
Cash provided by (used in):			
Operating activities	\$ 61,006	\$ 34,480	\$ 22,773
Noncapital financing activities	23,801	21,689	40,991
Capital and related financing activities	(57,068)	(63,194)	(44,838)
Investing activities	(11,012)	(6,384)	(4,092)
Net increase (decrease) in cash and cash equivalents	16,727	(13,409)	14,834
Cash and cash equivalents, beginning of year	19,497	32,906	18,072
Cash and cash equivalents, end of year	\$ 36,224	\$ 19,497	\$ 32,906

Fiscal Year 2009 Compared to Fiscal Year 2008

During fiscal year 2009, the Health System's cash increased by \$16.7 million as compared to a \$13.4 million decrease in fiscal year 2008. For fiscal year 2009, operating activities generated \$61.0 million, which was used to fund \$57.0 million in capital and related financing activities. Of the \$57.0 million used, \$45.3 million was reinvested in new equipment technology, buildings, and other capital improvements. For noncapital financing activities in fiscal year 2009, the Health System had an increase in cash of \$23.8 million, which resulted from the receipt of \$22.9 million in state appropriations, and \$.9 million in gifts.

Investing activities decreased cash by \$11.0 million due principally to an increase in long-term investment holdings by the University and related realized losses on these investments during fiscal year 2009.

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Management's Discussion and Analysis
(Unaudited)

Fiscal Year 2008 Compared to Fiscal Year 2007

During fiscal year 2008, the Health System's cash decreased by \$13.4 million as compared to a \$14.8 million increase in fiscal year 2007. For fiscal year 2008, operating activities generated \$34.5 million, while \$63.2 million was used for capital purchases, principal payments, and interest. The Health System invested in new equipment technology, building, and other improvements totaling \$50.9 million.

For noncapital financing activities in fiscal year 2008, the Health System had an increase in cash of \$21.7 million, which resulted from the receipt of \$24.1 million in state appropriations, and \$1.2 million in gifts. These revenue sources were offset by \$3.6 million in distributions to University departments for strategic initiatives, such as academic recruitment.

Investing activities decreased cash by \$6.4 million due principally to an increase in long-term investment holdings by the University.

Health System Outlook

For fiscal year 2009, the Health System continued to see increasing revenues, even during a time of decreased inpatient utilizations and economic instability. As in the prior years, the Health System is focused on improving patient care and is committed to improvements in customer service and quality. State appropriation funding for fiscal year 2010 reflects a slight decline from fiscal year 2009. An overall fee increase of 5% implemented in April 2009 continues in fiscal year 2010, and pricing revisions continue as needed. For the future, the Health System continues to focus on its physician recruitment plans, patient satisfaction, and core service lines.

For the future, the Health System continues to pursue growth and its academic mission. In fiscal year 2010, the Health System began operating a 61-bed inpatient psychiatric unit which expanded services at University of Missouri Hospital. There continues to be a focus on strategic capital improvements, which include the construction of a \$48.0 million Missouri Orthopedic Institute and a new patient and surgical tower. These capital initiatives will aid in providing quality care to patients, as well as enhanced facilities for physician recruitments with the University of Missouri-Columbia School of Medicine.

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UNIVERSITY HEALTH SYSTEM
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Statements of Net Assets

June 30, 2009 and 2008

(Dollars in thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 36,224	\$ 19,497
Short-term investments – restricted	2,461	3,095
Short-term investments	17,565	17,727
Patient accounts receivable, less allowance for doubtful accounts of \$26,126 and \$33,486 in 2009 and 2008, respectively	81,626	96,092
Third-party and other receivables	6,254	7,421
Inventories and other assets	15,831	15,254
Total current assets	159,961	159,086
Noncurrent assets:		
Investments designated for capital	3,157	5,892
Restricted investments	1,535	925
Long-term investments	188,515	179,820
Capital assets:		
Depreciable	242,013	244,704
Nondepreciable	30,050	15,836
Other assets	5,433	6,076
Total noncurrent assets	470,703	453,253
Total assets	\$ 630,664	\$ 612,339

Liabilities	2009	2008
Current liabilities:		
Accounts payable	\$ 14,764	\$ 19,665
Estimated third-party payor settlements	728	5,600
University Physicians distributions payable	13,586	11,911
Accrued interest	1,182	1,217
Accrued employee compensation	22,070	20,715
Deferred revenue	283	287
Capital lease obligations, current	544	501
Long-term debt, current	4,500	4,295
Total current liabilities	<u>57,657</u>	<u>64,191</u>
Noncurrent liabilities:		
Amount due University	55,000	55,000
Capital lease – less current portion	7,847	8,391
Long-term debt – less current portion	144,025	148,509
Deferred revenue – less current portion	1,603	1,876
Total noncurrent liabilities	<u>208,475</u>	<u>213,776</u>
Total liabilities	<u>266,132</u>	<u>277,967</u>
Net Assets		
Invested in capital assets, net of related debt	114,968	98,688
Restricted:		
Nonexpendable:		
Endowment	523	595
Expendable:		
Research and other	3,832	3,708
Unrestricted	245,209	231,381
Total net assets	<u>364,532</u>	<u>334,372</u>
Total liabilities and net assets	<u>\$ 630,664</u>	<u>\$ 612,339</u>

See accompanying notes to financial statements.

UNIVERSITY HEALTH SYSTEM
(Previously Known as University of Missouri Health System)
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2009 and 2008
(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Net patient service revenues	\$ 685,207	\$ 663,227
Sales by auxiliary enterprises and other	17,153	17,812
Total operating revenues	<u>702,360</u>	<u>681,039</u>
Operating expenses:		
Salaries and benefits	279,740	276,329
Medical supplies and drugs	118,021	123,707
Administrative and support services	45,288	39,472
Depreciation	33,241	31,295
University Physicians distributions	125,605	119,260
Other expenses	81,404	84,228
Total operating expenses	<u>683,299</u>	<u>674,291</u>
Operating income	<u>19,061</u>	<u>6,748</u>
Nonoperating revenues (expenses):		
State appropriations	22,887	24,092
Investment income (loss)	(4,952)	13,078
Private gifts	855	1,239
Interest expense	(7,437)	(7,905)
Loss on disposal, net	(313)	(763)
Total nonoperating revenues, net	<u>11,040</u>	<u>29,741</u>
Income before contributions and transfers	30,101	36,489
Transfers (to) from the University, net, and endowment additions	<u>59</u>	<u>(3,642)</u>
Change in net assets	30,160	32,847
Total net assets, beginning of year	<u>334,372</u>	<u>301,525</u>
Total net assets, end of year	<u>\$ 364,532</u>	<u>\$ 334,372</u>

See accompanying notes to financial statements.

UNIVERSITY HEALTH SYSTEM
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Statements of Cash Flows
Years ended June 30, 2009 and 2008
(Dollars in thousands)

	2009	2008
Cash flows from operating activities:		
Cash proceeds from patient service revenue	\$ 695,968	\$ 656,589
Cash proceeds from other sales	17,748	18,069
Cash payments to employees	(218,392)	(213,920)
Cash payments for benefits	(59,993)	(60,200)
Cash payments to suppliers	(250,395)	(246,792)
Cash payments for University Physicians	(123,930)	(119,266)
Net cash provided by operating activities	61,006	34,480
Cash flows from noncapital financing activities:		
Transfers (to) from the University, net, and endowment additions	59	(3,642)
State appropriations	22,887	24,092
Private gifts	855	1,239
Net cash provided by noncapital financing activities	23,801	21,689
Cash flows from capital and related financing activities:		
Capital expenditures	(45,333)	(50,939)
Cash proceeds from sales of capital assets	1,133	621
Principal payments on long-term debt	(4,295)	(4,135)
Capital lease principal payments	(501)	(462)
Interest paid on long-term debt	(8,072)	(8,279)
Net cash used in capital and related financing activities	(57,068)	(63,194)
Cash flows from investing activities:		
Increase in investments	(6,564)	(20,335)
Cash proceeds from equity investees	790	1,171
Investment income (loss)	(5,238)	12,780
Net cash used in investing activities	(11,012)	(6,384)
Net change in cash and cash equivalents	16,727	(13,409)
Cash and cash equivalents, beginning of year	19,497	32,906
Cash and cash equivalents, end of year	\$ 36,224	\$ 19,497

UNIVERSITY HEALTH SYSTEM
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Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Dollars in thousands)

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 19,061	\$ 6,748
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	33,241	31,295
Provision for bad debts	43,254	51,174
Changes in assets and liabilities:		
Net patient receivables and third-party receivable	(32,493)	(57,812)
Inventories and other assets	(195)	977
Accounts payable and accrued expenses	(1,862)	2,098
Net cash provided by operating activities	\$ 61,006	\$ 34,480
Supplemental disclosure of noncash activities:		
Earnings from ownership interest of equity investments	\$ 605	\$ 1,666

See accompanying notes to financial statements.

UNIVERSITY HEALTH SYSTEM
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Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Nature of Organization

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

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

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

(b) Basis of Accounting

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

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

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

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

UNIVERSITY HEALTH SYSTEM
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Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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

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

(c) *Cash and Cash Equivalents*

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

(d) *Inventories*

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

(e) *Investments*

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

(f) *Investments Designated for Capital*

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

(g) *Capital Assets*

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

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(h) Long-Term Debt

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

(i) Deferred Revenues

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

(j) Net Patient Service Revenues

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

Amounts receivable under Medicare and Medicaid reimbursement agreements are subject to examination and certain retroactive adjustments by the related programs. These adjustments increased net patient services revenues by \$1,977 for the year ended June 30, 2009, and decreased net patient service revenues by \$3,019 for the year ended June 30, 2008.

Both UMHC and CRH Medicare cost reports have been settled through June 30, 2005; MRC Medicare reports have been settled through June 30, 2006. The Medicaid program reimburses inpatient services on a prospective established per diem rate. The Medicaid program reimburses outpatient services under a combination of prospective and fee schedule amounts.

A percentage breakdown of gross patient accounts receivable by major payor classification of the Health System for the years ended June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Medicare	26%	30%
Commercial insurance	10	8
Medicaid	20	19
Self-pay and other	17	17
Managed care agreements	27	26
	<u>100%</u>	<u>100%</u>

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Patient services revenue includes federal reimbursement allowance (FRA) for uncompensated care. The Health System recognizes FRA revenue in the period earned.

The gross to net patient revenue detail is reflected below for both 2009 and 2008. Only net patient revenue is reflected on the Statements of Revenues, Expenses, and Changes in Net Assets.

	2009	2008
Gross patient revenue	\$ 1,449,220	\$ 1,425,432
Less deductions for contractual allowances	(720,759)	(711,031)
Less deductions for bad debt allowances	(43,254)	(51,174)
Net patient revenue	\$ 685,207	\$ 663,227

(k) Operating Revenues and Expenses

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

(l) Appropriation and Private Gifts

The State of Missouri provides direct appropriations to the Health System, which totaled \$22,887 and \$24,092 for the years ended June 30, 2009 and 2008, respectively.

The Health System recognizes gifts in the period when all eligibility requirements are met. For recognition purposes, GASB defines eligibility requirements. The Health System received expendable gifts in 2009 and 2008 of \$855 and \$1,239, respectively.

(m) Uncompensated Care

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

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

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Unreimbursed Cost under State and Local Government Assistance Programs – In addition, the Health System provides services to other patients under certain state and local government assistance programs, which pay providers amounts generally less than the cost of rendering the services. These cost amounts have been reduced by all payments received on these accounts, including amounts received from the State of Missouri Federal Reimbursement Allowance Program (FRA Program). Under the FRA Program, the Health System received net payments of \$31,663 and \$28,893, in fiscal years 2009 and 2008, respectively.

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

The estimated cost of services provided by the Health System for charity care, estimated unreimbursed costs of providing services to state and local government assistance programs, and uncollectible accounts, for the years ended June 30, 2009 and 2008, respectively, are as follows:

	2009	2008
Cost of charity care	\$ 10,873	\$ 5,789
Unreimbursed cost under state and local government assistance programs, net of Medicaid disproportionate share funding, less Medicaid provider taxes	6,709	13,305
Cost of uncollectible accounts	19,269	25,352
Total	\$ 36,851	\$ 44,446

(n) University Physician Distributions

In accordance with the University Physicians Medical Practice Plan, net collections of University Physicians billings are distributed to the University of Missouri-Columbia School of Medicine in support of departmental expenses, physician salaries and incentives, and overhead expenses. At June 30, 2009, University Physician distributions payable reflects the amount owed physicians for patients accounts receivable not yet distributed.

(o) Use of Estimates

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

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(p) *New Accounting Pronouncements*

Effective for fiscal year 2009, the Health System adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes accounting and financial reporting standards for pollution remediation obligations, including current and potential effects of existing pollution through pollution remediation activities. Adoption of GASB Statement No. 49 did not have an effect on the Health System's financial statements.

The GASB issued GASB 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 and establishes guidance specific to their amortization. The statement also requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable and establishes a specified-conditions approach to recognizing intangible assets that are internally generated. The Health System has not yet determined the effect that adoption of GASB Statement No. 51 may have on its financial statements.

The GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The statement requires derivative instruments to be measured at fair value at the reporting date, with changes in fair value generally being reported as investment gains or losses. However, changes in fair value of hedging derivative instruments would be deferred until the related instrument ends or ceases to significantly reduce risk. The University has not yet determined the effect that adoption of GASB Statement No. 53 may have on its financial statements, and as the Health System participates in the investment pools of the University, the Health System has also not determined the financial statement effect of implementing this statement.

The GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal years beginning after June 15, 2010. The statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and clarifying the existing governmental fund type definitions. These fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Health System has not yet determined the effect that adoption of GASB Statement No. 54 may have on its financial statements.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective immediately. The statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature so that the accounting principles are derived from a single source. Adoption of GASB Statement No. 55 did not have an effect on the Health System's financial statements.

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In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective immediately. The statement incorporates guidance on related party transactions, going concern considerations, and subsequent events from the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards into the GASB's body of standards. Adoption of GASB Statement No. 56 did not have an effect on the University's financial statements.

(q) *Reclassifications*

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

(2) *Cash and Cash Equivalents*

(a) *Cash and Cash Equivalents*

The Health System participates in the University's pooled cash and investment accounts, stated at fair value, and holds an equity investment in the pool.

(b) *Custodial Credit Risk – Deposits*

The custodial credit risk for deposits is the risk that in the event of bank failure, the University's deposits may not be recovered. State law requires collateralization of all deposits with federal depository insurance, bonds, and other obligations of the U.S. Treasury, U.S. Agencies, and instrumentalities of the State of Missouri; bonds of any city, county, school district, or special road district of the State of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The University's cash accounts, including the Health System's share, were fully insured and collateralized at June 30, 2009, and 2008, respectively.

(3) *Investments*

(a) *Investments*

The investment policies of the University are established by its governing board, the Board of Curators. The policies are established to ensure that the University funds are managed in accordance with Section 105.688 of the Revised Statutes of Missouri. The University is authorized to use outside managers for its investments and may pool funds for investment purposes. 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 issues and U.S. Government Agency issues; U.S. Government securities (including principal or interest payments that have been "stripped" from U.S. Treasury instruments), U.S. Government Agency securities and U.S. Government guaranteed securities, including but not limited to direct obligations of the U.S. Government, Federal Farm Credit Banks, Federal Home Loan Banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Resolution Funding Corporation and Student Loan Marketing Association; investment grade (A or better) corporate bonds; variable rate securities of authorized investment instruments; collateralized certificates of deposit at banks with which the University has a depository

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agreement; commercial paper with credit ratings of A-1+ or A-1 by Standard & Poor's Rating 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 security investments are held in book-entry form in brokerage, custody, and safekeeping accounts in the University's name.

At June 30, 2009 and 2008, the Health System's share of the University's investments, by investment type, is as follows:

	Carrying value as of June 30, 2009	Carrying value as of June 30, 2008
Government obligations	\$ 86,440	\$ 93,839
Corporate bonds and notes	35,830	38,343
Corporate stocks	71,334	73,749
Other	19,629	1,528
Total short-term and long-term investments	213,233	207,459
Money Market Funds	15,686	5,801
Commercial paper	13,339	12,142
Variable Rate Demand Notes	5,840	—
Other	1,359	1,554
Total cash equivalents	36,224	19,497
Total cash equivalents and investments	\$ 249,457	\$ 226,956

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

(b) Custodial Credit Risk

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

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's Pooled General Investments consist of primarily fixed income securities, with a specific limitation that no more than 15% of the pool consists of variable rate securities. As a

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means of ensuring the safety of principal invested in the Pooled Endowment Investments, the University's investment policy requires diversification of the investment portfolio.

At June 30, 2009 and 2008, the maturities of the Health System's share of the University's investments are as follows:

As of June 30, 2009					
	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years	Carrying value
U.S. agency obligations	\$ 14,756	\$ 12,621	\$ 5,437	\$ 22,831	\$ 55,645
U.S. treasury obligations	607	5,281	7,607	6,739	20,234
Foreign government obligations	195	1,941	6,193	2,232	10,561
U.S. corporate bonds and notes	4,073	16,169	6,403	1,778	28,423
Foreign corporate bonds and notes	395	3,901	1,908	1,203	7,407
Total	\$ 20,026	\$ 39,913	\$ 27,548	\$ 34,783	\$ 122,270

As of June 30, 2008					
	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years	Carrying value
U.S. agency obligations	\$ 12,754	\$ 41,603	\$ 10,684	\$ 5,792	\$ 70,833
U.S. treasury obligations	638	2,906	5,242	3,776	12,562
Foreign government obligations	407	2,941	4,514	2,582	10,444
U.S. corporate bonds and notes	6,952	15,836	9,953	2,888	35,629
Foreign corporate bonds and notes	71	968	605	1,070	2,714
Total	\$ 20,822	\$ 64,254	\$ 30,998	\$ 16,108	\$ 132,182

(d) Credit Risk

The credit risk of investments is the risk that the issuer or other counterparty will not meet its obligations. This credit risk is measured by the credit quality ratings of investments in debt securities as described by a national recognized statistical rating organization, such as Standard and Poor's (S&P) and Moody's Investors Service (Moody's). University policy provides that investments in corporate bonds and other fixed income securities must have a rating of A or better.

The University has elected to use Moody's investment ratings in the following credit risk report. Several securities within the Pooled Endowment have Moody's ratings of Baa or Ba and S&P's ratings in the A range (A-, A, and A+), which places those bonds within the parameters specified in the University's policy.

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The following represents the Health System's share of the University's investment exposure to credit risk, based primarily on Moody's investment ratings:

As of June 30, 2009						
	US Treasury Obligations	U.S. Agency Obligations	Foreign Government Obligations	U.S. Corporate Debt	Foreign Corporate Debt	Total
U.S. Treasury Obligations	\$ 20,234	\$ -	\$ -	\$ -	\$ -	\$ 20,234
Mortgage-Backed Securities						
Guaranteed by U.S. Agencies	-	8,079	-	-	-	8,079
Aaa/AA	-	47,566	7,057	1,510	4,217	60,350
Aa/AA	-	-	3,034	6,508	1,611	11,153
A/A	-	-	308	18,991	981	20,280
Baa/BBB	-	-	162	863	300	1,325
Ba/BB	-	-	-	61	-	61
B/B	-	-	-	119	-	119
Caa/CCC	-	-	-	57	-	57
Unrated	-	-	-	314	298	612
Total	\$ 20,234	\$ 55,645	\$ 10,561	\$ 28,423	\$ 7,407	\$ 122,270

As of June 30, 2008						
	US Treasury Obligations	U.S. Agency Obligations	Foreign Government Obligations	U.S. Corporate Debt	Foreign Corporate Debt	Total
U.S. Treasury Obligations	\$ 12,562	\$ -	\$ -	\$ -	\$ -	\$ 12,562
Mortgage-Backed Securities						
Guaranteed by U.S. Agencies	-	5,593	-	-	-	5,593
Aaa/AA	-	65,196	6,453	6,164	1,283	79,096
Aa/AA	-	-	77	12,370	569	13,016
A/A	-	44	3,640	15,563	607	19,854
Baa/BBB	-	-	110	863	86	1,059
Unrated	-	-	164	669	169	1,002
Total	\$ 12,562	\$ 70,833	\$ 10,444	\$ 35,629	\$ 2,714	\$ 132,182

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a foreign investment. The University's investment policy allows for exposure to non-U.S. dollar denominated equities and fixed income securities. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency contracts. As of June 30, 2009 and 2008, 15.1% and 15.7%, respectively, of the Health System's share of the University's total investments and cash equivalents were denominated in foreign currencies. The Health System's share of the University's forward foreign currency contracts in notional amounts totaled \$17,758 and \$13,455 at June 30, 2009 and 2008, respectively. These contracts are marked to

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market and the changes in their market value are recorded in investment income on the Statements of Revenues, Expenses, and Changes in Net Assets.

Foreign Currency Risk
International Investment Securities at Fair Value
(in thousands of dollars)

<u>Currency</u>	<u>Cash and Cash Equivalents</u>	<u>Foreign Government Obligations</u>	<u>Foreign Corporate Bonds and Notes</u>	<u>Corporate Stock</u>	<u>2009 Total</u>	<u>2008 Total</u>
Australian Dollar	\$ 19	\$ —	\$ 992	\$ 811	\$ 1,822	\$ 959
British Pound Sterling	112	971	463	3,578	5,124	4,053
Canadian Dollar	11	201	436	1,064	1,712	1,873
Euro Currency Unit	676	6,006	2,724	8,335	17,741	15,259
Hong Kong Dollar	6	—	—	738	744	400
Japanese Yen	37	2,649	281	4,308	7,275	8,687
Swedish Krona	2	103	21	328	454	639
Swiss Franc	3	—	—	1,692	1,695	1,859
Other	6	631	86	308	1,031	1,972
Total	<u>\$ 872</u>	<u>\$ 10,561</u>	<u>\$ 5,003</u>	<u>\$ 21,162</u>	<u>\$ 37,598</u>	<u>\$ 35,701</u>

(f) Concentration of Credit Risk

The concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer (not including investments issued or guaranteed by the U.S. Government, investments in mutual funds, or external investment pools).

For University funds invested through the Pooled General Investments category, the following restrictions apply: 1) corporate bonds should not exceed 20% of the portfolio; 2) variable rate securities should not exceed 15% of the portfolio; and 3) investments in obligations of the U.S. Government, U.S. Government Agency issues, or U.S. Government guaranteed securities are unlimited.

For University funds invested through the Pooled Endowment Investments category, target asset mixes are evaluated to ensure 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).

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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, 2009, of the Health System's share of the University's total cash and investments, 7.5% are issues of the Federal Home Loan Bank (FHLB), and 8.8% are issues of the Federal National Mortgage Association (FNMA). As of June 30, 2008, of the Health System's share of the University's total cash and investments, 14.5% are issues of the FHLB, 5.7% are issues of the FNMA, and 6.2% are issues of the Federal Home Loan Mortgage Corporation (FHLMC).

(4) Capital Assets

Capital assets activity is summarized as follows:

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

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	2008			
	Beginning balance	Additions/ Transfers	Retirements	Ending balance
Capital assets, nondepreciable:				
Land	\$ 4,973	\$ —	\$ 27	\$ 4,946
Construction in progress	14,206	(2,645)	671	10,890
Total capital assets, nondepreciable	19,179	(2,645)	698	15,836
Capital assets, depreciable:				
Buildings and improvements	275,014	27,412	13,130	289,296
Infrastructure	2,952	77	153	2,876
Equipment	202,283	26,631	13,692	215,222
Total capital assets, depreciable	480,249	54,120	26,975	507,394
Less accumulated depreciation:				
Buildings and improvements	122,266	10,030	12,659	119,637
Infrastructure	1,246	171	153	1,264
Equipment	134,061	21,094	13,366	141,789
Total accumulated depreciation	257,573	31,295	26,178	262,690
Total capital assets, depreciable, net	222,676	22,825	797	244,704
Total capital assets, net	\$ 241,855	\$ 20,180	\$ 1,495	\$ 260,540

The estimated cost to complete construction in progress at June 30, 2009 is \$226,745 of which \$108,481 is available from unrestricted net assets and philanthropy. The remaining costs will be funded with bond proceeds of \$118,264. Included in capital assets is a building facility under a capital lease of \$8,332 and related accumulated depreciation of \$4,062 and \$3,645 at June 30, 2009 and 2008, respectively.

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Future minimum maturities on long-term debt as of June 30, 2009 for the next five fiscal years ending June 30 and beyond are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,500	\$ 7,000	\$ 11,500
2011	4,710	6,794	11,504
2012	4,925	6,567	11,492
2013	5,175	6,326	11,501
2014	5,430	6,070	11,500
2015 – 2019	31,405	26,094	57,499
2020 – 2024	40,180	17,299	57,479
2025 – 2029	52,530	6,208	58,738
Total	<u>\$ 148,855</u>	<u>\$ 82,358</u>	<u>\$ 231,213</u>

(6) Lease Obligations

The Health System leases various facilities and equipment through operating and capital leases. Facilities under capitalized leases are recorded at the present value of future minimum lease payments. Total rental expenses for operating leases for the years ended June 30, 2009 and 2008 was \$2,271 and \$1,940, respectively.

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

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Capital lease activity is summarized as follows:

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

	2008			
	Beginning of year	Payments	Reclass to short-term	End of year
Total capital lease obligation	\$ 9,354	\$ 462	\$ —	\$ 8,892
Less current capital lease obligation	462	—	39	501
Long-term capital lease obligation	\$ 8,892	\$ 462	\$ 39	\$ 8,391

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2009 are as follows:

	Capital	Operating
Fiscal year:		
2010	\$ 1,374	\$ 1,858
2011	1,374	1,530
2012	1,374	1,193
2013	1,374	884
2014	1,374	826
2015 – 2019	6,870	1,651
2020 – 2021	344	—
Total future minimum payments	14,084	\$ 7,942
Less amount representing interest	5,693	
Present value of future minimum lease payments	\$ 8,391	

In addition to the above lease obligations, the Health System has outstanding commitments for the acquisition, usage, and ongoing support of certain software for its patient clinical systems. As of June 30, 2009, these commitments totaled \$4,652 and will be paid in the following amounts: \$3,708 in 2010, \$944 in 2011.

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

Total minimum lease payments to be received:		
Current	\$	418
Noncurrent		3,867
Total		4,285
Less unearned rental income		(1,876)
Present value of future minimum lease payments	\$	2,409

During 2009, the Health System received \$418 of rental income from IOS. At June 30, 2009, minimum lease payments for each of the five succeeding fiscal years are as follows: \$418 in 2010, \$418 in 2011, \$418 in 2012, \$418 in 2013, \$418 in 2014, and \$2,195 thereafter.

(7) Insurance

(a) Malpractice

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

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

The amounts funded by the Health System are actuarially determined, based principally on previous claim experience, to provide for settlement of claims arising out of the Health System’s operations. The amounts contributed by the Health System to the Trust were \$3,053 and \$4,331 for the years ended June 30, 2009 and 2008, respectively, and are reflected as other expense in the accompanying basic financial statements.

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

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(b) Other

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

(8) Retirement Plan

(a) Plan Description

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

All full-time employees of the Health System are eligible for benefits after five years of service. The annual lifetime pension of a member is calculated by multiplying the number of years of service by 2.2% of the compensation base. The compensation base is the average regular annual salary of the member for the five consecutive highest salary years. Benefits to pensioners may be increased at certain times to reflect cost-of-living changes. Full benefits are available to members who retire at age 65 or thereafter. Faculty and staff who have completed 25 years in service can retire at age 62 without an early retirement reduction in their benefits. Early retirement benefits are available at reduced rates to members age 55 to 60 with at least 10 years of credited service and members age 60 to 65 with at least five years of credited service. Total Health System payroll was \$222,434 for the year ended June 30, 2009, of which \$176,889 was covered by the Plan in 2009.

(b) Contributions

Contributions to the Plan are based upon actuarially determined rates using the entry age normal method. The Health System's contributions to the Plan are included in expenses within the Statements of Revenues, Expenses, and Changes in Net Assets. Contributions to the Plan during the years ended June 30, 2009, 2008, and 2007, based on actuarially determined contribution rates, totaled \$10,436, \$13,750, and \$14,371, respectively. Contributions represented 5.9% of the Health System's current year covered payroll costs and 18.4% of the total current year actuarially determined contribution requirement for all University employees.

(9) Other Postemployment Benefits

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

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

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

As of June 30, 2009 and 2008, 675 and 648 members receiving postemployment benefits were formerly employees of the Health System. Individual member's contributions depend on the medical, dental, and life insurance coverage options they have chosen. For fiscal year 2009, all University members contributed \$11,755 or approximately 46.7% of the total premiums. The Health System paid the University \$2,365 and \$2,456 for the years ended June 30, 2009 and 2008, respectively. The Health System assumes no liability for postemployment benefits provided by the University other than its annual required contributions.

(10) Related-Party Transactions

The Health System and the other divisions of the University provide a variety of support services to each other and these transactions are recorded as revenues and expenses in the financial statements. The cost of these services is allocated to the user on methods, which vary according to the service being furnished. These services are paid for by inter-University payments of funds, which are net reductions of operating expenses of the unit providing the service, and are included in the operating costs of the unit receiving the service. Administrative and purchased services paid for by the University and allocated to the Health System during the years ended June 30, 2009 and 2008 were \$52,823 and \$46,867 respectively. Administrative and purchased services paid for by the Health System and allocated to the University during the years ended June 30, 2009 and 2008 were \$8,950 and \$9,222, respectively, and are included as a reduction of other expenses in the accompanying basic financial statements. These amounts exclude University Physicians distributions.

The Health System obtained \$50,000 of investments as a loan from the University in fiscal year 2001. The University committed to loan future funds if the days cash on hand goes below 85 days. The loan is to be repaid upon demand in whole or in part at such time that days cash on hand of the Health System is not less than 85 days. An additional \$5,000 loan was made accordingly in fiscal year 2002. Based upon the loan agreement, the Health System does not pay interest expense on the loan or receive interest income on the related assets. There were no additions to or repayments on the loan in 2009 or 2008. Management does not anticipate repayment of the loan in fiscal year 2010.

Certain operational services of the Health System, such as pharmacy, housekeeping, laundry, and other miscellaneous services are provided to the IOS. These services are invoiced at cost and are recorded in operating revenues. Total services provided by the Health System to IOS in fiscal years 2009 and 2008 totaled \$217 and \$224, respectively.

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(11) Transfers

In addition to services purchased from the divisions of the University, the Health System also provides support to certain of these divisions through transfers. These transfers were approximately \$2,500 and \$3,600 at June 30, 2009 and 2008, respectively, and principally provide funding for recruitments and operational support to divisions. In fiscal year 2009, these transfers to the University were offset by \$2,550 of funds received from the University related to the 2007 sale of Missouri Care L.C., a component unit of the University. Missouri Care was a not-for-profit health maintenance organization which provided services to individuals throughout mid-Missouri, under certification from the Missouri Department of Social Services.

(12) Subsequent Events

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

On July 23, 2009, the Health System received \$118,264 of bond proceeds from the University's issuance of the Series 2009 A and B System Facilities Revenue Bonds. The proceeds consist of \$91,063 in taxable Series 2009A Bonds designated as "Build America Bonds" under the Internal Revenue Code of 1986, as amended, and \$27,201 in tax exempt Series 2009B Bonds. The Series 2009A bonds bear interest at a stated rate of 5.96%. The University will receive a cash payment from the U.S. Treasury in an amount equal to 35% of the interest payable on each interest payment date. The all-in true interest cost of the Series 2009A Bonds, after taking into account the 35% interest payment from the federal government, is 3.953%. The Series 2009B Bonds bear interest at rates of 3.0% to 5.0% with an average interest rate of 3.13%. Proceeds from issuance of the Series 2009 A and B bonds will be used to finance construction of a new patient care tower and the Missouri Orthopedic Institute, as well as the renovation of other facilities, and to finance capitalized interest and certain costs of issuance.