



**UNIVERSITY OF MISSOURI HEALTH CARE**

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

# UNIVERSITY OF MISSOURI HEALTH CARE

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KPMG LLP  
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## Independent Auditors' Report

The Board of Curators  
University of Missouri:

We have audited the accompanying financial statements of University of Missouri Health Care (MU Health Care) as of and for the years ended June 30, 2012 and 2011, which collectively comprise MU Health Care's financial statements as listed in the table of contents. These financial statements are the responsibility of MU Health Care'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 MU Health Care'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 MU Health Care 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 MU Health Care. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2012 and 2011, 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 MU Health Care as of June 30, 2012 and 2011, 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 10, 2012, on our consideration of MU Health Care'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.

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

St. Louis, Missouri  
October 10, 2012

# UNIVERSITY OF MISSOURI HEALTH CARE

## Management's Discussion and Analysis

June 30, 2012 and 2011

(Unaudited)

### University of Missouri Health Care

The University of Missouri (the University) owns and operates University of Missouri Health Care (MU Health Care), which is comprised of University of Missouri Hospitals and Clinics (UMHC, includes: University of Missouri Hospital, Ellis Fischel Cancer Center, Missouri Psychiatric Center, and Missouri Orthopedic Institute); Missouri Rehabilitation Center (MRC); and Women's and Children's Hospital (WCH).

UMHC and WCH are the primary teaching hospitals for the University of Missouri-Columbia School of Medicine, the Sinclair School of Nursing, and the School of Health Professions. All of the facilities and the operations of the MU Health Care are under the control of the University.

### 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 MU Health Care as a whole and present a view of its finances. The statements include all accounts of MU Health Care and are based on the accrual basis of accounting.

### Statements of Net Assets Information

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

A summary of the Statements of Net Assets at June 30, 2012, 2011, and 2010 is as follows (dollars in thousands):

	Fiscal year		
	2012	2011	2010
<b>Assets:</b>			
Current assets	\$ 225,207	\$ 222,184	\$ 179,385
Other noncurrent assets	282,539	368,565	309,664
Capital assets	455,727	363,371	325,852
Total assets	<u>\$ 963,473</u>	<u>\$ 954,120</u>	<u>\$ 814,901</u>
<b>Liabilities:</b>			
Current liabilities	\$ 81,699	\$ 85,984	\$ 65,880
Noncurrent liabilities	380,852	394,056	321,539
Total liabilities	<u>462,551</u>	<u>480,040</u>	<u>387,419</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	152,586	111,518	102,673
Restricted	7,326	7,262	5,591
Unrestricted	341,010	355,300	319,218
Total net assets	<u>500,922</u>	<u>474,080</u>	<u>427,482</u>
Total liabilities and net assets	<u>\$ 963,473</u>	<u>\$ 954,120</u>	<u>\$ 814,901</u>

## UNIVERSITY OF MISSOURI HEALTH CARE

### Management's Discussion and Analysis

June 30, 2012 and 2011

(Unaudited)

#### ***Fiscal Year 2012 Compared to Fiscal Year 2011***

Total assets increased \$9.4 million from \$954.1 million in fiscal year 2011 to \$963.5 million in fiscal year 2012. Cash, cash equivalents, and investments decreased \$89.4 million due to the use of prior year bond proceeds for the construction of the new Patient Care Tower. Additional asset increases occurred in patient accounts receivables, and capital assets. Patient Accounts receivable, net, increased by \$8.5 million as a result of additional revenues associated with increased volumes. Capital assets, net of accumulated depreciation increased by \$92.3 million from \$363.4 million in fiscal year 2011 to \$455.7 million in fiscal year 2012. MU Health Care continues to invest in capital additions and improvements throughout its facilities. Investment in capital for fiscal year 2012 included, but was not limited to, \$22.2 million on renovations, \$61.7 million on new building construction, \$4.8 million on patient monitoring and diagnostic equipment, and \$5.0 million in land for future construction.

Total liabilities decreased by \$17.6 million from \$480.0 million in fiscal year 2011 to \$462.6 million in fiscal year 2012. This decrease is primarily due to the payment of \$9.9 million on long-term debt liabilities, and the resolution of \$10.4 million of payments to third parties. During fiscal year 2012, MU Health Care internally refinanced its outstanding bonds with the University which is reflected as long-term debt obligations in which debt and interest payments are made monthly, compared to prior year payments which were made annually, and interest, which was paid semi-annually. This change has also eliminated accrued interest balances from \$2.4 million in fiscal year 2011, to zero for fiscal year 2012.

For fiscal year 2012, MU Health Care's total net assets were \$500.9 million, which was an increase of \$26.8 million over fiscal year 2011 level of \$474.1 million.

#### ***Fiscal Year 2011 Compared to Fiscal Year 2010***

Total assets increased \$139.2 million from \$814.9 million in fiscal year 2010 to \$954.1 million in fiscal year 2011. Cash, cash equivalents, and investments increased \$77.8 million due to increased cash collections, as well as additional bond proceeds related to the University's issuance of Series 2010A System Facilities Revenue Bonds in December 2010. Additional asset increases occurred in third-party and other receivables, and capital assets. The increase in third-party and other receivables is primarily the result of \$24.9 million in receivables related to medical resident FICA refund claims and accrued interest income on the claims, for periods ending before April 1, 2005 due to notification from the Internal Revenue Service (IRS) of its intent to honor these claims. The net FICA refund to MU Health Care, after settlements to employees and other medical care entities, is \$6.8 million plus \$3.0 million in interest income. Capital assets, net of accumulated depreciation increased by \$37.5 million from \$325.9 million in fiscal year 2010 to \$363.4 million in fiscal year 2011. MU Health Care continues to invest in capital additions and improvements throughout its facilities. Investment in capital for fiscal year 2011 included, but was not limited to, \$16.2 million on renovations, \$31.4 million on new building construction, \$2.4 million on DaVinci Surgical System, \$12.7 million on patient monitoring and diagnostic equipment, including patient monitors, x-ray systems, ultrasounds, sterilizers, surgical tables, chemistry analyzers, \$2.9 million on technology infrastructure, and \$7.9 million for technology software.

Total liabilities increased by \$92.6 million from \$387.4 million in fiscal year 2010 to \$480.0 million in fiscal year 2011. This increase is primarily due to the issuance of \$81.2 million of additional long-term debt in

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## Management's Discussion and Analysis

June 30, 2012 and 2011

(Unaudited)

December 2010 and increases in accounts payable related to \$15.1 million in FICA refunds and interest on refunds, due to former medical residents.

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

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

MU Health Care'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, 2012, 2011, and 2010 is as follows (dollars in thousands):

	Fiscal year		
	2012	2011	2010
Net patient service revenues	\$ 639,180	\$ 594,517	\$ 583,551
Other operating revenues	17,861	22,125	16,855
Total operating revenues	<u>657,041</u>	<u>616,642</u>	<u>600,406</u>
Operating expenses:			
Salaries and benefits	306,354	286,743	284,323
Medical supplies and drugs	135,149	126,357	121,733
Administrative and support services	54,288	56,846	49,634
Depreciation	35,391	34,703	34,168
Other expenses	109,311	103,770	90,631
Total operating expenses	<u>640,493</u>	<u>608,419</u>	<u>580,489</u>
Operating income before State appropriations	16,548	8,223	19,917
State appropriations	<u>10,028</u>	<u>18,229</u>	<u>25,636</u>
Income after State appropriations, before nonoperating revenues, net	<u>26,576</u>	<u>26,452</u>	<u>45,553</u>
Interest expense, net of capitalized interest of \$6,593 and \$4,893 in 2012 and 2011, respectively	(8,427)	(9,006)	(9,197)
Other nonoperating revenues, net	<u>6,580</u>	<u>22,313</u>	<u>19,681</u>
Total nonoperating revenues, net	<u>(1,847)</u>	<u>13,307</u>	<u>10,484</u>
Income before capital additions, contributions, and transfers	24,729	39,759	56,037
State capital appropriations	—	2,753	4,042
Contributed capital assets	4,897	6,003	3,826
Capital and endowment gifts	<u>214</u>	<u>193</u>	<u>229</u>
Income before transfers	29,840	48,708	64,134
Transfers, net	<u>(2,998)</u>	<u>(2,110)</u>	<u>(1,184)</u>
Change in net assets	26,842	46,598	62,950
Total net assets, beginning of year	<u>474,080</u>	<u>427,482</u>	<u>364,532</u>
Total net assets, end of year	<u>\$ 500,922</u>	<u>\$ 474,080</u>	<u>\$ 427,482</u>

## UNIVERSITY OF MISSOURI HEALTH CARE

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#### ***Fiscal Year 2012 Compared to Fiscal Year 2011***

For fiscal year 2012, MU Health Care had an increase in net assets of \$26.8 million compared to \$46.6 million for fiscal year 2011. Operating revenues in fiscal year 2012 were \$40.4 million greater than prior year and represent a 6.6% increase. The following table provides a summary of the key statistics for fiscal years 2012, 2011, and 2010.

	<b>Key statistics</b>		
	<b>Fiscal year</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Admissions	22,108	22,011	21,601
Patient days	120,985	123,572	127,822
Clinic visits	553,300	540,835	532,239
Outpatient equivalent days	91,075	87,636	85,060
Emergency room visits	51,632	49,276	48,936
Operating room cases, excluding labor and delivery	20,030	20,578	18,514

Fiscal year 2012 continued to experience growth in outpatient areas, where inpatient areas saw minimal changes over prior year. Admissions increased, or 0.4%, over fiscal year 2011, and patient days decreased 2,614, or 2.1%. These declines in inpatient volume were directly offset by increase in outpatient volumes. Clinic visits increased by 12,465, or 2.3%, and outpatient equivalent days increased by 3,439, or 3.9%. Emergency room visits grew by 2,356, or 4.8% over fiscal year 2011. In December 2011, MUHC began operating the Missouri Center for Outpatient Surgery (MCOS) at WCH after purchasing the surgical assets of the Institute for Outpatient Surgery (IOS). During fiscal year 2012, MCOS had 1,982 operating room cases which reflects movement of cases from the acute care facilities, as well as new case volume.

In fiscal year 2012, operating expenses were \$32.1 million higher than the prior year, which represents a 5.3% increase. Salary and benefit expense increased slightly by \$19.6 million or 6.8%, including the prior year net FICA refund of \$6.8 million that reduced the overall benefits expense in prior year. Excluding the net FICA refund, salary and benefit expense increased by \$12.8 million, or 4.4%, as a result of an average 4% merit increase, and market adjustments given in fiscal year 2012. Medical supplies and drugs increased \$8.8 million, or 7.0% over prior year as a direct result of increased utilization. An increase of \$5.5 million in other expenses reflects \$2.0 million in additional Federal Reimbursement Allowance (FRA) expense due to a 0.5% increase in the assessment rate, and increases in vendor contracts for information technology services, and equipment maintenance and repair costs.

#### ***Fiscal Year 2011 Compared to Fiscal Year 2010***

For fiscal year 2011, MU Health Care had an increase in net assets of \$46.6 million compared to \$63.0 million for fiscal year 2010. Operating revenues in fiscal year 2011 were \$16.2 million greater than prior year and represent a 2.7% increase.

In addition to the increase in inpatient utilization due to the opening of the Missouri Orthopedic Institute in May 2010, fiscal year 2011 continued to experience increases in clinical and outpatient areas. Clinic visits

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### Management's Discussion and Analysis

June 30, 2012 and 2011

(Unaudited)

increased by 8,596 or 1.6% and outpatient equivalent days increased by 2,576 or 3.0%. Emergency room visits grew by 340, or 0.7% over fiscal year 2010, and operating room cases increased by 2,064, or 11.1%.

In fiscal year 2011, operating expenses were \$27.9 million higher than the prior year, which represents a 4.8% increase. Salary and benefit expense increased slightly by \$2.4 million or 0.9%, including the net FICA refund of \$6.8 million that reduced the overall benefits expense. Excluding the net FICA refund, salary and benefit expense increased by \$9.2 million or 3.2%, as a result of market adjustments and staffing additions. Medical supplies and drugs increased 3.8% over prior year as a direct result of increased utilization. Administrative and support services expenses increased \$7.2 million, or 14.5%, and reflects increased support to the University of Missouri-Columbia School of Medicine, as well as to the University of Missouri System for purchasing services and information technology support. An increase of \$13.1 million in other expenses reflects a full year of contracted service fees related to the Tiger Institute for Health Innovation Agreement (TI Agreement), and start-up costs associated with the May 2010 opening of the Missouri Orthopedic Institute.

#### Statements of Cash Flows

MU Health Care's Statements of Cash Flows provide the sources and uses of cash resources. The cash flow statements for the years ended June 30, 2012, 2011, and 2010 are summarized as follows (dollars in thousands):

	Fiscal year		
	2012	2011	2010
Cash provided by (used in):			
Operating activities	\$ 34,576	\$ 38,711	\$ 57,412
Noncapital financing activities	8,200	17,092	24,134
Capital and related financing activities	(135,058)	2,477	23,983
Investing activities	101,839	(73,453)	(80,379)
Net increase (decrease) in cash and cash equivalents	9,557	(15,173)	25,150
Cash and cash equivalents, beginning of year	46,201	61,374	36,224
Cash and cash equivalents, end of year	\$ 55,758	\$ 46,201	\$ 61,374

#### *Fiscal Year 2012 Compared to Fiscal Year 2011*

During fiscal year 2012, MU Health Care's cash increased by \$9.6 million as compared to a \$15.2 million decrease in fiscal year 2011. For fiscal year 2012, operating activities generated \$34.6 million, primarily through increased revenues as a result of increased utilizations in both the inpatient and outpatient areas. These funds were utilized to purchase routine capital expenditures in patient care areas. For noncapital financing activities in fiscal year 2012, MU Health Care had an increase in cash of \$8.2 million. Capital and related financing activities resulted in \$135.1 million decrease in cash primarily due to spending on a new patient tower and other outpatient facilities. Investing activities increased cash by \$101.8 million principally due to an increase in long-term investment holdings by the University and earnings on the investments during fiscal year 2012.

# UNIVERSITY OF MISSOURI HEALTH CARE

## Management's Discussion and Analysis

June 30, 2012 and 2011

(Unaudited)

### *Fiscal Year 2011 Compared to Fiscal Year 2010*

During fiscal year 2011, MU Health Care's cash decreased by \$15.2 million as compared to a \$25.2 million increase in fiscal year 2010. For fiscal year 2011, operating activities generated \$38.7 million, primarily through increased revenues as a result of increased utilizations in both the inpatient and outpatient areas. These funds were utilized to purchase routine capital expenditures in patient care areas. For noncapital financing activities in fiscal year 2011, MU Health Care had an increase in cash of \$17.1 million, which resulted primarily from the receipt of \$18.2 million in State appropriations. Capital and related financing activities resulted in \$2.5 million increase in cash, due to the issuance of \$81.2 million of long-term debt in fiscal year 2011, which is being utilized to construct a new patient tower and other outpatient facilities. Investing activities decreased cash by \$73.5 million principally due to an increase in long-term investment holdings by the University and related gains on these investments during fiscal year 2011.

### **MU Health Care Outlook**

As in the prior years, MU Health Care continues to focus on advancing the health of all people, especially Missourians. The State appropriation funding approved for fiscal year 2013 continues to provide \$10.0 million in support for the operations of the Missouri Rehabilitation Center, with the other facilities receiving Medicaid payments through the MoHealthNet program. In April 2012, a 5% fee increase was implemented and continues into fiscal year 2013 with pricing revisions made throughout the year as needed. MU Health Care continues to focus on physician recruitment, patient satisfaction, and core service lines.

For the future, MU Health Care continues to pursue growth and its academic mission. Currently, under construction is a \$203 million patient care tower, which includes a replacement of the Ellis Fischel Cancer Center. The patient tower is scheduled to be completed in fiscal year 2013, with patient care starting in the new facility in the fourth quarter of the fiscal year. These capital investments will assist in providing quality care to patients, including a significant increase in private rooms, and enhanced facilities for physician recruitments with the University of Missouri-Columbia School of Medicine. MU Health Care has also begun investing in outpatient facilities through the fiscal year 2012 opening of the Missouri Center for Outpatient Surgery, as well as plans for building a new replacement outpatient facility in Columbia in fiscal year 2015.

MU Health Care continues to monitor the change environment surrounding State and Federal health care programs and the corresponding legislation, including the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, collectively referred to as 'Health Care Reform.' This legislation will significantly impact the future of healthcare. MU Health Care management continues to review the effect that the legislation will have on the organization, but has not determined the full financial statement effect of this new Health Care Reform legislation.

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**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Net Assets

June 30, 2012 and 2011

(Dollars in thousands)

<b>Assets</b>	<b>2012</b>	<b>2011</b>
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	\$ 47,687	\$ 33,027
Cash and cash equivalents – restricted	8,071	13,174
Short-term investments	22,792	29,219
Short-term investments – restricted	4,244	13,682
Patient accounts receivable, less allowance for doubtful accounts of \$15,646 and \$17,524 in 2012 and 2011, respectively	73,947	65,492
Third-party and other receivables	47,209	49,130
Inventories and other assets	21,257	18,460
	<hr/>	<hr/>
Total current assets	225,207	222,184
	<hr/>	<hr/>
Noncurrent assets:		
Long-term investments	248,329	286,145
Long-term investments – restricted	31,039	76,339
Capital assets:		
Depreciable	332,091	302,266
Nondepreciable	123,636	61,105
Other assets	3,171	6,081
	<hr/>	<hr/>
Total noncurrent assets	738,266	731,936
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Total assets	\$ 963,473	\$ 954,120
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See accompanying notes to financial statements.

<b>Liabilities</b>	<b>2012</b>	<b>2011</b>
Current liabilities:		
Accounts payable	\$ 35,717	\$ 33,298
Estimated third-party payor settlements	7,086	17,501
Accrued interest	—	2,410
Accrued employee compensation	27,222	24,308
Deferred revenue	47	430
Capital lease obligations, current	696	641
Long-term debt obligations, current	10,931	7,396
Total current liabilities	<u>81,699</u>	<u>85,984</u>
Noncurrent liabilities:		
Amount due University	55,000	55,000
Capital lease – less current portion	5,919	6,615
Long-term debt obligations – less current portion	319,933	330,922
Deferred revenue – less current portion	—	1,519
Total noncurrent liabilities	<u>380,852</u>	<u>394,056</u>
Total liabilities	<u>462,551</u>	<u>480,040</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	152,586	111,518
Restricted:		
Nonexpendable:		
Endowment	571	586
Expendable:		
Research and other	6,755	6,676
Unrestricted	<u>341,010</u>	<u>355,300</u>
Total net assets	<u>500,922</u>	<u>474,080</u>
Total liabilities and net assets	<u>\$ 963,473</u>	<u>\$ 954,120</u>

**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net patient service revenues	\$ 639,180	\$ 594,517
Sales by auxiliary enterprises and other	17,861	22,125
Total operating revenues	<u>657,041</u>	<u>616,642</u>
Operating expenses:		
Salaries and benefits	306,354	286,743
Medical supplies and drugs	135,149	126,357
Administrative and support services	54,288	56,846
Depreciation	35,391	34,703
Other expenses	109,311	103,770
Total operating expenses	<u>640,493</u>	<u>608,419</u>
Operating income before State appropriations	16,548	8,223
State appropriations	<u>10,028</u>	<u>18,229</u>
Income after State appropriations, before nonoperating revenues (expenses)	<u>26,576</u>	<u>26,452</u>
Nonoperating revenues (expenses):		
Investment income	5,342	22,241
Private gifts	1,097	1,192
Interest expense, net of amounts capitalized of \$6,593 and \$4,893 in 2012 and 2011, respectively	(8,427)	(9,006)
Gain (loss) on disposal, net	141	(1,120)
Total nonoperating revenues (expenses), net	<u>(1,847)</u>	<u>13,307</u>
Income before capital additions, contributions, and transfers	24,729	39,759
State capital appropriations	—	2,753
Contributed capital assets	4,897	6,003
Capital and endowment gifts	214	193
Income before transfers	<u>29,840</u>	<u>48,708</u>
Transfers to the University, net	<u>(2,998)</u>	<u>(2,110)</u>
Change in net assets	26,842	46,598
Total net assets, beginning of year	<u>474,080</u>	<u>427,482</u>
Total net assets, end of year	<u>\$ 500,922</u>	<u>\$ 474,080</u>

See accompanying notes to financial statements.

**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>		<u>2011</u>
Cash flows from operating activities:			
Cash proceeds from patient service revenue	\$ 622,079	\$	602,349
Cash proceeds from other sales	18,161		22,409
Cash payments to employees	(231,201)		(227,334)
Cash payments for benefits	(72,345)		(66,247)
Cash payments to suppliers	(302,118)		(292,466)
	<hr/>		<hr/>
Net cash provided by operating activities	34,576		38,711
	<hr/>		<hr/>
Cash flows from noncapital financing activities:			
Transfers to the University, net	(2,995)		(2,106)
State appropriations	10,028		18,229
Private and endowment gifts	1,167		969
	<hr/>		<hr/>
Net cash provided by noncapital financing activities	8,200		17,092
	<hr/>		<hr/>
Cash flows from capital and related financing activities:			
Capital expenditures	(111,058)		(66,705)
Cash proceeds from sales of capital assets	379		197
Capital state appropriations	—		6,450
Capital gifts	211		189
Proceeds on issuance of debt obligations	329,424		81,193
Retirement of long-term debt	(329,424)		—
Principal payments on long-term debt	(9,940)		(4,710)
Capital lease principal payments	(641)		(591)
Interest paid on long-term debt	(14,009)		(13,546)
	<hr/>		<hr/>
Net cash provided by (used in) capital and related financing activities	(135,058)		2,477
	<hr/>		<hr/>
Cash flows from investing activities:			
Increase (decrease) in investments	98,261		(93,004)
Cash proceeds from equity investees	227		731
Purchase of Institute for Outpatient Surgery assets	(1,992)		—
Investment income	5,343		18,820
	<hr/>		<hr/>
Net cash provided by (used in) investing activities	101,839		(73,453)
	<hr/>		<hr/>
Net change in cash and cash equivalents	9,557		(15,173)
	<hr/>		<hr/>
Cash and cash equivalents, beginning of year	46,201		61,374
	<hr/>		<hr/>
Cash and cash equivalents, end of year	\$ 55,758	\$	46,201
	<hr/> <hr/>		<hr/> <hr/>

See accompanying notes to financial statements.

**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>		<u>2011</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 16,548	\$	8,223
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	35,391		34,703
Provision for bad debts	63,519		62,185
Changes in assets and liabilities:			
Net patient receivables and third-party receivable	(80,384)		(69,836)
Inventories and other assets	(2,497)		(1,435)
Accounts payable and accrued expenses	1,999		4,871
Net cash provided by operating activities	<u>\$ 34,576</u>	\$	<u>38,711</u>
Supplemental disclosures of noncash activities:			
Earnings (loss) from ownership interest of equity investments	\$ (74)	\$	540
Contributed capital assets	4,897		6,003

See accompanying notes to financial statements.

# UNIVERSITY OF MISSOURI HEALTH CARE

## Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

### (1) Summary of Significant Accounting Policies

#### (a) Nature of Organization

University of Missouri Health Care 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.

University of Missouri Health Care (MU Health Care) consists of the University of Missouri Hospital and Clinics (UMHC), a tertiary referral center located in Columbia, Missouri, comprised of University Hospital, Ellis Fischel Cancer Center, Missouri Psychiatric Center, and Missouri Orthopedic Institute; Women's and Children's Hospital (WCH), Missouri Rehabilitation Center (MRC) in Mt. Vernon, Missouri.

#### (b) Basis of Accounting

In accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment to GASB Statements No. 14 and No. 34*, MU Health Care follows all applicable GASB pronouncements.

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

MU Health Care's 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, MU Health Care defines operating activities as those generally resulting from an exchange transaction. Nearly all of MU Health Care's expenses are from exchange transactions, which involve the exchange of equivalent values such as payments for goods or services. Non-operating revenues or expenses are those in which the MU Health Care receives or gives value without directly giving or receiving equal value, such as State appropriations, private gifts, and investment income.

MU Health Care'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.

## UNIVERSITY OF MISSOURI HEALTH CARE

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

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

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

(c) ***Cash and Cash Equivalents***

MU Health Care's participates in the University's pooled cash accounts. Cash and cash equivalents consists of the University's bank deposits, repurchase agreements, money market funds, and other investments with original purchased maturities of three months or less. Cash equivalents may also include variable rate demand notes, which are debt securities with an original maturity beyond three months, but with a demand feature that allows for liquidity with advance notice of no more than seven days. As of June 30, 2012 and 2011, the University did not hold any variable rate demand notes. All of MU Health Care's cash and cash equivalents are included in the University's pooled funds. These assets are stated at fair value. Restricted cash is included in cash and cash equivalents on the accompanying Statements of Cash Flow.

(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***

MU Health Care participates in the University's pooled investment accounts, which primarily include allocations of U.S. and foreign government agency obligations, corporate debt securities, with smaller allocations of other investments including corporate stocks, private equities, real estate, and hedge funds. Debt securities with a maturity less than one year are classified as short-term investments. Beginning in July 2010, the University established a structured investment program that provides a guaranteed return of 2.0% on designated investments. As of June 30, 2012, 88.9% of MU Health Care's pooled investments were maintained in these designated investments. The remaining MU Health Care investments are held in equity fund-type pools, which continue to reflect actual earnings and market fluctuations.

# UNIVERSITY OF MISSOURI HEALTH CARE

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(Dollars in thousands)

**(f) Capital Assets**

These capital 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.

**(g) Deferred Revenues**

Deferred revenue primarily consists of the sale of the Health Pavilion capital lease to the Institute for Outpatient Surgery (IOS) in July 2002, which is being amortized over the remaining life of the lease through 2020. In fiscal year 2012, MU Health Care purchased the assets of the IOS and reacquired the Health Pavilion space resulting in a write-off of the remaining unamortized deferred revenue.

**(h) Net Patient Service Revenues**

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

Amounts receivable under Medicare and Tricare/Champus reimbursement agreements are subject to examination and certain retroactive adjustments by the related programs. These adjustments increased net patient services revenues by \$320 for the year ended June 30, 2012 and decreased net patient services revenues by \$1,086 for the year ended June 30, 2011.

Both UMHC and WCH Medicare cost reports have been settled through June 30, 2007; MRC Medicare reports have been settled through June 30, 2011. 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.

**UNIVERSITY OF MISSOURI HEALTH CARE**

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A percentage breakdown of gross patient accounts receivable by major payor classification of MU Health Care for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Medicare	24%	25%
Commercial insurance	9	4
Medicaid	22	22
Self-pay and other	18	16
Managed care agreements	27	33
	<u>100%</u>	<u>100%</u>

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

The gross to net patient revenue detail is reflected below for both 2012 and 2011. Only net charge revenue is reflected on the Statements of Revenues, Expenses, and Changes in Net Assets.

	<u>2012</u>	<u>2011</u>
Gross patient revenue	\$ 1,625,118	\$ 1,479,242
Less deductions for contractual allowances	(922,419)	(822,540)
Less deductions for bad debt allowances	(63,519)	(62,185)
Net patient revenue	<u>\$ 639,180</u>	<u>\$ 594,517</u>

(i) ***Uncompensated Care***

In line with its mission, MU Health Care provides some services to patients without regard to their ability to pay for those services. For some of its patient services, MU Health Care 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* – MU Health Care provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because MU Health Care does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient revenues.

*Unreimbursed Cost under State and Local Government Assistance Programs* – MU Health Care provides services to other patients under certain state and local government assistance programs, which pay providers amounts generally less than the cost of rendering the services. These cost amounts have been reduced by all payments received on these accounts, including amounts received from the FRA Program.

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The FRA Program, approved by the Centers for Medicare and Medicaid Services, relies on federal regulations that permit states to include qualifying expenditures made by or on behalf of states serving Medicaid eligible or uninsured patients as the state’s share of Medicaid payments. The FRA Program is part of the State of Missouri Medicaid Program, which is named MoHealthNet. Under the MoHealthNet Programs, MU Health Care receives payments for claims based upon historical cost amounts and supplemental payments under the FRA Program. Under the FRA Program, MU Health Care received net payments of \$43,134 and \$32,023 in fiscal years 2012 and 2011, respectively. Payments under the State’s Medicaid Program, including patient claims, Medicaid direct, and disproportionate share payments (DSH), are subject to retrospective determination of actual costs once MU Health Care Medicare Cost Reports are audited.

*Uncollectible Accounts* – Services provided to certain patients of MU Health Care, who do not either apply for or qualify for charity care, are uncollectible.

The estimated cost of services provided by MU Health Care 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, 2012 and 2011 are as follows:

	<u>2012</u>		<u>2011</u>
Cost of charity care	\$ 10,972	\$	7,936
Unreimbursed cost under state and local government assistance programs, net of Medicaid disproportionate share funding, less Medicaid provider taxes	446		16,265
Cost of uncollectible accounts	<u>21,361</u>		<u>20,744</u>
Total	\$ <u>32,779</u>	\$	<u>44,945</u>

**(j) Appropriations and Private Gifts**

The State of Missouri provides direct appropriations to the MU Health Care, which totaled \$10,028 and \$18,229 for the years ended June 30, 2012 and 2011, respectively. During 2011, MU Health Care also received capital appropriations from the State of Missouri of \$2,753, primarily to fund renovation of the conveyed buildings and infrastructure related to the Missouri Psychiatric Center. Capital appropriations were not received in fiscal year 2012.

MU Health Care recognizes gifts in the period when all eligibility requirements are met. For recognition purposes, GASB defines eligibility requirements. MU Health Care received expendable gifts in 2012 and 2011 of \$1,097 and \$1,192, respectively. MU Health Care also received gifts for capital assets and endowments in 2012 and 2011 of \$5,111 and \$6,196, respectively. Refer to note 1(k) for further discussion.

The total pledges receivable as of June 30, 2012 and 2011 were \$182, and \$265, net of \$29 and \$42, in allowance for uncollectible pledges, respectively. Pledges receivable current and long-term have been recorded within third-party and other receivables and other assets, respectively, in the Statement of Net Assets and as private gift revenues on the Statement of Revenues, Expenses, and

# UNIVERSITY OF MISSOURI HEALTH CARE

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Changes in Net Assets, at the present value of the estimated future cash flows. An allowance has been made for uncollectible accounts based upon management's expectations regarding the collection of the pledges.

**(k) *Contributed Capital Assets MU Health Care Maintains***

In January 2010, MU Health Care began a cooperative relationship with the Cerner Corporation (Cerner) referred to as the Tiger Institute for Health Innovation (the Tiger Institute). Cerner, through the Tiger Institute, is the principal provider of information technology services for MU Health Care as well as developing new technology initiatives in health information systems within the clinical areas. Under the Tiger Institute agreements, MU Health Care received contributed capital assets of information technology systems in the amount of \$4,897 in fiscal year 2012 and \$6,003 in fiscal year 2011.

**(l) *Use of Estimates***

The preparation of the 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.

**(m) *New Accounting Pronouncements***

Effective for fiscal year 2012, the University adopted GASB Statement No. 62, *Codification of Account and Financial Reporting Guidance Contained in Pre-November 30, 1998 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. Adoption of GASB Statement No. 62 had no effect on the University's financial statements.

Effective for fiscal year 2012, the University adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment to GASB No. 53*, which provides clarification on determining if an effective hedging relationship still exists for derivative instruments. Adoption of GASB Statement No. 64 had no effect on the University's financial statements.

**(n) *Reclassifications***

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

**(2) *Cash and Cash Equivalents***

***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

# UNIVERSITY OF MISSOURI HEALTH CARE

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Missouri; bonds of any city, county, school district, or special road district of the State of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The University's cash deposits, including MU Health Care's share, were fully insured or collateralized at June 30, 2012 and 2011.

### (3) Investments

#### (a) *Investments*

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

*General Pool* – The General Pool contains short-term University funds, including, but not limited, to cash and reserves, operating funds, bond funds, and plant funds. Subject to various limitations contained within the corresponding investment policy, the University's internally managed General Pool may be invested in the following instruments: U.S. government securities; U.S. government Agency securities; U.S. government-guaranteed securities; investment grade corporate bonds; certificates of deposit; repurchase agreements; commercial paper; and other similar short-term investment instruments of like or better quality. As of June 30, 2012 and 2011, MU Health Care held investments of \$320,715 and \$385,081 in this pool, all of which are included in the structured investment pool. A limited component of the General Pool may be invested in the University's Balanced Pool; at June 30, 2012 and 2011, 11.1% and 17.7%, respectively, of General Pool funds were invested in the Balanced Pool.

*Balanced Pool (Long-Term Funds)* – The Balanced Pool, which is externally managed, is the primary investment vehicle for endowment funds. Subject to various limitations contained within the corresponding investment policy, the Balanced Pool is allowed to invest in the following asset sectors: U.S. and international equity, emerging markets debt and equity, absolute return strategies, private equity, real estate, global fixed income, high-yield fixed income, bank loans, and Treasury inflation-protected securities. As of June 30, 2012 and 2011, MU Health Care held investments of \$39,616 and \$67,185, respectively, on which actual earnings and market fluctuations were recorded.

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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Debt securities:		
U.S. Treasury	\$ 13,389	\$ 31,086
U.S. Agency	85,259	172,741
Asset-backed securities	93,289	56,992
Government – foreign	14,352	5,588
Corporate – domestic	11,951	44,185
Corporate – foreign	12,164	6,209
Equity securities:		
Domestic	13,715	19,511
Foreign	7,857	17,752
Commingled funds:		
Absolute return	4,395	5,802
Debt securities – domestic	11,680	3,295
Debt securities – foreign	4,837	5,779
Equity securities – domestic	2,061	11,709
Equity securities – foreign	7,768	15,328
Equity securities – global	14,706	—
Real estate	825	1,451
Nonmarketable alternative investments:		
Real estate	3,162	2,751
Private equity	3,816	4,410
Other	1,178	797
	<u>306,404</u>	<u>405,386</u>
Total investments		
Money market funds	14,904	2,871
Commercial paper	39,032	38,194
Other	1,822	5,136
	<u>55,758</u>	<u>46,201</u>
Total cash and cash equivalents		
Total investments and cash and cash equivalents	<u>\$ 362,162</u>	<u>\$ 451,587</u>

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

**(b) Custodial Credit Risk**

For investments, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the University will not be able to recover the value of the investments held by an outside

## UNIVERSITY OF MISSOURI HEALTH CARE

### Notes to Financial Statements

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party. In accordance with its policy, the University minimizes custodial credit risk by establishing limitations on the types of instruments held with qualifying institutions. Repurchase agreements must be collateralized by U.S. Government issues and/or U.S. Government Agency issues. All University investments are insured or registered and are held by the University or an agent in its name.

**(c) Concentration of Credit Risk**

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

Excluding investments issued or guaranteed by the U.S. government, as well as investments in mutual funds and other pooled investments, as of June 30, 2012, of MU Health Care's share of the University's total cash and investments, 21.5% are issues of the Federal Home Loan Bank (FHLB), 13.6% are issues of the Federal National Mortgage Association (FNMA) and 8.1% are issues of the Government National Mortgage Association (GNMA). As of June 30, 2011, of MU Health Care's share of the University's total cash and investments, 16.1% are issues of the Federal Home Loan Bank (FHLB), and 8.7% are issues of the Federal National Mortgage Association (FNMA).

**(d) Credit Risk**

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

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

All holdings of commercial paper and variable rate demand notes were rated A-1/P-1 or better at June 30, 2012 and 2011, respectively. All holdings of money market funds were rated AAA at June 30, 2012 and 2011.

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

	June 30	
	2012	2011
U.S. Treasury Obligations	\$ 13,389	\$ 31,086
U.S. Agency Obligations	85,259	172,741
Asset-backed/mortgage-backed securities:		
Guaranteed by U.S. Agencies	87,273	56,126
Aaa/AAA	537	356
Aa/AA	206	49
A/A	53	152
Baa/BBB	1,081	53
Ba/BB and lower	3,835	91
Unrated	304	165
Government – foreign:		
Aaa/AAA	4,051	1,629
Aa/AA	1,389	831
A/A	1,580	881
Baa/BBB	1,638	289
Ba/BB and lower	23	—
Unrated	5,671	1,958
Corporate – domestic:		
Aaa/AAA	3,277	1,449
Aa/AA	1,460	11,778
A/A	1,177	27,313
Baa/BBB	2,091	98
Ba/BB and lower	3,702	2,962
Unrated	244	585
Corporate – foreign:		
Aaa/AAA	3,802	2,990
Aa/AA	845	788
A/A	2,581	1,416
Baa/BBB	1,852	248
Ba/BB and lower	339	255
Unrated	2,745	512
Total	\$ 230,404	\$ 316,801

**(e) Interest Rate Risk**

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

The University has investments in asset-backed securities, which consist primarily of mortgage-backed securities guaranteed by U.S. agencies and corporate collateralized mortgage obligations. These securities are based on cash flows from principal and interest payments on the

## UNIVERSITY OF MISSOURI HEALTH CARE

### Notes to Financial Statements

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underlying securities. An asset-backed security may have repayments that vary significantly with changes in market interest rates. The contractual final maturities reflected for asset-backed securities do not reflect actual projected cash flows.

At June 30, 2012 and 2011, the maturities of MU Health Care's share of the University's investments are as follows:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
U.S. Treasury Obligations:		
Less than 1 year	\$ 106	\$ 975
1 – 5 years	1,931	13,234
6 – 10 years	8,045	13,828
More than 10 years	3,307	3,049
Total U.S. Treasury Obligations	13,389	31,086
U.S. Agency Obligations:		
Less than 1 year	26,031	33,429
1 – 5 years	17,899	67,122
6 – 10 years	41,305	56,544
More than 10 years	24	15,646
Total U.S. Agency Obligations	85,259	172,741
Asset-backed securities:		
Less than 1 year		2
1 – 5 years	2	23
6 – 10 years	7,410	3,457
More than 10 years	85,877	53,510
Total asset-backed securities	93,289	56,992
Government – foreign:		
Less than 1 year	175	160
1 – 5 years	5,715	2,028
6 – 10 years	6,185	2,505
More than 10 years	2,277	895
Total Government – foreign	14,352	5,588
Corporate – domestic:		
Less than 1 year	158	7,397
1 – 5 years	2,258	28,767
6 – 10 years	4,260	7,264
More than 10 years	5,275	757
Total corporate – domestic	11,951	44,185
Corporate – foreign:		
Less than 1 year	567	938
1 – 5 years	6,773	3,428
6 – 10 years	4,255	1,146
More than 10 years	569	697
Total corporate – foreign	12,164	6,209
Total debt securities	\$ 230,404	\$ 316,801

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**(f) Foreign Exchange Risk**

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policy allows for exposure to non-U.S. dollar denominated equities and fixed income securities. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency contracts. As of June 30, 2012 and 2011, 8.2% and 9.2%, respectively, of MU Health Care's share of the University's total investments and cash equivalents were denominated in foreign currencies. MU Health Care's share of the University's forward foreign currency contracts in notional amounts totaled \$27,200 and \$13,134, at June 30, 2012 and 2011, respectively. These contracts are marked to market and the changes in their market value are recorded in investment income on the Statements of Revenues, Expenses, and Changes in Net Assets.

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Debt securities:		
Euro	\$ 8,021	\$ 4,277
Australian dollar	919	748
Japanese yen	755	577
British pound sterling	2,875	787
Canadian dollar	1,786	354
Other	3,706	1,939
Total debt securities	<u>18,062</u>	<u>8,682</u>
Equity securities:		
Euro	861	5,547
Japanese yen	1,132	3,184
British pound sterling	1,292	3,434
Swiss franc	902	1,386
Australian dollar	310	750
Canadian dollar	74	828
Other	1,599	1,217
Total equity securities	<u>6,170</u>	<u>16,346</u>
Commingled funds:		
Various currency denominations:		
Debt securities – foreign	4,837	5,779
Equity securities – foreign	7,768	15,328
Equity securities – global	14,706	—
Total commingled funds	<u>27,311</u>	<u>21,107</u>
Cash and cash equivalents:		
Euro	46	234
British pound sterling	18	34
Japanese yen	596	56
Other	58	39
Total cash and cash equivalents	<u>718</u>	<u>363</u>
Total exposure to foreign exchange risk	<u>\$ 52,261</u>	<u>\$ 46,498</u>

**UNIVERSITY OF MISSOURI HEALTH CARE**

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**(4) Capital Assets**

Capital assets activity is summarized as follows:

	2012			
	Beginning balance	Additions/ transfers	Retirements	Ending balance
Capital assets, nondepreciable:				
Land	\$ 4,947	\$ 5,006	\$ —	\$ 9,953
Construction in progress	56,158	57,525	—	113,683
Total capital assets, nondepreciable	<u>61,105</u>	<u>62,531</u>	<u>—</u>	<u>123,636</u>
Capital assets, depreciable:				
Buildings and improvements	363,692	32,685	1,013	395,364
Infrastructure	11,741	1,052	—	12,793
Equipment	265,287	31,717	7,753	289,251
Total capital assets, depreciable	<u>640,720</u>	<u>65,454</u>	<u>8,766</u>	<u>697,408</u>
Less accumulated depreciation:				
Buildings and improvements	157,698	12,720	891	169,527
Infrastructure	1,704	562	—	2,266
Equipment	179,052	22,109	7,637	193,524
Total accumulated depreciation	<u>338,454</u>	<u>35,391</u>	<u>8,528</u>	<u>365,317</u>
Total capital assets, depreciable, net	<u>302,266</u>	<u>30,063</u>	<u>238</u>	<u>332,091</u>
Total capital assets, net	<u>\$ 363,371</u>	<u>\$ 92,594</u>	<u>\$ 238</u>	<u>\$ 455,727</u>

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

The estimated cost to complete construction in progress at June 30, 2012 is \$112,220 of which \$81,948 is available from unrestricted net assets. The remaining costs will be funded from bond proceeds of \$30,272. Included in capital assets is a building facility under a capital lease of \$10,364 and \$8,332, and related accumulated depreciation of \$5,463 and \$4,895 at June 30, 2012 and 2011, respectively.

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**(5) Long-Term Debt Obligations**

Long-term debt obligation activity is summarized as follows:

	<b>2012</b>					
	<u>Beginning of year</u>	<u>Issuance</u>	<u>Bond payments</u>	<u>Defeasance</u>	<u>Amortization</u>	<u>End of year</u>
2006 A	\$ 139,645	\$ —	\$ (4,925)	\$ (134,720)	\$ —	\$ —
2009 A and B	115,251	113,511	(2,338)	(113,511)	—	112,913
2010A	81,193	81,193	(976)	(81,193)	—	80,217
2012	—	134,720	(1,701)	—	—	133,019
Plus unamortized premium/discounts	8,843	3,590	—	(5,930)	(673)	5,830
Less loss on defeasance	(6,614)	(1,121)	—	6,212	408	(1,115)
Total debt obligations	338,318	<u>\$ 331,893</u>	<u>\$ (9,940)</u>	<u>\$ (329,142)</u>	<u>\$ (265)</u>	330,864
Less current portion	<u>7,396</u>					<u>10,931</u>
Long-term debt obligations	<u>\$ 330,922</u>					<u>\$ 319,933</u>
	<b>2011</b>					
	<u>Beginning of year</u>	<u>Issuance</u>	<u>Bond payments</u>	<u>Defeasance</u>	<u>Amortization</u>	<u>End of year</u>
2006 A	\$ 144,355	\$ —	\$ (4,710)	\$ —	\$ —	\$ 139,645
2009 A and B	115,251	—	—	—	—	115,251
2010A	—	81,193	—	—	—	81,193
Plus unamortized premium/discounts	9,516	—	—	—	(673)	8,843
Less loss on defeasance	(7,053)	—	—	—	439	(6,614)
Total debt obligations	262,069	<u>\$ 81,193</u>	<u>\$ (4,710)</u>	<u>\$ —</u>	<u>\$ (234)</u>	338,318
Less current portion	<u>4,710</u>					<u>7,396</u>
Long-term debt obligations	<u>\$ 257,359</u>					<u>\$ 330,922</u>

During 2012, the University internally refinanced \$329,142 of outstanding bonds with MU Health Care, which is reflected as long-term debt obligations due to the University. The long-term debt obligations refunded the 2006A, 2009A and B, and 2010A bonds for MU Health Care. The long-term debt obligations were provided by the University to MU Health Care at a contracted interest rate of 3.85% to 4.97% and \$3,590 premium. The average contracted interest rate for the long-term debt obligations is 4.31%. The final maturity of the long-term debt obligations is October 31, 2041. The refinancing decreased the aggregate debt service payment by \$5,272.

On December 21, 2010, the University issued \$252,285 in taxable Series 2010A System Facilities Revenue Bonds designated as “Build America Bonds” under the Internal Revenue Code of 1986, as amended. With respect to the Series 2010A bonds, the University will receive a cash subsidy payment from the U.S.

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Treasury in an amount equal to 35% of the interest payable on each interest payment date, MU Health Care received \$81,193 from the University's issuance of the Series 2010A System Facilities Revenue Bonds. The University provided the proceeds to MU Health Care at an internal interest rate of 3.85%.

Future minimum maturities on long-term debt obligations as of June 30, 2012, for the next five fiscal years ending June 30, and beyond are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2013	\$ 10,931	\$	13,782	\$	24,713
2014	8,961		13,347		22,308
2015	9,583		12,914		22,497
2016	10,006		12,451		22,457
2017	10,416		11,973		22,389
2018 – 2022	60,843		51,819		112,662
2023 – 2027	80,280		35,934		116,214
2028 – 2032	54,435		19,999		74,434
2033 – 2037	46,775		11,289		58,064
2038 – 2042	33,919		2,336		36,255
Total	\$ 326,149	\$	185,844	\$	511,993

**(6) Lease Obligations**

MU Health Care 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, 2012 and 2011 were \$1,981 and \$2,368, respectively.

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

Capital lease activity is summarized as follows:

	<b>2012</b>			
	<u>Beginning of year</u>		<u>Reclass to short term</u>	<u>End of year</u>
		<u>Payments</u>		
Total capital lease obligation	\$ 7,256	\$ 641	\$ —	\$ 6,615
Less current capital lease obligation	641	—	55	696
Long-term capital lease obligation	\$ 6,615	\$ 641	\$ 55	\$ 5,919

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

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2012 are as follows:

	<u>Capital</u>	<u>Operating</u>
Fiscal year(s):		
2013	\$ 1,563	\$ 1,922
2014	1,563	1,773
2015	1,563	1,376
2016	1,563	955
2017	1,563	472
2018 – 2022	<u>3,515</u>	<u>16</u>
Total future minimum payments	11,330	\$ <u>6,514</u>
Less amount representing interest	<u>4,715</u>	
Present value of future minimum lease payments	\$ <u>6,615</u>	

In addition to the above lease obligations, MU Health Care has outstanding commitments for the usage, and ongoing support of its information technology environment. MU Health Care contracts for software usage and maintenance fees, as well as labor costs with the Cerner Corporation. As of June 30, 2012, this contracted commitment totaled \$139,216 and will be paid in the following amounts: \$16,819 in 2013, \$17,323 in 2014, \$17,843 in 2015, \$18,378 in 2016, \$18,930 in 2017 and \$49,923 thereafter.

*Description of Sublease Arrangement with IOS* – Concurrent with the fiscal year 2003 sale of assets to IOS, MU Health Care entered into an agreement with IOS whereby IOS subleased certain building space from MU Health Care for a period of approximately 17 years at current market rates. MU Health Care 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. In fiscal year 2012, MU Health Care purchased the assets of the IOS and reacquired the Health Pavilion space resulting in a write-off of the remaining unamortized lease receivable, and recognized a building acquisition equal to the remaining asset value of \$2,032.

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#### (7) Insurance and Other Commitments

##### (a) *Malpractice*

MU Health Care participates in the University's Medical, Professional, and Patient General Liability Trust (the Trust), which was established by the Board effective July 1, 1978. Payments from the Trust are limited to the settlement of medical, professional, and patient general liability claims and expenses. The assets of the Trust and the related estimated liabilities have been recorded by the University as part of its unrestricted funds.

The amounts funded by MU Health Care are actuarially determined, based principally on previous claim experience, to provide for settlement of claims arising out of MU Health Care's operations. The amounts contributed by MU Health Care to the Trust were \$1,500 and \$2,263 for the years ended June 30, 2012 and 2011, respectively, and are reflected as other expenses in the accompanying basic financial statements.

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

##### (b) *Medical Resident FICA Refunds*

In March 2010, the United States Internal Revenue Service accepted the position that medical residents are excepted from FICA taxes based upon the "student exception" for tax periods ending before April 1, 2005 when new regulations became effective. In December 2010, the University of Missouri perfected its claims for the refund of taxes withheld for the relevant periods. As of June 30, 2011, MU Health Care recorded a receivable for this refund and related accrued interest income in the amount of \$15,478 and \$9,400, respectively, which reflects the estimated total refund from the Internal Revenue Service. In addition, other accrued liabilities increased by \$15,126, representing the portion of the refund and accrued interest income due to individual residents and medical care entities. A net amount of \$6,671 was recorded as a contra expense within salaries and benefits, and \$3,000 was recorded in investment income. For fiscal year 2012, MU Health Care recorded \$462 in additional accrued interest income, of which \$391 is due to individual residents and medical care entities. A net amount of \$72 was recorded in investment income.

##### (c) *Other*

MU Health Care 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. MU Health Care is charged a premium annually from the University for such coverage.

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#### (8) Retirement Plan

##### (a) Plan Description

All qualified employees of MU Health Care 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 MU Health Care 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 MU Health Care payroll was \$235,114 for the year ended June 30, 2012, of which \$184,027 was covered by the Plan in 2012.

##### (b) Contributions

Contributions to the Plan are based upon actuarially determined rates using the entry age normal method. MU Health Care'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, 2012, 2011, and 2010, based on actuarially determined contribution rates, totaled \$13,250, \$10,050, and \$8,631, respectively. Contributions represented 7.2% of MU Health Care's current year covered payroll costs and 17.8% of the total current year actuarially determined contribution requirement for all University employees. Employees are required to contribute 1.0% of their salary up to \$50,000 in a calendar year and 2.0% of their salary in excess of \$50,000.

#### (9) Other Postemployment Benefits

In addition to the pension benefits described in note 8, MU Health Care participates in the University's Other Postemployment Benefits (OPEB) Plan, which is a single-employer, defined benefit postemployment plan. The OPEB Plan provides medical, dental, life insurance, and long-term disability benefits to claimants who were vested in the University's retirement plan at the time their disability began and vested employees who retire directly from MU Health Care after attaining age 55 and before reaching age 60 with 10 years or more of service, or who retire after attaining age 60 with five or more years of service. Section 172.300 of the Revised Statutes of Missouri gives the Board sole authority and discretion to determine the terms and conditions governing the postemployment benefits to which employees are entitled.

The University maintains an OPEB Trust Fund, the assets of which are irrevocable and legally protected from creditors and dedicated to providing postemployment benefits in accordance with terms of the plan. Postemployment benefits, other than long-term disability, were previously funded on a current basis, and

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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, 2012 and 2011, 826 and 780 members, respectively, receiving postemployment benefits were formerly employees of MU Health Care. Individual member's contributions depend on the medical, dental, and life insurance coverage options they have chosen. For FY 2012, all University members contributed \$13,681 or approximately 47.4% of the total premiums. MU Health Care paid the University \$3,043 and \$2,519 for the years ended June 30, 2012 and 2011, respectively. MU Health Care assumes no liability for postemployment benefits provided by the University other than its annual required contributions.

### **(10) Related-Party Transactions**

MU Health Care 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 MU Health Care during the years ended June 30, 2012 and 2011 were \$69,363 and \$69,661, respectively. Administrative and purchased services paid for by MU Health Care and allocated to the University during the years ended June 30, 2012 and 2011 were \$9,621 and \$8,811, respectively, and are included as a reduction of other expenses in the accompanying basic financial statements.

MU Health Care obtained \$50,000 of investments as a loan from the University in fiscal year 2001. The University committed to loan future funds if the days cash on hand goes below 85 days. The loan is to be repaid upon demand in whole or in part at such time that day's cash on hand of MU Health Care is not less than 85 days. An additional \$5,000 loan was made accordingly in fiscal year 2002. Based upon the loan agreement, MU Health Care 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 2012 or 2011. Management does not anticipate repayment of the loan in fiscal year 2013.

During 2012, MU Health Care refinanced its outstanding bonds in the amount of \$329,142 with the University. The bonds were replaced with long-term debt obligation agreements between the University and MU Health Care. Details of the refinancing are disclosed in note 5, Long-Term Debt Obligations.

### **(11) Transfers**

In addition to services purchased from the divisions of the University, MU Health Care also provides support to certain of these divisions through transfers. These transfers were \$2,998 and \$2,110 for the years ended June 30, 2012 and 2011, respectively, and principally provide funding for recruitments and operational support to divisions.