



**UNIVERSITY OF MISSOURI HEALTH CARE**

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

# UNIVERSITY OF MISSOURI HEALTH CARE

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## Independent Auditors' Report

The Board of Curators  
University of Missouri:

### Report on the Financial Statements

We have audited the accompanying financial statements of University of Missouri Health Care (MU Health Care) which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

As discussed in note 1, the financial statements of MU Health Care are intended to present the net position, statements of revenues, expenses, and changes in net 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, 2013 and 2012, 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

***Other Matters***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 3-9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2013, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MU Health Care's internal control over financial reporting and compliance.

**KPMG LLP**

St. Louis, Missouri  
October 10, 2013

# **UNIVERSITY OF MISSOURI HEALTH CARE**

## **Management's Discussion and Analysis**

June 30, 2013 and 2012

(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 Position, (2) Statements of Revenues, Expenses, and Changes in Net Position, 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 Position Information**

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

**UNIVERSITY OF MISSOURI HEALTH CARE**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

A summary of the Statements of Net Position at June 30, 2013, 2012, and 2011 is as follows (dollars in thousands):

	<b>Fiscal year</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Assets:</b>			
Current assets	\$ 187,783	\$ 225,207	\$ 222,184
Other noncurrent assets	269,700	282,539	368,565
Capital assets	520,514	455,727	363,371
Total assets	<u>\$ 977,997</u>	<u>\$ 963,473</u>	<u>\$ 954,120</u>
<b>Liabilities:</b>			
Current liabilities	\$ 66,204	\$ 81,699	\$ 85,984
Noncurrent liabilities	371,030	380,852	394,056
Total liabilities	<u>437,234</u>	<u>462,551</u>	<u>480,040</u>
<b>Net Position:</b>			
Net investment in capital assets	221,680	152,586	111,518
Restricted	8,047	7,326	7,262
Unrestricted	311,036	341,010	355,300
Total net position	<u>540,763</u>	<u>500,922</u>	<u>474,080</u>
Total liabilities and net position	<u>\$ 977,997</u>	<u>\$ 963,473</u>	<u>\$ 954,120</u>

***Fiscal Year 2013 Compared to Fiscal Year 2012***

Total assets increased \$14.5 million from \$963.5 million in fiscal year 2012 to \$978.0 million in fiscal year 2013. Cash, cash equivalents, and investments decreased \$27.0 million due to the use of prior year bond proceeds and cash reserves for the construction of the new Patient Care Tower. As MU Health Care continues to invest in capital additions and improvements throughout its facilities, capital assets, net of accumulated depreciation, increased by \$64.8 million from \$455.7 million in fiscal year 2012 to \$520.5 million in fiscal year 2013. These investments in MU Health Care's infrastructure include, but are not limited to, \$16.5 million in renovations, \$48.8 million in new building construction, and \$41.2 million on patient monitoring and diagnostic equipment.

Total liabilities decreased by \$25.3 million from \$462.6 million in fiscal year 2012 to \$437.2 million in fiscal year 2013. This decrease is primarily due to the payment of \$10.9 million on long-term debt liabilities, and the resolution of \$15.3 million in payments to individual residents and medical care entities for medical resident FICA refunds. MU Health Care received \$31.5 million in refunds and interest from the Internal Revenue Service during fiscal year 2013, a portion of which had been recognized as income or expense reduction in prior years.

For fiscal year 2013, MU Health Care's total net position is \$540.7 million, which represents an increase of \$39.8 million over fiscal year 2012 level of \$500.9 million.

## UNIVERSITY OF MISSOURI HEALTH CARE

### Management's Discussion and Analysis

June 30, 2013 and 2012

(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 position was \$500.9 million, which reflects an increase of \$26.8 million over fiscal year 2011 level of \$474.1 million.

**UNIVERSITY OF MISSOURI HEALTH CARE**

Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

**Statements of Revenues, Expenses, and Changes in Net Position Information**

MU Health Care's Statements of Revenues, Expenses, and Changes in Net Position present the results of operations and nonoperating activities. A summary of these statements for the years ended June 30, 2013, 2012, and 2011 is as follows (dollars in thousands):

	Fiscal year		
	2013	2012	2011
Net patient service revenues	\$ 684,621	\$ 639,180	\$ 594,517
Other operating revenues	21,497	17,861	22,125
Total operating revenues	<u>706,118</u>	<u>657,041</u>	<u>616,642</u>
Operating expenses:			
Salaries and benefits	312,398	306,354	286,743
Medical supplies and drugs	140,750	135,149	126,357
Administrative and support services	56,155	54,288	56,846
Depreciation	41,446	35,391	34,703
Other expenses	121,560	109,311	103,770
Total operating expenses	<u>672,309</u>	<u>640,493</u>	<u>608,419</u>
Operating income before State appropriations	33,809	16,548	8,223
State appropriations	<u>10,028</u>	<u>10,028</u>	<u>18,229</u>
Income after State appropriations, before nonoperating revenues, net	<u>43,837</u>	<u>26,576</u>	<u>26,452</u>
Interest expense, net of capitalized interest of \$4,837 and \$6,593 in 2013 and 2012, respectively	(9,753)	(8,427)	(9,006)
Other nonoperating revenues, net	<u>10,951</u>	<u>6,580</u>	<u>22,313</u>
Total nonoperating revenues, net	<u>1,198</u>	<u>(1,847)</u>	<u>13,307</u>
Income before capital additions, contributions, and transfers	45,035	24,729	39,759
State capital appropriations	—	—	2,753
Contributed capital assets	3,003	4,897	6,003
Capital and endowment gifts	189	214	193
Income before transfers	<u>48,227</u>	<u>29,840</u>	<u>48,708</u>
Transfers, net	<u>(8,386)</u>	<u>(2,998)</u>	<u>(2,110)</u>
Change in net position	39,841	26,842	46,598
Total net position, beginning of year	<u>500,922</u>	<u>474,080</u>	<u>427,482</u>
Total net position, end of year	<u>\$ 540,763</u>	<u>\$ 500,922</u>	<u>\$ 474,080</u>

**UNIVERSITY OF MISSOURI HEALTH CARE**

Management's Discussion and Analysis

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(Unaudited)

***Fiscal Year 2013 Compared to Fiscal Year 2012***

For fiscal year 2013, MU Health Care had an increase in net position of \$39.8 million compared to \$26.8 million for fiscal year 2012. Operating revenues in fiscal year 2013 were \$49.0 million greater than prior year and represents a 7.5% increase. The following table provides a summary of the key statistics for fiscal years 2013, 2012, and 2011.

	<b>Key statistics</b>		
	<b>Fiscal year</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Discharges	24,028	22,203	22,165
Patient days	126,142	120,985	123,572
Clinic visits	568,675	553,300	540,835
Emergency room visits	54,375	51,632	49,276
Surgery cases	23,135	22,774	21,281

In fiscal year 2013, MU Health Care continued to experience growth in both inpatient and outpatient areas. Discharges increased 1,825, or 8.2%, over fiscal year 2012, and patient days increased 5,157, or 4.3%. Clinic visits increased by 15,375, or 2.8%, and emergency room visits grew by 2,743, or 5.3% over fiscal year 2012.

In fiscal year 2013, operating expenses were \$31.8 million higher than the prior year, which represents a 5.0% increase. Salary and benefit expense increased by \$6.0 million, or 2.0%, as a result of an average 2.4% merit increase, and market adjustments given in fiscal year 2013. Medical supplies and drugs increased \$5.6 million, or 4.1% over prior year as a direct result of increased utilization.

In March 2013, MU Health Care opened a new 310,500 square foot, eight-story patient care tower on the northeast side of the University of Missouri Hospital. The building includes 90 private patient rooms, six new operating rooms, an inpatient pharmacy, and pre- and post-procedure rooms, as well as two floors dedicated to the Ellis Fischel Cancer Center. Increases in depreciation expense and other expenses are a direct reflection of the opening of the facility. Other expenses include over \$6.5 million in startup costs and utility expenses for the new building.

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

For fiscal year 2012, MU Health Care had an increase in net position 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.

Fiscal year 2012 continued to experience growth in outpatient areas, where inpatient areas saw minimal changes over prior year. Discharges increased 38, or 0.2%, over fiscal year 2011, and patient days decreased 2,587, 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 emergency room visits grew by 2,356, or 4.8% over fiscal year 2011. In December 2011, MU Health Care 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

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Management's Discussion and Analysis

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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.

**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, 2013, 2012, and 2011 are summarized as follows (dollars in thousands):

	<b>Fiscal year</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cash provided by (used in):			
Operating activities	\$ 82,796	\$ 34,576	\$ 38,711
Noncapital financing activities	2,979	8,200	17,092
Capital and related financing activities	(125,593)	(135,058)	2,477
Investing activities	13,369	101,839	(73,453)
Net increase (decrease) in cash and cash equivalents	(26,449)	9,557	(15,173)
Cash and cash equivalents, beginning of year	55,758	46,201	61,374
Cash and cash equivalents, end of year	\$ 29,309	\$ 55,758	\$ 46,201

***Fiscal Year 2013 Compared to Fiscal Year 2012***

During fiscal year 2013, MU Health Care's cash decreased by \$26.4 million as compared to a \$9.6 million increase in fiscal year 2012. For fiscal year 2013, operating activities generated \$82.8 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 2013, MU Health Care had an increase in cash of \$3.0 million. Capital and related financing activities resulted in \$125.6 million decrease in cash primarily due to spending on a new patient tower and other outpatient facilities. Investing activities increased cash by \$13.4 million principally due to an increase in long-term investment holdings by the University and earnings on the investments during fiscal year 2013.

# UNIVERSITY OF MISSOURI HEALTH CARE

## Management's Discussion and Analysis

June 30, 2013 and 2012

(Unaudited)

### ***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.

### **MU Health Care Outlook**

As in the prior years, MU Health Care maintains a focus on advancing the health of Missourians through improved patient care, customer service and quality. The State appropriation funding approved for fiscal year 2014 will provide \$10.0 million of continuing support for the operations of the Missouri Rehabilitation Center. In April 2013, a fee increase averaging 5% was implemented and continues into fiscal year 2014 with pricing revisions made throughout the year as needed. Physician recruitment, patient satisfaction, and core service lines remain a focus for MU Health Care.

For the future, MU Health Care continues to pursue growth and its academic mission. During 2013, MU Health Care completed a 310,500 square foot, eight-story, care tower, which includes a replacement of the Ellis Fischel Cancer Center. MU Health Care has also begun construction on a new replacement 84,000 square foot outpatient facility in Columbia, with expected completion in fiscal year 2015. These capital investments 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 continually monitors the changing 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 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.

**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Net Position

June 30, 2013 and 2012

(Dollars in thousands)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	\$ 23,823	\$ 47,687
Cash and cash equivalents – restricted	5,486	8,071
Short-term investments	31,688	22,792
Short-term investments – restricted	7,658	4,244
Patient accounts receivable, less allowance for doubtful accounts of \$15,705 and \$15,646 in 2013 and 2012, respectively	73,673	73,947
Third-party and other receivables	23,382	47,209
Inventories and other assets	22,073	21,257
	<hr/>	<hr/>
Total current assets	187,783	225,207
Noncurrent assets:		
Long-term investments	245,691	248,329
Long-term investments – restricted	20,859	31,039
Capital assets:		
Depreciable	505,059	332,091
Nondepreciable	15,455	123,636
Other assets	3,150	3,171
	<hr/>	<hr/>
Total noncurrent assets	790,214	738,266
Total assets	\$ <u>977,997</u>	\$ <u>963,473</u>

See accompanying notes to financial statements.

<b>Liabilities</b>	<b>2013</b>	<b>2012</b>
Current liabilities:		
Accounts payable	\$ 21,100	\$ 35,717
Estimated third-party payor settlements	5,036	7,086
Accrued employee compensation	30,233	27,222
Deferred revenue	119	47
Capital lease obligations, current	755	696
Long-term debt obligations, current	8,961	10,931
Total current liabilities	<u>66,204</u>	<u>81,699</u>
Noncurrent liabilities:		
Amount due University	55,000	55,000
Capital lease – less current portion	5,164	5,919
Long-term debt obligations – less current portion	310,866	319,933
Total noncurrent liabilities	<u>371,030</u>	<u>380,852</u>
Total liabilities	<u>437,234</u>	<u>462,551</u>
<b>Net Position</b>		
Net investment in capital assets	221,680	152,586
Restricted:		
Nonexpendable:		
Endowment	630	571
Expendable:		
Research and other	7,417	6,755
Unrestricted	311,036	341,010
Total net position	<u>540,763</u>	<u>500,922</u>
Total liabilities and net position	<u>\$ 977,997</u>	<u>\$ 963,473</u>

**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>		<u>2012</u>
Operating revenues:			
Net patient service revenues	\$ 684,621	\$	639,180
Sales by auxiliary enterprises and other	21,497		17,861
Total operating revenues	<u>706,118</u>		<u>657,041</u>
Operating expenses:			
Salaries and benefits	312,398		306,354
Medical supplies and drugs	140,750		135,149
Administrative and support services	56,155		54,288
Depreciation	41,446		35,391
Other expenses	121,560		109,311
Total operating expenses	<u>672,309</u>		<u>640,493</u>
Operating income before State appropriations	33,809		16,548
State appropriations	10,028		10,028
Income after State appropriations, before nonoperating revenues (expenses)	<u>43,837</u>		<u>26,576</u>
Nonoperating revenues (expenses):			
Investment income	9,900		5,342
Private gifts	1,174		1,097
Interest expense, net of amounts capitalized of \$4,837 and \$6,593 in 2013 and 2012, respectively	(9,753)		(8,427)
Gain (loss) on disposal, net	(123)		141
Total nonoperating revenues (expenses), net	<u>1,198</u>		<u>(1,847)</u>
Income before capital additions, contributions, and transfers	45,035		24,729
Contributed capital assets	3,003		4,897
Capital and endowment gifts	189		214
Income before transfers	48,227		29,840
Transfers to the University, net	(8,386)		(2,998)
Change in net position	39,841		26,842
Total net position, beginning of year	<u>500,922</u>		<u>474,080</u>
Total net position, end of year	<u>\$ 540,763</u>	\$	<u>500,922</u>

See accompanying notes to financial statements.

**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>		<u>2012</u>
Cash flows from operating activities:			
Cash proceeds from patient service revenue	\$ 681,406	\$	622,079
Cash proceeds from other sales	21,507		18,161
Cash payments to employees	(235,944)		(231,201)
Cash payments for benefits	(66,566)		(72,345)
Cash payments to suppliers	<u>(317,607)</u>		<u>(302,118)</u>
Net cash provided by operating activities	<u>82,796</u>		<u>34,576</u>
Cash flows from noncapital financing activities:			
Transfers to the University, net	(8,359)		(2,995)
State appropriations	10,028		10,028
Private and endowment gifts	<u>1,310</u>		<u>1,167</u>
Net cash provided by noncapital financing activities	<u>2,979</u>		<u>8,200</u>
Cash flows from capital and related financing activities:			
Capital expenditures	(99,600)		(111,058)
Cash proceeds from sales of capital assets	149		379
Capital gifts	135		211
Proceeds on issuance of debt obligations	—		329,424
Retirement of long-term debt	—		(329,424)
Principal payments on long-term debt	(10,931)		(9,940)
Capital lease principal payments	(696)		(641)
Interest paid on long-term debt	<u>(14,650)</u>		<u>(14,009)</u>
Net cash used in capital and related financing activities	<u>(125,593)</u>		<u>(135,058)</u>
Cash flows from investing activities:			
Increase in investments	508		98,261
Cash proceeds from equity investees	—		227
Purchase of Institute for Outpatient Surgery assets	—		(1,992)
Purchase of Excel Physical Therapy	(110)		—
Investment income	<u>12,971</u>		<u>5,343</u>
Net cash provided by investing activities	<u>13,369</u>		<u>101,839</u>
Net change in cash and cash equivalents	<u>(26,449)</u>		<u>9,557</u>
Cash and cash equivalents, beginning of year	<u>55,758</u>		<u>46,201</u>
Cash and cash equivalents, end of year	<u>\$ 29,309</u>	\$	<u>55,758</u>

**UNIVERSITY OF MISSOURI HEALTH CARE**

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 33,809	\$ 16,548
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,446	35,391
Provision for bad debts	65,496	63,519
Changes in assets and liabilities:		
Net patient receivables and third-party receivable	(47,137)	(80,384)
Inventories and other assets	(828)	(2,497)
Accounts payable and accrued expenses	(9,990)	1,999
Net cash provided by operating activities	<u>\$ 82,796</u>	<u>\$ 34,576</u>
Supplemental disclosures of noncash activities:		
Earnings (loss) from ownership interest of equity investments	\$ —	\$ (74)
Contributed capital assets	3,003	4,897

See accompanying notes to financial statements.

# UNIVERSITY OF MISSOURI HEALTH CARE

## Notes to Financial Statements

June 30, 2013 and 2012

(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 of Missouri, the University is generally 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), and Missouri Rehabilitation Center (MRC) in Mt. Vernon, Missouri.

#### (b) Basis of Accounting

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 Statements of Revenues, Expenses, and Changes in Net Position, 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. Nonoperating 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 position categories:

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

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

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*Restricted – Expendable* – Net position 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 position funds prior to unrestricted net position funds when both are available for use.

*Unrestricted* – Net position that is not subject to externally imposed constraints nor related to capital assets. Unrestricted net position funds may be designated for specific purposes by action of management or the Board of Curators (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 seven days. As of June 30, 2013 and 2012, 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 Flows.

**(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 absolute return and risk parity 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 on designated investments. The guaranteed return was 1.5% for the year ended June 30, 2013 and 2.0% for the year ended June 30, 2012. As of June 30, 2013, 67.1% 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 and absolute return and risk parity funds, which continue to reflect actual earnings and market fluctuations.

**(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

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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) 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 \$934 and \$230 for the years ended June 30, 2013 and 2012, respectively.

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

A percentage breakdown of gross patient accounts receivable by major payor classification of MU Health Care for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Medicare	28%	24%
Managed care agreements	23	27
Medicaid	23	22
Self-pay and other	18	18
Commercial insurance	8	9
	<u>100%</u>	<u>100%</u>
Total		

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.

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The gross to net patient revenue detail is reflected below for both 2013 and 2012. Only net patient revenue is reflected on the Statements of Revenues, Expenses, and Changes in Net Position.

	<b>2013</b>		<b>2012</b>
Gross patient revenue	\$ 1,761,245	\$	1,625,118
Less deductions for contractual allowances	(1,011,128)		(922,419)
Less deductions for bad debt allowances	(65,496)		(63,519)
Net patient revenues	\$ 684,621	\$	639,180

**(h) 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 gross 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.

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 \$49,412 and \$43,134 in fiscal years 2013 and 2012, 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.

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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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Cost of charity care	\$ 15,584	\$ 10,972
Unreimbursed cost under state and local government assistance programs, net of Medicaid disproportionate share funding, less Medicaid provider taxes	(5,077)	446
Cost of uncollectible accounts	<u>21,132</u>	<u>21,361</u>
Total	<u>\$ 31,639</u>	<u>\$ 32,779</u>

**(i) Appropriations and Private Gifts**

The State provides direct appropriations to the MU Health Care, for MRC, which totaled \$10,028 and \$10,028 for the years ended June 30, 2013 and 2012, respectively.

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 2013 and 2012 of \$1,174 and \$1,097, respectively. MU Health Care also received gifts for capital assets and endowments in 2013 and 2012 of \$3,165 and \$5,111, respectively. Refer to note 1(j) for further discussion.

MU Health Care receives unconditional promises to give through private donations (pledges). The total pledges receivable as of June 30, 2013 and 2012 were \$52 and \$182, net of \$8 and \$29, 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 Statements of Net Position and as private gift revenues on the Statements of Revenues, Expenses, and Changes in Net Position, 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.

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

MU Health Care maintains 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 \$3,003 in fiscal year 2013 and \$4,897 in fiscal year 2012.

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**(k) 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.

**(l) New Accounting Pronouncements**

Effective for fiscal year 2013, the University and MU Health Care adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which applies to service concession arrangements (SCAs) which are defined as public-private partnerships in which the public institution retains specific control criteria. Adoption of GASB Statement No. 60 had no effect on MU Health Care's financial statements.

Effective for fiscal year 2013, the University and MU Health Care adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*, which intends to improve financial reporting for a governmental financial reporting entity. The Statement amends the requirements of GASB Statement No. 14. Adoption of GASB Statement No. 61 had no effect on MU Health Care's financial statements.

Effective for fiscal year 2012, the University and MU Health Care adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporated 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 MU Health Care's financial statements.

Effective for fiscal year 2013, the University and MU Health Care adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which addresses how to report elements of financial statements that are deferrals, and explains that net position is the residual of all other elements presented in a statement of net position. Adoption of GASB Statement No. 63 has no effect on the University and MU Health Care other than renaming various report titles and certain line items. These changes have been incorporated in the financial statements presented.

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

In March 2012, GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which intends to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to

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ensure consistency in financial reports. The University and MU Health Care have not yet determined the effect that adoption of GASB Statement No. 65 will have on the financial statements.

In June 2012, GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which intends to improve financial reporting by state and local governmental pension plans. Also, in June 2012, GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*, which will enhance accounting and financial reporting by state and local governments for pensions and improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The adoption of GASB Statements No. 67 and No. 68 will be recorded by the University, and will have no effect on MU Health Care’s financial statements.

### **(m) 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 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, 2013 and 2012.

## **(3) Investments**

### ***(a) Investments***

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

*General Pool* – The General Pool contains short-term University funds, including, but not limited to, cash and reserves, operating funds, bond funds, and plant funds. Subject to various limitations contained within the corresponding investment policy, the University’s internally managed component of the General Pool may be invested in the following instruments: U.S. Government securities; U.S. Government Agency securities; U.S. Government guaranteed securities; money market funds; certificates of deposit; repurchase agreements; commercial paper; and other similar short-term investment instruments of like or better quality and the externally managed component of the General Pool is allowed to invest in the following assets sectors: fixed income, absolute return, and risk parity strategies. As of June 30, 2013 and 2012, MU Health Care held investments of

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\$332,848 and \$320,715 in the General Pool including a portion, \$107,829 and \$0, respectively, which was allocated to risk parity strategies within the University's General 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, 2013 and 2012, MU Health Care held investments of \$483 and \$40,031, respectively, on which actual earnings and market fluctuations were recorded.

MU Health Care's share of the University's investments, by investment type, is as follows:

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Debt securities:		
U.S. Treasury	\$ 23,133	\$ 13,389
U.S. Agency	63,197	85,259
Asset-backed securities	19,296	93,289
Government – foreign	2,281	14,352
Corporate – domestic	23,562	11,951
Corporate – foreign	10,622	12,164
Equity securities:		
Domestic	9,498	13,715
Foreign	4,779	7,857
Commingled funds:		
Absolute return	6,547	4,395
Risk parity	107,829	—
Debt securities – global	1	—
Debt securities – domestic	6,503	11,680
Debt securities – foreign	3,420	4,837
Equity securities – domestic	1,475	2,061
Equity securities – foreign	4,968	7,768
Equity securities – global	10,254	14,706
Real estate	585	825
Nonmarketable alternative investments:		
Real estate	2,197	3,162
Private equity	3,305	3,816
Other	2,444	1,178
Total investments	<u>305,896</u>	<u>306,404</u>
Money market funds	12,310	14,904
Commercial paper	9,818	39,032
Other	7,181	1,822
Total cash and cash equivalents	<u>29,309</u>	<u>55,758</u>
Total investments and cash and cash equivalents	<u>\$ 335,205</u>	<u>\$ 362,162</u>

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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 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, 2013, of MU Health Care's share of the University's total cash and investments, 8.8% are issues of the Federal Home Loan Bank (FHLB) and 7.6% are issues of the Federal National Mortgage Association (FNMA). 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).

**(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

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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, 2013 and 2012, respectively. All holdings of money market funds were rated AAA at June 30, 2013 and 2012.

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:

	<b>June 30</b>	
	<u>2013</u>	<u>2012</u>
U.S. Treasury Obligations	\$ 23,133	\$ 13,389
U.S. Agency Obligations	63,197	85,259
Asset-backed/mortgage-backed securities:		
Guaranteed by U.S. Agencies	7,413	87,273
Aaa/AAA	383	537
Aa/AA	264	206
A/A	189	53
Baa/BBB	343	1,081
Ba/BB and lower	10,532	3,835
Unrated	172	304
Government – foreign:		
Aaa/AAA	295	4,051
Aa/AA	291	1,389
A/A	1,204	1,580
Baa/BBB	135	1,638
Ba/BB and lower	—	23
Unrated	356	5,671
Corporate – domestic:		
Aaa/AAA	76	3,277
Aa/AA	11	1,460
A/A	152	1,177
Baa/BBB	2,145	2,091
Ba/BB and lower	15,262	3,702
Unrated	5,916	244
Corporate – foreign:		
Aaa/AAA	444	3,802
Aa/AA	271	845
A/A	1,059	2,581
Baa/BBB	2,844	1,852
Ba/BB and lower	4,372	339
Unrated	1,632	2,745
Total	<u>\$ 142,091</u>	<u>\$ 230,404</u>

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**(e) Interest Rate Risk**

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

The University has investments in asset-backed securities, which consist primarily of mortgage-backed securities guaranteed by U.S. agencies and corporate collateralized mortgage obligations. These securities are based on cash flows from principal and interest payments on the underlying securities. An asset-backed security may have repayments that vary significantly with changes in market interest rates.

At June 30, 2013 and 2012, the modified duration of MU Health Care's share of the University's investments is as follows:

	<b>June 30</b>			
	<b>2013</b>		<b>2012</b>	
	<b>Balance</b>	<b>Duration in years</b>	<b>Balance</b>	<b>Duration in years</b>
U.S. Treasury Obligations	\$ 23,133	7.1	\$ 13,389	8.5
U.S. Agency Obligations	63,197	2.2	85,259	1.3
Asset-Backed Securities	19,296	6.1	93,289	5.6
Government – Foreign	2,281	7.1	14,352	5.5
Corporate – Domestic	23,562	3.9	11,951	4.3
Corporate – Foreign	10,622	4.4	12,164	6.3
	<u>\$ 142,091</u>	<u>4.0</u>	<u>\$ 230,404</u>	<u>4.4</u>

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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 which may be fully or partially hedged using forward foreign currency contracts. As of June 30, 2013 and 2012, 5.1% and 8.2%, 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 \$15,021 and \$27,200 at June 30, 2013 and 2012, 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 Position.

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
Debt securities:		
Euro	\$ 4,040	\$ 8,021
Australian dollar	(174)	919
Japanese yen	196	755
British pound sterling	2,406	2,875
Canadian dollar	136	1,786
Other	509	3,706
Total debt securities	<u>7,113</u>	<u>18,062</u>
Equity securities:		
Euro	379	861
Japanese yen	725	1,132
British pound sterling	858	1,292
Swiss franc	548	902
Australian dollar	129	310
Canadian dollar	43	74
Other	932	1,599
Total equity securities	<u>3,614</u>	<u>6,170</u>
Commingled funds:		
Various currency denominations:		
Debt securities – foreign	3,419	4,837
Equity securities – foreign	4,968	7,768
Equity securities – global	10,253	14,706
Total commingled funds	<u>18,640</u>	<u>27,311</u>
Cash and cash equivalents:		
Euro	32	46
Hong Kong Dollar	—	18
Mexican New Peso	12	596
Other	278	58
Total cash and cash equivalents	<u>322</u>	<u>718</u>
Total exposure to foreign exchange risk	<u>\$ 29,689</u>	<u>\$ 52,261</u>

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**(4) Capital Assets**

Capital assets activity is summarized as follows:

	<b>2013</b>			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Capital assets, nondepreciable:				
Land	\$ 9,953	\$ —	\$ —	\$ 9,953
Construction in progress	113,683	(108,181)	—	5,502
Total capital assets, nondepreciable	<u>123,636</u>	<u>(108,181)</u>	<u>—</u>	<u>15,455</u>
Capital assets, depreciable:				
Buildings and improvements	395,364	170,920	43	566,241
Infrastructure	12,793	2,548	11	15,330
Equipment	289,251	41,218	12,802	317,667
Total capital assets, depreciable	<u>697,408</u>	<u>214,686</u>	<u>12,856</u>	<u>899,238</u>
Less accumulated depreciation:				
Buildings and improvements	169,527	16,251	3	185,775
Infrastructure	2,266	679	5	2,940
Equipment	193,524	24,516	12,576	205,464
Total accumulated depreciation	<u>365,317</u>	<u>41,446</u>	<u>12,584</u>	<u>394,179</u>
Total capital assets, depreciable, net	<u>332,091</u>	<u>173,240</u>	<u>272</u>	<u>505,059</u>
Total capital assets, net	<u>\$ 455,727</u>	<u>\$ 65,059</u>	<u>\$ 272</u>	<u>\$ 520,514</u>

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	<b>2012</b>			
	<b>Beginning balance</b>	<b>Additions/ transfers</b>	<b>Retirements</b>	<b>Ending balance</b>
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>

The estimated cost to complete construction in progress at June 30, 2013 is \$60,830 of which \$34,524 is available from unrestricted net assets and \$3,175 is available from restricted gift funds. The remaining costs will be funded from \$23,131 in bond proceeds. Included in capital assets is a building facility under a capital lease of \$10,364, and related accumulated depreciation of \$6,139 and \$5,463 at June 30, 2013 and 2012, respectively.

**UNIVERSITY OF MISSOURI HEALTH CARE**

Notes to Financial Statements

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(Dollars in thousands)

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

Long-term debt obligation activity is summarized as follows:

	2013					
	Beginning of year	Issuance	Payments	Defeasance	Amortization	End of year
2009 A and B	\$ 112,913	\$ —	\$ (2,424)	\$ —	\$ —	\$ 110,489
2010A	80,217	—	(1,505)	—	—	78,712
2012	133,019	—	(7,002)	—	—	126,017
Plus unamortized premium/discounts	5,830	—	—	—	(317)	5,513
Less loss on defeasance	(1,115)	—	—	—	211	(904)
<b>Total debt obligations</b>	<b>330,864</b>	<b>\$ —</b>	<b>\$ (10,931)</b>	<b>\$ —</b>	<b>\$ (106)</b>	<b>319,827</b>
Less current portion	10,931					8,961
<b>Long-term debt obligations</b>	<b>\$ 319,933</b>					<b>\$ 310,866</b>
	2012					
	Beginning of year	Issuance	Payments	Defeasance	Amortization	End of year
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)
<b>Total debt obligations</b>	<b>338,318</b>	<b>\$ 331,893</b>	<b>\$ (9,940)</b>	<b>\$ (329,142)</b>	<b>\$ (265)</b>	<b>330,864</b>
Less current portion	7,396					10,931
<b>Long-term debt obligations</b>	<b>\$ 330,922</b>					<b>\$ 319,933</b>

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.

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Future minimum maturities on long-term debt obligations as of June 30, 2013, for the next five fiscal years ending June 30, and beyond are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	10,929	11,472	22,401
2019 – 2023	64,453	48,919	113,372
2024 – 2028	84,708	32,313	117,021
2029 – 2033	44,110	18,014	62,124
2034 – 2038	48,629	9,449	58,078
2039 – 2042	23,423	1,211	24,634
Total	\$ <u>315,218</u>	\$ <u>172,063</u>	\$ <u>487,281</u>

**(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, 2013 and 2012 were \$2,075 and \$1,981, 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>2013</b>		
	<u>Beginning of year</u>	<u>Payments</u>	<u>End of year</u>
Total capital lease obligation	\$ 6,615	\$ 696	\$ 5,919
Less current capital lease obligation	696		755
Long-term capital lease obligation	\$ <u>5,919</u>		\$ <u>5,164</u>

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(Dollars in thousands)

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

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2013 are as follows:

	<u>Capital</u>	<u>Operating</u>
Fiscal year(s):		
2014	\$ 1,563	\$ 2,188
2015	1,563	1,647
2016	1,563	1,133
2017	1,563	471
2018	1,563	16
2019 – 2022	<u>1,953</u>	<u>—</u>
Total future minimum payments	9,768	\$ <u>5,455</u>
Less amount representing interest	<u>3,849</u>	
Present value of future minimum lease payments	<u>\$ 5,919</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. As of June 30, 2013, this contracted commitment totaled \$123,757 and will be paid in the following amounts: \$17,516 in 2014, \$18,041 in 2015, \$18,583 in 2016, \$19,140 in 2017, \$19,714 in 2018, and \$30,763 thereafter.

**(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.

## UNIVERSITY OF MISSOURI HEALTH CARE

### Notes to Financial Statements

June 30, 2013 and 2012

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The amounts contributed by MU Health Care to the Trust were \$983 and \$1,500 for the years ended June 30, 2013 and 2012, 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) Other Health Care Matters**

MU Health Care has reviewed potential federal health program reimbursement issues and is in process of self-disclosure for these matters. The estimated minimum likely exposure is \$1,785,000. As the federal government could assess penalties or assert alternative theories or analyses concerning amounts of liability, the potential for additional exposure exists but cannot be estimated at this time, as these matters have not yet been resolved.

**(c) Medical Resident FICA Refunds**

In March 2010, the United States Internal Revenue Service (IRS) 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. During the year ended June 30, 2013, MU Health Care received \$31,459 in refunds and related interest from the IRS. Of this amount, \$14,694 was due to individual residents and medical care entities. The remaining \$16,765 represents MU Health Care's portion of the FICA refund and related interest, of which \$9,863 had been reflected as a reduction of salaries, wages and benefits, or interest income, in prior years. For the year ended June 30, 2013, MU Health Care recorded an additional \$6,706 in interest income and \$226 in a reduction to salaries, wages and benefits. As of June 30, 2013, MU Health Care maintains a liability of \$203 to medical care entities related to the refund received.

**(d) 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.

## UNIVERSITY OF MISSOURI HEALTH CARE

### Notes to Financial Statements

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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 \$238,036 and \$235,114 for the years ended June 30, 2013 and 2012, of which \$185,286 and \$184,027 was covered by the Plan in 2013 and 2012, respectively.

##### **(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 Position. Contributions to the Plan during the years ended June 30, 2013, 2012, and 2011, based on actuarially determined contribution rates, totaled \$16,490, \$13,250, and \$10,050, respectively. Contributions represented 8.9% of MU Health Care's current year covered payroll costs and 17.5% 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

## UNIVERSITY OF MISSOURI HEALTH CARE

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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, 2013 and 2012, 887 and 826 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 fiscal year 2013, all University members contributed \$14,458 or approximately 47.6% of the total premiums. MU Health Care paid the University \$2,683 and \$3,043 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012 were \$70,859 and \$69,363, respectively. Administrative and purchased services paid for by MU Health Care and allocated to the University during the years ended June 30, 2013 and 2012 were \$9,580 and \$9,621, 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 2013 or 2012. Management does not anticipate repayment of the loan in fiscal year 2014.

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 \$8,386 and \$2,998 for the years ended June 30, 2013 and 2012, respectively, and principally provide funding for recruitments and operational support to divisions. In 2013, the transfer includes \$8,450 to the School of Medicine in additional support in accordance with a new revenue sharing agreement the components of which are reviewed and agreed to annually. This transfer is net of \$2,259 in funding from the School of Medicine in support of facility renovation costs.