



UNIVERSITY OF MISSOURI HEALTH CARE

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

UNIVERSITY OF MISSOURI HEALTH CARE

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-9
Financial Statements:	
Statements of Net Position as of June 30, 2014 and 2013	10-11
Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2014 and 2013	12
Statements of Cash Flows for the years ended June 30, 2014 and 2013	13-14
Notes to Financial Statements	15-36



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

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, 2014 and 2013, 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

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, 2014 and 2013, 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.



Emphasis of Matter

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, 2014 and 2013, the changes in its financial position or its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1, effective July 1, 2013, MU Health Care implemented Government Accounting Standards Board (GASB) No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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, 2014, 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, 2014

UNIVERSITY OF MISSOURI HEALTH CARE

Management's Discussion and Analysis

June 30, 2014 and 2013

(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, 2014 and 2013

(Unaudited)

A summary of the Statements of Net Position at June 30, 2014, 2013, and 2012 is as follows (dollars in thousands):

	Fiscal year		
	2014	2013	2012
Assets:			
Current assets	\$ 178,831	\$ 187,783	\$ 225,207
Other noncurrent assets	315,583	270,604	283,654
Capital assets	521,567	520,514	455,727
Total assets	<u>\$ 1,015,981</u>	<u>\$ 978,901</u>	<u>\$ 964,588</u>
Liabilities:			
Current liabilities	\$ 77,459	\$ 66,204	\$ 81,699
Noncurrent liabilities	360,924	371,934	381,967
Total liabilities	<u>438,383</u>	<u>438,138</u>	<u>463,666</u>
Net position:			
Net investment in capital assets	217,393	221,680	152,586
Restricted	7,473	8,047	7,326
Unrestricted	352,732	311,036	341,010
Total net position	<u>577,598</u>	<u>540,763</u>	<u>500,922</u>
Total liabilities and net position	<u>\$ 1,015,981</u>	<u>\$ 978,901</u>	<u>\$ 964,588</u>

Fiscal Year 2014 Compared to Fiscal Year 2013

Total assets increased \$37.0 million from \$979.0 million in fiscal year 2013 to \$1,016.0 million in fiscal year 2014. Cash, cash equivalents, and investments increased \$28.6 million as a result of positive investment returns and increased cash flow on patient revenues. As MU Health Care continues to invest in capital additions and improvements throughout its facilities, capital assets, net of accumulated depreciation, increased by \$1.1 million from \$520.5 million in fiscal year 2013 to \$521.6 million in fiscal year 2014. These investments in MU Health Care's infrastructure include, but are not limited to, \$9.1 million in renovations, \$16.0 million in new building construction, and \$30.0 million on patient monitoring and diagnostic equipment. These additions are offset by a one-time facility transfer of \$25.2 million in building and land, net of \$20.1 million in accumulated depreciation to the University of Missouri – Columbia, for space which was transitioned from patient care to classrooms.

Current liabilities increased by \$11.3 million from \$66.2 million in fiscal year 2013 to \$77.5 million in fiscal year 2014. The increase is primarily due to additional payables associated with the construction of a new outpatient facility, and estimated third party settlements. Long term liabilities decreased \$11.0 million through the payment of long-term debt liabilities.

For fiscal year 2014, MU Health Care's total net position is \$577.6 million, which represents an increase of \$36.8 million over fiscal year 2013 level of \$540.8 million.

UNIVERSITY OF MISSOURI HEALTH CARE

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Fiscal Year 2013 Compared to Fiscal Year 2012

Total assets increased \$14.3 million from \$964.6 million in fiscal year 2012 to \$978.9 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 \$25.6 million from \$463.7 million in fiscal year 2012 to \$438.1 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, 2014 and 2013

(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, 2014, 2013, and 2012 is as follows (dollars in thousands):

	Fiscal year		
	2014	2013	2012
Net patient service revenues	\$ 712,342	\$ 684,621	\$ 639,180
Other operating revenues	21,323	21,497	17,861
Total operating revenues	<u>733,665</u>	<u>706,118</u>	<u>657,041</u>
Operating expenses:			
Salaries and benefits	314,250	312,398	306,354
Medical supplies and drugs	159,945	140,750	135,149
Administrative and support services	57,467	56,155	54,288
Depreciation	49,432	41,446	35,391
Other expenses	124,192	121,560	109,311
Total operating expenses	<u>705,286</u>	<u>672,309</u>	<u>640,493</u>
Operating income before State appropriations	28,379	33,809	16,548
State appropriations	<u>10,028</u>	<u>10,028</u>	<u>10,028</u>
Income after State appropriations, before nonoperating revenues, net	<u>38,407</u>	<u>43,837</u>	<u>26,576</u>
Interest expense, net of capitalized interest of \$929 and \$4,837 in 2014 and 2013, respectively	(13,506)	(9,753)	(8,427)
Other nonoperating revenues, net	<u>16,969</u>	<u>10,951</u>	<u>6,580</u>
Total nonoperating revenues, net	<u>3,463</u>	<u>1,198</u>	<u>(1,847)</u>
Income before capital additions, contributions, and transfers	41,870	45,035	24,729
Contributed capital assets and endowment gifts	1,197	3,192	5,111
Transfers, net	<u>(6,232)</u>	<u>(8,386)</u>	<u>(2,998)</u>
Change in net position	36,835	39,841	26,842
Total net position, beginning of year	<u>540,763</u>	<u>500,922</u>	<u>474,080</u>
Total net position, end of year	<u>\$ 577,598</u>	<u>\$ 540,763</u>	<u>\$ 500,922</u>

UNIVERSITY OF MISSOURI HEALTH CARE

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

Fiscal Year 2014 Compared to Fiscal Year 2013

For fiscal year 2014, MU Health Care had an increase in net position of \$36.8 million compared to \$39.8 million for fiscal year 2013. Operating revenues in fiscal year 2014 were \$27.5 million greater than prior year and represents a 3.9% increase. The following table provides a summary of the key statistics for fiscal years 2014, 2013, and 2012.

	Key statistics		
	Fiscal year		
	2014	2013	2012
Discharges	24,963	24,028	22,203
Patient days	130,045	126,142	120,985
Clinic visits	564,113	568,675	553,300
Emergency room visits	59,022	54,375	51,632
Surgery cases	22,946	23,135	22,774

In fiscal year 2014, MU Health Care continued to experience growth in inpatient areas. Discharges increased 935, or 3.9%, over fiscal year 2013, and patient days increased 3,903, or 3.1%. Other areas saw varying results as clinic visits had a slight decline at 0.8%, yet emergency room visits, a primary access point for inpatient services grew by 4,647 visits, or 8.5%, over fiscal year 2013.

In fiscal year 2014, operating expenses were \$33.0 million higher than the prior year, which represents a 4.9% increase. Medical supplies and drugs increased \$19.2 million, or 13.6% over prior year as a result of increased utilization, as well as higher drug costs from changes to MU Health Care's management of its 340b drug pricing program.

Depreciation expense saw a \$8.0 million increase as a result of the new patient care tower being fully operational for the year and \$2.2 million in accelerated depreciation due to the impairment of the inpatient units at the MRC location. University provided utility costs also increased by \$2.0 million, as a result of the patient care tower, and is the primary cause of the \$2.6 million increase in other expenses.

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.

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

UNIVERSITY OF MISSOURI HEALTH CARE

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

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.

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, 2014, 2013, and 2012 are summarized as follows (dollars in thousands):

	Fiscal year		
	2014	2013	2012
Cash provided by (used in):			
Operating activities	\$ 77,760	\$ 82,796	\$ 34,576
Noncapital financing activities	5,398	2,979	8,200
Capital and related financing activities	(69,995)	(125,593)	(135,058)
Investing activities	(26,348)	13,369	101,839
Net change in cash and cash equivalents	(13,185)	(26,449)	9,557
Cash and cash equivalents, beginning of year	29,309	55,758	46,201
Cash and cash equivalents, end of year	\$ 16,124	\$ 29,309	\$ 55,758

Fiscal Year 2014 Compared to Fiscal Year 2013

During fiscal year 2014, MU Health Care's cash decreased by \$13.2 million as compared to a \$26.4 million decrease in fiscal year 2013. For fiscal year 2014, operating activities generated \$77.8 million, primarily through increased revenues as a result of increased utilizations in inpatient areas. These funds were utilized to purchase routine capital expenditures in patient care areas. For noncapital financing activities in fiscal year 2014, MU Health Care had an increase in cash of \$5.4 million. Capital and related financing activities resulted in \$70.0 million decrease in cash primarily due to spending on a new outpatient clinic. Investing activities decreased cash by \$26.3 million principally due to an increase in long-term investment holdings by the University and earnings on the investments during fiscal year 2014.

UNIVERSITY OF MISSOURI HEALTH CARE

Management's Discussion and Analysis

June 30, 2014 and 2013

(Unaudited)

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.

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. Physician recruitment, medical resident education, patient satisfaction, and core service lines remain a focus for MU Health Care.

State appropriation funding for fiscal year 2015 has been reduced to \$5.0 million for six months of support for the operations of the Missouri Rehabilitation Center. University of Missouri Health Care announced the closure of its long-term acute care facility, Missouri Rehabilitation Center (MRC), in Mount Vernon, Missouri. Inpatient services will continue through October 31, 2014, with certain outpatient services continuing through December 31, 2014.

MU Health Care continues to pursue volume growth to support its academic, research, and clinical missions. During 2015, MU Health Care will open a new 84,000 square foot outpatient facility in Columbia. Ongoing capital investments assist in providing quality care to patients, including enhanced facilities for physician, medical resident education, and recruitments with the University of Missouri-Columbia School of Medicine. Also during 2015, MU Health Care will begin construction on a four-story expansion of the orthopedic facility, with extensive focus on research and innovation.

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 has significantly impacted the future of healthcare. MU Health Care continues to review the effects this and other legislation will have on the organization. One outcome of these changes includes the collaboration with the University of Missouri System to provide new enhanced health benefits to their employees during FY 2015.

UNIVERSITY OF MISSOURI HEALTH CARE

Statements of Net Position

June 30, 2014 and 2013

(Dollars in thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 14,672	\$ 24,286
Cash and cash equivalents – restricted	1,452	5,023
Short-term investments	32,063	32,335
Short-term investments – restricted	3,392	7,011
Patient accounts receivable, less allowance for doubtful accounts of \$15,081 and \$15,705 in 2014 and 2013, respectively	83,289	73,673
Third-party and other receivables	20,612	23,382
Inventories and other assets	23,351	22,073
Total current assets	178,831	187,783
Noncurrent assets:		
Long-term investments	298,545	247,395
Long-term investments – restricted	13,708	19,155
Capital assets:		
Depreciable	487,705	505,059
Nondepreciable	33,861	15,455
Other assets	3,331	4,054
Total noncurrent assets	837,150	791,118
Total assets	\$ 1,015,981	\$ 978,901

See accompanying notes to financial statements.

Liabilities	2014	2013
Current liabilities:		
Accounts payable	\$ 25,864	\$ 21,219
Estimated third-party payor settlements	11,575	5,036
Accrued employee compensation	29,617	30,233
Capital lease obligations, current	820	755
Long-term debt obligations, current	9,583	8,961
Total current liabilities	<u>77,459</u>	<u>66,204</u>
Noncurrent liabilities:		
Amount due University	55,000	55,000
Capital lease – less current portion	4,344	5,164
Long-term debt obligations – less current portion	301,580	311,770
Total noncurrent liabilities	<u>360,924</u>	<u>371,934</u>
Total liabilities	<u>438,383</u>	<u>438,138</u>
Net Position		
Net investment in capital assets	217,393	221,680
Restricted:		
Nonexpendable:		
Endowment	678	630
Expendable:		
Research and other	6,795	7,417
Unrestricted	<u>352,732</u>	<u>311,036</u>
Total net position	<u>577,598</u>	<u>540,763</u>
Total liabilities and net position	<u>\$ 1,015,981</u>	<u>\$ 978,901</u>

UNIVERSITY OF MISSOURI HEALTH CARE

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Net patient service revenues	\$ 712,342	\$ 684,621
Sales by auxiliary enterprises and other	21,323	21,497
Total operating revenues	<u>733,665</u>	<u>706,118</u>
Operating expenses:		
Salaries and benefits	314,250	312,398
Medical supplies and drugs	159,945	140,750
Administrative and support services	57,467	56,155
Depreciation	49,432	41,446
Other expenses	124,192	121,560
Total operating expenses	<u>705,286</u>	<u>672,309</u>
Operating income before State appropriations	28,379	33,809
State appropriations	10,028	10,028
Income after State appropriations, before nonoperating revenues (expenses)	<u>38,407</u>	<u>43,837</u>
Nonoperating revenues (expenses):		
Investment income	15,464	9,900
Private gifts	1,728	1,174
Interest expense, net of amounts capitalized of \$929 and \$4,837 in 2014 and 2013, respectively	(13,506)	(9,753)
Gain (loss) on disposal, net	(223)	(123)
Total nonoperating revenues, net	<u>3,463</u>	<u>1,198</u>
Income before capital additions, contributions, and transfers	41,870	45,035
Contributed capital assets	1,104	3,003
Capital and endowment gifts	93	189
Income before transfers	43,067	48,227
Transfers to the University, net	<u>(6,232)</u>	<u>(8,386)</u>
Change in net position	36,835	39,841
Total net position, beginning of year	<u>540,763</u>	<u>500,922</u>
Total net position, end of year	<u>\$ 577,598</u>	<u>\$ 540,763</u>

See accompanying notes to financial statements.

UNIVERSITY OF MISSOURI HEALTH CARE

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash proceeds from patient service revenue	\$ 711,984	\$ 681,406
Cash proceeds from other sales	21,130	21,507
Cash payments to employees	(236,820)	(235,944)
Cash payments for benefits	(78,031)	(66,566)
Cash payments to suppliers	<u>(340,503)</u>	<u>(317,607)</u>
Net cash provided by operating activities	<u>77,760</u>	<u>82,796</u>
Cash flows from noncapital financing activities:		
Transfers to the University, net	(6,232)	(8,359)
State appropriations	10,028	10,028
Private and endowment gifts	<u>1,602</u>	<u>1,310</u>
Net cash provided by noncapital financing activities	<u>5,398</u>	<u>2,979</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(45,995)	(99,600)
Cash proceeds from sales of capital assets	(223)	149
Capital gifts	93	135
Principal payments on long-term debt	(8,961)	(10,931)
Capital lease principal payments	(755)	(696)
Interest paid on long-term debt	<u>(14,154)</u>	<u>(14,650)</u>
Net cash used in capital and related financing activities	<u>(69,995)</u>	<u>(125,593)</u>
Cash flows from investing activities:		
Increase (decrease) in investments	(41,812)	508
Purchase of Excel Physical Therapy	—	(110)
Investment income	<u>15,464</u>	<u>12,971</u>
Net cash provided by (used in) investing activities	<u>(26,348)</u>	<u>13,369</u>
Net change in cash and cash equivalents	(13,185)	(26,449)
Cash and cash equivalents, beginning of year	<u>29,309</u>	<u>55,758</u>
Cash and cash equivalents, end of year	<u>\$ 16,124</u>	<u>\$ 29,309</u>

UNIVERSITY OF MISSOURI HEALTH CARE

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 28,379	\$ 33,809
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	49,432	41,446
Provision for bad debts	71,606	65,496
Changes in assets and liabilities:		
Net patient receivables and third-party receivable	(71,870)	(47,137)
Inventories and other assets	(1,359)	(828)
Accounts payable and accrued expenses	1,572	(9,990)
Net cash provided by operating activities	<u>\$ 77,760</u>	<u>\$ 82,796</u>
Supplemental disclosures of noncash activities:		
Contributed capital assets	\$ 1,104	\$ 3,003
Net increase (decrease) in fair value of investments	12,919	(2,725)

See accompanying notes to financial statements.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(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. See note 12 regarding closure and sale of the MRC facility.

(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.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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 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, 2014 and 2013, 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% for the year ended June 30, 2014 and 1.5% for the year ended June 30, 2013. As of June 30, 2014, 66.1% 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

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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. Capitalized interest of \$929 and \$4,837 has been recorded for the years ended June 30, 2014 and 2013, respectively.

(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 \$621 and \$934 for the years ended June 30, 2014 and 2013, respectively.

The MU Health Care Medicare cost report has been settled through June 30, 2011; MRC Medicare reports have been settled through June 30, 2012. 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	30%	28%
Managed care agreements	23	23
Medicaid	19	23
Self-pay and other	17	18
Commercial insurance	11	8
	<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.

The gross to net patient revenue detail is reflected below for both 2014 and 2013. Only net patient revenue is reflected on the Statements of Revenues, Expenses, and Changes in Net Position.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Gross patient revenue	\$ 1,875,763	\$ 1,761,245
Less:		
Deductions for contractual allowances	(1,091,815)	(1,011,128)
Deductions for bad debt allowances	<u>(71,606)</u>	<u>(65,496)</u>
Net patient revenues	<u>\$ 712,342</u>	<u>\$ 684,621</u>

(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 payments of \$79,629 and \$85,941, and paid provider taxes of \$37,359 and \$36,529 in fiscal years 2014 and 2013, 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.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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, 2014 and 2013 are as follows:

	2014	2013
Cost of charity care	\$ 17,442	\$ 15,584
Unreimbursed cost under state and local government assistance programs, net of Medicaid disproportionate share funding, less Medicaid provider taxes	3,820	(5,077)
Cost of uncollectible accounts	21,906	21,132
Total	\$ 43,168	\$ 31,639

(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, 2014 and 2013, 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 2014 and 2013 of \$1,728 and \$1,174, respectively. MU Health Care also received gifts for capital assets and endowments in 2014 and 2013 of \$1,197 and \$3,192, 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, 2014 and 2013 were \$170 and \$52, net of \$16 and \$8, 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 \$1,104 in fiscal year 2014 and \$3,003 in fiscal year 2013.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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 2014, the University and MU Health Care Adopted 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 ensure consistency in financial reports. In adopting this standard, MU Health Care recognized the effect of a change in accounting principle, which decreased net position by \$968,000 for prior periods' capitalized bond issue costs, which were previously reported as "Other Assets" on the Statements of Net Position. This reduction is shown as additional Interest Expense on the Statements of Revenues, Expenses and Changes in Net Position.

Effective for fiscal year 2014, the University and MU Health Care adopted GASB Statement No. 66, *Technical Corrections – 2012*, which intends to improve financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54 and Statement No. 62. Adoption of GASB Statement No. 66 had no effect on MU Health Care's financial statements.

Effective for fiscal year 2014, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*, which enhances 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 Statement No. 68 will be recorded by the University and had no effect on MU Health Care's financial statements.

In January 2013, GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which intends to improve financial reporting by establishing standards for reporting government combinations and disposals of government operations. The University and MU Health Care have not yet determined the effect that adoption of GASB Statement No. 69 will have on MU Health Care's financial statements.

Effective for fiscal year 2014, the University and MU Health Care adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which intends to improve financial reporting by state and local governments that extend and receive nonexchange financial guarantees. Adoption of GASB Statement No. 70 had no effect on MU Health Care's financial statements.

Effective for fiscal year 2013, MU Health Care adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which applies to service concession

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

arrangements (SCAs) that 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, 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 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 Statements of Net Position. Adoption of GASB Statement No. 63 had 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, 2014 and 2013.

(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

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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, 2014 and 2013, MU Health Care held investments of \$361,147 and \$332,848 in the General Pool including a portion, \$120,398 and \$107,829, 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, 2014 and 2013, MU Health Care held investments of \$620 and \$483, respectively, on which actual earnings and market fluctuations were recorded.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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

	June 30	
	2014	2013
Debt securities:		
U.S. Treasury	\$ 23,661	\$ 23,133
U.S. Agency	72,899	63,197
Asset-backed securities	4,450	19,296
Government – foreign	11,288	2,281
Corporate – domestic	30,480	23,562
Corporate – foreign	20,703	10,622
Equity securities:		
Domestic	8,709	9,498
Foreign	3,967	4,779
Commingled funds:		
Absolute return	6,609	6,547
Risk parity	122,366	107,829
Debt securities – global	—	1
Debt securities – domestic	12,354	6,503
Debt securities – foreign	3,241	3,420
Equity securities – domestic	4,652	1,475
Equity securities – foreign	10,351	4,968
Equity securities – global	3,099	10,254
Real estate	427	585
Nonmarketable alternative investments:		
Real estate	2,106	2,197
Private equity	3,513	3,305
Other	2,833	2,444
Total investments	<u>347,708</u>	<u>305,896</u>
Money market funds	12,559	12,310
Commercial paper	1,896	9,818
Other	1,669	7,181
Total cash and cash equivalents	<u>16,124</u>	<u>29,309</u>
Total investments and cash and cash equivalents	<u>\$ 363,832</u>	<u>\$ 335,205</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.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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, 2014, of MU Health Care's share of the University's total cash and investments, 12.7% are issues of the Federal Home Loan Bank (FHLB). 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 FHLB and 7.6% 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.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

All holdings of commercial paper and variable rate demand notes were rated A – 1/P – 1 or better at June 30, 2014 and 2013, respectively. All holdings of money market funds were rated AAA at June 30, 2014 and 2013.

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	
	2014	2013
U.S. Treasury Obligations	\$ 23,661	\$ 23,133
U.S. Agency Obligations	72,899	63,197
Asset-backed/mortgage-backed securities:		
Guaranteed by U.S. Agencies	(12,397)	7,413
Aaa/AAA	230	383
Aa/AA	256	264
A/A	471	189
Baa/BBB	474	343
Ba/BB and lower	15,249	10,532
Unrated	167	172
Government – foreign:		
Aaa/AAA	124	295
Aa/AA	80	291
A/A	1,055	1,204
Baa/BBB	7,407	135
Ba/BB and lower	342	—
Unrated	2,280	356
Corporate – domestic:		
Aaa/AAA	73	76
Aa/AA	191	11
A/A	595	152
Baa/BBB	3,777	2,145
Ba/BB and lower	20,586	15,262
Unrated	5,258	5,916
Corporate – foreign:		
Aaa/AAA	1,441	444
Aa/AA	2,896	271
A/A	3,434	1,059
Baa/BBB	3,765	2,844
Ba/BB and lower	5,565	4,372
Unrated	3,602	1,632
Total	\$ <u>163,481</u>	\$ <u>142,091</u>

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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, 2014 and 2013, the modified duration of MU Health Care's share of the University's investments is as follows:

	June 30			
	2014		2013	
	Balance	Duration in years	Balance	Duration in years
U.S. Treasury Obligations	\$ 23,661	8.3	\$ 23,133	7.1
U.S. Agency Obligations	72,899	3.3	63,197	2.2
Asset-Backed Securities	4,450	6.8	19,296	6.1
Government – Foreign	11,288	5.8	2,281	7.1
Corporate – Domestic	30,480	4.2	23,562	3.9
Corporate – Foreign	20,703	5.3	10,622	4.4
	<u>\$ 163,481</u>	<u>4.7</u>	<u>\$ 142,091</u>	<u>4.0</u>

(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, 2014 and 2013, 5.9% and 5.1%, 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 \$14,355 and \$15,021 at June 30, 2014 and 2013, 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.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	June 30	
	2014	2013
Debt securities:		
Euro	\$ 10,311	\$ 4,040
Australian dollar	354	(174)
Japanese yen	135	196
British pound sterling	2,676	2,406
Brazil real	4,810	267
Canadian dollar	21	136
Other	320	242
Total debt securities	<u>18,627</u>	<u>7,113</u>
Equity securities:		
Euro	228	379
Japanese yen	477	725
British pound sterling	562	858
Swiss franc	443	548
Australian dollar	127	129
Canadian dollar	54	43
Other	801	932
Total equity securities	<u>2,692</u>	<u>3,614</u>
Commingled funds:		
Various currency denominations:		
Debt securities – foreign	3,241	3,419
Equity securities – foreign	10,351	4,968
Equity securities – global	3,099	10,253
Total commingled funds	<u>16,691</u>	<u>18,640</u>
Cash and cash equivalents:		
Euro	412	32
Hong Kong dollar	—	—
Mexican new peso	187	12
Other	185	278
Total cash and cash equivalents	<u>784</u>	<u>322</u>
Total exposure to foreign exchange risk	<u>\$ 38,794</u>	<u>\$ 29,689</u>

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(4) Capital Assets

Capital assets activity is summarized as follows:

	2014			
	<u>Beginning balance</u>	<u>Additions/ transfers</u>	<u>Retirements</u>	<u>Ending balance</u>
Capital assets, nondepreciable:				
Land	\$ 9,953	\$ —	\$ 15	\$ 9,938
Construction in progress	<u>5,502</u>	<u>18,421</u>	<u>—</u>	<u>23,923</u>
Total capital assets, nondepreciable	<u>15,455</u>	<u>18,421</u>	<u>15</u>	<u>33,861</u>
Capital assets, depreciable:				
Buildings and improvements	566,241	7,610	25,125	548,726
Infrastructure	15,330	7	684	14,653
Equipment	<u>317,667</u>	<u>30,001</u>	<u>9,399</u>	<u>338,269</u>
Total capital assets, depreciable	<u>899,238</u>	<u>37,618</u>	<u>35,208</u>	<u>901,648</u>
Less accumulated depreciation:				
Buildings and improvements	185,775	20,777	20,105	186,447
Infrastructure	2,940	657	522	3,075
Equipment	<u>205,464</u>	<u>27,998</u>	<u>9,041</u>	<u>224,421</u>
Total accumulated depreciation	<u>394,179</u>	<u>49,432</u>	<u>29,668</u>	<u>413,943</u>
Total capital assets, depreciable, net	<u>505,059</u>	<u>(11,814)</u>	<u>5,540</u>	<u>487,705</u>
Total capital assets, net	<u>\$ 520,514</u>	<u>\$ 6,607</u>	<u>\$ 5,555</u>	<u>\$ 521,566</u>

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	2013			
	<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	<u>113,683</u>	<u>(108,181)</u>	<u>—</u>	<u>5,502</u>
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	<u>289,251</u>	<u>41,218</u>	<u>12,802</u>	<u>317,667</u>
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	<u>193,524</u>	<u>24,516</u>	<u>12,576</u>	<u>205,464</u>
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>

During 2014, MU Health Care recognized a \$2,186 impairment on the inpatient facilities at MRC. This is included as additional depreciation on the Statements of Revenues, Expenses and Changes in Net Position.

The estimated cost to complete construction in progress at June 30, 2014 is \$75,097 of which \$32,543 is available from unrestricted net assets and \$1,381 is available from restricted gift funds. The remaining costs will be funded from \$41,173 in bond proceeds. Included in capital assets is a building facility under a capital lease of \$10,364, and related accumulated depreciation of \$6,815 and \$6,139 at June 30, 2014 and 2013, respectively.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

Future minimum maturities on long-term debt obligations as of June 30, 2014, for the next five fiscal years ending June 30, and beyond are as follows:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
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	11,555		10,947		22,502
2020–2024	68,116		45,885		114,001
2025–2029	80,958		28,640		109,598
2030–2034	41,627		16,400		58,027
2035–2039	50,556		7,536		58,092
2040–2042	12,511		499		13,010
Total	\$ 306,257	\$	158,717	\$	464,974

(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, 2014 and 2013 were \$2,447 and \$2,075, respectively.

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

Capital lease activity is summarized as follows:

	2014		
	<u>Beginning of year</u>		<u>End of year</u>
		<u>Payments</u>	
Total capital lease obligation	\$ 5,919	\$ 755	\$ 5,164
Less current capital lease obligation	755		820
Long-term capital lease obligation	<u>\$ 5,164</u>		<u>\$ 4,344</u>

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	2013		
	<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	<u>696</u>		<u>755</u>
Long-term capital lease obligation	<u>\$ 5,919</u>		<u>\$ 5,164</u>

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2014 are as follows:

	<u>Capital</u>	<u>Operating</u>
Fiscal year(s):		
2015	\$ 1,563	\$ 1,647
2016	1,563	1,133
2017	1,563	471
2018	1,563	16
2019	1,563	—
2020–2023	<u>390</u>	<u>—</u>
Total future minimum payments	8,205	\$ <u>3,267</u>
Less amount representing interest	<u>3,041</u>	
Present value of future minimum lease payments	<u>\$ 5,164</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, 2014, this contracted commitment totaled \$106,241 and will be paid in the following amounts: \$18,041 in 2015, \$18,583 in 2016, \$19,140 in 2017, \$19,714 in 2018, \$20,306 in 2019, and \$10,457 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, 2014 and 2013

(Dollars in thousands)

The amounts contributed by MU Health Care to the Trust were \$2,115 and \$983 for the years ended June 30, 2014 and 2013, 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 \$3,379 and is included in estimated third-party payor settlements on the Statements of Net Position. 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, 2014, there are no additional liabilities or receivables related to the FICA refund.

(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

June 30, 2014 and 2013

(Dollars in thousands)

(8) Retirement Plan

(a) *Defined Benefit Plan*

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.

Full-time employees vest in the Retirement Plan after five years of credited service and become eligible for benefits based on age and years of service. A vested employee who retires at age 65 or older is eligible for a lifetime annuity calculated at a certain rate times the credited service years times the compensation base (average compensation for the five highest consecutive salary years). The rate is 2.2% if the employee was hired before October 1, 2012, or 1.0% if the employee was hired after September 30, 2012. The Board may periodically approve increases to the benefits paid to existing pensioners. However, vested members who leave the University prior to eligibility for retirement are not eligible for these pension increases.

Vested employees who are at least age 55 and have 10 years or more of credited service or age 60 with at least five years of service may choose early retirement with a reduced benefit. However, if the employee retires at age 62 and has at least 25 years of credited service, the benefit is not reduced. Up to 30% of the retirement annuity can be taken in a lump sum payment. In addition, the standard annuity can be exchanged for an actuarially-equivalent annuity selected from an array of options with joint and survivor, period certain, and guaranteed annual increase features.

Vested employees who terminate prior to retirement eligibility may elect to transfer the actuarial equivalent of their benefit to an Individual Retirement Account or into another employer's qualified plan that accepts such rollovers. The actuarial equivalent may also be taken in the form of a lump sum payment. In addition, the Retirement Plan allows vested employees who become disabled to continue accruing service credit until they retire. It also provides a preretirement death benefit for vested employees. The Retirement Plan provides a minimum value feature for vested employees who terminate or retire. The minimum value is calculated as the actuarial equivalent of 5% of the employee's eligible compensation invested at 7.5% per credited service year or the regularly calculated benefit.

(b) *Defined Contribution Plan*

Employees hired after September 30, 2012 participate in a single employer, defined contribution plan. Each year the University contributes 2% of each employee's eligible salary to a 401(a) plan. Employees are able to contribute to a 457(b) plan. The University will match up to 3% of that 457(b) plan contribution with those funds going into the 401(a) plan. Employees are immediately 100% vested in their contributions. The University's base contribution and matching contributions vest following three years of consecutive or nonconsecutive service.

(c) *Contributions*

Contributions to the retirement plan are equal to the actuarially determined employer contribution requirement (ARC). The ARC for those employees hired before October 1, 2012 averaged 10.8%

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

and 8.9% of covered payroll for the years ending June 30, 2014 and 2013, respectively. The ARC for those employees hired after September 30, 2012 averaged 6.8% and 4.9% of covered payroll for the years ended June 30, 2014 and 2013, respectively. Employees are required to contribute 1% of their salary up to \$50,000 in a calendar year and 2% of their salary in excess of \$50,000. An actuarial valuation of the Plan is performed annually and the contribution rate is updated at the beginning of the fiscal year on July 1, to reflect the actuarially determined funding requirement from the most recent valuation, as of the preceding October 1. This actuarial valuation reflects the adoption of any Retirement Plan amendments during the previous fiscal year.

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, 2014, 2013, and 2012, based on actuarially determined contribution rates, totaled \$19,702, \$16,490, and \$13,250, respectively.

(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 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, 2014 and 2013, 955 and 887 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 2014, all University members contributed \$14,130,110 or approximately 47.6% of the total premiums. MU Health Care paid the University \$2,946 and \$2,683 for the years ended June 30, 2014 and 2013, respectively. MU Health Care assumes no liability for postemployment benefits provided by the University other than its annual required contributions.

UNIVERSITY OF MISSOURI HEALTH CARE

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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, 2014 and 2013 were \$70,765 and \$70,859, respectively. Administrative and purchased services paid for by MU Health Care and allocated to the University during the years ended June 30, 2014 and 2013 were \$10,197 and \$9,580, 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 2014 or 2013. Management does not anticipate repayment of the loan in fiscal year 2015.

(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 \$6,142 and \$8,386 for the years ended June 30, 2014 and 2013, respectively, and principally provide funding for recruitments and operational support to divisions. The transfer includes \$4,740 and \$8,450 for the years ended June 30, 2014 and 2013, to the School of Medicine in additional support in accordance with a performance based support agreement, the components of which are reviewed and agreed to annually.

(12) Subsequent Event

On August 11, 2014, MU Health Care announced the closure of its long-term acute care facility, Missouri Rehabilitation Center (MRC), in Mount Vernon, Missouri. Inpatient services will continue through October 31, 2014, with certain outpatient services continuing through December 31, 2014. MU Health Care will receive a final appropriation of \$5,014 from the State of Missouri related to the normal operations of MRC during fiscal year 2015.

MU Health Care has entered into an agreement to sell the facility to the City of Mount Vernon. MU Health Care will recognize an estimated loss on the sale of \$7,783.