2005 Financial Report

UNIVERSITY OF MISSOURI

Table of Contents

GOVERNING BOARD AND ADMINISTRATIVE STAFF 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 2

INDEPENDENT AUDITORS' REPORT 14

BASIC FINANCIAL STATEMENTS:

Statements of Net Assets 16

Statements of Revenues, Expenses and Changes in Net Assets 19

Statements of Cash Flows 20

Statements of Net Assets Held for Pension Benefits 22

Statements of Changes in Net Assets Held for Pension Benefits 22

Notes to Financial Statements 23

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UNIVERSITY OF MISSOURI

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The following Management's Discussion and Analysis ("MD&A") provides an overview of the financial position and activities of the University of Missouri (the "University") for the fiscal year ended June 30, 2005 and 2004, and should be read in conjunction with the financial statements and notes. This overview is required by Governmental Accounting Standards Board ("GASB") principles, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.*

UNIVERSITY ACCOUNTING AND FINANCIAL REPORTING

This report includes five financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows for the University of Missouri System and Aggregate Discretely Presented Component Units; and the Statements of Net Assets Held for Pension Benefits and the Statements of Changes in Net Assets Held for Pension Benefits for the University of Missouri Retirement Trust. The financial statements of the University are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. A summary of significant accounting policies followed by the University is included in Note 1 to the financial statements of this report. A more detailed unaudited financial report that includes information on each campus is available at the University of Missouri, 118 University Hall, Columbia, MO 65211.

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University. Assets and liabilities are generally measured using current values, with certain exceptions, such as capital assets which are stated at cost less accumulated depreciation, and long-term debt which is stated at cost. A summary of the University's assets, liabilities and net assets at June 30, 2005, 2004 and 2003, is as follows (in thousands of dollars):

	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Assets:			
Current Assets	$ 816,846	$ 596,448	$ 660,794
Long-Term Investments -			
Endowed and Quasi-Endowed Investments	744,372	709,227	633,939
Other Investments	387,926	504,110	336,935
Capital Assets, Net	1,795,513	1,700,324	1,542,432
Other Noncurrent Assets	86,702	70,806	77,870
Total Assets	$ 3,831,359	$ 3,580,915	$ 3,251,970
Liabilities:			
Current Liabilities	$ 404,328	$ 370,280	$ 377,931
Noncurrent Liabilities	622,997	631,587	517,975
Total Liabilities	1,027,325	1,001,867	895,906
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,226,962	1,147,472	1,074,585
Restricted -			
Nonexpendable	555,658	484,370	421,521
Expendable	335,469	305,656	317,398
Unrestricted	685,945	641,550	542,560
Total Net Assets	2,804,034	2,579,048	2,356,064
Total Liabilities and Net Assets	$ 3,831,359	$ 3,580,915	$ 3,251,970

FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

Total Assets have increased by $250.4 million to $3.8 billion, which reflects the University's continued efforts to strengthen its capital position. This increase is primarily attributable to increases in the University's **Current Assets** discussed below, and the expansion of **Capital Assets** across all of the campuses. Net capital additions of $197.6 million are offset by $102.4 million in depreciation, resulting in a net change in **Capital Assets** of $95.2 million. Major additions to **Capital Assets** during the year are shown in the following table. Refer to additional information in Note 7.

MAJOR EXPENDITURES RELATED TO CAPITAL ASSETS ADDITIONS DURING FISCAL YEAR ENDED JUNE 30, 2005		
CAMPUS	**COST**	**SOURCE OF FUNDING**
Columbia:		
Basketball Arena	$ 4,563,000	State Appropriations and Gifts
Brewer Fieldhouse Renovation	18,357,000	Bond Proceeds
Virginia Avenue Housing	2,625,000	Bond Proceeds
Kansas City:		
University Way	$ 3,076,000	Gifts
Health Sciences	3,516,000	State Appropriations and Gifts
Rolla:		
Havener Center	$ 5,448,000	Bond Proceeds and Gifts
Residence Hall	6,296,000	Bond Proceeds

In Current Assets, the University held **Cash and Cash Equivalents** at the end of fiscal year 2005 of $341.0 million, an increase of $124.1 million from the prior year. The University's General Pool was more heavily weighted in short-term commercial paper as of June 30, 2005, than on June 30, 2004. State appropriation withholdings of $61.7 million were released by the State of Missouri at the end of the fiscal year and used to purchase short-term investments. The University's Balanced Pool Cash and Cash Equivalents also increased $33.0 million in preparation for the fiscal year 2006 annual distribution required by the Board of Curators spending policy as discussed in Note 2 of the financial statements.

Long-Term and Short-Term Investment holdings of $1.4 billion as of June 30, 2005, increased $7.3 million over the prior year. Long-Term Investments in the University's endowment funds, comprised primarily of Balanced and Fixed Income Pool, increased $35.1 million in fiscal year 2005 due to receipt of gifts and positive total returns in the pools. The University's long-term investment in its general pool declined $25.1 million largely due to the University's purchase of short-term investments at the end of fiscal year 2005. Performance of the University's various investment pools for the year ended June 30, 2005, was as follows:

LONG-TERM AND SHORT-TERM INVESTMENTS			
	ASSET DISTRIBUTION	**TOTAL RETURN**	**BENCHMARK INDEX RETURN**
General Pool	$ 547,074,000	3.5%	2.2%
Balanced Pool	684,903,000	9.6%	11.0%
Fixed Income Pool	61,380,000	4.8%	7.3%
Other Investments	61,032,000	N/A	N/A

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

In fiscal year 2005, heightened efforts to increase resources through fund raising continued on all four campuses. These increased efforts directly resulted in an increase in total **Pledges Receivable** (current and long-term) in fiscal year 2005 to $39.5 million from $24.0 million in the prior fiscal year.

Total Liabilities increased $25.5 million over the prior year. Significant changes in **Current Liabilities** include a $20.4 million increase in **Collateral for Securities on Loan** from $61.2 million as of June 30, 2004, to $81.6 million as of June 30, 2005, and a $10.4 million increase in Accrued Liabilities primarily related to accrued self-insurance.

During fiscal year 2005, **Bonds and Notes Payable**, net of premium/discount and deferred losses on defeasance, decreased $11.1 million. The following is a summary of the long-term debt by type of debt instrument (in thousands of dollars).

	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
System Facilities Revenue Bonds	$ 400,025	$ 408,295	$ 297,210
Health Facilities Revenue Bonds	165,200	168,550	171,750
Notes Payable			273
Unamortized Premium/Discount and Loss on Defeasance	312	(171)	(3,968)
	565,537	576,674	465,265
Capital Lease Obligations	10,171	10,532	10,864
	$ 575,708	$ 587,206	$ 476,129

The **Net Assets** of the University increased in total by $225.0 million, excluding any changes in the University of Missouri Retirement Trust. An explanation of these changes, based on the four net asset categories, is as follows:

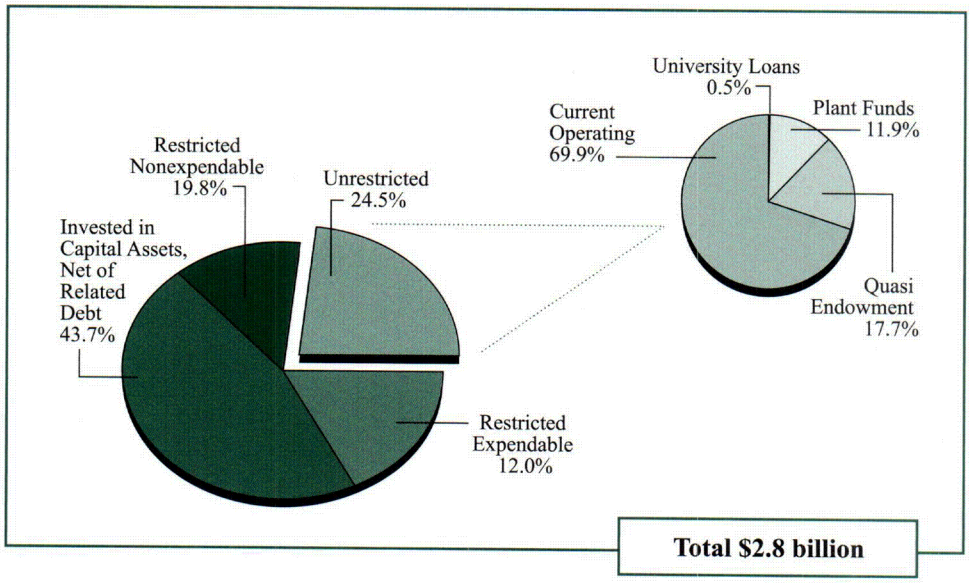
- **Invested in Capital Assets, Net of Related Debt**, represents capital holdings, net of accumulated depreciation and outstanding debt financing related to the acquisition, construction or improvement of those assets. The increase of $79.5 million to $1.23 billion is due to net additions to capital assets.

- **Restricted Nonexpendable Net Assets** are subject to externally imposed stipulations that they be maintained permanently by the University. This category of net assets represents the historical value (corpus) of gifts to the University's permanent endowment. The increase of $71.3 million over fiscal year 2004 to $555.7 million at fiscal year end 2005 is primarily a result of private funding for endowment purposes.

- **Restricted Expendable Net Assets** are subject to externally imposed stipulations governing their use. This category of net assets includes net assets restricted for operations and endowment purposes of $239.6 million, facilities of $20.2 million and student loan programs of $75.7 million. Restricted Expendable Net Assets increased $29.8 million over fiscal year 2004 to $335.5 million at fiscal year end 2005 primarily due to an increase in restricted gift income.

- **Unrestricted Net Assets** increased $44.4 million to $685.9 million at fiscal year end 2005. This category of net assets is not subject to externally imposed stipulations, although may be designated for specific purposes by action of management or the Board of Curators. Unrestricted Net Assets are used primarily for academics and general operation of the University and consist of $479.4 million for this purpose, as well as $81.3 million for capital projects and $3.4 million for student loan programs. In addition, Unrestricted Net Assets include funds functioning as endowment of $121.8 million.

The distribution of the Net Asset balances, including additional details on unrestricted net assets by fund type, as of June 30, 2005, are as follows:



FISCAL YEAR 2004 COMPARED TO FISCAL YEAR 2003

Total Assets increased $328.9 million to $3.6 billion as of June 30, 2004 compared to June 30, 2003, which reflected the University's continued efforts to strengthen its capital position. This increase was primarily attributable to the increase in the University's **Long-Term Investments**, and the expansion of **Capital Assets** across all of the campuses. Net capital additions of $247.7 million were offset by $89.8 million in depreciation, resulting in a net change in **Capital Assets** of $157.9 million.

The University held **Cash and Cash Equivalents** at the end of fiscal year 2004 of $216.9 million, a decrease of $58.0 million from the prior year. The University's General Pool was more heavily weighted in short-term commercial paper on June 30, 2003 than on June 30, 2004. Accounts Receivable, net of $184.5 million, increased $35.9 million as of June 30, 2004, over the prior year. The increase was primarily due to the receipt of bond funds of $34.3 million from the State of Missouri for construction of the new sports arena on the Columbia campus.

Long-Term and Short-Term Investment holdings of $1.3 billion as of June 30, 2004, increased $228.9 million over the prior year. Long-Term Investments in the University's endowed funds, comprised primarily of a Balanced and Fixed Income Pool, increased $75.3 million in fiscal year 2004 due to receipt of gifts, as well as strong bond market performance and improving stock market performance.

Total Liabilities increased $106.0 million over the prior year. During fiscal year 2004, **Bonds and Notes Payable**, net of premium/discount and deferred losses on defeasance, increased $111.4 million as a result of a $155.2 million bond issuance. The bonds financed $118.1 million for capital expansion across all campuses, $37.1 million to defease a portion of existing bonds and to finance certain costs of issuance.

A significant change in current liabilities included a $26.2 million increase in **Funds Held for Others**. In January 2004, the University became custodian of approximately $13 million that was previously held in trust by a third party. Another factor affecting the increase in **Funds Held for Others** was the increase in payroll withholding liabilities due to timing of collection of employer and employee premiums and the subsequent remittance of these funds to the applicable medical, dental and other employee-related programs. An offsetting decrease in liabilities included a decrease of $55.8 million in **Investment Settlements Payable** from $74.3 million as of June 30, 2003, to $18.5 million as of June 30, 2004. Purchases and sales of investments are accounted for on the trade date basis. The University records **Investment Settlements Payable** for purchases of investments occurring on or before June 30, which settle after such date.

The **Net Assets** of the University increased in total by $223.0 million, excluding any changes in the University of Missouri Retirement Trust. An explanation of these changes, based on the four net asset categories, is as follows:

- **Invested in Capital Assets, Net of Related Debt,** represents capital holdings, net of accumulated depreciation and outstanding debt financing related to the acquisition, construction or improvement of those assets. The increase of $72.9 million to $1.15 billion is due to net additions to capital assets offset by pay down of bonds outstanding.

- **Restricted Nonexpendable Net Assets** are subject to externally imposed stipulations that they be maintained permanently by the University. This category of net assets represents the historical value (corpus) of gifts to the University's permanent endowment. The increase of $62.8 million over fiscal year 2003 to $484.4 million at fiscal year end 2004 is primarily a result of private funding for endowment purposes and strong investment returns in the Balanced Pool.

- **Restricted Expendable Net Assets** are subject to externally imposed stipulations governing their use. This category of net assets includes net assets restricted for operations and endowment purposes of $200.6 million, facilities of $30.1 million and student loan programs of $75.0 million. Restricted Expendable Net Assets decreased $11.7 million from fiscal year 2003 to $305.7 million at fiscal year end 2004 resulting from spend down of prior year gifts restricted for capital expansion and the release of $13.4 million previously restricted for Health System debt covenant requirements.

- **Unrestricted Net Assets** increased $99.0 million to $641.6 million at fiscal year end 2004. This category of net assets is not subject to externally imposed stipulations, although may be designated for specific purposes by action of management or the Board of Curators. Unrestricted Net Assets are used primarily for academics and general operation of the University and consist of $391.0 million for this purpose, as well as $126.9 million for capital projects and $3.3 million for student loan programs. In addition, Unrestricted Net Assets include funds functioning as endowment of $120.4 million.

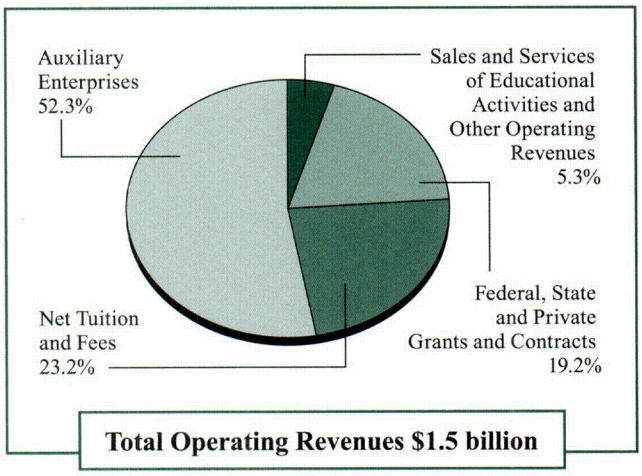
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

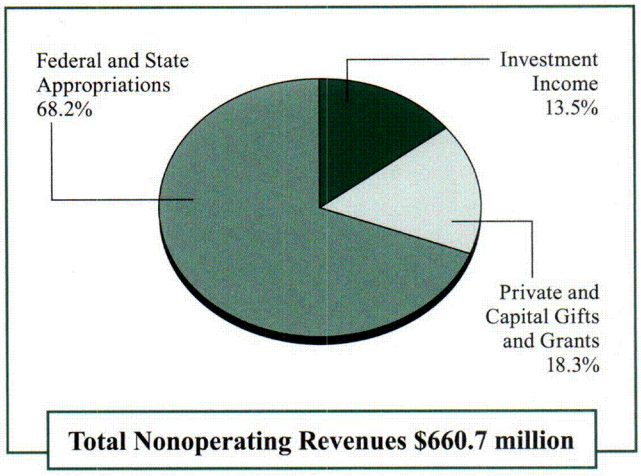
The Statements of Revenues, Expenses and Changes in Net Assets present the University's results of operations. The Statements distinguish revenues and expenses between operating and nonoperating categories, and provide a view of the University's operating margin (in thousands of dollars).

	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Operating Revenues:			
Net Tuition and Fees	$ 355,516	$ 311,778	$ 273,419
Grants and Contracts	293,885	259,092	259,268
Patient Medical Services	566,394	492,229	425,700
Other Auxiliary Enterprises	236,217	214,621	192,465
Other Operating Revenues	80,797	65,401	65,106
Total Operating Revenues	1,532,809	1,343,121	1,215,958
Operating Expenses:			
Salaries, Wages and Staff Benefits	1,214,209	1,133,772	1,059,342
Supplies, Services and Other Operating Expenses	596,395	516,766	473,874
Other Operating Expenses	133,197	115,529	111,452
Total Operating Expenses	1,943,801	1,766,067	1,644,668
Operating Loss	(410,992)	(422,946)	(428,710)
Nonoperating Revenues (Expenses):			
State Appropriations	430,127	421,434	423,330
Investment and Endowment Income	89,236	104,486	68,880
Private Gifts	73,504	36,143	40,423
Other Nonoperating Revenues (Expenses)	(8,982)	(10,627)	(6,779)
Net Nonoperating Revenues	583,885	551,436	525,854
Income before Capital Contributions and Additions to Permanent Endowments	172,893	128,490	97,144
State Capital Appropriations and State Bond Funds	4,686	54,239	13,584
Capital Gifts and Grants	13,056	21,749	30,239
Private Gifts for Endowment Purposes	34,351	18,506	20,254
Increase in Net Assets	224,986	222,984	161,221
Net Assets, Beginning of Year	2,579,048	2,356,064	2,194,843
Net Assets, End of Year	$ 2,804,034	$ 2,579,048	$ 2,356,064

FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

Total **Operating Revenues** increased $189.7 million over fiscal year 2004 to $1.5 billion in fiscal year 2005. This fluctuation is due to increases in tuition, patient medical services and revenues related to certain auxiliary operations. **Nonoperating Revenues** include funding sources such as State Appropriations, State Bond Funds, Federal Appropriations and Gift and Investment Income. These sources are categorized under GASB standards as nonoperating because they are not generated as a result of the University's core missions of teaching, research and public service. The following is a graphic illustration of revenues by source, including both operating and nonoperating revenue streams for fiscal year 2005.





Tuition and Fees, net of **Scholarship Allowances**, which includes University resources used to reduce fees charged to students for related services, increased 14.0% or $43.7 million over fiscal year 2004. This was primarily due to Board-approved increases in undergraduate and graduate tuition and related enrollment fees of 7.5%.

As a research institution, the University receives a substantial amount of funding through **Federal, State and Private Grants and Contracts**. The University experienced growth in this revenue source of 13.4% from $259.1 million in fiscal year 2004 to $293.9 million in fiscal year 2005. Federal grant funding and State grant funding increased significantly in fiscal year 2005 with increases of 13.4% and 23.2%, respectively. Modest increases of 6.9% occurred in private grants and contracts.

Patient Medical Services, which includes fees for services provided by the University Hospitals and Clinics and related health care units ("UHC") and the University Physicians Practice Plan, increased $74.2 million or 15.1% over fiscal year 2004. Of this increase, $4.0 million relates to the operations of the University Physicians and $70.2 million relates to UHC.

Following two years of consecutive cuts, the University experienced an increase in fiscal year 2005 to its core appropriations from the State of Missouri, resulting in net **State Appropriations** of $430.1 million. In fiscal year 2004, the University's core appropriations were cut 5.5% with additional extraordinary withholdings of $9.7 million withheld from the State. Subsequently, the State of Missouri released the extraordinary withholdings throughout fiscal year 2004, resulting in net State Appropriations of $421.4 million in fiscal year 2004.

In fiscal year 2005, **State Capital Appropriations and State Bond Funds** of $4.7 million, consisting primarily of funding for the Health Sciences Center on the Kansas City campus, decreased $49.5 million from $54.2 million in fiscal year 2004. In fiscal year 2004, the State of Missouri released $34.3 million of bond funds for the new sports arena on the Columbia campus. The remaining State Capital Appropriations in fiscal year 2004 consisted primarily of funding for the Life Sciences Center on the Columbia campus, which opened in August 2004, and the Health Sciences Center in Kansas City.

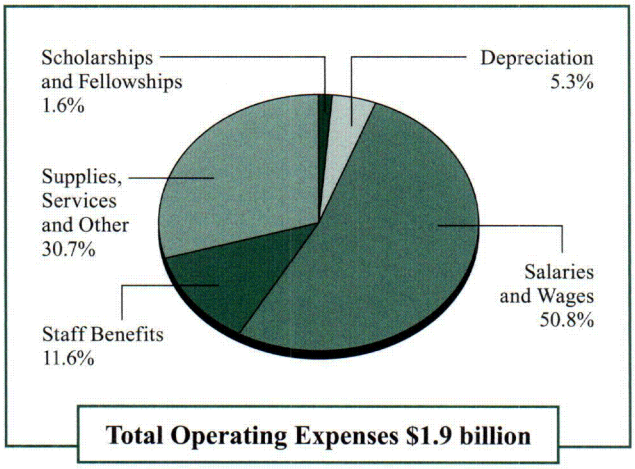
Private and Capital Gifts and Grants of $120.9 million in fiscal year 2005 increased $44.5 million compared to $76.4 million in fiscal year 2004, consisting of an increase in gift income of $43.2 million and an increase in capital grants of $1.3 million.

Gift income is reflected in three categories: **Private Gifts, Capital Gifts** (restricted for capital expansion) and **Private Gifts for Endowments** (restricted for the establishment of endowments). Total gifts to the University in fiscal year 2005 of $117.4 million increased $43.2 million compared to $74.2 million in the prior fiscal year. Noncapital private gifts of $107.8 million in fiscal year 2005 increased $53.2 million over the prior fiscal year due to increased focus by the campuses on capital campaigns. Offsetting decreases of $10.0 million in capital gifts in fiscal year 2005 were largely due to nonrecurring pledges in fiscal year 2004 for renovating various sports facilities.

Capital Grants of $3.5 million in fiscal year 2005 and $2.2 million in fiscal year 2004 represent funding received from Federal and State agencies to be used for the expansion of the University's physical plant. The increase of $1.3 million in fiscal year 2005 is primarily due to a new grant from the National Aeronautical Space Administration.

Investment and Endowment Income includes interest and dividend income as well as realized and unrealized gains and losses. Investment and Endowment Income decreased $15.3 million, from $104.5 million in fiscal year 2004 to $89.2 million in fiscal year 2005. Contributing factors include a decline in the rate of return on the Balanced Pool from 17.4% in fiscal year 2004 to 9.6% in fiscal year 2005 due to lower domestic and international stock market returns in the current fiscal year compared to fiscal year 2004, and a decrease in realized and unrealized net gains of $22.7 million from $61.0 million in fiscal year 2004 to $38.3 million in fiscal year 2005.

Total Operating Expenses reflect a 10.1% or $177.7 million increase over fiscal year 2004. The following is a graphic illustration of total expenses by object of expenditure for fiscal year 2005:

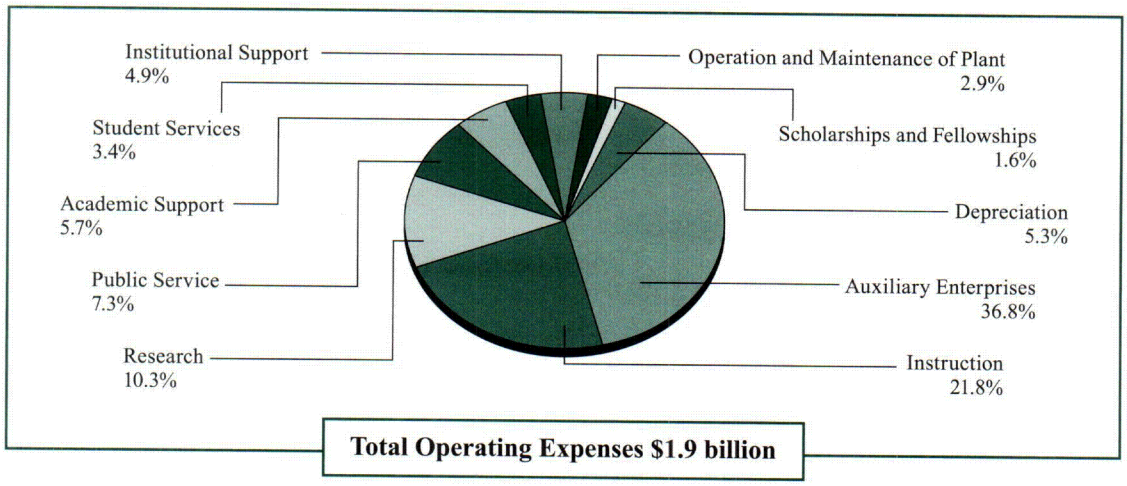


During fiscal year 2005, **Salaries and Wages** increased approximately 7.4% over fiscal year 2004 primarily due to merit increases for employees effective September 2004. Staff Benefits showed a corresponding increase of 6.0% year over year related to employer costs associated with the University's medical, dental and life premiums, as well as retirement contributions.

The University's expenses related to **Supplies, Services and Other Operating** costs increased by 15.4% or $79.6 million to $596.4 million in fiscal year 2005, compared to $516.8 million in fiscal year 2004. Increased patient care operating costs at the UHC directly correlated with UHC's increase in services and patient care revenue, account for $42.0 million of this increase. Increases in costs of goods sold account for $6.7 million of the increase, which relates directly to the increase in auxiliary revenue. In addition, the University has seen an increase in costs related to maintenance, repair and replacement of certain components in its infrastructure and physical plant. These maintenance, repair and replacement costs, which do not meet the University's capitalization limit of $5,000, accounted for approximately $7.4 million in additional costs over fiscal year 2004.

C-03

In addition to their natural classification, it is also informative to review operating expenses by function. The following graphic illustration presents total expenses by function for fiscal year 2005.



FISCAL YEAR 2004 COMPARED TO FISCAL YEAR 2003

Tuition and Fees, net of **Scholarship Allowances**, which include University resources used to reduce fees charged to students for related services, increased 14.0% or $38.4 million over fiscal year 2003. This was attributable to increases in enrollment of 1.9% and increases in undergraduate and graduate educational fees of 3.2% plus $27 per credit hour.

As a research institution, the University receives a substantial amount of funding through **Federal, State and Private Grants and Contracts**. Overall, grant funding remained approximately the same year over year at $259.1 million in fiscal year 2004 compared to $259.3 million in fiscal year 2003. Small increases in private grants and contracts were offset by small decreases in Federal and State grant funding.

Patient Medical Services, which include services provided by the UHC and related health care units and the University Physicians Practice Plan, increased $66.5 million or 15.6% over fiscal year 2003. Of this increase, $5.1 million related to the operations of the University Physicians, with $61.4 million related to UHC.

In fiscal year 2003, the University experienced a 10% cut of $50.5 million to its core appropriations for the State of Missouri plus extraordinary withholdings of $28.3 million, resulting in net **State Appropriations** received of $423.3 million. In fiscal year 2004, the University experienced a further cut of 5.5% to its core appropriations. Additional withholdings of $9.7 million were subsequently released throughout fiscal year 2004, resulting in net State Appropriations of $421.4 million, a slight decrease from fiscal year 2003. **State Capital Appropriations and State Bond Funds** increased $40.6 million to $54.2 million in fiscal year 2004 due to the release of $34.3 million of state bond funds for the new sport arena on the Columbia campus. The remaining State Capital Appropriations related primarily to funding of the Life Sciences Center on the Columbia campus and the Health Sciences Center on the Kansas City campus.

Gift income is reflected in three categories: **Private Gifts**, **Capital Gifts** (restricted for capital expansion) and **Private Gifts for Endowments** (restricted for the establishment of endowments). Total gifts to the University in fiscal year 2004 of $74.2 million were approximately equal to $74.3 million in the prior fiscal year. Noncapital private gifts decreased $6.0 million or 9.9%. Capital Gifts increased $5.9 million largely related to a large pledge for a sports park on the Columbia campus; offset by a single gift of $6.7 million in land received in fiscal year 2003.

Capital Grants of $2.2 million in fiscal year 2004 and $16.6 million in fiscal year 2003 represented funding received from Federal and State agencies to be used for the expansion of the University's physical plant. The decrease of $14.4 million in fiscal year 2004 was the direct result of the completion of the Life Sciences Building on the Columbia campus, which was partially funded through federal grants.

Investment and Endowment Income includes interest and dividend income as well as realized and unrealized gains and losses. Investment and Endowment Income increased $35.6 million, from $68.9 million in fiscal year 2003 to

C-04

$104.5 million in fiscal year 2004. The market continued to improve in fiscal year 2004, which resulted in increases in market values of investments and the recording of realized and unrealized net gains in the amount of $61.0 million, an improvement of $36.0 million over the realized and unrealized gains of $25.0 million recorded in fiscal year 2003.

Total Operating Expenses reflected a 7.4% or $121.4 million increase over fiscal year 2003, as discussed below.

During fiscal year 2004, **Salaries and Wages** increased approximately 3.0% over fiscal year 2003 primarily due to merit increases for employees effective September 2003. Staff Benefits showed a significant increase of 28.3% year over year due to increases in the employer costs associated with the University's medical, dental and life premiums, as well as retirement contributions.

The University's expenses related to **Supplies, Services and Other Operating** costs increased by 9.1% or $42.9 million, to $516.8 million in fiscal year 2004, compared to $473.9 million in fiscal year 2003. A considerable portion of this increase related to increased patient care operating costs at the UHC which was directly correlated with UHC's increase in services and patient care revenue. In addition, the University has seen an increase in costs related to maintenance, repair and replacement of certain components in its infrastructure and physical plant. These maintenance, repair and replacement costs, which do not meet the University's capitalization limit of $5,000, accounted for approximately $15.4 million in additional costs over fiscal year 2003. The increase in non-patient care operating costs was approximately 7% year over year.

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows provide information about the University's sources and uses of cash and cash equivalents during the fiscal year. The following summarizes sources and uses of cash and cash equivalents into the four categories defined by GASB for the three years ended June 30, 2005 (in thousands of dollars):

	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003
Net Cash Used in Operating Activities	$ (298,894)	$ (334,212)	$ (303,796)
Net Cash Provided by Noncapital Financing Activities	538,505	486,553	480,681
Net Cash Used in Capital and Related Financing Activities	(215,103)	(92,891)	(179,437)
Net Cash Provided by (Used in) Investing Activities	99,628	(117,442)	(28,389)
Net Increase (Decrease) in Cash and Cash Equivalents	124,136	(57,992)	(30,941)
Cash and Cash Equivalents, Beginning of Year	216,863	274,855	305,796
Cash and Cash Equivalents, End of Year	$ 340,999	$ 216,863	$ 274,855

FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

Net Cash Used in Operating Activities reflects the continued need for funding from the State of Missouri, as funding received from tuition and fees and related sales and services of auxiliary and educational activities are not sufficient to cover operational needs. Cash used in operating activities decreased $35.3 million from $334.2 million in fiscal year 2004 to $298.9 million in fiscal year 2005. This decrease in the use of cash was impacted by increases in operating revenues such as tuition and fees, patient care revenues and federal, state and private grant revenue.

The University's most significant source of cash, **Net Cash Provided by Noncapital Financing Activities**, includes funds provided by State and Federal appropriations and noncapital private gifts. This funding source of $538.5 million for fiscal year 2005 and $486.6 million for fiscal year 2004 directly offsets uses of funds.

Net Cash Used in Capital and Related Financing Activities increased $122.2 million from $92.9 million in fiscal year 2004 to $215.1 million in fiscal year 2005. The University did not issue new bonds in fiscal year 2005 to offset funds used for capital expansion across all campuses. Proceeds used in net capital additions decreased $45.7 million in fiscal year 2005 to $202.0 million from $247.7 in fiscal year 2004.

Net Cash Provided by (Used In) Investing Activities increased $217.1 million from $(117.5) million in fiscal year 2004 to $99.6 million in fiscal year 2005. The University's investment pool was more heavily weighted in short-term investments as of June 30, 2005, as a result of year-end cash flows. These funds were not used to purchase long-term investments at that time.

FISCAL YEAR 2004 COMPARED TO FISCAL YEAR 2003

Net Cash Used in Operating Activities reflects the continued need for funding from the State of Missouri, as funding received from tuition and fees and related sales and services of auxiliary and educational activities are not sufficient to cover operational needs. Cash used in operating activities increased $30.4 million from $303.8 million in fiscal year 2003 to $334.2 million in fiscal year 2004. This increase in the use of cash was impacted by increases in employee-related payments, principally benefit costs, and operational payments to suppliers. Offsetting operating sources of cash included increases in tuition and fees and patient care revenues.

The University's most significant source of cash, **Net Cash Provided by Noncapital Financing Activities**, includes funds provided by State and Federal appropriations and noncapital private gifts. This funding source of $486.6 million for fiscal year 2004 and $480.7 million for fiscal year 2003 directly offset uses of funds.

Net Cash Used in Capital and Related Financing Activities decreased $86.5 million from $179.4 million in fiscal year 2003 to $92.9 million in fiscal year 2004. The University received proceeds of $158.1 million from issuance of System Facilities Revenue Bonds in fiscal year 2004. Proceeds from issuance of the bonds were used to advance refund and defease existing bonds in the amount of $36.4 million. No new bonds were issued in fiscal year 2003. Proceeds used in net capital additions increased $62.6 million in fiscal year 2004 to $247.7 million from $185.1 in fiscal year 2003 primarily due to continued expansion of capital assets across all campuses.

Net Cash Used in Investing Activities was $117.5 million in fiscal year 2004 versus $28.4 million in fiscal year 2003, an increase of $89.1 million. The University's Long-Term Investments increased significantly in fiscal year 2004 as a result of investment of proceeds from the issuance of bonds and positive total returns experienced in fiscal year 2004.

ECONOMIC OUTLOOK

The University of Missouri continues to strengthen its financial position through positive operating results and to provide quality service to students, patients and citizens across the state of Missouri. Improvements in the state's economic condition and the related increases in tax receipts resulted in a 3.1% increase in the University's core operating appropriation in fiscal year 2005 after three years of extraordinary withholdings and appropriation reductions. For fiscal year 2006, efforts to bring structural balance to the state's budget and end the state's dependence on one-time funds resulted in no increase in appropriations for higher education. However, because of the growth in state revenues, the University anticipates no mid-year reductions and is mildly optimistic about future increases in state funding.

Fiscal year 2005 was the second year in a row where tuition and fees surpassed state appropriations as the largest source of non-healthcare operating revenues. This is projected to continue in fiscal year 2006 and beyond. The 3.5% increase in tuition for fiscal year 2006 is the lowest in three years; but, continued enrollment growth on all four campuses has contributed to the University's ability to balance the budget despite flat state support. Both headcount and full-time equivalent enrollment reached historic highs in fall 2004 and again in fall 2005. The University of Missouri, as the state's research and land-grant institution of higher education, enrolls the state's top students. With the goal of addressing the issue of access and affordability, University of Missouri President Elson Floyd has initiated a statewide discussion of guaranteed tuition for undergraduates as a means of providing cost predictability to students and their families.

Increases in mandatory expenses such as health care benefits, retirement contributions, utilities and insurance, in conjunction with flat state support and rising enrollments, have created a budgetary challenge for the University. To meet this challenge, the University has implemented a variety of initiatives to reduce and/or contain costs in such areas as strategic procurement and pharmacy benefits. As a result, over the five-year period from fiscal year 2001 through fiscal year 2005, unrestricted expenditures per full-time equivalent student have increased only 5.6%, or 1.4% annually.

When adjusted for inflation, total expenditures over five years decreased 3.5%. We expect this trend to continue in fiscal year 2006.

The University of Missouri Health System continues to improve its financial position ending fiscal year 2005 with a 6.3% excess margin providing approximately $30 million for capital projects and other initiatives. This improved performance was reflected in the change in the credit outlook from negative to positive by Moody's Investor Services in April 2005. In fiscal year 2006, the Health System must manage the financial impact of reductions in the state Medicaid program. The record hiring of specialty physicians and continuing increases in patient census, surgical volumes and deliveries are projected to bolster performance.

The University continues to strengthen and diversify its funding sources through effective endowment management, increased private giving and record high external research funding. The University of Missouri-Columbia campus recently announced that it was extending its capital campaign goal to $1.0 billion after reaching the original goal of $600 million six months early. External research funding is at an all time high with a 20% increase in Federal funding on the Columbia campus. With the addition of economic development as a fourth mission of the University, President Elson Floyd recently appointed a vice president for research and economic development to foster partnerships with the state of Missouri and the private sector in support of economic initiatives that build on the University's research strength.

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

Independent Auditors' Report

To the Board of Curators
University of Missouri:

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the University of Missouri Retirement Trust of the University of Missouri, a component unit of the State of Missouri, as of and for the year ended June 30, 2005, which collectively comprise the University of Missouri's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University of Missouri's management. Our responsibility is to express opinions on these financial statements based on our audit. The accompanying basic financial statements of the University of Missouri as of and for the year ended June 30, 2004 were audited by other auditors whose report dated October 26, 2004, except for notes 13 and 19 to the 2004 basic financial statements as to which the date was December 15, 2005, on those basic financial statements included an explanatory paragraph that referred to the restatement of the 2004 basic financial statements.

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

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the University of Missouri Retirement Trust of the University of Missouri as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, effective July 1, 2004, the University of Missouri implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.*

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 22, 2005 on our consideration of the University of Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 13, the Schedule of Employer Contributions on page 45, and the Schedule of Funding Progress on page 46 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

St. Louis, Missouri
December 22, 2005

Statements of Net Assets

AS OF JUNE 30, 2005 AND 2004

(in thousands of dollars)

	University		Discretely Presented Component Units	
	2005	2004	2005	2004
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 131,614	$ 78,753	$ 8,053	$ 8,456
Restricted Cash and Cash Equivalents	209,385	138,110		
Short-Term Investments	95,309	64,577		
Restricted Short-Term Investments	126,782	69,138		
Accounts Receivable, Net	185,206	184,488	22,470	22,167
Pledges Receivable, Net	10,489	7,714		
Investment Settlements Receivable	6,373	5,480		
Notes Receivable, Net	10,301	10,702		
Due From (To) Component Units and Retirement	(2,616)	(2,777)	2,612	2,701
Inventories	29,872	27,189	2,232	2,545
Prepaid Expenses and Other Current Assets	14,131	13,074	1,120	976
Total Current Assets	**816,846**	**596,448**	**36,487**	**36,845**
Noncurrent Assets:				
Restricted Cash and Cash Equivalents			9,416	4,874
Pledges Receivable, Net	28,983	16,271		
Notes Receivable, Net	46,252	43,216		
Deferred Charges and Other Assets	11,467	11,319	1,310	1,329
Restricted Other Assets			1,640	
Long-Term Investments	485,917	585,976	34,626	39,613
Restricted Long-Term Investments	646,381	627,361		
Depreciable Capital Assets, Net	1,600,789	1,434,244	45,353	47,785
Nondepreciable Capital Assets	194,724	266,080	21,214	9,284
Total Noncurrent Assets	**3,014,513**	**2,984,467**	**113,559**	**102,885**
Total Assets	**$ 3,831,359**	**$ 3,580,915**	**$ 150,046**	**$ 139,730**
Liabilities				
Current Liabilities:				
Accounts Payable	$ 91,834	$ 88,348	$ 5,434	$ 4,060
Accrued Liabilities	103,974	93,570	18,233	16,947
Deferred Revenue	35,179	36,489		
Funds Held for Others	61,683	60,201		
Investment Settlements Payable	16,170	18,495		
Collateral for Securities on Loan	81,611	61,196		
Capital Lease Obligations	392	361	112	102
Bonds and Notes Payable	13,485	11,620	870	480
Total Current Liabilities	**404,328**	**370,280**	**24,649**	**21,589**
Noncurrent Liabilities:				
Capital Lease Obligations	9,779	10,171	95	189
Bonds and Notes Payable	552,052	565,054	38,895	39,765
Deferred Revenue	2,908	2,677		
Other Noncurrent Liabilities	58,258	53,685		
Total Noncurrent Liabilities	**622,997**	**631,587**	**38,990**	**39,954**
Total Liabilities	**1,027,325**	**1,001,867**	**63,639**	**61,543**

(continued)

	University		Discretely Presented Component Units	
	2005	2004	2005	2004
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,226,962	1,147,472	27,199	17,260
Restricted:				
Nonexpendable -				
Endowment	555,658	484,370		
Expendable -				
Scholarships, Research, Instruction and Other	239,585	200,641	1,640	4,875
Loans	75,670	74,964		
Capital Projects	20,214	30,051		
Unrestricted	685,945	641,550	57,568	56,052
Total Net Assets	**2,804,034**	**2,579,048**	**86,407**	**78,187**
Total Liabilities and Net Assets	**$ 3,831,359**	**$ 3,580,915**	**$ 150,046**	**$ 139,730**

See notes to the financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

(in thousands of dollars)

	University		Discretely Presented Component Units	
	2005	2004	2005	2004
Operating Revenues:				
Tuition and Fees (Net of Provision for Doubtful Accounts of $4,609 in 2005 and $4,858 in 2004)	$ 471,240	$ 428,162	$ -	$ -
Less: Scholarship Allowances	115,724	116,384		
Net Tuition and Fees	355,516	311,778	-	-
Federal Grants and Contracts	193,473	170,542		
State and Local Grants and Contracts	43,638	35,434		
Private Grants and Contracts	56,774	53,116		
Sales and Services of Educational Activities	17,920	16,640		
Auxiliary Enterprises -				
Patient Medical Services, Net	566,394	492,229	160,947	153,762
Housing and Dining Services (Net of Scholarship Allowance of $490 in 2005 and $389 in 2004)	57,730	53,462		
Bookstores	50,422	44,373		
Other Auxiliary Enterprises (Net of Scholarship Allowance of $5,472 in 2005 and $4,394 in 2004)	128,065	116,786		
Notes Receivable Interest Income, Net of Fees	855	1,580		
Other Operating Revenues	62,022	47,181		
Total Operating Revenues	**1,532,809**	**1,343,121**	**160,947**	**153,762**
Operating Expenses:				
Salaries and Wages	987,240	919,594	46,952	44,246
Staff Benefits	226,969	214,178	12,018	10,692
Supplies, Services and Other Operating Expenses	596,395	516,766	87,365	87,362
Scholarships and Fellowships	30,783	25,755		
Depreciation	102,414	89,774	7,758	7,296
Total Operating Expenses	**1,943,801**	**1,766,067**	**154,093**	**149,596**
Operating Income (Loss)	**(410,992)**	**(422,946)**	**6,854**	**4,166**
State Appropriations	430,127	421,434		
Income after State Appropriations, before Nonoperating Revenues (Expenses)	**19,135**	**(1,512)**	**6,854**	**4,166**
Nonoperating Revenues (Expenses):				
Federal Appropriations	15,776	14,602		
Investment and Endowment Income, Net of Fees	89,236	104,486	1,024	300
Private Gifts	73,504	36,143	42	203
Interest Expense	(23,497)	(23,785)	(1,340)	(1,236)
Other Nonoperating Revenues (Expenses)	(1,261)	(1,444)	1,640	
Net Nonoperating Revenues (Expenses)	**153,758**	**130,002**	**1,366**	**(733)**
Income before Capital Contributions and Additions to Permanent Endowments	**172,893**	**128,490**	**8,220**	**3,433**
State Capital Appropriations and State Bond Funds	4,686	54,239		
Capital Gifts and Grants	13,056	21,749		
Private Gifts for Endowment Purposes	34,351	18,506		
Increase in Net Assets	**224,986**	**222,984**	**8,220**	**3,433**
Net Assets, Beginning of Year	**2,579,048**	**2,356,064**	**78,187**	**74,754**
Net Assets, End of Year	**$ 2,804,034**	**$ 2,579,048**	**$ 86,407**	**$ 78,187**

See notes to the financial statements.

Statements of Cash Flows

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

(in thousands of dollars)

	2005	2004
Cash Flows from Operating Activities:		
Tuition and Fees	$ 336,011	$ 321,506
Federal, State and Private Grants and Contracts	288,307	271,356
Sales and Services of Educational Activities and Other Auxiliaries	174,492	130,647
Patient Care Revenues	558,141	479,750
Student Housing Fees	57,732	53,867
Bookstore Collections	50,058	44,126
Payments to Suppliers	(584,618)	(515,431)
Payments to Employees	(981,507)	(922,159)
Payments for Benefits	(226,969)	(214,178)
Payments for Scholarships and Fellowships	(30,783)	(25,755)
Student Loans Issued	(16,718)	(14,487)
Student Loans Collected	13,778	13,813
Student Loan Interest and Fees	1,160	1,153
Other Receipts, Net	62,022	41,580
Net Cash Used in Operating Activities	**(298,894)**	**(334,212)**
Cash Flows from Noncapital Financing Activities:		
State Appropriations	430,141	421,460
Federal Appropriations	15,776	14,602
Private Gifts	58,016	7,243
Endowment and Similar Funds Gifts	34,351	18,506
Other Payments	(1,261)	(1,444)
Deposits of Affiliates	1,482	26,186
Net Cash Provided by Noncapital Financing Activities	**538,505**	**486,553**
Cash Flows from Capital and Related Financing Activities:		
Capital State Appropriations	7,377	18,641
Capital Gifts and Grants	13,056	45,067
Proceeds from Sales of Capital Assets	9,525	3,138
Purchase of Capital Assets	(211,567)	(250,880)
Proceeds from Issuance of Capital Debt, Net		159,267
Principal Payments on Capital Debt	(11,620)	(10,773)
Proceeds from Capital Project Notes	1,600	3,360
Payments on Capital Lease	(361)	(332)
Escrow Deposit on Defeasance		(37,346)
Payments on Cost of Debt Issuance		(821)
Interest Payments on Capital Debt	(23,113)	(22,212)
Net Cash Used in Capital and Related Financing Activities	**(215,103)**	**(92,891)**
Cash Flows from Investing Activities:		
Interest and Dividends on Investments	51,598	56,424
Purchase of Investments, Net of Sales and Maturities	48,190	(176,643)
Other Investing Actitities	(160)	2,777
Net Cash Provided by (Used in) Investing Activities	**99,628**	**(117,442)**
Net Increase (Decrease) in Cash and Cash Equivalents	**124,136**	**(57,992)**
Cash and Cash Equivalents, Beginning of Year	**216,863**	**274,855**
Cash and Cash Equivalents, End of Year	**$ 340,999**	**$ 216,863**

(continued)

(in thousands of dollars)

	2005	2004
Reconciliation of Operating Loss Used in Operating Activities:		
Operating Loss	$ (410,992)	$ (422,946)
Adjustments to Net Cash Used in Operating Activities -		
Depreciation Expense	102,414	89,774
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(3,422)	(363)
Inventory, Prepaid Expenses and Other Assets	699	(1,230)
Notes Receivable	(2,635)	(1,101)
Accounts Payable	1,884	(12,374)
Accrued Liabilities	14,927	7,980
Deferred Revenue	(1,769)	6,048
Net Cash Used in Operating Activities	**$ (298,894)**	**$ (334,212)**
Supplemental Disclosure of Noncash Activities:		
Gifts of Noncash Assets and Capital Assets	$ -	$ 5,600
Net Increase in Fair Value of Investments	$ (6,447)	$ 23,400

See notes to the financial statements.

Statements of Net Assets Held for Pension Benefits

AS OF JUNE 30, 2005 AND 2004

	(in thousands of dollars) 2005	2004
Assets		
Cash and Cash Equivalents	$ 50,039	$ 41,955
Collateral for Securities Lending	173,580	149,917
Due from the University of Missouri System	4	76
Investment Settlements Receivable	22,594	16,647
Investments:		
Government Obligations	301,689	292,881
Corporate Bonds and Notes	109,375	108,304
Corporate Stocks	1,783,813	1,333,402
Other	33,282	351,264
Total Assets	**2,474,376**	**2,294,446**
Liabilities		
Accounts Payable and Accrued Liabilities	2,228	1,768
Collateral for Securities Lending	173,580	149,917
Investment Settlements Payables	53,255	61,236
Total Liabilities	**229,063**	**212,921**
Net Assets Held for Pension Benefits	**$ 2,245,313**	**$ 2,081,525**

Statements of Changes in Net Assets Held for Pension Benefits

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	(in thousands of dollars) 2005	2004
Net Revenues and Other Additions		
Investment Income:		
Interest and Dividend Income, Net of Fees	$ 41,423	$ 26,929
Net Appreciation in Fair Value of Investments	177,105	298,720
Net Investment Income	218,528	325,649
University Contribution	49,075	48,521
Total Net Revenues and Other Additions	**267,603**	**374,170**
Expenses and Other Deductions		
Administrative Expenses	1,457	1,363
Payments to Retirees and Beneficiaries	102,358	100,185
Total Expenses and Other Deductions	**103,815**	**101,548**
Increase in Net Assets Held for Pension Benefits	**163,788**	**272,622**
Net Assets Held for Pension Benefits, Beginning of Year	**2,081,525**	**1,808,903**
Net Assets Held for Pension Benefits, End of Year	**$ 2,245,313**	**$ 2,081,525**

See notes to the financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UNIVERSITY OF MISSOURI

Organization – The University of Missouri (the "University"), a Federal land grant institution, conducts education, research and public service and related activities principally at its four campuses in Columbia, Kansas City, Rolla and St. Louis, which include the University of Missouri Hospitals and Clinics and related health care facilities. The University also administers a statewide cooperative extension service with centers located in each county in the State. The University is a component unit of the State of Missouri (the "State") and is governed by an appointed nine-member Board of Curators.

Reporting Entity – As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board ("GASB"), the financial reporting entity consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable or the nature and significance of their relationships with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete.

The following entities are considered component units of the University according to the criteria in GASB Statement No. 14, *The Financial Reporting Entity* and are discretely presented in the University's financial statements.

- The University of Missouri-Columbia Medical Alliance (the "Medical Alliance"), a not-for-profit corporation, provides an integrated health care delivery system for mid-Missouri by establishing affiliations with various medical facilities. Capital Region Medical Center ("CRMC") in Jefferson City, Missouri, operates as an affiliate of the Medical Alliance and provides inpatient, outpatient and emergency care services to the surrounding community. CRMC is a discretely presented component unit of the Medical Alliance and CRMC is a not-for-profit organization that follows generally accepted accounting principles under the Financial Accounting Standards Board ("FASB"). The purpose of the Medical Alliance is to develop a network of healthcare providers to support the missions of the University of Missouri Healthcare. The University appoints the Board of Directors of the Medical Alliance and can impose its will on the organization.

- Missouri Care L.C. is a not-for-profit health maintenance organization which provides services to patients in central Missouri under a certification from the Missouri Department of Social Services. Missouri Care L.C. has contracted with the University of Missouri Healthcare System as a major provider of health care services to the organization's members. Missouri Care L.C. is organized exclusively for charitable purposes, in particular, to benefit its sole member, the Curators of the University of Missouri. The University appoints the Board of Directors of Missouri Care L.C. and can impose its will on the organization.

Complete financial statements for Missouri Care L.C. are available at the University of Missouri, 118 University Hall, Columbia, MO 65211. Financial statements for Medical Alliance are not available.

The University operates the University of Missouri Retirement, Disability and Death Benefit Plan (the "Plan"), which is a single employer, defined benefit plan. The assets of the Plan are held in trust and are restricted for use only to pay for benefits and expenses of the Plan. The Plan is reported as a fiduciary fund of the University.

Financial Statement Presentation – In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

The University has adopted GASB Statement No. 35, *Basic Financial Statement–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities. The financial statement

presentation provides a comprehensive entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows replacing the fund-group perspective previously required.

Effective July 1, 2004, the University has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* The statement modifies certain disclosure requirements of GASB Statement No. 3.

Basis of Accounting – The University's financial statements have been prepared using the economic resource focus and the accrual basis. The University reports as a Business Type Activity, as defined by GASB Statement No. 34. Business Type Activities are those that are financed in whole or in part by funds received from external parties for goods or services.

The University's policy for defining operating activities as reported on the Statements of Revenues, Expenses and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue as defined by GASB Statement No. 34. Nonoperating revenues include revenues from activities that have the characteristics of nonexchange transactions, such as State and Federal appropriations and investment income.

The University of Missouri Retirement Trust is a pension trust fund which accounts for the activity of the University of Missouri Retirement, Disability, and Death Benefit Plan. The financial statements of the trust fund have been prepared using the accrual basis of accounting.

Cash, Cash Equivalents and Investments – Cash and cash equivalents consist of the University's bank deposits and investments with original maturities of three months or less. Investment assets are carried at fair value based primarily on market quotations. Purchases and sales of investments are accounted for on the trade date basis. Investment settlements receivable and investment settlements payable represent investment transactions occurring on or before June 30, which settle after such date. Investment income is recorded on the accrual basis. Net unrealized gains (losses) are included in investment and endowment income in the Statements of Revenues, Expenses and Changes in Net Assets. Derivative instruments such as forward foreign currency contracts are recorded at fair value. The University enters into forward foreign currency contracts to reduce the risk related to fluctuations in currency exchange rates in their international investments. These contracts are marked to market and the changes in their market value are recorded in investment and endowment income on the Statements of Revenues, Expenses and Changes in Net Assets.

Pledges Receivable – The University receives unconditional promises to give (pledges) through private donations from corporations, alumni and various other supporters of the University. Revenue is recognized when a pledge is received and all eligibility requirements, including time requirements, are met. These pledges have been recorded as pledges receivable on the Statements of Net Assets and as private gift revenue on the Statements of Revenues, Expenses and Changes in Net Assets, at the present value of the estimated future cash flows. An allowance of $4,102,000 and $6,251,000 as of June 30, 2005 and 2004 has been made for uncollectible pledges based upon management's expectations regarding the collection of the pledges and the University's historical collection experience.

Inventories – These assets are stated at the lower of cost or market. Cost is determined on an average cost basis, with the exception of the University Hospitals and Clinics inventories, where cost is determined using the first-in, first-out method.

Capital Assets – These assets are carried, if purchased, at cost or, if donated, at fair value at date of gift. Depreciation expense is computed using the straight-line method over the estimated useful lives of the respective assets – generally ten to forty years for buildings and improvements, eight to twenty-five years for infrastructure, seven to fifteen years for equipment and twenty years for library materials. Net interest expense incurred during the construction of debt-financed facilities is included in the capitalization of the related facilities. The University has capitalized works of art and continues to add to these collections. As these collections generally consist of historical artifacts and artworks, they are considered inexhaustible, as well as land, and have not been subject to depreciation. The University does not capitalize collections of historical treasures held for public exhibition, education, research and public service. These collections are not disposed of for financial gain. Accordingly, such collections are not recognized or capitalized for

financial statement purposes. Proceeds from the sale, exchange, or other disposal of any item belonging to a collection of historical treasures must be applied to the acquisition of additional items for the same collection.

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

Net Assets – The University's net assets are classified for financial reporting in the following net asset categories:

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

  Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds. The University's policy permits any realized and unrealized appreciation on the endowments to remain with the endowment after the 5% spending distribution discussed in Note 3.

  Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Curators. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources. Unrestricted net assets are used for expenses for academics and general operation of the University.

Scholarship Allowance – Tuition and fees and related housing, dining and other auxiliary enterprises revenues are presented net of scholarships and fellowships applied to student accounts, while scholarships, fellowships and other payments made directly to students are presented as scholarship and fellowship expenses.

Patient Medical Services, Net – Patient medical services revenues are reported net of contractual allowances and bad debt. Patient medical services are primarily provided through University of Missouri Hospitals and Clinics, Ellis Fischel Cancer Research Center, Columbia Regional Hospital, Missouri Rehabilitation Center and University Physicians (collectively, the "University of Missouri Healthcare").

The University of Missouri Healthcare has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discount charges and per diem payments. Patient medical services revenue is reported at 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. Patient medical services revenue is also shown net of estimated uncollectible accounts.

Amounts receivable under Medicare and Medicaid reimbursements agreements are subject to examination and certain retroactive adjustments by the related programs. These adjustments increased net patient services revenues by $5,518,000 and $4,001,000 for the years ended June 30, 2005 and 2004, respectively.

A percentage breakdown of gross patient accounts receivable by major payer classification of the University of Missouri Healthcare for the years ended June 30, 2005 and 2004, is as follows:

	2005	2004
Medicare	29%	22%
Commercial Insurance	10%	9%
Medicaid	24%	21%
Self Pay and Other	11%	13%
Managed Care Agreements	26%	35%
	100%	100%

The gross to net patient medical services revenue detail is reflected below for fiscal years 2005 and 2004. The Statements of Revenues, Expenses and Changes in Net Assets reflect net patient medical services revenue as follows (in thousands of dollars):

	2005	2004
Patient Medical Services Revenue, Gross	$ 1,063,495	$ 900,419
Less Deductions for Contractuals	(464,970)	(385,174)
Less Bad Debt Deductions	(32,131)	(23,016)
Patient Medical Services Revenue, Net	$ 566,394	$ 492,229

Interest Rate Swap Agreements – The University enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net payments resulting from those agreements, no amounts related to the interest rate swaps are recorded in the financial statements.

New Accounting Pronouncements – The GASB issued GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement establishes accounting and financial reporting standards for impairment of capital assets, as well as clarifying and establishing accounting requirements for insurance recoveries. Impairment of a capital asset may be the result of physical damage, technology changes, obsolescence, and construction stoppage. If impairment is determined to exist, the capital asset may be revalued and disclosed in accordance with the provisions of the statement. The University has not yet determined the effect that adoption of GASB Statement No. 42 may have on the financial statements.

The GASB issued GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, effective for fiscal years beginning after December 15, 2005 and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*, effective for fiscal years beginning after December 15, 2006. The University's postemployment benefit plan is self-insured and managed by the University; therefore, both statements are applicable. The statements provide standards for measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and supplementary information. The University has not yet determined the effect that adoption of GASB Statement No. 43 and GASB Statement No. 45 may have on the financial statements.

The GASB has also issued GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, effective for fiscal years beginning after June 15, 2005. This statement provides guidance to governments for determining when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. Enabling legislation is a specific type of legislation that both authorizes the raising of new resources and imposes legally enforceable limits on how they may be used. This statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The University has not yet determined the effect that adoption of GASB Statement No. 46 may have on the financial statements.

The GASB has also issued GASB Statement No. 47, *Accounting for Termination Benefits*, effective for fiscal years beginning after June 15, 2005. The statement provides accounting and reporting guidance for entities that offer benefits

such as early retirement incentives or to employees who are involuntarily terminated. The statement is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements, by requiring that similar forms of termination benefits be accounted for in the same manner. The University has not yet determined the effect that adoption of GASB Statement No. 47 may have on the financial statements.

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

Use of Estimates – The preparation of 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, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Nature of Operations – The Curators of the University of Missouri, for and on behalf of the University of Missouri Healthcare, and CRMC entered into an Affiliation Agreement dated August 5, 1997. Pursuant to the Affiliation Agreement, the University created the Medical Alliance. The Medical Alliance then became the sole member of CRMC. The Medical Alliance's purpose is to develop a network of healthcare providers to support the missions of the University of Missouri Healthcare.

CRMC operates as a two-hospital system, which consists of the Southwest Campus and Madison Campus complemented by community medical clinics. CRMC primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Jefferson City, Missouri. It also operates medical clinics in the surrounding communities. The operating results of both facilities and clinics are included in the financial statements. CRMC is served by a group of admitting physicians which account for a significant portion of CRMC's net revenues. Additionally, CRMC is also associated with the Capital Region Medical Foundation, which is intended to support the interest of CRMC and does so by raising and holding funds for the benefit of CRMC.

Net Assets – The Medical Alliance's net assets are classified for financial reporting in the following net asset categories:

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

- **Restricted:**

  Expendable – Net assets whose use by the Medical Alliance is subject to externally imposed stipulations that can be fulfilled by actions of the Medical Alliance pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors. When an expense is incurred that can be paid using either restricted or unrestricted resources, the Medical Alliance's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Capital Assets – Capital Assets are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset following guidelines of the American Hospital Association. Equipment under capital lease obligations is amortized on the straight-line basis over the shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Net Patient Medical Service Revenue – Net patient medical service revenue is reported at the estimated net realizable amounts from patients, third-party payers, 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 final settlements are determined.

2. CASH AND CASH EQUIVALENTS

Cash & Cash Equivalents – University – The University's cash and cash equivalents include bank deposits, repurchase agreements and investments maturing in three months or less.

Custodial Credit Risk – Deposits – University – The custodial credit risk for deposits is the risk that in the event of bank failure, the University's deposits may not be recovered. State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. Agencies and instrumentalities of the state of Missouri; bonds of any city, county, school district or special road district of the state of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The following chart presents cash and cash equivalent deposits balances as of June 30, 2005 (in thousands of dollars):

2005	Uninsured and Uncollateralized	Unsecured and Collateralized with Securities held by Pledging Institution's Trust Department Not in the University's Name	Collateralized and Fully Insured Bank Balances	Total Carrying Value
Cash and Cash Equivalent Deposits	$ 532	$ -	$ 148,974	$ 149,506
Total	$ 532	$ -	$ 148,974	$ 149,506

Custodial Credit Risk – Deposits – University of Missouri Retirement Trust – The University of Missouri Retirement Trust held deposits, consisting of cash and cash equivalents in the amount of $211,062,000 as of June 30, 2005. These balances are fully secured and collateralized and are not exposed to custodial credit risk.

3. INVESTMENTS

UNIVERSITY OF MISSOURI

Investments - The investment policies of the University are established by its governing board, the Board of Curators. The policies are established to ensure that the University funds are managed in accordance with Section 105.688 of the Revised Statutes of Missouri. Investments for the University are managed in two major categories:

Pooled General Investments – The general investment pools, managed by the University, averaged a total return of 3.53% and .87%, including unrealized gains and losses, for the years ended June 30, 2005 and 2004, respectively.

Pooled Endowment Investments – Endowment and similar funds are pooled for investment purposes when appropriate and permissible. The investment objective is to achieve long-term total returns sufficient to preserve principal, after adjusting for inflation, and to meet the endowment spending targets. The endowment pools, managed by outside managers, are the balanced pool and the fixed income pool and earned a total return of 9.6% and 4.8%, respectively, including unrealized gains and losses, for the year ended June 30, 2005, and 17.4% and 0.0%, respectively, for the year ended June 30, 2004.

If the donor has not provided specific instructions or restrictions, state law permits the Board of Curators to appropriate for expenditure an amount of net appreciation, realized and unrealized, of the investments of endowment funds as the Board considers to be prudent. When administering the power to spend net appreciation, the Board is required to consider the University's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Any net appreciation expended is required to be spent for the purposes for which the endowment was established. The net appreciation on investments of donor-restricted endowments authorized for expenditure in fiscal year 2005 is approximately $26,949,000.

The Board of Curators has adopted a total return philosophy in determining the spendable return for the endowments and similar funds. The spending formula distributes annually 5% of a trailing 12-quarter average of the endowment's total market value, with the understanding that this spending rate over the long term will not exceed total real return

(net of inflations) from investments. However, to achieve uniformity in amounts to spend from one year to the next, the actual amount available to spend in any given year will not be less than 96% or more than 106% of the prior year's expenditure.

At June 30, 2005, the University held investments, by investment type, as follows (in thousands of dollars):

	Carrying Value as of June 30, 2005
Government Obligations	$ 571,579
Corporate Bonds and Notes	197,249
Corporate Stocks	563,042
Other	22,519
Total Short-Term and Long-Term Investments	1,354,389
Commercial Paper	179,590
Repurchase Agreements	11,903
Total Cash and Cash Equivalents	191,493
Total Investments	$ 1,545,882

Custodial Credit Risk – The custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the University will not be able to recover the value of the investments. In accordance with University policy, the University minimizes its custodial credit risk on deposits by establishing limitations on the types of instruments held with qualifying institutions. Repurchase agreements must be collateralized by U.S. Government issues and/or U.S. Government Agency issues. Certificates of deposit must be collateralized and held at a bank with which the University has a depository agreement. The University's investment of $179,590,000 in commercial paper is uninsured and uncollaterialized. The University's investment of $11,903,000 in repurchase agreements is held by the investment's counterparty, not in the name of the University. All of the remaining University investments are insured and registered and are held by the University or an agent in its name.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's Pooled General Investments consist primarily of fixed income securities, with a specific limitation that no more than 15% of the pool consists of variable rate securities. As a means of ensuring the safety of principal invested in the Pooled Endowment Investments, the University's investment policy requires diversification of the investment portfolio.

At June 30, 2005, the maturities of the University's investments are as follows (in thousands of dollars):

	As of June 30, 2005				
	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	$ 141,148	$ 263,293	$ 33,964	$ 15,364	$ 453,769
U.S. Treasury Obligations	6,248	27,162	8,221	9,834	51,465
Foreign Government Obligations	637	30,807	22,997	11,904	66,345
U.S. Corporate Bonds & Notes	55,945	101,741	12,340	6,121	176,147
Foreign Corporate Bonds & Notes	1,952	6,979	7,050	5,121	21,102
Total	$ 205,930	$ 429,982	$ 84,572	$ 48,344	$ 768,828

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

However, the University has elected to use Moody's Investors Service investment ratings in the following Credit Risk report. Several securities within the Pooled Endowment have Moody's ratings of Baa or Ba and Standard and Poor's ratings in the A range (A-, A, & A+), which places those bonds within the parameters specified in the University's policy.

The following represents the University's investment exposure to credit risk, based on Moody's investment ratings (in thousands of dollars):

	As of June 30, 2005						
	Aaa	Aa	A	Baa	Ba	Unrated	Total
U.S. Agency Obligations	$ 377,698	$ 54,979	$ 35	$ -	$ -	$ 21,057	$ 453,769
U.S. Treasury Obligations						51,465	51,465
Foreign Government Obligations	50,083	1,331	11,582			3,349	66,345
U.S. Corporate Bonds & Notes	22,870	67,706	82,691	245		2,635	176,147
Foreign Corporate Bonds & Notes	11,315	2,877	3,189	680		3,041	21,102
Total	$ 461,966	$ 126,893	$ 97,497	$ 925	$ -	$ 81,547	$ 768,828

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a foreign investment. University policy allows 15-25% of the investment portfolio to be invested in international investments (12.1% and 12.2% denominated in foreign currency in fiscal years 2005 and 2004, respectively). To reduce the risk related to fluctuations in currency exchange rates, the University has entered into forward foreign currency contracts throughout the year. As of June 30, 2005 and 2004, 4.7% or $63,383,000 and 4.6% or $61,571,000, respectively, of the University's total investment portfolio is invested in forward foreign currency contracts. These contracts are marked to market and the changes in their market value are recorded in investment and endowment income on the Statements of Revenues, Expenses and Changes in Net Assets. The following represents the University's exposure to foreign currency risk (in thousands of dollars):

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

Currency	2005
Australian Dollar	$ 2,856
British Pound Sterling	27,112
Canadian Dollar	2,814
Chilean Peso	21
Danish Krone	911
Euro	65,203
Hong Kong Dollar	2,978
Israeli Shekel	166
Japanese Yen	42,062
Mexican New Peso	301
New Taiwan Dollar	42
New Zealand Dollar	67
Norwegian Krone	589
Polish Zloty	135
South African Comm Rand	425
Singapore Dollar	898
South Korean Won	98
Swedish Krona	4,527
Swiss Franc	12,124
Total	$ 163,329

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investment pools).

For University funds invested through the Pooled General Investments category the following restrictions apply: 1) Corporate Bonds should not exceed 20% of the portfolio; 2) Variable Rate securities should not exceed 15% of the portfolio; and 3) Investments in obligations of the U.S. Government, U.S. Government Agency issues or U.S. Government guaranteed securities is unlimited.

For University funds invested through the Pooled Endowment Investments category, target asset mixes are assessed and evaluated to ensure diversification. The investment policy allows for a portfolio consisting of no more than 47.5% U.S. equity, 25% international equity, 10% emerging markets equity, 10% alternative investments (maximum of 5.0% in hedge funds), 10% real estate and 27.5% global fixed income.

Portions of the Pooled Endowment Investments are invested in a fixed income fund, called the Fixed Income Pool, which, due to donor restrictions, can only be invested in fixed income securities. Investments in this portfolio consist of U.S. Government, U.S. Government Agency issues, corporate fixed income, commercial paper and repurchase agreements.

As of June 30, 2005, of the University's total investments, 18.7% are issues of the Federal Home Loan Bank (FHLB), 8.5% are issues of the Federal National Mortgage Association (FNMA), and 5.1% are issues of the Federal Home Loan Mortgage Corporation (FHLMC).

Securities Lending Transactions – The University participates in an external investment pool securities lending program to augment income. The program is administered by the University's custodial agent bank, which lends equity, government and corporate securities for a predetermined period of time to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. Government securities, defined letters of credit or other collateral approved by the University. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The University has minimized its exposure to credit risk from borrower default by having the custodial agent bank determine daily that required collateral meets a minimum of 100% of the fair value of securities on loan for domestic securities lent and 105% for international securities lent. The fair value of collateral for securities on loan totaled $81,611,000 and $61,196,000 at June 30, 2005 and 2004, respectively.

The University continues to receive interest and dividends during the loan period, as well as a fee from the borrower. In addition, the maturities of the investments made with the cash collateral generally match the maturities of the securities lent. At June 30, 2005, the University has no credit risk exposure since the collateral held exceeds the value of the securities lent. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

In addition, at June 30, 2005 and 2004, letters of credit and security collateral, not meeting the criteria for inclusion in the Statements of Net Assets, totaled $3,170,000 and $941,000, respectively. At June 30, 2005, the aggregate fair value of the securities lent and related collateral received was $81,799,000 and $60,000,000, respectively.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Investments – The investment policies of Medical Alliance are established by its board of directors. The policies are established to ensure that Medical Alliance funds are managed in accordance with the "Prudent Man Rule."

At June 30, 2005 and 2004, Medical Alliance held the following investments (in thousands of dollars):

	2005	2004
Internally Designated for Capital Improvements:		
Repurchase Agreements	$ -	$ 5,000
Mortgage-backed securities	10,668	8,083
Money Market Accounts	13,766	6,100
Interest Receivable	57	33
U.S. Treasury Obligations	74	74
Certificates of Deposit	11,271	5,525
Subtotal	35,836	24,815
Held by Trustee Under Indenture Agreement:		
Money Market Accounts	8,381	19,390
Interest Receivable	8	
Less Portion Required for Current Obligations	(1,210)	(748)
	$ 43,015	$ 43,457

UNIVERSITY OF MISSOURI RETIREMENT TRUST

Investments – Retirement Trust – The Board of Curators of the University of Missouri establishes the investment policies for the Retirement Trust. Retirement investments emphasize diversification across asset classes, dominated by equity securities, in order to maximize total investment returns. While pursuing this objective, the Retirement Trust maintains its fiduciary duties applicable to investments set forth in Section 105.688 of the Revised Statutes of Missouri. The Retirement Trust investments earned a total return of 11.1%, including unrealized gains and losses, for the year ended June 30, 2005, and 18.5% for the year ended June 30, 2004.

At June 30, 2005, the Retirement Trust held investments, by investment type, as follows (in thousands of dollars):

	Carrying Value as of June 30, 2005
Government Obligations	$ 301,689
Corporate Bonds and Notes	109,375
Corporate Stocks	1,783,813
Other	33,282
Total Short-Term and Long-Term Investments	2,228,159
Commercial Paper	12,557
Total Cash and Cash Equivalents	12,557
Total Investments	$ 2,240,716

Custodial Credit Risk – The custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the Retirement Trust will not be able to recover the value of the investments that are in the possession of an outside party. The investment of $12,557,000 in commercial paper is uninsured and uncollateralized. The remainder of the Retirement Trust's investments are insured or registered and are held by the Retirement Trust or an agent in its name.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of ensuring the safety of principal invested, the Retirement Trust's investment policy requires diversification of the investment portfolio.

At June 30, 2005, the maturities of the Retirement Trust's investments are as follows (in thousands of dollars):

	As of June 30, 2005				
	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Carrying Value
U.S. Agency Obligations	$ 1,527	$ 2,950	$ 5,871	$ 45,985	$ 56,333
U.S. Treasury Obligations	8,414	4,883	5,665	11,787	30,749
Foreign Government Obligations	1,678	102,338	71,641	38,950	214,607
U.S. Corporate Bonds & Notes	3,047	13,436	11,320	14,547	42,350
Foreign Corporate Bonds & Notes	6,674	24,284	21,662	14,405	67,025
Total	$ 21,340	$ 147,891	$ 116,159	$ 125,674	$ 411,064

Credit Risk – The credit risk of investments is the risk that the issuer or other counterparty will not meet its obligations. This credit risk is measured by the credit quality ratings of investments in debt securities as described by a nationally recognized statistical rating organization such as Standard and Poor's (S&P) and Moody's. The University's policy on investments for the Retirement Trust states that investments in corporate bonds and other fixed income securities must have a rating of A or better.

However, the University has elected to use Moody's Investors Service investment ratings in the following Credit Risk report. Several securities within the Retirement Trust have Moody's ratings of Baa or Ba and Standard and Poor's ratings in the A range (A-, A, & A+), which places those bonds within the parameters specified by University's policy on investments for the Retirement Trust.

The following represents the Retirement Trust's investment exposure to credit risk, based on Moody's investment ratings (in thousands of dollars):

	As of June 30, 2005						
	Aaa	Aa	A	Baa	Ba	Unrated	Total
U.S. Agency Obligations	$ 6,088	$ 974	$ -	$ -	$ -	$ 49,271	$ 56,333
U.S. Treasury Obligations						30,749	30,749
Foreign Government Obligations	160,096	7,005	39,190			8,316	214,607
U.S. Corporate Bonds & Notes	18,494	7,387	11,467	762		4,240	42,350
Foreign Corporate Bonds & Notes	34,352	7,099	9,768	2,126		13,680	67,025
Total	$219,030	$ 22,465	$ 60,425	$ 2,888	$ -	$106,256	$411,064

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds, or external investment pools). The Retirement Trust investment policy allows for a portfolio consisting of no more than 47.5% U.S. equity, 25% international equity, 10% emerging markets equity, 10% alternative investments (maximum of 5.0% in hedge funds), 10% real estate and 27.5% global fixed income. At June 30, 2005, the Retirement Trust portfolio did not contain any investments from a single issuer which exceeded 5% of the total portfolio.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a foreign investment. The Retirement Trust invests a significant portion of its portfolio in international investments (23.8% and 23.1% denominated in foreign currency in fiscal years 2005 and 2004, respectively). To reduce the risk related to fluctuations in currency exchange rates, the University has entered into forward foreign currency contracts throughout the year. As of June 30, 2005 and 2004, 9.7% or $216,017,000 and 9.5% or $199,007,000, respectively, of the Retirement Trust's investment portfolio is invested in forward foreign currency contracts. These contracts are marked to market and the changes in their market value are recorded in net appreciation (depreciation) in fair value of investments in the Statements of Changes in Net Assets Held for Pension Benefits.

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

Currency	2005
Australian Dollar	$ 8,582
British Pound Sterling	89,712
Canadian Dollar	18,281
Chilean Peso	72
Danish Krone	2,476
Euro	211,619
Hong Kong Dollar	8,206
Israeli Shekel	561
Japanese Yen	140,182
Mexican New Peso	1,014
New Taiwan Dollar	94
New Zealand Dollar	639
Norwegian Krone	1,417
Polish Zloty	453
South African Comm Rand	930
Singapore Dollar	3,582
South Korean Won	289
Swedish Krona	12,084
Swiss Franc	30,515
Total	$ 530,708

Securities Lending Transactions – The Retirement Trust participates in an external investment pool securities lending program to augment income. The program is administered by the Retirement Trust's custodial agent bank, which lends equity, government and corporate securities for a predetermined period of time to an independent broker/dealer (borrower) in exchange for collateral. Collateral may be cash, U.S. Government securities, defined letters of credit or other collateral approved by the Retirement Trust. Loans of domestic securities are initially collateralized at 102% of the fair value of securities lent. Loans of international securities are initially collateralized at 105% of the fair value of securities lent. The Retirement Trust has minimized its exposure to credit risk from borrower default by having the custodial agent bank determine daily that required collateral meets a minimum of 100% of the fair value of securities on loan for domestic securities lent and 105% for international securities lent. The fair value of collateral held for securities on loan totaled $173,580,000 and $149,917,000 at June 30, 2005 and 2004, respectively.

The Retirement Trust continues to receive interest and dividends during the loan period, as well as a fee from the borrower. In addition, the maturities of the investments made with the cash collateral generally match the maturities of the securities lent. At June 30, 2005, the Retirement Trust has no credit risk exposure since the collateral held exceeds the value of the securities lent. The Retirement Trust is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

In addition, at June 30, 2005 and 2004, letters of credit and security collateral, not meeting the criteria for inclusion in the Statements of Net Assets Held for Pension Benefits, totaled $11,014,000 and $1,776,000, respectively, for the Retirement Trust. At June 30, 2005 and 2004, the aggregate fair value of the securities lent and related collateral received was $177,170,000 and $145,735,000, respectively.

4. FUNDS HELD IN TRUST BY OTHERS

At June 30, 2005 and 2004, Funds Held in Trust by Others (principally endowment funds) aggregated $83,896,000 and $67,349,000, respectively, at fair value. Due to time restrictions or a legal event that has not occurred, these funds are not available to the University and are not included in the accompanying Statements of Net Assets. Income earned and distributed to the University for the years ended June 30, 2005 and 2004, aggregated $1,920,000 and $1,716,000, respectively.

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2005 and 2004, are summarized as follows (in thousands of dollars):

	2005	2004
Grants and Contracts	$ 43,500	$ 34,037
State Appropriations and State Bond Funds	835	37,821
Student Fees and Other Academic Charges	72,891	49,257
University Hospitals and Clinics Patient Services, Net of Contractual Allowances	80,364	65,825
University Physicians Patient Services, Net of Contractual Allowances	15,357	15,819
Subtotal	212,947	202,759
Less Provisions for Loss on Accounts Receivable:		
Grants and Contracts Allowance	3,885	-
University Hospitals and Clinics Patient Services Allowances	14,757	12,544
University Physicians Patient Services Allowances	4,490	879
Student Fees and Other Academic Charges	4,609	4,848
Subtotal	27,741	18,271
	$ 185,206	$ 184,488

6. NOTES RECEIVABLE

Notes receivable consist of resources available for financial loans to students. These resources are provided through Federal loan programs and University loan programs generally funded by external sources. Notes receivable at June 30, 2005 and 2004, are summarized as follows (in thousands of dollars):

	2005	2004
Federal Health Profession Loans	$ 12,752	$ 12,983
Carl D. Perkins National Loans	29,712	28,228
University Loan Programs	15,656	14,273
Subtotal	58,120	55,484
Less Provision for Loss on Notes Receivable	1,567	1,566
	$ 56,553	$ 53,918

7. CAPITAL ASSETS

UNIVERSITY OF MISSOURI

Capital assets activity for the years ended June 30, 2005 and 2004, is summarized as follows (in thousands of dollars):

	2005 Beginning Balance	Additions/ Transfers	Retirements	2005 Ending Balance
Capital Assets, Nondepreciable:				
Land	$ 53,023	$ 1,242	$ -	$ 54,265
Artwork and Historical Artifacts	16,379	167	5,412	11,134
Construction in Progress	196,678	(67,353)	-	129,325
Total Capital Assets, Nondepreciable	266,080	(65,944)	5,412	194,724
Capital Assets, Depreciable:				
Buildings and Improvements	1,697,801	183,707	11,450	1,870,058
Infrastructure	175,486	12,746	515	187,717
Equipment	412,899	69,154	36,599	445,454
Library Materials	193,022	8,476	-	201,498
Total Capital Assets, Depreciable	2,479,208	274,083	48,564	2,704,727
Less Accumulated Depreciation:				
Buildings and Improvements	615,822	48,461	10,107	654,176
Infrastructure	60,853	7,059	515	67,397
Equipment	258,551	39,603	32,818	265,336
Library Materials	109,738	7,291	-	117,029
Total Accumulated Depreciation	1,044,964	102,414	43,440	1,103,938
Total Capital Assets, Depreciable, Net	1,434,244	171,669	5,124	1,600,789
Total Capital Assets, Net	$ 1,700,324	$ 105,725	$ 10,536	$ 1,795,513

	2004 Beginning Balance	Additions/ Transfers	Retirements	2004 Ending Balance
Capital Assets, Nondepreciable:				
Land	$ 53,989	$ 1,118	$ 2,084	$ 53,023
Artwork and Historical Artifacts	16,298	81	-	16,379
Construction in Progress	146,845	49,833	-	196,678
Total Capital Assets, Nondepreciable	217,132	51,032	2,084	266,080
Capital Assets, Depreciable:				
Buildings and Improvements	1,555,321	145,412	2,932	1,697,801
Infrastructure	169,354	9,441	3,309	175,486
Equipment	417,046	36,394	40,541	412,899
Library Materials	182,345	10,677	-	193,022
Total Capital Assets, Depreciable	2,324,066	201,924	46,782	2,479,208
Less Accumulated Depreciation:				
Buildings and Improvements	578,367	40,189	2,734	615,822
Infrastructure	56,994	6,518	2,659	60,853
Equipment	260,715	36,019	38,183	258,551
Library Materials	102,690	7,048	-	109,738
Total Accumulated Depreciation	998,766	89,774	43,576	1,044,964
Total Capital Assets, Depreciable, Net	1,325,300	112,150	3,206	1,434,244
Total Capital Assets, Net	$ 1,542,432	$ 163,182	$ 5,290	$ 1,700,324

The estimated cost to complete construction in progress at June 30, 2005, is $460,667,000 of which $168,321,000 is available from unrestricted net assets. The remaining costs are expected to be funded from $27,235,000 of State appropriations, $69,898,000 of gifts, $10,991,000 of grants, and $184,222,000 of bond proceeds.

Capital assets include a building facility under a capital lease of $8,332,000 and related accumulated depreciation of $2,396,000 and $1,979,000 at June 30, 2005 and 2004, respectively.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Capital Assets at June 30, 2005 and 2004 are summarized as follows (in thousands of dollars):

	2005	2004
Land and Improvements	$ 6,623	$ 6,519
Buildings	77,229	76,644
Movable Equipment	47,101	43,814
Construction in Progress	14,591	2,765
	145,544	129,742
Less Accumulated Depreciation	78,977	72,673
Total Capital Assets, Net	$ 66,567	$ 57,069

8. ACCRUED LIABILITIES

Accrued liabilities at June 30 2005 and 2004, are summarized as follows (in thousands of dollars):

	2005	2004
Accrued Salaries, Wages and Related Benefits	$ 36,836	$ 34,541
Accrued Vacation	33,806	31,120
Accrued Self Insurance Claims	29,417	24,043
Interest Payable	3,915	3,866
	$ 103,974	$ 93,570

9. OTHER LIABILITIES

Other liabilities at June 30, 2005 and 2004, are summarized as follows (in thousands of dollars):

	2005 Beginning of Year	Additions	Payments	2005 End of Year	Current Portion
Accrued Vacation	$ 39,852	$ 34,559	$ (31,120)	$ 43,291	$ 33,806
Accrued Self-Insurance Claims	68,996	155,415	(146,221)	78,190	29,417
	$ 108,848	$ 189,974	$ (177,341)	$ 121,481	$ 63,223

	2004 Beginning of Year	Additions	Payments	2004 End of Year	Current Portion
Accrued Vacation	$ 40,032	$ 31,081	$ (31,261)	$ 39,852	$ 31,120
Accrued Self-Insurance Claims	58,275	137,746	(127,025)	68,996	24,043
	$ 98,307	$ 168,827	$ (158,286)	$ 108,848	$ 55,163

10. BONDS AND NOTES PAYABLE

UNIVERSITY OF MISSOURI

As of June 30, 2005 and 2004, $565,537,000 and $576,674,000, respectively, of bonds and notes were outstanding, net of unamortized premium/discount and loss on defeasance of $312,000 and ($171,000), respectively. These outstanding bonds are comprised of $400,025,000 and $408,295,000 in System Facilities Revenue Bonds and $165,200,000 and

$168,550,000 in Health Facilities Revenue Bonds at June 30, 2005 and 2004, respectively. The bonds are payable, both as to principal and interest, from net income or designated revenues from the related financed activities. These bonds bear interest at fixed and variable rates ranging from 2.29% to 5.75% per annum and mature at various dates through November 2034. Interest on the variable rate System Facilities Revenue Bonds is paid at the Bond Market Association™ daily bond rate.

Bonds and Notes Payable activity by series of issuance for the years ended June 30, 2005 and 2004, was as follows (in thousands of dollars):

	2005 Beginning Balance	Issuance	Payments	Defeasance	Amortization	2005 Ending Balance
System Facilities Revenue Bonds:						
Series 1997	$ 4,210	$ -	$ (975)	$ -	$ -	$ 3,235
Series 1998	54,165		(2,290)			51,875
Series 2000	71,830		(2,635)			69,195
Series 2001	82,925		(690)			82,235
Series 2002	40,000					40,000
Series 2003	155,165		(1,680)			153,485
Less Unamortized Premium/Discount	4,171				(110)	4,061
Less Loss on Defeasance	(2,364)				433	(1,931)
Health Facilities Revenue Bonds:						
Series 1996A	109,035		(1,380)			107,655
Series 1998A	59,515		(1,970)			57,545
Less Unamortized Premium/Discount	(1,206)				54	(1,152)
Less Loss on Defeasance	(772)				106	(666)
	576,674	$ -	$ (11,620)	$ -	$ 483	565,537
Less Current Portion	11,620					13,485
	$ 565,054					$ 552,052

	2004 Beginning Balance	Issuance	Payments	Defeasance	Amortization	2004 Ending Balance
System Facilities Revenue Bonds:						
Series 1993	$ 37,810	$ -	$ (1,030)	$ (36,780)	$ -	$ -
Series 1997	5,135		(925)			4,210
Series 1998	56,365		(2,200)			54,165
Series 2000	74,325		(2,495)			71,830
Series 2001	83,575		(650)			82,925
Series 2002	40,000					40,000
Series 2003		155,165				155,165
Less Unamortized Premium/Discount	(199)	4,102		368	(100)	4,171
Less Loss on Defeasance	(1,631)			(1,143)	410	(2,364)
Health Facilities Revenue Bonds:						
Series 1996A	110,355		(1,320)			109,035
Series 1998A	61,395		(1,880)			59,515
Less Unamortized Premium/Discount	(1,260)				54	(1,206)
Less Loss on Defeasance	(878)				106	(772)
Note Payable	273		(273)			-
	465,265	$ 159,267	$ (10,773)	$ (37,555)	$ 470	576,674
Less Current Portion	10,773					11,620
	$ 454,492					$ 565,054

As of June 30, 2005, the total of principal and interest (in thousands of dollars) due on bonds during the next five years and in subsequent five-year periods is as follows:

Fiscal Year	Principal	Interest	Net Payments on Swap Agreement
2006	$ 13,485	$ 24,676	$ 603
2007	14,155	24,062	608
2008	14,785	23,423	608
2009	15,480	22,751	608
2010	16,235	22,024	616
2011-2015	79,255	99,280	3,029
2016-2020	95,670	79,207	3,038
2021-2025	117,905	54,381	3,038
2026-2030	130,170	23,664	3,038
2031-2035	68,085	3,429	1,681
	$ 565,225	$ 376,897	$ 16,867

Future interest payment requirements for variable rate debt are determined using the rate in effect at June 30, 2005, of 2.29%. The above interest payments also include estimated payments on the interest rate swap agreement, as discussed below, at a fixed rate of 3.95%, net of the funds received from the counterparty to the transaction at a rate effective at June 30, 2005, of 2.43%.

On November 13, 2003, the University issued $155,165,000 of System Facilities Revenue Bonds, consisting of $118,080,000 in Series 2003A bonds at the interest cost of 4.72% and $37,085,000 of Series 2003B bonds at the interest cost of 4.19%. Proceeds from the issuance of the Series 2003A bonds were used to finance construction of new housing facilities on the Columbia, Kansas City and Rolla campuses, various other projects and the cost of issuance. Proceeds from the issuance of the Series 2003B bonds were used to advance refund and defease the University of Missouri System Facilities Revenue Bonds, Series 1993 in the amount of $36,780,000 and to finance certain costs of issuance.

A $1,143,000 loss in connection with the defeasance of the Series 1993 Bonds is included as a reduction of debt outstanding and will be amortized over the remaining life of the original Series 1993 Bonds. The defeasance decreased aggregate debt service payments by $5,288,000 resulting in an economic gain (difference between the present values of the old and new debt service payments) to the University of $3,525,000.

On June 14, 2005, the University entered into an interest rate swap agreement on $134,425,000, notional amount, to hedge the interest rate risk associated with future Tax-Exempt Bonds. The University makes payments based on a fixed rate of 3.353% and receives payments from the counterparty based on a floating rate of 70% of LIBOR. Net payments will commence on December 1, 2005 and will continue on a monthly basis until the swap terminates. The interest rate swap agreement will terminate no later than February 15, 2006. The 2006A and 2006B System Facilities Revenue Bonds are anticipated to be issued on or before February 15, 2006.

On the termination date, if interest rates have risen, the University would receive a payment from the counter party, thereby reducing the amount that needs to be borrowed and lowering debt service to the same level had the bonds been issued on the date the swap was agreed to. If interest rates have fallen, the University of Missouri would make a payment to the counter party by issuing a higher amount of debt. However, by issuing at a lower interest rate, debt service would again approximate what would have been available on the date the agreement was signed.

As of June 30, 2005, the swap had a fair value of ($2,145,940), which represents the cost to the University to terminate the swap. The fair value was developed using the zero coupon method and proprietary models, and was prepared by the counterparty, Bank of America, a major U.S. financial institution. The zero coupon method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly

anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each net settlement of the swap.

In addition, the University maintains a thirty-year interest rate swap agreement on $40,000,000, notional amount, of its variable rate System Facilities Revenue Bonds. The purpose of the interest rate swap agreement is to convert variable rate debt to fixed rate debt. Based on the swap agreement, the University owes interest calculated at a fixed rate of 3.95% to the counterparty to the swap. In return, the counterparty owes the University interest based on a variable rate set weekly. The $40,000,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The University continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the University effectively pays a fixed rate on the debt. The University will revert to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the University making or receiving a termination payment.

As of June 30, 2005, the swap had a fair value of ($3,690,830), which represents the cost to the University to terminate the swap. The fair value was developed using the zero coupon method and proprietary models, and was prepared by the counterparty, J.P. Morgan Chase Bank, a major U.S. financial institution. The zero coupon method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each net settlement of the swap.

As of June 30, 2005, the University was not exposed to credit risk on the termination payment because the swap had a negative fair value and the University would have owed the payment. However, should interest rates change and the fair value of the swap become positive, the University would be exposed to credit risk. The swap counterparty was rated AA- by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2005. In the event a ratings downgrade occurs, the counterparty may be required to provide collateral if the University's overall exposure exceeds predetermined levels. Permitted collateral investments include U.S. Treasuries, U.S. government agencies, cash and commercial paper rated A1/P1 by Standard & Poor's and Moody's, respectively. Collateral may be held by the University or by a third party custodian.

The swap exposes the University to basis risk should the weekly BMA rate paid by the counterparty fall below the daily interest rate due on the bonds. This basis risk can be the result of a downgrade of the University's rating, daily rates becoming higher than weekly rates, or the pricing of the University's bonds by the remarketing agent at rates higher than the BMA index.

At June 30, 2005 and 2004, in-substance defeased bonds aggregating $52,205,000 and $53,620,000, respectively, are outstanding.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

Bonds and Notes payable activity by series of issuance for the years ended June 30, 2005 and 2004, was as follows (in thousands of dollars):

	2005 Beginning Balance	Issuance	Payments	2005 Ending Balance
Health Facilities Revenue Bonds Series 1998, dated December 1, 1998 and maturing November 1, 2028, payable in graduated installments from November 1, 1999 to November 1, 2028, bearing interest ranging from 3.35% to 5.30%	$ 22,745	$ -	$ (480)	$ 22,265
Health Facilities Revenue Bonds Series 2004, dated June 1, 2004 and maturing November 1, 2029, payable in graduated installments from November 1, 2005 to November 1, 2029, bearing interest ranging from 2.25% to 5.75%	17,500			17,500
	40,245	$ -	$ (480)	39,765
Less current maturities	(480)			(870)
	$ 39,765			$ 38,895

	2004 Beginning Balance	Issuance	Payments	2004 Ending Balance
Health Facilities Revenue Bonds Series 1998, dated December 1, 1998 and maturing November 1, 2028, payable in graduated installments from November 1, 1999 to November 1, 2028, bearing interest ranging from 3.35% to 5.30%	$ 23,210	$ -	$ (465)	$ 22,745
Health Facilities Revenue Bonds Series 2004, dated June 1, 2004 and maturing November 1, 2029, payable in graduated installments from November 1, 2005 to November 1, 2029, bearing interest ranging from 2.25% to 5.75%		17,500		17,500
	23,210	$ 17,500	$ (465)	40,245
Less current maturities	(465)			(480)
	$ 22,745			$ 39,765

In June 2004, Medical Alliance issued $17,500,000 of tax-exempt Health Facilities Revenue Bonds Series 2004 though the Health and Educational Facilities Authority of the State of Missouri. The bonds proceeds will be used primarily to pay or reimburse the costs of acquiring, constructing and equipping certain health facilities of Medical Alliance and to fund the future debt service requirement fund for these Series 2004 bonds.

Similar to the Series 1998 bonds, the Series 2004 bonds were issued pursuant to the Master Trust Indenture dated December 1, 1998, as supplemented on June 1, 2004. Under the terms of the Master Trust Indenture (the "Master Indenture"), Medical Alliance is required to make payments of principal, premium, if any, and interest on the bonds. The Series 1998 and 2004 bonds are secured by the unrestricted receivables of Medical Alliance. In addition, the Master Indenture contains certain restrictions on the operations and activities of Medical Alliance, including, among other things, covenants restricting the incurrence of additional indebtedness and the creation of liens on property, except as permitted by the Master Indenture.

The Master Indenture has mandatory sinking fund redemption requirements in which funds are required to be set aside beginning in 2014 and 2025 for the Series 1998 bonds and Series 2004 bonds, respectively.

Interest expense incurred on the bonds during the years ended June 30, 2005 and 2004 was $2,077,000 and $1,185,000, respectively, of which $737,000 was capitalized during the year ended June 30, 2005.

As of June 30, 2005, the total of principal and interest (in thousands of dollars) due on bonds during the next five years and in subsequent five-year periods is as follows:

Year Ending June 30	Principal	Interest
2006	$ 870	$ 2,024
2007	900	1,992
2008	935	1,957
2009	970	1,917
2010	1,010	1,874
2011-2015	5,795	8,608
2016-2020	7,375	6,971
2021-2025	9,520	4,766
2026-2029	12,390	1,803
	$ 39,765	$ 31,912

11. SHORT-TERM BORROWINGS

During the year ended June 30, 2005, the University sold $168,000,000 of capital project notes at an effective interest rate of 1.5%. The maximum amount of notes outstanding during the year was $168,000,000 and all were repaid in full by June 30, 2005. Proceeds from the issuance of the capital project notes were used to fund various construction projects. Capital project note activity for the year ended June 30, 2005 is as follows (in thousands of dollars):

	Fiscal Year	Beginning of Year	Issuance	Payments	End of Year
Capital Project Notes, Series FY 2004-2005	2005	$ -	$ 168,000	$ (168,000)	$ -

There were no capital project notes sold by the University during the year ended June 30, 2004.

12. LEASE OBLIGATIONS AND COMMITMENTS

The University leases various facilities and equipment through operating and capital leases. Facilities under capitalized leases are recorded at the present value of future minimum lease payments.

Capital lease obligations activity for the years ended June 30, 2005 and 2004, is as follows (in thousands of dollars):

Fiscal Year	Beginning of Year	Additions	Payments	End of Year	Current Portion
2005	$ 10,532	$ -	$ (361)	$ 10,171	$ 392
2004	10,864	-	(332)	10,532	361

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2005, are as follows (in thousands of dollars):

Fiscal Year	Capital	Operating
2006	$ 1,374	$ 3,486
2007	1,374	785
2008	1,374	456
2009	1,374	456
2010	1,374	442
2011-2015	6,871	1,759
2016-2020	5,840	143
Total Future Minimum Payments	19,581	$ 7,527
Less: Amount Representing Interest	9,410	
Present Value of Future Minimum Lease Payments	$ 10,171	

Total rental expenditures for operating leases for the years ended June 30, 2005 and 2004, were $14,121,000 and $12,087,000, respectively.

In addition to the above lease obligations, the University has outstanding commitments for the acquisition, usage and ongoing support of certain software for its patient clinical systems. As of June 30, 2005, these commitments totaled $21,180,000 and will be paid in the following amounts: $4,351,000 in 2006, $3,960,000 in year 2007 and $12,869,000 in years 2008-2011.

Description of Sublease Arrangement with Institute for Outpatient Surgery ("IOS") – Concurrent with the sale of assets to IOS on July 1, 2002, the University entered into an agreement with IOS whereby IOS subleased certain building space from the University for a period of approximately 17 years at current market rates. The University recorded the transaction as a direct financing lease and recorded a minimum lease payment to be received of $6,375,000, unearned rental income of $3,233,000 and a write-off of $3,142,000 of building and improvements related to the sublease. The future minimum lease payments to be received under this sublease as of June 30, 2005, are as follows (in thousands of dollars):

Total Minimum Lease Payments to be Received:	
Current	$ 418
Noncurrent	5,539
Total	5,957
Less: Unearned Rental Income	(3,087)
Present Value of Future Minimum Lease Payments Receivable	$ 2,870

During 2005 and 2004, the University received $303,000 and $287,000, respectively, of rental income from IOS.

DISCRETELY PRESENTED COMPONENT UNIT – MEDICAL ALLIANCE

The Medical Alliance leases certain computer and medical equipment through operating and capital leases. Equipment under capitalized leases is recorded at the present value of future minimum lease payments.

Capital lease obligations activity for the years ended June 30, 2005 and 2004, is as follows (in thousands of dollars):

Fiscal Year	Beginning of Year	Additions	Payments	End of Year	Current Portion
2005	$ 291	$ 24	$ (108)	$ 207	$ 112
2004	388		(97)	291	102

The future minimum payments on all significant leases with initial or remaining terms of one year or more at June 30, 2005, are as follows (in thousands of dollars):

Fiscal Year	Capital	Operating
2006	$ 120	$ 212
2007	85	81
2008	9	19
2009	4	-
Total Future Minimum Payments	218	$ 312
Less: Amount Representing Interest	11	
Present Value of Future Minimum Lease Payments	$ 207	

Total rental expenditures for operating leases for the years ended June 30, 2005 and 2004, were $542,000 and $614,000, respectively.

13. RISK MANAGEMENT

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

The liability for self-insurance claims at June 30, 2005 and 2004 of $78,190,000 and $68,996,000, respectively, represents the present value of amounts estimated to have been incurred by those dates, using discount rates ranging from 2.70% to 4.20% for fiscal year 2005 and 3.25% to 3.70% for fiscal year 2004, based on expected future investment yield assumptions. Additionally, at June 30, 2005, there is a range of self-insurance claims outstanding, from $560,000 to $1,065,000, which the University has determined there is a reasonable possibility that a loss contingency may be incurred but no accrual has been made within the financial statements because the loss is not both probable and estimable. Changes in this liability (in thousands of dollars) during fiscal years 2005 and 2004 were as follows:

Fiscal Year	Beginning of Year	New Claims and Changes in Estimates	Claim Payments	End of Year
2005	$ 68,996	$ 155,415	$ (146,221)	$ 78,190
2004	58,275	137,746	(127,025)	68,996
2003	49,855	122,277	(113,857)	58,275

14. CONTINGENCIES

In December 2002, the Circuit Court of St. Louis County, Missouri rendered a decision in a case filed in January, 1998, finding that the University had violated a statute enacted in 1872 which provided that youth over the age of 16 and resident of the State of Missouri could attend the University without payment of tuition for undergraduate education. The court decided only the liability phase of the case and did not consider what would be an appropriate remedy or if in fact there should be any finding of damages. The University appealed that Court's decision to the Eastern District Court of Appeals in St. Louis, which transferred the appeal to the Supreme Court of Missouri. The Supreme Court dismissed the appeal as being premature and remanded the case to the Circuit Court of St. Louis County for a trial and determination of what remedy, if any, is appropriate. The statute was amended in 2001 to authorize the charging of tuition. The litigation, therefore, concerns students enrolled prior to the fall semester of 2001.

The Circuit Court of St. Louis County appointed a Special Commissioner to conduct discovery and non-binding mediation in this case. As a result, a settlement was agreed to by the parties, which provides for the University to establish a scholarship fund of $10 million for the class members and spouses and children of class members. In addition, the University would pay slightly in excess of $1 million in attorney fees, expenses and costs. As of June 30, 2005, the University accounted for the $10 million scholarship fund as restricted net assets. The status of the settlement approved is discussed in Note 21.

15. RETIREMENT, DISABILITY AND DEATH BENEFIT PLAN

Basis of Accounting – The University of Missouri Retirement, Disability, and Death Benefit Plan (the "Plan") financial statements included herein are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

Total University payrolls were $987,240,000 and $919,594,000 the years ended June 30, 2005 and 2004, respectively, of which $766,794,000 and $720,973,000 were covered by the Plan for the respective periods. At June 30, 2005 and 2004, membership in the Plan consisted of:

	2005	2004
Active members:		
Vested	9,382	8,689
Nonvested	7,469	7,656
Pensioners	6,443	6,429
Former Employees with Deferred Pensions	2,473	2,281
Total	25,767	25,055

Benefit Provisions – All full-time employees are eligible for benefits after five years of credited service. The annual lifetime annuity payable to a vested employee who retires at age 65 or later is calculated as 2.2% times the number of years of service times the compensation base. Compensation base is defined as the individual's average compensation for the five consecutive highest salary years. Academic members who render summer teaching and research service receive an additional credit for such service. Pension adjustments may be approved at certain times, which increase the benefits paid existing pensioners.

Full benefits are available to members who retire at age 65 or after. Vested employees may retire prior to age 65, provided they are at least age 55 with at least ten years of credited service, or age 60 with five years of credited service. Benefits are reduced for those who retire early, unless they retire at age 62 or later with at least 25 years of credited service. At retirement, up to 30% of the value of the retirement annuity can be taken in a lump sum; also the single life annuity can be exchanged for an actuarially equivalent annuity option (elected from an array of annuities with joint and survivor, period certain, and guaranteed annual increase features).

Vested employees who terminate prior to eligibility for retirement may elect to have 100% of the actuarial equivalent of their benefit transferred to an Individual Retirement Annuity or into another employer's qualified plan that accepts such rollovers. If the actuarial equivalent is less than $20,000, it may be taken in the form of a lump sum payment.

The value of the accrued benefit to a vested employee at termination or at retirement is subject to a minimum value as provided by the Plan's cash balance feature. This feature computes an accrual equal to 5% of the employee's eligible compensation invested at 7.5% per annum.

The Plan includes a provision allowing vested employees, who become disabled, to continue to accrue service credit until they retire, and a provision which prescribes a pre-retirement death benefit for vested employees.

Contributions – The University's contributions to the Plan are equal to the actuarially determined contribution requirement, as a percent of payroll, which averaged 6.4% and 6.7% for the years ended June 30, 2005 and 2004, respectively. The Plan is funded 100% by University contributions and does not require employee contributions. The contribution rate is updated annually, at the beginning of the University's fiscal year on July 1, to reflect the actuarially determined funding requirement from the most recent valuation, as of the preceding October 1, and the adoption of any Plan amendments during the interim.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Required Supplementary Information - Unaudited

(in thousands of dollars)

Fiscal Year	Annual Required Contribution As % of Payroll	Annual Required Contribution In Dollars	Percentage Contributed	Net Pension Obligation
2000	5.8%	$ 37,036	100%	$0
2001	4.4%	29,272	100%	0
2002	3.6%	25,319	100%	0
2003	2.6%	17,962	100%	0
2004	6.7%	48,521	100%	0
2005	6.4%	49,075	100%	0

The annual required contribution for the year ended June 30, 2005, was determined as part of the October 1, 2003, actuarial valuation, using the entry age normal actuarial cost method.

The annual required contribution for the year ended June 30, 2004, was determined as part of the October 1, 2002, actuarial valuation, using the entry age normal actuarial cost method.

Significant assumptions used in the valuations for the years ended June 30, 2005 and 2004 were:

	2005	2004
Assumed Annual Rate of Return on Investments	8.0%	8.0%
Projected Annual Average Salary Increases for Academic and Administrative Employees	5.2%	5.2%
Projected Annual Average Salary Increases for Clerical and Service Employees	4.5%	4.5%
Future Retiree Ad Hoc Increases or Cost of Living Adjustments	0.0%	0.0%

The actuarial value of assets is based on the cost of the Plan's underlying assets. Although a net pension obligation did not exist as of June 30, 2005, any future liabilities incurred would be amortized over 20 years using the level dollar method on an open basis.

The schedule of funding progress is as follows:

SCHEDULE OF FUNDING PROGRESS
Required Supplementary Information - Unaudited

(in thousands of dollars)

Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funding Excess/ (Unfunded Liability)	Funded Ratio	Covered Payroll	Funding Excess/ (Unfunded Liability) as a % of Covered Payroll
10/1/99	$ 1,740,756	$ 1,531,205	$ 209,551	113.7%	$ 623,318	33.5 %
10/1/00	1,906,678	1,686,684	219,994	113.0%	646,198	34.0 %
10/1/01	2,119,047*	1,813,018	306,029	116.9%	696,163	44.0 %
10/1/02	1,949,794	1,937,617	12,177	100.6%	654,575	1.9 %
10/1/03	2,067,727	2,030,613	37,114	101.8%	687,681	5.4 %
10/1/04	2,075,032	2,144,738	(69,706)	96.8%	753,266	(9.3)%

* *The actuarial value of asset methodology changes effective October 1, 2001, from the book value method, adjusted, if necessary, to be within 20% of market, to the expected return asset valuation method, adjusted, if necessary, to be within 20% of market.*

16. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 15, the University provides postretirement medical, dental and life insurance benefits to employees who retire from the University after attaining age 55 and before reaching age 60 with ten or more years of service, or, who retire after attaining age 60 with five or more years of service. As of June 30, 2005 and 2004, 5,475 retirees met those eligibility requirements.

For employees retiring prior to September 1, 1990, the University contributes toward premiums at the same rate as for active employees; 2/3 of the premium for medical benefits and 1/2 of the dental plan premium. For employees who retired under the terms of the Retirement and Death Benefit Plan on September 1, 1990 or thereafter, the University contributes toward premiums on the basis of the employee's length of service and age at retirement.

The University makes available two group term life insurance options. Option A coverage is equal to the retiree's salary at the date of retirement and graded adjustments in coverage made at the attainment of specific age levels. This coverage is paid in full by the University. Option B coverage is equal to two times the retiree's salary at the date of retirement with graded adjustments in coverage made at the attainment of specific age levels. The University pays approximately 91% of the cost of Option B coverage. Coverage for group term life insurance ends on January 1 following the retiree's 70th birthday.

Postemployment medical, dental and life insurance benefits are also provided to those long-term disability claimants who were vested in the University's retirement plan at the date their disability began, provided the onset date of their disability was on or after September 1, 1990. As of June 30, 2005 and 2004, 228 and 214 long-term disability claimants met those eligibility requirements.

The University makes available two long-term disability options to its employees. Option A coverage is equal to 60% of the employee's salary on the date the disability began, with full integration with benefits from other sources. Option B coverage is equal to 66 2/3% of the employee's salary, integrated with other benefits so that benefits from all sources will not exceed 85% of the employee's salary. Both options have a 149-day waiting period and provide benefits to age 65. The University pays for the full cost of Option A coverage; employees enrolled in Option B pay for the additional cost of Option B over Option A.

The terms and conditions governing the postemployment benefits to which employees are entitled are in the sole authority and discretion of the University's Board of Curators.

Postemployment benefit costs, other than long-term disability, are funded on a current basis and the amounts recorded as expense of $14,805,000 and $16,647,000 for the years ended June 30, 2005 and 2004, respectively, are on a pay-as-you-go basis. Long-term disability costs are recognized during the period in which the employee becomes eligible to receive disability benefits and amounted to $1,182,000 and $4,380,000 for the years ended June 30, 2005 and 2004, respectively.

17. SEGMENT INFORMATION

A segment is an identifiable activity reported within a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has two segments that meet the reporting requirements of GASB Statement No. 37.

The outstanding debt of the University consists of System Facility Revenue Bonds and Health Facilities Revenue Bonds. The System Facility Revenue Bonds are issued in accordance with a Resolution adopted by the Board of Curators in October 1993. The Resolution provides that the bonds are payable from the gross income and revenues derived from the related facilities including student fees, housing, dining, bookstore and parking revenues and various other University revenues.

The Health Facilities Revenue Bonds are limited obligation bonds secured by revenues of the Health System. The Health System consists of the University of Missouri Hospitals and Clinics, which includes the University of Missouri Hospital, Ellis Fischel Cancer Center, Rusk Rehabilitation Center and the Children's Hospital; the University Physicians Medical Practice Plan, which includes faculty of the University of Missouri-Columbia School of Medicine; and the Missouri Rehabilitation Center.

Summary financial information for the System Facility and the Health Facilities Revenue Bonds as of June 30, 2005 and 2004, is as follows (in thousands of dollars):

	System Facility Revenue Bonds		Health Facilities Revenue Bonds	
	2005	2004	2005	2004
Condensed Statements of Net Assets				
Assets:				
Current Assets	$ 69,160	$ 118,525	$ 157,521	$ 119,305
Capital Assets, Net	470,679	423,599	232,862	218,700
Noncurrent Assets	9,380	10,940	118,637	140,013
Total Assets	$ 549,219	$ 553,064	$ 509,020	$ 478,018
Liabilities:				
Current Liabilities	$ 32,322	$ 31,006	$ 52,572	$ 51,689
Noncurrent Liabilities	392,186	401,832	227,554	231,070
Total Liabilities	424,508	432,838	280,126	282,759
Net Assets:				
Invested in Capital Assets, Net of Related Debt	67,429	47,332	60,328	42,700
Restricted -				
Nonexpendable			555	543
Expendable	1,857	8,447	2,919	2,918
Unrestricted	55,425	64,447	165,092	149,098
Total Net Assets	124,711	120,226	228,894	195,259
Total Liabilities and Net Assets	$ 549,219	$ 553,064	$ 509,020	$ 478,018
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating Revenues:				
Net Patient Revenue	$ -	$ -	$ 542,150	$ 473,168
Net Tuition and Fees	12,414	8,928		
Bookstore	50,422	44,373		
Housing and Related Food Service	57,668	53,419		
Parking	12,975	12,189		
Other Operating Revenue	1,368	1,121	14,789	14,892
Total Operating Revenues	134,847	120,030	556,939	488,060
Operating Expenses:				
Depreciation	13,707	11,045	26,121	24,552
All Other Operating Expenses	105,181	99,100	508,233	444,018
Total Operating Expenses	118,888	110,145	534,354	468,570
Operating Income (Loss)	15,959	9,885	22,585	19,490
Nonoperating Revenues (Expenses)	(10,392)	(10,776)	15,652	15,990
Income (Loss) Before Transfers	5,567	(891)	38,237	35,480
Transfer (To) From Other University Units	(1,082)	14,310	(4,602)	(9,101)
Increase (Decrease) in Net Assets	4,485	13,419	33,635	26,379
Net Assets, Beginning of Year	120,226	106,807	195,259	168,880
Net Assets, End of Year	$ 124,711	$ 120,226	$ 228,894	$ 195,259
Condensed Statements of Cash Flows				
Net Cash Flows Provided by Operating Activities	$ 28,356	$ 21,280	$ 36,171	$ 19,408
Net Cash Flows Provided by (Used In) Investing Activities	4,432	(1,752)	18,869	(12,390)
Net Cash Flows Provided by (Used In) Capital and Related Financing Activities	(83,003)	15,733	(55,800)	(29,653)
Net Cash Flows Provided by (Used In) Noncapital Financing Activities			17,375	14,257
Net Increase (Decrease) in Cash and Cash Equivalents	(50,215)	35,261	16,615	(8,378)
Cash and Cash Equivalents, Beginning of Year	105,499	70,238	16,255	24,633
Cash and Cash Equivalents, End of Year	$ 55,284	$ 105,499	$ 32,870	$ 16,255

18. OPERATING EXPENSES BY FUNCTION

The operating expenses of the University are presented based on natural expenditure classifications. The University's operating expenses by functional classification are as follows:

For the Year Ended June 30, 2005
(in thousands of dollars)

Functional Classification	Salaries and Wages	Staff Benefits	Supplies, Services and Other Operating Expenses	Scholarships and Fellowships	Depreciation	Total
Instruction	$307,880	$ 67,272	$ 49,924	$ -	$ -	$ 425,076
Research	100,890	20,082	79,066			200,038
Public Service	69,608	17,024	54,809			141,441
Academic Support	66,679	16,197	27,344			110,220
Student Services	36,744	8,215	20,738			65,697
Institutional Support	79,771	19,932	(4,964)			94,739
Operation and Maintenance of Plant	28,932	7,487	20,971			57,390
Auxiliary Enterprises	296,736	70,760	348,507			716,003
Scholarships and Fellowships				30,783		30,783
Depreciation					102,414	102,414
Total Operating Expenses	**$987,240**	**$226,969**	**$ 596,395**	**$ 30,783**	**$ 102,414**	**$ 1,943,801**

For the Year Ended June 30, 2004
(in thousands of dollars)

Functional Classification	Salaries and Wages	Staff Benefits	Supplies, Services and Other Operating Expenses	Scholarships and Fellowships	Depreciation	Total
Instruction	$288,166	$ 61,467	$ 52,247	$ -	$ -	$ 401,880
Research	102,305	20,593	80,580			203,478
Public Service	66,639	16,604	53,544			136,787
Academic Support	58,458	16,722	21,029			96,209
Student Services	32,982	7,043	24,120			64,145
Institutional Support	72,583	18,116	(10,024)			80,675
Operation and Maintenance of Plant	28,617	7,463	6,566			42,646
Auxiliary Enterprises	269,844	66,170	288,704			624,718
Scholarships and Fellowships				25,755		25,755
Depreciation					89,774	89,774
Total Operating Expenses	**$919,594**	**$214,178**	**$ 516,766**	**$ 25,755**	**$ 89,774**	**$ 1,766,067**

19. DISCRETELY PRESENTED COMPONENT UNITS

The Discretely Presented Component Units columns in the financial statements include the financial data of the Medical Alliance and Missouri Care L.C.

The Medical Alliance, a not-for-profit corporation, provides an integrated health care delivery system for mid-Missouri by establishing affiliations with various medical facilities. Capital Region Medical Center in Jefferson City, Missouri, operates as an affiliate of the Medical Alliance and provides inpatient, outpatient and emergency care services to the surrounding community.

Missouri Care L.C. is a not-for-profit health maintenance organization which provides services to patients in central Missouri under a certification from the Missouri Department of Social Services. Missouri Care L.C. has contracted with the University of Missouri Healthcare System as a major provider of health care services to the organization's members.

The amounts shown in the Discretely Presented Component Units columns of the Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets relate to the Medical Alliance, including Capital Region Medical Center, and Missouri Care L.C. In the Statements of Net Assets, Medical Alliance is presented as of June 30, 2005 and 2004 and Missouri Care L.C. as of December 31, 2004, to coincide with its calendar year end, and as of June 30, 2004 as reported in the University's financial statements for fiscal year ended June 30, 2004. In the Statements of Revenues, Expenses and Changes in Net Assets, Medical Alliance is presented for the years ended June 30, 2005 and 2004 and Missouri Care L.C. for the six months ended December 31, 2004 and for the twelve months ended June 30, 2004 as reported in the University's financial statements for fiscal year ended June 30, 2004. The Condensed Statements of Net Assets and Condensed Statements of Revenues, Expenses and Changes in Net Assets for these periods are shown below (in thousands of dollars):

	2005			2004		
	Medical Alliance	Missouri Care L.C.	Total	Medical Alliance	Missouri Care L.C.	Total
Condensed Statements of Net Assets						
Assets:						
Current Assets	$ 22,064	$ 14,423	$ 36,487	$ 25,405	$ 11,440	$ 36,845
Capital Assets, Net	66,567		66,567	57,069		57,069
Noncurrent Assets	45,965	1,027	46,992	44,785	1,031	45,816
Total Assets	$ 134,596	$ 15,450	$ 150,046	$ 127,259	$ 12,471	$ 139,730
Liabilities:						
Current Liabilities	$ 14,937	$ 9,712	$ 24,649	$ 13,775	$ 7,814	$ 21,589
Noncurrent Liabilities	38,990		38,990	39,954		39,954
Total Liabilities	53,927	9,712	63,639	53,729	7,814	61,543
Net Assets:						
Invested in Capital Assets, Net of Related Debt	27,199		27,199	17,260		17,260
Restricted - Expendable	1,640		1,640	3,844	1,031	4,875
Unrestricted	51,830	5,738	57,568	52,426	3,626	56,052
Total Net Assets	80,669	5,738	86,407	73,530	4,657	78,187
Total Liabilities and Net Assets	$ 134,596	$ 15,450	$ 150,046	$ 127,259	$ 12,471	$ 139,730

	2005			2004		
	Medical Alliance	Missouri Care L.C.	Total	Medical Alliance	Missouri Care L.C.	Total
Condensed Statements of Revenues, Expenses and Changes in Net Assets						
Operating Revenues:						
Net Patient Revenue	$ 123,745	$ -	$ 123,745	$ 112,448	$ -	$ 112,448
Other Operating Revenue		37,202	37,202		41,314	41,314
Total Operating Revenues	123,745	37,202	160,947	112,448	41,314	153,762
Operating Expenses:						
Salaries and Wages	46,952		46,952	44,246		44,246
Staff Benefits	12,018		12,018	10,692		10,692
Supplies, Services and Other Operating Expenses	51,244	36,121	87,365	46,007	41,355	87,362
Depreciation	7,758		7,758	7,251	45	7,296
Total Operating Expenses	117,972	36,121	154,093	108,196	41,400	149,596
Operating Income (Loss)	5,773	1,081	6,854	4,252	(86)	4,166
Nonoperating Revenues (Expenses):						
Investment Income	1,024		1,024	300		300
Private Gifts	42		42	203		203
Interest Expense	(1,340)		(1,340)	(1,236)		(1,236)
Other Nonoperating Revenues (Expenses)	1,640		1,640			
Net Nonoperating Revenues (Expenses)	1,366		1,366	(733)		(733)
Increase (Decrease) in Net Assets	**7,139**	**1,081**	**8,220**	**3,519**	**(86)**	**3,433**
Net Assets, Beginning of Year	73,530	4,657	78,187	70,011	4,743	74,754
Net Assets, End of Year	$ 80,669	$ 5,738	$ 86,407	$ 73,530	$ 4,657	$ 78,187

20. 2004 RESTATEMENT

Subsequent to the issuance of the University's 2004 financial statements, the University's management determined that misstatements had occurred in recording certain pledges receivable and the related revenue, summer academic session deferred tuition revenue and related prepaid expenses, timing of recording payables related to construction in progress and the depreciation of library book acquisitions.

In accordance with the provisions of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", pledges receivable are recorded and revenue is recognized when a pledge is received and all eligibility requirements, including time requirements, are met. In fiscal year 2004, pledges receivable were recorded and revenue was recognized for certain pledges received during fiscal year 2004 for which all eligibility requirements had not been met. The revenue recognition for these pledges will occur in subsequent fiscal years when all eligibility requirements are met.

In accordance with generally accepted accounting principles, revenues should be recorded in the periods earned and applicable expenses should be recorded in the periods incurred. The deferred revenues for summer session student fees and related expenditures have been restated to record the portion of summer session student fees earned and related expenditures incurred prior to June 30 in the current fiscal year and the portion after June 30 in the following fiscal year.

The University has previously capitalized library books as inexhaustible assets that have not been subject to depreciation. In the restated financial statements, library holdings are treated as exhaustible assets and are depreciated on a straight-line basis over an estimated useful life of 20 years.

The impact of these misstatements and the related restatements are summarized in the following table:

	2004 as Previously Reported	Adjustments	2004 as Restated
At June 30:			
Current Pledges Receivable, Net	$ 22,749	$ (15,035)	$ 7,714
Prepaid Expenses and Other Current Assets	22,387	(9,313)	13,074
Pledges Receivable, Net	47,905	(31,634)	16,271
Capital Assets, Net	1,807,986	(107,662)	1,700,324
Accounts Payable	86,272	2,076	88,348
Deferred Revenue	51,451	(14,962)	36,489
For the Year Ending June 30:			
Operating Loss before State Appropriations and Nonoperating Revenue	(414,402)	(8,459)	(422,861)
Net Other Nonoperating Revenues before Transfers	265,121	(40,625)	224,496
Net Assets, Beginning of Year:			
Invested in Capital Assets, Net of Related Debt	1,177,275	(102,690)	1,074,585
Restricted – Expendable	323,442	(6,044)	317,398
Unrestricted	535,500	7,060	542,560
Increase in Net Assets	272,068	(49,084)	222,984
Net Assets, End of Year:			
Invested in Capital Assets, Net of Related Debt	1,257,210	(109,738)	1,147,472
Restricted – Expendable	352,325	(46,669)	305,656
Unrestricted	635,901	5,649	641,550

In addition, accrued liabilities for Capital Region Medical Center, an affiliate of the Medical Alliance included in the 2004 combined financial statements, have been restated to increase claims incurred but not reported for the medical professional liability based on a third-party actuarial analysis. The effects of the restatement are summarized in the following table:

	2004 as Previously Reported	Adjustments	2004 as Restated
At June 30:			
Accrued Liabilities	$ 7,678	$ 1,457	$ 9,135
For the Year Ending June 30:			
Net Assets, Beginning of Year - Unrestricted	17,896	(1,457)	16,439

21. SUBSEQUENT EVENTS

On July 1, 2005, the University sold $80,000,000 of capital project notes at an effective interest rate of 2.6%. The notes will be repaid in full by June 30, 2006. Proceeds from the issuance of the capital project notes will be used to fund various construction projects of the University.

In October 2005, the Board of Curators approved the issue of new bonds. In January 2006, the University expects to issue System Facilities Revenue Bonds, Series 2006, in the amount of $350 million. Proceeds from the issuance of the Series 2006 bonds will be used to finance construction of new housing facilities and renovations and improvements to existing housing facilities on the Columbia and St. Louis campuses and various other projects, advance refunding of previously issued series of revenue bonds, payment of capitalized interest on a portion of the Series 2006 Bonds, and payment of costs of issuance of the Series 2006 Bonds.

On October 3, 2005, the Circuit Court of St. Louis County, Missouri approved the settlement of a case filed in January 1998 relating to charging tuition by the University for undergraduate education, as discussed in Note 14. The judgment, order and decree (the "order") which approved this settlement was scheduled to become final 30 days after the date of the order and an additional 10 days thereafter for possible notice of appeal. Any appeal of the order was required to be filed within this 30-day time period or within 10 days after the date on which the order becomes final. On November 7, 2005, within the time period for filing a timely Notice of Appeal, one of the class members who objected to the settlement and sought to intervene filed a Notice of Appeal. On December 22, 2005, the appeal was dismissed with prejudice and the litigation has reached a conclusion. The University will proceed to establish the scholarship fund called for in the settlement agreement.

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