



Budget Book

University of Missouri System
COLUMBIA | KANSAS CITY | ROLLA | ST. LOUIS

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University of Missouri System FY2020 Budget

Summary

The University of Missouri undertakes an enterprise-wide detailed annual budget process. For FY 20 this process was combined with a five year long range financial planning exercise for each business unit. The five-year plan serves as the bridge between the strategic plan and the annual budget, which is the detailed financial plan for the current year. The financial plan will allow leaders to make strategic decisions that are in the institution's best financial interests with clear connections to the strategy.

The University of Missouri finance team plans to continue with financial planning on an annual basis each fall before the next year budgeting exercise begins. By completing financial planning in the fall, the financial plan will then inform the budgeting process and identify necessary investments and changes prior to the bottom up budget building process.

Financial Accountability

In an environment with revenue challenges and upward pressures on expenses, having a system of control around financial planning and performance is key. The five year financial plan implemented this year drives a focus on the long-term impacts of these market trends and forces leaders to plan around these trends in a long-term and meaningful way. The budget represents this year's implementation of those plans, and the budget reflects those plans at a detailed level throughout the institution. The budget also serves as the guidepost for the year to which financial performance will be compared.

In the past, the University's budget simply aimed to balance revenues and expenses independent of the financial performance necessary to support the growth and support of the institution's strategy. In the past, budgets represented authorized spending levels. When the state appropriated the majority of funding in certain terms, controlling spending was the key to successful financial performance. Previous credit reports note the University of Missouri takes the appropriate steps to balance budgets, something not all higher education institutions have demonstrated the ability to do. However, future success will also be dependent on obtaining and growing revenues and managing within those expenses. Getting the university community to understand this and implement new models will take time, but is the key to the future of all of the universities in the system.

This year's budget represents the first year of the change in this focus. The budget was developed in concert with the financial plan, and focused on an all funds approach. The all funds approach means the finance teams focused on the entirety of their operations, not just the operating fund which now encompasses less than 35% of the University's operation, but also represents the academic core.

The UM System Finance team worked with each university to ensure the budget was in line with the financial plan and also in line with performance against expected targets. In some cases, the University's budgets submitted by lower level units did not meet the performance targets. In those cases, it is the responsibility of the leadership team to fill in the gaps throughout the year with a more continuous focus on financial performance. The

leaders will still be held to the financial targets and have booked budgets that reflect performance on those targets. This year represents the trial run of the accountability process at the campus level, so leaders can learn how the process works and implement plans to address performance to lower levels of their institution.

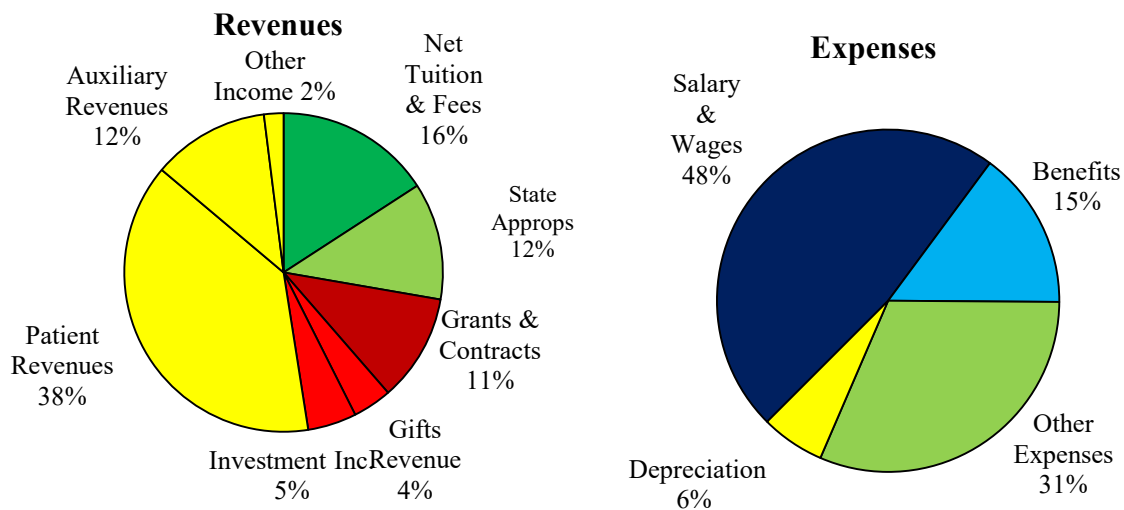
Budget Overview

The FY 20 all funds revenue budget is \$3.5 billion, half of which is from auxiliary and patient revenues. The following table shows the FY 20 revenue budget by revenue source.

FY 20 Revenue Budget	UM System						University Wide Units		Total
	MU	MU Hospitals	UMKC	S&T	UMSL				
Net Tuition & Fees	\$266.8	\$0.0	\$138.4	72.2	\$83.9	(\$0.1)	(\$0.0)	\$561.2	
State Appropriations	217.8	0.0	73.9	50.2	55.9	12.3	9.5	419.6	
Patient Revenues	249.6	1,063.2	38.6	0.0	0.0	0.0	0.0	1,351.4	
Grants & Contracts	241.0	0.0	48.2	41.8	39.5	0.0	0.0	370.5	
Gifts Revenue	82.7	1.8	16.3	14.0	16.5	0.1	0.0	131.4	
Endowment & Investment Inc.	87.0	5.0	12.1	9.8	6.4	24.8	33.9	178.9	
Auxiliary Revenues	275.1	24.9	42.4	21.9	19.5	24.0	0.0	407.9	
Other Income	49.0	0.0	10.3	4.9	2.8	3.4	9.1	79.6	
Total Revenue	\$1,469.1	\$1,094.9	\$380.1	\$214.9	\$224.5	\$64.5	\$52.4	\$3,500.5	

The pie chart on the left shows the major sources of revenues across the University of Missouri. Auxiliary and Patient Service Revenues combine to account for 50% of the revenue budget. The remaining revenues fund the academic enterprise, with the majority coming from tuition and state appropriations. The chart on the right shows that 63% of the total budget is spent for compensation, 6% for depreciation and 31% of all other types of expenditures. Compensation remains the largest expense for the University of Missouri.

FY 20 All Funds Budget



FY 20 Budget Plans

Through the FY 20 budget cycle, the UM System Finance function implemented a new financial statement format for the budgeting process. The format ties closely to how rating agencies and investors evaluate the University's financial performance using a capital markets approach. The consistency in format makes metric calculations clear for the University's leadership team and reduces the confusion.

In the summaries that follow, the same income statement format will be presented with three columns:

- FY 18 Actuals: actual performance for FY18, tied to the University's audited financial statements.
- FY 19 Actuals: actual performance for FY 19.
- FY 20 Budget: Original (frozen) budgets completed for FY 20.

Consolidated Summary

The University of Missouri FY 20 Budget overall demonstrates continued expected performance against financial performance expectation. This year's budget process has been significantly different than past year's at the University and System level. Using the spending based approach last year, the University's budget generated an operating margin of -0.2%. The University's budget process currently focuses heavily on the income statement and this year's budget generated an operating margin of 3.8%. The FY 20 Budgeted operating margin shows an improvement over the FY 19 year-end and is in line with performance from FY 18. Schedule 1 contains the detail on the operating budget on a consolidated basis:

Schedule 1. Consolidated FY20 Original Budget (Dollars in Thousands)

Line No.		Actuals FY 2018	Actuals FY 2019	Budget FY 2020
Operating Revenues				
1	Tuition and Fees	\$861,913	\$857,456	\$885,824
2	Less Scholarship Allowances	294,481	300,131	324,628
3	Net Tuition and Fees	\$567,432	\$557,324	\$561,196
4	Federal Pell Grants	\$55,400	\$56,594	\$57,100
5	Grants and Contracts	292,335	309,499	313,397
6	Auxiliary Enterprises	407,858	408,318	407,850
7	Patient Medical Services Net	1,250,484	1,345,639	1,351,415
8	Other Operating Revenues	53,497	69,764	51,884
9	State Appropriations	401,705	408,797	419,575
10	Federal Appropriations	16,910	17,198	17,984
11	Private Gifts	77,851	85,810	87,815
12	Endowment/Investment Distribution	68,425	73,369	88,429
13	Total Operating Revenues	\$3,191,896	\$3,332,312	\$3,356,645
Operating Expenses				
14	Salaries and Wages	\$1,497,841	\$1,547,032	\$1,570,405
15	Benefits	452,918	461,509	486,119
16	Supplies, Services and Other Operating Expenses	922,982	1,014,137	974,470
17	Depreciation	199,037	203,859	198,441
18	Total Operating Expenses	\$3,072,778	\$3,226,537	\$3,229,434
19	Net Operating Income	\$119,119	\$105,775	\$127,211
Nonoperating Revenues (Expenses)				
20	Investment Income (Losses), Net of Fees	\$196,867	\$194,425	\$178,901
21	Endowment/General Pool Distribution	(68,425)	(73,369)	(88,429)
22	Interest Expense	(69,411)	(65,057)	(64,741)
23	Build America Bond Subsidies	9,755	9,828	9,755
24	Other Nonoperating Revenues (Expenses)	(19,074)	(931)	8,801
25	State Capital Appropriations	29,765	0	0
26	Capital Gifts and Grants	21,083	67,106	16,516
27	Private Gifts for Endowment Purposes	46,851	30,524	27,105
28	Pension and OPEB Impact on Income Statement	0	(96,064)	(33,524)
29	Mandatory Transfers	0	0	0
30	Non-Mandatory Transfers	(4,464)	(5,471)	(5,199)
31	Net Nonoperating Revenues (Expenses)	\$142,946	\$60,992	\$49,185
32	Extraordinary Item	(17,908)		
33	Increase in Net Position	\$244,157	\$166,766	\$176,395
34	Operating Margin	3.7%	3.2%	3.8%

As schedule 1 demonstrates, the University projects revenues to grow by 0.7%:

- Net Tuition and Fees are projected to remain flat year over year. This reflects growth in enrollment and price increases in gross tuition and fees, but these factors are both offset with increases in institutionally funded financial aid. FY 20 represents the last year where the graduating class at MU is larger than incoming freshman class, meaning in future years this revenue line should grow with the improved focus on enrollment and retention. The long-term success of the academic enterprise hinges on successful growth of net tuition and fees.
- Grants and Contracts are projected to grow year over year. This is largely reflective of the University's efforts to improve research and creative works. The majority of this growth is reflected at MU, which is responsible for 70% of the sponsored activity across the System.
- State Appropriations will grow by over \$10 million year over year. The growth represents the state's support for the Translational Precision Medical Complex (TPMC), for which the University received a line item appropriation. After years of flat to declining appropriations, Universities received an increase from the legislature and governor this year.
- Net Patient Medical Services revenues are projected to grow by \$6 million over FY 19, representing 0.4% growth. The healthcare enterprise continues to grow at a faster rate than the remainder of the organization, although this growth is slowing after exceeding 5% for several years prior to FY 19 and FY 20. The gains experienced by the healthcare enterprise from market share capture are beginning to slow as the University has become the largest supplier in the market. As such, the MUHC leadership team has begun to focus on cost containment to preserve margin.

The University's operating expenses are projected to grow at a slower rate in FY 20 as a result of cost containment measures:

- Salaries and Wages are projected to grow by 1.5%. Each business unit was directed to incorporate a 2% pay increase for faculty and staff to be based on merit. The overall staffing is projected to remain flat to slightly decreased. In areas where budgets were reduced affecting personnel, the first priorities were towards capturing vacancies and retirements prior to reducing positions with incumbents.
- Benefits are projected to grow by 5.3%. Benefits remain an area that will apply upward pressure on the institution's cost over the long-term, however, the University has taken significant action to curtail benefit costs. With the closure of the defined benefit plan to new entrants this October, the University will significantly slow the growth of the pension liability, though the pension plan will remain a significant exposure in the years to come. The University's medical cost growth remains below market averages, but long-term trends in medical cost still exceed inflation and average wage increases, placing pressures on other cost items.
- Supplies, Services, and Other is projected to decline by 3.9%. Part of the decline is the prior year increase from the voluntary separation program (VSP). Adjusting for VSP, Supplies, Services and Other would have increased by 1.5% year over year. The lower growth rate reflects an increased focus on non-personnel spend by the University, including focused programs to review large areas of non-personnel spend.

MU (Schedule 2)

The FY 20 MU budget planning process involved tasking every college/school/division (CSD) leader with analyzing how they would take a 5 and 10 percent reduction in general revenue for the year. Meetings were held with the leader and fiscal officer of each CSD to go over their scenarios. Each unit worked to protect the key investments that are important to the future of the University. Mizzou is focused on student success, strengthening research productivity and engaging with Missourians to help find solutions to grand challenges. The plan includes focused, strategic investments to ensure that happens.

MU's margin for FY 20 will improve by approximately \$26 million, moving from an operating margin of .4% to an operating margin of 1.9%. The margin improvement is largely driven by faster growth in grants and contracts, state appropriation (for TPMC) and growth in patient medical services.

To generate margin improvement, MU did have to focus on significant reductions and budget realignment to achieve the margin improvement. Reductions to colleges, schools or divisions were not across the board. Decisions regarding the level of reduction at each CSD were made after reviewing the numerous budget scenarios.

Schedule 2. MU FY20 Original Budget (Dollars in Thousands)

Line No.		Actuals FY 2018	Actuals FY 2019	Budget FY 2020
Operating Revenues				
1	Tuition and Fees	\$427,145	\$419,279	\$432,267
2	Less Scholarship Allowances	145,302	152,716	165,465
3	Net Tuition and Fees	\$281,844	\$266,563	\$266,802
4	Federal Pell Grants	\$20,403	\$21,702	\$22,100
5	Grants and Contracts	205,085	210,471	218,900
6	Auxiliary Enterprises	268,546	274,339	275,081
7	Patient Medical Services Net	223,150	246,068	249,630
8	Other Operating Revenues	29,000	38,916	31,005
9	State Appropriations	201,945	208,149	217,849
10	Federal Appropriations	16,910	17,198	17,984
11	Private Gifts	47,765	43,752	48,719
12	Endowment Distribution	47,123	48,913	49,155
13	Total Operating Revenues	\$1,341,770	\$1,376,070	\$1,397,225
Operating Expenses				
14	Salaries and Wages	\$757,088	\$785,164	\$795,115
15	Benefits	204,759	216,353	233,398
16	Supplies, Services and Other Operating Expenses	254,002	281,369	259,339
17	Depreciation	83,261	87,245	82,352
18	Total Operating Expenses	\$1,299,110	\$1,370,130	\$1,370,204
19	Net Operating Income	\$42,660	\$5,941	\$27,022
Nonoperating Revenues (Expenses)				
20	Investment Income (Losses), Net of Fees	\$87,774	\$63,863	\$87,032
21	Endowment Distribution	(47,123)	(48,913)	(49,155)
22	Interest Expense	(31,010)	(29,432)	(32,279)
23	Other Nonoperating Revenues (Expenses)	(79)	778	71
24	State Capital Appropriations	3,694	0	0
25	Capital Gifts and Grants	6,908	24,304	12,016
26	Private Gifts for Endowment Purposes	41,412	22,141	22,004
27	Mandatory Transfers	205	61	0
28	Non-Mandatory Transfers	26,140	27,828	33,561
29	Net Nonoperating Revenues (Expenses)	\$87,921	\$60,630	\$73,364
30	Increase in Net Position	\$130,582	\$66,571	\$100,385
31	Operating Margin	3.2%	0.4%	1.9%

UMKC (Schedule 3)

UMKC is making important improvement to its financial performance. The FY 20 budget represents significant progress towards break even performance, with a budgeted net operating loss of \$2 million after two straight years of operating losses: a \$10 million loss in FY 18 and a loss of \$5.7 million in FY 19. This results in an improvement to the operating margin of \$3 million. When non-operating revenue and expense is included, the budget is balanced with an overall increase in net position of \$900,000.

As UMKC began development of the FY 20 budget, the University focused on reallocating resources in order to achieve balance, rebuild reserves and fund strategic initiatives. Reductions included elimination of 95 positions, of which 59 were filled. The majority of those filled positions resulted from tenured faculty VSP resignations. The University has restored funding for approximately 34 of those positions in FY 20. Other budget categories were realigned in order to reallocate resources to fund strategic initiatives, and units were asked to self-fund merit increases and the increase in the benefit cost.

The FY 20 budget includes investment in student success initiatives, including recruitment and admissions, counseling services, bridge programs, academic support, increased financial aid, peer mentoring and other initiatives aimed at attracting and retaining students. In an effort to build up the University's research enterprise, the FY 20 budget also includes funding for the newly established Data Science Institute and an expansion of the Office of Research Services. Another University initiative, Talent Link, will generate non-credit bearing revenue and increase engagement and opportunities with the community. Investment in infrastructure has also been a priority for the campus, and the University has added additional funding for its annual campus maintenance and repairs. The University has funded its commitment to match the President's strategic compacts.

Schedule 3. UMKC FY20 Original Budget (Dollars in Thousands)

Line No.		Actuals FY 2018	Actuals FY 2019	Budget FY 2020
Operating Revenues				
1	Tuition and Fees	\$187,650	\$189,699	\$197,537
2	Less Scholarship Allowances	57,637	55,742	59,125
3	Net Tuition and Fees	\$130,012	\$133,958	\$138,411
4	Federal Pell Grants	\$13,548	\$13,599	\$13,500
5	Grants and Contracts	30,450	36,998	34,650
6	Auxiliary Enterprises	42,684	41,676	42,427
7	Patient Medical Services Net	36,421	37,515	38,604
8	Other Operating Revenues	10,844	11,861	10,313
9	State Appropriations	72,300	73,852	73,852
10	Federal Appropriations	0	0	0
11	Private Gifts	13,536	19,092	15,479
12	Endowment Distribution	9,607	9,702	9,777
13	Total Operating Revenues	\$359,402	\$378,254	\$377,013
Operating Expenses				
14	Salaries and Wages	\$196,837	\$193,297	\$192,587
15	Benefits	56,519	55,606	59,530
16	Supplies, Services and Other Operating Expenses	89,816	109,868	102,728
17	Depreciation	26,609	25,166	24,426
18	Total Operating Expenses	\$369,780	\$383,938	\$379,271
19	Net Operating Income	(\$10,378)	(\$5,685)	(\$2,258)
Nonoperating Revenues (Expenses)				
20	Investment Income (Losses), Net of Fees	\$17,186	\$12,622	\$12,096
21	Endowment Distribution	(9,607)	(9,702)	(9,777)
22	Interest Expense	(9,445)	(9,140)	(9,098)
23	Other Nonoperating Revenues (Expenses)	(17,914)	48	8,992
24	State Capital Appropriations	13,820	0	0
25	Capital Gifts and Grants	7,450	36,657	0
26	Private Gifts for Endowment Purposes	365	436	800
27	Mandatory Transfers	13	25	0
28	Non-Mandatory Transfers	4,318	1,375	176
29	Net Nonoperating Revenues (Expenses)	\$6,186	\$32,320	\$3,190
30	Extraordinary Item	(17,908)		
31	Increase in Net Position	(\$22,100)	\$26,635	\$932
32	Operating Margin	(2.9%)	(1.5%)	(0.6%)

S&T (Schedule 4)

Missouri S&T's FY 20 budget planning process presented significant revenue headwinds related to growth challenges. After years of positive performance, the FY 20 budget currently projects an operating margin of 0.8%, largely driven by a significant decline in tuition revenues.

Missouri S&T faces significant challenges in tuition revenue for FY 20. The University is currently experiencing declines in high margin, non-resident master's degree programs and international students while the first time freshman enrollment is trending behind prior year. Additionally, the University is increasing scholarships in an effort to enhance yield and shape a better student mix, but the enrollment numbers have not changed. The downward trend in revenues necessitated a significant cost adjustment for FY 20.

Missouri S&T undertook a process to assess priorities and implement reductions of 0% to 100% of units across the University. Tenured faculty lines including those from the VSP will be held on hiring until revenue growth turns around. In addition to the reductions from VSP, S&T plans to significantly reduce administrative and staff positions through a combination of eliminating vacancies, retirements, and layoffs when additional reductions are necessary.

Schedule 4. S&T FY20 Original Budget (Dollars in Thousands)

Line No.		Actuals FY 2018	Actuals FY 2019	Budget FY 2020
Operating Revenues				
1	Tuition and Fees	\$131,909	\$132,300	\$131,180
2	Less Scholarship Allowances	51,448	51,693	58,994
3	Net Tuition and Fees	\$80,461	\$80,606	\$72,187
4	Federal Pell Grants	\$7,370	\$7,310	\$7,500
5	Grants and Contracts	32,498	33,029	34,300
6	Auxiliary Enterprises	25,607	24,114	21,947
7	Patient Medical Services Net	0	0	0
8	Other Operating Revenues	5,253	5,102	4,927
9	State Appropriations	49,410	50,186	50,234
10	Federal Appropriations	0	0	0
11	Private Gifts	3,258	7,815	6,727
12	Endowment Distribution	8,346	8,667	8,662
13	Total Operating Revenues	\$212,203	\$216,828	\$206,483
Operating Expenses				
14	Salaries and Wages	\$107,373	\$106,061	\$105,280
15	Benefits	30,424	30,532	32,744
16	Supplies, Services and Other Operating Expenses	53,468	51,604	49,625
17	Depreciation	16,308	17,540	17,146
18	Total Operating Expenses	\$207,572	\$205,737	\$204,795
19	Net Operating Income	\$4,631	\$11,091	\$1,688
Nonoperating Revenues (Expenses)				
20	Investment Income (Losses), Net of Fees	\$14,911	\$11,613	\$9,753
21	Endowment Distribution	(8,346)	(8,667)	(8,662)
22	Interest Expense	(5,405)	(5,357)	(5,160)
23	Other Nonoperating Revenues (Expenses)	(697)	(78)	5
24	State Capital Appropriations	3,686	0	0
25	Capital Gifts and Grants	4,827	2,037	4,500
26	Private Gifts for Endowment Purposes	3,576	5,120	2,800
27	Mandatory Transfers	(142)	12	0
28	Non-Mandatory Transfers	584	3,109	191
29	Net Nonoperating Revenues (Expenses)	\$12,993	\$7,789	\$3,427
30	Increase in Net Position	\$17,624	\$18,880	\$5,616
31	Operating Margin	2.2%	5.1%	0.8%

UMSL (Schedule 5)

UMSL is projecting solid financial performance in FY 20 and has budgeted a surplus of approximately \$7 million. This represents the best estimate at year-end.

The FY 20 budget currently contains a \$3.5 million performance challenge for UMSL and a distributed commitment to reduce non-labor discretionary spend by \$2.2 million. UMSL will close this gap through monthly financial management and performance reporting. The FY 20 budget represents an improvement in financial performance and is enabled by investments already made in FY 19, such as increases to labor for the purpose of increasing retention, additions to staff and related expenses for recruiting and enrollment management functions, increases in areas of strategic consulting and IT tools related to admissions, financial aid, and enrollment, investments to develop the international program, and the launch of new academic degree programs. These investments and additions continue into FY 20 and are highlighted by these key areas:

- Addition of highly demanded degree programs with strong labor market demand for graduates and adult learners. These include Cybersecurity, Computer Technology, Entrepreneurship, Sport Management, Actuarial Science and Organizational Leadership;
- Increase in retention and student success through investment in labor, software and strategic consulting services;
- Leverage of the scholarship compact with additional needs-based and merit awards to attract new students;
- A realistic but success-oriented international pipeline;
- Continue to challenge faculty and staff productivity;
- Drive down existing non-labor discretionary spend where possible, and add when return on investment is positive or when strategically advantageous;
- Manage available space and drive down excess.

Schedule 5. UMSL FY20 Original Budget (Dollars in Thousands)

Line No.		Actuals FY 2018	Actuals FY 2019	Budget FY 2020
Operating Revenues				
1	Tuition and Fees	\$115,209	\$116,178	\$124,841
2	Less Scholarship Allowances	39,974	39,828	40,941
3	Net Tuition and Fees	\$75,235	\$76,350	\$83,900
4	Federal Pell Grants	\$14,079	\$13,984	\$14,000
5	Grants and Contracts	24,265	28,707	25,523
6	Auxiliary Enterprises	18,236	18,456	19,452
7	Patient Medical Services Net	44	32	0
8	Other Operating Revenues	2,852	2,690	2,827
9	State Appropriations	55,817	55,817	55,914
10	Federal Appropriations	0	0	0
11	Private Gifts	11,593	12,601	14,999
12	Endowment Distribution	4,851	4,923	5,144
13	Total Operating Revenues	\$206,972	\$213,558	\$221,760
Operating Expenses				
14	Salaries and Wages	\$103,741	\$105,659	\$110,644
15	Benefits	30,938	32,026	35,543
16	Supplies, Services and Other Operating Expenses	50,997	58,465	48,526
17	Depreciation	16,626	17,882	17,332
18	Total Operating Expenses	\$202,302	\$214,031	\$212,045
19	Net Operating Income	\$4,670	(\$473)	\$9,715
Nonoperating Revenues (Expenses)				
20	Investment Income (Losses), Net of Fees	\$8,640	\$6,378	\$6,415
21	Endowment Distribution	(4,851)	(4,923)	(5,144)
22	Interest Expense	(6,184)	(5,985)	(5,776)
23	Other Nonoperating Revenues (Expenses)	(33)	(28)	(200)
24	State Capital Appropriations	8,564	0	0
25	Capital Gifts and Grants	1,002	1,110	0
26	Private Gifts for Endowment Purposes	1,483	2,815	1,500
27	Mandatory Transfers	(124)	(139)	0
28	Non-Mandatory Transfers	6,820	1,994	450
29	Net Nonoperating Revenues (Expenses)	\$15,318	\$1,223	(\$2,756)
30	Increase in Net Position	\$19,989	\$750	\$6,959
31	Operating Margin	2.3%	(0.2%)	4.4%

MUHC (Schedule 6)

University of Missouri Health Care's (MUHC) FY 20 budget is a product of an extensive planning process. The roadmap for achieving our strategic objectives and ensuring the clinical, research and teaching missions are achieved continues to provide the direction in investments. Coming off five solid years of financial performance, MUHC has set the foundation for strategic long-term investments.

Executive leadership worked collaboratively with leadership in the School of Medicine (SOM) to develop the core patient volumes for the plan. Financial targets were built based on those volumes, key financial and operational assumptions and performance expectations. A multidisciplinary leadership team reviewed requests for additional operating and capital investments. Approved investments were added to the financial plan. In May 2018, MUHC executive leadership approved the final financial plan.

The health care service sector is expected to see continued downward pressure on operating margins reflecting inflationary cost increases, continued downward pressure on third-party reimbursements, and moderate organic growth. Reimbursement rates continue to be a focus for MUHC with shifts to value-based versus volume initiatives, increasing risks to net revenues. Medicaid reimbursement, specifically, is an area with recent payment reductions and uncertainty of future reductions. Inflationary cost increases are projected to exceed aggregate reimbursement rate increases. Despite these headwinds, MUHC's FY 19 operating margin exceeds the 75th percentile of peer academic medical organizations and MUHC's FY 19 plan increases CARTS funding to the SOM and provides investments in the clinical mission with our University Physician partners. The FY 20 MUHC budget reflects an \$89 million operating margin.

Schedule 6. MUHC FY20 Original Budget (Dollars in Thousands)

Line No.		Actuals FY 2018	Actuals FY 2019	Budget FY 2020
Operating Revenues				
1	Tuition and Fees	\$0	\$0	\$0
2	Less Scholarship Allowances	0	0	0
3	Net Tuition and Fees	\$0	\$0	\$0
4	Federal Pell Grants	\$0	\$0	\$0
5	Grants and Contracts	36	159	24
6	Auxiliary Enterprises	23,682	23,631	24,896
7	Patient Medical Services Net	990,868	1,062,023	1,063,181
8	Other Operating Revenues	27	159	12
9	State Appropriations	0	0	0
10	Federal Appropriations	0	0	0
11	Private Gifts	1,584	1,878	1,776
12	Endowment Distribution	37	37	37
13	Total Operating Revenues	\$1,016,234	\$1,087,886	\$1,089,926
Operating Expenses				
14	Salaries and Wages	\$300,629	\$323,980	\$332,250
15	Benefits	96,842	105,964	113,040
16	Supplies, Services and Other Operating Expenses	466,561	506,987	506,934
17	Depreciation	46,623	46,935	48,646
18	Total Operating Expenses	\$910,654	\$983,865	\$1,000,871
19	Net Operating Income	\$105,579	\$104,021	\$89,055
Nonoperating Revenues (Expenses)				
20	Investment Income (Losses), Net of Fees	\$10,007	\$1,715	\$4,996
21	Endowment Distribution	(37)	(37)	(37)
22	Interest Expense	(12,807)	(12,134)	(11,249)
23	Other Nonoperating Revenues (Expenses)	(295)	(1,040)	(72)
24	State Capital Appropriations	0	0	0
25	Capital Gifts and Grants	896	2,998	0
26	Private Gifts for Endowment Purposes	14	10	0
27	Mandatory Transfers	0	0	0
28	Non-Mandatory Transfers	(28,963)	(26,607)	(23,694)
29	Net Nonoperating Revenues (Expenses)	(\$31,185)	(\$35,094)	(\$30,056)
30	Increase in Net Position	\$74,394	\$68,927	\$58,999
31	Operating Margin	10.4%	9.6%	8.2%

This presentation format matches the higher education presentation of revenues and expenses. The health system follows the healthcare convention in their presentations to the Health Affairs Committee. The main difference is the classification of gift revenues (line 11) which is an operating revenue in higher education and a non-operating item in healthcare.

UM System (Schedule 7)

The UM System Business Unit includes the administrative and support functions including service centers that provide unduplicated support to the four campuses and health system. For the FY 20 budget cycle, System asked each unit leader to respond to a five and ten percent budget reduction scenario. Each leader then submitted reductions, which were evaluated by the leadership team. In total, the System reduced spend to allocate funds towards strategic initiatives including TPMC and E-Learning. The FY 20 budget for expenditures at UM System is down slightly.

Schedule 7. UMSYS FY20 Original Budget (Dollars in Thousands)

Line No.		Actuals FY 2018	Actuals FY 2019	Budget FY 2020
Operating Revenues				
1	Tuition and Fees	\$0	\$0	\$0
2	Less Scholarship Allowances	87	118	71
3	Net Tuition and Fees	(\$87)	(\$118)	(\$71)
4	Federal Pell Grants	\$0	\$0	\$0
5	Grants and Contracts	1	136	0
6	Auxiliary Enterprises	29,104	26,104	24,048
7	Patient Medical Services Net	0	0	0
8	Other Operating Revenues	6,155	11,288	3,431
9	State Appropriations	12,766	11,326	12,258
10	Federal Appropriations	0	0	0
11	Private Gifts	113	669	113
12	System Investment Distribution	4,616	5,823	21,809
13	Total Operating Revenues	\$52,667	\$55,227	\$61,589
Operating Expenses				
14	Salaries and Wages	\$31,984	\$33,435	\$34,529
15	Benefits	10,568	11,192	11,597
16	Supplies, Services and Other Operating Expenses	12,541	20,301	9,784
17	Depreciation	4,844	4,326	3,773
18	Total Operating Expenses	\$59,938	\$69,254	\$59,684
19	Net Operating Income	(\$7,271)	(\$14,026)	\$1,905
Nonoperating Revenues (Expenses)				
20	Investment Income (Losses), Net of Fees	\$24,326	\$43,132	\$24,753
21	System Investment Distribution	(4,616)	(5,823)	(21,809)
22	Interest Expense	0	0	0
23	Other Nonoperating Revenues (Expenses)	(57)	(516)	5
24	State Capital Appropriations	0	0	0
25	Capital Gifts and Grants	0	0	0
26	Private Gifts for Endowment Purposes	0	0	0
27	Mandatory Transfers	0	0	0
28	Non-Mandatory Transfers	(3,862)	63,270	(883)
29	Net Nonoperating Revenues (Expenses)	\$15,791	\$100,063	\$2,066
30	Increase in Net Position	\$8,520	\$86,037	\$3,971
31	Operating Margin	(13.8%)	(25.4%)	3.1%

University-wide Units (Schedule 8)

University-wide Business Units are used to hold resources and deliver programs that are utilized by the entire institution. These include the endowed chair programs that were established with recurring state appropriation to match endowment distributions, self-insurance related to health, welfare and risk management programs, and activities of the central bank. Most of the activity in the University-wide units relates to consolidating entries for non-operating items that is not spread to the other Universities, primarily related to the benefit plans and investment performance.

Schedule 8. University-Wide Units FY20 Original Budget (Dollars in Thousands)

	Actuals	Actuals	Budget
	FY 2018	FY 2019	FY 2020
Operating Revenues			
Tuition and Fees	\$0	\$0	\$0
Less Scholarship Allowances	33	34	33
Net Tuition and Fees	(\$33)	(\$34)	(\$33)
Federal Pell Grants	\$0	\$0	\$0
Grants and Contracts	0	0	0
Auxiliary Enterprises	0	0	0
Patient Medical Services Net	0	0	0
Other Operating Revenues	(633)	(253)	(631)
State Appropriations	9,467	9,467	9,467
Federal Appropriations	0	0	0
Private Gifts	2	2	2
Endowment Distribution	(6,155)	(4,695)	(6,155)
Total Operating Revenues	\$2,647	\$4,487	\$2,649
Operating Expenses			
Salaries and Wages	\$189	(\$564)	\$0
Benefits	22,868	9,836	266
Supplies, Services and Other Operating Expenses	(4,403)	(14,458)	(2,468)
Depreciation	4,766	4,766	4,766
Total Operating Expenses	\$23,421	(\$419)	\$2,564
Net Operating Income	(\$20,774)	\$4,907	\$85
Nonoperating Revenues (Expenses)			
Investment Income (Losses), Net of Fees	\$34,024	\$55,103	\$33,855
Endowment Distribution	6,155	4,695	6,155
Interest Expense	(4,559)	(3,010)	(1,178)
Build America Bond Subsidies	9,755	9,828	9,755
Other Nonoperating Revenues (Expenses)	0	(94)	0
State Capital Appropriations	0	0	0
Capital Gifts and Grants	0	0	0
Private Gifts for Endowment Purposes	1	2	1
Pension and OPEB Impact on Income Statement	0	(96,064)	(33,524)
Mandatory Transfers.	47	41	0
Non-Mandatory Transfers	(9,501)	(76,440)	(15,000)
Net Nonoperating Revenues (Expenses)	\$35,922	(\$105,939)	\$64
Increase in Net Position	\$15,148	(\$101,033)	\$149

Fund Accounting View

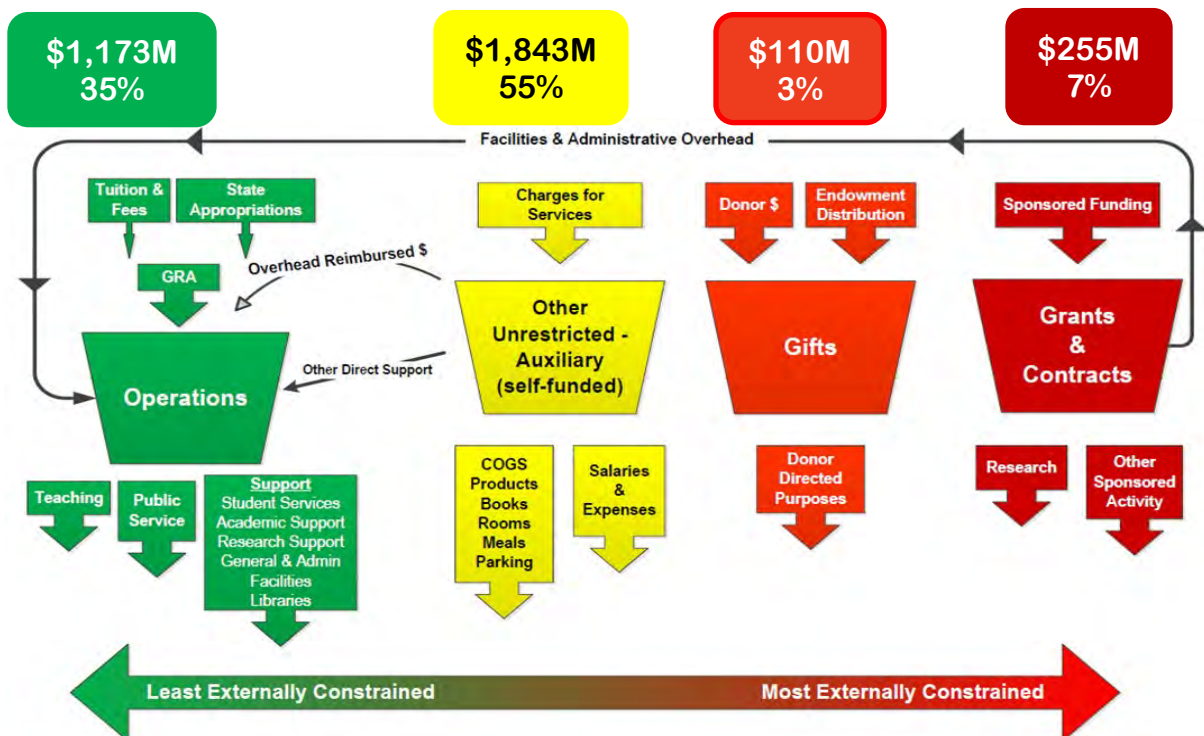
The following section shows the fund accounting format on the consolidated level. The University will still utilize the fund accounting format internally and it remains important for internal users. Fund accounting segregates the enterprise into its different components. However, it also leads focusing leaders mainly on the operating fund which constitutes a smaller and smaller portion of the overall enterprise over time. The segregation of current and non-current funds and the institution's historical focus on mainly current funds has led to a shorter-term focus. The separation of plant funds and lack of related consistent funding streams drives leaders to focus away from capital investment, a long-term risk for the organization. Shifting to the new format, which accounts for capital costs in operating income, and a better capital planning process will help the University address these problems over time. Presenting and focusing on the new format will clarify that our leaders are accountable for the entire enterprise and should look across it, not just the portion that accounts for state and student money.

Current Fund Budgets

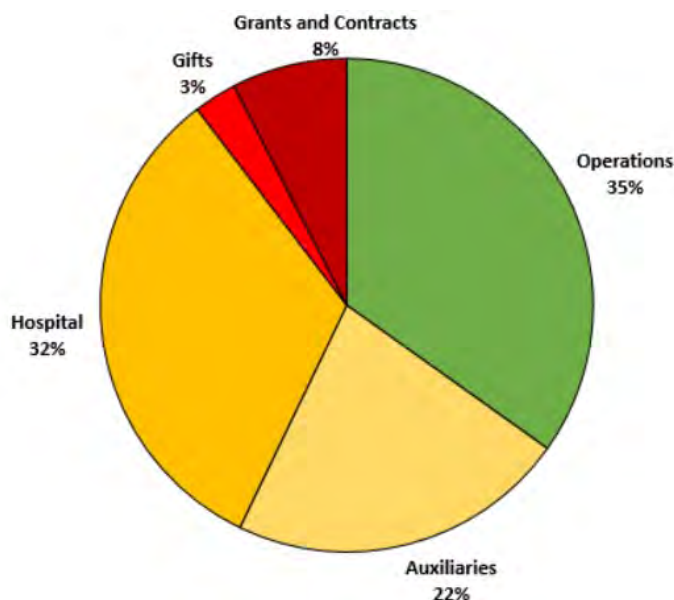
Current funds include resources of the University that are expendable for any purpose directly related to the primary missions of the University, i.e., instruction, research, public service, and economic development as well as related support services. Current funds are further broken down into fund groups, depending on their purpose and external restrictions. Current funds generally drive the "Operating" items in the formats utilized above.

The diagram below shows funding streams spending flexibility of current funds.

Current Fund Budget Diagram



FY 20 Budget Revenue By Fund



The operations fund, shown in green on the chart is where the bulk of the University's teaching, academic creative works, public service, and supporting service activities occur. Its primary funding sources are tuition and fees and state appropriations, although it does receive some support from unrestricted auxiliary and other enterprise like operations in the form of overhead payments for services provided by the operations fund (such as accounting, procurement, legal, grant management, facilities, etc.). In addition, the operations fund receives facilities and administrative cost recovery funding from grants and contracts to partially offset the costs of providing space and support services (overhead) to grants and contracts. Operations fund revenues are the most valuable because they are the least constrained by third parties. Operations fund revenues contribute 35% of total current fund revenues.

Other unrestricted funds are shown in shades of yellow on the chart. The primary source of funding for this group is fees for services provided. These operations are treated as separate enterprises and are expected to set fees for their services to cover their current operating costs plus depreciation, which is set aside for future capital and equipment replacement. Included in this category are University Hospitals and Clinics, student auxiliaries (housing, dining, bookstores, and recreation centers), intercollegiate athletics, student unions, research reactor, service operations (energy management, facilities design and construction, telecommunications, etc.), continuing education and self-insurance funds. These activities comprise 54% of the current fund budget.

Third parties, primarily donors and granting agencies, restrict the remainder of the current funds. These funds are shown in red on the chart because there is very little flexibility in how the funds are spent. The primary funding sources are gifts, spendable distributions from the endowment funds, and external grants and contracts. Grants and contracts are primarily for specific research, although some grants and contracts fund public service and instructional activities. This fund is also where federal financial aid is budgeted and accounted for due to the restricted nature of these funds. Restricted funds contribute 11% of the current funds budget.

Loan, Endowment, and Plant Fund Budgets

Loan, endowment and plant funds primarily affect the University's balance sheet and make up only about 2% of the revenue budget. The primary funding streams for the plant fund are investment from the university's current funds, capital gifts, and capital appropriations. The primary uses of funds are for debt payments and capital expenditures. Because capital expenditures are investment in the physical plant, the primary expenses in the plant fund are interest expense and depreciation.

The primary funding streams for loan and endowment funds are gift revenue and investment returns. These gifts are typically permanently restricted. The loan fund benefits the university's students by providing loans to students. The endowment fund's spending distribution provides endowment income to the current funds. In public universities, these funds are primarily restricted in use by the donor and provide funding for scholarships, professorships, and other university support.

Schedule 9 provides the consolidated budget by fund type:

	Operations	Other Unrestricted	Auxiliary Enterprises	Hospital Operations	Restricted Funds	Total Current Funds	Loan, Endowment, and Plant Funds	Total All Funds
Revenues								
Tuition and Fees	\$827.6	\$57.7	\$0.0	\$0.0	\$0.4	\$885.6	\$0.2	\$885.8
Less: Scholarship Allowances	(222.0)	(0.4)	0.0	0.0	(102.2)	(324.6)	0.0	(324.6)
Net Student Fees	\$605.6	\$57.2	\$0.0	\$0.0	(\$101.8)	\$561.0	\$0.2	\$561.2
State Appropriations	414.5	0.0	0.0	0.0	5.1	419.6	0.0	419.6
Grants and Contracts	0.0	0.0	0.0	0.0	370.1	370.1	0.4	370.5
Gift Income	4.3	0.0	13.6	0.0	65.5	83.5	48.0	131.5
Recovery of F & A	49.0	0.0	0.0	0.0	(49.0)	0.0	0.0	0.0
Endowment & Investment Income	39.5	25.0	0.6	4.9	52.5	122.5	56.4	178.9
Sales & Services & Patient Revenue	23.2	3.3	644.7	1,088.0	0.1	1,759.3	0.0	1,759.3
Miscellaneous Income	37.3	5.9	0.0	0.0	25.2	68.4	11.2	79.6
Total Revenues	\$1,173.4	\$91.4	\$658.9	\$1,092.9	\$367.7	\$3,384.4	\$116.1	\$3,500.5
Expenditures								
Salaries & Wages	\$663.0	\$54.0	\$356.2	\$332.2	\$165.0	\$1,570.4	\$0.0	\$1,570.4
Employee Benefits	210.7	53.7	93.4	113.0	48.8	519.6	0.0	519.6
Total Compensation	873.7	107.6	449.6	445.2	213.8	2,090.0	0.0	2,090.0
Operating Expense	231.7	(73.1)	153.9	506.2	125.7	944.5	30.0	974.5
Capital Expense & Offset	20.1	0.3	2.5	0.0	6.9	29.7	(29.7)	0.0
Interest Expense	0.0	0.0	0.0	(0.2)	0.0	(0.3)	56.2	55.9
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	198.4	198.4
Total Expenditures	\$1,125.5	\$34.8	\$606.1	\$951.1	\$346.4	\$3,063.9	\$255.0	\$3,318.9
Internal Transfers (In) Out	(\$30.7)	\$50.6	(\$22.3)	\$17.5	\$0.0	\$15.0	(\$15.0)	\$0.0
Mandatory Transfers (In) Out	20.4	9.5	67.7	24.8	(1.1)	121.4	(121.4)	0.0
Non-Mandatory Transfers (In) Out	15.7	22.5	8.2	6.2	2.3	54.8	(49.6)	5.2
Total Transfers	\$5.4	\$82.5	\$53.5	\$48.5	\$1.2	\$191.1	(\$185.9)	\$5.2
Change in Net Assets	\$42.6	(\$26.0)	(\$0.7)	\$93.2	\$20.3	\$129.4	\$47.0	\$176.4



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