UNIVERSITY HOSPITALS AUTHORITY AND UNIVERSITY HOSPITALS TRUST

Basic Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Management's Discussion and Analysis

June 30, 2015 and 2014

This section of the University Hospitals Authority (Authority) and University Hospitals Trust (Trust) Annual Financial Statements presents our discussion and analysis of performance during the fiscal years ended June 30, 2015 and 2014. For comparative purposes, fiscal year 2013 information is also provided. Please read the discussion and analysis in conjunction with the combined financial statements, which follow this section.

Financial Statements Overview

The Authority and Trust report financial results on a combined basis. Both the Authority and the Trust are statutorily mandated with the same mission and the financial resources of both entities are expended to accomplish our mission of Indigent Care, Medical Education, and Research. The Authority and the Trust are component units of the State of Oklahoma.

The financial statements of the University Hospitals Authority and University Hospitals Trust are prepared on a proprietary basis as a business-like entity. The accrual basis of accounting is utilized and the measurement focus is on economic resources. All short-term and long-term assets and liabilities of the Authority and Trust, both financial and capital are provided. All revenues and expenses earned during the year are recorded regardless of when cash is received or paid.

The financial statements and information presented include:

Statement of Net Position is the financial report that displays the Authority and Trust assets and deferred outflows of resources and liabilities and deferred inflows of resources and the difference between them (Net Position). Changes in net assets, increases or decreases, is one way to measure the financial health of the entity and whether its financial position is improving or deteriorating. The responsibility of capitalizing the hospital operations shifted from the Authority to the Trust at the inception of the Joint Operating Agreement (JOA).

Statement of Revenues, Expenses, and Changes in Net Position is the financial report that displays the operating results of the Authority and Trust.

The Authority and Trust utilize the accrual method of accounting, which recognizes revenues at the time the earning process is complete and expenses when the liability is incurred regardless of the timing of related cash flows.

Statement of Cash Flows is the financial report that provides relevant information of the Authority's and Trust's sources of cash receipts and purposes for its cash disbursements. It demonstrates our ability to generate cash flows and our ability to pay our debts and obligations.

The cash flow statements presented utilize the direct method of cash reporting, that is, cash receipts and disbursements reported are not netted or combined with other categories presented in the cash flow statements.

Net Assets

(Dollars in thousands)

	2015	2014	2013	2015-2014 Percentage change
Current assets	$ 172,643	101,427	73,736	70.2%
Restricted assets	1,458	1,459	1,597	(0.1)
Capital assets, net	283,228	253,165	252,276	11.9
Other assets	20,083	20,090	20,096	(0.1)
Total assets	$ 477,412	376,141	347,705	26.9%
Pension amounts	$ 191	—	—	100.0%
Total deferred outflows of resources	$ 191	—	—	100.0%
Current liabilities	$ 91,051	25,638	25,500	255.1%
Long-term liabilities	45,255	46,779	47,954	(3.3)
Total liabilities	$ 136,306	72,417	73,454	88.2%
Pension amounts	$ 430	—	—	100.0%
Total deferred inflows of resources	$ 430	—	—	100.0%
Invested in capital assets, net of related debt	$ 236,780	205,491	203,440	15.2%
Restricted for donated purposes	1,458	1,459	1,597	(0.1)
Unrestricted	102,629	96,774	69,213	6.1
Total net assets	$ 340,867	303,724	274,250	12.2%

Current assets increased $71.2 million in 2015 and is attributed primarily to net increases of Trust supplemental Medicaid cost reimbursement programs receivables and joint operating income increases. Current assets increased $27.7 million in 2014 and is attributed primarily to net increases of Trust joint operating income.

Restricted assets decreased in 2015 due to a decrease in valuation of restricted investments of $1,000. Restricted assets decreased in 2014 due to expenditures of restricted funds of $138,000.

Net capital assets increased $30.1 million in 2015 and $889,000 in 2014 due to the Trust's investment in the construction of a new College of Medicine Academic Building and garage, increased investment in Trust property and equipment related to the hospital capital projects and equipment, and offset by annual depreciation.

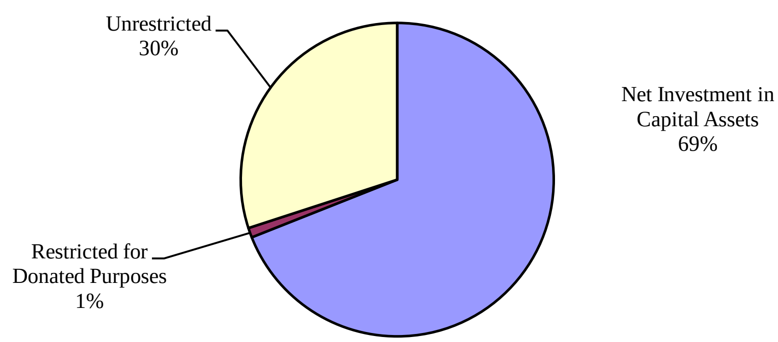
(Continued)

Deferred outflows and inflows of resources increased as a result of adopting Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting of Pensions*, in 2015.

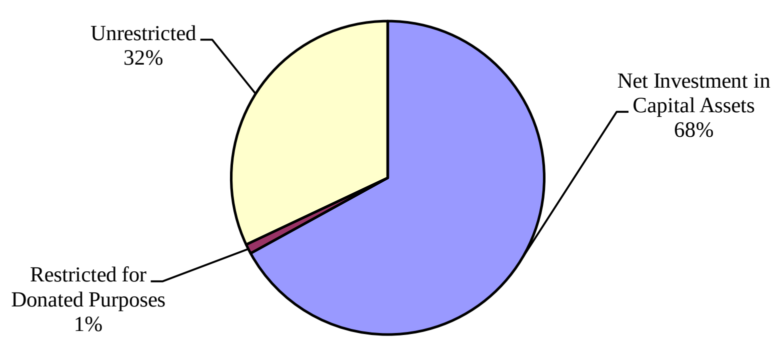
Current liabilities increased $65.4 million in 2015 due to amounts due from the Oklahoma Healthcare Authority for Supplemental Medicaid Programs.

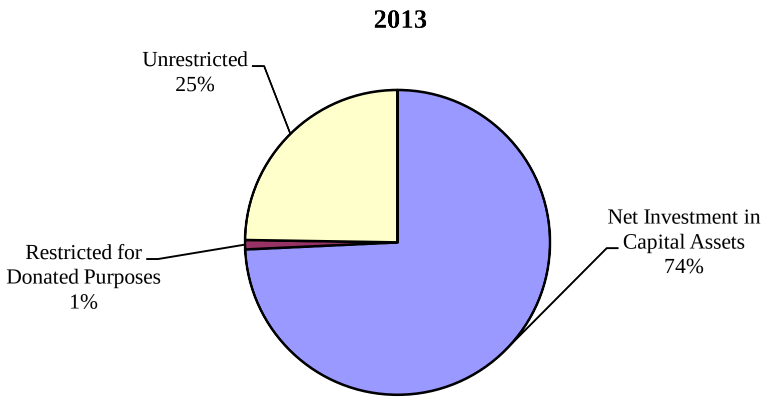
Composition of Net Position (%) as of June 30

2015



2014





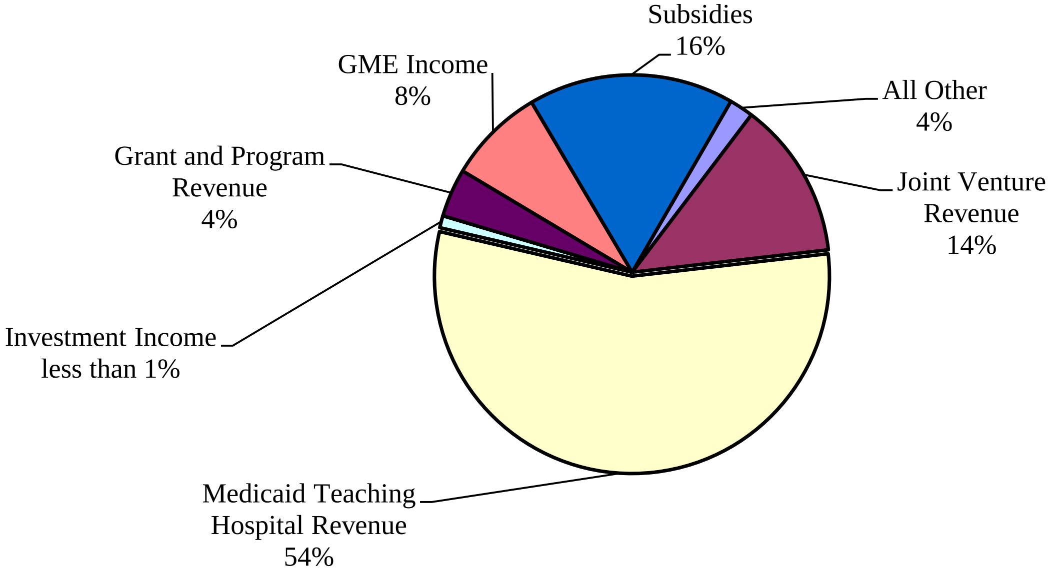
Changes in Net Position

The Authority and Trust total revenues (operating revenues and net nonoperating revenues) increased $6.9 million in 2015 from 2014 and increased $52.2 million in 2014 from 2013. Total revenues for 2015 and 2014 were $272.1 million and $265.2 million with 16% and 17% of the total revenues from appropriations for indigent care subsidies (appropriations or subsidies), respectively. Appropriations in 2015 of $42.1 million was a decrease from fiscal year 2014's $44.5 million in appropriations. Appropriations in 2014 was an increase from fiscal year 2013's $41.6 million in appropriations.

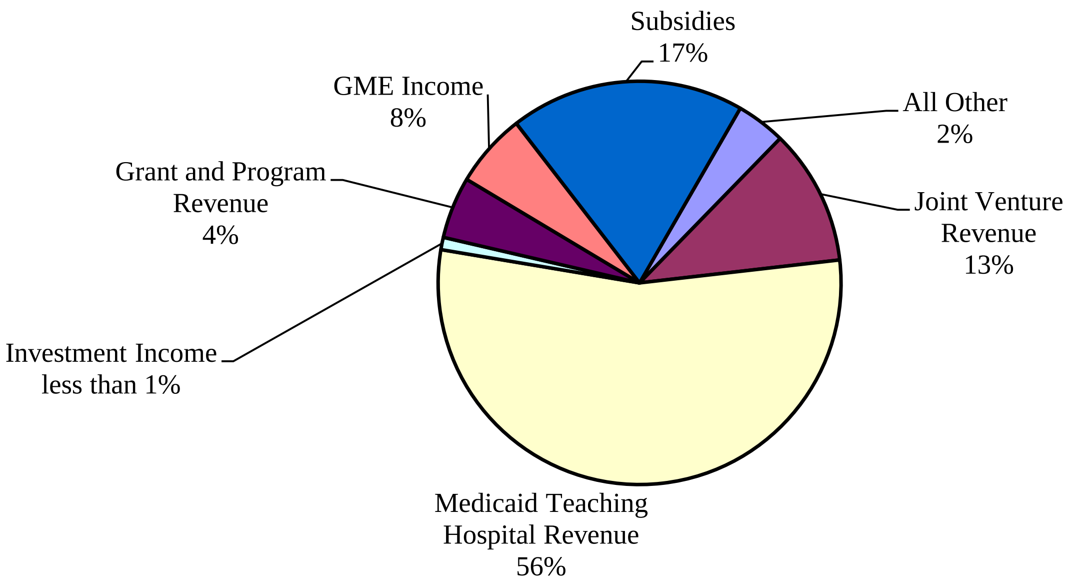
Another 54% of total revenues were from Teaching Hospital Reimbursement and Level I trauma programs in 2015 and 56% in 2014. These receipts decreased $734,000 in 2015 from 2014, and increased $29.3 million in 2014 from 2013. For 2015, 2014, and 2013 the full pre-tax earnings preferential payments (joint venture revenue) of $9 million were earned and received. The University Hospitals Authority and Trust by virtue of a Joint Operating Agreement, receives the first $9 million of pre-tax earnings of the venture if earned. The Trust receives 30% share of total pre-tax earnings in excess of $39 million as specified in the Joint Operating Agreement. As hospital earnings increased in 2015 from 2014 and increased in 2014 from 2013, excess earnings also increased in 2015 to $29.3 million and increased in 2014 to $26.5 million.

Sources of Revenue

2015



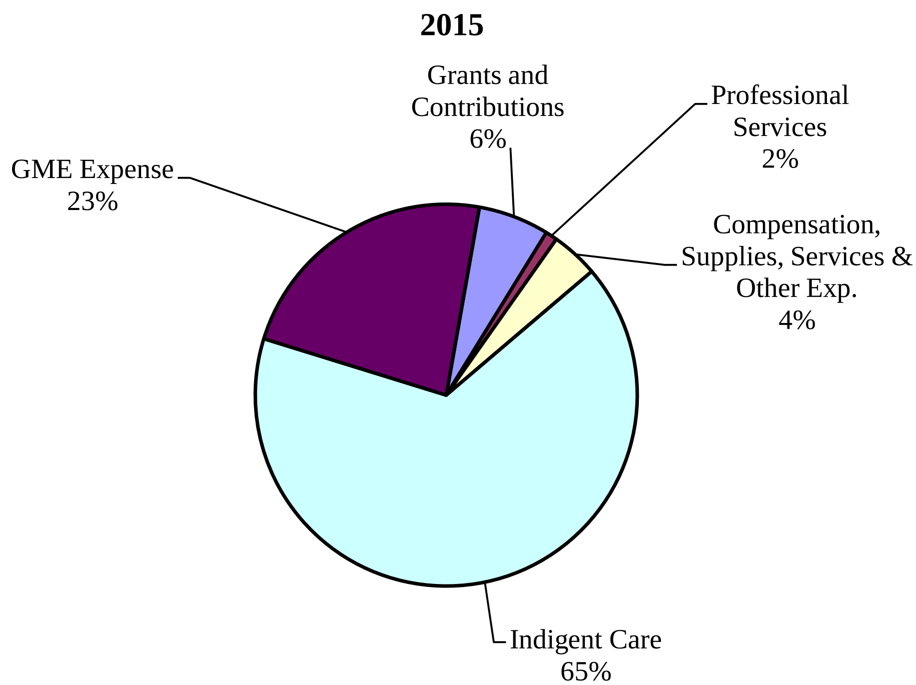
2014

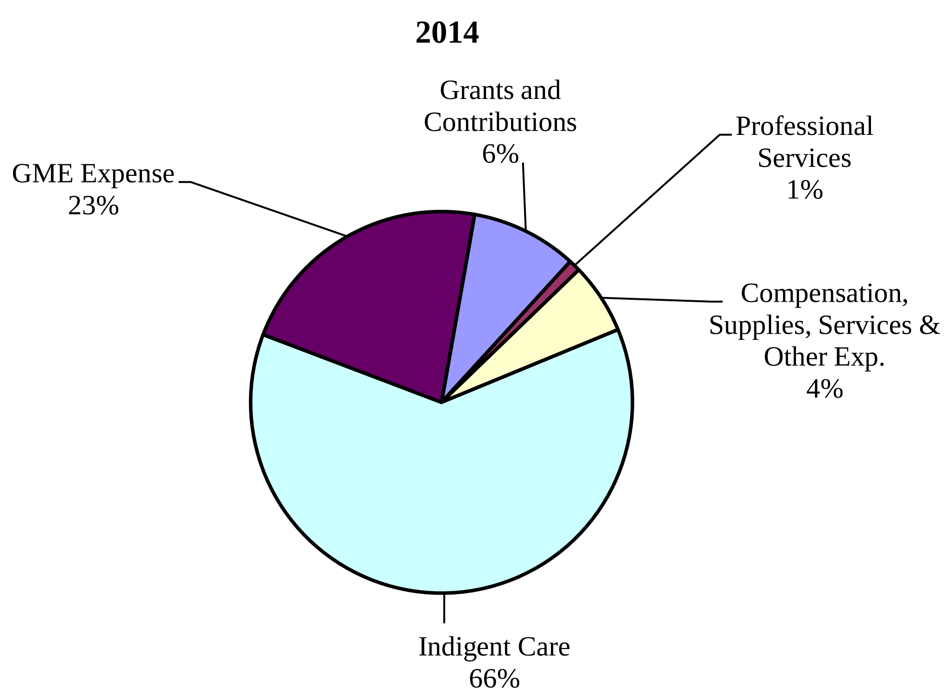


The University Hospitals Authority and Trust combined sources of revenues are from the following sources:

- *Subsidies* are appropriated for Indigent Care and state-matching amounts for Graduate Medical Education (GME) programs and Indigent Care programs.
- *Medicaid Teaching Hospital* receipts from the Oklahoma Health Care Authority reimburse the costs of providing care to Medicaid and charity patients. This also includes Level I trauma receipts from the Oklahoma State Department of Health that were authorized by the State Legislature to reimburse hospitals for the cost of Level I trauma centers.
- *Grant and program* revenues relate to Indirect Medical Education (IME), which is a state and federal matching program paid to major teaching hospitals with approved resident and intern programs to offset costs associated with such teaching programs and resultant increased Medicaid and Indigent volumes. The Trust provided the state matching share and received a net IME revenue available of $10.2 million in 2015 and $9.9 million in 2014.
- *Joint Venture Revenue* relates to the Joint Operating Agreement (JOA) between the Authority and Trust and HCA Health Services of Oklahoma, Inc. The JOA stipulates that the first $9 million of hospital pre-tax earnings is to be paid to the state. Additionally, the Trust receives 30% of total pre-tax earnings in excess of $39 million.
- *Graduate Medical Education (GME)* income is from the University of Oklahoma (O.U.) and Oklahoma State University (O.S.U.) medical colleges. These two major teaching universities provided $21.9 million in 2015 and $20.2 million in 2014 of the state match share paid to the Oklahoma Health Care Authority along with an additional $10.1 million in 2015 provided by the Authority from appropriations. This University GME program is for qualifying universities with approved resident and intern programs to offset increased education costs associated with these teaching programs and to provide incentive for participation in the state's Medicaid Managed Care programs.
- *Investment Income* accounted for less than 1% of total revenues in both 2015 and 2014.
- *All Other Revenues* is primarily from donations and income associated with rental and lease incomes of Authority and Trust buildings.

Operating Expenses before Depreciation and Amortization





- *Total Expenses* including depreciation decreased $1.3 million in 2015 from 2014 and increased $20.6 million in 2014 from 2013. The decrease is primarily related to decreases in Indigent Care Expense and grants expenses.
- *Indigent Care Expense* represents certain amounts of state subsidies and Medicaid program receipts from the Oklahoma Health Care Authority paid to HCA Health Services of Oklahoma, Inc. for Indigent Care services to patients based on the terms of the Indigent Care Agreement.
- *Graduate Medical Education (GME)* expenses are state match amounts paid to the Oklahoma Health Care Authority for Hospital GME programs ($18.3 million in 2015 and $19.7 million in 2014) and University GME programs ($30.3 million in 2015 and $30.6 million in 2014).
- *Grants and Contributions* were for medical education and research and patient care improvement purposes.
- *Professional Services* were payments for professional auditing, public relations, legal services, and pathology and other medical professional expenses.
- *Compensation, Supplies, Services, and All Other Costs* includes costs associated with building operations support for space leased to others.

(Continued)

Changes in Net Assets

(Dollars in thousands)

	2015	2014	2013	2015-2014 Percentage change
Operating revenues:				
Grant and program revenues	$ 10,200	9,948	9,725	2.5%
Services provided to others	9,296	8,699	8,313	6.9
Medicaid Teaching Hospital/ Level I trauma	147,966	148,700	119,429	(0.5)
GME income	21,873	20,196	12,967	8.3
Joint venture income	38,316	35,477	23,814	8.0
Other revenues	2,802	640	229	337.7
Total operating revenues	230,453	223,660	174,477	3.0%
Operating expenses:				
Compensation and benefits	1,184	1,515	1,110	(21.8)%
Professional services	5,311	2,217	1,264	139.5
Grants and contributions	12,463	13,162	18,268	(5.3)
Supplies, services, and other	7,847	7,759	7,535	1.1
Indigent care expense	140,017	141,842	124,869	(1.3)
GME expense	48,642	50,290	43,289	(3.3)
Total operating expenses before depreciation and amortization	215,464	216,785	196,335	(0.6)
Depreciation and amortization	19,001	18,963	18,788	0.2
Operating loss	(4,012)	(12,088)	(40,646)	(66.8)
Nonoperating revenues (expenses):				
Investment income	148	103	109	43.7
Debt-related expenses	(529)	(446)	(515)	18.6
Indigent care subsidies	42,069	44,530	41,624	(5.5)
Other	(1)	(2,625)	(2,672)	(100.0)
Total nonoperating revenues	41,687	41,562	38,546	0.3
Change in net assets	$ 37,675	29,474	(2,100)	27.8%

The Authority and Trust operating revenues increased $6.8 million in 2015 from 2014, and increased $49.2 million in 2014 from 2013.

(Continued)

- Grant and program revenue increased $252,000 in 2015 from 2014 and increased $223,000 in 2014 from 2013. IME grants paid to the Trust by the Oklahoma Health Care Authority are based on federal matching amounts that vary from year to year.
- Services provided increased $597,000 in 2015 from 2014 and $386,000 in 2014 from 2013 due to increases in rental and lease incomes as the Trust increased rates charged.
- GME revenue represents state share matching payments from universities. The $1.7 million increase in 2015 represents increased programs by the Oklahoma Health Care Authority as was the $7.2 million increase in 2014.
- Medicaid program income decreased $734,000 in 2015 from 2014 and increased $29.3 million in 2014 from 2013. These changes in Medicaid program income are dependent upon the hospital's costs, case mix intensity, Medicaid utilization, and Federal match percentages. Indigent care expenses to OU Medical System (OUMS) hospitals decreased $1.8 million in 2015 from 2014 and increased $17.0 million in 2014 from 2013, as they also fluctuate consistent with changes in federal Medicaid income.
- JOA income increased $2.8 million in 2015 as the OUMS hospital pretax earnings increased in 2015 from 2014 and increased $11.7 million in 2014 as the OUMS hospital pretax earnings increased in both periods.
- Compensation and benefits decreased $331,000 in 2015 from 2014, which was due to a decrease in workers' compensation liability and lower pension expense. Compensation and benefits increased $405,000 in 2014 from 2013, which was due to the addition of staff.
- Professional services cost increased $3.1 million in 2015 from 2014 and increased $953,000 in 2014 from 2013. These changes were due to increasing consulting fees year over year.
- The Trust and Authority committed or expended $699,000 less in grants in 2015 over 2014. The Trust and Authority committed or expended $5.1 million less in grants in 2014 over 2013.
- GME expenses decreased $1.6 million in 2015 over 2014 and increased $7.0 million in 2014 over 2013, as the Oklahoma Health Care Authority provided substantial increases in program support.
- Investment income increased $45,000 in 2015 from 2014 and decreased $6,000 in 2014 from 2013 as average cash invested fluctuated.
- Indigent Care subsidies decreased $2.5 million in 2015 from 2014 as the legislature decreased appropriations for programs. Indigent Care subsidies increased $2.9 million in 2014 from 2013 as the legislature increased appropriations for programs.

Financial Analysis of Fiscal Year 2015 Operations

Total net position increased $37.7 million in 2015.

Legislative appropriations decreased in 2015 over 2014. The decrease in funds was due to the legislature reducing most all state agencies 5.5% in 2015 to accommodate state revenue short falls.

Capital Assets

Capital assets net of depreciation increased 11.9% in 2015 from 2014. The University Hospitals Trust increased capital assets $30.1 million in 2015 primarily related to design and construction of the College of Medicine Academic Office Building and garage. These additions were offset by annual depreciation of $19.0 million in 2015. Capital assets net of depreciation increased 0.5% in 2014 from 2013 and were offset by $19.0 million annual depreciation in 2014.

Capital Assets

(Net of depreciation, dollars in thousands)

		2015	2014	2013	2015 to 2014 Change amount
Land	$	4,009	4,009	4,009	—
Building and improvements		161,107	165,747	167,167	(4,640)
Equipment		34,018	34,619	36,043	(601)
Infrastructure		3,330	3,513	3,667	(183)
Joint venture equipment		25,400	25,698	29,359	(298)
Construction-in-progress		55,364	19,579	12,031	35,785
Total	$	283,228	253,165	252,276	30,063

Long-term Debt

In October 2005, the University Hospitals Trust issued Series 2005-A and 2005-B variable rate bonds to partially finance the construction of new pediatric care facilities and the phase II basic research center. The $36,715,000 tax-exempt Series 2005-A bonds was used for design and construction of the O.U. Children's Pediatric Ambulatory Care building. The attached 1,000 car parking garage was funded with Trust cash and a central connecting atrium and education center was paid for with a combination of contributions and Trust cash. The 2005-B taxable bonds use is for the phase II basic research building constructed by the University of Oklahoma. Both variable rate bond issues are credit enhanced with irrevocable letters of credit that are in effect for three-year terms. The Trust makes interest payments monthly based on weekly rate resets with principal payments made annually each August. The bonds are secured with Trust revenues and the indenture and letter of credit agreements place liquidity, debt service, and capitalization covenants on the Trust.

Bonds Payable Balance

(Dollars in millions)

		2015	2014	2013	2015-2014 Change
Variable rate bonds	$	46	48	49	(2)

Economic Factors, Conditions, and Facts Effecting Financial Position or Operations

The University Hospitals Authority and Trust is dependent on subsidies, grants, and entitlements from other governments in sustaining its primary mission of Indigent Care, Medical Education, and Research. All of these sources of income combine to account for 82% of total income. In 2015 the Oklahoma legislature decreased subsidies. Sustaining these programs at current levels or expanding them is dependent on the ability of the State of Oklahoma to increase revenue levels, which is primarily through tax revenues. The University Hospitals Authority's allocation of appropriations for 2015 was decreased from 2014, and no operating reserves were utilized in 2015 to maintain Indigent Care and GME programs at current levels.

GME programs (Hospitals' and University's) and Medicaid hospital supplemental payment programs utilize matching state and federal funds to disburse these entitlements to eligible recipients. The match rate was increased in 2015.

The Authority and Trust is required by the JOA to pay for all workers compensation liabilities (accrued legal liabilities) for hospital employees injured prior to February 5, 1998. These claims and payments have been relatively stable each year since 1998. It is believed that we have adequately stated our potential liability on the 2015 Statement of Net Assets. Any catastrophic loss resulting from any of the pre-JOA injuries would require payment from cash reserves and would result in a decrease in changes in net assets in the payment period.

KPMG LLP
210 Park Avenue, Suite 2850
Oklahoma City, OK 73102-5683

Independent Auditors' Report

Members of the University Hospitals Authority and
Trustees of the University Hospitals Trust:

Report on the Financial Statements

We have audited the accompanying statements of net position, revenues, expenses, and changes in net position, and cash flows of the University Hospitals Authority and University Hospitals Trust (together referred to as TUH), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise TUH's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of TUH as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1(k) to the financial statements, in 2015, TUH adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting of Pensions* effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1–12 and the schedules of TUH's proportionate share of the net pension liability and contributions on pages 42–44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TUH's basic financial statements. The supplementary combining statements on pages 36–41 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing generally accepted in the United States of America. In our opinion, the supplementary combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of TUH's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TUH's internal control over financial reporting and compliance.

KPMG LLP

Oklahoma City, Oklahoma
October 30, 2015

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Statements of Net Position

June 30, 2015 and 2014

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	99,784,021	94,808,225
Investments		1,944,821	1,680,821
Receivables:			
Institutional and other		70,893,259	4,922,293
Interest		17,603	12,764
Prepaid expenses		3,267	3,367
Total current assets		172,642,971	101,427,470
Restricted assets:			
Cash and cash equivalents		538,026	538,026
Investments		884,097	885,160
Real estate		35,989	35,989
Total restricted assets		1,458,112	1,459,175
Noncurrent:			
Other		83,269	89,482
Working capital settlement		20,000,000	20,000,000
Investment in joint venture equipment, net		25,399,652	26,058,424
Capital assets, net		257,828,003	227,106,735
Total assets	$	477,412,007	376,141,286
Deferred Outflows of Resources			
Pension amounts	$	191,473	—
Total deferred outflows of resources	$	191,473	—
Liabilities			
Current liabilities:			
Trade payables	$	3,723,847	2,916,496
Accrued expenses		85,736,006	21,236,811
Current portion of bonds payable		1,310,000	1,235,000
Current portion of accrued liabilities		163,300	161,710
Unearned revenue		118,602	88,432
Total current liabilities		91,051,755	25,638,449
Noncurrent:			
Bonds payable, net of unamortized discount of $112,367 and $120,751 in 2015 and 2014, respectively		45,137,633	46,439,249
Accrued liabilities		—	339,653
Net pension liability		117,120	—
Total liabilities	$	136,306,508	72,417,351
Deferred Inflows of Resources			
Pension amounts	$	430,187	—
Total deferred inflows of resources	$	430,187	—
Net Position			
Net position:			
Net investment in capital assets	$	236,780,022	205,490,910
Restricted		1,458,112	1,459,175
Unrestricted		102,628,651	96,773,850
Total net position	$	340,866,785	303,723,935

See accompanying notes to basic financial statements.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

		2015	2014
Operating revenues:			
Teaching Hospital Reimbursement/Level I trauma revenue	$	147,965,891	148,700,155
GME revenue		21,872,906	20,195,732
Grant and program revenue		10,200,282	9,948,386
Joint venture revenue		38,316,160	35,476,650
Services provided to others		9,296,453	8,699,244
Other revenue		2,801,671	640,098
Total operating revenues		230,453,363	223,660,265
Operating expenses:			
GME expense		48,641,951	50,290,415
Indigent care expense		140,016,773	141,842,136
Grants and contributions		12,463,439	13,161,948
Professional services		5,310,515	2,217,185
Compensation and benefits		1,184,499	1,515,218
Supplies, services, and other		7,847,387	7,759,412
Total operating expenses before depreciation and amortization		215,464,564	216,786,314
Operating income before depreciation and amortization		14,988,799	6,873,951
Depreciation and amortization		(19,000,709)	(18,963,384)
Operating loss		(4,011,910)	(12,089,433)
Nonoperating revenues (expenses):			
Indigent care subsidies		42,069,019	44,530,391
Investment income		148,082	103,030
Debt-related expenses		(528,649)	(445,837)
Miscellaneous expense		(1,062)	(2,624,707)
Total nonoperating revenues		41,687,390	41,562,877
Change in net position		37,675,480	29,473,444
Net position, beginning of year		303,723,935	274,250,491
Cumulative effect of adopting new accounting standard (note 1(k))		(532,630)	—
Net position, beginning of year restated		303,191,305	274,250,491
Net position, end of year	$	340,866,785	303,723,935

See accompanying notes to basic financial statements.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Statements of Cash Flows

Years ended June 30, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Receipts from customers	$	8,892,451	8,936,017
Joint operating agreement receipts		42,900,850	30,909,900
Grant receipts (IME, GME, MTH)		115,771,760	184,440,240
Indigent care payments		(69,802,515)	(138,140,616)
Grant payments		(17,074,369)	(19,479,950)
GME match payments		(56,327,154)	(56,108,333)
Goods and service payments		(9,738,983)	(9,000,805)
Payments to employees		(1,682,330)	(1,450,119)
Other operating receipts		2,801,671	626,914
Net cash provided by operating activities		15,741,381	733,248
Cash flows from noncapital financing activity:			
Subsidies		42,069,019	44,530,391
Cash flows from capital and related financing activities:			
Principal payment		(1,235,000)	(1,170,000)
Purchase of capital assets		(50,962,670)	(17,971,360)
Interest paid on bonds		(37,759)	(52,457)
Other bond related costs		(474,448)	(380,614)
Nonoperating revenue		(1,062)	(2,625,000)
Net cash used in capital and related financing activities		(52,710,939)	(22,199,431)
Cash flows from investing activities:			
Investment income		140,335	109,710
Purchase of investments		(264,000)	—
Net cash provided by (used in) investing activities		(123,665)	109,710
Net increase in cash and cash equivalents		4,975,796	23,173,918
Cash and cash equivalents, beginning of year		95,346,251	72,172,333
Cash and cash equivalents, end of year	$	100,322,047	95,346,251
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(4,011,910)	(12,089,433)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization		19,000,709	18,963,384
Increase in receivables, net		(65,439,042)	(4,398,291)
Increase (decrease) in payables and accrued expenses		66,338,150	(1,827,006)
Increase in unearned revenue		30,170	84,494
Decrease in prepaid expenses		100	100
Increase in deferred outflows of resources		(13,116)	—
Decrease in net pension liability		(593,867)	—
Increase in deferred inflows of resources		430,187	—
Total adjustments		19,753,291	12,822,681
Net cash provided by operating activities	$	15,741,381	733,248
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	$	2,909,316	4,274,692
Capital assets refund in receivables		534,091	—

See accompanying notes to basic financial statements.

(1) Nature of the Entity and Summary of Significant Accounting Policies

(a) Nature of the Entity

The University Hospitals Authority (the Authority) was created in July 1993 by Oklahoma State Senate Bill 423. The bill transferred substantially all assets, liabilities, fund balance, and operations of Oklahoma Medical Center from the Oklahoma Department of Human Services to the Authority at historical cost. The Authority is a nonmajor component unit of the State of Oklahoma (the State). The Authority consists of the University Hospital, Children's Hospital of Oklahoma, and their related clinics and other services, collectively called the University Hospitals. For management and reporting purposes, these facilities collectively comprise the Authority. The Authority is governed by a six-member board. Three of the six members are appointed as follows: one by the President Pro Tempore of the Senate, one by the Speaker of the House of Representatives, and one by the Governor. The other three members serve based on their position as agency head for the Medicaid program, the Provost of the University of Oklahoma Health Sciences Center (OUHSC), and the Chief Executive Officer of the Authority (ex officio). All the Authority's facilities are located in Oklahoma City, Oklahoma.

During 1995, Oklahoma State House Bill 1751 was passed, which, among other actions, allowed for the creation of the University Hospitals Trust (the Trust). The Trust can accept a leasehold interest in the University Hospitals from the Authority and negotiate with private entities for the operation of the University Hospitals. The Trust cannot accept title to real property or pledge any indebtedness against the real property. The Trust was created September 18, 1997. The members of the Authority are the trustees of the Trust. The Trust is included in the financial statements of the Authority as a blended component unit. The operations and activities of the Authority and the Trust are hereinafter referred to as "TUH."

On February 4, 1998, the Authority, through an agreement with the Trust, entered into an agreement to lease and jointly operate substantially all of the operations and facilities of TUH (including O'Donoghue Rehabilitation Institute (ORI), which has remained closed since March 1995 as a cost cutting measure) with a subsidiary of Columbia/HCA (HCA).

The agreement with the Trust provides that the Authority will lease certain buildings, structures, improvements, and personal property utilized in connection with the operation of the University Hospitals (including ORI) to the Trust. The Trust then entered into an agreement with HCA to jointly operate the University Hospitals and Presbyterian Hospital, which is adjacent to the University Hospitals.

TUH is affiliated with the OUHSC, whose medical school residents and staff provide patient care, in-service education, and certain administrative functions for the benefit of TUH.

The jointly operated hospitals and other healthcare facilities are collectively known as OU Medical System (OUMS). TUH operated the University Hospitals until February 4, 1998, when the Joint Operating Agreement (JOA) went into effect.

After February 4, 1998, TUH, (through the Trust) is eligible to share in the net profits of the joint operations of OUMS as described more fully in note 9. The estimated net profits of the joint venture accruing to TUH and the Trust for the years ended June 30, 2015 and 2014 are presented in the accompanying statements of revenues, expenses, and changes in net position as “joint venture revenue.”

(b) Basis of Accounting and Presentation

Under the terms of the JOA described in note 9, the Authority has retained title to substantially all of the property, plant, and equipment formerly used in the hospital operations of the University Hospitals and now used in the joint operations of OUMS. This property, plant and equipment was leased from the Authority to the Trust and then subleased from the Trust to the joint operations of the OUMS. The JOA provides for the Trust to share in the net profits of the joint operations of University Hospitals.

As discussed previously, the Trust is considered to be a blended component unit of the Authority and the financial position and results of operations of the Trust and Authority are presented together as “TUH.” For ease of presentation, certain agreements between either the Authority or Trust and HCA and others are described herein as between TUH and other parties.

TUH’s basic financial statements are prepared in accordance with U.S. generally accepted accounting principles as they apply to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The operations of TUH are accounted for as an enterprise fund on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation and amortization of assets is recognized, and all assets and liabilities associated with the operations of TUH are included in the statement of net assets. TUH recognizes revenue related to the JOA, teaching hospitals and grant and program as operating revenues. Operating expenses for TUH include the costs of administering the funds, grants and contributions expense, indigent care costs, amounts paid for Graduate Medical Education (GME) programs, and depreciation and amortization on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislations.

(c) Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, TUH considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The carrying amount of the cash equivalents and investments is fair value. The net change in fair value of investments and interest income are recorded as investment income in the statement of revenues, expenses, and changes in net position and includes the unrealized and realized gains and losses on investments.

(d) Restricted Assets

Certain assets of TUH are classified as restricted assets because their use is restricted by grant agreements or by bond trust agreements. Management has adopted the policy to spend restricted funds before the use of unrestricted resources when donor-imposed stipulations and funding agreement requirements have been met.

The Authority has certain assets that are restricted by donor-imposed stipulations. The majority of these funds have been restricted for construction or specific purposes at Children's Hospital.

(e) Capital Assets

All capital assets are stated at cost at the date of acquisition or fair value at the date of donation, net of accumulated depreciation and amortization. Capital assets are defined as long-lived assets with initial costs equal to or greater than $2,500. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets:

Building and improvements	25–40 years
Equipment	5–25 years
Infrastructure	40 years

Expenses that increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and renewals are charged to operations. Upon disposition, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is reflected in the period in which the asset is disposed. Substantial capital assets, except construction-in-progress and certain capital additions since 2003, as of June 30, 2015 and 2014 have been leased to the joint operations of the OUMS or the OU Board of Regents for uses related to the mission of TUH. Certain capital additions since 2003 are owned and operated by TUH and are not leased to the joint operations of OUMS.

(f) Compensated Absences

Unused annual leave may be accumulated to a maximum of 480 hours. All accrued leave is payable upon termination, resignation, retirement, or death. Vested or accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to employees. Sick leave does not vest to the employee and therefore is not recorded as a liability.

(g) Income Taxes

As an integral part of the State, the income of the Authority and of the Trust is exempt from federal and state income taxes.

(Continued)

(h) Use of Estimates

Management of TUH has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(i) Subsidy Income

TUH receives an annual appropriation or subsidy from the State Legislature. The indigent care subsidy is recorded as revenue in the fiscal year for which the appropriation is made. Indigent care expense is recorded when funds are paid out to cover indigent care. Future state subsidies will be used to offset the cost of indigent care provided by the joint operations of the OUMS.

(j) Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement Plan (the Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(k) Recently Issued Accounting Standards

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The objective of this statement is to improve the accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability. TUH adopted GASB 68 in 2015 and determined restatement of all prior periods was not practical, therefore, TUH presented the cumulative effect of applying GASB 68 as a restatement of beginning net position for fiscal year 2015. The impact of this adoption was a cumulative effect of $532,630 on 2015 beginning of the year net position.

(Continued)

(2) Deposits and Investments

(a) Deposits

At June 30, 2015 and 2014, TUH held deposits and cash equivalents with the State Treasurer and other financial institutions. The State Treasurer requires all state funds be either insured by federal deposit insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in United States government obligations. TUH's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

The Authority's unrestricted deposits with the State Treasurer at June 30, 2015 and 2014 are approximately $16,190,000 and $9,441,000, respectively. The Authority's reserved deposits with the State Treasurer at June 30, 2015 and 2014 are approximately $248,000 and $248,000, respectively.

At June 30, 2015 and 2014, the bank balance of the Trust's cash equivalents were approximately $83,884,000 and $85,658,000, respectively, which equals carrying amount. The bank balance is collateralized with securities held by an agent in the Trust's name. Approximately $291,000 and $291,000 was restricted as of June 30, 2015 and 2014, respectively.

(b) Investments

At June 30, TUH's investments at fair value consisted of the following:

		2015	2014
Mutual funds	$	881,987	882,049
Equities		1,946,931	1,683,932
Total	$	2,828,918	2,565,981

TUH is not subject to credit risk, custodial credit risk, interest rate risk, or foreign currency risk.

(c) Concentration of Credit Risk

TUH places no limit on the amount it can invest in any one issuer. Investments at Morgan Stanley Smith Barney represented 34.5% and 34.4% of total investments at June 30, 2015 and 2014, respectively.

(3) Receivables

At June 30, the accounts receivable are as follows:

		2015	2014
Institutional and other	$	70,893,259	4,922,293
Working capital settlement		20,000,000	20,000,000

In the event the JOA has not been terminated prior to September 11, 2023, HCA Health Services of Oklahoma, Inc. (the Company), a subsidiary of HCA, agreed to reimburse the Trust $20,000,000 on September 11, 2023. The Company agreed to transfer and assign to the Trust the aggregate amount of $20,000,000 of accounts receivable and notes receivable of the Hospitals, net of the Company's good faith estimate of an allowance for uncollectibles at the date of the transfer, September 11, 2023.

On March 11, 2024, the Company shall determine the Actual Value of Receivables, which is the actual aggregate amount of collections from such accounts and notes receivables. If the Actual Value of Receivables is in excess of $20,000,000, the Trust shall repay the excess to the Company within five business days after determination thereof. If the Actual Value of Receivables is less than $20,000,000, the Company shall pay to the Trust in cash an amount equal to such deficiency within five business days of determination thereof. Management has no knowledge of the Company's intent to terminate the JOA prior to September 11, 2023.

(4) Capital Assets

A substantial amount of all capital assets are leased to the joint operations of OUMS or to OUHSC. At June 30, capital assets consisted of the following:

		2015	2014
Land	$	4,009,252	4,009,252
Buildings and improvements		335,001,305	330,926,831
Equipment		129,219,886	127,908,737
Construction-in-progress		53,538,066	19,579,016
Infrastructure		7,700,832	7,700,830
		529,469,341	490,124,666
Less accumulated depreciation		(271,641,338)	(263,017,931)
	$	257,828,003	227,106,735

The following summarizes the additions and deductions from net capital assets during fiscal years 2015 and 2014:

		July 1, 2014	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2015
Capital assets, not being depreciated:					
Land	$	4,009,252	—	—	4,009,252
Construction-in-progress		19,579,016	35,785,030	—	55,364,046
Capital assets, being depreciated:					
Buildings and improvements		165,386,557	2,665,493	(6,945,557)	161,106,493
Equipment		34,619,023	894,151	(1,495,168)	34,018,006
Infrastructure		3,512,887	1	(182,682)	3,330,206
Net capital assets	$	227,106,735	39,344,675	(8,623,407)	257,828,003

		July 1, 2013	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2014
Capital assets, not being depreciated:					
Land	$	4,009,252	—	—	4,009,252
Construction-in-progress		12,030,302	7,548,714	—	19,579,016
Capital assets, being depreciated:					
Buildings and improvements		167,167,192	5,356,134	(7,136,769)	165,386,557
Equipment		36,043,317	62,286	(1,486,580)	34,619,023
Infrastructure		3,666,715	30,504	(184,332)	3,512,887
Net capital assets	$	222,916,778	12,997,638	(8,807,681)	227,106,735

For the years ended at June 30, 2015 and 2014, depreciation expense related to capital assets was $8,623,408 and $8,766,884, respectively.

(5) Investment in Joint Venture Equipment

The following summarizes the additions and deductions from net investment in joint venture equipment during fiscal years 2015 and 2014:

		July 1, 2014	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2015
Net equipment	$	26,058,424	9,718,529	(10,377,301)	25,399,652

		July 1, 2013	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2014
Net equipment	$	29,358,897	6,896,027	(10,196,500)	26,058,424

For the years ended at June 30, 2015 and 2014, depreciation expense related to investment in joint venture equipment was $10,377,301 and $10,196,500, respectively. Depreciation is computed by the straight-line method over the estimated useful life of five years.

(6) Operating Lease

TUH entered into multiple leases, whereby for the majority of leases TUH will receive rental income for leased office and clinical space. Terms of leases range from one to thirty-five years.

The following schedule shows future minimum lease rent receipts:

2016	1,275,873
2017	1,011,294
2018	730,435
2019	712,099
2020	707,399
2021–2025	3,396,803
2026–2030	3,379,380
2031–2035	3,379,380
2036–2040	3,379,380
2041–2045	3,379,380
2046–2050	3,120,294

(7) Bonds Payable

In October 2005, the Trust issued Tax Exempt Variable Rate Revenue Bonds, Series 2005A (Series 2005A) and Taxable Variable Rate Revenue Bonds, Series 2005B (Series 2005B) to partially finance the construction of new pediatric care facilities and the phase II basic research center. The $36,715,000 Series 2005A bonds were used for design and construction of the O.U. Children's Pediatric Ambulatory Care building. The attached 1,000 car parking garage was funded with Trust cash and a central connecting atrium and education center was paid for with a combination of contributions and Trust cash. The $18,745,000 Series 2005B bonds use is for the phase II basic research building constructed by the University of Oklahoma. Both variable rate bond issues are credit enhanced with irrevocable letters of credit that will mature September 30, 2017. The Trust makes interest payments monthly based on weekly rate resets with principal payments made annually each August. The bonds are secured with Trust revenues and the indenture and letter of credit agreements place liquidity, debt service, and capitalization covenants on the Trust. As of June 30, 2015 and 2014, the balances outstanding are approximately $36,715,000 and $36,715,000 for Series 2005A and $9,845,000 and $11,080,000 for Series 2005B, respectively. As of June 30, 2015 and 2014, the interest rates were 0.10% and 0.10% for Series 2005A and 0.15% and 0.14% for Series 2005B, respectively.

The underlying trust agreement contains certain bond covenants that TUH is aware of and monitors for compliance throughout the year. TUH has complied with all bond covenants throughout fiscal year 2015.

The debt service requirements as of June 30, 2015 are as follows:

	Series 2005A			Series 2005B		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
Year ending June 30:						
2016	$ —	572,201	572,201	1,310,000	248,550	1,558,550
2017	—	566,360	566,360	1,385,000	213,679	1,598,679
2018	—	568,691	568,691	1,475,000	180,041	1,655,041
2019–2023	3,090,000	2,829,498	5,919,498	5,675,000	329,717	6,004,717
2024–2028	10,955,000	2,287,080	13,242,080	—	—	—
2029–2033	13,325,000	1,367,476	14,692,476	—	—	—
2034–2037	9,345,000	298,475	9,643,475	—	—	—
	$ 36,715,000	8,489,781	45,204,781	9,845,000	971,987	10,816,987

As of June 30, 2015, the unamortized bond discount was $86,739 and $25,628 for Series 2005A and Series 2005B, respectively. Amortization expense related to debt service costs for 2015 and 2014 was $6,213 and $6,213, respectively.

(8) Changes in Long-term Liabilities

Long-term liability activity for the years ended June 30, 2015 and 2014 was as follows:

2015	July 1, 2014	Additions	Deletions	June 30, 2015	Current portion
Accrued liabilities	$ 501,363	—	(338,063)	163,300	163,300
Bonds payable, net	47,674,249	8,384	(1,235,000)	46,447,633	1,310,000
	$ 48,175,612	8,384	(1,573,063)	46,610,933	1,473,300

2014	July 1, 2013	Additions	Deletions	June 30, 2014	Current portion
Accrued liabilities	$ 458,521	42,842	—	501,363	161,710
Bonds payable, net	48,835,866	8,383	(1,170,000)	47,674,249	1,235,000
	$ 49,294,387	51,225	(1,170,000)	48,175,612	1,396,710

(9) Joint Operating Agreement

Effective February 4, 1998, the Authority, the Trust, and OUHSC entered into certain agreements with the Company, pursuant to which, among other things, the land, buildings, and other improvements and equipment utilized in connection with and comprising the University Hospitals are being leased to the Company on a long-term basis; certain other assets of the University Hospitals were transferred to and are operated by the Company; the academic program of the OUHSC is to continue to be affiliated with the University Hospitals as the OUHSC's primary teaching hospitals; the Company will provide certain medical care and services to the indigent; and the Trust and the Company have entered into agreements setting forth the terms and conditions of the joint operation by the Trust and the Company of the Presbyterian Hospitals and the University Hospitals. These joint operations are referred to as OUMS.

On December 21, 1997, the Trust and the Company entered into a joint operating agreement (the JOA) that set forth the terms and conditions of the joint operation of the Presbyterian Hospitals and the University Hospitals by the Trust and the Company and the financial compensation to the Trust in consideration for the right of the Company to lease and operate the University Hospitals from and after February 4, 1998 (Closing). As consideration for the right to operate the University Hospitals, the Company shall pay to the Trust a Trust Preference Amount and a Trust Excess Payment each agreement year. The Trust Preference Amount is the first $9,000,000 of pre-tax earnings of the hospitals, to the extent earned in any agreement year. Pre-tax earnings are defined as net income before deductions for income taxes, depreciation, amortization, interest expense and aggregate defined changes in net working capital. The Trust Excess Payment is equal to 30% of pre-tax earnings over $39,000,000 plus any accumulated trust deficit from previous agreement years. In the event that either net income from continuing operations of the hospitals or pre-tax earnings of the hospitals minus capital expenditure obligations of the Trust is negative, the Trust is obligated to pay its share of the operating loss. On April 1, 2010, the JOA was amended to add the Edmond Hospital and certain related facilities to the agreement.

In the event the JOA is terminated prior to the 25th anniversary of the Closing, the Company is not obligated to pay the working capital settlement. The party initiating termination of the agreement shall pay the other party an amount as determined by the JOA. Both the Trust and the Company have the right to initiate termination of the JOA and the right to exercise reverse termination. Therefore, it cannot be determined if the Company would pay the Trust or the Trust would pay the Company upon termination prior to the 25th anniversary of the Closing.

(10) General Information about the Pension Plan

Plan description. TUH contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (OPERS). The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OPERS. OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That annual report may be obtained by writing to OPERS, Post Office Box 53007, Oklahoma City, Oklahoma 73152-3007 or at www.opers.ok.gov/.

Benefits provided. Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Contributions. Plan members and TUH are required to contribute at a rate set by statute. The contribution requirements of plan members and TUH are established and may be amended by the legislature of the State of Oklahoma. The contribution rate for TUH and plan members is as follows:

Fiscal year 2015	
TUH employees all salary	**TUH All salary**
3.5%	16.5%

Fiscal year 2014	
TUH employees all salary	**TUH All salary**
3.5%	16.5%

TUH's contributions to the Plan for the years ended June 30, 2015 and 2014 were approximately $185,000 and $178,000, respectively, and was equal to its required contribution for each year.

(a) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, TUH reported a liability of approximately $117,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. TUH's proportion of the net pension liability was based on the employer contributing entity's percentage of the total employer contributions for the year ended June 30, 2014. At June 30, 2014, TUH's proportion was approximately 0.0638%.

For the year ended June 30, 2015, TUH recognized pension expense of approximately $8,000. At June 30, 2015, TUH reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$	—	38,775
Changes of assumptions		6,702	—
Net difference between projected and actual earnings on pension plan investments		—	391,412
Changes in proportion and differences between TUH contributions and proportionate share of contributions		—	—
TUH contributions subsequent to the measurement date		184,771	—
	$	191,473	430,187

$184,771 reported as deferred outflows of resources related to pensions resulting from TUH contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	$	(112,841)
2017		(112,841)
2018		(99,951)
2019		(97,852)

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	3.0%
Salary increases	4.5% to 8.4%, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Active/Retired Healthy Mortality Table projected to 2010 using Scale AA (disabled members were set forward 15 years).

The actuarial assumptions used in the June 30, 2014 valuation were based on the results the most recent actuarial experience study, which covered the three-year period ending June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0	5.6
U.S. Fixed Income	25.0	0.7
International Stock	18.0	5.6
Emerging Market Stock	6.0	6.4
TIPS	3.5	0.7
Rate Anticipation	3.5	1.5
Total	100.0%	

Discount rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected through 2113 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of TUH's proportionate share of the net pension liability to changes in the discount rate. The following presents TUH's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what TUH's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

		1% Decrease (6.5%)	Discount rate (7.5%)	1% Increase (8.5%)
TUH's proportionate share of the net pension liability (asset)	$	729,162	117,120	(403,203)

Pension plan fiduciary net position. Detailed information about the Plan's fiduciary net position is available in the separately issued OPERS financial report.

(11) Deferred Compensation Plan

The State offers to its own employees, state agency employees and other duly constituted authority or instrumentality employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457 and Chapter 45 of Title 74, Oklahoma Statutes. The Oklahoma State Employees Deferred Compensation Plan (the 457 Plan), also known as SoonerSave, is a voluntary plan that allows participants to defer a portion of their salary into the 457 Plan. Participation allows a person to shelter the portion of their salary that they defer from current federal and state income tax. Taxes on the interest or investment gains on this money, while in the 457 Plan, are also deferred. The deferred compensation is not available to employees until termination, retirement, death, or approved unforeseeable emergency.

Under SoonerSave, the untaxed deferred amounts are invested as directed by the participant among various 457 Plan investment options. Effective January 1, 1998, a Trust and Trust Fund covering the 457 Plan assets was established pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC. Under terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of the 457 Plan participants and their beneficiaries. Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan audited financial statements for the years ended June 30, 2015 and 2014. TUH believes that it has no liabilities in respect to the State's plan.

(12) Risk Management

TUH participates in the Oklahoma Risk Management Division's (a division of the Department of Central Services) insurance pool, which covers all governmental tort claims against TUH. TUH pays a monthly premium to (the Department) to participate in the insurance pool. Premiums paid are not subject to retroactive adjustment.

Workers' compensation claims arising from incidents occurring during the year are paid with current operating funds. TUH accrues estimated annual amounts to cover claims arising from each year's operations. Payments for claims in excess of a certain retention amount are made by CompSource Mutual Insurance Company.

(13) Commitments and Contingencies

The U.S. Department of Justice and other federal and state agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. TUH is subject to these regulatory efforts. Costs questioned as a result of investigations or audits, if any, may result in refunds to these governmental agencies.

KPMG LLP
210 Park Avenue, Suite 2850
Oklahoma City, OK 73102-5683

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the University Hospitals Authority and
Trustees of the University Hospitals Trust:

We have audited in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the University Hospitals Authority and University Hospitals Trust (together referred to as TUH), which comprise the statement of financial position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements and have issued our report thereon dated October 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered TUH's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of TUH's internal control. Accordingly, we do not express an opinion on the effectiveness of TUH's internal control.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might by material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TUH's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TUH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TUH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Oklahoma City, Oklahoma
October 30, 2015

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Net Position

June 30, 2015

	Authority Fund	Trust Fund	Total
Current assets:			
Cash and cash equivalents	$ 16,190,423	83,593,598	99,784,021
Investments	38,225	1,906,596	1,944,821
Receivables:			
Institutional and other	25,737,163	45,156,096	70,893,259
Interest receivable	17,603	—	17,603
Prepaid expenses	—	3,267	3,267
Total current assets	41,983,414	130,659,557	172,642,971
Restricted assets:			
Cash and cash equivalents	247,511	290,515	538,026
Investments	884,097	—	884,097
Real estate	35,989	—	35,989
Total restricted assets	1,167,597	290,515	1,458,112
Noncurrent:			
Other	—	83,269	83,269
Working capital settlement	—	20,000,000	20,000,000
Investment in joint venture equipment, net	—	25,399,652	25,399,652
Capital assets, net	15,110,097	242,717,906	257,828,003
Total assets	$ 58,261,108	419,150,899	477,412,007
Deferred Outflows of Resources			
Pension amounts	$ —	191,473	191,473
Total deferred outflows of resources	$ —	191,473	191,473
Current liabilities:			
Trade payables	$ 313,351	3,410,496	3,723,847
Accrued expenses	37,339,845	48,396,161	85,736,006
Current portion of bonds payable	—	1,310,000	1,310,000
Current portion of accrued liabilities	—	163,300	163,300
Unearned revenue	3,267	115,335	118,602
Total current liabilities	37,656,463	53,395,292	91,051,755
Noncurrent:			
Bonds payable, net	—	45,137,633	45,137,633
Net pension liability	—	117,120	117,120
Total liabilities	$ 37,656,463	98,650,045	136,306,508
Deferred Inflows of Resources			
Pension amounts	$ —	430,187	430,187
Total deferred inflows of resources	$ —	430,187	430,187
Net position:			
Invested in capital assets, net of related debt	$ 15,110,097	221,669,925	236,780,022
Restricted	1,167,597	290,515	1,458,112
Unrestricted	4,326,951	98,301,700	102,628,651
Total net position	$ 20,604,645	320,262,140	340,866,785

See accompanying independent auditors’ report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Net Position

June 30, 2014

		Authority Fund	Trust Fund	Total
Current assets:				
Cash and cash equivalents	$	9,440,719	85,367,506	94,808,225
Investments		38,225	1,642,596	1,680,821
Receivables:				
Institutional and other		22,600	4,899,693	4,922,293
Interest receivable		12,764	—	12,764
Prepaid expenses		—	3,367	3,367
Total current assets		9,514,308	91,913,162	101,427,470
Restricted assets:				
Cash and cash equivalents		247,511	290,515	538,026
Investments		885,160	—	885,160
Real estate		35,989	—	35,989
Total restricted assets		1,168,660	290,515	1,459,175
Noncurrent:				
Other		—	89,482	89,482
Working capital settlement		—	20,000,000	20,000,000
Investment in joint venture equipment, net		—	26,058,424	26,058,424
Capital assets, net		17,702,193	209,404,542	227,106,735
Total assets	$	28,385,161	347,756,125	376,141,286
Current liabilities:				
Trade payables	$	161,980	2,754,516	2,916,496
Accrued expenses		5,651,548	15,585,263	21,236,811
Current portion of bonds payable		—	1,235,000	1,235,000
Current portion of accrued liabilities		—	161,710	161,710
Unearned revenue		3,370	85,062	88,432
Total current liabilities		5,816,898	19,821,551	25,638,449
Noncurrent:				
Bonds payable, net		—	46,439,249	46,439,249
Accrued liabilities		339,653	—	339,653
Total liabilities	$	6,156,551	66,260,800	72,417,351
Net position:				
Invested in capital assets, net of related debt	$	17,702,193	187,788,717	205,490,910
Restricted		1,168,660	290,515	1,459,175
Unrestricted		3,357,757	93,416,093	96,773,850
Total net position	$	22,228,610	281,495,325	303,723,935

See accompanying independent auditors’ report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

	Authority Fund	Trust Fund	Total
Operating revenues:			
Teaching Hospital Reimbursement/Level I trauma revenue	$ 57,973,171	89,992,720	147,965,891
GME revenue	21,872,906	—	21,872,906
Grant and program revenue	—	10,200,282	10,200,282
Joint venture revenue	—	38,316,160	38,316,160
Services provided to others	184,544	9,111,909	9,296,453
Other revenue	51,511	2,750,160	2,801,671
Total operating revenues	80,082,132	150,371,231	230,453,363
Operating expenses:			
GME expense	48,641,951	—	48,641,951
Indigent care expense	68,593,878	71,422,895	140,016,773
Grants and contributions	730,822	11,732,617	12,463,439
Professional services	3,660,387	1,650,128	5,310,515
Compensation and benefits	(320,574)	1,505,073	1,184,499
Supplies, services, and other	18,204	7,829,183	7,847,387
Total operating expenses before depreciation and amortization	121,324,668	94,139,896	215,464,564
Operating (loss) income before depreciation and amortization	(41,242,536)	56,231,335	14,988,799
Depreciation and amortization	(2,592,096)	(16,408,613)	(19,000,709)
Operating (loss) income	(43,834,632)	39,822,722	(4,011,910)
Nonoperating revenues (expenses):			
Indigent care subsidies	42,069,019	—	42,069,019
Interest income	142,710	5,372	148,082
Debt-related expenses	—	(528,649)	(528,649)
Miscellaneous expense	(1,062)	—	(1,062)
Total nonoperating revenues (expenses)	42,210,667	(523,277)	41,687,390
Change in net position	(1,623,965)	39,299,445	37,675,480
Net position, beginning of year	22,228,610	281,495,325	303,723,935
Cumulative effect of adopting new accounting standard	—	(532,630)	(532,630)
Net position, beginning of year restated	22,228,610	280,962,695	303,191,305
Net position, end of year	$ 20,604,645	320,262,140	340,866,785

See accompanying independent auditors’ report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014

		Authority Fund	Trust Fund	Total
Operating revenues:				
Teaching Hospital Reimbursement/Level I trauma revenue	$	61,071,839	87,628,316	148,700,155
GME revenue		20,195,732	—	20,195,732
Grant and program revenue		—	9,948,386	9,948,386
Joint venture revenue		—	35,476,650	35,476,650
Services provided to others		142,622	8,556,622	8,699,244
Other revenue		76,465	563,633	640,098
Total operating revenues		81,486,658	142,173,607	223,660,265
Operating expenses:				
GME expense		50,290,415	—	50,290,415
Indigent care expense		70,567,696	71,274,440	141,842,136
Grants and contributions		773,357	12,388,591	13,161,948
Professional services		1,151,342	1,065,843	2,217,185
Compensation and benefits		10,725	1,504,493	1,515,218
Supplies, services, and other		17,950	7,741,462	7,759,412
Total operating expenses before depreciation and amortization		122,811,485	93,974,829	216,786,314
Operating (loss) income before depreciation and amortization		(41,324,827)	48,198,778	6,873,951
Depreciation and amortization		(2,940,072)	(16,023,312)	(18,963,384)
Operating (loss) income		(44,264,899)	32,175,466	(12,089,433)
Nonoperating revenues (expenses):				
Indigent care subsidies		44,530,391	—	44,530,391
Interest income		98,992	4,038	103,030
Debt-related expenses		—	(445,837)	(445,837)
Miscellaneous expense		(2,624,707)	—	(2,624,707)
Total nonoperating revenues (expenses)		42,004,676	(441,799)	41,562,877
Change in net position		(2,260,223)	31,733,667	29,473,444
Net position, beginning of year		24,488,833	249,761,658	274,250,491
Net position, end of year	$	22,228,610	281,495,325	303,723,935

See accompanying independent auditors’ report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Cash Flows

Year ended June 30, 2015

		Authority Fund	Trust Fund	Total
Cash flows from operating activities:				
Receipts from customers	$	171,364	8,721,087	8,892,451
Joint operating agreement receipts		—	42,900,850	42,900,850
Grant receipts (IME, GME, MTH)		54,142,603	61,629,157	115,771,760
Indigent care payments		(34,959,573)	(34,842,942)	(69,802,515)
Grant payments		(3,897,871)	(13,176,498)	(17,074,369)
IME match payments		(50,594,474)	(5,732,680)	(56,327,154)
Goods and service payments		(371,063)	(9,367,920)	(9,738,983)
Payments to employees		—	(1,682,330)	(1,682,330)
Other operating receipts		51,511	2,750,160	2,801,671
Net cash (used in) provided by operating activities		(35,457,503)	51,198,884	15,741,381
Cash flows from noncapital financing activity:				
Subsidies		42,069,019	—	42,069,019
Cash flows from capital and related financing activities:				
Principal payment		—	(1,235,000)	(1,235,000)
Purchase of capital assets		—	(50,962,670)	(50,962,670)
Interest paid on bonds		—	(37,759)	(37,759)
Other bond related costs		—	(474,448)	(474,448)
Nonoperating revenue		2,046	(3,108)	(1,062)
Net cash provided by (used in) capital and related financing activities		2,046	(52,712,985)	(52,710,939)
Cash flows from investing activities:				
Investment income		136,142	4,193	140,335
Purchase of investment		—	(264,000)	(264,000)
Net cash provided by (used in) investing activities		136,142	(259,807)	(123,665)
Net increase (decrease) in cash and cash equivalents		6,749,704	(1,773,908)	4,975,796
Cash and cash equivalents, beginning of year		9,688,230	85,658,021	95,346,251
Cash and cash equivalents, end of year	$	16,437,934	83,884,113	100,322,047
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:				
Operating (loss) income	$	(43,834,632)	39,822,722	(4,011,910)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:				
Depreciation and amortization		2,592,096	16,408,613	19,000,709
Increase in receivables, net		(25,716,730)	(39,722,312)	(65,439,042)
Increase in payables and accrued expenses		31,501,863	34,836,287	66,338,150
(Decrease) increase in unearned revenue		(100)	30,270	30,170
Decrease in prepaid expenses		—	100	100
Increase in deferred outflows of resources		—	(13,116)	(13,116)
Decrease in net pension liability		—	(593,867)	(593,867)
Increase in deferred inflows of resources		—	430,187	430,187
Total adjustments		8,377,129	11,376,162	19,753,291
Net cash (used in) provided by operating activities	$	(35,457,503)	51,198,884	15,741,381
Noncash capital financing and investing activity:				
Capital assets purchased remaining in accrued expenses	$	—	2,909,316	2,909,316
Capital assets refund in receivables		—	534,091	534,091

See accompanying independent auditors' report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Cash Flows

Year ended June 30, 2014

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	$ 177,611	8,758,406	8,936,017
Joint operating agreement receipts	—	30,909,900	30,909,900
Grant receipts (IME, GME, MTH)	81,267,571	103,172,669	184,440,240
Indigent care payments	(66,866,176)	(71,274,440)	(138,140,616)
Grant payments	(1,447,925)	(18,032,025)	(19,479,950)
IME match payments	(50,512,366)	(5,595,967)	(56,108,333)
Goods and service payments	(428,708)	(8,572,097)	(9,000,805)
Payments to employees	(104,214)	(1,345,905)	(1,450,119)
Other operating receipts	83,503	543,411	626,914
Net cash (used in) provided by operating activities	(37,830,704)	38,563,952	733,248
Cash flows from noncapital financing activity:			
Subsidies	44,530,391	—	44,530,391
Cash flows from capital and related financing activities:			
Principal payment	—	(1,170,000)	(1,170,000)
Purchase of capital assets	—	(17,971,360)	(17,971,360)
Interest paid on bonds	—	(52,457)	(52,457)
Other bond related costs	—	(380,614)	(380,614)
Nonoperating revenue	(2,625,000)	—	(2,625,000)
Net cash used in capital and related financing activities	(2,625,000)	(19,574,431)	(22,199,431)
Cash flows from investing activities:			
Investment income	106,926	2,784	109,710
Purchase of investment	—	—	—
Net cash provided by investing activities	106,926	2,784	109,710
Net increase in cash and cash equivalents	4,181,613	18,992,305	23,173,918
Cash and cash equivalents, beginning of year	5,506,617	66,665,716	72,172,333
Cash and cash equivalents, end of year	$ 9,688,230	85,658,021	95,346,251
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:			
Operating (loss) income	$ (44,264,899)	32,175,466	(12,089,433)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	2,940,072	16,023,312	18,963,384
Decrease (increase) in receivables, net	56,240	(4,454,531)	(4,398,291)
Increase (decrease) in payables and accrued expenses	3,437,983	(5,264,989)	(1,827,006)
(Decrease) increase in unearned revenue	(100)	84,594	84,494
Decrease in prepaid expenses	—	100	100
Total adjustments	6,434,195	6,388,486	12,822,681
Net cash (used in) provided by operating activities	$ (37,830,704)	38,563,952	733,248
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	$ —	4,274,692	4,274,692

See accompanying independent auditors’ report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Schedules of Required Supplementary Information

Schedule of the Proportionate Share of the Net Pension Liability
of the Oklahoma Public Employees Retirement Plan

Last 10 Fiscal Years *

	2015
TUH's proportion of the net pension liability	0.06380342%
TUH's proportionate share of the net pension liability	$117,120
TUH's covered-employee payroll	$1,080,951
TUH's proportionate share of the net pension liability as a percentage of its covered-employee payroll	10.83%
Plan fiduciary net position as a percentage of the total pension liability	97.90%

***This schedule is required to show information for 10 years. However, only fiscal year 2015 is presented as the information for prior years is not available.

See accompanying independent auditors' report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Schedules of Required Supplementary Information

Schedule of Contributions of the
Oklahoma Public Employees Retirement Plan

Last 10 Fiscal Years *

		2015
Contractually required contribution	$	178,357
Contributions in relation to the contractually required contribution		(178,357)
Contribution deficiency (excess)	$	—
TUH’s covered-employee payroll	$	1,080,951
Contributions as a percentage of cover-employee payroll		16.50%

*This schedule is required to show information for 10 years. However, only fiscal year 2015 is presented as the information for prior years is not available.

See accompanying independent auditors’ report.

(1) Changes of Benefit Terms

The plan has been amended by House Bill 2630 in 2014, which states that effective November 1, 2015, OPERS shall create a defined contribution plan for most people first employed by a participating employer. Exemptions from the new defined contribution plan include hazardous duty members and district attorneys, assistant district attorneys, and employees of the district attorney's office. Each employer shall send to OPERS the difference between the required employer contribution to OPERS and the amount required to match the participating employee's contributions in the defined contribution plan.

Senate Bill 2120, also enacted in 2014, amends House Bill 2630 to further exempt from the new defined contribution plan county elected officials and employees of a county, county hospital, city or town, conservation district, circuit engineering district, and any public or private trust in which a county, city, or town participates. Senate Bill 2120 also states that employees who participate in the defined contribution system are excluded from the $105 healthcare subsidy.

New employees specifically exempted from the defined contribution plan will participate in the existing defined benefit plan.

(2) Changes of Assumptions

As a result of the most recent experience study, the following assumptions were revised.

- Withdrawal rates
- Disability rates
- Retirement rates
- Salary scale assumptions
- Probability of electing a vested benefit assumption.