UNIVERSITY HOSPITALS AUTHORITY AND UNIVERSITY HOSPITALS TRUST

Basic Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

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, 2017 and 2016. For comparative purposes, fiscal year 2015 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.

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.

(Continued)

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.

		(Dollars in thousands)			2017–2016 Percentage
		2017	**2016**	**2015**	**change**
Current assets	$	183,825	227,446	172,643	(19.18)%
Restricted assets		1,170	1,461	1,458	(19.92)
Capital assets, net		303,216	306,694	283,228	(1.13)
Other assets		20,071	20,078	20,083	(0.03)
Total assets	$	508,282	555,679	477,412	(8.53)
Total deferred outflows of resources	$	877	423	191	107.33
Current liabilities	$	80,806	141,229	91,051	(42.78)
Long-term liabilities		43,030	44,014	45,255	(2.24)
Total liabilities	$	123,836	185,243	136,306	(33.15)
Total deferred inflows of resources	$	260	353	430	(26.35)
Net investment in capital assets	$	259,446	261,549	236,780	(0.80)
Restricted for donated purposes		1,170	1,461	1,458	(19.92)
Unrestricted		124,447	107,496	102,629	15.77
Total net assets	$	385,063	370,506	340,867	3.93

Current assets decreased $43.6 million in 2017. This decrease is attributed primarily to net decreases in cash and JOA receivables. Current assets increased $54.8 million in 2016 and is attributed primarily to net increases of Trust Supplemental Medicaid cost reimbursement programs receivables and joint operating income increases.

Restricted assets decreased in 2017 due to a decrease in deposits of restricted investments of $291,000. Restricted assets increased in 2016 due to an increase in deposits of restricted investments of $3,000.

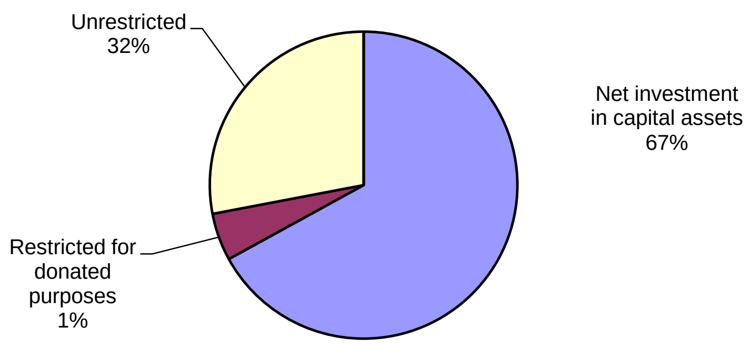
Net capital assets decreased $3.5 million in 2017 due to depreciation expense. Net capital assets increased by $23.5 million in 2016 due to the Trust's investment in the construction of a new College of Medicine Academic Building and garage, increased investment in Trust property and equipment related to the hospital capital projects and equipment, and offset by annual depreciation.

Current liabilities decreased $60.4 million in 2017 due to timing issues related to the Supplemental Medicaid Programs and amounts due to OU Medical System hospitals for these programs.

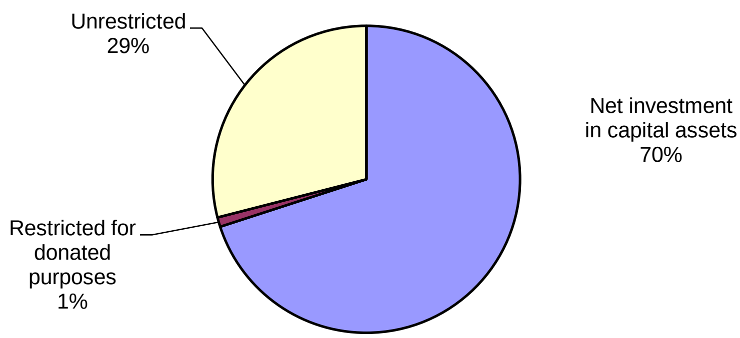
 (Continued)

Composition of Net Position (%) as of June 30

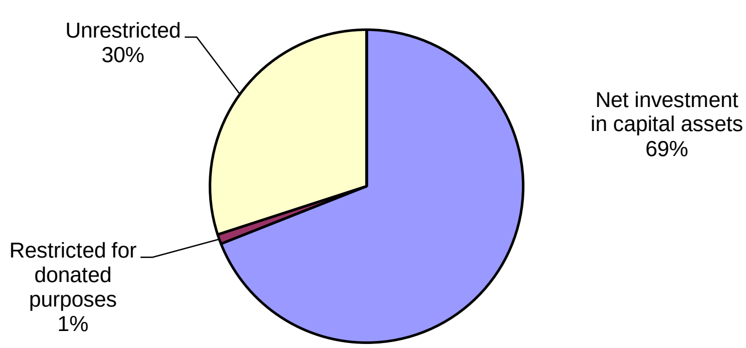
2017



2016



2015



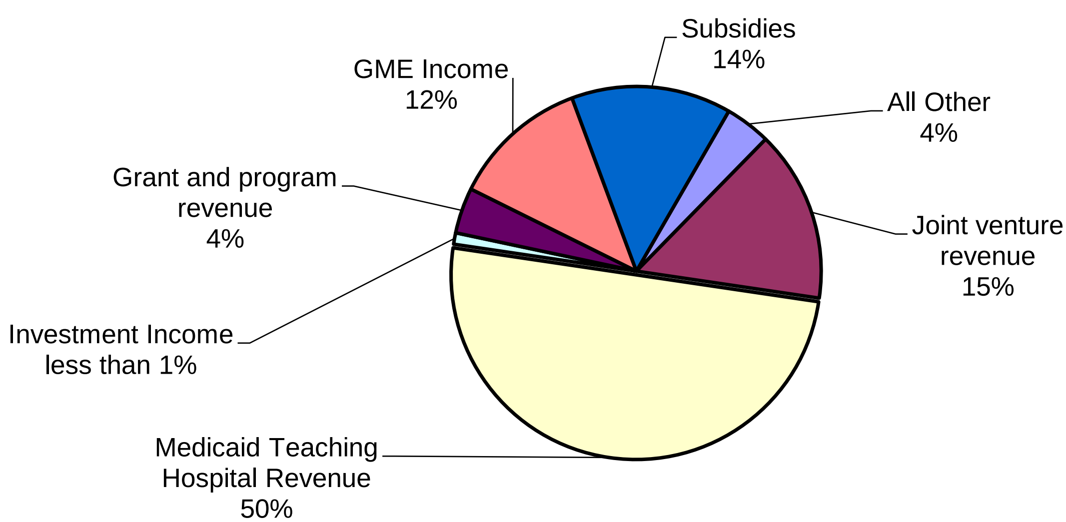
Changes in Net Position

The Authority and Trust total revenues (operating revenues and net nonoperating revenues) decreased $23.7 million in 2017 from 2016 and increased $13.7 million in 2016 from 2015. Total revenues for 2017 and 2016 were $262.2 million and $285.9 million with 14% and 13% of the total revenues from appropriations for indigent care subsidies (appropriations or subsidies), respectively. Appropriations in 2017 of $35.6 million decreased from fiscal year 2016 by $1.1 million. Appropriations in 2016 decreased from fiscal year 2015 by $5.4 million.

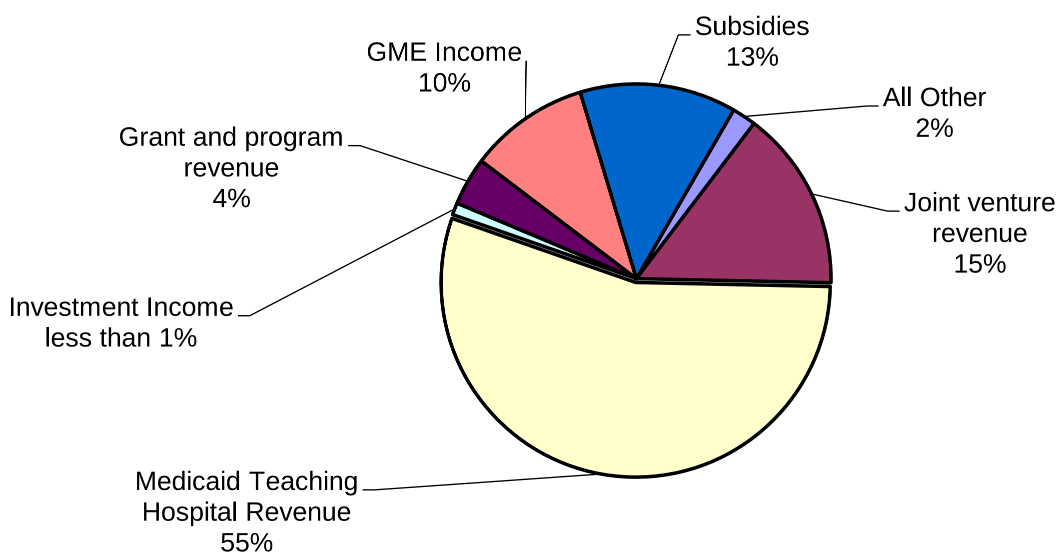
Another 50% of total revenues were from Teaching Hospital Reimbursement and Level I trauma programs in 2017 and 55% in 2016. These receipts decreased $24.3 million in 2017 from 2016, and increased $9.8 million in 2016 from 2015. For 2017, 2016, and 2015 the full pre-tax earnings preferential payments (joint venture revenue) of $9 million were earned. 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 2017 from 2016 and increased in 2016 from 2015, excess earnings also decreased in 2017 to $30.8 million and increased in 2016 to $34.0 million.

Sources of Revenue

2017



2016

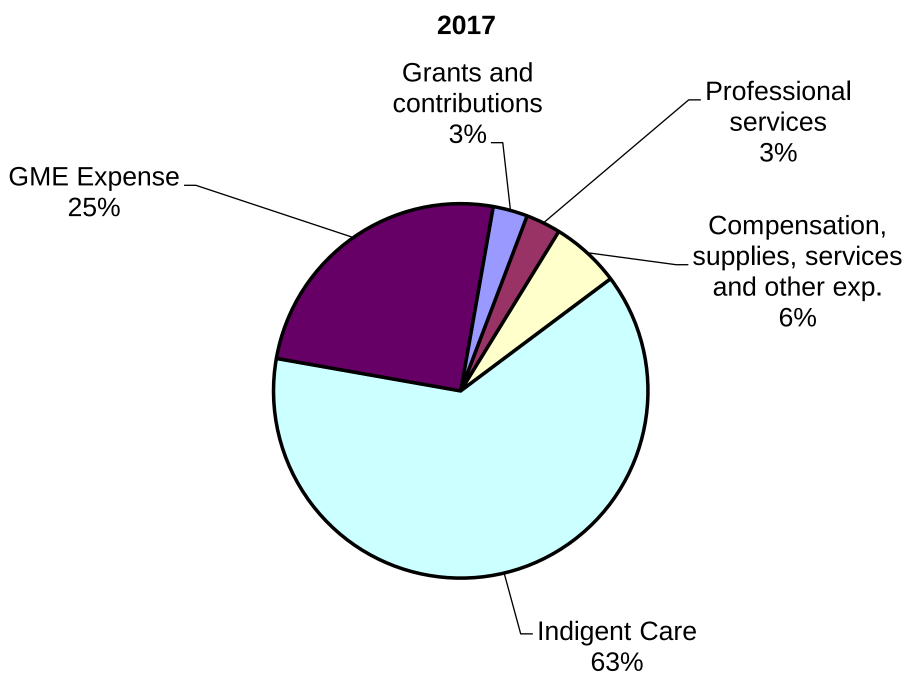


The University Hospitals Authority and Trust combined sources of revenues are from the following sources:

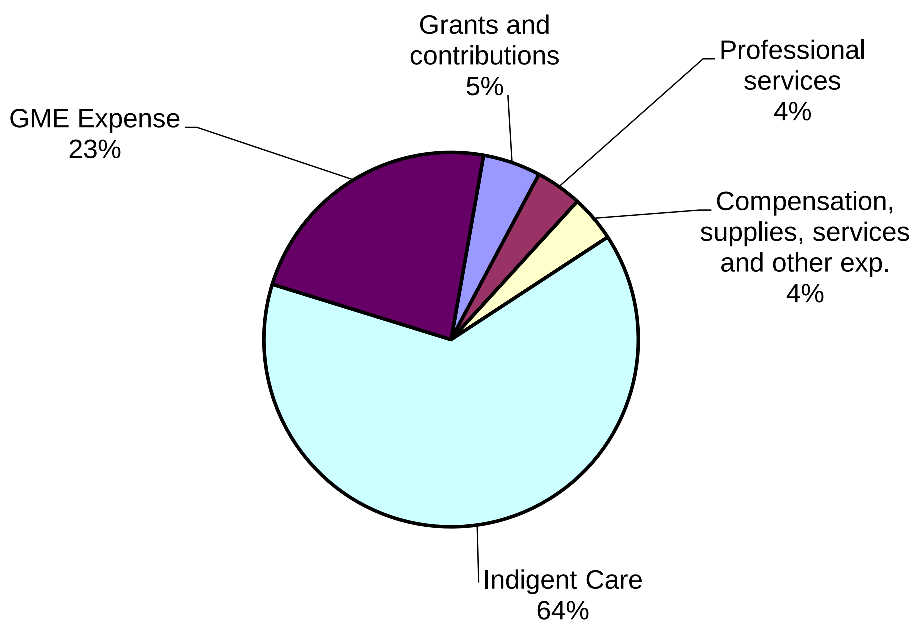
- *Subsidies* are appropriated for Indigent Care and state-matching amounts for Graduate Medical Education (GME) programs and Indigent Care programs.
- *Medicaid Teaching Hospital* receipts from the Oklahoma Health Care Authority reimburse the costs of providing care to Medicaid and charity patients. 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 $10.1 million in 2017 and $10.0 million in 2016.
- *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 $31.8 million in 2017 and $27.9 million in 2016 of the state match share paid to the Oklahoma Health Care Authority along with an additional $8.7 million in 2017 provided by the Authority from appropriations (subsidies). 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 2017 and 2016.
- *All Other Revenues* is primarily from donations and income associated with services provided to others such as rental and lease incomes of Authority and Trust buildings.

Operating Expenses before Depreciation and Amortization



2016



- *Total Expenses* including depreciation decreased $8.7 million in 2017 from 2016 and increased $21.8 million in 2016 from 2015. The decrease is primarily related to decreases in Indigent Care Expense, professional fees expenses and Grant and Contribution 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 ($15.5 million in 2017 and $16.3 million in 2016) and University GME programs ($40 million in 2017 and $37.5 million in 2016).
- *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.

Changes in Net Assets

(Dollars in thousands)

		2017	2016	2015	2017–2016 Percentage change
Operating revenues:					
Grant and program revenues	$	10,090	10,045	10,200	(0.45)%
Services provided to others		11,250	9,533	9,296	(18.01)
Medicaid Teaching Hospital/Level I trauma		133,470	157,766	147,966	(15.40)
GME income		31,851	27,858	21,873	14.33
Joint venture income		39,883	43,048	38,316	(7.35)
Other revenues		97	595	2,802	(83.70)
Total operating revenues		226,641	248,845	230,453	(8.90)
Operating expenses:					
Compensation and benefits		2,065	1,781	1,184	15.95
Professional services		7,958	10,139	5,311	(21.51)
Grants and contributions		7,876	12,770	12,463	(38.32)
Supplies, services, and other		10,569	8,211	7,847	28.72
Indigent care expense		141,763	150,908	140,017	(6.06)
GME expense		55,526	53,792	48,642	3.22
Total operating expenses before depreciation and amortization		225,757	237,601	215,464	(4.98)
Depreciation and amortization		21,842	18,648	19,001	17.13
Operating loss		(20,958)	(7,404)	(4,012)	183.06
Nonoperating revenues (expenses):					
Investment income		544	734	148	(25.89)
Debt-related expenses		(692)	(570)	(529)	21.40
Indigent care subsidies		35,661	36,723	42,069	(2.89)
Other		2	157	(1)	(98.73)
Total nonoperating revenues		35,515	37,044	41,687	(4.13)
Change in net assets	$	14,557	29,640	37,675	50.89

The Authority and Trust operating revenues decreased $22.2 million in 2017 from 2016, and increased $18.4 million in 2016 from 2015.

- Grant and program revenue increased $45,000 in 2017 from 2016 and decreased $155,000 in 2016 from 2015 from 2014. IME grants paid to the Trust by the Oklahoma Health Care Authority are based on federal matching amounts that vary from year to year.

(Continued)

- Services provided increased $1.7 million in 2017 from 2016 and $237,000 in 2016 from 2015 due to increases in rental and lease incomes as the Trust increased rates charged.
- GME revenue represents state share matching payments from universities. The $4 million increase in 2017 represents increased programs by the Oklahoma Health Care Authority as did the $6.0 million increase in 2016.
- Medicaid program income decreased $24.3 million in 2017 from 2016 and increased $9.8 million in 2016 from 2015. 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 $9.1 million in 2017 from 2016 and increased $10.9 million in 2016 from 2015, as they also fluctuate consistent with changes in federal Medicaid income.
- JOA income decreased $3.2 million in 2017 from 2016 and increased $4.7 million in 2016 as the OUMS hospital pretax earnings increased in 2016 from 2015.
- Compensation and benefits increased $285,000 in 2017 from 2016, which was due to an increase in pension liability and higher pension expense in 2016 as a result of adopting Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting of Pensions*. Compensation and benefits increased $597,000 in 2016 from 2015, which was due to an extraordinary increase in pension liability and higher pension expense.
- Professional services cost decreased $2.1 million in 2017 from 2016 and increased $4.8 million in 2016 from 2015. These changes were due to decreasing consulting fees year over year.
- The Trust and Authority committed or expended $4.9 million less in grants in 2017 over 2016. The Trust and Authority committed or expended $307,000 more in grants in 2016 over 2015.
- GME expenses increased $1.7 million in 2017 over 2016 and increased $5.2 million in 2016 over 2015, as the Oklahoma Health Care Authority provided substantial increases in program support.
- Investment income decreased $190,000 in 2017 from 2016 and increased $585,000 in 2016 from 2015 as average cash invested fluctuated.
- Indigent Care subsidies decreased $1 million in 2017 from 2016 as the legislature decreased appropriations for programs. Indigent Care subsidies decreased $5.3 million in 2016 from 2015 as the legislature increased appropriations for programs.

Financial Analysis of Fiscal Year 2017 Operations

Total net position increased $14.6 million in 2017.

Legislative appropriations decreased in 2017 over 2016. The decrease in funds was due to the legislature reducing most all state agencies 5% in 2017 from 2016 levels and an additional 0.7% reduction during 2017 due to revenue short-falls.

(Continued)

Capital Assets

Capital assets net of depreciation decreased 1.1% in 2017 from 2016. The University Hospitals Trust's capital assets decreased $1.4 million in 2017 due to the net of depreciation expense and capital additions. Annual depreciation is $21.8 million in 2017. Capital assets net of depreciation increased 8.3% in 2016 from 2015 and were offset by $18.0 million annual depreciation in 2016.

Capital Assets

(Net of depreciation, dollars in thousands)

		2017	2016	2015	2017 to 2016 Change amount
Land	$	4,009	4,009	4,009	—
Building and improvements		214,477	158,925	161,107	55,552
Equipment		57,694	32,986	34,018	24,708
Infrastructure		2,974	3,152	3,330	(178)
Joint venture equipment		20,323	27,431	25,400	(7,108)
Construction-in-progress		3,738	80,191	55,364	(76,453)
Total	$	303,215	306,694	283,228	(3,479)

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)

		2017	2016	2015	2017–2016 Change
Variable rate bonds	$	44	45	46	(1)

(Continued)

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 81% of total income. In 2017 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 2017 was decreased from 2016, and no operating reserves were utilized in 2017 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 rates were increased in 2017 and 2016.

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 2017 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 2650
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, 2017 and 2016, 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, 2017 and 2016, 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.

KPMG

Emphasis of Matter

As discussed in note 1, the financial statements present only the net position of TUH and do not purport to, and do not, present fairly the net position of the state of Oklahoma, as of June 30, 2017, the changes in its net financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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 and notes on pages 39–41 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 33–38 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 31, 2017 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 31, 2017

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Statements of Net Position

June 30, 2017 and 2016

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	96,643,053	127,547,700
Investments		2,344,821	2,344,821
Receivables:			
Institutional and other		84,523,813	97,460,160
Interest		10,973	90,861
Prepaid expenses		302,599	2,912
Total current assets		183,825,259	227,446,454
Restricted assets:			
Cash and cash equivalents		250,011	540,526
Investments		884,097	884,097
Real estate		35,989	35,989
Total restricted assets		1,170,097	1,460,612
Noncurrent:			
Other		70,843	77,574
Working capital settlement		20,000,000	20,000,000
Investment in joint venture equipment, net		20,322,708	27,430,345
Capital assets, net		282,893,167	279,263,846
Total assets	$	508,282,074	555,678,831
Deferred Outflows of Resources			
Pension amounts	$	877,327	423,210
Total deferred outflows of resources	$	877,327	423,210
Liabilities			
Current liabilities:			
Trade payables	$	5,053,620	2,653,078
Accrued expenses		73,986,868	136,926,942
Current portion of bonds payable		1,475,000	1,385,000
Compensated absences		200,324	163,292
Unearned revenue		89,695	100,315
Total current liabilities		80,805,507	141,228,627
Noncurrent:			
Bonds payable, net of unamortized discount of $95,599 and $103,983 in 2017 and 2016, respectively		42,294,401	43,760,319
Net pension liability		736,180	253,836
Total liabilities	$	123,836,088	185,242,782
Deferred Inflows of Resources			
Pension amounts	$	259,926	352,913
Total deferred inflows of resources	$	259,926	352,913
Net Position			
Net position:			
Net investment in capital assets	$	259,446,474	261,548,872
Restricted		1,170,097	1,460,612
Unrestricted		124,446,816	107,496,862
Total net position	$	385,063,387	370,506,346

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, 2017 and 2016

		2017	2016
Operating revenues:			
Teaching Hospital Reimbursement/Level I trauma revenue	$	133,470,491	157,765,455
GME revenue		31,851,430	27,857,827
Grant and program revenue		10,089,811	10,045,350
Joint venture revenue		39,883,000	43,047,918
Services provided to others		11,249,591	9,532,898
Other revenue		97,023	595,144
Total operating revenues		226,641,346	248,844,592
Operating expenses:			
GME expense		55,526,375	53,792,503
Indigent care expense		141,762,598	150,907,554
Grants and contributions		7,876,017	12,770,222
Professional services		7,958,030	10,138,681
Compensation and benefits		2,065,523	1,780,837
Supplies, services, and other		10,569,111	8,210,799
Total operating expenses before depreciation and amortization		225,757,654	237,600,596
Operating income before depreciation and amortization		883,692	11,243,996
Depreciation and amortization		(21,842,129)	(18,647,837)
Operating loss		(20,958,437)	(7,403,841)
Nonoperating revenues (expenses):			
Indigent care subsidies		35,661,263	36,722,868
Investment income		543,889	733,508
Debt-related expenses		(691,570)	(570,168)
Miscellaneous revenue		1,896	157,194
Total nonoperating revenues		35,515,478	37,043,402
Change in net position		14,557,041	29,639,561
Net position, beginning of year		370,506,346	340,866,785
Net position, end of year	$	385,063,387	370,506,346

See accompanying notes to basic financial statements.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Receipts from customers	$	11,005,481	9,470,105
Joint operating agreement receipts		53,666,700	15,992,000
Grant receipts (IME, GME, MTH)		186,865,307	201,747,440
Indigent care payments		(196,624,995)	(103,075,040)
Grant payments		(14,481,391)	(18,375,435)
GME match payments		(62,244,160)	(59,871,311)
Goods and service payments		(15,558,769)	(13,408,030)
Payments to employees		(2,075,662)	(1,938,587)
Other operating receipts		149,543	699,436
Net cash provided by (used in) operating activities		(39,297,946)	31,240,578
Cash flows from noncapital financing activity:			
Subsidies		35,661,263	36,722,868
Cash flows from capital and related financing activities:			
Principal payment		(1,385,000)	(1,310,000)
Purchase of capital assets		(26,087,017)	(38,763,797)
Interest paid on bonds		(353,624)	(65,540)
Other bond related costs		(363,388)	(479,547)
Nonoperating revenue		9,169	162,520
Net cash used in capital and related financing activities		(28,179,860)	(40,456,364)
Cash flows from investing activities:			
Investment income		621,381	659,097
Purchase of investments		—	(400,000)
Net cash provided by investing activities		621,381	259,097
Net increase in (decrease) cash and cash equivalents		(31,195,162)	27,766,179
Cash and cash equivalents, beginning of year		128,088,226	100,322,047
Cash and cash equivalents, end of year	$	96,893,064	128,088,226
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss (income)	$	(20,958,437)	(7,403,841)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization		21,842,129	18,647,837
Decrease (increase) in receivables, net		12,936,347	(27,100,992)
(Decrease) increase in payables and accrued expenses		(53,528,266)	47,287,801
Increase (decrease) in unearned revenue		(10,620)	(18,287)
Decrease in prepaid expenses		299,687	355
Increase in deferred outflows of resources		(454,117)	(231,737)
Increase (decrease) in net pension liability		482,344	136,716
Increase (decrease) in deferred inflows of resources		92,987	(77,274)
Total adjustments		(18,339,509)	38,644,419
Net cash provided by operating activities	$	(39,297,946)	31,240,578
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	$	3,454,101	5,725,801

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, 2017 and 2016 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 position. 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.

(Continued)

(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, 2017 and 2016 have been leased to the joint operations of the OUMS or the OU Board of Regents for uses related to the mission of TUH.

(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.

(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.

(Continued)

(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.

Recently Issued Accounting Standard

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Report for Postemployment Benefits Other Than Pensions* (GASB 75). The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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 addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The new standard is effective for TUH for annual periods in fiscal years beginning after June 15, 2017 and early adoption is permitted. TUH has not early adopted, and does not expect GASB 75 to have a material effect on TUH's Financial Statements.

(2) Deposits and Investments

(a) Deposits

At June 30, 2017 and 2016, 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, 2017 and 2016 are approximately $12,500,000 and $64,174,000, respectively. The Authority reserve deposits with the State Treasurer at June 30, 2017 and 2016 are approximately $250,000.

At June 30, 2017 and 2016, the bank balance of the Trust's cash equivalents were approximately $84,143,307 and $63,665,000, respectively, which equals carrying amount. The bank balance is collateralized with securities held by an agent in the Trust's name. An additional $291,000 was restricted at June 30, 2017, and 2016.

(b) Investments

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

		2017	2016
Mutual funds	$	884,097	884,097
Equities		2,344,821	2,344,821
Total	$	3,228,918	3,228,918

TUH categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted or published prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

TUH has the following recurring fair value measurement as of June 30, 2017:

- Mutual funds of $884,097 are valued using quoted market prices (Level 1 inputs)

TUH also has nonrecurring fair value measurement as of June 30, 2017, for investments in equities that are purchases of share subscriptions in private LLCs and are valued utilizing the original cost for approximately $2,306,596 (Level 3 inputs).

TUH has the following recurring fair value measurement as of June 30, 2016:

- Mutual funds of $884,097 are valued using quoted market prices (Level 1 inputs)

TUH also has nonrecurring fair value measurement as of June 30, 2016, for investments in equities that are purchases of share subscriptions in private LLCs and are valued utilizing the original cost for approximately $2,344,821 (level 3 inputs).

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

(3) Receivables

At June 30, the accounts receivable are as follows:

	2017	2016
Institutional and other	$ 84,523,813	97,460,160
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. As of June 30, 2017 and through the date of this report, the JOA has not been terminated by both parties.

(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:

	2017	2016
Land	$ 4,009,252	4,009,252
Buildings and improvements	401,133,044	339,657,594
Equipment	158,813,791	129,924,718
Construction-in-progress	3,738,382	78,365,680
Infrastructure	7,700,832	7,700,832
	575,395,301	559,658,076
Less accumulated depreciation	(292,502,134)	(280,394,230)
	$ 282,893,167	279,263,846

The following summarizes the additions and deductions from net capital assets during fiscal years 2017 and 2016:

		July 1, 2016	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2017
Capital assets, not being depreciated:					
Land	$	4,009,252	—	—	4,009,252
Construction-in-progress		78,365,680	5,891,840	(80,519,138)	3,738,382
Capital assets, being depreciated:					
Buildings and improvements		160,334,183	61,475,446	(7,332,625)	214,477,004
Equipment		33,402,797	28,889,077	(4,597,007)	57,694,867
Infrastructure		3,151,934	—	(178,272)	2,973,662
Net capital assets	$	279,263,846	96,256,363	(92,627,042)	282,893,167

		July 1, 2015	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2016
Capital assets, not being depreciated:					
Land	$	4,009,252	—	—	4,009,252
Construction-in-progress		53,538,066	24,827,614	—	78,365,680
Capital assets, being depreciated:					
Buildings and improvements		162,515,475	4,656,289	(6,837,581)	160,334,183
Equipment		34,435,004	704,831	(1,737,038)	33,402,797
Infrastructure		3,330,206	—	(178,272)	3,151,934
Net capital assets	$	257,828,003	30,188,734	(8,752,891)	279,263,846

For the years ended at June 30, 2017 and 2016, depreciation expense related to capital assets was $12,107,904 and $8,752,891, respectively.

(5) Investment in Joint Venture Equipment

The following summarizes the additions and deductions from net investment in joint venture equipment during fiscal years 2017 and 2016:

		July 1, 2016	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2017
Net equipment	$	27,430,345	2,626,588	(9,734,225)	20,322,708

		July 1, 2015	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2016
Net equipment	$	25,399,652	11,925,639	(9,894,946)	27,430,345

For the years ended at June 30, 2017 and 2016, depreciation expense related to investment in joint venture equipment was $9,734,225 and $9,894,946, 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 the 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:

2018	$	1,503,176
2019		1,294,849
2020		1,249,849
2021		745,817
2022–2026		3,379,380
2027–2031		3,379,380
2032–2036		3,379,380
2037–2041		3,379,380
2042–2046		3,379,380
2047–2050		2,444,418

(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, 2018. 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, 2017 and 2016, the balances outstanding are approximately $36,715,000 and 36,715,000 for Series 2005A and $7,150,000 and 8,535,000 for Series 2005B, respectively. As of June 30, 2017 and 2016, the interest rates were 0.95% and 0.43% for Series 2005A and 1.2% and 0.45% for Series 2005B, respectively.

The underlying trust agreement contains certain bond covenants that TUH is aware of and monitors for compliance throughout the year. Management believes TUH has complied with all bond covenants throughout fiscal year 2017.

The debt service requirements as of June 30, 2017 are as follows:

	Series 2005A			Series 2005B		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
Year ending June 30:						
2018	$ —	568,691	568,691	1,475,000	180,041	1,655,041
2019	—	569,082	569,082	1,560,000	143,371	1,703,371
2020	—	569,082	569,082	1,650,000	104,457	1,754,457
2021–2025	7,215,000	2,705,106	9,920,106	2,465,000	81,888	2,546,888
2026–2030	11,850,000	1,939,990	13,789,990	—	—	—
2031–2035	14,415,000	947,201	15,362,201	—	—	—
2036–2039	3,235,000	52,065	3,287,065	—	—	—
	$ 36,715,000	7,351,217	44,066,217	7,150,000	509,757	7,659,757

As of June 30, 2017, the unamortized bond discount was $78,173 and $17,426 for Series 2005A and Series 2005B, respectively. Amortization expense related to debt service costs for 2017 and 2016 was $6,213 and $6,213, respectively.

(8) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2017 and 2016 was as follows:

2017	July 1, 2016	Additions	Deletions	June 30, 2017	Current portion
Accrued liabilities	$ 163,292	37,032	—	200,324	200,324
Bonds payable, net	45,145,319	9,082	(1,385,000)	43,769,401	1,475,000
	$ 45,308,611	46,114	(1,385,000)	43,969,725	1,675,324

2016	July 1, 2015	Additions	Deletions	June 30, 2016	Current portion
Accrued liabilities	$ 163,300	—	(8)	163,292	163,292
Bonds payable, net	46,447,633	7,686	(1,310,000)	45,145,319	1,385,000
	$ 46,610,933	7,686	(1,310,008)	45,308,611	1,548,292

(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.

Termination of the JOA must be mutually agreed upon by both parties. 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:

	Employees rate	Employer rate
Fiscal year 2017	3.5 %	16.5 %
Fiscal year 2016	3.5	16.5
Fiscal year 2015	3.5	16.5

TUH's contributions to the Plan for the years ended June 30, 2017 and 2016 were approximately $224,025 and $210,000, respectively, and were 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, 2017 and 2016, TUH reported a liability of approximately $736,180 and $254,000 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2016 and 2015, 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, 2016 and 2015. At June 30, 2016 and 2015, TUH's proportion was approximately 0.0742% and 0.0706%, respectively.

For the year ended June 30, 2017 and 2016, TUH recognized pension expense of approximately $159,265 and $37,000, respectively. At June 30, 2017, 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	$	—	32,353
Changes of assumptions		117,692	—
Net difference between projected and actual earnings on pension plan investments		535,610	227,573
TUH contributions subsequent to the measurement date		224,025	—
	$	877,327	259,926

At June 30, 2016, 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	$	—	28,223
Changes of assumptions		3,949	—
Net difference between projected and actual earnings on pension plan investments		209,552	324,690
TUH contributions subsequent to the measurement date		209,709	—
	$	423,210	352,913

$224,025 of deferred outflows of resources related to pensions are resulting from TUH contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:		
2018	$	72,398
2019		77,222
2020		151,163
2021		92,818

Actuarial assumptions. The total pension liability in the June 30, 2016 and 2015 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	7.25%, 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, 2016 and 2015 valuation were based on the results the most recent actuarial experience study, which covered the three-year period ending June 30, 2014.

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 7.25%. 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.

(Continued)

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 7.25%, 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 (6.25%) or one percentage point higher (8.25%) than the current rate:

		2017		
		1% Decrease (6.25%)	**Discount rate (7.25%)**	**1% Increase (8.25%)**
TUH's proportionate share of the net pension liability (asset)	$	1,506,978	736,180	81,823

		2016		
		1% Decrease (6.25%)	**Discount rate (7.25%)**	**1% Increase (8.25%)**
TUH's proportionate share of the net pension liability (asset)	$	945,829	253,836	(334,482)

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, 2017 and 2016. 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 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.

(14) Subsequent Events

TUH has evaluated the impact of subsequent events for inclusion or disclosure from the statement of Net Position date through October 31, 2017, the date at which the financial statements were available to be issued. TUH has determined there are no other items to disclose.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Net Position

June 30, 2017

Assets		Authority Fund	Trust Fund	Total
Current assets:				
Cash and cash equivalents	$	12,499,746	84,143,307	96,643,053
Investments		38,225	2,306,596	2,344,821
Receivables:				
Institutional and other		17,815,226	66,708,587	84,523,813
Interest receivable		10,973	—	10,973
Prepaid expenses		—	302,599	302,599
Total current assets		30,364,170	153,461,089	183,825,259
Restricted assets:				
Cash and cash equivalents		250,011	—	250,011
Investments		884,097	—	884,097
Real estate		35,989	—	35,989
Total restricted assets		1,170,097	—	1,170,097
Noncurrent:				
Other		—	70,843	70,843
Working capital settlement		—	20,000,000	20,000,000
Investment in joint venture equipment, net		—	20,322,708	20,322,708
Capital assets, net		10,664,712	272,228,455	282,893,167
Total assets	$	42,198,979	466,083,095	508,282,074
Deferred Outflows of Resources				
Pension amounts	$	—	877,327	877,327
Total deferred outflows of resources	$	—	877,327	877,327
Liabilities				
Current liabilities:				
Trade payables	$	—	5,053,620	5,053,620
Accrued expenses		24,916,685	49,070,183	73,986,868
Current portion of bonds payable		—	1,475,000	1,475,000
Current portion of accrued liabilities		—	200,324	200,324
Unearned revenue		3,067	86,628	89,695
Total current liabilities		24,919,752	55,885,755	80,805,507
Noncurrent:				
Bonds payable, net		—	42,294,401	42,294,401
Net pension liability		—	736,180	736,180
Total liabilities	$	24,919,752	98,916,336	123,836,088
Deferred Inflows of Resources				
Pension amounts	$	—	259,926	259,926
Total deferred inflows of resources	$	—	259,926	259,926
Net Position				
Net position:				
Invested in capital assets, net of related debt	$	10,664,712	248,781,762	259,446,474
Restricted		1,170,097	—	1,170,097
Unrestricted		5,444,418	119,002,398	124,446,816
Total net position	$	17,279,227	367,784,160	385,063,387

See accompanying independent auditors' report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Net Position

June 30, 2016

Assets		Authority Fund	Trust Fund	Total
Current assets:				
Cash and cash equivalents	$	64,173,630	63,374,070	127,547,700
Investments		38,225	2,306,596	2,344,821
Receivables:				
Institutional and other		18,886,911	78,573,249	97,460,160
Interest receivable		90,861	—	90,861
Prepaid expenses		—	2,912	2,912
Total current assets		83,189,627	144,256,827	227,446,454
Restricted assets:				
Cash and cash equivalents		250,011	290,515	540,526
Investments		884,097	—	884,097
Real estate		35,989	—	35,989
Total restricted assets		1,170,097	290,515	1,460,612
Noncurrent:				
Other		—	77,574	77,574
Working capital settlement		—	20,000,000	20,000,000
Investment in joint venture equipment, net		—	27,430,345	27,430,345
Capital assets, net		12,718,845	266,545,001	279,263,846
Total assets	$	97,078,569	458,600,262	555,678,831
Deferred Outflows of Resources				
Pension amounts	$	—	423,210	423,210
Total deferred outflows of resources	$	—	423,210	423,210
Liabilities				
Current liabilities:				
Trade payables	$	70,778	2,582,300	2,653,078
Accrued expenses		78,089,814	58,837,128	136,926,942
Current portion of bonds payable		—	1,385,000	1,385,000
Current portion of accrued liabilities		—	163,292	163,292
Unearned revenue		3,167	97,148	100,315
Total current liabilities		78,163,759	63,064,868	141,228,627
Noncurrent:				
Bonds payable, net		—	43,760,319	43,760,319
Net pension liability		—	253,836	253,836
Total liabilities	$	78,163,759	107,079,023	185,242,782
Deferred Inflows of Resources				
Pension amounts	$	—	352,913	352,913
Total deferred inflows of resources	$	—	352,913	352,913
Net Position				
Net position:				
Invested in capital assets, net of related debt	$	12,718,845	248,830,027	261,548,872
Restricted		1,170,097	290,515	1,460,612
Unrestricted		5,025,868	102,470,994	107,496,862
Total net position	$	18,914,810	351,591,536	370,506,346

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, 2017

	Authority Fund	Trust Fund	Total
Operating revenues:			
Teaching Hospital Reimbursement/Level I trauma revenue	$ 47,842,772	85,627,719	133,470,491
GME revenue	31,851,430	—	31,851,430
Grant and program revenue	—	10,089,811	10,089,811
Joint venture revenue	—	39,883,000	39,883,000
Services provided to others	183,070	11,066,521	11,249,591
Other revenue	26,192	70,831	97,023
Total operating revenues	79,903,464	146,737,882	226,641,346
Operating expenses:			
GME expense	55,526,375	—	55,526,375
Indigent care expense	55,797,337	85,965,261	141,762,598
Grants and contributions	—	7,876,017	7,876,017
Professional services	4,271,535	3,686,495	7,958,030
Compensation and benefits	19,471	2,046,052	2,065,523
Supplies, services, and other	1,825	10,567,286	10,569,111
Total operating expenses before depreciation and amortization	115,616,543	110,141,111	225,757,654
Operating (loss) income before depreciation and amortization	(35,713,079)	36,596,771	883,692
Depreciation and amortization	(2,054,136)	(19,787,993)	(21,842,129)
Operating (loss) income	(37,767,215)	16,808,778	(20,958,437)
Nonoperating revenues (expenses):			
Indigent care subsidies	35,661,263	—	35,661,263
Interest income	470,094	73,795	543,889
Debt-related expenses	—	(691,570)	(691,570)
Miscellaneous expense	275	1,621	1,896
Total nonoperating revenues (expenses)	36,131,632	(616,154)	35,515,478
Change in net position	(1,635,583)	16,192,624	14,557,041
Net position, beginning of year	18,914,810	351,591,536	370,506,346
Net position, end of year	$ 17,279,227	367,784,160	385,063,387

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, 2016

		Authority Fund	Trust Fund	Total
Operating revenues:				
Teaching Hospital Reimbursement/Level I trauma revenue	$	54,212,778	103,552,677	157,765,455
GME revenue		27,857,827	—	27,857,827
Grant and program revenue		—	10,045,350	10,045,350
Joint venture revenue		—	43,047,918	43,047,918
Services provided to others		186,718	9,346,180	9,532,898
Other revenue		32,596	562,548	595,144
Total operating revenues		82,289,919	166,554,673	248,844,592
Operating expenses:				
GME expense		53,792,503	—	53,792,503
Indigent care expense		61,111,694	89,795,860	150,907,554
Grants and contributions		—	12,770,222	12,770,222
Professional services		4,075,993	6,062,688	10,138,681
Compensation and benefits		41,841	1,738,996	1,780,837
Supplies, services, and other		18,486	8,192,313	8,210,799
Total operating expenses before depreciation and amortization		119,040,517	118,560,079	237,600,596
Operating (loss) income before depreciation and amortization		(36,750,598)	47,994,594	11,243,996
Depreciation and amortization		(2,391,252)	(16,256,585)	(18,647,837)
Operating (loss) income		(39,141,850)	31,738,009	(7,403,841)
Nonoperating revenues (expenses):				
Indigent care subsidies		36,722,868	—	36,722,868
Interest income		729,101	4,407	733,508
Debt-related expenses		—	(570,168)	(570,168)
Miscellaneous expense		46	157,148	157,194
Total nonoperating revenues (expenses)		37,452,015	(408,613)	37,043,402
Change in net position		(1,689,835)	31,329,396	29,639,561
Net position, beginning of year		20,604,645	320,262,140	340,866,785
Net position, end of year	$	18,914,810	351,591,536	370,506,346

See accompanying independent auditors' report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Cash Flows

Year ended June 30, 2017

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	$ 160,940	10,844,541	11,005,481
Joint operating agreement receipts	—	53,666,700	53,666,700
Grant receipts (IME, GME, MTH)	80,792,704	106,072,603	186,865,307
Indigent care payments	(108,733,061)	(87,891,934)	(196,624,995)
Grant payments	(4,159,138)	(10,322,253)	(14,481,391)
IME match payments	(55,790,585)	(6,453,575)	(62,244,160)
Goods and service payments	(163,891)	(15,394,878)	(15,558,769)
Payments to employees	(18,186)	(2,057,476)	(2,075,662)
Other operating receipts	26,088	123,455	149,543
Net cash provided by operating activities	(87,885,129)	48,587,183	(39,297,946)
Cash flows from noncapital financing activity:			
Subsidies	35,661,264	—	35,661,264
Cash flows from capital and related financing activities:			
Principal payment	—	(1,385,000)	(1,385,000)
Purchase of capital assets	—	(26,087,017)	(26,087,017)
Interest paid on bonds	—	(353,625)	(353,625)
Other bond related costs	—	(363,388)	(363,388)
Nonoperating revenue	—	9,169	9,169
Net cash used in capital and related financing activities	—	(28,179,861)	(28,179,861)
Cash flows from investing activities:			
Investment income	549,981	71,400	621,381
Purchase of investment	—	—	—
Net cash provided by (used in) investing activities	549,981	71,400	621,381
Net increase (decrease) in cash and cash equivalents	(51,673,884)	20,478,722	(31,195,162)
Cash and cash equivalents, beginning of year	64,423,641	63,664,585	128,088,226
Cash and cash equivalents, end of year	$ 12,749,757	84,143,307	96,893,064
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	$ (37,767,215)	16,808,778	(20,958,437)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization	2,054,136	19,787,993	21,842,129
Decrease (increase) in receivables, net	1,071,685	11,864,662	12,936,347
Increase in payables and accrued expenses	(53,243,635)	(284,631)	(53,528,266)
Decrease in unearned revenue	(100)	(10,520)	(10,620)
Decrease in prepaid expenses	—	299,687	299,687
Increase in deferred outflows of resources	—	(454,117)	(454,117)
Increase in net pension liability	—	482,344	482,344
Decrease in deferred inflows of resources	—	92,987	92,987
Total adjustments	(50,117,914)	31,778,405	(18,339,509)
Net cash provided by operating activities	$ (87,885,129)	48,587,183	(39,297,946)
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	$ —	3,454,101	3,454,101
Capital assets refund in receivables	—	—	—

See accompanying independent auditors' report.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Combining Statement of Cash Flows

Year ended June 30, 2016

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	$ 209,668	9,260,437	9,470,105
Joint operating agreement receipts	—	15,992,000	15,992,000
Grant receipts (IME, GME, MTH)	88,898,369	112,849,071	201,747,440
Indigent care payments	(20,339,237)	(82,735,803)	(103,075,040)
Grant payments	(4,131,906)	(14,243,529)	(18,375,435)
IME match payments	(53,792,503)	(6,078,808)	(59,871,311)
Goods and service payments	(228,767)	(13,179,263)	(13,408,030)
Payments to employees	(41,169)	(1,897,418)	(1,938,587)
Other operating receipts	32,495	666,941	699,436
Net cash provided by operating activities	10,606,950	20,633,628	31,240,578
Cash flows from noncapital financing activity:			
Subsidies	36,722,868	—	36,722,868
Cash flows from capital and related financing activities:			
Principal payment	—	(1,310,000)	(1,310,000)
Purchase of capital assets	—	(38,763,797)	(38,763,797)
Interest paid on bonds	—	(65,540)	(65,540)
Other bond related costs	—	(479,547)	(479,547)
Nonoperating revenue	—	162,520	162,520
Net cash used in capital and related financing activities	—	(40,456,364)	(40,456,364)
Cash flows from investing activities:			
Investment income	655,889	3,208	659,097
Purchase of investment	—	(400,000)	(400,000)
Net cash provided by (used in) investing activities	655,889	(396,792)	259,097
Net increase (decrease) in cash and cash equivalents	47,985,707	(20,219,528)	27,766,179
Cash and cash equivalents, beginning of year	16,437,934	83,884,113	100,322,047
Cash and cash equivalents, end of year	$ 64,423,641	63,664,585	128,088,226
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	$ (39,141,850)	31,738,009	(7,403,841)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization	2,391,252	16,256,585	18,647,837
Decrease (increase) in receivables, net	6,850,252	(33,951,244)	(27,100,992)
Increase in payables and accrued expenses	40,507,396	6,780,405	47,287,801
Decrease in unearned revenue	(100)	(18,187)	(18,287)
Decrease in prepaid expenses	—	355	355
Increase in deferred outflows of resources	—	(231,737)	(231,737)
Increase in net pension liability	—	136,716	136,716
Decrease in deferred inflows of resources	—	(77,274)	(77,274)
Total adjustments	49,748,800	(11,104,381)	38,644,419
Net cash provided by operating activities	$ 10,606,950	20,633,628	31,240,578
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	$ —	5,725,801	5,725,801
Capital assets refund in receivables	—	—	—

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*

		2017	2016	2015
TUH's proportion of the net pension liability		0.07419362 %	0.07056981 %	0.06380342 %
TUH's proportionate share of the net pension liability	$	736,172	253,836	117,120
TUH's covered-employee payroll		1,270,964	1,119,824	1,080,951
TUH's proportionate share of the net pension liability as a percentage of its covered-employee payroll		54.85 %	20.62 %	10.83 %
Plan fiduciary net position as a percentage of the total pension liability		89.48 %	96.00 %	97.90 %

* This schedule is required to show information for 10 years. However, only fiscal year 2017, 2016 and 2015 are 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*

		2017	2016	2015
Contractually required contribution	$	224,025	209,709	184,771
Contributions in relation to the contractually required contribution		(224,025)	(209,709)	(184,771)
Contribution deficiency (excess)	$	—	—	—
TUH's covered-employee payroll	$	1,357,727	1,270,964	1,119,824
Contributions as a percentage of cover-employee payroll		16.50 %	16.50 %	16.50 %

* This schedule is required to show information for 10 years. However, only fiscal year 2017, 2016 and 2015 are 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.