UNIVERSITY HOSPITALS AUTHORITY AND UNIVERSITY HOSPITALS TRUST

Basic Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Management's Discussion and Analysis

June 30, 2018 and 2017

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, 2018 and 2017. For comparative purposes, fiscal year 2016 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.

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.

		2018	2017	2016	2018–2017 Percentage change
		(Dollars in thousands)			
Current assets	$	163,455	183,825	227,446	(11)%
Restricted assets		1,170	1,170	1,461	—
Capital assets, net		260,680	303,216	306,694	(14)
Other assets		40,000	20,071	20,078	99
Total assets	$	465,305	508,282	555,679	(8)%
Total deferred outflows of resources	$	454	877	423	(48)%
Current liabilities	$	48,206	80,806	141,229	(40)
Long-term liabilities		448	43,030	44,014	(99)
Total liabilities	$	48,654	123,836	185,243	(61)%
Total deferred inflows of resources	$	80	260	353	(69)%
Net investment in capital assets	$	260,680	259,446	261,549	—%
Restricted for donated purposes		1,170	1,170	1,461	—
Unrestricted		155,175	124,447	107,496	25
Total net assets	$	417,025	385,063	370,506	8%

Current assets decreased $20.4 million in 2018. This decrease is attributed primarily to net decreases in cash due to the $40 million Subordinate Debt Loan made to the new Joint Operator, OU Medicine Inc. This loan is subordinate to all other debt of OUMI. Conditions for interest and principal payments are detailed in the loan agreement. OUMI is a 501c3 corporation created to manage the OU Medical Center. Current assets decreased $43.6 million in 2017. The 2017 decrease was attributed primarily to net decreases in cash and JOA receivables.

Restricted assets remained the same in 2018. Restricted assets decreased in 2017 due to a decrease in deposits of restricted investments of $291,000.

Net capital assets decreased $42.5 million in 2018 due to depreciation expense and the transfer of the Trusts investment in JOA PP&E and the Proton Therapy System to OUMI. Net capital assets decreased $3.5 million in 2017 due to depreciation expense.

(Continued)

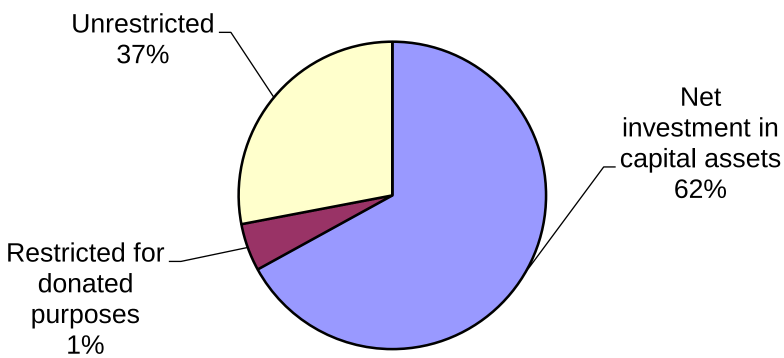
Other assets historically included a long-term receivable for the "Working Capital Settlement" due to UHT if the JOA with HCA Health Services of Oklahoma was still in effect in 2023. When that JOA was terminated in January, 2018, the Working Capital Settlement was written off as a miscellaneous non-operating expense. Other assets increased $19.9 million from FY'17 to FY'18 due to the $40 million Sub-Debt Loan made to OUMI.

Current liabilities decreased $32.6 million in 2018 due to timing issues related to the payment of the Teaching Hospital Reimbursement Payment (THRP) program. There was a $20 million payment made to OUMI in June 2018 rather than July as historically occurred.

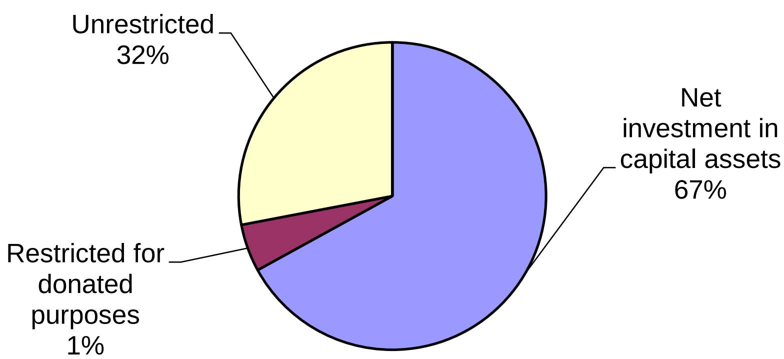
Long Term Liabilities decreased $42.5 million due to the refunding of the Series 2005 A and 2005 B bonds.

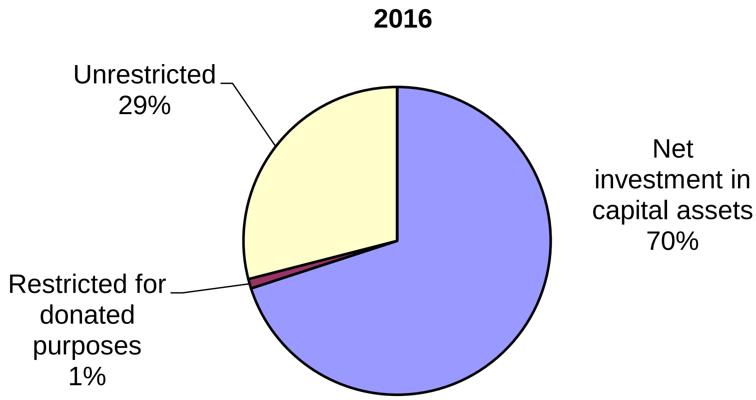
Composition of Net Position (%) as of June 30

2018



2017





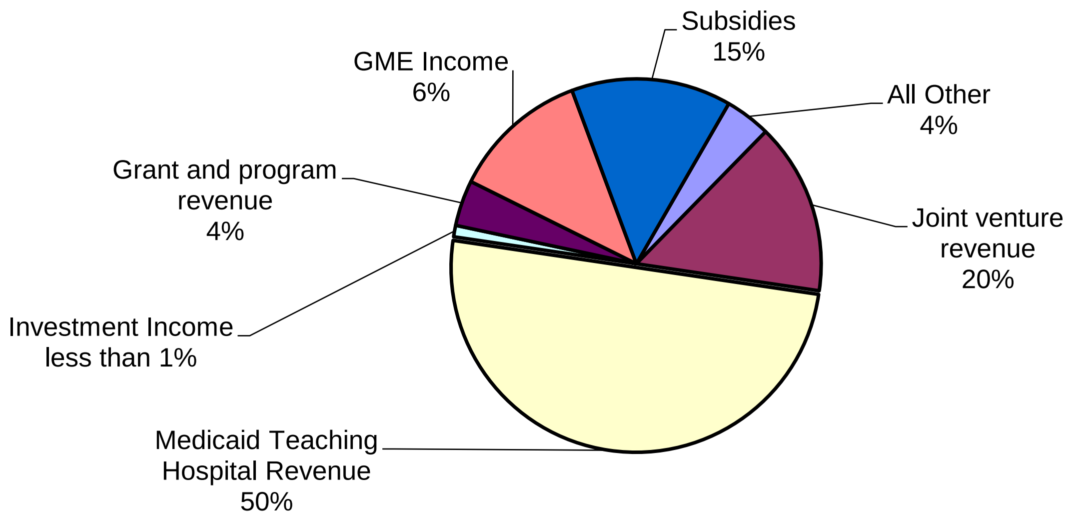
Changes in Net Position

The Authority and Trust total revenues (operating revenues and net non-operating revenues) decreased $12.8 million in 2018 from 2017 and decreased $23.7 million in 2017 from 2016. Total revenues for 2018 and 2017 were $249.3 million and $262.2 million with 15.1% and 13.6% of the total revenues from appropriations for indigent care subsidies (appropriations or subsidies), respectively. Appropriations in 2018 of $37.7 million increased from fiscal year 2017 by $2.0 million. Appropriations in 2017 decreased from fiscal year 2016 by $1.1 million.

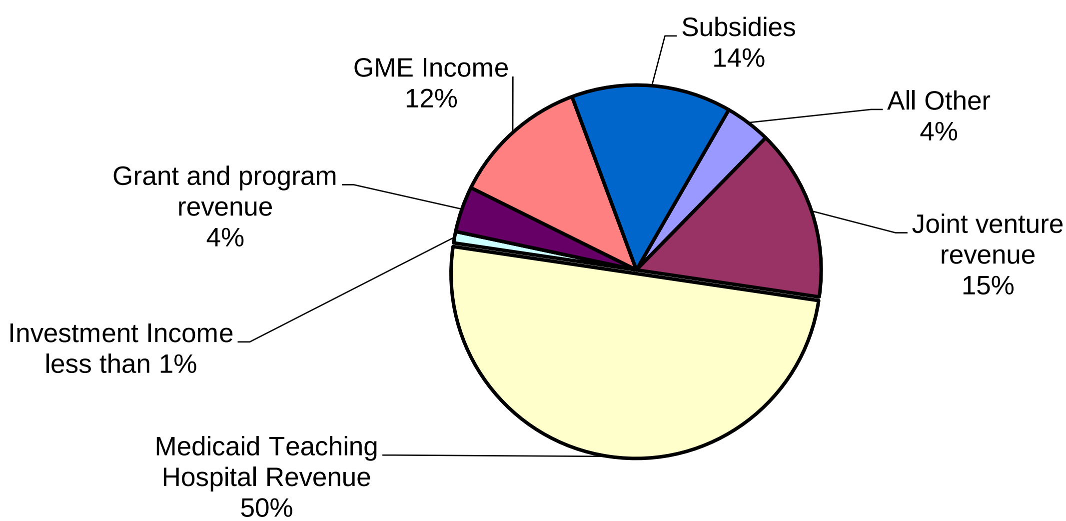
Another 50% of total revenues were from Teaching Hospital Reimbursement and Level I trauma programs in 2018 and 51% in 2017. These receipts decreased $9.2 million in 2018 from 2017, and decreased $24.3 million in 2017 from 2016. For 2018, 2017, and 2016 the full pre-tax earnings preferential payments (joint venture revenue) of $133 million were earned. Prior to February 1, 2018, the University Hospitals Authority and Trust by virtue of a Joint Operating Agreement, received the first $9 million of pre-tax earnings of the venture if earned. The Trust also received a 30% share of total pre-tax earnings in excess of $39 million as specified in the Joint Operating Agreement. Beginning February 1, 2018, the Trust earns $20 million semi-annually or $3.33 million per month. As hospital earnings increased in the first seven months of the year and the nature of the payment changed for the last five months of 2018, JOA earnings increased in 2018 to $50.3 million from $39.8 million in 2017.

Sources of Revenue

2018



2017

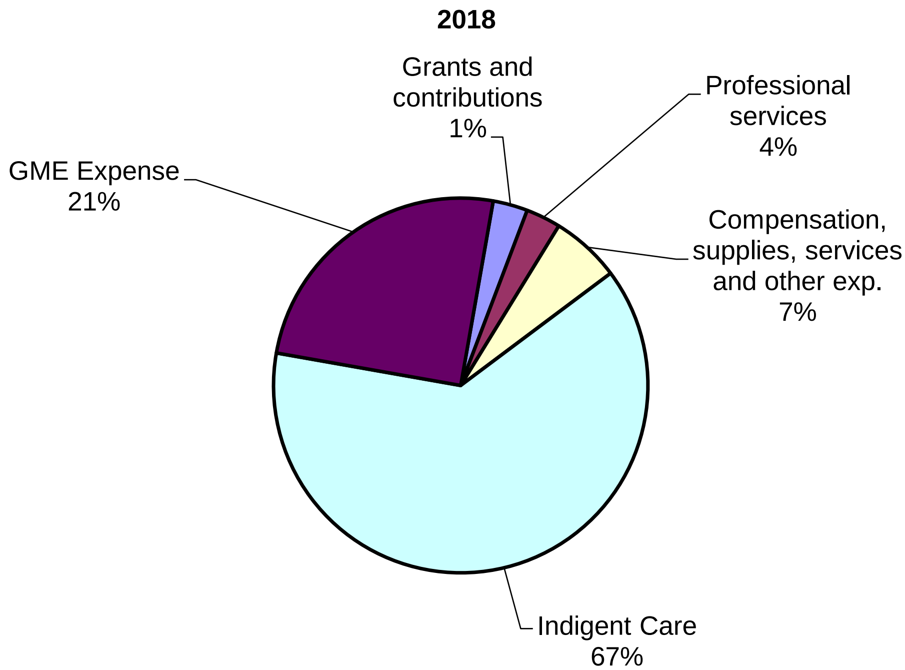


The University Hospitals Authority and Trust combined sources of revenues are from the following sources:

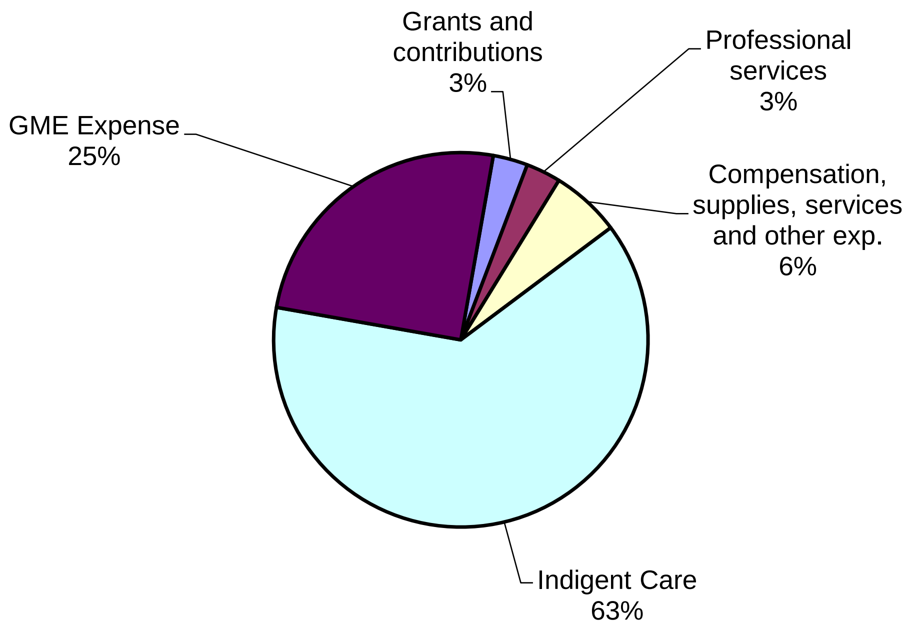
- *Subsidies* are appropriated for Indigent Care and state-matching amounts for Graduate Medical Education (GME) programs and Indigent Care programs.

- *Medicaid Teaching Hospital* receipts, known as Teaching Hospital Reimbursement Payment (THRP) program payments from the Oklahoma Health Care Authority reimburse the costs of providing care to Medicaid patients. This payment is based on OU Medical Center's Level I Trauma designation. 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 the Medicaid Indirect Medical Education (IME) program, 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 2018 and $10.1 million in 2017.
- *Joint Venture Revenue* relates to the Joint Operating Agreement (JOA) between the Authority and Trust and HCA Health Services of Oklahoma, Inc. and OU Medicine, Inc. Prior to February 1, 2018, the University Hospitals Authority and Trust by virtue of a Joint Operating Agreement, received the first $9 million of pre-tax earnings of the venture if earned. The Trust also received a 30% share of total pre-tax earnings in excess of $39 million as specified in the Joint Operating Agreement. Beginning February 1, 2018, the Trust earns $20 million semi-annually or $3.33 million per month.
- *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 $15.9 million in 2018 and $31.8 million in 2017 of the state match share. These funds are normally paid to the Oklahoma Health Care Authority along with a UHA appropriation subsidy of an additional $9.1 million. This 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 programs. CMS declined to participate further in the program in December 2017. There was no need for the universities to transfer state share to UHA after that decision because OHCA could not pull down federal matching dollars. UHA reimbursed the universities the state share income they had provided for the second quarter payment. In addition, UHA directly reimbursed the universities from subsidy income for the remainder of the year rather than transferring those funds to OHCA. The Legislature provided FY'18 and FY'19 funding to the universities through OHCA to completely offset the loss of federal funds.
- *Investment Income* accounted for less than 0.5% of total revenues in both 2018 and 2017.
- *All Other Operating and Non-operating Revenues* are normally primarily from donations and income associated with services provided to others such as rental and lease income of Authority and Trust buildings. In 2018, the Trust reimbursed the Department of Pediatrics for its investment in the 11th Floor of the OU Children's Physicians Building. This was done so the Trust could lease the space to OUMI. This amount also includes a miscellaneous non-operating income contribution of $31.4 million from OUMI related to redemption of the Trust's outstanding bonds and a $29.1 million miscellaneous non-operating expense related to the transfer of the Trust's investment in JOA PP&E to OUMI and the write down of the HCA $20 million working capital settlement.

Operating Expenses before Depreciation and Amortization



2017



- *Total Expenses* including depreciation decreased $30.2 million in 2018 from 2017 and decreased $8.7 million in 2017 from 2016. The decrease is primarily related to decreases in Indigent Care Expense, Dean's GME Expense and Grant Expense.
- *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. or OUMI for Indigent Care services to patients based on the terms of the Indigent Care Agreement. The JOA with HCA Health Services of Oklahoma was terminated on January 31, 2018. Services after that date were provided through a new JOA with OUMI.
- *Graduate Medical Education (GME)* expenses are state match amounts paid to the Oklahoma Health Care Authority for Hospital GME programs ($16.9 million in 2018 and $15.5 million in 2017) and University GME programs ($25 million in 2018 and $40 million in 2017).
- *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)

	2018	2017	2016	2018–2017 Percentage change
Operating revenues:				
Grant and program revenues	$ 10,194	10,090	10,045	1%
Services provided to others	12,098	11,250	9,533	8
Medicaid Teaching Hospital/Level I trauma	124,219	133,470	157,766	(7)
GME income	15,919	31,851	27,858	(50)
Joint venture income	50,344	39,883	43,048	26
Other revenues	355	97	595	266
Total operating revenues	213,129	226,641	248,845	(6)
Operating expenses:				
Compensation and benefits	2,151	2,065	1,781	4
Professional services	7,604	7,958	10,139	(4)
Grants and contributions	2,692	7,876	12,770	(66)
Supplies, services, and other	11,550	10,569	8,211	9
Indigent care expense	132,037	141,763	150,908	(7)
GME expense	41,891	55,526	53,792	(25)
Total operating expenses before depreciation and amortization	197,925	225,757	237,601	(12)
Depreciation and amortization	19,395	21,842	18,648	(11)
Operating loss	(4,191)	(20,958)	(7,404)	(80)
Nonoperating revenues (expenses):				
Investment income	821	544	734	51
Debt-related expenses	(729)	(692)	(570)	5
Indigent care subsidies	37,663	35,661	36,723	6
Other	(1,602)	2	157	(80,200)
Total nonoperating revenues	36,153	35,515	37,044	2
Change in net assets	$ 31,962	14,557	29,640	120%

The Authority and Trust operating revenues decreased $13.8 million in 2018 from 2017, and decreased $22.2 million in 2017 from 2016.

- Grant and program revenue increased $104 thousand in 2018 from 2017 and increased $45 thousand in 2017 from 2016 from 2015. 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 $849 thousand in 2018 from 2017 and increased $1.7 million in 2017 from 2016 due to increases in rental and lease incomes as the Trust increased rates or square footage leased.
- GME revenue represents state share matching payments from universities. The $16 million decrease in 2018 represents decreased programs by the Oklahoma Health Care Authority after CMS declined to participate in the program. There was a $4.0 million increase in 2017.
- Medicaid program income decreased $9.2 million in 2018 from 2017 and decreased $24.3 million in 2017 from 2016. 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 $9.7 million in 2018 from 2017 and decreased $9.1 million in 2017 from 2016, as they also fluctuate consistent with changes in federal Medicaid income.
- JOA income increased $10.4 million in 2018 from 2017 and decreased $3.2 million in 2017 from 2016 as the OUMS hospital pretax earnings increased in 2018 from 2017 and the new JOA became effective in 2018. Timing of the final HCA JOA payment contributed significantly to the 2018 increase.
- Compensation and benefits increased $85 thousand in 2018 from 2017, which was due to an increase in FTE. Pension liability and higher pension expense in 2017 as a result of adopting Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting of Pensions* caused compensation and benefits to increase $285 thousand in 2017 from 2016.
- Professional services cost decreased $354 thousand in 2018 from 2017 and decreased $2.1 million in 2017 from 2016. These changes were due to decreasing consulting fees year over year.
- The Trust and Authority committed or expended $5.1 million less in grants in 2018 over 2017. The Trust and Authority committed or expended $4.9 million less in grants in 2017 over 2016.
- GME expenses decreased $14 million in 2018 over 2017 and increased $1.7 million in 2017 over 2016, as the Oklahoma Health Care Authority and CME ended Dean's GME program support.
- Investment income increased $277 thousand in 2018 from 2017 and decreased $190 thousand in 2017 from 2016 as average cash invested fluctuated and the Trust earned interest from OUMI loans.
- Indigent Care subsidies increased $2 million in 2018 from 2017 as the legislature increased appropriations for FMAP decreases. Indigent Care subsidies decreased $1 million in 2017 from 2016 as the legislature decreased appropriations for programs.

Financial Analysis of Fiscal Year 2018 Operations

Total net position increased $31.9 million in 2018.

Legislative appropriations increased in 2018 over 2017. The increase in funds was due to the legislature providing additional funds to help offset a reduction in the Medicaid FMAP.

Capital Assets

Capital assets net of depreciation decreased 14.2% in 2018 from 2017. The University Hospitals Trust's capital assets decreased $43 million in 2018 due to the transfer of its investment in JOA PP&E and Proton Therapy System and depreciation expense. Annual depreciation is $19.4 million in 2018. Capital assets net of depreciation decreased 1.1% in 2017 from 2016 and were offset by $18.0 million annual depreciation in 2016.

Capital Assets

(Net of depreciation, dollars in thousands)

		2018	2017	2016	2018 to 2017 Change amount
Land	$	4,009	4,009	4,009	—
Building and improvements		211,629	214,477	158,925	(2,848)
Equipment		40,220	57,694	32,986	(17,474)
Infrastructure		2,795	2,974	3,152	(179)
Joint venture equipment		—	20,323	27,431	(20,323)
Construction-in-progress		2,027	3,738	80,191	(1,711)
Total	$	260,680	303,215	306,694	(42,535)

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. These bonds were redeemed by OUMI on March 20, 2018 in exchange for the transfer of the Trust's ownership of the Proton Therapy System at the Stephenson Cancer Center.

Bonds Payable Balance

(Dollars in millions)

		2018	2017	2016	2018–2017 Change
Variable rate bonds	$	—	44	45	(44)

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 77% of total income. In 2018 the Oklahoma legislature increased subsidies. Sustaining these programs at current levels or expanding them is dependent on several factors, one of which is the ability of the State of Oklahoma to increase revenue levels, which is primarily through tax revenues. Revenues are also affected significantly by the Medicaid FMAP. The University Hospitals Authority's allocation of appropriations for 2018 was increased from 2017, and no operating reserves were utilized in 2018 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 2018 but decreased in 2017.

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 2018 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, 2018 and 2017, 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, 2018 and 2017, 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 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, 2018, 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 40–42 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 34–39 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 November 9, 2018 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
November 9, 2018

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Statements of Net Position

June 30, 2018 and 2017

Assets		2018	2017
Current assets:			
Cash and cash equivalents	$	69,622,478	96,643,053
Investments		2,320,562	2,344,821
Receivables:			
Institutional and other		91,497,720	84,523,813
Interest		11,624	10,973
Prepaid expenses		2,967	302,599
Total current assets		163,455,351	183,825,259
Restricted assets:			
Cash and cash equivalents		250,011	250,011
Investments		883,449	884,097
Real estate		35,989	35,989
Total restricted assets		1,169,449	1,170,097
Noncurrent:			
Subordinate Debt Loan to OUMI		40,000,000	70,843
Working capital settlement		—	20,000,000
Investment in joint venture equipment, net		—	20,322,708
Capital assets, net		260,680,307	282,893,167
Total assets	$	465,305,107	508,282,074
Deferred Outflows of Resources			`
Pension amounts	$	454,380	877,327
Total deferred outflows of resources	$	454,380	877,327
Liabilities			
Current liabilities:			
Trade payables	$	1,998,324	5,053,620
Accrued expenses		46,025,324	73,986,868
Current portion of bonds payable		—	1,475,000
Compensated absences		179,102	200,324
Unearned revenue		2,967	89,695
Total current liabilities		48,205,717	80,805,507
Noncurrent:			
Bonds payable, net of unamortized discount of $95,599 in 2017.		—	42,294,401
Net pension liability		448,575	736,180
Total liabilities	$	48,654,292	123,836,088
Deferred Inflows of Resources			
Pension amounts	$	80,218	259,926
Total deferred inflows of resources	$	80,218	259,926
Net Position			
Net position:			
Net investment in capital assets	$	260,680,307	259,446,474
Restricted		1,169,449	1,170,097
Unrestricted		155,175,224	124,446,816
Total net position	$	417,024,980	385,063,387

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, 2018 and 2017

		2018	2017
Operating revenues:			
Teaching Hospital Reimbursement/Level I trauma revenue	$	124,219,345	133,470,491
GME revenue		15,919,170	31,851,430
Grant and program revenue		10,193,757	10,089,811
Joint venture revenue		50,343,974	39,883,000
Rental income and other services		12,098,169	11,249,591
Other revenue		354,677	97,023
Total operating revenues		213,129,092	226,641,346
Operating expenses:			
GME expense		41,891,699	55,526,375
Indigent care expense		132,036,739	141,762,598
Grants and contributions		2,691,672	7,876,017
Professional services		7,603,777	7,958,030
Compensation and benefits		2,150,774	2,065,523
Supplies, services, and other		11,550,411	10,569,111
Total operating expenses before depreciation and amortization		197,925,072	225,757,654
Operating income before depreciation and amortization		15,204,020	883,692
Depreciation and amortization		(19,395,389)	(21,842,129)
Operating loss		(4,191,369)	(20,958,437)
Nonoperating revenues (expenses):			
Indigent care subsidies		37,663,446	35,661,263
Investment income		820,705	543,889
Debt-related expenses		(728,855)	(691,570)
Miscellaneous revenue (expense)		(1,602,334)	1,896
Total nonoperating revenues		36,152,962	35,515,478
Change in net position		31,961,593	14,557,041
Net position, beginning of year		385,063,387	370,506,346
Net position, end of year	$	417,024,980	385,063,387

See accompanying notes to basic financial statements.

UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Receipts from customers	$	11,411,342	11,005,481
Joint operating agreement receipts		33,334,800	53,666,700
Grant receipts (IME, GME, MTH)		162,145,116	186,865,307
Indigent care payments		(159,514,889)	(196,624,995)
Grant payments		(12,850,028)	(14,481,391)
IME match payments		(41,891,699)	(62,244,160)
Goods and service payments		(15,903,928)	(15,558,769)
Payments to employees		(2,223,759)	(2,075,662)
Other operating receipts		145,509	149,543
Net cash provided by operating activities		(25,347,536)	(39,297,946)
Cash flows from noncapital financing activity:			
Subsidies		37,663,446	35,661,263
Cash flows from capital and related financing activities:			
Principal payment		(1,475,000)	(1,385,000)
Purchase of capital assets		(9,257,692)	(26,087,017)
Interest paid on bonds		(355,766)	(353,624)
Other bond related costs		(403,824)	(363,388)
Nonoperating revenue		11,344,882	9,169
Net cash used in capital and related financing activities		(147,400)	(28,179,860)
Cash flows from investing activities:			
Investment income		810,915	621,381
Subordinate Debt Loan to OUMI		(40,000,000)	—
Net cash (used in) provided by investing activities		(39,189,085)	621,381
Net decrease in cash and cash equivalents		(27,020,575)	(31,195,162)
Cash and cash equivalents, beginning of year		96,893,064	128,088,226
Cash and cash equivalents, end of year	$	69,872,489	96,893,064
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating loss	$	(4,191,369)	(20,958,437)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization		19,395,389	21,842,129
Decrease (increase) in receivables, net		(12,612,594)	12,936,347
Decrease in payables and accrued expenses		(28,107,500)	(53,528,266)
Decrease in unearned revenue		(86,728)	(10,620)
Decrease in prepaid expenses		299,632	299,687
Increase (Decrease) in deferred outflows of resources		422,947	(454,117)
(Decrease) Increase in net pension liability		(287,605)	482,344
(Decrease) Increase in deferred inflows of resources		(179,708)	92,987
Total adjustments		(21,156,167)	(18,339,509)
Net cash provided by operating activities	$	(25,347,536)	(39,297,946)
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	$	847,496	3,454,101

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 non-major 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, 2018 and 2017 are presented in the accompanying statements of revenues, expenses, and changes in net position as “joint venture revenue.”

Termination of the JOA with HCA Health Services of Oklahoma occurred on January 31, 2018 and a new JOA with OU Medicine Inc. (OUMI), was signed. The new JOA was approved by the Contingency Review Board, Attorney General and Supreme Court in compliance with statute.

All leases for land, buildings, improvements and equipment that were in place with HCA Health Services of Oklahoma were assumed by OUMI. The Trust’s investment in joint PP&E was merged with HCA Health Services of Oklahoma and purchased by OUMI. The Trust’s Proton Therapy System was transferred to OUMI in consideration of OUMI’s redemption of the Trust’s outstanding debt on the series 2005 A and 2005 B bonds.

Academic programs of the OUHSC continue to be affiliated with University Hospitals Authority and OUMI will continue to provide statutorily mandated indigent care. A new Academic Affiliation Agreement was signed between OUMI and OUHSC. OUMI and the Trust have entered into agreements setting forth terms and conditions of the joint operation of the hospital.

The most significant change for the Trust involved the JOA payment. In consideration for the right to operate the University Hospitals from and after February 1, 2018, OUMI will pay the Trust $20 million semi-annually. OUMI assumed responsibility for previous grants the Trust provided to OUHSC.

(b) Basis of Accounting and Presentation

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 entities. 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.

(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. 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, as of June 30, 2018 and 2017 have been leased to the joint operations of 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.

(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 related to accrued payables 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 Standard

GASB issues the following statements, which became effective for the fiscal year ended June 30, 2018:

- Statement No. 75, Accounts and Financial Reporting by Employers for Postemployment Benefits Other Than pensions
- Statement No. 81, Irrevocable Split-Interest Agreements
- Statement No. 85, Omnibus 2017
- Statement No. 86, Certain Debt Extinguishment Issues

Management has determined that Statements No. 75, 81, 85 and 86 did not materially impact (TUH).

Additionally, the GASB issued the following statements, which become effective for the future fiscal years noted below:

For the year ending June 30, 2019

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

For the year ending June 30, 2020

- Statement No. 84, Fiduciary Activities
- Statement No. 90, Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61

For the year ending June 30, 2021

- Statement No. 87, Leases
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period

Management has not yet determined the effects of these statements on TUH' financial statements.

(2) Deposits and Investments

(a) Deposits

At June 30, 2018 and 2017, 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, 2018 and 2017 are $13,016,870 and $12,499,746, respectively. The Authority's reserve deposits with the State Treasurer at June 30, 2018 and 2017 are $250,011.

At June 30, 2018 and 2017, the bank balance of the Trust's cash equivalents were $56,605,608 and $84,143,307, respectively, which equals carrying amount. The bank balance is collateralized with securities held by an agent in the Trust's name. No funds were restricted at June 30, 2018.

(b) Investments

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

		2018	2017
Mutual funds	$	883,449	884,097
Equities		2,320,562	2,344,821
Total	$	3,204,011	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;

 (Continued)

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, 2018:

- Mutual funds of $883,449 and are valued using quoted market prices (Level 1 inputs)

TUH also has nonrecurring fair value measurement as of June 30, 2018, for investments in equities that are purchases of share subscriptions in three private LLCs and are valued utilizing the original cost for approximately $2,306,596. Investment in the Embassy Suites Hotel totaled $1,890,250. Investments in Bone & Joint and Lithotripsy totaled $16,346 and $400,000 respectively (Level 3 inputs), and one share of stock valued at $13,966 at June 30, 2018.

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

- Mutual funds of $884,097 and 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), and one share of stock owned by UHA valued at $38,225 at June 30, 2017.

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:

		2018	2017
Institutional and other	$	91,497,720	84,523,813
Working capital settlement		—	20,000,000

In the event the JOA was not 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.

The JOA was terminated on January 31, 2018. On February 1, 2018, a new JOA between the University Hospitals Trust and OU Medicine, Inc. became effective. The working capital settlement due in the JOA with HCA Health Services of Oklahoma, Inc. was no longer due to the Trust.

(4) Capital Assets

A substantial amount of all capital assets are leased to the joint operations of OUMS or to OUHSC. At June 30, The Trust had $88,497 in CIP for Flood Repairs and another $1,938,086 for the Campus Wayfinding project. At June 30, capital assets consisted of the following:

		2018	2017
Land	$	4,009,252	4,009,252
Buildings and improvements		406,177,716	401,133,044
Equipment		81,048,885	158,813,791
Construction-in-progress		2,026,583	3,738,382
Infrastructure		7,700,832	7,700,832
		500,963,268	575,395,301
Less accumulated depreciation		(240,282,961)	(292,502,134)
	$	260,680,307	282,893,167

The following summarizes the additions and deductions from net capital assets during fiscal years 2018 and 2017:

		July 1, 2017	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2018
Capital assets, not being depreciated:					
Land	$	4,009,252	—	—	4,009,252
Construction-in-progress		3,738,382	1,523,399	(3,235,198)	2,026,583
Capital assets, being depreciated:					
Buildings and improvements		214,477,004	5,044,676	(7,893,056)	211,628,624
Equipment		57,694,867	103,293	(17,577,702)	40,220,458
Infrastructure		2,973,662	—	(178,272)	2,795,390
Net capital assets	$	282,893,167	6,671,368	(28,884,228)	260,680,307

	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

For the years ended at June 30, 2018 and 2017, depreciation expense related to capital assets was $14,743,069 and $12,107,904, respectively.

(5) Investment in Joint Venture Equipment

The following summarizes the additions and deductions from net investment in joint venture equipment during fiscal years 2018 and 2017:

	July 1, 2017	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2018
Net equipment	$ 20,322,708	—	(20,322,708)	—

	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

For the years ended at June 30, 2018 and 2017, depreciation expense related to investment in joint venture equipment was $4,652,320 and $9,734,225, respectively. Depreciation is computed by the straight-line method over the estimated useful life of five years. The Trust's investment in JOA PP&E was transferred to OUMI during the merger agreement with HCA on January 31, 2018.

(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 five years.

The following schedule shows future minimum lease rent receipts:

2019	$	843,982
2020		583,909
2021		223,211
2022		74,553
2023		18,337
Total		**1,743,992**

(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 was for the phase II basic research building constructed by the University of Oklahoma. Both variable rate bond issues were credit enhanced with irrevocable letters of credit that will mature September 30, 2018. The Trust made interest payments monthly based on weekly rate resets with principal payments made annually each August. The bonds were secured with Trust revenues and the indenture and letter of credit agreements place liquidity, debt service, and capitalization covenants on the Trust.

These bonds were redeemed by the new JOA partner, OU Medicine Inc., on March 20, 2018. They were redeemed in exchange for the transfer of the Trust's Proton Therapy System to OUMI. As of June 30, 2018 and 2017, the balances outstanding are approximately $0 and $36,715,000 for Series 2005A and $0 and $8,535,000 for Series 2005B, respectively. As of June 30, 2018 and 2017, the interest rates were 0.0% and 0.95% for Series 2005A and 0.0% and 0.45% for Series 2005B, respectively.

The underlying trust agreement contained certain bond covenants that TUH is aware of and monitored for compliance throughout the year prior to the redemption. Management believes TUH complied with all bond covenants throughout fiscal year 2018.

TUH had no debt service requirements as of June 30, 2018.

(8) Changes in Liabilities

Long-term and short-term liability activity for the years ended June 30, 2018 and 2017 was as follows:

2018		July 1, 2017	Additions	Deletions	June 30, 2018	Current portion
Accrued liabilities	$	200,324	—	(21,222)	179,102	179,102
Bonds payable, net		43,769,401	—	(43,769,401)	—	—
	$	43,969,725	—	(43,790,623)	179,102	179,102

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

(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 this JOA occurred on January 31, 2018 and a new JOA with OU Medicine Inc. (OUMI), was signed. All leases for land, buildings, improvements and equipment that were in place were assumed by OUMI. Certain assets were transferred and are now operated by OUMI. Academic programs of the OUHSC continue to be affiliated with University Hospitals Authority and OUMI will continue to provide statutorily mandated indigent care. OUMI and the Trust have entered into agreements setting forth terms and conditions of the joint operation of the hospital. The most significant change for the Trust involved the JOA payment. In consideration for the right to operate the University Hospitals from and after February 1, 2018, OUMI will pay the Trust $20 million semi-annually.

(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 2018	3.5 %	16.5 %
Fiscal year 2017	3.5	16.5
Fiscal year 2016	3.5	16.5

TUH's contributions to the Plan for the years ended June 30, 2018 and 2017 were approximately $235,200 and $224,025, 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, 2018 and 2017, TUH reported a liability of $448,575 and $736,180 for its proportionate share of the net pension liability, respectively. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017 and 2016. At June 30, 2017 and 2016, TUH's proportion was approximately 0.0829% and 0.0742%, respectively.

For the year ended June 30, 2018 and 2017, TUH recognized pension expense of approximately $179,650 and $159,265, respectively. At June 30, 2018, 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	$	—	80,218
Changes of assumptions		199,141	
Net difference between projected and actual earnings on pension plan investments		20,039	
TUH contributions subsequent to the measurement date		235,200	
	$	454,380	80,218

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

$235,200 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:		
2019	$	130,178
2020		31,911
2021		(71,633)

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.75%
Salary increases	3.5% to 9.0%, including inflation
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Combined Active/Retired Healthy Mortality Table projected to 2025 using Scale MP-2016 (disabled members were set forward 12 years).

The actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2016.

The total pension liability in the June 30, 2016 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 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 rates of return on pension plan investments in the June 30, 2017 and 2016 actuarial valuation were 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 at June 30, 2017 and June 30, 2016 was 7.00% and 7.25% respectively. 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

(Continued)

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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	2018		
	1% Decrease (6.00%)	**Discount rate (7.00%)**	**1% Increase (8.00%)**
TUH's proportionate share of the net pension liability (asset)	$ 1,325,782	448,575	(294,214)

	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

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, 2018 and 2017. 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 November 9, 2018, 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, 2018

Assets	**Authority Fund**	**Trust Fund**	**Total**
Current assets:			
Cash and cash equivalents	$ 13,016,870	56,605,608	69,622,478
Investments	13,966	2,306,596	2,320,562
Receivables:			
Institutional and other	17,996,671	73,501,049	91,497,720
Interest receivable	11,624	—	11,624
Prepaid expenses		2,967	2,967
Total current assets	31,039,131	132,416,220	163,455,351
Restricted assets:			
Cash and cash equivalents	250,011	—	250,011
Investments	883,449	—	883,449
Real estate	35,989	—	35,989
Total restricted assets	1,169,449	—	1,169,449
Noncurrent:			
Subordinate Debt Loan to OUMI	—	40,000,000	40,000,000
Working capital settlement	—	—	—
Investment in joint venture equipment, net	—	—	—
Capital assets, net	8,885,481	251,794,826	260,680,307
Total assets	$ 41,094,061	424,211,046	465,305,107
Deferred Outflows of Resources			
Pension amounts	$ —	454,380	454,380
Total deferred outflows of resources	$ —	454,380	454,380
Liabilities			
Current liabilities:			
Trade payables	$ 183,107	1,815,217	1,998,324
Accrued expenses	25,319,154	20,706,170	46,025,324
Current portion of bonds payable	—	—	—
Current portion of accrued liabilities	—	179,102	179,102
Unearned revenue	2,967	—	2,967
Total current liabilities	25,505,228	22,700,489	48,205,717
Noncurrent:			
Bonds payable, net	—	—	—
Net pension liability	—	448,575	448,575
Total liabilities	$ 25,505,228	23,149,064	48,654,292
Deferred Inflows of Resources			
Pension amounts	$ —	80,218	80,218
Total deferred inflows of resources	$ —	80,218	80,218
Net Position			
Net position:			
Invested in capital assets, net of related debt	$ 8,885,481	251,794,826	260,680,307
Restricted	1,169,449	—	1,169,449
Unrestricted	5,533,903	149,641,321	155,175,224
Total net position	$ 15,588,833	401,436,147	417,024,980

See accompanying independent auditors' report.

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 Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

		Authority Fund	Trust Fund	Total
Operating revenues:				
Teaching Hospital Reimbursement/Level I trauma revenue	$	49,202,363	75,016,982	124,219,345
GME revenue		15,919,170	—	15,919,170
Grant and program revenue		—	10,193,757	10,193,757
Joint venture revenue		—	50,343,974	50,343,974
Services provided to others		163,507	11,934,662	12,098,169
Other revenue		20,875	333,802	354,677
Total operating revenues		65,305,915	147,823,177	213,129,092
Operating expenses:				
GME expense		41,891,699	—	41,891,699
Indigent care expense		57,140,207	74,896,532	132,036,739
Grants and contributions		—	2,691,672	2,691,672
Professional services		3,916,580	3,687,197	7,603,777
Compensation and benefits		31,349	2,119,425	2,150,774
Supplies, services, and other		1,626	11,548,785	11,550,411
Total operating expenses before depreciation and amortization		102,981,461	94,943,611	197,925,072
Operating (loss) income before depreciation and amortization		(37,675,546)	52,879,566	15,204,020
Depreciation and amortization		(1,779,228)	(17,616,161)	(19,395,389)
Operating (loss) income		(39,454,774)	35,263,405	(4,191,369)
Nonoperating revenues (expenses):				
Indigent care subsidies		37,663,446	—	37,663,446
Interest income		125,845	694,860	820,705
Debt-related expenses		—	(728,855)	(728,855)
Miscellaneous expense		(24,907)	(1,577,427)	(1,602,334)
Total nonoperating revenues (expenses)		37,764,384	(1,611,422)	36,152,962
Change in net position		(1,690,390)	33,651,983	31,961,593
Net position, beginning of year		17,279,227	367,784,160	385,063,387
Net position, end of year	$	15,588,837	401,436,143	417,024,980

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 Cash Flows

Year ended June 30, 2018

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	$ 166,008	11,245,334	11,411,342
Joint operating agreement receipts	—	33,334,800	33,334,800
Grant receipts (IME, GME, MTH)	64,937,588	97,207,528	162,145,116
Indigent care payments	(56,559,585)	(102,955,304)	(159,514,889)
Grant payments	(3,745,497)	(9,104,531)	(12,850,028)
IME match payments	(41,891,699)	—	(41,891,699)
Goods and service payments	(169,939)	(15,733,989)	(15,903,928)
Payments to employees	(30,982)	(2,192,777)	(2,223,759)
Other operating receipts	20,580	124,929	145,509
Net cash provided by operating activities	(37,273,526)	11,925,990	(25,347,536)
Cash flows from noncapital financing activity:			
Subsidies	37,663,446	—	37,663,446
Cash flows from capital and related financing activities:			
Principal payment	—	(1,475,000)	(1,475,000)
Purchase of capital assets	—	(9,257,692)	(9,257,692)
Interest paid on bonds	—	(355,766)	(355,766)
Other bond related costs	—	(403,824)	(403,824)
Nonoperating revenue	2,009	11,342,873	11,344,882
Net cash used in capital and related financing activities	2,009	(149,409)	(147,400)
Cash flows from investing activities:			
Investment income	125,194	685,721	810,915
Subordinate Debt Loan to OUMI	—	(40,000,000)	(40,000,000)
Net cash used in investing activities	125,194	(39,314,279)	(39,189,085)
Net decrease in cash and cash equivalents	517,123	(27,537,698)	(27,020,575)
Cash and cash equivalents, beginning of year	12,749,757	84,143,307	96,893,064
Cash and cash equivalents, end of year	$ 13,266,880	56,605,609	69,872,489
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating loss	$ (39,454,774)	35,263,405	(4,191,369)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization	1,779,228	17,616,161	19,395,389
Decrease (increase) in receivables, net	(181,445)	(12,431,149)	(12,612,594)
Increase in payables and accrued expenses	583,565	(28,691,065)	(28,107,500)
Decrease in unearned revenue	(100)	(86,628)	(86,728)
Decrease in prepaid expenses	—	299,632	299,632
Increase (Decrease) in deferred outflows of resources	—	422,947	422,947
(Decrease) Increase in net pension liability	—	(287,605)	(287,605)
(Decrease) Increase in deferred inflows of resources	—	(179,708)	(179,708)
Total adjustments	2,181,248	(23,337,415)	(21,156,167)
Net cash provided by operating activities	$ (37,273,526)	11,925,990	(25,347,536)
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	$ —	847,496	847,496

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

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*

		2018	2017	2016	2015
TUH's proportion of the net pension liability		0.08296754 %	0.07419362 %	0.07056981 %	0.06380342 %
TUH's proportionate share of the net pension liability	$	448,575	736,172	253,836	117,120
TUH's covered-employee payroll		1,425,455	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		31.47%	54.85 %	20.62 %	10.83 %
Plan fiduciary net position as a percentage of the total pension liability		94.28 %	89.48 %	96.00 %	97.90 %

* This schedule is required to show information for 10 years. However, only fiscal year 2018, 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*

		2018	2017	2016	2015
Contractually required contribution	$	235,200	224,025	209,709	184,771
Contributions in relation to the contractually required contribution		(235,200)	(224,025)	(209,709)	(184,771)
Contribution deficiency (excess)	$	—	—	—	—
TUH's covered-employee payroll	$	1,425,455	1,357,727	1,270,964	1,119,824
Contributions as a percentage of cover-employee payroll		16.50%	16.50%	16.50%	16.50%

* This schedule is required to show information for 10 years. However, only fiscal year 2018, 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
- Decrease the investment return from 7.25% to 7.00%
- Decrease the price inflation from 3.00% to 2.75%
- Decrease the real wage growth from 1.00% to 0.75%
- Change mortality assumption to reflect recent mortality improvements

KPMG LLP
210 Park Avenue, Suite 2650
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 States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University Hospitals Authority and University Hospitals Trust (together referred to as TUH), which comprise the statement of net position as of June 30, 2018, 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 financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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 a 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 be 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 financial statements are free from 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

The 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 the 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
November 9, 2018