



**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Basic Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

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, 2021 and 2020. For comparative purposes, fiscal year 2019 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 because the Trust is a blended component unit of the Authority. 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 is a component unit of the State of Oklahoma and the Trust is a blended component unit of the Authority.

The financial statements of the Authority and 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 position, 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.

Statement of Cash Flows is the financial report that provides relevant information regarding 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.

**UNIVERSITY HOSPITALS AUTHORITY AND
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Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

Statement of Net Position

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021–2020 Percentage change</u>
	(Dollars in thousands)			
Current assets	\$ 224,449	218,548	199,068	3 %
Restricted assets	224	812	1,187	(72)
Capital assets, net	252,203	252,260	253,735	—
Other assets	47,306	42,307	42,307	12
Total assets	\$ 524,182	513,927	496,297	2 %
Total deferred outflows of resources	\$ 711	243	433	193 %
Current liabilities	\$ 106,457	106,768	101,229	—
Long-term liabilities	951	161	131	491
Total liabilities	\$ 107,408	106,929	101,360	— %
Total deferred inflows of resources	\$ 5	86	129	(94)%
Net investment in capital assets	\$ 252,203	252,260	253,735	— %
Restricted for donated purposes	224	812	1,186	(72)
Unrestricted	165,053	154,083	140,319	7
Total net position	\$ 417,480	407,155	395,240	3 %

Current assets increased approximately \$5.9 million in 2021 from 2020. This increase is primarily due to an increase in cash due to timing and amount of Teaching Hospital Reimbursement Payment (THRP) program payments, payments due from OU Medicine Inc. (OUMI), and an improvement in the Federal Medical Assistance Percentage (FMAP) in response to the federal state of emergency in effect during 2021. Current assets increased approximately \$19 million in 2020 from 2019. This increase is primarily due to an increase in receivables due to timing and amount of Teaching Hospital Reimbursement Payment (THRP) program payments, payments due from OU Medicine Inc. (OUMI), and certain rental deferrals.

Restricted assets decreased in 2021 from 2020 as the trustees of the Travis M. Kerr Jr. Memorial Trust Fund (Kerr Trust) voted to make OUMI the trustee of the Kerr Trust. As a result, all funds related to the Kerr Trust were transferred to OUMI during 2021. Restricted assets decreased in 2020 from 2019 as the assets were distributed in accordance with the Kerr Trust agreement.

Capital assets, net decreased approximately \$57 thousand in 2021 due to depreciation expense that was offset by certain capital purchases. Capital assets, net decreased \$1.5 million in 2020 from 2019 due to depreciation expense.

Other assets increased \$5 million in 2021 from 2020 resulting from a new \$3 million interest contribution in OUMI Ventures LLC and \$2 million in interest earned on the subordinate debt loan made to OUMI. Other assets had previously remained the same from 2018 to 2020 and consisted of the \$40 million subordinate debt

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Management's Discussion and Analysis (Unaudited)

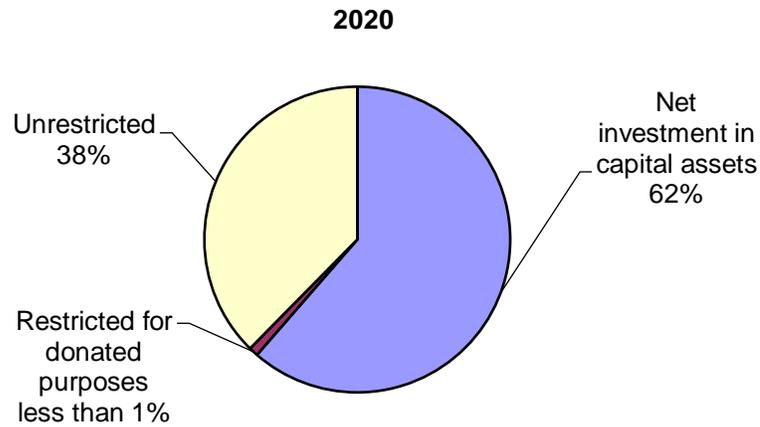
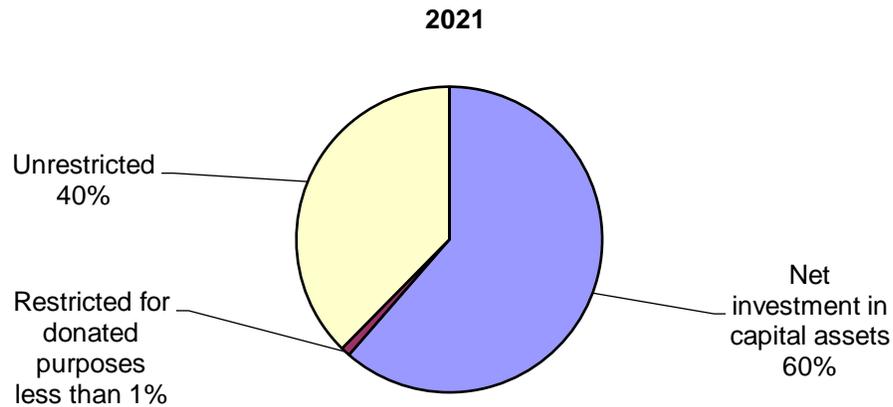
June 30, 2021 and 2020

loan made to OUMI in 2018 and \$2.3 million related to UHAT's interest in Embassy Suites Hotel, Bone & Joint, and Lithotripsy.

Current liabilities remained consistent between 2021 and 2020 with a decrease of \$311 thousand. There was a \$5.5 million increase between 2020 and 2019. The increase between 2019 and 2020 was driven by an increase in the size of the THRP program.

Long-term liabilities increased approximately \$790 thousand due to an increase in net pension liability.

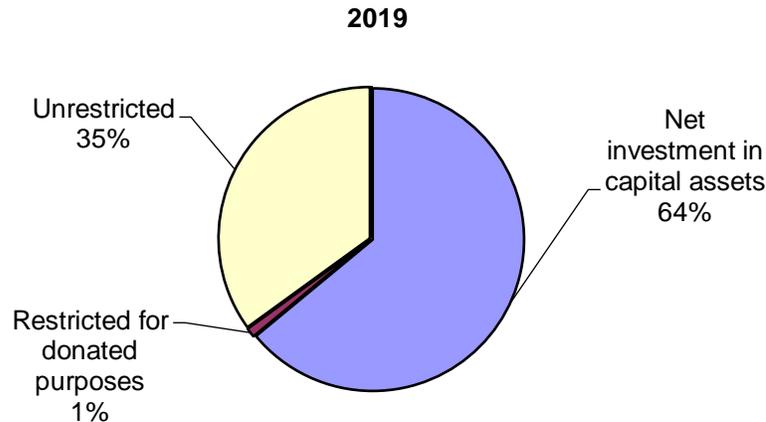
Composition of Net Position (%) as of June 30



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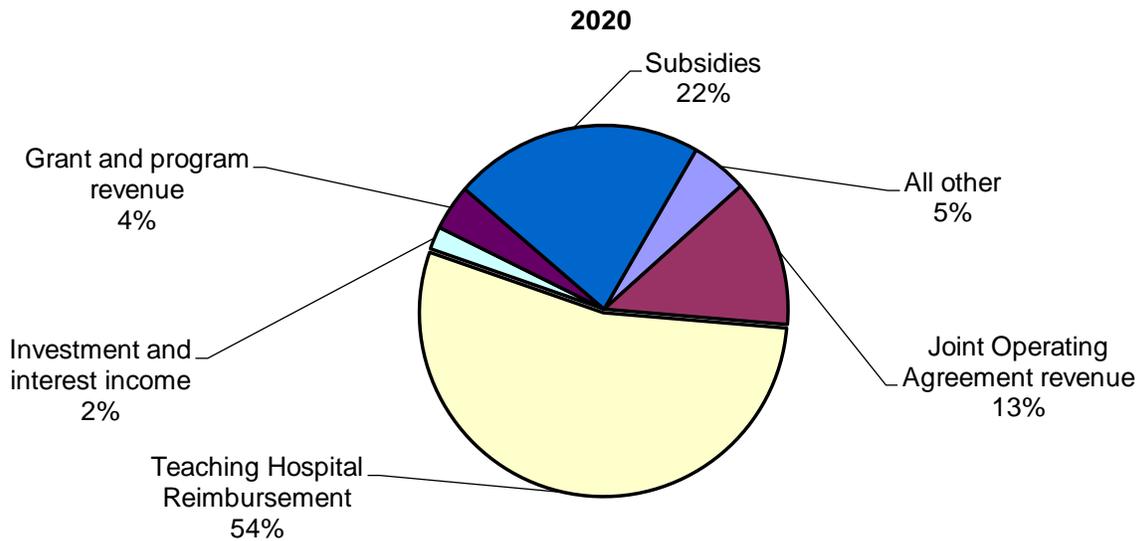
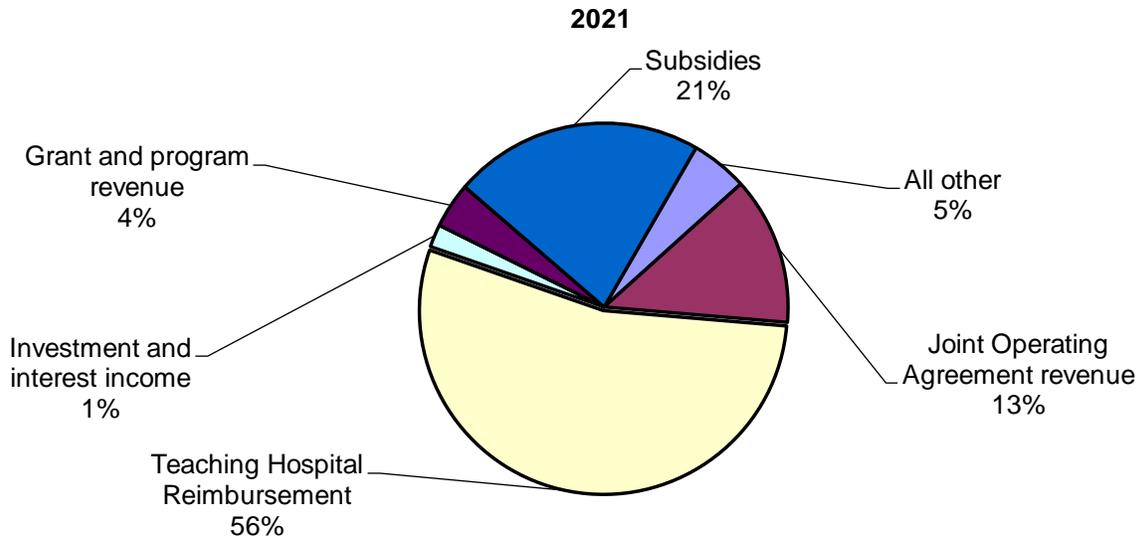
Changes in Net Position

The Authority and Trust total revenues (operating revenues and net non-operating revenues) decreased approximately \$3 million in 2021 from 2020 and increased \$57 million in 2020 from 2019. Total revenues for 2021 and 2020 were approximately \$312 million and \$315 million with 21.5% and 22.2% of the total revenues from appropriations for indigent care subsidies (appropriations or subsidies), respectively. Subsidies in 2021 of \$67 million decreased from fiscal year 2020 by approximately \$3 million. Subsidies in 2020 of \$70 million increased from fiscal year 2019 by approximately \$32 million.

Approximately 56.8% of total revenues were from Teaching Hospital Reimbursement and Level I Trauma programs in 2021 and approximately 54.4% in 2020. These receipts increased approximately \$5 million in 2021 from 2020 and increased approximately \$7 million in 2020 from 2019. For 2021, 2020, and 2019, Joint Operating Agreement (JOA) revenue of \$40 million was earned each year. The Trust earns \$20 million semi-annually or \$3.33 million per month.

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June 30, 2021 and 2020

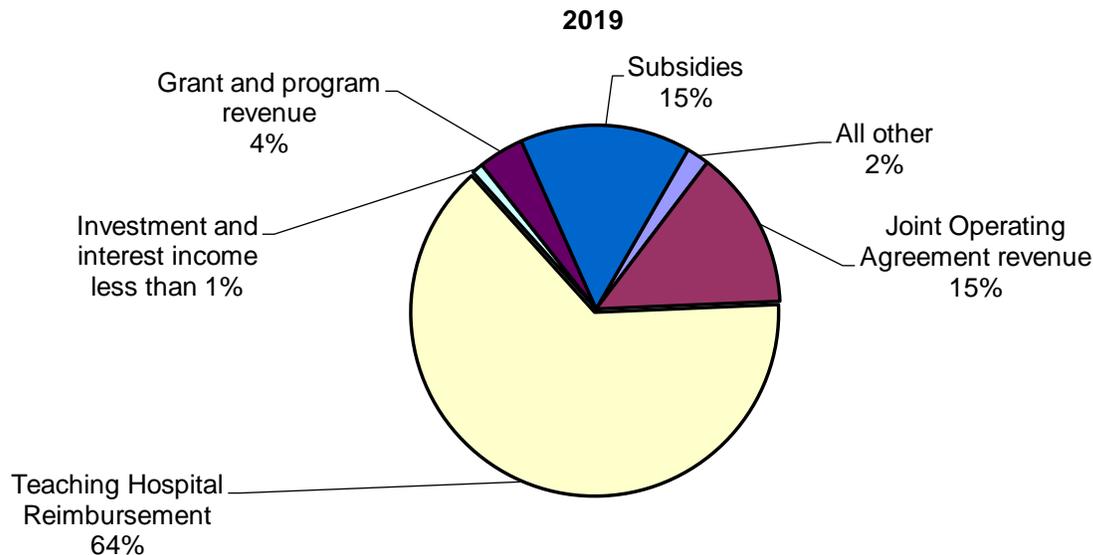
Sources of Revenue



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Management's Discussion and Analysis (Unaudited)

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

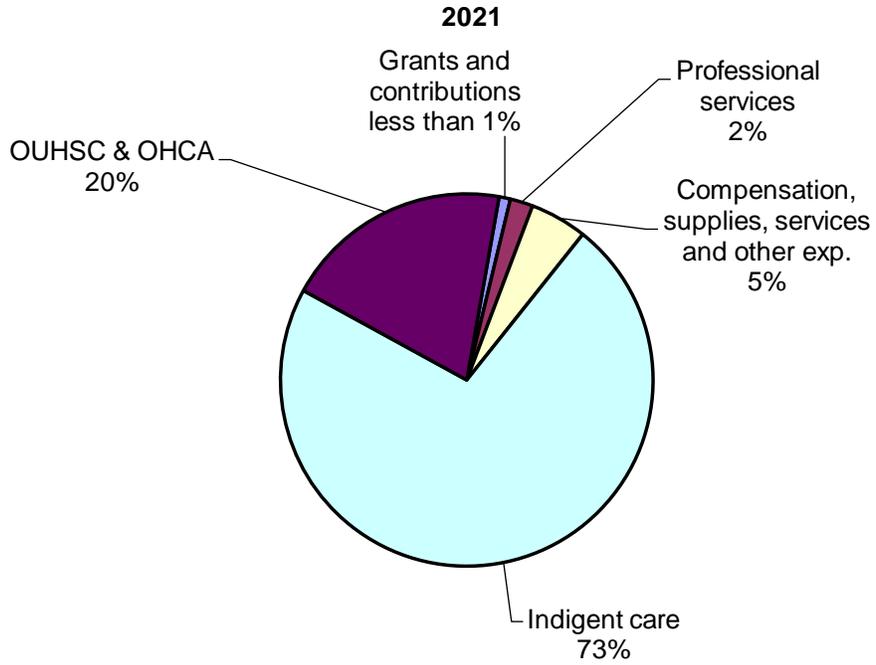
- *Subsidies* are appropriated for indigent care, medical education, and medical research programs.
- *Teaching Hospital Reimbursement*, known as Teaching Hospital Reimbursement Payment (THRP) program payments from the Oklahoma Health Care Authority (OHCA), reimburse the costs of providing care to Medicaid 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 approximately \$13 million in 2021 and approximately \$11 million in 2020.
- *Joint Operating Agreement (JOA) revenue* relates to the Joint Operating Agreement between the Trust and OUMI. Trust earns \$20 million semi-annually or \$3.33 million per month through the OUMI JOA for a total of \$40 million annually.
- *Investment and interest income* accounted for approximately 1% of total revenues in 2021 and approximately 2% in 2020.
- *All other operating and non-operating revenues* are normally income associated with services provided to others such as rental and lease income of Authority and Trust buildings and donations. These revenues are reported net of miscellaneous non-operating expense. In 2021, 2020, and 2019 these revenue categories are comprised almost entirely of rental income.

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June 30, 2021 and 2020

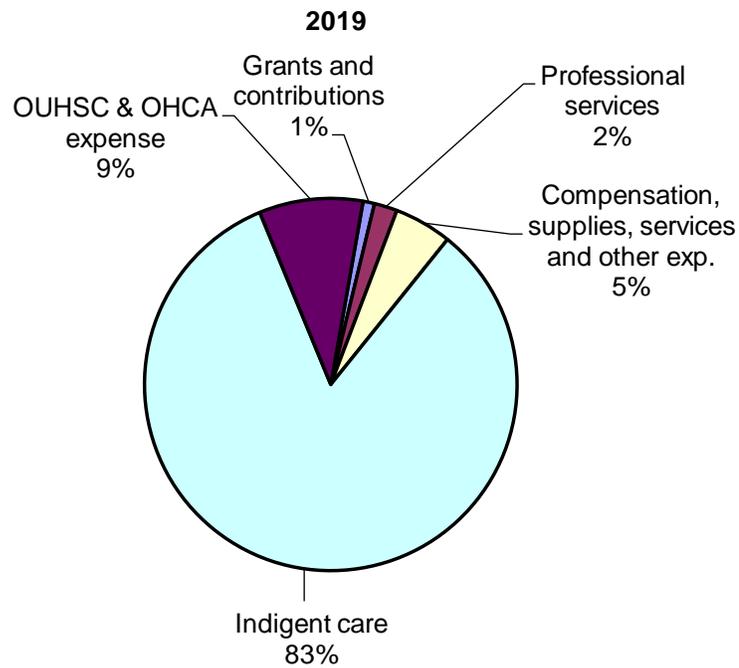
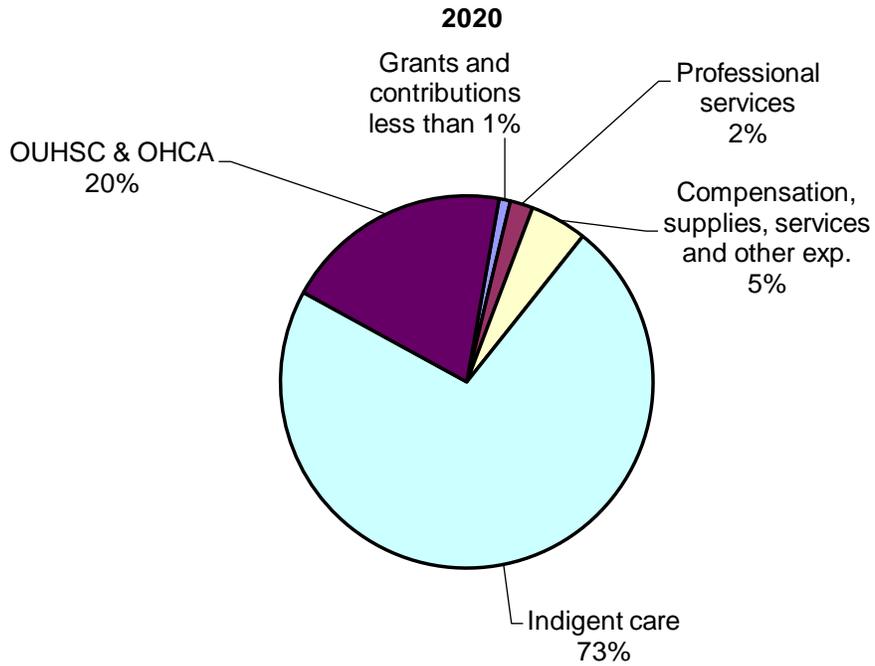
Operating Expenses before Depreciation



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- *Total expenses* including depreciation decreased approximately \$1 million in 2021 from 2020 primarily due to decreases in support for the University of Oklahoma Health Sciences Center (OUHSC) and other organizations receiving subsidies passthrough dollars. Total expenses including depreciation increased approximately \$23 million in 2020 from 2019 primarily due to increases in support for the University of Oklahoma Health Sciences Center (OUHSC).
- *Indigent care expense* represents certain amounts of state subsidies and Medicaid program receipts from the Oklahoma Health Care Authority paid to OUMI for Indigent Care services to patients based on the terms of the Indigent Care Agreement.
- *OUHSC and OHCA expenses* are state match amounts paid to the OHCA for Hospital GME/Diagnosis Related Groups (DRG) programs of approximately \$9 million in 2021 and \$9 million in 2020 and OUHSC program expenses of approximately \$48 million in 2021 and approximately \$49 million in 2020.
- *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, pathology, and other medical professional expenses.
- *Compensation, supplies, services, and other expenses* includes costs associated with building operations support for space leased to others.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021–2020 percentage change</u>
	(Dollars in thousands)			
Operating revenues:				
Grant and program revenue	\$ 13,343	11,189	10,239	19 %
Rental income and other services	14,328	11,931	12,119	20
Teaching Hospital Reimbursement/ Level 1 Trauma revenue	176,289	171,405	164,215	3
Joint operating agreement revenue	40,000	40,000	40,000	—
Other revenue	550	2,661	744	(79)
Total operating revenues	<u>244,510</u>	<u>237,186</u>	<u>227,317</u>	<u>3</u>
Operating expenses:				
Compensation and benefits	4,443	3,699	2,976	20
Professional services	5,058	5,254	5,181	(4)
Grants and contributions	52	200	756	(74)
Supplies, services, and other	11,263	10,959	10,881	3
Indigent care expense	211,464	212,807	222,703	(1)
OUHSC and OHCA expense	57,270	58,117	24,938	(1)
Total operating expenses before depreciation	<u>289,550</u>	<u>291,036</u>	<u>267,435</u>	<u>(1)</u>

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	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021–2020 percentage change</u>
	(Dollars in thousands)			
Depreciation	\$ 12,363	12,331	12,913	—
Operating loss	(57,403)	(66,181)	(53,031)	(13)
Nonoperating revenues (expenses):				
Investment and interest income	2,469	6,349	1,460	(61)
Subsidies	66,691	69,953	37,419	(5)
Miscellaneous income (expense), net	(1,431)	1,793	(7,633)	(180)
Total nonoperating revenues	67,729	78,095	31,246	(13)
Change in net position	\$ 10,326	11,914	(21,785)	(13)%

The Authority and Trust operating revenues increased approximately \$7 million in 2021 from 2020 and increased approximately \$10 million in 2020 from 2019.

- Grant and program revenue increased approximately \$2 million in 2021 from 2020 and increased \$950 thousand in 2020 from 2019. IME grants paid to the Trust by the OHCA are based on federal matching amounts that vary from year to year but have been increasing the last couple of years.
- Rental income and other services increased more than \$2 million in 2021 from 2020 as the Trust implemented certain rental increases to remain in line with market rates and also slightly increased the amount of space rented. Rental income and other services decreased \$188 thousand in 2020 from 2019. The slight decrease in 2020 was a result of slightly reduced services and some rental forgiveness as a result of COVID-19.
- Teaching Hospital Reimbursement/Level I Trauma revenue increased approximately \$5 million in 2021 from 2020 and increased approximately \$7 million in 2020 from 2019. These changes in revenue are dependent upon the hospital's costs, case mix intensity, Medicaid utilization, and federal match percentages. CMS agreed to a change in the formula in 2019 that increased revenues significantly. Indigent care expenses to OUMI decreased approximately \$1 million in 2021 from 2020 and decreased approximately \$10 million in 2020 from 2019, as they also fluctuate consistent with changes in federal Medicaid income.
- JOA revenue remained consistent between 2021 and 2020 with income of \$40 million. JOA revenue was also consistent between 2020 from 2019 as the terms of the JOA have not changed since 2018.
- Compensation and benefits increased \$744 thousand in 2021 from 2020, which was due to an increase in FTE and a cost-of-living increase. Employees were hired for construction, access control, and signage support positions.

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- Professional services cost decreased slightly by \$196 thousand between 2021 and 2020 and had remained consistent between 2020 and 2019. The small changes between 2021 and 2020 were due to decreases in dollars appropriated for auditory services and dental services.
- The Trust and Authority committed or expended approximately \$148 thousand less in grants in 2021 over 2020. The Trust and Authority committed or expended approximately \$556 thousand less in grants in 2020 over 2019. OUMI assumed responsibility for the Trust's grants in February 2018, decreasing the Trust's expenses.
- The OUHSC and OHCA combined expenses decreased by approximately \$847 thousand in 2021 over 2020 due to decreased state appropriation support for graduate medical education provided by OUHSC. This is number was a stabilization number after the increase seen between 2020 and 2019.
- Investment and interest income decreased approximately \$4 million in 2021 from 2020 due to OUMI subordinate debt interest earnings that stabilized in 2021. Investment and interest income had increased \$4.9 million in 2020 from 2019 due to interest earnings on the OUMI subordinate debt agreement.
- Subsidies decreased approximately \$3 million in 2021 from 2020 as subsidies were subject to state-wide budget reductions for 2021. Subsidies increased \$32.5 million in 2020 from 2019 as subsidies were appropriated at higher levels after the loss of the Dean's GME program.
- Miscellaneous expense, net increased by approximately \$3 million in 2021 from 2020. These expense increases were driven by transfers of historic donations to Oklahoma Children's Hospital and the transfer of trustee responsibilities and the associated funds for the Kerr Trust Fund to OUMI. The 2020 earnings were driven by a \$1.7 million receipt of post-closing settlement collections related to the previous JOA with HCA. 2019 expenses were driven by one-time settlement amounts paid by the Trust to HCA.

Financial Analysis of Fiscal Year 2021 Operations

Total net position increased approximately \$10.3 million in 2021.

Legislative appropriations decreased in 2021 over 2020. The decrease in funds was due to the legislature enacting state-wide budget cuts.

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Management's Discussion and Analysis (Unaudited)

June 30, 2021 and 2020

Capital Assets, Net

Capital assets net of depreciation decreased approximately \$56 thousand in 2021 from 2020. This decrease was primarily due to depreciation expense offset by new capital spending. Annual depreciation was approximately \$12 million in 2021. Capital assets net of depreciation decreased approximately \$1.5 million in 2020 from 2019. This decrease was primarily due to depreciation expense. Annual depreciation was approximately \$12 million in 2020.

Capital Assets

(Net of depreciation, dollars in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021 to 2020 Change amount</u>
Land	\$ 5,058	4,009	4,009	1,049
Building and improvements	211,601	211,067	208,670	534
Equipment	29,610	32,448	36,046	(2,838)
Infrastructure	5,934	4,735	4,903	1,199
Construction-in-progress	—	—	107	—
Total	<u>\$ 252,203</u>	<u>252,259</u>	<u>253,735</u>	<u>(56)</u>

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

The Authority and Trust are dependent on subsidies, grants, and entitlements from other government entities in sustaining their primary mission of Indigent Care, Medical Education, and Research. All of these sources of income combine to account for 22% of total income. In 2021 the Oklahoma legislature appropriated \$3 million less than in 2020. 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. 2021 saw favorable FMAP rates compared to 2020 and 2019.



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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 financial statements of the University Hospitals Authority and University Hospitals Trust (together referred to as UHAT), component units of the State of Oklahoma, which comprise the statements of net position as of June 30, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise UHAT'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 an opinion 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 financial position of UHAT as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows 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 UHAT and do not purport to, and do not, present fairly the net position of the State of Oklahoma, as of June 30, 2021 and 2020, the changes in its net financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. 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 1–13 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise UHAT's basic financial statements. The supplementary combining statements on pages 33–38 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2021 on our consideration of UHAT'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 the effectiveness of UHAT's 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 UHAT's internal control over financial reporting and compliance.

KPMG LLP

Oklahoma City, Oklahoma
October 29, 2021

**UNIVERSITY HOSPITALS AUTHORITY AND
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Statements of Net Position

June 30, 2021 and 2020

	Assets	<u>2021</u>	<u>2020</u>
Current assets:			
Cash and cash equivalents		\$ 103,198,946	90,628,159
Investments		20,291,415	20,146,859
Receivables:			
Institutional and other		100,909,563	107,322,963
Interest		49,114	150,400
Prepaid expenses		—	299,577
Total current assets		<u>224,449,038</u>	<u>218,547,958</u>
Restricted assets:			
Cash and cash equivalents		188,028	188,028
Investments		—	587,535
Real estate		<u>35,989</u>	<u>35,989</u>
Total restricted assets		224,017	811,552
Noncurrent:			
Subordinate debt loan to OUMI, including accrued interest		41,999,373	40,000,000
Other assets		5,306,596	2,306,596
Capital assets, net		<u>252,203,086</u>	<u>252,259,632</u>
Total assets		<u>\$ 524,182,110</u>	<u>\$ 513,925,738</u>
Deferred Outflows of Resources			
Pension amounts		<u>\$ 711,548</u>	<u>243,325</u>
Total deferred outflows of resources		<u>\$ 711,548</u>	<u>243,325</u>
Liabilities			
Current liabilities:			
Trade payables		\$ 2,833,495	2,379,098
Accrued expenses		103,386,688	104,194,536
Compensated absences		237,185	194,658
Unearned revenue		<u>239</u>	<u>—</u>
Total current liabilities		106,457,607	106,768,292
Noncurrent:			
Net pension liability		<u>950,776</u>	<u>160,653</u>
Total liabilities		<u>\$ 107,408,383</u>	<u>\$ 106,928,945</u>
Deferred Inflows of Resources			
Pension amounts		<u>\$ 5,213</u>	<u>85,910</u>
Total deferred inflows of resources		<u>\$ 5,213</u>	<u>85,910</u>
Net Position			
Net position:			
Net investment in capital assets		\$ 252,203,086	252,259,632
Restricted		224,017	811,552
Unrestricted		<u>165,052,959</u>	<u>154,083,024</u>
Total net position		<u>\$ 417,480,062</u>	<u>\$ 407,154,208</u>

See accompanying notes to basic financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Teaching Hospital Reimbursement/Level I Trauma revenue	\$ 176,289,012	171,404,609
Grant and program revenue	13,342,976	11,189,311
Joint operating agreement revenue	40,000,000	40,000,000
Rental income and other services	14,328,378	11,930,686
Other revenue	550,280	2,661,331
	<u>244,510,646</u>	<u>237,185,937</u>
Total operating revenues		
Operating expenses:		
OUHSC and OHCA expense	57,270,030	58,117,252
Indigent care expense	211,464,278	212,806,646
Grants and contributions	52,240	200,000
Professional services	5,058,182	5,253,948
Compensation and benefits	4,442,800	3,699,115
Supplies, services, and other	11,263,225	10,958,632
	<u>289,550,755</u>	<u>291,035,593</u>
Total operating expenses before depreciation		
Operating loss before depreciation	(45,040,109)	(53,849,656)
Depreciation	<u>(12,363,164)</u>	<u>(12,331,295)</u>
Operating loss	<u>(57,403,273)</u>	<u>(66,180,951)</u>
Nonoperating revenues (expenses):		
Subsidies	66,691,554	69,953,358
Investment and interest income	2,468,639	6,348,997
Miscellaneous income (expense), net	<u>(1,431,066)</u>	<u>1,792,453</u>
Total nonoperating revenues	<u>67,729,127</u>	<u>78,094,808</u>
Change in net position	10,325,854	11,913,857
Net position, beginning of year	<u>407,154,208</u>	<u>395,240,351</u>
Net position, end of year	<u>\$ 417,480,062</u>	<u>407,154,208</u>

See accompanying notes to basic financial statements.

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UNIVERSITY HOSPITALS TRUST**

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from customers	\$ 15,753,759	10,807,040
Joint operating agreement receipts	40,000,000	40,000,000
Grant receipts (IME, GME, MTH)	188,807,132	172,740,880
Indigent care payments	(210,517,057)	(207,785,806)
OUHSC and OHCA payments	(61,861,424)	(62,495,995)
Goods and service payments	(14,043,976)	(12,884,312)
Payments to employees	(4,168,707)	(3,515,689)
Other operating receipts	1,319,572	2,958,516
	<u>(44,710,701)</u>	<u>(60,175,366)</u>
Net cash used in operating activities		
Cash flows from noncapital financing activity:		
Subsidies	66,691,554	69,953,358
Cash flows from capital and related financing activities:		
Purchase of capital assets	(12,453,956)	(9,954,524)
Nonoperating revenue	920,468	279,250
	<u>(11,533,488)</u>	<u>(9,675,274)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Investment and interest income	104,045	1,461,307
Purchase of equity interest	(3,000,000)	—
Interest income on loan to OUMI	5,019,377	—
Purchase of investments	—	(20,000,000)
	<u>2,123,422</u>	<u>(18,538,693)</u>
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	12,570,787	(18,435,975)
Cash and cash equivalents, beginning of year	90,816,187	109,252,162
Cash and cash equivalents, end of year	<u>\$ 103,386,974</u>	<u>90,816,187</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (57,403,273)	(66,180,951)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	12,363,164	12,331,295
Increase in receivables, net	(2,506,871)	(10,696,759)
Increase in payables and accrued expenses	2,295,738	4,494,775
Decrease in unearned revenue	(239)	(3,500)
Decrease (increase) in prepaid expenses	299,577	(296,709)
(Increase) decrease in deferred outflows of resources	(468,223)	189,954
Increase in net pension liability	790,123	30,009
Decrease in deferred inflows of resources	(80,697)	(43,480)
	<u>12,692,572</u>	<u>6,005,585</u>
Total adjustments		
Net cash used in operating activities	<u>\$ (44,710,701)</u>	<u>(60,175,366)</u>
Noncash capital financing and investing activity:		
Capital assets purchased remaining in accrued expenses	\$ 1,367,182	1,547,311

See accompanying notes to basic financial statements.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

(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 Administrator of the Oklahoma Health Care Authority (OHCA), or his or her designee, 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 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 "UHAT."

UHAT 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 UHAT.

UHAT operated the University Hospitals until February 4, 1998, when the first Joint Operating Agreement (JOA) went into effect.

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 UHAT with a subsidiary of Columbia/HCA (HCA). The jointly operated hospitals and other healthcare facilities are collectively known as OU Medical System (OUMS). The agreement with the Trust provided that the Authority will lease certain buildings, structures, improvements, and personal property utilized in connection with the operation of the University Hospitals to the Trust. The Trust then entered into the agreement with HCA.

Between February 4, 1998 and January 31, 2018, UHAT, (through the Trust) was eligible to share in the net profits of the joint operations of OUMS.

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.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

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.

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 "UHAT." For ease of presentation, certain agreements between either the Authority or Trust and OUMI are described herein as between UHAT and other parties.

UHAT'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 UHAT 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 of assets is recognized, and all assets and liabilities associated with the operations of UHAT are included in the statement of net position. UHAT recognizes revenue related to the JOA, teaching hospitals and grant and program as operating revenues. Operating expenses for UHAT include the costs of administering the funds, grants and contributions expense, indigent care costs, and depreciation 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

UHAT 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 and interest income in the statement of revenues, expenses, and changes in net position and includes the unrealized and realized gains and losses on investments.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

(d) Restricted Assets

Certain assets of UHAT are classified as restricted assets because their use is restricted by grant agreements or by donor 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 value, 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 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, 2021 and 2020 have been leased to the joint operations of OUMI or the OU Board of Regents for uses related to the mission of UHAT.

(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) 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.

(h) 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.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

(i) Use of Estimates

Management of UHAT 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.

(j) Teaching Hospital Reimbursement/Level I Trauma Income

UHAT receives reimbursement for the cost of providing care to Medicaid patients based on the OU Medical Center's Level I trauma designation. THRP program payments are received from OHCA. UHAT also receives Level I Trauma payments 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. THRP payments are received every six months and the revenue is recorded in the fiscal year for which the patient care was provided.

(k) Subsidy Income

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

(l) Recently Issued Accounting Standards

GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*, which extended the effective dates of certain accounting and financial reporting provisions of other GASB Statements. After consideration of the extended effective dates in GASB 95, the following GASB Statements will become effective for the fiscal years noted below:

For the year ended June 30, 2022:

- 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 UHAT's financial statements.

(2) Deposits and Investments

(a) Deposits

At June 30, 2021 and 2020, UHAT 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. UHAT'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.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

The Authority's unrestricted deposits with the State Treasurer at June 30, 2021 and 2020 are \$10,908,751 and \$6,293,477, respectively. The Authority's reserve deposits with the State Treasurer at June 30, 2021 and 2020 are \$188,028 and \$188,028 respectively.

At June 30, 2021 and 2020, the bank balance of the Trust's cash equivalents were \$92,290,195 and \$84,334,682, 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, 2021 or 2020.

(b) Investments

UHAT investment policies are aligned with the Oklahoma State Treasurer's investment policy. This policy allows for investments in the following categories:

- United States Treasury bills, notes and bonds
- United States government agency securities
- Prime banker's acceptances
- Investment grade obligations of state and local governments
- Short-term bond funds
- Foreign bonds
- Collateralized or insured certificates of deposit
- Negotiable certificates of deposit
- Prime commercial paper
- Repurchase agreements
- Money market funds

UHAT's investment policy attempts to reduce portfolio risk through diversification by security, institution, and maturity.

At June 30, UHAT's investments consisted of the following:

	2021	2020
U.S. Treasury, Agency, and municipal securities	\$ 11,110,424	9,484,127
Institutional money market funds	252,882	402,466
Certificates of deposit and commercial paper	8,928,109	10,847,801
Total	\$ 20,291,415	20,734,394

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

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

inputs. The following table details the fair value of investments held by the primary government at June 30, 2021 and 2020:

		2021			
		Amounts measured at fair value	Quoted prices in active for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments measured at fair value:					
Debt securities:					
U.S. Treasury, Agency and municipal securities	\$	11,110,424	—	11,110,424	—
Certificates of deposit and commercial paper		8,928,109	—	8,928,109	—
Equity securities:					
Institutional money market funds		252,882	252,882	—	—
Total investments measured at fair value	\$	<u>20,291,415</u>	<u>252,882</u>	<u>20,038,533</u>	<u>—</u>
		2020			
		Amounts measured at fair value	Quoted prices in active for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments measured at fair value:					
Debt securities:					
U.S. Treasury, Agency and municipal securities	\$	9,484,127	—	9,484,127	—
Certificates of deposit and commercial paper		10,847,801	—	10,847,801	—
Equity securities:					
Institutional money market funds		402,466	402,466	—	—
Total investments measured at fair value	\$	<u>20,734,394</u>	<u>402,466</u>	<u>20,331,928</u>	<u>—</u>

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

(c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, UHAT will not be able to recover the value of its investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, not registered in the name of UHAT, or held by the counterparty or its trust department but not in UHAT's name.

UHAT requires that financial institutions deposit collateral securities to secure the deposits of UHAT in each such institution. The amount of collateral securities to be pledged for the security of deposits is established by rules promulgated by the State Treasurer. In accordance with the Office of State Treasurer's policies, the collateral securities to be pledged by financial institutions are pledged at market value and must be at 110% of value to collateralize the amount on deposit, less any federal insurance coverage.

As of June 30, 2021, the UHAT's bank balances of deposits are fully insured or collateralized and all investments are insured, registered, or held in the name of UHAT.

(d) Credit Risk

Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the debt instrument issuer's ability to meet its obligation. UHAT utilizes the credit quality ratings issued by Moody's, Standard and Poor's (S&P), or Fitch in determining the risk associated with its fixed-income investments. Obligations of the U.S. government or those explicitly guaranteed by the U.S. government are not considered to have credit risk.

As of June 30, 2021, the UHAT fixed-income investments were held 100% in U.S. Treasury or U.S. Government Agency securities.

(e) Concentration of Credit Risk

UHAT's investment policy seeks to mitigate concentration of credit risk through targeted diversification limits.

(f) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration is a measure of a debt instrument's exposure to fair value changes arising from changes in interest rates based on the present value of future cash flows, weighted for those cash flows as a percentage of the investment's full price. Modified duration estimates the sensitivity of a bond's price to interest rate changes. UHAT uses weighted average years outstanding as the standard measures for assessing interest rate risk. Generally, the longer the duration or years outstanding, the greater sensitivity an investment has to interest rate risk. The weighted average years to maturity of UHAT's investments is less than four years.

UHAT is not subject to foreign currency risk.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

(3) Receivables

At June 30, the accounts receivable are as follows:

	2021	2020
Institutional and other	\$ 100,909,563	107,322,963

These accounts receivable are due from the OHCA, OUMI, and OUHSC.

(4) Capital Assets

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

	2021	2020
Land	\$ 5,058,453	4,009,252
Buildings and improvements	427,864,041	419,806,695
Equipment	83,137,340	81,385,904
Infrastructure	11,964,608	10,450,384
	528,024,442	515,652,235
Less accumulated depreciation	(275,821,356)	(263,392,603)
	\$ 252,203,086	252,259,632

The following summarizes the additions and deductions from net capital assets during fiscal years 2021 and 2020:

	July 1, 2020	Additions and transfers in	Depreciation, deductions and transfers out	June 30, 2021
Capital assets, not being depreciated:				
Land	\$ 4,009,252	1,049,201	—	5,058,453
Capital assets, being depreciated:				
Buildings and improvements	211,067,422	8,057,344	(7,524,055)	211,600,711
Equipment	32,447,984	1,768,012	(4,606,088)	29,609,908
Infrastructure	4,734,974	1,514,224	(315,184)	5,934,014
Net capital assets	\$ 252,259,632	12,388,781	(12,445,327)	252,203,086

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

	<u>July 1, 2019</u>	<u>Additions and transfers in</u>	<u>Depreciation, deductions and transfers out</u>	<u>June 30, 2020</u>
Capital assets, not being depreciated:				
Land	\$ 4,009,252	—	—	4,009,252
Construction-in-progress	106,873	3,515,907	(3,622,780)	—
Capital assets, being depreciated:				
Buildings and improvements	208,669,655	9,854,392	(7,456,625)	211,067,422
Equipment	36,046,334	1,230,918	(4,829,268)	32,447,984
Infrastructure	4,902,945	96,658	(264,629)	4,734,974
Net capital assets	<u>\$ 253,735,059</u>	<u>14,697,875</u>	<u>(16,173,302)</u>	<u>252,259,632</u>

For the years ended June 30, 2021 and 2020, depreciation expense related to capital assets was \$12,363,164 and \$12,331,295, respectively.

(5) Operating Leases

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

The following schedule shows future minimum lease rent receipts:

2022	\$ 884,934
2023	755,773
2024	764,291
2025	749,410
2026	759,633
2027–2033	<u>2,029,763</u>
Total	<u>\$ 5,943,804</u>

(6) Changes in Liabilities

Long-term and short-term liability activity for the years ended June 30, 2021 and 2020 was as follows:

<u>2021</u>	<u>July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2021</u>	<u>Current portion</u>
Compensated absences	\$ 194,658	42,527	—	237,185	237,185
	<u>\$ 194,658</u>	<u>42,527</u>	<u>—</u>	<u>237,185</u>	<u>237,185</u>

**UNIVERSITY HOSPITALS AUTHORITY AND
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Notes to Basic Financial Statements

June 30, 2021 and 2020

<u>2020</u>	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>	<u>Current portion</u>
Compensated absences	\$ 178,987	15,671	—	194,658	194,658
	<u>\$ 178,987</u>	<u>15,671</u>	<u>—</u>	<u>194,658</u>	<u>194,658</u>

(7) Joint Operating Agreement

On January 31, 2018 a JOA with OU Medicine Inc. (OUMI), was signed. All leases for land, buildings, improvements and equipment that were previously in place under an old JOA 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 University Hospitals. 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.

On February 1, 2018, the Trust issued a \$40 million subordinate debt loan to OUMI with a maturity date of December 15, 2032. This loan is subordinate to all other debt of OUMI. Conditions for interest and principal payments are detailed in the loan agreement and are generally required when certain cash flow targets are achieved by OUMI. As of June 30, 2021, OUMI did not meet conditions that would require an interest payment; however, interest earned during that time continues to accrue. The Trust accrued interest income of approximately \$2 million in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2021. The Trust recorded interest income of approximately \$5 million in the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2020. This accrued interest was recorded in institutional and other receivables in 2020 and received in 2021.

(8) 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, 2021 and 2020. UHAT believes that it has no liabilities in respect to the State's plan.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2021 and 2020

(9) Risk Management

UHAT participates in the Oklahoma Risk Management Division's (a division of the Oklahoma Office of Management and Enterprise Services) insurance pool, which covers all governmental tort claims against UHAT. UHAT 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. UHAT 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.

(10) 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. UHAT 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.

(11) Impacts of Coronavirus Pandemic

On March 11, 2020, the World Health Organization announced a new strain of coronavirus (COVID-19) worldwide, resulting in COVID-19 being declared a pandemic. On March 13, 2020, the U.S. President announced a National Emergency relating to the disease. There is a possibility of continued widespread infection in the United States and abroad, with national, state, and local authorities imposing social distancing, quarantine, and self-isolation measures. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The extent to which COVID-19 impacts UHAT's business will depend on future developments, which are highly uncertain and cannot be predicted, including additional actions taken to contain COVID-19 or treat its impact, among others. Due to the nature of the organization, UHAT's business and financial results are not likely to be materially adversely impacted.

(12) Subsequent Events

UHAT has evaluated the impact of subsequent events for inclusion or disclosure from the financial statements date through October 29, 2021, the date at which the financial statements were available to be issued. UHAT has determined there are no other items to disclose.



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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 UHAT), which comprise the statement of net position as of June 30, 2021, 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 October 29, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UHAT's internal control over financial reporting (internal control) as a basis for designing 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 UHAT's internal control. Accordingly, we do not express an opinion on the effectiveness of UHAT'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 UHAT'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 financial statements. 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 UHAT's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UHAT's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Oklahoma City, Oklahoma
October 29, 2021

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Net Position

June 30, 2021

Assets	Authority Fund	Trust Fund	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 10,908,751	92,290,195	—	103,198,946
Investments	—	20,291,415	—	20,291,415
Receivables:				
Institutional and other	24,724,053	78,571,341	(2,385,831)	100,909,563
Interest	7,790	41,324	—	49,114
Prepaid expenses	—	—	—	—
Total current assets	<u>35,640,594</u>	<u>191,194,275</u>	<u>(2,385,831)</u>	<u>224,449,038</u>
Restricted assets:				
Cash and cash equivalents	188,028	—	—	188,028
Investments	—	—	—	—
Real estate	35,989	—	—	35,989
Total restricted assets	<u>224,017</u>	<u>—</u>	<u>—</u>	<u>224,017</u>
Noncurrent:				
Subordinate debt loan to OUMI, including accrued interest	—	41,999,373	—	41,999,373
Other assets	—	5,306,596	—	5,306,596
Capital assets, net	5,564,120	246,638,966	—	252,203,086
Total assets	<u>\$ 41,428,731</u>	<u>485,139,210</u>	<u>(2,385,831)</u>	<u>524,182,110</u>
Deferred Outflows of Resources				
Pension amounts	\$ —	711,548	—	711,548
Total deferred outflows of resources	<u>\$ —</u>	<u>711,548</u>	<u>—</u>	<u>711,548</u>
Liabilities				
Current liabilities:				
Trade payables	\$ 207,668	2,625,827	—	2,833,495
Accrued expenses	32,119,327	73,653,192	(2,385,831)	103,386,688
Compensated absences	—	237,185	—	237,185
Unearned revenue	—	239	—	239
Total current liabilities	<u>32,326,995</u>	<u>76,516,443</u>	<u>(2,385,831)</u>	<u>106,457,607</u>
Noncurrent:				
Net pension liability	—	950,776	—	950,776
Total liabilities	<u>\$ 32,326,995</u>	<u>77,467,219</u>	<u>(2,385,831)</u>	<u>107,408,383</u>
Deferred Inflows of Resources				
Pension amounts	\$ —	5,213	—	5,213
Total deferred inflows of resources	<u>\$ —</u>	<u>5,213</u>	<u>—</u>	<u>5,213</u>
Net Position				
Net position:				
Invested in capital assets	\$ 5,564,120	246,638,966	—	252,203,086
Restricted	224,017	—	—	224,017
Unrestricted	3,313,599	161,739,360	—	165,052,959
Total net position	<u>\$ 9,101,736</u>	<u>408,378,326</u>	<u>—</u>	<u>417,480,062</u>

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Net Position

June 30, 2020

Assets	Authority Fund	Trust Fund	Total
Current assets:			
Cash and cash equivalents	\$ 6,293,477	84,334,682	90,628,159
Investments	—	20,146,859	20,146,859
Receivables:			
Institutional and other	12,040,051	95,282,912	107,322,963
Interest	8,083	142,317	150,400
Prepaid expenses	—	299,577	299,577
Total current assets	<u>18,341,611</u>	<u>200,206,347</u>	<u>218,547,958</u>
Restricted assets:			
Cash and cash equivalents	188,028	—	188,028
Investments	587,535	—	587,535
Real estate	35,989	—	35,989
Total restricted assets	<u>811,552</u>	<u>—</u>	<u>811,552</u>
Noncurrent:			
Subordinate debt loan to OUMI	—	40,000,000	40,000,000
Other assets	—	2,306,596	2,306,596
Capital assets, net	6,419,485	245,840,147	252,259,632
Total assets	<u>\$ 25,572,648</u>	<u>488,353,090</u>	<u>513,925,738</u>
Deferred Outflows of Resources			
Pension amounts	\$ —	243,325	243,325
Total deferred outflows of resources	<u>\$ —</u>	<u>243,325</u>	<u>243,325</u>
Liabilities			
Current liabilities:			
Trade payables	\$ —	2,379,098	2,379,098
Accrued expenses	15,214,056	88,980,480	104,194,536
Compensated absences	—	194,658	194,658
Unearned revenue	—	—	—
Total current liabilities	<u>15,214,056</u>	<u>91,554,236</u>	<u>106,768,292</u>
Noncurrent:			
Net pension liability	—	160,653	160,653
Total liabilities	<u>\$ 15,214,056</u>	<u>91,714,889</u>	<u>106,928,945</u>
Deferred Inflows of Resources			
Pension amounts	\$ —	85,910	85,910
Total deferred inflows of resources	<u>\$ —</u>	<u>85,910</u>	<u>85,910</u>
Net Position			
Net position:			
Invested in capital assets	\$ 6,419,485	245,840,147	252,259,632
Restricted	811,552	—	811,552
Unrestricted	3,127,555	150,955,469	154,083,024
Total net position	<u>\$ 10,358,592</u>	<u>396,795,616</u>	<u>407,154,208</u>

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, 2021

	<u>Authority Fund</u>	<u>Trust Fund</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues:				
Teaching Hospital Reimbursement/Level I				
Trauma revenue	\$ 61,631,669	117,043,174	(2,385,831)	176,289,012
Grant and program revenue	—	13,342,976	—	13,342,976
Joint operating agreement revenue	—	40,000,000	—	40,000,000
Rental income and other services	2,400	14,325,978	—	14,328,378
Other revenue	47,014	503,266	—	550,280
Total operating revenues	<u>61,681,083</u>	<u>185,215,394</u>	<u>(2,385,831)</u>	<u>244,510,646</u>
Operating expenses:				
OUHSC and OHCA expense	57,270,030	—	—	57,270,030
Indigent care expense	67,696,913	146,153,196	(2,385,831)	211,464,278
Grants and contributions	—	52,240	—	52,240
Professional services	2,563,295	2,494,887	—	5,058,182
Compensation and benefits	—	4,442,800	—	4,442,800
Supplies, services, and other	4,299	11,258,926	—	11,263,225
Total operating expenses before depreciation	<u>127,534,537</u>	<u>164,402,049</u>	<u>(2,385,831)</u>	<u>289,550,755</u>
Operating (loss) income before depreciation	(65,853,454)	20,813,345	—	(45,040,109)
Depreciation	<u>(855,364)</u>	<u>(11,507,800)</u>	<u>—</u>	<u>(12,363,164)</u>
Operating (loss) income	<u>(66,708,818)</u>	<u>9,305,545</u>	<u>—</u>	<u>(57,403,273)</u>
Nonoperating revenues (expenses):				
Subsidies	66,691,554	—	—	66,691,554
Investment and interest income	92,600	2,376,039	—	2,468,639
Miscellaneous income (expense), net	(1,332,192)	(98,874)	—	(1,431,066)
Total nonoperating revenues	<u>65,451,962</u>	<u>2,277,165</u>	<u>—</u>	<u>67,729,127</u>
Change in net position	(1,256,856)	11,582,710	—	10,325,854
Net position, beginning of year	<u>10,358,592</u>	<u>396,795,616</u>	<u>—</u>	<u>407,154,208</u>
Net position, end of year	<u>\$ 9,101,736</u>	<u>408,378,326</u>	<u>—</u>	<u>417,480,062</u>

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, 2020

	<u>Authority Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Operating revenues:			
Teaching Hospital Reimbursement/Level I			
Trauma revenue	\$ 62,034,894	109,369,715	171,404,609
Grant and program revenue	—	11,189,311	11,189,311
Joint operating agreement revenue	—	40,000,000	40,000,000
Rental income and other services	33,635	11,897,051	11,930,686
Other revenue	22,032	2,639,299	2,661,331
	<u>62,090,561</u>	<u>175,095,376</u>	<u>237,185,937</u>
Operating expenses:			
OUHSC and OHCA expense	58,117,252	—	58,117,252
Indigent care expense	72,462,029	140,344,617	212,806,646
Grants and contributions	—	200,000	200,000
Professional services	3,484,568	1,769,380	5,253,948
Compensation and benefits	1,722	3,697,393	3,699,115
Supplies, services, and other	2,848	10,955,784	10,958,632
	<u>134,068,419</u>	<u>156,967,174</u>	<u>291,035,593</u>
Total operating expenses before depreciation			
Operating (loss) income before depreciation	(71,977,858)	18,128,202	(53,849,656)
Depreciation	<u>(1,068,494)</u>	<u>(11,262,801)</u>	<u>(12,331,295)</u>
Operating (loss) income	<u>(73,046,352)</u>	<u>6,865,401</u>	<u>(66,180,951)</u>
Nonoperating revenues (expenses):			
Subsidies	69,953,358	—	69,953,358
Investment and interest income	199,801	6,149,196	6,348,997
Miscellaneous income, net	6,760	1,785,693	1,792,453
	<u>70,159,919</u>	<u>7,934,889</u>	<u>78,094,808</u>
Total nonoperating revenues			
Change in net position	(2,886,433)	14,800,290	11,913,857
Net position, beginning of year	<u>13,245,025</u>	<u>381,995,326</u>	<u>395,240,351</u>
Net position, end of year	<u>\$ 10,358,592</u>	<u>396,795,616</u>	<u>407,154,208</u>

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Cash Flows

Year ended June 30, 2021

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ —	15,753,759	15,753,759
Joint operating agreement receipts	—	40,000,000	40,000,000
Grant receipts (IME, GME, MTH)	48,947,405	139,859,727	188,807,132
Indigent care payments	(50,607,321)	(159,909,736)	(210,517,057)
OUHSC and OHCA payments	(59,809,978)	(2,051,446)	(61,861,424)
Goods and service payments	(4,305)	(14,039,671)	(14,043,976)
Payments to employees	—	(4,168,707)	(4,168,707)
Other operating receipts	49,676	1,269,895	1,319,571
	<u>(61,424,523)</u>	<u>16,713,821</u>	<u>(44,710,702)</u>
Net cash (used in) provided by operating activities			
Cash flows from noncapital financing activity:			
Subsidies	66,691,554	—	66,691,554
Cash flows from capital and related financing activities:			
Purchase of capital assets	—	(12,453,956)	(12,453,956)
Nonoperating revenue (expense), net	(744,646)	1,665,114	920,468
	<u>(744,646)</u>	<u>(10,788,842)</u>	<u>(11,533,488)</u>
Net cash used in capital and related financing activities			
Cash flows from investing activities:			
Investment and interest income	92,893	11,152	104,045
Purchase of equity interest	—	(3,000,000)	(3,000,000)
Interest income on loan to OUMI	—	5,019,377	5,019,377
	<u>92,893</u>	<u>2,030,529</u>	<u>2,123,422</u>
Net cash provided by investing activities			
Net increase in cash and cash equivalents	4,615,278	7,955,508	12,570,786
Cash and cash equivalents, beginning of year	6,481,505	84,334,682	90,816,187
Cash and cash equivalents, end of year	<u>\$ 11,096,783</u>	<u>92,290,190</u>	<u>103,386,973</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating income (loss)	\$ (66,708,818)	9,305,545	(57,403,273)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:			
Depreciation	855,364	11,507,800	12,363,164
(Increase) decrease in receivables, net	(12,684,002)	10,177,131	(2,506,871)
Increase (decrease) in payables and accrued expenses	17,112,934	(14,817,196)	2,295,738
Decrease in unearned revenue	—	(239)	(239)
Decrease in prepaid expenses	—	299,577	299,577
Increase in deferred outflows of resources	—	(468,223)	(468,223)
Increase in net pension liability	—	790,123	790,123
Decrease in deferred inflows of resources	—	(80,697)	(80,697)
	<u>5,284,296</u>	<u>7,408,276</u>	<u>12,692,572</u>
Total adjustments			
Net cash (used in) provided by operating activities	<u>\$ (61,424,522)</u>	<u>16,713,821</u>	<u>(44,710,701)</u>
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	\$ —	1,367,182	1,367,182

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Cash Flows

Year ended June 30, 2020

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 93,945	10,713,095	10,807,040
Joint operating agreement receipts	—	40,000,000	40,000,000
Grant receipts (IME, GME, MTH)	71,384,973	101,355,907	172,740,880
Indigent care payments	(86,182,438)	(121,603,368)	(207,785,806)
OUHSC and OHCA payments	(62,045,995)	(450,000)	(62,495,995)
Goods and service payments	(94,833)	(12,789,479)	(12,884,312)
Payments to employees	(1,722)	(3,513,967)	(3,515,689)
Other operating receipts	22,032	2,936,484	2,958,516
	<u>(76,824,038)</u>	<u>16,648,672</u>	<u>(60,175,366)</u>
Cash flows from noncapital financing activity:			
Subsidies	69,953,358	—	69,953,358
Cash flows from capital and related financing activities:			
Purchase of capital assets	—	(9,954,524)	(9,954,524)
Nonoperating revenue (expense), net	266,690	12,561	279,251
	<u>266,690</u>	<u>(9,941,963)</u>	<u>(9,675,273)</u>
Cash flows from investing activities:			
Investment and interest income	211,333	1,249,973	1,461,306
Purchase of investments	—	(20,000,000)	(20,000,000)
	<u>211,333</u>	<u>(18,750,027)</u>	<u>(18,538,694)</u>
Net cash provided by (used in) investing activities	<u>211,333</u>	<u>(18,750,027)</u>	<u>(18,538,694)</u>
Net decrease in cash and cash equivalents	(6,392,657)	(12,043,318)	(18,435,975)
Cash and cash equivalents, beginning of year	12,874,162	96,378,000	109,252,162
Cash and cash equivalents, end of year	<u>\$ 6,481,505</u>	<u>84,334,682</u>	<u>90,816,187</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating income (loss)	\$ (73,046,352)	6,865,401	(66,180,951)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:			
Depreciation	1,068,494	11,262,801	12,331,295
Decrease (increase) in receivables, net	9,401,379	(20,097,838)	(10,696,459)
(Decrease) increase in payables and accrued expenses	(14,244,691)	18,739,166	4,494,475
Decrease in unearned revenue	(2,868)	(632)	(3,500)
Decrease in prepaid expenses	—	(296,709)	(296,709)
Decrease in deferred outflows of resources	—	189,954	189,954
Increase in net pension liability	—	30,009	30,009
Decrease in deferred inflows of resources	—	(43,480)	(43,480)
	<u>(3,777,686)</u>	<u>9,783,271</u>	<u>6,005,585</u>
Net cash (used in) provided by operating activities	<u>\$ (76,824,038)</u>	<u>16,648,672</u>	<u>(60,175,366)</u>
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	\$ —	1,547,311	1,547,311

See accompanying independent auditors' report.