



**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Basic Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Management's Discussion and Analysis

June 30, 2019 and 2018

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, 2019 and 2018. For comparative purposes, fiscal year 2017 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 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 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 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.

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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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019–2018 Percentage change</u>
	(Dollars in thousands)			
Current assets	\$ 201,375	163,455	183,825	23 %
Restricted assets	1,187	1,170	1,170	1
Capital assets, net	253,735	260,680	303,216	(3)
Other assets	40,000	40,000	20,071	—
Total assets	<u>\$ 496,297</u>	<u>465,305</u>	<u>508,282</u>	<u>7 %</u>
Total deferred outflows of resources	\$ 433	454	877	(5)%
Current liabilities	\$ 101,229	48,206	80,806	110
Long-term liabilities	131	448	43,030	(71)
Total liabilities	<u>\$ 101,360</u>	<u>48,654</u>	<u>123,836</u>	<u>108 %</u>
Total deferred inflows of resources	\$ 129	80	260	61 %
Net investment in capital assets	\$ 253,735	260,680	259,446	(3)%
Restricted for donated purposes	1,186	1,170	1,170	1
Unrestricted	140,319	155,175	124,447	(10)
Total net position	<u>\$ 395,240</u>	<u>417,025</u>	<u>385,063</u>	<u>(5)%</u>

Current assets increased approximately \$37.9 million in 2019 from 2018. This increase is primarily due to net increases in cash related to final receipts and disbursements from the HCA Health Services of Oklahoma Inc., (HCA) Joint Operating Agreement (JOA) further described on page 18. Current assets decreased approximately \$20.4 million in FY'18. This decrease was primarily due to the \$40 million Subordinate Debt Loan made to the new Joint Operator, OU Medicine Inc. (OUMI). This loan is subordinate to all other debt of OUMI. Conditions for interest and principal payments are detailed in the loan agreement.

Restricted assets increased slightly in 2019 from 2018 as the Travis M. Kerr Trust Fund was moved to a more favorable investment account. Restricted assets remained the same in 2018 from 2017.

Capital assets, net decreased approximately \$6.9 million in 2019 due to depreciation expense. Capital assets, net decreased \$42.5 million in 2018 from 2017 due to depreciation expense and transfer of the Trust's investment in JOA PP&E and the Proton Therapy System to OUMI, both of which are described on page 19.

Other assets historically included a long-term receivable in the amount of \$20 million for the "Working Capital Settlement" due to University Hospitals Trust (UHT) if the JOA with HCA was still in effect in 2023. When that

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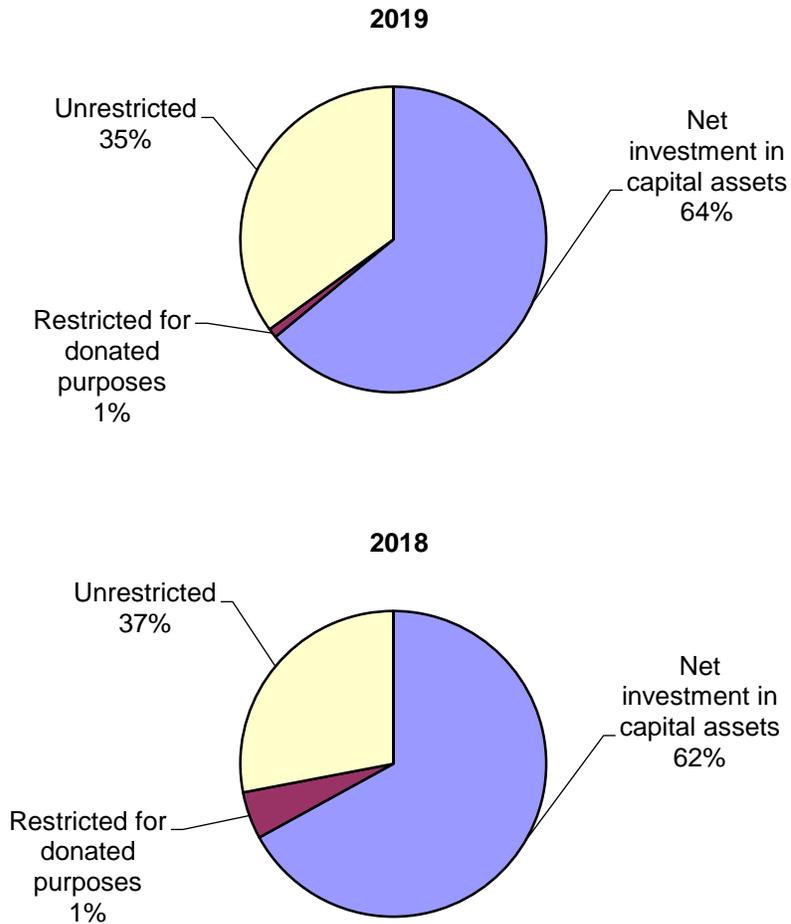
June 30, 2019 and 2018

JOA was terminated in January, 2018, the Working Capital Settlement was written off as a miscellaneous non-operating expense. Other assets remained the same from FY'18 to FY'19 and consists of the \$40 million Subordinate Debt Loan made to OUMI in 2018.

Current liabilities increased approximately \$53 million in 2019 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. The remainder of the increase was due to a change in the THRP calculation approved by CMS.

Long Term Liabilities decreased approximately \$317 thousand due to a change in Net Pension Liability.

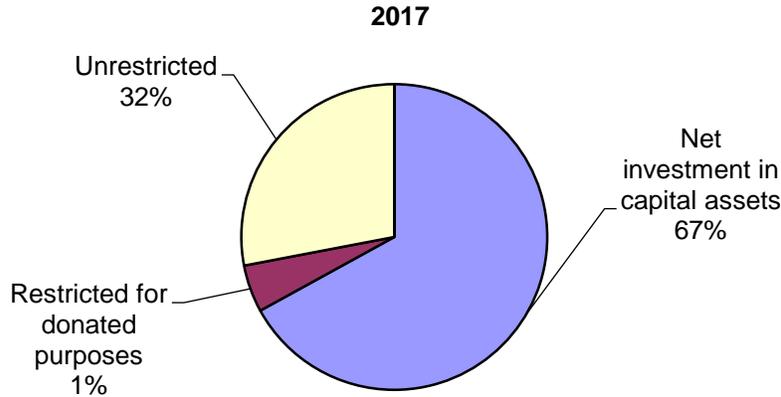
Composition of Net Position (%) as of June 30



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Changes in Net Position

The Authority and Trust total revenues (operating revenues and net non-operating revenues) increased approximately \$9.2 million in 2019 from 2018 and decreased \$12.8 million in 2018 from 2017. Total revenues for 2019 and 2018 were approximately \$258.5 million and \$249.3 million with 14.5% and 15.1% of the total revenues from appropriations for indigent care subsidies (appropriations or subsidies), respectively. Appropriations in 2019 of \$37.4 million decreased from fiscal year 2018 by approximately \$200 thousand. Appropriations in 2018 of \$37.7 million increased from 2017 by \$2.0 million.

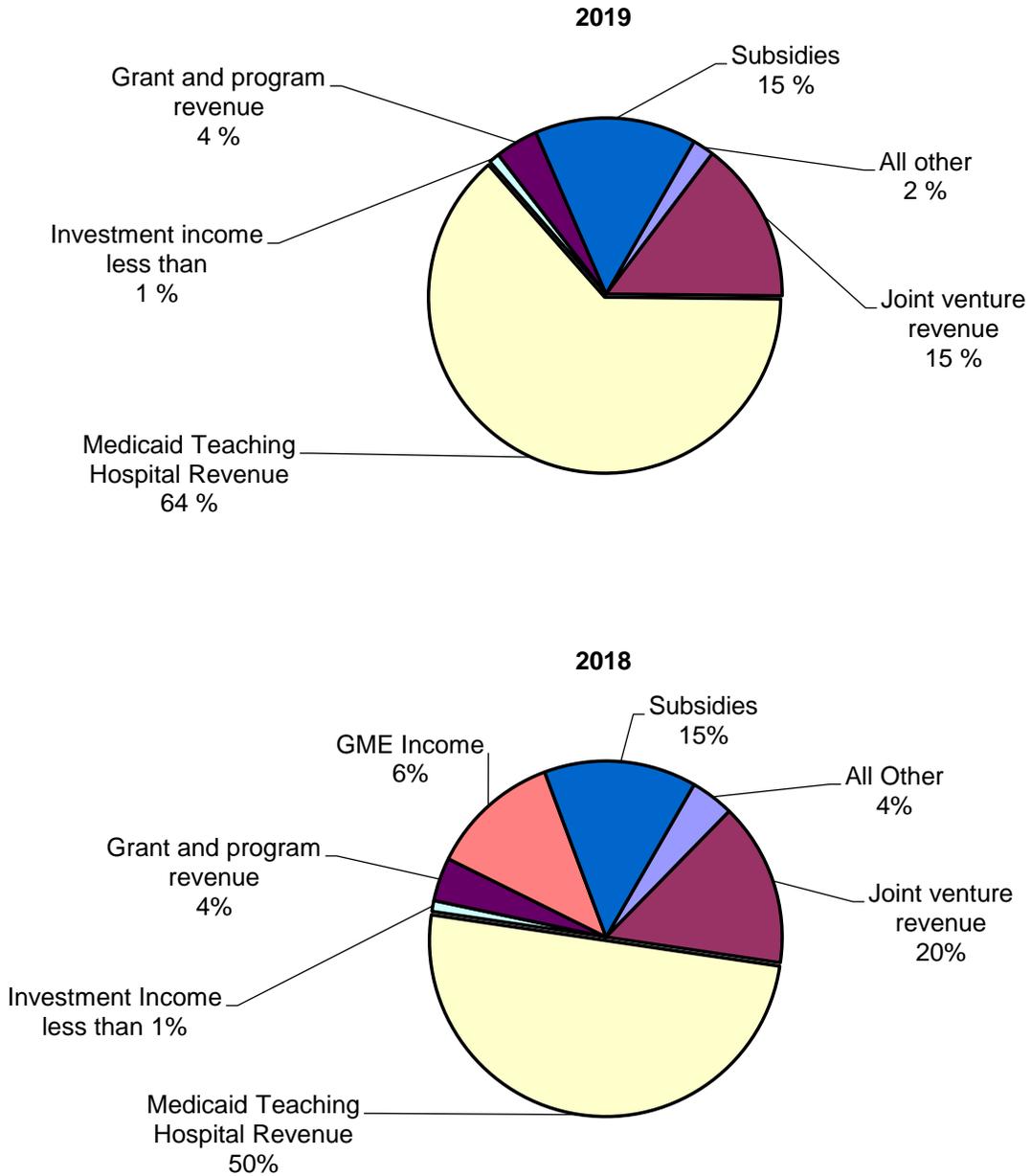
Approximately 63.5% of total revenues were from Teaching Hospital Reimbursement and Level I trauma programs in 2019 and approximately 50% in 2018. These receipts increased approximately \$40 million in 2019 from 2018, and decreased approximately \$9.2 million in 2018 from 2017. For 2019, 2018, and 2017 the full joint venture revenue of \$130.2 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. This fixed semi-annual payment of \$40 million in 2019 is \$10.3 million less than the \$50.3 million earned in 2018.

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Sources of Revenue



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

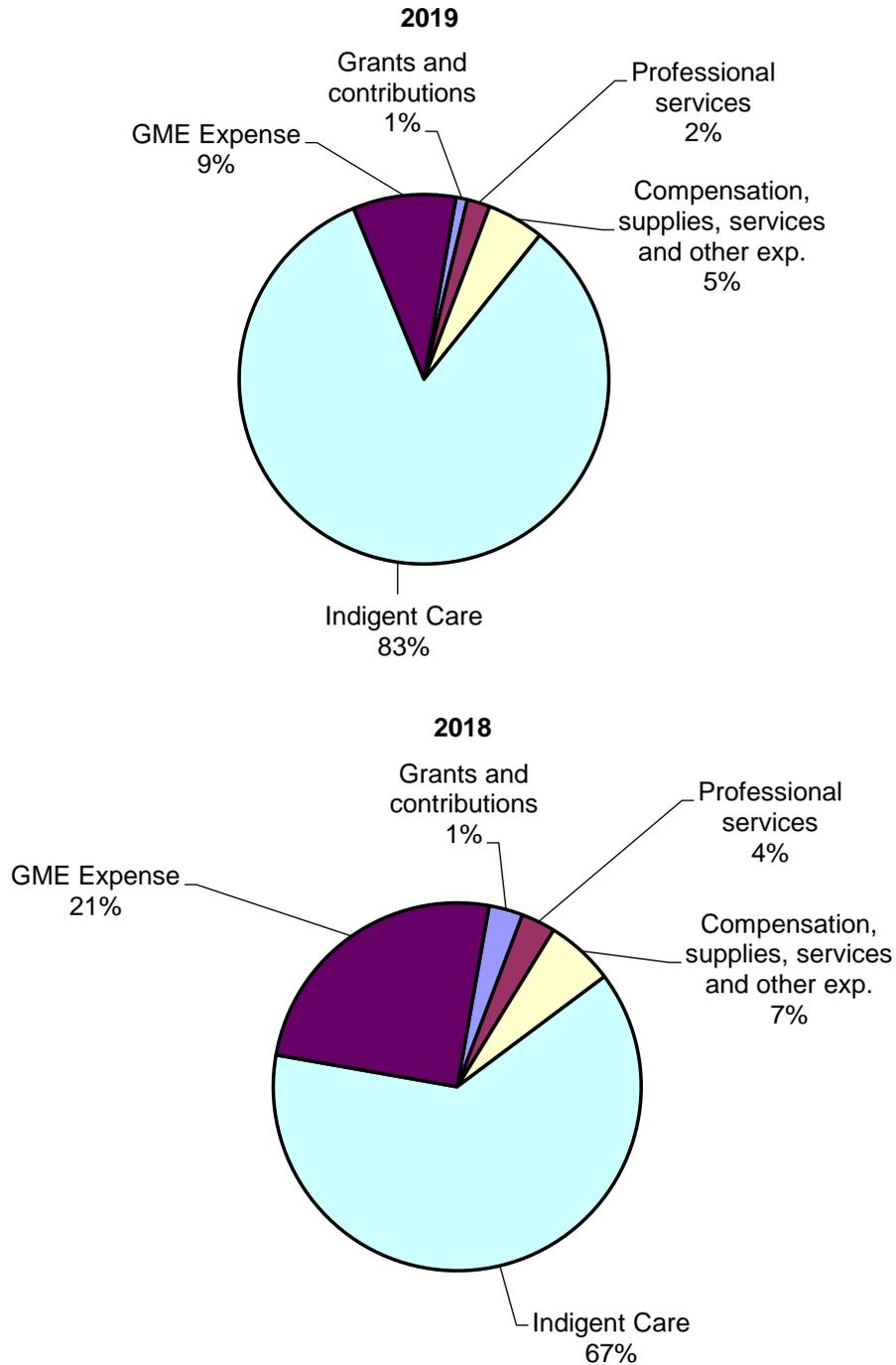
- *Subsidies* are appropriated for Indigent Care and state-matching amounts for Graduate Medical Education (GME) programs and Indigent Care programs.
- *Medicaid Teaching Hospital* receipts, known as Teaching Hospital Reimbursement Payment (THRP) program payments from the Oklahoma Health Care Authority 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 approximately \$10.2 million in 2019 and approximately \$10.2 million in 2018.
- *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 through the OUMI JOA.
- *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 zero dollars in 2019 and \$15.9 million in 2018 of the state match share. These funds were historically paid to the Oklahoma Health Care Authority along with a University Hospital Authority (UHA) appropriation subsidy of an additional \$9.1 million. This GME program was 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 1.0% of total revenues in both 2019 and 2018.
- *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. 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. FY'19 saw these revenue categories return to more historic norms.

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Operating Expenses before Depreciation



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- *Total Expenses* including depreciation increased approximately \$63 million in 2019 from 2018 primarily due to increases in Indigent Care Expense. Total expenses decreased \$30.2 million in 2018 from 2017 primarily due 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.
- *Graduate Medical Education (GME)* expenses are state match amounts paid to the Oklahoma Health Care Authority for Hospital GME programs of approximately \$14.5 million in 2019 and \$16.9 million in 2018 and Dean's GME programs of approximately \$10.4 million paid to the University of Oklahoma in 2019 and approximately \$25 million in 2018 paid to the University of Oklahoma and the Oklahoma Health Care Authority.
- *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.

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Changes in Net Position

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019–2018 Percentage change</u>
Operating revenues:				
Grant and program revenues	\$ 10,239	10,194	10,090	—%
Services provided to others	12,119	12,098	11,250	—
Medicaid Teaching Hospital/Level I trauma	164,215	124,219	133,470	32
GME income	—	15,919	31,851	(100)
Joint venture income	40,000	50,344	39,883	(21)
Other revenues	744	355	97	110
Total operating revenues	<u>227,317</u>	<u>213,129</u>	<u>226,641</u>	<u>7</u>
Operating expenses:				
Compensation and benefits	2,976	2,151	2,065	38
Professional services	5,181	7,604	7,958	(32)
Grants and contributions	756	2,692	7,876	(72)
Supplies, services, and other	10,881	11,550	10,569	(6)
Indigent care expense	222,703	132,037	141,763	69
GME expense	24,938	41,891	55,526	(40)
Total operating expenses before depreciation	<u>267,435</u>	<u>197,925</u>	<u>225,757</u>	<u>35</u>
Depreciation	<u>12,913</u>	<u>19,395</u>	<u>21,842</u>	<u>(33)</u>
Operating loss	<u>(53,031)</u>	<u>(4,191)</u>	<u>(20,958)</u>	<u>1,165</u>
Nonoperating revenues (expenses):				
Investment income	1,460	821	544	78
Debt-related expenses		(729)	(692)	(100)
Indigent care subsidies	37,419	37,663	35,661	(1)
Other	(7,633)	(1,602)	2	376
Total nonoperating revenues	<u>31,246</u>	<u>36,153</u>	<u>35,515</u>	<u>(14)</u>
Change in net position	<u>\$ (21,785)</u>	<u>31,962</u>	<u>14,557</u>	<u>(168)%</u>

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The Authority and Trust operating revenues increased approximately \$14.2 million in 2019 from 2018, and decreased approximately \$13.8 million in 2018 from 2017.

- Grant and program revenue increased approximately \$45 thousand in 2019 from 2018 and increased \$104 thousand in 2018 from 2017. IME grants paid to the Trust by the Oklahoma Health Care Authority (OHCA) are based on federal matching amounts that vary from year to year.
- Services provided increased \$21 thousand in 2019 from 2018 and increased \$849 thousand in 2018 from 2017 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 approximate \$15.9 million decrease in 2019 represents decreased programs by the Oklahoma Health Care Authority after CMS declined to participate in the program. There was \$15.9 million decrease in 2018 from 2017 as well.
- Medicaid program income increased approximately \$40 million in 2019 from 2018 and decreased \$9.2 million in 2018 from 2017. These changes in Medicaid program income 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 increased \$90.7 million in 2019 from 2018 and decreased \$9.7 million in 2018 from 2017, as they also fluctuate consistent with changes in federal Medicaid income.
- JOA income decreased \$10.3 million in 2019 from 2018 and increased \$10.4 million in 2018 from 2017 as the terms of the JOA changed significantly in February 2018.
- Compensation and benefits increased \$816 thousand in 2019 from 2018, which was due to an increase in FTE. Employees were hired from American Building Management, the Trust's Facilities Management Company, and there was a corresponding decrease in "Supplies, Services and Other." The Trust also began providing access control and signage support to OUMI and is reimbursed for those positions.
- Professional services cost decreased approximately \$2.4 million in 2019 from 2018 and decreased \$354 thousand in 2018 from 2017. These changes were due to decreasing consulting fees related to OUMI.
- The Trust and Authority committed or expended approximately \$1.9 million less in grants in 2019 over 2018. The Trust and Authority committed or expended \$5.1 million less in grants in 2018 over 2017. OUMI assumed responsibility for the Trust's grants in February 2018, decreasing the Trust's expenses.
- GME expenses decreased approximately \$16.9 million in 2019 over 2018 and decreased approximately \$14 million in 2018 over 2017, as OHCA and CMS ended the Dean's GME program support.
- Investment income increased \$639 thousand in 2019 from 2018 and increased \$277 thousand in 2018 from 2017 as average cash invested fluctuated and the Trust earned interest from OUMI loans.
- Indigent Care subsidies decreased \$200 thousand in 2019 from 2018 as a one-time payment was received in 2018. Indigent Care subsidies increased \$2 million in 2018 from 2017 as the legislature increased appropriations for programs.

Financial Analysis of Fiscal Year 2019 Operations

Total net position decreased approximately \$21.8 million in 2019.

Legislative appropriations decreased in 2019 over 2018. The decrease in funds was due to the legislature providing \$200 thousand in one-time funds in FY'18.

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Capital Assets, Net

Capital assets net of depreciation decreased approximately \$6.9 million in 2019 from 2018. This decrease was primarily due to depreciation expense. Annual depreciation is \$12.9 million in 2019. Capital assets net of depreciation decreased \$42.5 million in 2018 from 2017. Depreciation expense was \$19.8 million. There was a \$43 million transfer of the Trust's Investment in PP&E and the Proton Therapy System in 2018.

Capital Assets

(Net of depreciation, dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019 to 2018 Change amount</u>
Land	\$ 4,009	4,009	4,009	—
Building and improvements	208,670	211,629	214,477	(2,959)
Equipment	36,046	40,220	57,694	(4,174)
Infrastructure	4,903	2,795	2,974	2,108
Joint venture equipment	—	—	20,323	—
Construction-in-progress	107	2,027	3,738	(1,920)
Total	<u>\$ 253,735</u>	<u>260,680</u>	<u>303,215</u>	<u>(6,945)</u>

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 were 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)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019-2018 Change</u>
Variable rate bonds	\$ —	—	44	—

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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 14.4% of total income. In 2019 the Oklahoma legislature appropriated the same amount as in 2018. 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 2019 was the same as 2018. One million of operating reserves were used for THRP at the Authority, but the Trust used \$1 million less of the JOA payment it received from OUMI for THRP.

GME programs (Hospitals' and Dean's) and Medicaid hospital supplemental payment programs utilize matching state and federal funds to disburse these entitlements to eligible recipients. The match for GME ended in 2018. The match rates were increased in 2019 but decreased in 2018.

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 2019 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.



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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 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, 2019 and 2018, 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 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 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, 2019 and 2018, 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, 2019, 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 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 31–36 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019 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

Dallas, Texas
October 31, 2019

**UNIVERSITY HOSPITALS AUTHORITY AND
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Statements of Net Position

June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 109,002,151	69,622,478
Investments	2,320,562	2,320,562
Receivables:		
Institutional and other	90,029,855	91,497,720
Interest	19,616	11,624
Prepaid expenses	2,868	2,967
Total current assets	<u>201,375,052</u>	<u>163,455,351</u>
Restricted assets:		
Cash and cash equivalents	250,011	250,011
Investments	900,463	883,449
Real estate	35,989	35,989
Total restricted assets	<u>1,186,463</u>	<u>1,169,449</u>
Noncurrent:		
Subordinate Debt Loan to OUMI	40,000,000	40,000,000
Capital assets, net	253,735,059	260,680,307
Total assets	<u>\$ 496,296,574</u>	<u>465,305,107</u>
Deferred Outflows of Resources		
Pension amounts	\$ <u>433,279</u>	<u>454,380</u>
Total deferred outflows of resources	<u>\$ 433,279</u>	<u>454,380</u>
Liabilities		
Current liabilities:		
Trade payables	\$ 1,454,527	1,998,324
Accrued expenses	99,592,454	46,025,324
Compensated absences	178,987	179,102
Unearned revenue	3,500	2,967
Total current liabilities	<u>101,229,468</u>	<u>48,205,717</u>
Noncurrent:		
Net pension liability	<u>130,644</u>	<u>448,575</u>
Total liabilities	<u>\$ 101,360,112</u>	<u>48,654,292</u>
Deferred Inflows of Resources		
Pension amounts	\$ <u>129,390</u>	<u>80,218</u>
Total deferred inflows of resources	<u>\$ 129,390</u>	<u>80,218</u>
Net Position		
Net position:		
Net investment in capital assets	\$ 253,735,059	260,680,307
Restricted	1,186,463	1,169,449
Unrestricted	140,318,829	155,175,224
Total net position	<u>\$ 395,240,351</u>	<u>417,024,980</u>

See accompanying notes to basic financial statements.

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UNIVERSITY HOSPITALS TRUST**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Teaching Hospital Reimbursement/Level I trauma revenue	\$ 164,214,675	124,219,345
GME revenue		15,919,170
Grant and program revenue	10,239,668	10,193,757
Joint venture revenue	40,000,000	50,343,974
Rental income and other services	12,119,228	12,098,169
Other revenue	743,743	354,677
Total operating revenues	227,317,314	213,129,092
Operating expenses:		
GME expense	24,937,591	41,891,699
Indigent care expense	222,702,856	132,036,739
Grants and contributions	756,489	2,691,672
Professional services	5,181,470	7,603,777
Compensation and benefits	2,975,828	2,150,774
Supplies, services, and other	10,881,014	11,550,411
Total operating expenses before depreciation	267,435,248	197,925,072
Operating (loss) income before depreciation	(40,117,934)	15,204,020
Depreciation	(12,912,979)	(19,395,389)
Operating loss	(53,030,913)	(4,191,369)
Nonoperating revenues (expenses):		
Indigent care subsidies	37,419,239	37,663,446
Investment income	1,460,119	820,705
Debt-related expenses	—	(728,855)
Miscellaneous expenses	(7,633,074)	(1,602,334)
Total nonoperating revenues	31,246,284	36,152,962
Change in net position	(21,784,629)	31,961,593
Net position, beginning of year	417,024,980	385,063,387
Net position, end of year	\$ 395,240,351	417,024,980

See accompanying notes to basic financial statements.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Rental income and other receipts	\$ 12,651,377	11,411,342
Joint operating agreement receipts	53,596,784	33,334,800
Grant receipts	162,186,758	162,145,116
Indigent care payments	(168,305,170)	(159,514,889)
Grant payments	(5,407,070)	(12,850,028)
Indirect Medical Education match payments	(25,366,358)	(41,891,699)
Goods and service payments	(11,649,663)	(15,903,928)
Payments to employees	(3,230,566)	(2,223,759)
Other operating receipts	205,351	145,509
Net cash provided by (used in) operating activities	14,681,443	(25,347,536)
Cash flows from noncapital financing activity:		
Subsidies	37,419,239	37,663,446
Cash flows from capital and related financing activities:		
Principal payment	—	(1,475,000)
Purchase of capital assets	(6,441,683)	(9,257,692)
Interest paid on bonds	—	(355,766)
Other bond related costs	—	(403,824)
Nonoperating (expense) revenue	(7,688,589)	11,344,882
Net cash used in capital and related financing activities	(14,130,272)	(147,400)
Cash flows from investing activities:		
Investment income	1,409,263	810,915
Subordinate debt loan to OUMI	—	(40,000,000)
Net cash provided by (used in) investing activities	1,409,263	(39,189,085)
Net increase (decrease) in cash and cash equivalents	39,379,673	(27,020,575)
Cash and cash equivalents, beginning of year	69,872,489	96,893,064
Cash and cash equivalents, end of year	\$ 109,252,162	69,872,489
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (53,030,914)	(4,191,369)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	12,912,979	19,395,389
Decrease (increase) in receivables, net	1,467,865	(12,612,594)
Increase (decrease) in payables and accrued expenses	53,578,738	(28,107,500)
Increase (decrease) in unearned revenue	532	(86,728)
(Decrease) increase in prepaid expenses	(99)	299,632
Decrease in deferred outflows of resources	21,101	422,947
Decrease in net pension liability	(317,931)	(287,605)
Increase (decrease) in deferred inflows of resources	49,172	(179,708)
Total adjustments	67,712,357	(21,156,167)
Net cash provided by (used in) operating activities	\$ 14,681,443	(25,347,536)
Noncash capital financing and investing activity:		
Capital assets purchased remaining in accrued expenses	\$ 493,662	847,496

See accompanying notes to basic financial statements.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

(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 provided 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.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

Between February 4, 1998 and January 31, 2018, TUH, (through the Trust) was 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 year ended June 30, 2018 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 (in 2018) and OUMI 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 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 on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Net

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

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

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 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, 2019 and 2018 have been leased to the joint operations of OUMI 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.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

(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.

(i) 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.

(j) 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.

(k) Recently Issued Accounting Standard

GASB issues the following statements, which became effective for the fiscal year ended June 30, 2019:

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

Management has determined that Statements No. 83 and 88 did not materially impact TUH.

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

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

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

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's financial statements.

(2) Deposits and Investments

(a) Deposits

At June 30, 2019 and 2018, 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, 2019 and 2018 are \$12,624,151 and \$13,016,870, respectively. The Authority's reserve deposits with the State Treasurer at June 30, 2019 and 2018 are \$250,011.

At June 30, 2019 and 2018, the bank balance of the Trust's cash equivalents were \$96,378,000 and \$56,605,608, 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, 2019.

(b) Investments

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

	2019	2018
Mutual funds	\$ 900,463	883,449
Equities	2,320,562	2,320,562
Total	\$ 3,221,025	3,204,011

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

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

TUH has the following recurring fair value measurement as of June 30, 2019:

- Mutual funds of \$900,463 are valued using quoted market prices (Level 1 inputs)

TUH also has nonrecurring fair value measurement as of June 30, 2019, for investments in equities that are purchases of share subscriptions in three private LLCs and are valued utilizing the original cost for approximately \$2,320,562. Investment in the Embassy Suites Hotel totaled \$1,890,250. Investments in Bone & Joint and Lithotripsy totaled \$16,346 and \$400,000 respectively. These Level 3 inputs, are recorded using a non-GAAP valuation. One stock certificate valued at \$13,966 at June 30, 2019 is also recorded.

TUH has the following recurring fair value measurement as of June 30, 2018:

- Mutual funds of \$883,449 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 stock certificate valued at \$13,966 at June 30, 2018.

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:

	2019	2018
Institutional and other	\$ 90,029,855	91,497,720

These accounts receivable are due from the Oklahoma Healthcare Authority and OU Medicine, Inc.

In the event the JOA was not terminated prior to September 11, 2023, HCA Health Services of Oklahoma, Inc. agreed to reimburse the Trust \$20,000,000 on September 11, 2023. HCA 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 HCA'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 was no longer due to the Trust.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

(4) Capital Assets

A substantial amount of all capital assets are leased to the joint operations of OUMI or to OUHSC. At June 30, 2019 the Trust had \$88,497 in CIP for Flood Repairs and another \$18,376 for the Ronald McDonald House project. At June 30, capital assets consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 4,009,252	4,009,252
Buildings and improvements	409,952,306	406,177,716
Equipment	81,676,694	81,048,885
Construction-in-progress	106,873	2,026,583
Infrastructure	<u>10,353,726</u>	<u>7,700,832</u>
	506,098,851	500,963,268
Less accumulated depreciation	<u>(252,363,792)</u>	<u>(240,282,961)</u>
	<u>\$ 253,735,059</u>	<u>260,680,307</u>

The following summarizes the additions and deductions from net capital assets during fiscal years 2019 and 2018:

	<u>July 1, 2018</u>	<u>Additions and transfers in</u>	<u>Depreciation, deductions and transfers out</u>	<u>June 30, 2019</u>
Capital assets, not being depreciated:				
Land	\$ 4,009,252	—	—	4,009,252
Construction-in-progress	2,026,583	155,822	(2,075,532)	106,873
Capital assets, being depreciated:				
Buildings and improvements	211,628,624	5,612,561	(8,571,530)	208,669,655
Equipment	40,220,458	945,167	(5,119,291)	36,046,334
Infrastructure	<u>2,795,390</u>	<u>2,654,695</u>	<u>(547,140)</u>	<u>4,902,945</u>
Net capital assets	<u>\$ 260,680,307</u>	<u>9,368,245</u>	<u>(16,313,493)</u>	<u>253,735,059</u>

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

	<u>July 1, 2017</u>	<u>Additions and transfers in</u>	<u>Depreciation, deductions and transfers out</u>	<u>June 30, 2018</u>
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	<u>2,973,662</u>	<u>—</u>	<u>(178,272)</u>	<u>2,795,390</u>
Net capital assets	\$ <u>282,893,167</u>	<u>6,671,368</u>	<u>(28,884,228)</u>	<u>260,680,307</u>

For the years ended at June 30, 2019 and 2018, depreciation expense related to capital assets was \$12,912,980 and \$19,395,389, respectively.

(5) Investment in Joint Venture Equipment

The following summarizes the additions and deductions from net investment in joint venture equipment during fiscal years 2019 and 2018:

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

For the years ended at June 30, 2019 and 2018, depreciation expense related to investment in joint venture equipment was \$0 and \$4,652,320, respectively. Depreciation was 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 Leases

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.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

The following schedule shows future minimum lease rent receipts:

2020		\$	690,127
2021			553,983
2022			553,983
2023			520,260
2024			497,798
2025-2031			<u>2,198,608</u>
Total		\$	<u><u>5,014,759</u></u>

(7) Changes in Liabilities

Long-term and short-term liability activity for the years ended June 30, 2019 and 2018 was as follows:

<u>2019</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>	<u>Current portion</u>
Compensated absences \$	179,102	—	(115)	178,987	178,987
	<u>\$ 179,102</u>	<u>—</u>	<u>(115)</u>	<u>178,987</u>	<u>178,987</u>
<u>2018</u>	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>	<u>Current portion</u>
Compensated absences \$	200,324	—	(21,222)	179,102	179,102
Bonds payable, net	43,769,401	—	(43,769,401)	—	—
	<u>\$ 43,969,725</u>	<u>—</u>	<u>(43,790,623)</u>	<u>179,102</u>	<u>179,102</u>

(8) Joint Operating Agreement

Effective February 4, 1998, the Authority, the Trust, and OUHSC entered into certain agreements with HCA, 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

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Closing). As consideration for the right to operate the University Hospitals, HCA paid to the Trust a Trust Preference Amount and a Trust Excess Payment each agreement year. The Trust Preference Amount was 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, 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.

(9) 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, 2019 and 2018. TUH believes that it has no liabilities in respect to the State's plan.

**UNIVERSITY HOSPITALS AUTHORITY AND
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Notes to Required Supplementary Information

Year ended June 30, 2019

(10) 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.

(11) 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.

(12) Subsequent Events

TUH has evaluated the impact of subsequent events for inclusion or disclosure from the statement of Net Position date through October 31, 2019, the date at which the financial statements were available to be issued. TUH 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 TUH), which comprise the statement of net position as of June 30, 2019, 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 31, 2019.

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 TUI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TUI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Dallas, Texas
October 31, 2019

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Net Position

June 30, 2019

Assets	Authority Fund	Trust Fund	Total
Current assets:			
Cash and cash equivalents	\$ 12,624,151	96,378,000	109,002,151
Investments	13,966	2,306,596	2,320,562
Receivables:			
Institutional and other	21,379,228	68,650,627	90,029,855
Interest receivable	19,616	—	19,616
Prepaid expenses	—	2,868	2,868
Total current assets	<u>34,036,961</u>	<u>167,338,091</u>	<u>201,375,052</u>
Restricted assets:			
Cash and cash equivalents	250,011	—	250,011
Investments	900,463	—	900,463
Real estate	35,989	—	35,989
Total restricted assets	<u>1,186,463</u>	<u>—</u>	<u>1,186,463</u>
Noncurrent:			
Subordinate Debt Loan to OUMI	—	40,000,000	40,000,000
Capital assets, net	7,488,266	246,246,793	253,735,059
Total assets	<u>\$ 42,711,690</u>	<u>453,584,884</u>	<u>496,296,574</u>
Deferred Outflows of Resources			
Pension amounts	\$ —	433,279	433,279
Total deferred outflows of resources	<u>\$ —</u>	<u>433,279</u>	<u>433,279</u>
Liabilities			
Current liabilities:			
Trade payables	\$ 60,997	1,393,530	1,454,527
Accrued expenses	29,402,800	70,189,654	99,592,454
Current portion of accrued liabilities		178,987	178,987
Unearned revenue	2,868	632	3,500
Total current liabilities	<u>29,466,665</u>	<u>71,762,803</u>	<u>101,229,468</u>
Noncurrent:			
Net pension liability	—	130,644	130,644
Total liabilities	<u>\$ 29,466,665</u>	<u>71,893,447</u>	<u>101,360,112</u>
Deferred Inflows of Resources			
Pension amounts	\$ —	129,390	129,390
Total deferred inflows of resources	<u>\$ —</u>	<u>129,390</u>	<u>129,390</u>
Net Position			
Net position:			
Invested in capital assets, net of related debt	\$ 7,488,266	246,246,793	253,735,059
Restricted	1,186,463	—	1,186,463
Unrestricted	4,570,296	135,748,533	140,318,829
Total net position	<u>\$ 13,245,025</u>	<u>381,995,326</u>	<u>395,240,351</u>

See accompanying independent auditors' report.

**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	17,996,675	73,501,045	91,497,720
Interest receivable	11,624	—	11,624
Prepaid expenses	—	2,967	2,967
Total current assets	31,039,135	132,416,216	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	\$ 41,094,065	424,211,042	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 Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2019

	<u>Authority Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Operating revenues:			
Teaching Hospital Reimbursement/Level I trauma revenue	\$ 49,739,808	114,474,867	164,214,675
GME revenue			—
Grant and program revenue	—	10,239,668	10,239,668
Joint venture revenue	—	40,000,000	40,000,000
Services provided to others	166,973	11,952,255	12,119,228
Other revenue	34,713	709,030	743,743
	<u>49,941,494</u>	<u>177,375,820</u>	<u>227,317,314</u>
Operating expenses:			
GME expense	24,937,591	—	24,937,591
Indigent care expense	59,227,990	163,474,866	222,702,856
Grants and contributions	6,489	750,000	756,489
Professional services	4,276,756	904,714	5,181,470
Compensation and benefits	17,567	2,958,261	2,975,828
Supplies, services, and other	1,861	10,879,153	10,881,014
	<u>88,468,254</u>	<u>178,966,994</u>	<u>267,435,248</u>
Total operating expenses before depreciation	<u>88,468,254</u>	<u>178,966,994</u>	<u>267,435,248</u>
Operating loss before depreciation	(38,526,760)	(1,591,174)	(40,117,934)
Depreciation	(1,397,216)	(11,515,763)	(12,912,979)
Operating loss	<u>(39,923,976)</u>	<u>(13,106,937)</u>	<u>(53,030,913)</u>
Nonoperating revenues (expenses):			
Indigent care subsidies	37,419,239	—	37,419,239
Interest income	150,018	1,310,101	1,460,119
Debt-related expenses			—
Miscellaneous revenue (expense)	10,911	(7,643,985)	(7,633,074)
	<u>37,580,168</u>	<u>(6,333,884)</u>	<u>31,246,284</u>
Total nonoperating revenues (expenses)	<u>37,580,168</u>	<u>(6,333,884)</u>	<u>31,246,284</u>
Change in net position	(2,343,808)	(19,440,821)	(21,784,629)
Net position, beginning of year	<u>15,588,833</u>	<u>401,436,147</u>	<u>417,024,980</u>
Net position, end of year	<u>\$ 13,245,025</u>	<u>381,995,326</u>	<u>395,240,351</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, 2018

	<u>Authority Fund</u>	<u>Trust Fund</u>	<u>Total</u>
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
	<u>65,305,915</u>	<u>147,823,177</u>	<u>213,129,092</u>
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
	<u>102,981,461</u>	<u>94,943,611</u>	<u>197,925,072</u>
	Operating (loss) income before depreciation	52,879,566	15,204,020
	(37,675,546)		
Depreciation	<u>(1,779,228)</u>	<u>(17,616,161)</u>	<u>(19,395,389)</u>
	Operating (loss) income	35,263,405	(4,191,369)
	(39,454,774)		
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	(24,911)	(1,577,423)	(1,602,334)
	<u>37,764,380</u>	<u>(1,611,418)</u>	<u>36,152,962</u>
	Change in net position	33,651,987	31,961,593
	(1,690,394)		
Net position, beginning of year	<u>17,279,227</u>	<u>367,784,160</u>	<u>385,063,387</u>
Net position, end of year	<u>\$ 15,588,833</u>	<u>401,436,147</u>	<u>417,024,980</u>

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Cash Flows

Year ended June 30, 2019

	<u>Authority Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 149,131	12,502,246	12,651,377
Joint operating agreement receipts	—	53,596,784	53,596,784
Grant receipts (IME, GME, MTH)	46,373,032	115,813,726	162,186,758
Indigent care payments	(54,302,597)	(114,002,573)	(168,305,170)
Grant payments	(4,668,261)	(738,809)	(5,407,070)
IME match payments	(25,366,358)	—	(25,366,358)
Goods and service payments	(151,500)	(11,498,163)	(11,649,663)
Payments to employees	(16,654)	(3,213,912)	(3,230,566)
Other operating receipts	35,322	170,029	205,351
	<u>(37,947,885)</u>	<u>52,629,328</u>	<u>14,681,443</u>
Net cash (used in) provided by operating activities			
Cash flows from noncapital financing activity:			
Subsidies	37,419,239	—	37,419,239
Cash flows from capital and related financing activities:			
Principal payment	—	—	—
Purchase of capital assets	—	(6,441,683)	(6,441,683)
Interest paid on bonds	—	—	—
Other bond related costs	—	—	—
Nonoperating revenue	(6,099)	(7,682,490)	(7,688,589)
	<u>(6,099)</u>	<u>(14,124,173)</u>	<u>(14,130,272)</u>
Net cash used in capital and related financing activities			
Cash flows from investing activities:			
Investment income	142,027	1,267,236	1,409,263
Subordinate Debt Loan to OUMI	—	—	—
	<u>142,027</u>	<u>1,267,236</u>	<u>1,409,263</u>
Net cash provided by investing activities			
	<u>(392,718)</u>	<u>39,772,391</u>	<u>39,379,673</u>
Net (decrease) increase in cash and cash equivalents			
Cash and cash equivalents, beginning of year	<u>13,266,880</u>	<u>56,605,609</u>	<u>69,872,489</u>
Cash and cash equivalents, end of year	<u>\$ 12,874,162</u>	<u>96,378,000</u>	<u>109,252,162</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating loss	\$ (39,923,976)	(13,106,938)	(53,030,914)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation	1,397,216	11,515,763	12,912,979
Decrease (increase) in receivables, net	(3,382,561)	4,850,426	1,467,865
Increase in payables and accrued expenses	3,961,536	49,617,202	53,578,738
(Decrease) increase in unearned revenue	(100)	632	532
Decrease in prepaid expenses	—	(99)	(99)
Decrease in deferred outflows of resources	—	21,101	21,101
Decrease in net pension liability	—	(317,931)	(317,931)
Increase in deferred inflows of resources	—	49,172	49,172
	<u>1,976,091</u>	<u>65,736,266</u>	<u>67,712,357</u>
Total adjustments	<u>1,976,091</u>	<u>65,736,266</u>	<u>67,712,357</u>
Net cash (used in) provided by operating activities	<u>\$ (37,947,885)</u>	<u>52,629,328</u>	<u>14,681,443</u>
Noncash capital financing and investing activity:			
Capital assets purchased remaining in accrued expenses	\$ —	493,662	493,662

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
Increase in receivables, net	(181,445)	(12,431,149)	(12,612,594)
Increase (decrease) 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
Decrease in deferred outflows of resources	—	422,947	422,947
Decrease in net pension liability	—	(287,605)	(287,605)
Decrease 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.