



**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Basic Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. For comparative purposes, fiscal year 2010 information is also provided. Please read the discussion and analysis in conjunction with the combined financial statements, which follow this section.

Financial Statements Overview

The Authority and Trust report financial results on a combined basis. Both the Authority and the Trust are statutorily mandated with the same mission and the financial resources of both entities are expended to accomplish our mission of Indigent Care, Medical Education and Research. The Authority and the Trust are a component unit 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 Assets is the financial report that displays the Authority and Trust assets and liabilities and the difference between them (Net Assets). Changes in net assets, increases or decreases, is one way to measure the financial health of the entity and whether its financial position is improving or deteriorating. The responsibility of capitalizing the hospital operations shifted from the Authority to the Trust at the inception of the Joint Operating Agreement (JOA).

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

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

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

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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.

Net Assets

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	2012-2011 Percentage change
Current assets	\$ 76,617	64,317	66,588	19.1%
Restricted assets	1,665	1,170	3,163	42.3
Capital assets, net	244,726	233,648	202,602	4.7
Other assets	20,102	20,108	20,114	(0.1)
Total assets	<u>\$ 343,110</u>	<u>319,243</u>	<u>292,467</u>	<u>7.5%</u>
Current liabilities	\$ 17,590	28,596	31,423	(38.5)%
Long-term liabilities	49,170	50,150	51,250	(2.0)
Total liabilities	<u>\$ 66,760</u>	<u>78,746</u>	<u>82,673</u>	<u>(15.2)%</u>
Invested in capital assets, net of related debt	\$ 194,804	182,694	150,677	6.6%
Restricted for donated purposes	1,665	1,170	3,163	42.3
Unrestricted	79,881	56,633	55,954	41.1
Total net assets	<u>\$ 276,350</u>	<u>240,497</u>	<u>209,794</u>	<u>14.9%</u>

Current assets increased \$12.3 million in 2012 and is attributed primarily to net increases of Trust supplemental Medicaid cost reimbursement programs and joint operating income. Current assets decreased \$2.3 million in 2011 and is attributed primarily to uses of Authority cash to maximize state match payments related to Medicaid cost reimbursement programs.

Restricted assets increased in 2012 due to receipts of restricted funds of \$500 thousand. Restricted assets decreased in 2011 due to collection of restricted pledges of \$2.0 million.

Net capital assets increased \$11.1 million in 2012 and \$31 million in 2011 due to the Trust's investment in the construction of a new education building and atrium, increased investment in Trust property and equipment related to the hospital capital projects and equipment, and offset by annual depreciation.

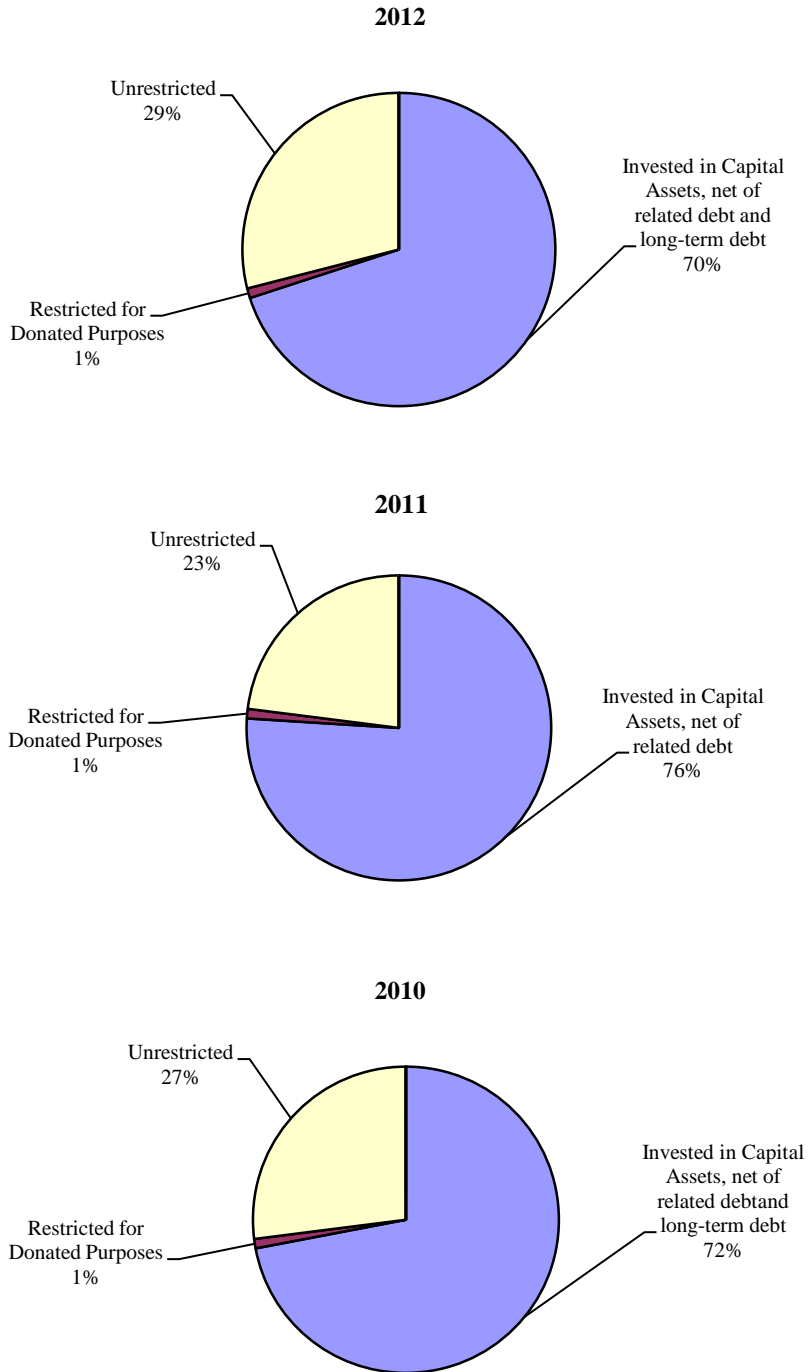
Current liabilities decreased \$11.0 million in 2012 as payables related to the construction of the education center and grant commitments to the O.U. Cancer Institute were paid in 2012.

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Composition of Net Assets (%) as of June 30



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Management's Discussion and Analysis

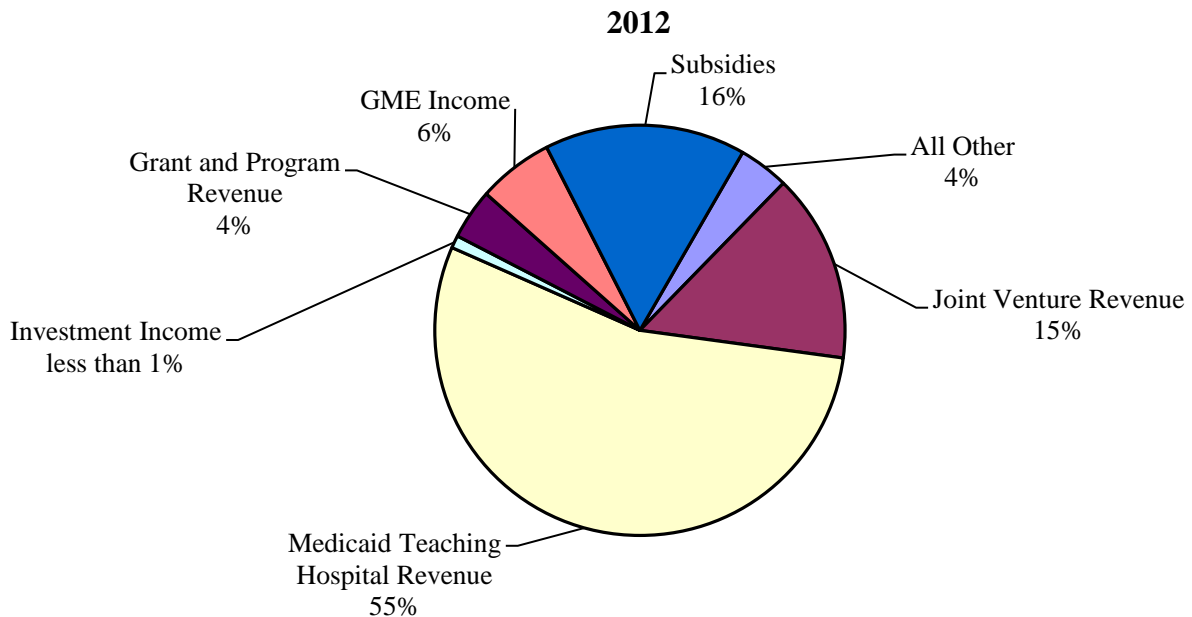
June 30, 2012 and 2011

Changes in Net Assets

The Authority and Trust total revenues (operating revenues and net nonoperating revenues) decreased \$14 million in 2012 from 2011 and increased \$92.7 million in 2011 from 2010. Total revenues for 2012 and 2011 were \$240.6 million and \$253.9 million with 16% and 5.8% of the total revenues from appropriations for indigent care subsidies (appropriations or subsidies), respectively. Appropriations in 2012 of \$38.4 million was an increase from fiscal year 2011's \$14.8 million in appropriations. Appropriations in 2011 was a decrease from fiscal year 2010's \$31.0 million in appropriations.

Another 55% and 69% of total revenues were from Teaching Hospital Reimbursement and Level I trauma programs in 2012 and 2011, respectively. These receipts decreased in 2012 from 2011, and increased in 2011 from 2010. For 2012, 2011 and 2010 the full pre-tax earnings preferential payments (joint venture revenue) of \$9 million were earned and received. The University Hospitals Authority and Trust by virtue of a Joint Operating Agreement, receives the first \$9 million of pre-tax earnings of the venture if earned. The Trust receives 30% share of total pre-tax earnings in excess of \$39 million as specified in the Joint Operating Agreement. As hospital earnings increased in 2012 from 2011 and decreased in 2011 from 2010, excess earnings also increased in 2012 to \$27.0 million and decreased in 2011 to \$20.9 million.

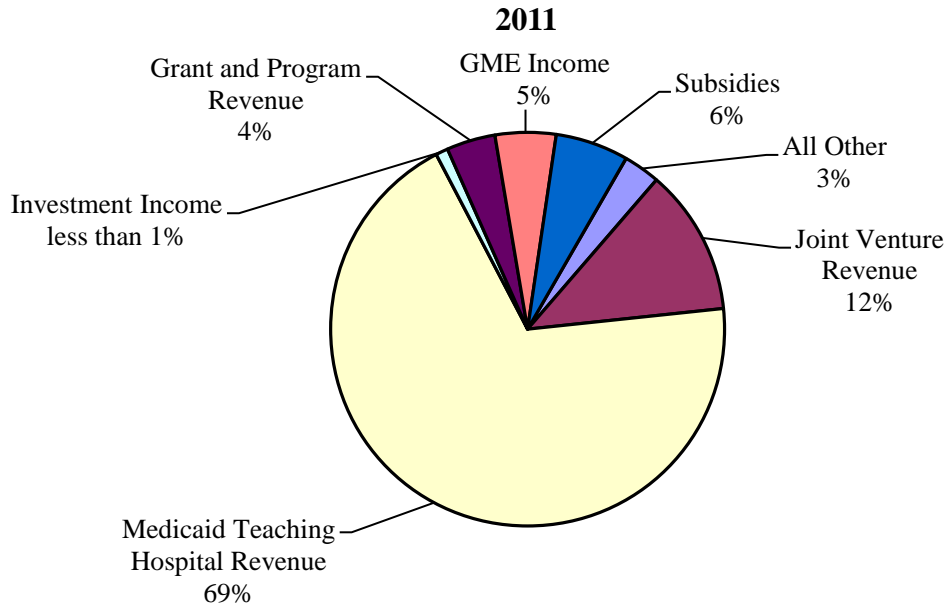
Sources of Revenue



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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 from the Oklahoma Health Care Authority reimburse the costs of providing care to Medicaid and charity patients. This also includes Level I trauma receipts from the Oklahoma State Department of Health that were authorized by the State Legislature to reimburse hospitals for the cost of Level I trauma centers.
- **Grant and program** revenues relate to Indirect Medical Education (IME), which is a state and federal matching program paid to major teaching hospitals with approved resident and intern programs to offset costs associated with such teaching programs and resultant increased Medicaid and Indigent volumes. The Trust provided the state matching share and received a net IME revenue available of \$9.6 million in 2012 and \$11.0 million in 2011.
- **Joint Venture Revenue** relates to the Joint Operating Agreement (JOA) between the Authority and Trust and HCA Health Services of Oklahoma, Inc. The JOA stipulates that the first \$9 million of hospital pre-tax earnings is to be paid to the state. Additionally, the Trust receives 30% of total pre-tax earnings in excess of \$39 million.

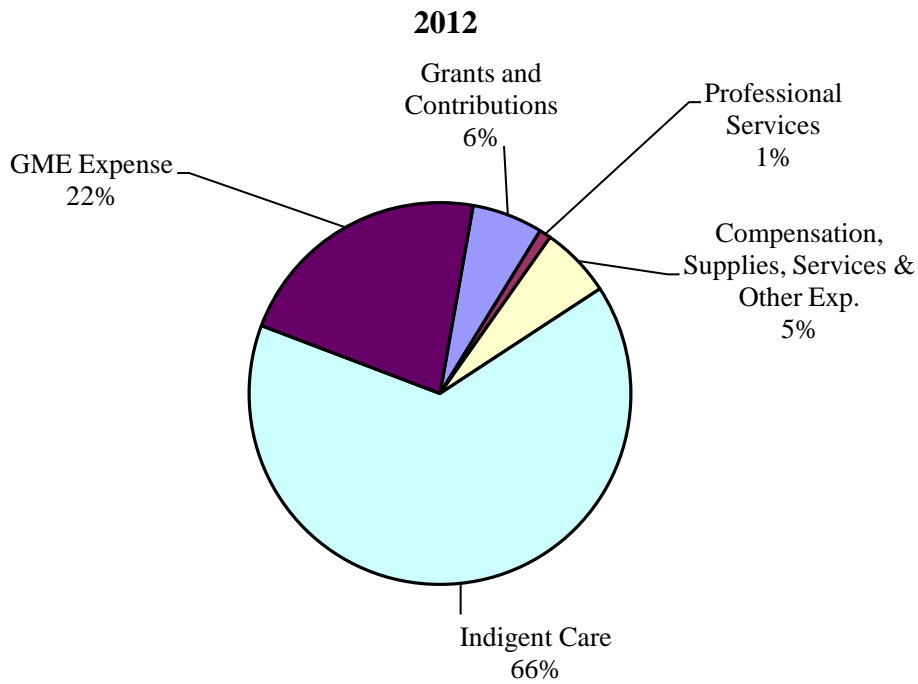
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- **Graduate Medical Education (GME)** income is from the University of Oklahoma (O.U.) and Oklahoma State University (O.S.U.) medical colleges. These two major teaching universities provide \$13.8 million and \$13.9 million of the state match share paid to the Oklahoma Health Care Authority along with an additional \$7.6 million and \$0.7 million provided by the Authority from appropriations. This University GME program is for qualifying universities with approved resident and intern programs to offset increased education costs associated with these teaching programs and to provide incentive for participation in the state's Medicaid Managed Care programs
- **Investment Income** accounted for less than 1% of total revenues in both 2012 and 2011.
- **All Other Revenues** is primarily from donations and income associated with rental and lease incomes of Authority and Trust buildings.

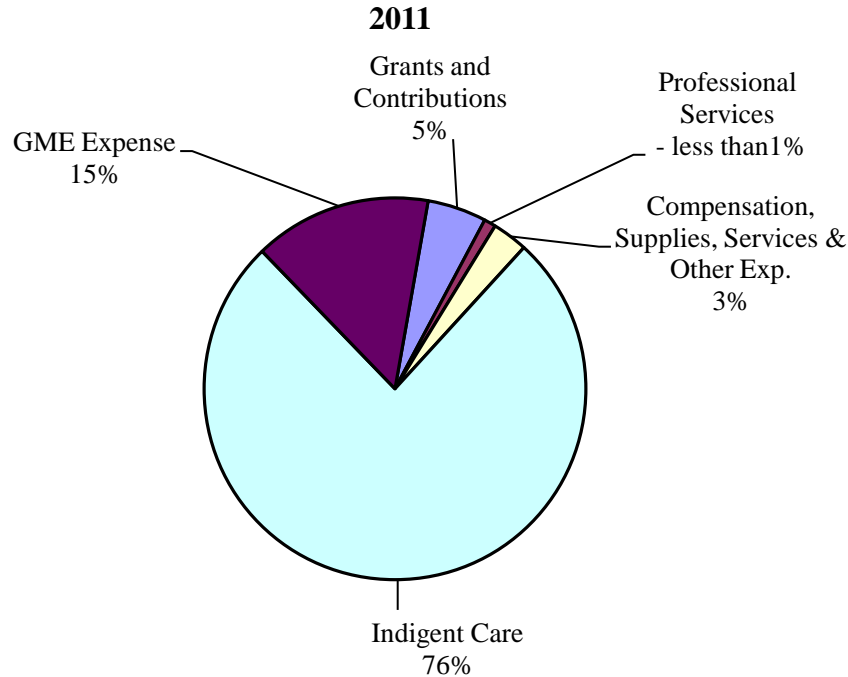
Operating Expenses before depreciation and amortization



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- **Total Expenses** including depreciation decreased \$19.0 million in 2012 from 2011 and increased \$73.3 million in 2011 from 2010. The decrease is primarily related to decreases in Indigent Care 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. for Indigent Care services to patients based on the terms of the Indigent Care Agreement.
- **Graduate Medical Education (GME)** expenses are amounts paid to the Oklahoma Health Care Authority for Hospital GME programs (\$19.7 million in 2012 and \$15.5 million in 2011) and University GME programs (\$21.4 million in 2012 and \$14.7 million in 2011).
- **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 services.

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- *Compensation, Supplies, Services and All Other Costs* includes costs associated with building operations support for space leased to others.

Changes in Net Assets

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012-2011 Percentage change</u>
Operating revenues:				
Grant and program revenues	\$ 9,636	11,054	20,122	(12.8)%
Services provided to others	8,068	7,884	7,180	2.3
Medicaid Teaching Hospital/ Level I trauma/DSH income	133,051	175,232	58,002	(24.1)
GME income	13,814	13,900	12,675	(0.6)
Joint Venture income	35,995	29,925	31,586	20.3
Other revenues	1,411	1,387	554	1.7
Total operating revenues	<u>201,975</u>	<u>239,382</u>	<u>130,119</u>	<u>(15.6)</u>
Operating expenses:				
Compensation and benefits	1,251	857	742	45.9
Professional services	1,271	1,583	1,353	(19.7)
Grants and contributions	11,705	9,706	22,671	20.6
Supplies, services and other	7,201	6,640	6,303	8.4
Indigent care expense	120,831	155,566	62,685	(22.3)
GME expense	41,115	30,287	38,163	35.8
Total operating expenses before depreciation and amortization	<u>183,374</u>	<u>204,639</u>	<u>131,917</u>	<u>(10.4)</u>
Depreciation and amortization	<u>18,465</u>	<u>18,514</u>	<u>17,911</u>	<u>0.3</u>
Operating income (loss)	<u>136</u>	<u>16,229</u>	<u>(19,709)</u>	<u>(100.3)</u>
Nonoperating revenues (expenses):				
Investment income	150	337	595	(55.5)
Debt related expenses	(518)	(708)	(593)	(26.8)
Indigent care subsidies	38,446	14,838	31,020	159.1
Other	(2,361)	7	4	(33,828.6)
Total nonoperating revenues (expenses)	<u>35,717</u>	<u>14,474</u>	<u>31,026</u>	<u>146.8</u>
Change in net assets	<u>\$ 35,853</u>	<u>30,703</u>	<u>11,317</u>	<u>16.2%</u>

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The Authority and Trust operating revenues decreased \$37.4 million in 2012 from 2011, and increased \$109.3 million in 2011 from 2010.

- Grant and program revenue decreased \$1.4 million in 2012 from 2011 and \$9.1 million in 2011 from 2010. IME grants paid to the Trust by the Oklahoma Health Care Authority are based on federal matching amounts that vary from year to year.
- Services provided increased \$184 thousand in 2012 from 2011 and \$704 thousand in 2011 from 2010 due to increases in rental and lease incomes as the Trust increased the amount of square footage under lease in both 2012 and 2011.
- GME revenue represents state share matching payments from universities. The \$86 thousand decrease in 2012 represents a minimal FMAP adjustment. The \$1.2 million increase in 2011 represents an increase for four fiscal quarters of participation in 2011 from 2010
- Medicaid program income decreased \$42.2 million in 2012 from 2011 and increased \$117.2 million in 2011 from 2010. These changes were primarily caused by the 2011 Medicaid income representing five federal fiscal quarter reimbursements under the new Teaching Hospital Reimbursement program. Indigent care expenses to OUMC hospitals decreased \$34.7 in 2012 from 2011 and increased \$92.9 million in 2011 from 2010, as they also fluctuate consistent with changes in federal Medicaid income.
- JOA income increased \$6.1 million in 2012 as the OUMC hospital pretax earnings increased substantially in 2012 from 2011.
- Compensation and benefits increased \$394 thousand in 2012 from 2011 which was due to the addition of two employees and increases in workers compensation liability reserves. Compensation and benefits increased \$115 thousand in 2011 from 2010 which was due to the addition of one employee.
- Professional services cost decreased \$312 thousand in 2012 from 2011 and increased \$230 thousand in 2011 from 2010. These changes were due to fluctuations in consulting fees year over year.
- The Trust and Authority committed or expended \$2 million more in grants in 2012 over 2011. In 2012 additional support related to social work models and primary care was provided. The Trust and Authority committed or expended \$13 million less in grants in 2011 over 2010. In 2010 additional support related to the O.U. Cancer Institute and Dean A. McGee construction was provided.
- GME expenses increased \$10.8 million in 2012 over 2011 and decreased \$7.9 million in 2011 over 2010, as the Oklahoma Health Care Authority provided substantial matching support from federal stimulus funds in 2011.
- Investment income decreased \$187 thousand in 2012 from 2011 and \$258 thousand in 2011 from 2010 as interest rates dropped.
- Indigent Care subsidies increased \$23.6 million in 2012 from 2011 as the legislature increased appropriations as stimulus funds were expended in 2010 and 2011. Indigent Care subsidies decreased \$16.2 million in 2011 from 2010 as state revenue shortfalls reduced appropriations.

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Financial Analysis of Fiscal Year 2012 Operations

Total net assets increased \$35.9 million in 2012 and net income (change in net assets) increased \$5.0 million.

Legislative appropriations increased in 2012 over 2011. The increase in funds were due to the legislature replacing required state match amounts to the Authority as federal stimulus funds were expended in 2010 and 2011.

Capital Assets

Capital assets net of depreciation increased 4.7% in 2012 from 2011. The University Hospitals Trust increased capital assets \$29.6 million in 2012 primarily related to design and construction of the Samis Family Education Center. These additions were offset by annual depreciation of \$18.5 million in 2012. Capital assets net of depreciation increased 15.3% in 2011 from 2010 due to capital additional of \$49.5 million primarily related to design and construction of the CHO Ambulatory Care Center, education center and atrium project. These additions were offset by \$18.5 million annual depreciation in 2011.

Capital Assets

(Net of depreciation, dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 to 2011 Change Amount</u>	<u>Percentage</u>
Land	\$ 4,009	4,009	4,009	—	—%
Building and improvements	162,261	143,127	119,207	19,134	13.4
Equipment	37,993	33,781	29,700	4,212	12.5
Infrastructure	3,759	3,567	1,946	192	5.4
Joint Venture equipment	24,489	24,779	25,302	(290)	(1.2)
Construction-in-progress	12,215	24,385	22,438	(12,170)	49.9
Total	<u>\$ 244,726</u>	<u>233,648</u>	<u>202,602</u>	<u>11,078</u>	<u>4.7%</u>

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Long Term Debt

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

Bonds Payable Balance

(Dollars in millions)

	2012	2011	2010	2012-2011 Change
Variable rate bonds	\$ 50	51	52	—%

Economic Factors, Conditions and Facts Effecting Financial Position or Operations

The University Hospitals Authority and Trust is dependent on subsidies, grants and entitlements from other governments in sustaining its primary mission of Indigent Care, Medical Education and Research. All of these sources of income combine to account for 81% of total income. In 2012 the Oklahoma legislature increased subsidies. Sustaining these programs at current levels or expanding them is dependent on the ability of the State of Oklahoma to increase revenue levels, which is primarily through tax revenues. The University Hospitals Authority's allocation of appropriations for 2012 was increased from 2011 and some operating reserves are utilized in 2012 to maintain Indigent Care and GME programs at current levels.

GME programs (Hospitals' and University's) and Medicaid hospital supplemental payment programs utilize matching state and federal funds to disburse these entitlements to eligible recipients. The match rate was substantially reduced for all of 2010 and the first two quarters of 2011 as part of the ARRA Act of 2009. For 2012, the legislature appropriated sufficient amounts to sustain the GME programs.

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. While 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 2012 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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Contacting the University Hospitals Authority Financial Management

This financial report is designed to provide interested parties with a general overview of the University Hospitals Authority and University Hospitals Trust finances and demonstrate accountability for the money it receives and expends. If you have questions about this report or need additional financial information, contact the University Hospitals Authority, P.O. Box 26307, Oklahoma City, OK 73126.



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

Independent Auditors' Report

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

We have audited the accompanying statements of net assets, revenues, expenses and changes in net assets, 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, 2012 and 2011, which collectively comprise TUH's basic financial statements. These financial statements are the responsibility of TUH's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TUH's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TUH as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TUH's basic financial statements. The supplementary combining statements on pages 31 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary combining statements have 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 financial statements themselves, and other additional procedures in accordance with auditing standards 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.

KPMG LLP

October 30, 2012

**UNIVERSITY HOSPITALS AUTHORITY AND
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Statements of Net Assets

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Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 76,051,902	62,625,850
Investments	68,225	68,225
Receivables:		
Institutional and other	482,844	1,594,307
Interest	10,305	24,541
Prepaid expenses	3,567	3,667
Total current assets	<u>76,616,843</u>	<u>64,316,590</u>
Restricted assets:		
Cash and cash equivalents	744,511	249,691
Investments	884,697	884,264
Real estate	35,989	35,989
Total restricted assets	<u>1,665,197</u>	<u>1,169,944</u>
Noncurrent:		
Unamortized debt costs	101,908	108,120
Working capital settlement	20,000,000	20,000,000
Investment in joint venture equipment, net	24,489,291	24,779,348
Capital assets, net	220,236,894	208,868,975
Total assets	<u>\$ 343,110,133</u>	<u>319,242,977</u>
Liabilities		
Current liabilities:		
Trade payables	\$ 1,491,580	9,209,726
Accrued expenses	14,746,725	18,190,874
Current portion of bonds payable	1,095,000	1,040,000
Current portion of accrued liabilities	168,784	62,458
Deferred revenue	87,479	92,534
Total current liabilities	<u>17,589,568</u>	<u>28,595,592</u>
Noncurrent:		
Bonds payable, net of unamortized discount of \$137,518 and \$145,902 in 2012 and 2011, respectively	48,827,482	49,914,098
Accrued liabilities	343,004	235,855
Total liabilities	<u>\$ 66,760,054</u>	<u>78,745,545</u>
Net Assets		
Net assets:		
Invested in capital assets, net of related debt	\$ 194,803,703	182,694,225
Restricted	1,665,197	1,169,944
Unrestricted	79,881,179	56,633,263
Total net assets	<u>\$ 276,350,079</u>	<u>240,497,432</u>

See accompanying notes to basic financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Teaching Hospital Reimbursement/DSH revenue	\$ 123,216,696	166,156,558
GME revenue	13,813,700	13,899,965
Grant and program revenue	9,636,333	11,054,204
Joint venture revenue	35,994,750	29,925,000
Services provided to others	8,067,672	7,883,910
Level I trauma revenue	9,834,176	9,074,956
Other revenue	1,411,559	1,386,916
Total operating revenues	201,974,886	239,381,509
Operating expenses:		
GME expense	41,114,984	30,286,538
Indigent care expense	120,830,815	155,565,559
Grants and contributions	11,705,210	9,706,132
Professional services	1,270,964	1,583,230
Compensation and benefits	1,250,387	856,876
Supplies, services and other	7,201,333	6,640,626
Total operating expenses before depreciation and amortization	183,373,693	204,638,961
Operating loss before depreciation and amortization	18,601,193	34,742,548
Depreciation and amortization	(18,464,644)	(18,513,695)
Operating loss	136,549	16,228,853
Nonoperating revenues (expenses):		
Indigent care subsidies	38,446,391	14,838,184
Investment income	149,708	336,964
Debt related expenses	(518,468)	(707,887)
Miscellaneous revenue (expense)	(2,361,533)	7,225
Total nonoperating revenues	35,716,098	14,474,486
Change in net assets	35,852,647	30,703,339
Net assets, beginning of year	240,497,432	209,794,093
Net assets, end of year	\$ 276,350,079	240,497,432

See accompanying notes to basic financial statements.

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Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from customers	\$ 7,969,077	8,380,643
Joint operating agreement receipts	35,994,750	29,925,000
Grant receipts (IME, GME, MTH, DSH)	163,001,897	266,277,380
Indigent care payments	(120,830,815)	(215,901,375)
Grant payments	(17,042,222)	(13,601,065)
GME match payments	(46,720,697)	(35,639,931)
Goods and service payments	(8,482,373)	(8,543,181)
Payments to employees	(1,044,162)	(814,204)
Other operating receipts	1,389,310	3,296,255
Net cash provided by operating activities	<u>14,234,765</u>	<u>33,379,522</u>
Cash flows from noncapital financing activities:		
Subsidies	38,446,391	14,838,184
Cash flows from capital and related financing activities:		
Principal payment	(1,040,000)	(980,000)
Purchase of capital assets	(35,185,825)	(46,258,653)
Interest paid on bonds	(105,394)	(154,644)
Other bond related costs	(391,164)	(560,696)
Nonoperating revenue	(2,197,852)	74,659
Net cash used in capital and related financing activities	<u>(38,920,235)</u>	<u>(47,879,334)</u>
Cash flows from investing activities:		
Investment income	159,951	357,908
Net cash flow provided by investing activities	<u>159,951</u>	<u>357,908</u>
Net increase in cash and cash equivalents	13,920,872	696,280
Cash and cash equivalents, beginning of year	<u>62,875,541</u>	<u>62,179,261</u>
Cash and cash equivalents, end of year	<u>\$ 76,796,413</u>	<u>62,875,541</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 136,549	16,228,853
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation and amortization	18,464,644	18,513,695
Decrease in receivables, net	1,111,463	4,955,460
Decrease in payables and accrued expenses	(5,472,936)	(6,315,896)
Decrease in deferred revenue	(5,055)	(2,690)
Decrease in prepaid expenses	100	100
Total adjustments	<u>14,098,216</u>	<u>17,150,669</u>
Net cash provided by operating activities	<u>\$ 14,234,765</u>	<u>33,379,522</u>
Noncash capital financing and investing activities:		
Unrealized gains	\$ —	6,664
Capital assets purchased remaining in accrued expenses	1,072,097	6,560,922

See accompanying notes to basic financial statements.

**UNIVERSITY HOSPITALS AUTHORITY AND
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Notes to Basic Financial Statements

June 30, 2012 and 2011

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

(a) *Nature of the Entity*

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

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

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

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

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

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

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After February 4, 1998, TUH, (through the Trust) is eligible to share in the net profits of the joint operations of OUMC as described more fully in note 9. The estimated net profits of the joint venture accruing to TUH and the Trust for the years ended June 30, 2012 and 2011 are presented in the accompanying statements of revenues, expenses and changes in net assets as “joint venture revenue.”

(b) *Basis of Accounting and Presentation*

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

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

TUH’s basic financial statements are prepared in accordance with U.S. generally accepted accounting principles as they apply to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. TUH applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements, in which case, GASB prevails, and all of the GASB pronouncements issued subsequently.

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

(c) *Cash, Cash Equivalents and Investments*

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

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expenses and changes in net assets and includes the unrealized and realized gains and losses on investments.

(d) Restricted Assets

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

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

(e) Capital Assets

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

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

Expenses that increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and renewals are charged to operations. Upon disposition, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is reflected in the period in which the asset is disposed. Substantial capital assets, except construction-in-progress and certain capital additions since 2003, as of June 30, 2012 and 2011 have been leased to the joint operations of the OUMC or the OU Board of Regents for uses related to the mission of TUH. Certain capital additions since 2003 are owned and operated by TUH and are not leased to the joint operations of OUMC.

(f) Compensated Absences

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

(g) Income Taxes

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

**UNIVERSITY HOSPITALS AUTHORITY AND
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Notes to Basic Financial Statements

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(h) Use of Estimates

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

(i) Subsidy Income

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

(2) Deposits and Investments

(a) Deposits

At June 30, 2012 and 2011, 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, 2012 and 2011 are approximately \$5,036,000 and \$7,214,000, respectively. The Authority's reserved deposits with the State Treasurer at June 30, 2012 and 2011 are approximately \$245,000 and \$250,000, respectively.

At June 30, 2012 and 2011, the bank balance of the Trust's cash equivalents were approximately \$71,516,000 and \$55,162,000, respectively, which equals carrying amount. The bank balance is collateralized with securities held by an agent in the Trust's name.

(b) Investments

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

	2012	2011
Mutual funds	\$ 881,874	881,786
Equities	71,048	70,703
Total	\$ 952,922	952,489

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

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(c) Concentration of Credit Risk

TUH places no limit on the amount it can invest in any one issuer. Investment at Morgan Stanley Smith Barney represented 92.8% and 92.8% of total investments at June 30, 2012 and 2011, respectively.

(3) Receivables

At June 30 the accounts receivable are as follows:

	2012	2011
Institutional and other	\$ 482,884	1,594,307
Working capital settlement	20,000,000	20,000,000
Pledges	—	—

In the event the JOA has not been terminated prior to September 11, 2023, HCA Health Services of Oklahoma, Inc., a subsidiary of HCA, (the Company) agreed to reimburse the Trust \$20,000,000 on September 11, 2023. The Company agreed to transfer and assign to the Trust the aggregate amount of \$20,000,000 of accounts receivable and notes receivable of the Hospitals, net of the Company's good faith estimate of an allowance for uncollectibles at the date of the transfer, September 11, 2023. On March 11, 2024, the Company shall determine the Actual Value of Receivables, which is the actual aggregate amount of collections from such accounts and notes receivables. If the Actual Value of Receivables is in excess of \$20,000,000, the Trust shall repay the excess to the Company within five business days after determination thereof. If the Actual Value of Receivables is less than \$20,000,000, the Company shall pay to the Trust in cash an amount equal to such deficiency within five business days of determination thereof. Management has no knowledge of the Company's intent to terminate the JOA prior to September 11, 2023.

(4) Capital Assets

A substantial amount of all capital assets are leased to the joint operations of OUMC or to OU Health Sciences Center. At June 30 capital assets consisted of the following:

	2012	2011
Land	\$ 4,009,252	4,009,252
Buildings and improvements	313,651,718	287,780,547
Equipment	129,104,186	123,314,664
Construction-in-progress	12,215,326	24,385,321
Infrastructure	7,579,428	7,210,157
	466,559,910	446,699,941
Less accumulated depreciation	(246,323,016)	(237,830,966)
	\$ 220,236,894	208,868,975

**UNIVERSITY HOSPITALS AUTHORITY AND
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The following summarizes the additions and deductions from net capital assets during fiscal years 2012 and 2011:

	<u>July 1, 2011</u>	<u>Additions and transfers in</u>	<u>Depreciation, deductions and transfers out</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 4,009,252	—	—	4,009,252
Construction-in-progress	24,385,321	14,105,647	(26,275,642)	12,215,326
Capital assets, being depreciated:				
Buildings and improvements	143,126,981	25,871,171	(6,736,958)	162,261,194
Equipment	33,780,869	5,789,522	(1,577,600)	37,992,791
Infrastructure	3,566,552	369,271	(177,492)	3,758,331
Net capital assets	<u>\$ 208,868,975</u>	<u>46,135,611</u>	<u>(34,767,692)</u>	<u>220,236,894</u>

	<u>July 1, 2010</u>	<u>Additions and transfers in</u>	<u>Depreciation, deductions and transfers out</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 4,009,252	—	—	4,009,252
Construction-in-progress	22,438,279	32,579,807	(30,632,765)	24,385,321
Capital assets, being depreciated:				
Buildings and improvements	119,206,648	30,063,682	(6,143,349)	143,126,981
Equipment	29,700,333	5,414,315	(1,333,779)	33,780,869
Infrastructure	1,946,027	1,753,756	(133,231)	3,566,552
Net capital assets	<u>\$ 177,300,539</u>	<u>69,811,560</u>	<u>(38,243,124)</u>	<u>208,868,975</u>

For the years ended at June 30, 2012 and 2011, depreciation expense related to capital assets was \$8,492,050 and \$7,610,359, respectively.

(5) Investment in Joint Venture Equipment

The following summarizes the additions and deductions from net investment in joint venture equipment during fiscal years 2012 and 2011:

	<u>July 1, 2011</u>	<u>Additions and transfers in</u>	<u>Depreciation, deductions and transfers out</u>	<u>June 30, 2012</u>
Net equipment	\$ 24,779,348	9,682,537	(9,972,594)	24,489,291

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	<u>July 1, 2010</u>	<u>Additions and transfers in</u>	<u>Depreciation, deductions and transfers out</u>	<u>June 30, 2011</u>
Net equipment	\$ 25,301,710	10,380,974	(10,903,336)	24,779,348

For the years ended at June 30, 2012 and 2011, depreciation expense related to investment in joint venture equipment was \$9,972,594 and \$10,903,336, respectively. Depreciation is computed by the straight-line method over the estimated useful life of five years.

(6) Operating Lease

TUH entered into multiple leases, whereby for the majority of leases TUH will receive rental income for leased office and clinical space for a term of one year.

The following schedule shows future minimum lease rent receipts.

2013	\$	1,065,365
2014		675,876
2015		675,876
2016		675,876
2017		675,876
2018 – 2022		3,367,630
2023 – 2027		3,367,630
2028 – 2032		3,367,630
2033 – 2037		3,367,630
2038 – 2042		3,367,630
2043 – 2047		3,367,630
2048 – 2049		1,078,183

(7) Bonds Payable

In October 2005, the Trust issued Tax Exempt Variable Rate Revenue Bonds, Series 2005A (Series 2005A) and Taxable Variable Rate Revenue Bonds, Series 2005B (Series 2005B) to partially finance the construction of new pediatric care facilities and the phase II basic research center. The \$36,715,000 Series 2005A bonds were used for design and construction of the O.U. Children’s Pediatric Ambulatory Care building. The attached 1,000 car parking garage was funded with Trust cash and a central connecting atrium and education center was paid for with a combination of contributions and Trust cash. The \$18,745,000 Series 2005B bonds use is for the phase II basic research building constructed by the University of Oklahoma. Both variable rate bond issues are credit enhanced with irrevocable letters of credit that will mature September 30, 2014. The Trust makes interest payments monthly based on weekly rate re-sets with principal payments made annually each August. The bonds are secured with Trust revenues and the indenture and letter of credit agreements place liquidity, debt service and capitalization covenants on the Trust. As of June 30, 2012 and 2011, the balances outstanding are approximately \$36,715,000 and \$36,715,000 for Series 2005A and \$13,345,000 and \$14,385,000 for Series 2005B,

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respectively. As of June 30, 2012 and 2011, the interest rates were 0.28% and 0.09% for Series 2005A and 0.35% and 0.12% for Series 2005B, respectively.

The underlying trust agreement contains certain bond covenants that TUH is aware of and monitors for compliance throughout the year. TUH has complied with all bond covenants throughout fiscal year 2012.

The debt service requirements as of June 30, 2012 are as follows:

	Series 2005A			Series 2005B		
	Principal	Interest	Total	Principal	Interest	Total
Year ending June 30:						
2013	\$ —	569,475	569,475	1,095,000	334,902	1,429,902
2014	—	568,690	568,690	1,170,000	307,161	1,477,161
2015	—	569,083	569,083	1,235,000	278,184	1,513,184
2016	—	572,201	572,201	1,310,000	248,550	1,558,550
2017 – 2021	—	2,845,800	2,845,800	7,820,000	704,987	8,524,987
2022 – 2026	9,405,000	2,590,760	11,995,760	715,000	18,451	733,451
2027 – 2031	12,320,000	1,756,909	14,076,909	—	—	—
2032 – 2036	14,990,000	724,111	15,714,111	—	—	—
	<u>\$ 36,715,000</u>	<u>10,197,029</u>	<u>46,912,029</u>	<u>13,345,000</u>	<u>1,892,235</u>	<u>15,237,235</u>

As of June 30, 2012, the unamortized bond discount was \$99,588 and \$37,930 for Series 2005A and Series 2005B, respectively. Amortization expense related to debt service costs for 2012 and 2011 was \$6,213 and \$6,213, respectively.

(8) Changes in Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2012 and 2011 was as follows:

2012	July 1, 2011	Additions	Deletions	June 30, 2012	Current portion
Accrued liabilities	\$ 298,313	213,475	—	511,788	168,704
Lease payable	—	—	—	—	—
Bonds payable, net	50,954,098	8,384	(1,040,000)	49,922,482	1,095,000
	<u>\$ 51,252,411</u>	<u>221,859</u>	<u>(1,040,000)</u>	<u>50,434,270</u>	<u>1,263,704</u>
2011	July 1, 2010	Additions	Deletions	June 30, 2011	Current portion
Accrued liabilities	\$ 362,893	—	(64,580)	298,313	62,458
Lease payable	—	—	—	—	—
Bonds payable, net	51,925,714	8,384	(980,000)	50,954,098	1,040,000
	<u>\$ 52,288,607</u>	<u>8,384</u>	<u>(1,044,580)</u>	<u>51,252,411</u>	<u>1,102,458</u>

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(9) Joint Operating Agreement

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

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

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

(10) Employee Retirement Plan

TUH contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the System). The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That annual report may be obtained by writing to the System, 6601 N. Broadway Extension, Suite 129, Oklahoma City, Oklahoma 73116 or by calling 1-800-733-9008.

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

Fiscal year 2012	
TUH employees All salary	TUH All salary
3.5%	16.5%
Fiscal year 2011	
TUH employees All salary	TUH All salary
3.5%	15.5%

TUH's contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, were approximately \$116,000, \$106,000, and \$83,000, respectively, and was equal to its required contribution for each year.

(11) Deferred Compensation Plan

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

Under SoonerSave, the untaxed deferred amounts are invested as directed by the participant among various 457 Plan investment options. Effective January 1, 1998, a Trust and Trust Fund covering the 457 Plan assets was established pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the IRC. Under terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of the 457 Plan participants and their beneficiaries. Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan audited financial statements for the years ended June 30, 2012 and 2011. TUH believes that it has no liabilities in respect to the State's plan.

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(12) Risk Management

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

TUH is self-insured for nongovernmental tort claims. It is the opinion of management, however, after consulting with its legal counsel that estimated costs to be incurred for nongovernmental tort claims included in other liabilities are adequate.

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 the State Insurance Fund.

(13) Commitments and Contingencies

TUH is required by the JOA to pay for all workers compensation liabilities for hospital employees injured prior to February 5, 1998. The related liability is accrued as accrued liabilities on the statement of net assets.

In the normal course of operations, TUH is a defendant in several lawsuits; however, TUH officials are of the opinion, based on the advice of the attorney general, that the ultimate outcome of this litigation will not have a material adverse effect on the future operations or financial position of TUH.

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



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

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

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

We have audited the basic financial statements of the University Hospitals Authority and University Hospitals Trust (together referred to as TUH), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of TUH is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered TUH's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TUH's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the University Hospitals Authority Members, the Trustees of the University Hospitals Trust, the Oklahoma State Auditor and Inspector, and TUH's management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 30, 2012

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Net Assets

June 30, 2012

	Authority Fund	Trust Fund	Total
Current assets:			
Cash and cash equivalents	\$ 5,036,237	71,015,665	76,051,902
Investments	38,225	30,000	68,225
Receivables:			
Institutional and other	87,362	395,482	482,844
Interest receivable	10,305	—	10,305
Prepaid expenses	—	3,567	3,567
Total current assets	5,172,129	71,444,714	76,616,843
Restricted assets:			
Cash and cash equivalents	244,511	500,000	744,511
Investments	884,697	—	884,697
Real estate	35,989	—	35,989
Pledges receivable	—	—	—
Total restricted assets	1,165,197	500,000	1,665,197
Noncurrent:			
Unamortized debt costs	—	101,908	101,908
Working capital settlement	—	20,000,000	20,000,000
Investment in joint venture equipment, net	—	24,489,291	24,489,291
Capital assets, net	23,880,848	196,356,046	220,236,894
Total assets	\$ 30,218,174	312,891,959	343,110,133
Current liabilities:			
Trade payables	\$ 15,397	1,476,183	1,491,580
Accrued expenses	2,255,071	12,491,654	14,746,725
Current portion of bonds payable	—	1,095,000	1,095,000
Current portion of accrued liabilities	168,784	—	168,784
Deferred revenue	3,567	83,912	87,479
Total current liabilities	2,442,819	15,146,749	17,589,568
Noncurrent:			
Bonds payable, net	—	48,827,482	48,827,482
Accrued liabilities	343,004	—	343,004
Total liabilities	\$ 2,785,823	63,974,231	66,760,054
Net assets:			
Invested in capital assets, net of related debt	\$ 23,880,848	170,922,855	194,803,703
Restricted	1,165,197	500,000	1,665,197
Unrestricted	2,386,306	77,494,873	79,881,179
Total net assets	\$ 27,432,351	248,917,728	276,350,079

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Net Assets

June 30, 2011

	Authority Fund	Trust Fund	Total
Current assets:			
Cash and cash equivalents	\$ 7,463,796	55,162,054	62,625,850
Investments	38,225	30,000	68,225
Receivables:			
Institutional and other	1,390,109	204,198	1,594,307
Interest receivable	24,541	—	24,541
Prepaid expenses	—	3,667	3,667
Total current assets	8,916,671	55,399,919	64,316,590
Restricted assets:			
Cash and cash equivalents	249,616	75	249,691
Investments	884,264	—	884,264
Real estate	35,989	—	35,989
Pledges receivable	—	—	—
Total restricted assets	1,169,869	75	1,169,944
Noncurrent:			
Unamortized debt costs	—	108,120	108,120
Working capital settlement	—	20,000,000	20,000,000
Investment in joint venture equipment, net	—	24,779,348	24,779,348
Capital assets, net	27,220,045	181,648,930	208,868,975
Total assets	\$ 37,306,585	281,936,392	319,242,977
Current liabilities:			
Trade payables	\$ 1,349,883	7,859,843	9,209,726
Accrued expenses	1,416,071	16,774,803	18,190,874
Current portion of bonds payable	—	1,040,000	1,040,000
Current portion of accrued liabilities	62,458	—	62,458
Deferred revenue	3,667	88,867	92,534
Total current liabilities	2,832,079	25,763,513	28,595,592
Noncurrent:			
Bonds payable, net	—	49,914,098	49,914,098
Accrued liabilities	235,855	—	235,855
Total liabilities	\$ 3,067,934	75,677,611	78,745,545
Net assets:			
Invested in capital assets, net of related debt	\$ 27,220,045	155,474,180	182,694,225
Restricted	1,169,869	75	1,169,944
Unrestricted	5,848,737	50,784,526	56,633,263
Total net assets	\$ 34,238,651	206,258,781	240,497,432

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2012

	<u>Authority Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Operating revenues:			
Teaching Hospital Reimbursement revenue	\$ 54,331,444	68,885,252	123,216,696
GME revenue	13,813,700	—	13,813,700
Grant and program revenue	—	9,636,333	9,636,333
Joint venture revenue	—	35,994,750	35,994,750
Services provided to others	266,917	7,800,755	8,067,672
Level I trauma revenue	9,834,176	—	9,834,176
Other revenue	72,581	1,338,978	1,411,559
Total operating revenues	<u>78,318,818</u>	<u>123,656,068</u>	<u>201,974,886</u>
Operating expenses:			
GME expense	41,114,984	—	41,114,984
Indigent care expense	75,111,167	45,719,648	120,830,815
Grants and contributions	773,357	10,931,853	11,705,210
Professional services	444,816	826,148	1,270,964
Compensation and benefits	520,421	729,966	1,250,387
Supplies, services and other	50,339	7,150,994	7,201,333
Total operating expenses before depreciation and amortization	<u>118,015,084</u>	<u>65,358,609</u>	<u>183,373,693</u>
Operating (loss) income before depreciation and amortization	(39,696,266)	58,297,459	18,601,193
Depreciation and amortization	<u>(3,341,688)</u>	<u>(15,122,956)</u>	<u>(18,464,644)</u>
Operating (loss) income	<u>(43,037,954)</u>	<u>43,174,503</u>	<u>136,549</u>
Nonoperating revenues (expenses):			
Indigent care subsidies	38,446,391	—	38,446,391
Interest income	146,795	2,913	149,708
Debt related expenses	—	(518,468)	(518,468)
Miscellaneous revenue (expense)	(2,361,533)	—	(2,361,533)
Total nonoperating revenues (expenses)	<u>36,231,653</u>	<u>(515,555)</u>	<u>35,716,098</u>
Change in net assets	(6,806,301)	42,658,948	35,852,647
Net assets, beginning of year	<u>34,238,652</u>	<u>206,258,780</u>	<u>240,497,432</u>
Net assets, end of year	<u>\$ 27,432,351</u>	<u>248,917,728</u>	<u>276,350,079</u>

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2011

	<u>Authority Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Operating revenues:			
Teaching Hospital Reimbursement revenue	\$ 59,809,773	106,346,785	166,156,558
GME revenue	13,899,965	—	13,899,965
Grant and program revenue	—	11,054,204	11,054,204
Joint venture revenue	—	29,925,000	29,925,000
Services provided to others	318,867	7,565,043	7,883,910
Level I trauma revenue	9,074,956	—	9,074,956
Other revenue	69,235	1,317,681	1,386,916
Total operating revenues	<u>83,172,796</u>	<u>156,208,713</u>	<u>239,381,509</u>
Operating expenses:			
GME expense	30,286,538	—	30,286,538
Indigent care expense	75,917,497	79,648,062	155,565,559
Grants and contributions	773,357	8,932,775	9,706,132
Professional services	318,867	1,264,363	1,583,230
Compensation and benefits	324,719	532,157	856,876
Supplies, services and other	38,092	6,602,534	6,640,626
Total operating expenses before depreciation and amortization	<u>107,659,070</u>	<u>96,979,891</u>	<u>204,638,961</u>
Operating (loss) income before depreciation and amortization	(24,486,274)	59,228,822	34,742,548
Depreciation and amortization	<u>(3,538,008)</u>	<u>(14,975,687)</u>	<u>(18,513,695)</u>
Operating (loss) income	<u>(28,024,282)</u>	<u>44,253,135</u>	<u>16,228,853</u>
Nonoperating revenues (expenses):			
Indigent care subsidies	14,838,184	—	14,838,184
Interest income	334,409	2,555	336,964
Debt related expenses	—	(707,887)	(707,887)
Miscellaneous revenue (expense)	6,949	276	7,225
Total nonoperating revenues (expenses)	<u>15,179,542</u>	<u>(705,056)</u>	<u>14,474,486</u>
Change in net assets	(12,844,740)	43,548,079	30,703,339
Net assets, beginning of year	<u>47,083,391</u>	<u>162,710,702</u>	<u>209,794,093</u>
Net assets, end of year	<u>\$ 34,238,651</u>	<u>206,258,781</u>	<u>240,497,432</u>

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Cash Flows

Year ended June 30, 2012

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 272,339	7,696,738	7,969,077
Joint operating agreement receipts	—	35,994,750	35,994,750
Grant receipts (IME, GME, MTH)	79,277,820	83,724,077	163,001,897
Indigent care payments	(75,111,167)	(45,719,648)	(120,830,815)
Grant payments	(936,520)	(16,105,702)	(17,042,222)
IME match payments	(41,518,205)	(5,202,492)	(46,720,697)
Goods and service payments	(416,478)	(8,065,895)	(8,482,373)
Payments to employees	(315,996)	(728,166)	(1,044,162)
Other operating receipts	72,581	1,316,729	1,389,310
Net cash (used in) provided by operating activities	(38,675,626)	52,910,391	14,234,765
Cash flows from noncapital financing activities:			
Subsidies	38,446,391	—	38,446,391
Cash flows from capital and related financing activities:			
Principal payment	—	(1,040,000)	(1,040,000)
Purchase of capital assets	(2,492)	(35,183,333)	(35,185,825)
Interest paid on bonds	—	(105,394)	(105,394)
Other bond related costs	—	(391,164)	(391,164)
Nonoperating revenue	(2,361,965)	164,113	(2,197,852)
Net cash used in capital and related financing activities	(2,364,457)	(36,555,778)	(38,920,235)
Cash flows from investing activities:			
Investment income	161,028	(1,077)	159,951
Net (decrease) increase in cash and cash equivalents	(2,432,664)	16,353,536	13,920,872
Cash and cash equivalents, beginning of year	7,713,412	55,162,129	62,875,541
Cash and cash equivalents, end of year	\$ 5,280,748	71,515,665	76,796,413
Reconciliation of operating loss to net cash provided by operating activities:			
Operating (loss) income	\$ (43,037,954)	43,174,503	136,549
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	3,341,688	15,122,956	18,464,644
(Increase) decrease in receivables, net	1,302,747	(191,284)	1,111,463
(Decrease) increase in payables and accrued expenses	(282,007)	(5,190,929)	(5,472,936)
Decrease in deferred revenues	(100)	(4,955)	(5,055)
Decrease in prepaid expenses	—	100	100
Total adjustments	4,362,328	9,735,888	14,098,216
Net cash (used in) provided by operating activities	\$ (38,675,626)	52,910,391	14,234,765
Noncash capital financing and investing activities:			
Capital assets purchased remaining in accrued expenses	\$ —	1,072,097	1,072,097

See accompanying independent auditors' report.

**UNIVERSITY HOSPITALS AUTHORITY AND
UNIVERSITY HOSPITALS TRUST**

Combining Statement of Cash Flows

Year ended June 30, 2011

	Authority Fund	Trust Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 291,087	8,089,556	8,380,643
Joint operating agreement receipts	—	29,925,000	29,925,000
Grant receipts (IME, GME, MTH)	81,486,194	184,791,186	266,277,380
Indigent care payments	(75,917,497)	(139,983,878)	(215,901,375)
Grant payments	(5,773,357)	(7,827,708)	(13,601,065)
IME match payments	(32,287,509)	(3,352,422)	(35,639,931)
Goods and service payments	(442,477)	(8,100,704)	(8,543,181)
Payments to employees	(282,047)	(532,157)	(814,204)
Other operating receipts	69,236	3,227,019	3,296,255
Net cash (used in) provided by operating activities	(32,856,370)	66,235,892	33,379,522
Cash flows from noncapital financing activities:			
Subsidies	14,838,184	—	14,838,184
Cash flows from capital and related financing activities:			
Principal payment	—	(980,000)	(980,000)
Purchase of capital assets	(476)	(46,258,177)	(46,258,653)
Interest paid on bonds	—	(154,644)	(154,644)
Other bond related costs	—	(560,696)	(560,696)
Nonoperating revenue	183	74,476	74,659
Net cash used in capital and related financing activities	(293)	(47,879,041)	(47,879,334)
Cash flows from investing activities:			
Investment income	360,462	(2,554)	357,908
Net (decrease) increase in cash and cash equivalents	(17,658,017)	18,354,297	696,280
Cash and cash equivalents, beginning of year	25,371,504	36,807,757	62,179,261
Cash and cash equivalents, end of year	\$ 7,713,487	55,162,054	62,875,541
Reconciliation of operating loss to net cash provided by operating activities:			
Operating (loss) income	\$ (28,024,282)	44,253,135	16,228,853
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	3,538,008	14,975,687	18,513,695
(Increase) decrease in receivables, net	(1,257,940)	6,213,400	4,955,460
(Decrease) increase in payables and accrued expenses	(7,112,607)	796,711	(6,315,896)
Decrease in deferred revenues	(100)	(2,590)	(2,690)
Decrease in prepaid expenses	—	100	100
Total adjustments	(4,832,639)	21,983,308	17,150,669
Net cash (used in) provided by operating activities	\$ (32,856,921)	66,236,443	33,379,522
Noncash capital financing and investing activities:			
Unrealized gain	\$ 6,664	—	6,664
Capital assets purchased remaining in accrued expenses	—	6,560,922	6,560,922

See accompanying independent auditors' report.