

**UNIVERSITY OF OKLAHOMA
HEALTH SCIENCES CENTER**

June 30, 2013

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

Board of Regents of the University of Oklahoma
University of Oklahoma Health Sciences Center
Norman, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Oklahoma Health Science Center (the "Center"), a component unit of the State of Oklahoma, which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Oklahoma Health Science Center as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2013 the Center adopted several new accounting pronouncements issued by the Governmental Accounting Standards Board, including GASB Statements No. 63 and 65. The provisions of GASB Statements No. 63 and 65 required the Center to retroactively restate its 2012 financial statements upon adoption. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (schedule of funding progress and notes to required supplementary information) as listed in the table of contents 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013, on our consideration of the Center's internal control over financial reporting and on 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* in considering the Center's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 8, 2013

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis
Years Ending June 30, 2013 and 2012

The discussion and analysis of The University of Oklahoma Health Sciences Center's (the "Center") financial statements provides an overview of the Center's financial activities for the years ending June 30, 2013 and 2012. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis.

FINANCIAL HIGHLIGHTS

2013

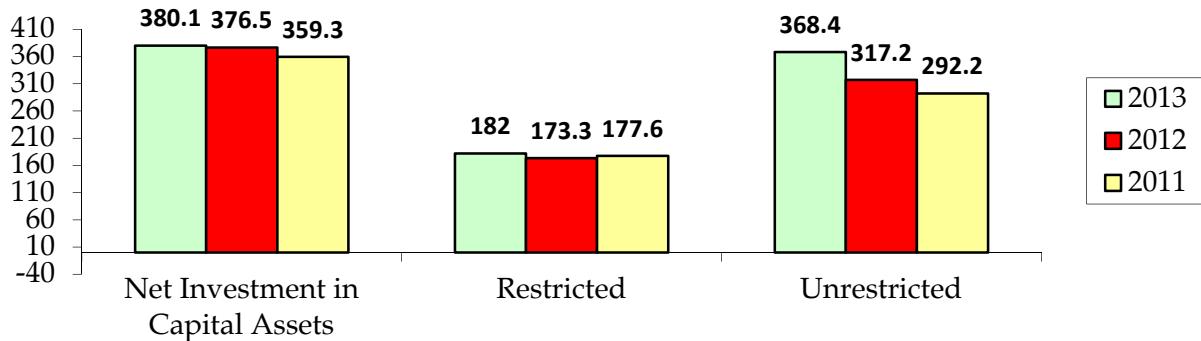
The Center's financial position, as a whole, improved during the fiscal year ending June 30, 2013. Net position increased approximately \$63.5 million or 7.3% over the previous year. The change resulted from increases in net investment in capital assets of \$3.6 million, unrestricted net position of \$51.2 million, and restricted net position of \$8.7 million.

2012

The Center's financial position, as a whole, improved during the fiscal year ending June 30, 2012. Net position increased approximately \$37.9 million or 4.6% over the previous year. The change resulted from increases in net investment in capital assets of \$17.2 million, unrestricted net position of \$25.0 million, and a decrease in restricted net position of \$4.3 million.

The following graph illustrates the comparative change in net position by category for the periods ended June 30:

NET POSITION (*in Millions*)



OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

This report consists of Management's Discussion and Analysis (this part), the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. These statements provide both long-term and short-term financial information on the Center as a whole.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

**THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION**

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the Center's net position and how it has changed. Net position - the difference between combined assets and deferred outflows of resources and combined liabilities and deferred inflows of resources - is one way to measure the Center's financial health, or position. Over time, increases or decreases in the Center's net position is an indicator of whether its financial health is improving. Non-financial factors are also important to consider, including student enrollment, condition of campus buildings, patient census, and trends in national health care reimbursement policies.

These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the Center's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, as well as, the Center's revenues, expenses, and changes in net position for the periods ended June 30:

CONDENSED STATEMENT OF NET POSITION, END OF YEAR *(in millions)*

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current Assets	\$ 694.4	\$ 602.5	\$ 584.4
Capital Assets, net	510.6	511.5	499.4
Other Noncurrent Assets	<u>49.2</u>	<u>48.6</u>	<u>50.6</u>
Total Assets	1,254.2	1,162.6	1,134.4
 Deferred Outflows of Resources	 0.8	 1.2	 1.3
Current Liabilities	112.2	86.1	98.6
Noncurrent Liabilities	<u>212.3</u>	<u>210.7</u>	<u>208.0</u>
Total Liabilities	324.5	296.8	306.6
 Deferred Inflows of Resources	 -	 -	 -
Net Position:			
Net investment in capital assets	380.1	376.5	359.3
Restricted	182.0	173.3	177.6
Unrestricted	<u>368.4</u>	<u>317.2</u>	<u>292.2</u>
Total Net Position	<u>\$ 930.5</u>	<u>\$ 867.0</u>	<u>\$ 829.1</u>
Increase in Net Position	<u>\$ 63.5</u>	<u>\$ 37.9</u>	

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

**THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION--Continued**

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION,
YEAR ENDED (*in millions*)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 712.6	\$ 685.1	\$ 662.9
Operating Expenses	<u>831.2</u>	<u>795.1</u>	<u>756.7</u>
Operating Loss	(118.6)	(110.0)	(93.8)
Net Nonoperating Revenues	169.8	128.7	145.7
Other Revenues, Expenses, and Gains or Losses	<u>12.3</u>	<u>19.2</u>	<u>35.2</u>
Net Change in Net Position	63.5	37.9	87.1
Net Position at Beginning of year	<u>867.0</u>	<u>829.1</u>	<u>742.0</u>
Net Position at End of year	<u>\$ 930.5</u>	<u>\$ 867.0</u>	<u>\$ 829.1</u>

OPERATING REVENUES

The following summarizes the Center's operating revenues for the periods ended June 30:

OPERATING REVENUES, (*in millions*)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Tuition and Fees	\$ 57.2	\$ 53.5	\$ 56.3
Patient Care	335.4	317.8	290.6
Grants and Contracts	255.1	242.9	254.0
Sales and Services of Educational Activities	1.6	1.4	1.4
Auxiliary Enterprises	20.6	21.8	19.5
Other	<u>42.7</u>	<u>47.7</u>	<u>41.1</u>
Total Operating Revenues	<u>\$ 712.6</u>	<u>\$ 685.1</u>	<u>\$ 662.9</u>

Changes in operating revenues included the following:

2013

Student tuition and fees revenue increased 7% or \$3.7 million in fiscal year 2013. This was primarily due to tuition rate and mandatory fee increases.

Patient care increased significantly over the past year with additional revenues of \$17.6 million. This was due to increased patient volume in areas such as Cancer Care, Anesthesiology and Neurosurgery.

Federal grants and contracts decreased during the year by \$1.6 million. This was primarily in awards funded by the National Institutes of Health.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

OPERATING REVENUES-Continued

2013-Continued

State grants and contracts reflected a significant increase over the past year with additional revenues of \$16.2 million or 22.9%. This was primarily due to increased Graduate Medical Education (GME) funding for the College of Medicine-Tulsa, new grant funding for the Stephenson Cancer Center and new grant funding received from the University Hospitals Authority & Trust.

Private grants and contracts decreased during 2013 with lower revenues of \$2.4 million. The decrease was primarily due to a reduction in funding received from the OU Medical Center for mission support offset by an increase in revenues received by the Stephenson Cancer Center.

Sales and services of auxiliary enterprises had a decrease in revenues during 2013 of \$1.2 million.

Other revenues decreased \$5 million during the year. This was primarily due to the reclass of revenues into other operating revenue categories.

2012

Student tuition and fees revenue decreased 4.9% or \$2.8 million in fiscal year 2012. This was due to phasing out the College of Nursing ORBIS distance education program and a timing difference in the recognition of revenue as a result of a variation in academic year start dates.

Patient care increased over the past year in the amount of \$27.2 million. This was due to increased patient volume in areas such as Cancer Care, Anesthesiology and Otorhinolaryngology.

Federal grants and contracts decreased during the year by \$6.1 million. Sponsored program awards funded under the American Recovery and Reinvestment Act (ARRA) comprised the majority of the decrease in activity.

State grants and contracts increased 3% or \$2.1 million over the prior fiscal year.

Private grants and contracts decreased during 2012 with lower revenues of \$7.1 million. The decrease was primarily due to a reduction in funding received from the OU Medical Center for mission support offset by increases in clinical trial and residency program revenues.

Sales and services of auxiliary enterprises had an increase in revenues during 2012 of \$2.3 million. This was primarily due to an increase in rental income derived from the Peggy and Charles Stephenson Cancer Center.

Other revenues increased \$6.6 million during the year. This was primarily due to an increase in pharmaceutical sales at the OU pharmacies.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

OPERATING EXPENSES

The following summarizes the Center's operating expenses for the periods ended June 30:

OPERATING EXPENSES (*in millions*)

	2013	2012	2011
Compensation and Benefits	\$ 582.0	\$ 560.2	\$ 533.7
Contractual Services	62.5	58.9	59.9
Supplies and Materials	82.7	73.6	66.4
Depreciation	24.3	24.0	21.6
Utilities	12.5	12.6	12.3
Communications	6.6	6.3	6.2
Scholarships	2.2	2.1	2.7
Other	58.3	57.4	53.9
Total Operating Expenses	\$ 831.1	\$ 795.1	\$ 756.7

Changes in operating expenses were the result of the following:

2013

Compensation and benefits expense increased 3.9% or \$21.8 million during fiscal year 2013. This was due to an increase in faculty and staff salaries during the year, as well as, an increase in professional practice plan supplementation payments. There also was an increase in associated benefit costs.

Contractual services expense increased approximately \$3.6 million during the past year. This was primarily related to services provided for the new Information Technology Data Center and, to a lesser degree, building maintenance.

Supplies and materials expense showed an increase for the year of 12.4% or \$9.1 million. This was due to increased purchases of merchandise for resale and pharmaceutical drugs for patient care.

Depreciation expense increased 1.2% or \$.3 million for the year.

Utilities expense showed a small decrease of 1% or \$.1 million.

Other expenses increased by 1.6% or \$.9 million during the year.

2012

Compensation and benefits expense increased 5% or \$26.5 million during fiscal year 2012. This was primarily due to an increase in faculty salaries during the year, as well as, an increase in professional practice plan supplementation payments. There also was an increase in associated benefit costs.

Contractual services expense decreased approximately \$1 million during the past year.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

OPERATING EXPENSES-Continued

2012--Continued

Supplies and materials expense showed a significant increase for the year of 10.9% or \$7.2 million. This was due to increased purchases of merchandise for resale and pharmaceutical drugs for patient care.

Depreciation expense increased 10.8% or \$2.4 million. The increase was due to an overall increase in the capital asset base.

Utilities expense for the year showed a modest increase of only 2.3% or \$.3 million during fiscal year 2012. This was primarily due to relatively stable prices of electricity, natural gas and water.

Other expenses increased 6.5% or \$3.5 million during the year. This was primarily due to increased matching costs related to the Graduate Medical Education and Enhanced Medicaid Reimbursement programs.

NONOPERATING REVENUES AND EXPENSES

The following summarizes the Center's nonoperating revenues and expenses for the periods ended June 30:

NONOPERATING REVENUES AND EXPENSES (*in millions*)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
State Appropriations	\$ 96.8	\$ 96.3	\$ 96.1
State Payments from Federal ARRA Revenue	-	-	7.1
FICA Refund	34.9	-	-
On-behalf Payments	13.0	11.7	9.6
Private Gifts	10.2	9.7	10.5
Interest on Indebtedness	(6.6)	(5.7)	(1.6)
Investment Income	11.2	6.6	14.9
Endowment Income	10.3	10.1	9.1
Net Nonoperating Revenue	<u>\$ 169.8</u>	<u>\$ 128.7</u>	<u>\$ 145.7</u>

Changes in nonoperating revenues and expenses were the result of the following:

2013

State appropriations showed a small increase of \$.5 million in fiscal year 2013.

A significant refund was received in the amount of \$34.9 million related to the IRS settlement of Medical Resident FICA claims. The amount received represented refund of FICA matching payments made on Resident salaries and applicable interest.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

NONOPERATING REVENUES AND EXPENSES--Continued

2013--Continued

On-behalf payments increased 11.1% or \$1.3 million during the year. This was the result of increased payments made by the State to the Teachers Retirement System and interest payments made by the OCIA.

Private gifts increased 5.2% or \$.5 million for the year.

Interest on indebtedness increased 15.8% or \$.9 million in fiscal year 2013. The increase was primarily the result of increased interest incurred for the year related to the OCIA debt.

Investment income increased by approximately 69.7% or \$4.6 million during fiscal year 2013. The increase was due to higher market values realized in endowed investments and the related investment earnings.

Endowment income increased 2% or \$.2 million for the year.

2012

State appropriations were basically flat for the year showing a small increase of \$.2 million in fiscal year 2012.

State payments from federal ARRA revenue decreased 100% or \$7.1 million compared to the prior fiscal year. This was due to this program ending in fiscal year 2011.

On-behalf payments increased 21.6% or \$2.1 million during the year. This was the result of increased payments made by the State to the Teachers Retirement System and interest payments made by the OCIA.

Private gifts decreased 7.6% or \$.8 million for the year.

Interest on indebtedness increased 241.8% or \$4.1 million in fiscal year 2012. The increase was primarily the result of lower capitalized interest being recorded for the year.

Investment income decreased approximately 55.5% or \$8.3 million during fiscal year 2012. The decrease was due to lower market values in the endowed investments more than offsetting investment income earned.

Endowment income increased 10.9% or \$1 million for the year.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

THE STATEMENT OF CASH FLOWS

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

The following summarizes the Center's cash flows for the periods ended June 30:

CONDENSED STATEMENTS OF CASH FLOWS FOR THE YEAR (*in millions*)

	2013	2012	2011
Cash Provided (used) by:			
Operating	\$ (60.9)	\$ (90.1)	\$ (30.8)
Noncapital Financing Activities	174.2	115.0	122.4
Capital and Related Financing Activities	(31.8)	(37.2)	(46.0)
Investing Activities	9.8	9.5	24.9
Net Increase (decrease) in Cash	91.3	(2.8)	70.5
Cash, Beginning of the year	487.5	490.3	419.8
Cash, End of the year	\$ 578.8	\$ 487.5	\$ 490.3

2013

The Center's overall liquidity improved during the year, with a net increase to cash of \$91.3 million. Cash used in operating activities decreased approximately \$29.2 million over the prior year. This was due to overall revenues more than offsetting increased compensation and benefit costs. Lower contractual services and other operating costs had a positive impact on overall cash used by operating activities for the year. Significant cash flow increases incurred related to changes in state grants and contracts (\$38.3 million), patient revenues (\$24 million), tuition and fees (\$1.7 million) and to a much smaller degree in sales and service of educational activities (\$.1 million). Lower cash flows were experienced in federal grants and contracts (\$7.3 million), private grants and contracts (\$5.2 million), other additions (\$4.6 million), sales and services of auxiliary enterprises (\$.6 million) and steam and chilled water plant revenues (\$.4 million). An increase in endowment income (\$1.2 million) more than offset a decrease in cash flows from private gifts (\$.2 million). State appropriations increased by a modest amount (\$.5 million). Overall, there was a net increase of approximately \$59.2 million in cash flows provided by non-capital and related financing activities primarily due to receipt of the Medical Resident FICA refund and applicable interest (\$57.5 million). Cash flows associated with capital and related financing activities decreased by \$5.4 million. This was a result of decreases in proceeds from federal grants and contracts for capital projects (\$6.6 million) and state appropriations for capital projects (\$.3 million) partially offset by increases in state school land funds (\$.3 million) and state grants and contracts for capital projects (\$.1 million). A decrease in purchases of capital assets (\$11.4 million) and principal and interest paid on capital debt and lease (\$.5 million) had a positive impact on cash flows associated with capital and related financing activities. An increase in cash flows in proceeds from sales and maturities of investments and a decrease in investment income resulted in an overall cash increase from investing activities of approximately \$.3 million.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

THE STATEMENT OF CASH FLOWS--Continued

2012

The Center's overall liquidity declined during the year, with a net decrease to cash of \$2.8 million. Cash used in operating activities increased approximately \$59.3 million over the prior year. This was due to overall revenues not being sufficient to offset increased compensation, benefit and other operating costs. Significant cash flow increases incurred related to changes in patient revenues (\$13.4 million) and other additions (\$6.3 million) and to a lesser degree in sales and service of auxiliary enterprises (\$2.2 million). Lower cash flows were experienced in private grants and contracts (\$13.2 million), state grants and contracts (\$10.6 million) and federal grants and contracts (\$6.3 million). There was also a decrease in tuition and fees (\$1.8 million). An increase in endowment income (\$.5 million) was offset by decreases in cash flows from State payments from federal ARRA revenue (\$7.1 million) and private gifts (\$.9 million). State appropriations increased by a small amount (\$.2 million). Overall, there was a net decrease of approximately \$7.4 million in cash flows provided by non-capital and related financing activities. Cash flows associated with capital and related financing activities decreased by \$8.8 million. This was a result of decreases in proceeds from state grants and contracts for capital projects (\$12.3 million), private gifts for capital projects (\$10.4 million), proceeds from sale of capital assets (\$1.3 million), state school land funds (\$1 million), and endowment gifts (\$.1 million) partially offset by increases in federal grants and contracts for capital projects (\$6.2 million) and state appropriations for capital projects (\$.1 million). A decrease in purchases of capital assets (\$24.5 million) and principal and interest paid on capital debt and lease (\$3.1 million) had a positive impact on cash flows associated with capital and related financing activities. Partially offsetting this was a net increase in interest paid on capital debt and lease (\$.1 million) which negatively impacted the overall cash use during the year. An increase in cash flows on the purchase of investments, a decrease in proceeds from sales and maturities of investments, and a decrease in investment income resulted in an overall cash decrease from investing activities of approximately \$15.4 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The following summarizes the Center's Capital Assets for the periods ended June 30:

CAPITAL ASSETS, net, AT YEAR-END (*in millions*)

	2013	2012	2011
Art	\$ 0.7	\$ 0.7	\$ -
Land and Infrastructure	29.8	30.2	30.0
Buildings	433.6	431.8	420.5
Furniture, Fixtures, and Equipment	41.9	43.2	42.1
Library Materials	4.6	5.6	6.8
Totals	<u>\$ 510.6</u>	<u>\$ 511.5</u>	<u>\$ 499.4</u>

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

CAPITAL ASSET AND DEBT ADMINISTRATION--Continued

CAPITAL ASSETS--Continued

2013

At June 30, 2013, the Center had approximately \$510.6 million invested in capital assets, net of accumulated depreciation of \$252.3 million. Depreciation charges for the current year totaled \$24.3 million compared to \$24 million in the prior year.

2012

At June 30, 2012, the Center had approximately \$511.5 million invested in capital assets, net of accumulated depreciation of \$231.6 million. Depreciation charges for the current year totaled \$24 million compared to \$21.6 million in the prior year.

Major capital projects completed during 2013 included upgrades to the Steam and Chilled Water Plant and an addition to the Campus Police Station.

Major capital projects initiated during 2013 included the Peggy and Charles Stephenson Cancer Center Phase I Clinical Trials expansion and remodel, extension of the Steam and Chilled Water utilities tunnel system, and expansion of the OU Wayman Tisdale Specialty Health Center. There was also continuing work on exterior and interior renovations to the Harold Hamm Diabetes Center, Dental Clinical Sciences Building phase I remodel, and consolidation and remodel of office space for Information Technology.

The Center has approximately \$100 million in capital projects planned for the fiscal year ending June 30, 2014. Major projects include acquisition of real property which includes the Presbyterian Health Foundation Research Park and continuing work on the Dental Clinical Sciences Building phase I remodel, expansion of the OU Wayman Tisdale Specialty Health Center, and expansion and remodel of space for the Peggy and Charles Stephenson Cancer Center Phase I Clinical Trials.

More detailed information related to the Center's capital assets is presented in Note 8 to the financial statements.

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER
Management's Discussion and Analysis--Continued
Years Ending June 30, 2013 and 2012

DEBT

The following summarizes outstanding debt by type as of June 30:

OUTSTANDING DEBT, AT YEAR-END (*in millions*)

	2013	2012	2011
General Revenue Bonds	93.6	96.9	99.9
Auxiliary Facility Revenue Bonds	5.3	6.0	6.6
Lease Obligations	31.2	31.7	32.5
Notes Payable	1.2	1.6	2.4
Totals	\$ 131.3	\$ 136.2	\$ 141.4

2013

At fiscal year-end 2013, the Center had approximately \$131 million in outstanding debt, a decrease of approximately \$5 million over the prior year.

The Center entered into no new long term financing arrangements during the current year. Debt repayments of \$4.9 million were made during the year. More detailed information related to the Center's long-term liabilities is presented in Note 10 to the financial statements.

2012

At fiscal year-end 2012, the Center had approximately \$136 million in outstanding debt, a decrease of approximately \$5 million over the prior year.

The Center entered into no new long term financing arrangements during the year. Debt repayments of \$5.2 million were made during the year. More detailed information related to the Center's long-term liabilities is presented in Note 10 to the financial statements.

ECONOMIC OUTLOOK

The Center's economic position is closely aligned with its role as the state's primary facility for the training of healthcare professionals. Future success is largely dependent upon the ability to recruit and retain highly qualified students, faculty, and staff, as well as, ongoing financial and political support from state government. The Center is poised to continue its tradition of support and service to students, patients, the research community, and citizens of Oklahoma.

As the state's economy improves, support to the Center is steady with an increase of 1.2% in state appropriations for fiscal year 2014. Increases in tuition and mandatory fees are expected to produce an additional 3% in the current year. Another factor impacting the Center's economic outlook is the operations of its professional practice plans. The professional practice plans continue to contribute significantly to the Center's financial performance and are anticipated to remain stable.

STATEMENTS OF NET POSITION

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	June 30 (in thousands)	
	<u>2013</u>	<u>2012</u> <i>(Restated)</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 553,453	\$ 458,898
Restricted cash and cash equivalents	22,634	25,526
Accounts receivable, net of allowances	113,846	114,330
Inventories and supplies	1,518	1,679
Loans to students, net of allowance for uncollectible loans	995	961
Deposits and prepaid expenses	<u>1,985</u>	<u>1,079</u>
TOTAL CURRENT ASSETS	694,431	602,473
NONCURRENT ASSETS		
Restricted cash and cash equivalents	2,692	3,074
Endowment investments	38,896	37,557
Investments in real estate	175	175
Loans to students, net	5,398	5,805
Deposits and prepaid expenses	1,980	2,038
Capital assets, net	<u>510,588</u>	<u>511,482</u>
TOTAL NONCURRENT ASSETS	<u>559,729</u>	<u>560,131</u>
TOTAL ASSETS	<u>\$ 1,254,160</u>	<u>\$ 1,162,604</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on OCIA lease restructure	<u>\$ 836</u>	<u>\$ 1,115</u>

STATEMENTS OF NET POSITION--Continued

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	June 30 (in thousands)	
	<u>2013</u>	<u>2012</u> <i>(Restated)</i>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 41,614	\$ 36,403
Unearned revenue	8,257	8,868
Accrued interest payable	2,322	2,373
Deposits held in custody for others	25,805	5,832
Long-term liabilities, current portion:		
Accrued compensated absences	25,149	24,632
Post employment benefits obligation	3,309	3,079
Capital lease payable	1,227	510
Notes payable	448	431
Revenue bonds payable	4,073	3,953
TOTAL CURRENT LIABILITIES	<u>112,204</u>	<u>86,081</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	7,942	7,357
Post employment benefits obligation	71,671	65,073
Federal loan program contributions refundable	7,082	6,944
Capital lease payable	29,975	31,202
Notes payable	706	1,154
Revenue bonds payable	94,870	98,943
TOTAL NONCURRENT LIABILITIES	<u>212,246</u>	<u>210,673</u>
TOTAL LIABILITIES	<u>\$ 324,450</u>	<u>\$ 296,754</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>
NET POSITION		
Net investment in capital assets	\$ 380,125	\$ 376,404
Restricted for:		
Nonexpendable	28,592	28,592
Expendable:		
Education and general	129,748	117,558
Capital projects	15,147	18,910
Debt service	8,585	8,276
Unrestricted	368,349	317,225
TOTAL NET POSITION	<u>\$ 930,546</u>	<u>\$ 866,965</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	Years Ended June 30 (in thousands)	
	2013	2012 (Restated)
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$3,312 and \$3,468 for 2013 and 2012, respectively)	\$ 57,222	\$ 53,506
Patient care (net of provisions for contractual, bad debt and other adjustments of \$378,135 and \$355,546 for 2013 and 2012, respectively)	335,392	317,882
Federal grants and contracts	76,485	78,075
State grants and contracts	86,863	70,661
Private grants and contracts	91,723	94,116
Sales and services of educational activities	1,583	1,407
Sales and services of auxiliary enterprises:		
Steam and chilled water plant revenues: (revenues are pledged as security for the Utility System System Revenue Bonds Series 1998A, 1998B, and 2004)	6,373	6,630
Other	14,186	15,162
Other revenues (including \$201 and \$205 from interest on student loans for 2013 and 2012 respectively)	42,754	47,633
TOTAL OPERATING REVENUE	<u>712,581</u>	<u>685,072</u>
OPERATING EXPENSES		
Compensation and benefits	582,039	560,192
Contractual services	62,440	58,875
Supplies and materials	82,686	73,583
Depreciation	24,299	23,984
Utilities	12,486	12,622
Communication	6,622	6,327
Scholarships	2,230	2,108
Other	58,331	57,448
TOTAL OPERATING EXPENSES	<u>831,133</u>	<u>795,139</u>
OPERATING LOSS	(118,552)	(110,067)
NONOPERATING REVENUES AND EXPENSES		
State appropriations	96,823	96,309
FICA refund	34,939	-
On-behalf payments	13,016	11,658
Private gifts	10,193	9,698
Interest on indebtedness	(6,586)	(5,698)
Net investment income	11,168	6,650
Endowment income	10,322	10,086
NET NONOPERATING REVENUES AND EXPENSES	<u>169,875</u>	<u>128,703</u>
Income before other revenues, expenses, gains or losses	51,323	18,636
OTHER REVENUE EXPENSES, GAINS OR LOSSES		
Federal grants and contracts for capital projects	-	6,596
State grants and contracts for capital projects	589	592
State appropriations for capital projects	6,603	6,829
Private gifts for capital projects	2,227	2,662
State school land funds	2,839	2,540
Additions to permanent endowments	-	-
CHANGE IN NET POSITION	<u>63,581</u>	<u>37,855</u>
NET POSITION AT BEGINNING OF YEAR	<u>866,965</u>	<u>829,110</u>
NET POSITION AT END OF YEAR	<u>\$ 930,546</u>	<u>\$ 866,965</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	Years Ended June 30 (in thousands)	
	2013	2012
		<i>(Restated)</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 56,979	\$ 55,291
Patient revenues	333,641	309,612
Sales and services of auxiliary enterprises	14,265	14,820
Sales and services of educational activities	1,494	1,440
Steam and Chilled Water Plant revenues	6,340	6,686
Federal grants and contracts	74,330	81,612
State grants and contracts	97,501	59,216
Private grants and contracts	86,793	91,961
Interest on loans receivable	201	205
Other additions	42,656	47,260
Loans issued to students	(726)	(1,373)
Collection of loans	1,120	967
Compensation and benefits	(562,228)	(539,907)
Contractual services	(62,790)	(64,691)
Supplies and materials, utilities, communications, scholarships and fellowships, other, and deposits held in custody	(150,441)	(153,211)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(60,865)	(90,112)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
State appropriations	96,823	96,309
FICA refund	57,523	-
Endowment income	10,197	8,991
Private gifts	9,489	9,686
Direct Loan receipts	65,212	68,942
Direct Loan disbursements	(65,212)	(68,942)
Net increase to Federal loan program contributions refundable	138	53
NET CASH FLOWS PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	174,170	115,039
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State grants and contracts for capital projects	665	525
State appropriations for capital projects	6,649	6,936
Federal grants and contracts for capital projects	-	6,596
Private gifts for capital projects	2,336	2,362
Purchases of capital assets	(34,339)	(45,717)
Principal paid on capital debt and lease	(4,878)	(5,154)
Interest paid on capital debt and lease	(5,125)	(5,309)
State school land funds	2,839	2,540
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(31,853)	(37,221)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	8,275	8,416
Proceeds from sales and maturities of investments	1,554	1,085
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	9,829	9,501
NET INCREASE IN CASH AND CASH EQUIVALENTS	91,281	(2,793)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	487,498	490,291
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 578,779</u>	<u>\$ 487,498</u>

STATEMENTS OF CASH FLOWS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	Years Ended June 30 (in thousands)	
	<u>2013</u>	<u>2012</u> (Restated)
RECONCILIATION OF OPERATING LOSS		
TO CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (118,552)	\$ (110,067)
Depreciation expense	24,299	23,984
Loss on disposal of capital assets	11,125	9,755
OTRS on-behalf contribution	11,576	11,359
Change in assets and liabilities:		
Accounts receivable (does not include endowment)	2,247	(20,112)
Inventories and supplies	161	(77)
Loans to students	373	(385)
Deposits and prepaid expenses	(848)	140
Accounts payable and accrued expenses	5,211	(14,925)
Unearned revenue	(611)	3,291
Compensated absences	1,102	1,704
Post employment benefits obligation	6,828	6,722
Deposits held in custody for others	(3,776)	(1,501)
NET CASH FLOWS USED BY OPERATING ACTIVITIES	<u>\$ (60,865)</u>	<u>\$ (90,112)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH		
INVESTING AND FINANCING ACTIVITIES		
On-behalf interest paid by OCIA	\$ 1,440	\$ 299
Amortization of bond insurance cost	5	5
Amortization of bond discount/premium	16	18
Amortization of ODFA discount	3	3
Capitalization of interest	191	121
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO THE STATEMENT OF NET ASSETS		
Current Assets		
Cash and cash equivalents	\$ 553,453	\$ 458,898
Restricted cash and cash equivalents	22,634	25,526
Noncurrent assets		
Restricted cash and cash equivalents	<u>2,692</u>	<u>3,074</u>
	<u>\$ 578,779</u>	<u>\$ 487,498</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and Statement No. 61, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading.

The University of Oklahoma Health Sciences Center (the "Center") is an agency of the State of Oklahoma governed by The Board of Regents of the University of Oklahoma (the "Board") and the Oklahoma State Regents for Higher Education (the "State Regents"). The Center is a separate operational unit of the University of Oklahoma, which is a component unit of the State of Oklahoma, and is included in the financial statements of the State of Oklahoma as part of the Higher Education component unit. The Center consists of seven academic colleges, including the Colleges of Medicine, Public Health, Allied Health, Dentistry, Nursing, Pharmacy and the Graduate College. These financial statements do not include the operations of the University of Oklahoma Norman Campus (the "Norman Campus"), Cameron University or Rogers State University, which are distinct operational entities that prepare separate financial statements for the Board. Each entity receives separate state appropriations and prepares separate budgets. These entities are managed as separate component units of the State of Oklahoma higher education component and supported in large part by separate systems and management personnel.

The University of Oklahoma Foundation, Inc. (the "OU Foundation") is an Oklahoma not-for-profit organization organized for the purpose of receiving and administering gifts intended for the benefit of the University of Oklahoma as a whole, including both the Norman Campus and the Center. Accordingly, the resources received and held by the OU Foundation are not entirely or almost entirely held for the benefit of the Center. As a result, the OU Foundation is not considered a component unit of the Center under the definition of GASB Statement No. 39.

Faculty members in the Colleges of Medicine, Public Health, Allied Health, Dentistry, Nursing and Pharmacy may participate in Professional Practice Plans (PPP's). Faculty who participate in a PPP are primarily committed to the academic and research programs of the Center; however, they also engage in professional practice activities related to patient care and services. A significant portion of PPP revenue is generated from patient care services provided to patients through the OU Medical Center. The OU Medical Center includes Presbyterian Hospital, University Hospital and Children's Hospital of Oklahoma, all located in Oklahoma City. The financial position and operations of the PPP's are included in the accompanying financial statements of the Center.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Financial Statement Presentation: The Center's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Under GASB Statements No. 34 and No. 35, the Center is required to present a statement of net position classified between current and noncurrent assets and liabilities and deferred outflows and inflows, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows using the direct method.

Basis of Accounting: For financial reporting purposes, the Center is considered a special-purpose government engaged only in business-type activities. Accordingly, the Center's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated.

Cash Equivalents: For purposes of the statements of cash flows, the Center considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.

Deposits and Investments: The Center accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*, the Center has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gain (loss), if any, on the carrying value of the investments are separately reported in the statements of revenues, expenses and changes in net position.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal, state and local governments, and private sources, in connection with reimbursement of allowable expenditures made pursuant to the Center's grants and contracts, construction projects and unspent proceeds from capital leases. Additionally, a significant portion of the accounts receivable is comprised of amounts due for services provided through the PPP's and clinics. Accounts receivable are recorded net of contractual adjustments and estimated uncollectible amounts.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Accounts Receivable--Continued: The Center determines its allowances by considering a number of factors, including the length of time accounts receivable are past due and the Center's previous loss history (including historical payment trends by payor for PPP receivable balances), which is indirectly impacted by the condition of the general economy and the industry as a whole. The Center writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to patient care revenue.

Medical Malpractice Coverage Claims: The Center is covered for medical malpractice risks under a medical malpractice insurance policy (See Note 16). The Center pays a fixed premium for coverage of malpractice claims the Center might potentially incur.

Inventories: Inventories, consisting of merchandise for resale and supplies, are stated at the lower of aggregate cost or aggregate market. Cost is determined for the various types of inventory using the first-in, first-out and average cost methods, as deemed appropriate.

Restricted Cash and Investments: Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase capital or other noncurrent assets, are classified as restricted in the statements of net position.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. The Center's capitalization policy for furniture, fixtures and equipment, includes all items with a unit cost of \$5 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 years for infrastructure, 10 years for land improvements, library materials, furniture, fixtures and equipment and 5 years for vehicles, computers and computer accessories or the duration of the lease term for capital leases.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The Center capitalizes interest as a component of capital assets constructed for its own use. In 2013, total interest incurred was \$6,777, of which \$191 was capitalized. In 2012, total interest incurred was \$5,819, of which \$121 was capitalized.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Capital Assets--Continued: Intangible assets are reported with capital assets. Intangible assets subject to amortization are amortized over their respective estimated useful lives ranging from 5 to 15 years. Intangible assets with indefinite useful lives are not material to the financial statements.

Capital assets are subject to an evaluation of possible impairment when events or circumstances indicate that the related changes in carrying amounts may not be recoverable. If required, impairment losses are reported in the statement of revenues, expenses and changes in net position. There were no events or changes in conditions requiring recognition of an impairment loss in either 2013 or 2012.

Unearned Revenues: Unearned revenues consist primarily of grant revenues for which the work on the grant has not yet been completed. It also consists of prepaid patient revenues on long-term contracts received during the year, but related to the subsequent accounting period, and amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences: Employees' compensated absences are accrued when earned. The obligation at the end of the year and expenditure incurred during the year are recorded as accrued compensated absences in the statements of net position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) federal loans liability; and (3) amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the Center that are applicable to a future reporting period. At June 30, 2013 and 2012, the Center's deferred outflows of resources were comprised of deferred charges on an OCIA lease restructure.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the Center that are applicable to a future reporting period. At June 30, 2013 and 2012, the Center has no deferred inflows of resources.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Net Position: The Center's net position is classified as follows:

Net investment in capital assets: This represents the Center's investment in capital assets (net of accumulated depreciation) and related deferred outflows reduced by outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position - nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net position - expendable: Expendable restricted net position includes resources in which the Center is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Center, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Center's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Classification of Revenues: The Center has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) patient revenues, (3) sales and services of educational activities, (4) sales and services of auxiliary enterprises, (5) most federal, state, and local grants and contracts, and (6) interest on student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Scholarship Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the Center, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Center's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Center has recorded a scholarship allowance.

Tax Status: As a state institution of higher education, the income of the Center is exempt from federal and state income taxes; however, income generated from activities unrelated to the exempt purpose is subject to income tax under Internal Revenue Code Section 511 (a)(2)(B).

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

New Accounting Pronouncements Adopted in Fiscal Year 2013: The Center adopted several new accounting pronouncements during the year ended June 30, 2013 as follows:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Center will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*.
GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The adoption of GASB No. 61 did not have an impact on the Center's financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

New Accounting Pronouncements Adopted in Fiscal Year 2013--Continued:

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB No. 62 did not have an impact on the Center's financial position, or changes in financial position or cash flows, or its financial statement presentation.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement has required the Center to make changes in its financial statement presentation, and required certain financial statement elements previously reported as assets to be reported as deferred outflows of resources. Financial statement elements previously classified as assets at June 30, 2012 and totaling \$1,115 were reclassified to Deferred Outflows of Resources.

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The Center has chosen to early adopt GASB Statement No. 65 in 2013. As a result of the adoption of GASB Statement No. 65, the Center's Net Position as of July 1, 2011 decreased by \$680 from amounts previously reported, and the Changes in Net Position for the Year Ended June 30, 2012 increased by \$51 from amounts previously reported. Net Position as of June 30, 2012 decreased from \$867,594 as originally reported to \$866,965, a decrease of \$629.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the Center in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the Center's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2014

• *Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The Center has not yet evaluated the effects that GASB No. 70 will have on its financial statements.

Fiscal Year Ended June 30, 2015

• *Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance is expected to be issued in November 2013. Although the Center has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its Net Position.

• *Statement No. 69, Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Reclassifications: Certain amounts in the 2012 financial statements have been reclassified to conform to the current year presentation, which primarily relates to \$34,863 of 2012 patient care bad debt expense, previously included in other operating expenses, being reclassified as a reduction to patient care revenue. This reclassification had no impact on the Center's net position or change in net position.

NOTE 2--DEPOSITS AND INVESTMENTS

Deposits: *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the Center's deposits may not be returned or the Center will not be able to recover collateral securities in the possession of an outside party. Generally, the Center deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the Center deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the Center's name, or invested in U.S. government obligations in the Center's name.

Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST; (e) collateralized certificates of deposits; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds.

Deposits with financial institutions primarily consist of money market funds that invest in U.S. Treasury bills, notes and securities backed by the full faith and credit of the U.S. Government, some of which may be subject to repurchase agreements. Repurchase agreements are collateralized with securities backed by the full faith and credit of the U.S. Government at 102% of maturity value.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

Cash and Cash Equivalents: At June 30, 2013 and 2012, the carrying amount of the Center's deposits with the State Treasurer and other financial institutions were \$578,779 and \$487,498, respectively. These amounts consisted of deposits with the OST (\$551,869 and \$460,642), deposits with financial institutions (\$20,714 and \$20,714), deposits with trustees (\$6,152 and \$6,092), and petty cash and change funds (\$44 and \$50). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$437,208 in 2013 and \$334,654 in 2012.

For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* are as follows:

At June 30, 2013

OK INVEST Portfolio	Cost	Market Value
U.S. agency securities	\$ 171,859	\$ 171,133
Money market mutual funds	41,026	41,026
End of Day Commercial Paper Sweep	9,189	9,189
Certificates of deposit	11,169	11,169
Mortgage backed agency securities	187,870	188,793
Municipal bonds	7,366	8,153
Foreign bonds	3,453	3,451
U.S. Treasury obligations	5,276	6,439
TOTAL	\$ 437,208	\$ 439,353

At June 30, 2012

OK INVEST Portfolio	Cost	Market Value
U.S. agency securities	\$ 118,317	\$ 118,665
Money market mutual funds	45,808	45,808
Certificates of deposit	10,809	10,809
Mortgage backed agency securities	147,711	156,937
Municipal bonds	6,003	6,848
Foreign bonds	1,684	1,684
U.S. Treasury obligations	4,322	5,392
TOTAL	\$ 334,654	\$ 346,143

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements.

Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes investments in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years. Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk.

Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. *Liquidity risk* is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. *U.S. Government securities risk* is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

Investments: At June 30, the fair value of the Center's investments consisted of the following:

	2013	2012
University of Oklahoma, Norman Campus Investment Pool	\$ 38,896	\$ 37,557
Real Property	175	175
	<u>\$ 39,071</u>	<u>\$ 37,732</u>

Investments in the University of Oklahoma Norman Campus Investment Pool consist primarily of investments in U.S. and International equity funds.

Information regarding the various risk categories for the Center's deposits and investments and the policies for managing that risk are included below:

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the Center to experience a loss of principal. As a means of limiting exposure to losses arising from credit risk, the Center limits its exposure to this risk as follows:

- State law limits investments in obligations of state and local governments to the highest rating from at least one nationally recognized rating agency acceptable to the State Treasurer.
- Short-term investments managed by the Center are generally limited to direct obligations of the United States Government and its agencies, certificates of deposit and demand deposits.
- The Board has authorized endowment and similar funds to be invested in direct obligations of the United States Government and its agencies, certificates of deposit, prime commercial paper, bankers acceptances, demand deposits, corporate debt (no bond below a single A rating by Moody's Investors Service or Standard & Poor's Corporation may be purchased), convertible securities and equity securities.
- The Center's fixed income securities are generally limited to holdings of high quality fixed income securities. As of June 30, 2013 and 2012, the Center's investment in fixed income securities has a credit rating of at least BBB as rated by Standard & Poors Corporation.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of a depository institution, the Center will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Center will not be able to recover the value of investment or collateral securities in the possession of an outside party. As a means of limiting its exposure to losses arising from custodial credit risk, the Center's investment policies limit the exposure to this risk as follows:

- Investment securities held in bond debt service reserve funds are held by the respective bond trustee for the benefit of the Center and bondholders.
- Endowment investments are pooled with the University of Oklahoma Norman Campus ("the University") and held in the University's name.

Concentration of Credit Risk: Center investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. The Center has imposed a limit on the amount the Center may invest in any one issuer. The majority of the investments are in the University of Oklahoma, Norman Campus Investment Pool, investing in fixed income funds and investments guaranteed by the U.S. Government.

Interest Rate Risk: The Center has a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Center is responsible for determining its operating cash flow requirements and to insure that adequate funds are available to maintain the Center's operations. In determining liquidity needs, the appropriate mix of short-term, intermediate, and long-term investments will be evaluated. As of June 30, 2013, the Center held no investments subject to stated maturity schedules.

Title 70, Section 4306 of the Oklahoma Statutes directs, authorizes, and empowers the Center's Board of Regents to hold, invest or sell donor-restricted endowments in a manner which is consistent with the terms of the gift as stipulated by the donor and with the provision of any applicable laws.

The Center has entrusted the University of Oklahoma Norman Campus with a portion of their funds totaling \$38,896 and \$37,557 for 2013 and 2012, of which \$35,938 and \$34,603 are endowment funds. These funds are held in the Regent's Fund investments on behalf of the Center.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 3--ACCOUNTS RECEIVABLE

Accounts receivable are shown net of contractual allowances and doubtful accounts in the accompanying statements of net position. At June 30, the accounts receivable and allowances are as follows:

	<u>2013</u>	<u>2012</u>
Accounts receivable	\$ 182,130	\$ 177,746
Less: allowance and contractual adjustments	<u>(68,284)</u>	<u>(63,416)</u>
Accounts receivable, net	<u>\$ 113,846</u>	<u>\$ 114,330</u>

The following is a breakdown of the June 30 accounts receivable balances:

	<u>2013</u>	<u>2012</u>
Auxiliary enterprises		
Accounts receivable	\$ 5,743	\$ 6,051
Less: allowance	<u>(116)</u>	<u>(112)</u>
Accounts receivable, net	<u>\$ 5,627</u>	<u>\$ 5,939</u>
PPP patient billings		
Accounts receivable	\$ 121,104	\$ 115,109
Less: contractual adjustments	<u>(61,677)</u>	<u>(57,341)</u>
Less: allowance	<u>(6,491)</u>	<u>(5,963)</u>
Accounts receivable, net	<u>\$ 52,936</u>	<u>\$ 51,805</u>
Due from Federal, State and private grants		
Accounts receivable, no allowance	<u>\$ 52,867</u>	<u>\$ 55,567</u>
Student tuition and fees		
Accounts receivable, no allowance	<u>\$ 1,252</u>	<u>\$ 1,019</u>
Other Accounts receivable, no allowance	<u>\$ 1,164</u>	<u>\$ -</u>

NOTE 4--NET PATIENT SERVICE REVENUE

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates that vary accordingly to the Current Procedural Terminology (CPT) code billed by the provider. These codes are established by the American Medical Association and are adopted for use by the Center for Medicaid and Medicare Services (CMS) as a basis for their provider reimbursement methodology.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 4--NET PATIENT SERVICE REVENUE--Continued

Medicaid Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined per diem rate or established fee.

Workers' Compensation Inpatient and outpatient services rendered under workers' compensation are reimbursed according to the State of Oklahoma fee schedule or at a predetermined discount from the State of Oklahoma fee schedule.

Other Carriers The Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates and discounts from established charges.

Differences between the Center's established patient care rates and agreed upon rates with third party payors total \$378,135 and \$355,546 for the years ending June 30, 2013 and 2012, respectively, and are reflected as contractual and other adjustments to patient care revenues in the statements of revenues, expenses, and changes in net position. The Center's bad debt expenses related to patient care services, which is determined after application of contractual and other adjustments, totals \$38,216 and \$34,863 for the years ending June 30, 2013 and 2012, respectively, and is included in patient care revenues in the statements of revenues expenses and changes in net position.

NOTE 5--INVENTORY

Inventories consisted of the following at June 30:

	2013	2012
Site support	\$ 237	\$ 228
Telecommunications	285	306
Other service units	123	134
Dental supply store	152	257
Other auxiliaries	9	9
Pharmacies	712	745
	<u>\$ 1,518</u>	<u>\$ 1,679</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 6--LOANS TO STUDENTS

The Center had student loans outstanding of \$6,393 and \$6,766 (net of allowance for uncollectible loans of \$336 and \$357) at June 30, 2013 and 2012, respectively. Student loans made under the Health Professions Student Loan Program and the Nursing Student Loan Program represented approximately \$6,381 and \$6,705 of these amounts. Under these programs, the U.S. Department of Health and Human Services, Bureau of Health Professions, provides funds for eight-ninths (8/9) of the loans, and the Center provides the remaining funds. At June 30, 2013 and 2012, \$7,082 and \$6,944, respectively, are included as federal loan program contributions refundable in the statements of net position as these amounts are refundable to the U.S. government upon cessation of the programs.

NOTE 7--FUNDS HELD IN TRUST BY OTHERS

The University of Oklahoma (the "University") has a beneficial interest in the "Section Thirteen State Educational Institutions Fund" and the "New College Fund" held in the care of the Commissioners of the Land Office as trustees. The University has the right to receive annually 30% of the distribution of income produced by "Section Thirteen State Educational Institutions Fund" assets and 100% of the distribution of income produced by the University's "New College Fund".

The University, as a whole, received \$9,858 and \$11,857 during the years ended June 30, 2013 and 2012, respectively, which is restricted to acquisition of buildings, equipment or other capital items. Of these amounts, the Center received approximately \$2,839 and \$2,540 in 2013 and 2012, respectively. Present state law prohibits the distribution of any corpus of these funds. The estimated fair value of the total trust fund for the University, held in trust by the Commissioners of the Land Office, was approximately \$160,992 (\$148,705 restricted corpus) and \$148,008 (\$136,656 restricted corpus) at June 30, 2013 and 2012, respectively. Such trust funds, held by the Commissioners of the Land Office, have not been reflected in the accompanying financial statements.

In connection with the State Regents' Endowment Program, the State of Oklahoma has matched contributions received under the program. The cumulative match amount, plus any retained accumulated earnings, totaled \$183,396 and \$126,434 at June 30, 2013 and 2012, respectively, and is invested by the State Regents on behalf of the Center. The Center will receive an annual distribution of earnings on these funds; however, as legal title of the state match is retained by the State Regents, only the funds available for distribution, for which the Center has incurred allowable reimbursable expenses, or \$5,168 and \$5,317 at June 30, 2013 and 2012, respectively, have been reflected as assets in the statements of net position.

With regard to the institutional matching funds, approximately \$248,171 and \$241,922, of cumulative undisbursed contributions have been made to the OU Foundation, for the benefit of the Center, and are on deposit with the OU Foundation at June 30, 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 8--CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, includes the following:

	Beginning Balance	Additions	Transfers	Deductions	Ending Balance
Capital assets not being depreciated:					
Art	\$ 717	\$ 26	\$ -	\$ (21)	\$ 722
Land	26,701	-	-	-	26,701
Construction in-progress	10,353	22,759	(17,487)	(6,991)	8,634
Total capital assets not being depreciated	37,771	22,785	(17,487)	(7,012)	36,057
Capital assets being depreciated:					
Improvements	14,079	97	-	-	14,176
Buildings	502,609	1,670	14,466	(2,084)	516,661
Equipment	121,544	9,495	1,705	(5,588)	127,156
Infrastructure	1,744	92	-	(13)	1,823
Leasehold improvements	35,915	275	1,316	-	37,506
Library materials	29,401	116	-	-	29,517
Total capital assets being depreciated	705,292	11,745	17,487	(7,685)	726,839
Less: accumulated depreciation					
Improvements	11,482	537	-	-	12,019
Buildings	102,076	10,016	-	(1,097)	110,995
Equipment	78,343	9,372	-	(2,475)	85,240
Infrastructure	815	78	-	-	893
Leasehold improvements	15,077	3,110	-	-	18,187
Library materials	23,788	1,186	-	-	24,974
Total accumulated depreciation	231,581	24,299	-	(3,572)	252,308
Total capital assets being depreciated, net	473,711	(12,554)	17,487	(4,113)	474,531
Capital assets, net	<u>\$ 511,482</u>	<u>\$ 10,231</u>	<u>\$ -</u>	<u>\$ (11,125)</u>	<u>\$ 510,588</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 8--CAPITAL ASSETS--Continued

Capital asset activity for the year ended June 30, 2012, includes the following:

	Beginning Balance	Additions	Transfers	Deductions	Ending Balance
Capital assets not being depreciated:					
Art	\$ -	\$ 610	\$ 107	\$ -	\$ 717
Land	26,115	-	646	(60)	26,701
Construction in-progress	28,890	33,088	(44,766)	(6,859)	10,353
Total capital assets not being depreciated	55,005	33,698	(44,013)	(6,919)	37,771
Capital assets being depreciated:					
Improvements	13,723	106	235	15	14,079
Buildings	475,365	866	26,452	(74)	502,609
Equipment	113,379	10,412	3,770	(6,017)	121,544
Infrastructure	1,744	-	-	-	1,744
Leasehold improvements	21,699	660	13,556	-	35,915
Library materials	29,305	96	-	-	29,401
Total capital assets being depreciated	655,215	12,140	44,013	(6,076)	705,292
Less: accumulated depreciation					
Improvements	10,881	601	-	-	11,482
Buildings	92,514	9,582	-	(20)	102,076
Equipment	71,279	10,284	-	(3,220)	78,343
Infrastructure	739	76	-	-	815
Leasehold improvements	12,912	2,165	-	-	15,077
Library materials	22,512	1,276	-	-	23,788
Total accumulated depreciation	210,837	23,984	-	(3,240)	231,581
Total capital assets being depreciated, net	444,378	(11,844)	44,013	(2,836)	473,711
Capital assets, net	<u>\$ 499,383</u>	<u>\$ 21,854</u>	<u>\$ -</u>	<u>\$ (9,755)</u>	<u>\$ 511,482</u>

NOTE 9--UNEARNED REVENUE

Unearned revenue consists of the following at June 30:

	2013	2012
Prepaid tuition and student fees	\$ 1,125	\$ 1,135
Auxiliary enterprises and other activities	105	113
Long-term contracts	7,027	7,620
	<u>\$ 8,257</u>	<u>\$ 8,868</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 10--LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions of the Center for the year ended June 30, 2013:

	Issue Dates	Interest Rates	Maturity Through	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases	(In %)							
Revenue bonds payable:								
Utility System Series 2004 A&B	2004	2.61-4.85	11/1/2019	5,969	-	(646)	5,323	671
General Revenue Bonds Series 2008 A&B	2008	3.28-6.63	7/1/2036	67,168	-	(1,281)	65,887	1,336
General Revenue Bonds Series 2010 A&B	2010	1.24-5.00	7/1/2030	29,759	-	(2,026)	27,733	2,066
				102,896	-	(3,953)	98,943	4,073
Notes payable				1,585	-	(431)	1,154	448
ODFA capital leases payable				5,687	-	(510)	5,177	528
OCIA capital leases payable				26,025	-	-	26,025	699
Total bonds, notes, and capital leases				136,193	-	(4,894)	131,299	5,748
Other noncurrent liabilities								
Accrued compensated absences				31,989	1,102	-	33,091	25,149
Post employment benefits obligation				68,152	9,455	(2,627)	74,980	3,309
Federal loan program contributions refundable				6,944	138	-	7,082	-
Total other noncurrent liabilities				107,085	10,695	(2,627)	115,153	28,458
Total noncurrent liabilities				\$ 243,278	\$ 10,695	\$ (7,521)	\$ 246,452	\$ 34,206

The following is a summary of long-term obligation transactions of the Center for the year ended June 30, 2012:

	Issue Dates	Interest Rates	Maturity Through	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases	(In %)							
Revenue bonds payable:								
Utility System Series 2004 A&B	2004	2.61-4.85	11/1/2019	6,584	-	(615)	5,969	646
General Revenue Bonds Series 2008 A&B	2008	3.28-6.63	7/1/2036	68,399	-	(1,231)	67,168	1,281
General Revenue Bonds Series 2010 A&B	2010	1.24-5.00	7/1/2030	31,500	-	(1,741)	29,759	2,026
				106,483	-	(3,587)	102,896	3,953
Notes payable				2,339	-	(754)	1,585	431
ODFA capital leases payable				6,518	-	(831)	5,687	510
OCIA capital leases payable				26,025	-	-	26,025	-
Total bonds, notes, and capital leases				141,365	-	(5,172)	136,193	4,894
Other noncurrent liabilities								
Accrued compensated absences				30,285	1,704	-	31,989	24,632
Post employment benefits obligation				61,430	9,871	(3,149)	68,152	3,079
Federal loan program contributions refundable				6,891	53	-	6,944	-
Total other noncurrent liabilities				98,606	11,628	(3,149)	107,085	27,711
Total noncurrent liabilities				\$ 239,971	\$ 11,628	\$ (8,321)	\$ 243,278	\$ 32,605

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 10--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable: In FY09, General Revenue Bonds, Series 2008A and 2008B, were issued by the Board of Regents pursuant to the Master Resolution establishing the University of Oklahoma Health Sciences Center General Revenue Financing System in support of funding for the OU Cancer Institute. The revenue pledged as security for these obligations is any or all revenues of the Center which are lawfully available for the payment of obligations, excluding revenues appropriated by the state legislature (except for in certain circumstances the Dedicated Tobacco Tax Revenues), funds whose purpose has been restricted by the donors or grantors to a purpose inconsistent with the payment of such obligations, and any funds pledged for Prior Encumbered Obligations.

In FY10, General Revenue Bonds, Series 2010A and 2010B, were issued by the Board of Regents pursuant to the Master Resolution establishing the University of Oklahoma Health Sciences Center General Revenue Financing System. These bonds were issued to provide funds to refund certain prior bond issues, and to construct, renovate, remodel, expand and equip certain additions and improvements to parking, utility, and data center facilities on the Center's Oklahoma City campus. The revenue pledged as security for these obligations is any or all revenues of the Center which are lawfully available for the payment of obligations, excluding revenues appropriated by the state legislature, funds whose purpose has been restricted by the donors or grantors to a purpose inconsistent with the payment of such obligations, and any funds pledged for prior encumbered obligations.

Revenue bonds issued prior to the Resolution (prior encumbered obligations) are payable both as to principal and interest from the net revenues arising from operations of the physical plant utilities system and certain student fees which are pledged under the various bond indentures. At June 30, 2013 and 2012, the Center had \$485 and \$473 respectively, of cash and investments held in trust for the bond indentures, restricted to the payment of principal and interest.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 10--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued:

Tulsa Campus Series 2003 Defeasance

On December 5, 2006, the Board of Regents of The University of Oklahoma authorized the issuance of the \$3,500 Board of Regents of the University of Oklahoma on behalf of the University of Oklahoma Health Sciences Center Refunding Revenue Note, Series 2007 (the "Series 2007 Note"). The proceeds of the Series 2007 Note along with existing Center funds were used to advance refund the remainder of the \$17,770 The Board of Regents of the University of Oklahoma University of Oklahoma Tulsa Campus Revenue Bonds Series 2003A (the "Series 2003 Bonds") which was loaned to the Board of Regents of the University of Oklahoma and used in the acquisition of the Tulsa Campus located at 4502 E. 41st Street, Tulsa, Oklahoma. The Series 2007 Note is dated June 1, 2007 and is payable solely from the net revenues of the clinical operations of the Tulsa branch of the University of Oklahoma College of Medicine. The Series 2007 Note bears interest at 3.94% and is payable over 8.5 years, with annual payments of \$489. The outstanding balance at June 30, 2013 and 2012 was \$1,154 and \$1,585 respectively. In accordance with the advanced refunding, the Center deposited \$17,360 into an escrow fund and purchased government securities bearing interest in amounts sufficient to pay the Series 2003 Bonds at January 1, 2014. Accordingly, the Series 2003 Bonds are considered to have been extinguished and neither the 2003 Series Bonds nor the associated escrow fund are included in the Center's statements of net position as of June 30, 2013. The balance of the 2003 Series Bonds outstanding at June 30, 2013 and 2012 was \$12,150 and \$13,105 respectively.

Capital Lease Obligations:

ODFA Master Lease Obligations

In August 2005, the Center entered into a 7 year lease agreement with ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Lease Revenue Bonds Series 2005B. The Center financed \$2,300 to upgrade the parking access system. Assets under this capital lease totaled \$553 and \$783 net of accumulated depreciation of \$1,577 and \$1,347 at June 30, 2013 and 2012. During 2011, assets totaling \$170 were retired with accumulated depreciation of \$151. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 10--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

ODFA Master Lease Obligations--Continued

In December 2007, the Center entered into a 15 year lease agreement with ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Lease Revenue Bonds Series 2007B. The Center financed \$6,067 to renovate the Medical Student Education Facility on the Oklahoma City, Oklahoma campus. Assets under this capital lease totaled \$5,460 and \$5,582 net of accumulated depreciation of \$607 and \$485 as of June 30, 2013 and 2012, respectively. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net position.

In December 2007, the Center entered into a 15 year lease agreement with ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Lease Revenue Bonds Series 2007C. The Center financed \$1,304 to construct a cooling tower on the Tulsa Oklahoma campus. Assets under this capital lease totaled \$1,171 and \$1,197 net of accumulated depreciation of \$133 and \$107 at June 30, 2013 and 2012 respectively. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net position.

In July 2009, the Center entered into a 5 year lease agreement with ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Lease Revenue Bonds Series 2009B. The Center financed \$333 to purchase a Practice Management System. Assets under this capital lease totaled \$85 and \$152 net of accumulated depreciation of \$248 and \$181 at June 30, 2013 and 2012 respectively. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net position.

OCIA Capital Lease Obligations

In the fall of 2005, the Center entered into a 25 year lease agreement with the Oklahoma Capital Improvement Authority ("OCIA") and the Oklahoma State Regents for Higher Education as beneficiary of a portion of the proceeds from the OCIA State Facilities Revenue Bonds, Series 2005F and 2005G. The Center received \$26,146 of the proceeds for capital improvement projects on the Oklahoma City and Tulsa Campuses as approved by the Regents. Assets under these capital leases totaled \$23,633 and \$24,156, net of accumulated depreciation of \$2,513 and \$1,990 at June 30, 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 10--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

OCIA Capital Lease Obligations--Continued

In August 2010, the Center's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The Center's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the Center's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. The Center has recorded a deferred outflow of resources of \$2,295 on restructuring that is being amortized over a period of 6 years and wrote off \$623 of previously capitalized deferred outflows of resources from the refinanced 2005F agreement. During the year ended June 30, 2013 and 2012, amortization of the deferred outflows of resources was \$279. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$113 which also approximates the economic cost of the lease restructuring.

Lease payments made by the State of Oklahoma on behalf of the Center are held by the OCIA for future principal and interest payments of the OCIA Bonds. The OCIA deposits the lease payments into an interest-bearing fund and may use the interest earnings to reduce the Center's future lease payments.

Maturities of principal and interest requirements on revenue bonds payable, capital lease obligations and notes payable are as follows at June 30, 2013:

	2014	2015	2016	2017	2018	2019 2023	2024 2028	2029 2033	2034 2037	Total
Utility System Series 2004A&B	869	874	872	875	871	1,742	-	-	-	6,103
General Revenue Bond 2008 Series A& B	4,819	4,806	4,805	4,804	4,798	23,922	23,907	23,848	18,981	114,690
General Revenue Bond 2010 Series A& B	3,083	3,073	3,053	3,049	2,903	12,002	7,555	768	-	35,486
Total principal and interest	8,771	8,753	8,730	8,728	8,572	37,666	31,462	24,616	18,981	156,279
Less: interest	4,698	4,546	4,368	4,180	3,973	16,461	10,745	6,537	1,828	57,336
Total principal	4,073	4,207	4,362	4,548	4,599	21,205	20,717	18,079	17,153	98,943
Capital leases	2,503	3,641	3,654	4,041	4,037	10,314	9,548	5,706	-	43,444
Less: interest	1,276	1,208	1,180	1,130	999	3,783	2,262	404	-	12,242
Total principal	1,227	2,433	2,474	2,911	3,038	6,531	7,286	5,302	-	31,202
Notes payable	489	489	245	-	-	-	-	-	-	1,223
Less: interest	41	23	5	-	-	-	-	-	-	69
Total principal	448	466	240	-	-	-	-	-	-	1,154
Total	\$ 5,748	\$ 7,106	\$ 7,076	\$ 7,459	\$ 7,637	\$ 27,736	\$ 28,003	\$ 23,381	\$ 17,153	\$ 131,299

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 11--OPERATING LEASES

The Center has entered into certain other operating leases for equipment, office space, vehicles and other miscellaneous items. All operating leases are for a one-year term with an option to renew based on available funding. Rental expenditures under all operating leases were approximately \$8,843 and \$7,989 for 2013 and 2012, respectively.

NOTE 12--RETIREMENT PLANS

The Center's academic and nonacademic personnel are covered by various retirement plans depending on job classification. The plans available to Center personnel include the Oklahoma Teacher's Retirement System, the University of Oklahoma Defined Contribution Plan, and the University of Oklahoma Defined Contribution Plan for Hourly Employees who are not participants of the Oklahoma Teachers' Retirement System.

A summary of significant data for each of the retirement plans follows:

Defined Benefit Plan - Oklahoma Teachers Retirement System

Plan Description: The Center contributes to the Oklahoma Teachers' Retirement System (the "OTRS" or the "System"), a cost-sharing multiple-employer public employee retirement system which is self-administered.

The OTRS 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 70 of the Oklahoma statutes, Sections 17-101 through 116.9, 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 OTRS. That annual report may be obtained by writing to the OTRS, P.O. 53524, Oklahoma City, OK 73152 or by calling (405)-521-2387, or at the OTRS website at www.trs.state.ok.us.

Funding Policy: The System members and the Center are required to contribute at a rate set by statute. The contribution requirements of the System members and the Center are established and may be amended by the legislature of the State of Oklahoma.

For the years ended June 30, 2013 and 2012, the contribution rate for System members of 7% is applied to their total compensation.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 12--RETIREMENT PLANS--Continued

Defined Benefit Plan - Oklahoma Teachers Retirement System--Continued

Funding Policy--Continued: The local employer contribution rate was 8.55% for the years ended June 30, 2013 and 2012, respectively. For the years ended June 30, 2013 and 2012, the State contributed 5% of State revenues from sales and use taxes and individual income taxes. Contributions made by the State from the dedicated taxes are considered on-behalf payments for the Center's employees. The amount benefiting the Center's employees is estimated at \$11,576 and \$11,359 for the years ended June 30, 2013 and 2012, respectively, based on an allocation of the Center's covered payroll to total payroll for the OTRS.

The Center's contributions to the System for the years ended June 30, 2013, 2012, and 2011 were approximately \$13,174, \$13,280, and \$12,612, respectively, and were equal to the required contributions for each year.

Defined Contribution Plans - Optional Retirement Plan

Plan Description: Monthly employees, hired July 1, 2004 or later, who would have been previously required to participate in OTRS, now have the option to elect either OTRS (along with Plans 1 or 2 described below) or the Optional Retirement Plan (ORP) within the first 90 days of employment. This is a one-time election and if an employee does not make an election, the employee defaults into OTRS and will also participate in Plan 1 or 2 of the Defined Contribution Plan noted below. Hourly employees not participating in OTRS are also included in this plan; however their option to not participate in OTRS is revocable and can be changed upon their request.

Under the ORP, the Center contributes, at the direction of the participating employee, to the master record keeper, Fidelity Investments Company. The ORP is a non-contributory defined contribution plan and the retirement investment firm is separately managed. Participants in the plan have the ability to direct their investments to a variety of different fund options and companies within the plan. The authority for contributing to the Defined Contribution plans is contained in the following policy document, "University of Oklahoma Defined Contribution Retirement Plan", amended and restated July 2004.

Funding Policy: The ORP provisions and contribution requirements are established and may be amended by the Center. The Center's contribution rate is 9% of covered payroll and is determined by the previously mentioned plan document. The Center's contributions to the ORP for the years ended June 30, 2013, and 2012, were approximately \$18,862 and \$16,690, respectively. Employees do not contribute to the ORP. The vesting period for the ORP is three years.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 12--RETIREMENT PLANS--Continued

Defined Contribution Plan --Plan 1 and Plan 2

Plan Descriptions: For employees participating in OTRS, contributions to the defined contribution plan fall into Plan 1 or Plan 2 depending upon the employee's participation date. The Center contributes at the direction of the participating employee, to the master record keeper, Fidelity Investments Company. Plans 1 and 2 are non-contributory defined contribution plans and the retirement investment firm is separately managed. Participants in the plan have the ability to direct their investments to a variety of different fund options and companies within the plan. The authority for contributing to the Defined Contribution plans is contained in the following policy document, "University of Oklahoma Defined Contribution Retirement Plan", amended and restated July 2004.

Funding Policy: Plan 1 and Plan 2 provisions and contribution requirements are established and may be amended by the Center. The Center's contribution rate is 15% for Plan 1 and 8% for Plan 2 of covered payroll and is determined by the previously mentioned plan document. Total contributions to Plans 1 and 2 were \$11,886 and \$6,522, respectively, for the year ended June 30, 2013. Total contributions to Plans 1 and 2 were \$11,914 and \$6,324, respectively, for the year ended June 30, 2012. Employees do not contribute to Plans 1 and 2. The vesting period for both Plan 1 and Plan 2 is three years.

NOTE 13--OTHER POST-EMPLOYMENT BENEFITS

Plan Description: Health and dental insurance is provided by the Center for all retirees who began employment prior to January 1, 2008 and meet specific age and service requirements, with varying premium subsidies based on retirement age and years of service as described below. Employees hired on or after January 1, 2008, may participate in the retiree insurance plan at the group rates at the retiree's own expense. Retirees may also elect the Center's health and dental coverage for eligible dependents at their own expense. The Center's retiree insurance plan is considered a single-employer defined benefit plan. After retirees become eligible for Medicare primary coverage, those participating in the OTRS (see Note 12) are provided with the Oklahoma State and Education Employees Group health plan as a secondary plan. For retirees not participating in OTRS, the Center's insurance continues in a secondary role. The Center's plan does not issue a standalone financial report. The Center has the authority to establish and amend the benefit provisions offered to retirees. The Board of Regents approved the following changes to the Retiree Medical Benefits Plan at their May 2012 meeting.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 13--OTHER POST-EMPLOYMENT BENEFITS--Continued

Plan Description--Continued:

1. As part of these changes, two eligibility groups were established for future subsidized Center retiree medical benefits:

Group 1- Current retirees, employees currently eligible to retire, and those who will meet eligibility for retirement on or before December 31, 2015.

Group 2- Current employees hired on or before January 1, 2008 who will meet eligibility requirements on or after January 1, 2016.

2. The Center will continue to provide a 100% premium subsidy for Group 1 retirees.
3. An insurance premium subsidy for Group 2 was established as follows:

Retirement Age	Years of Service			
	10-14	15-19	20-24	25+
Under 55	Employees can retire with 25 years of service. No university subsidy until age 55.			
55-61	Not eligible	55%-must meet rule of 80	65%-must meet rule of 80	75%
62-64	55%	65%	75%	85%
65+	65%	75%	85%	100%

4. For the Center's Medicare Plan participants who retired on or after July 1, 1995, an individual deductible will be phased in beginning January 1, 2013. Effective January 1, 2016, the Medicare coordination method will be changed to "exclusion" and the annual out-of-pocket maximum will be reduced from \$3,000 to \$1,500.
5. Beginning January 1, 2013, retirees will be allowed a one-time opportunity to opt-out of the Center's retiree medical plan coverage if the individual is enrolled in other coverage. The retiree may return to the Center's plan if medical coverage is maintained during the opt-out period.

Funding Policy: For the Center's plan, the contribution requirement is based on a projected pay-as-you-go basis. The funding policy may be amended by the Regents of the University. The Center pays the premiums for the current retirees. On June 30, 2013, 1,351 retirees met the age and service eligibility requirements. For the years ended June 30, 2013 and 2012, the Center contributed \$2,627 and \$3,149 respectively, for current retirees.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 13--OTHER POST-EMPLOYMENT BENEFITS--Continued

Annual OPEB Cost and Net OPEB Obligation: The Center's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Center's annual OPEB cost, the amount actually contributed by the Center, and changes in the Center's net OPEB obligation for the years ended June 30:

	2013	2012
Annual Required Contribution (ARC)	\$ 8,864	\$ 9,339
Interest on Net OPEB Obligation	3,408	3,072
Adjustment to ARC	<u>(2,817)</u>	<u>(2,540)</u>
Annual OPEB Cost	9,455	9,871
Contributions paid during year	<u>(2,627)</u>	<u>(3,149)</u>
Increase in net OPEB Obligation	6,828	6,722
Net OPEB obligation-beginning of year	<u>68,152</u>	<u>61,430</u>
Net OPEB obligation-end of year	<u>\$ 74,980</u>	<u>\$ 68,152</u>

Funded Status and Funding Progress: The unfunded actuarial accrued liability, totaled \$111,512 as of the January 1, 2013 actuarial valuation date. The initial unfunded actuarial accrued liability (UAAL) is being amortized over an open period of thirty years using the level percentage of projected covered payroll amortization method. The covered payroll (annual payroll of active employees covered by the plan, subsidized and nonsubsidized) was \$305,292 and the ratio of the UAAL to the covered payroll was 37%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 13--OTHER POST-EMPLOYMENT BENEFITS--Continued

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2013	\$ 9,455	27%	\$ 74,980
2012	\$ 9,871	32%	\$ 68,152
2011	\$ 16,951	19%	\$ 61,430

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the Retirement Policy document, amended as of July 1, 2002. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in reported amounts and reflect a long-term perspective of the calculations. In the January 1, 2013 actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions include the following: a 5% investment rate of return, which is based on the expected long-term investment returns of the Center's own investments, an annual healthcare cost trend rate of 9% initially, reduced by decrements to 4.5% after seven years (8.5% for 2013), and a payroll annual inflation rate of 3.5%.

NOTE 14--RISK MANAGEMENT

Due to the diverse risk exposure of the Center, the insurance portfolio contains a comprehensive variety of coverage. Oklahoma Statutes require participation of all State agencies in basic general liability, tort claim coverage, directors and officers liability, and property and casualty programs provided by the State of Oklahoma Division of Capital Assets Management Risk Management Department ("DCAMRM"). In addition to these basic policies, the Center's Office of Risk Management establishes guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Center and individual employees are provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma Governmental Tort Claims Act.

Beyond acceptable retention levels, complete risk transfer is practiced by purchasing conventional insurance coverage either directly from a provider or through DCAMRM. These coverages are as follows:

- The buildings and contents are insured for replacement value. Each loss incident is subject to a \$500 deductible.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 14--RISK MANAGEMENT--Continued

- General liability and tort claim coverages (including comprehensive general liability, auto liability, personal injury liability, aircraft liability, watercraft liability, leased vehicles and equipment) are purchased by the Center from DCAMRM. To complement coverage provided by State Statute, additional coverage is purchased based on specific departmental and institutional needs and risks, but the related risks are not considered material to the Center as a whole. The Center has not filed any claims in any of the past three fiscal years.

Self-Funded Programs

The Center's workers' compensation program is self-funded and is administered by a third party. The Center maintains a cash deposit with the administrator and reimburses the administrator for claims paid on a monthly basis and administrative expenses are paid on a quarterly basis. Benefits provided are prescribed by State Statute and include lump sum payments for rated disabilities, in addition to medical expenses and a portion of salary loss, resulting from an on-the-job injury or illness. The Center records a liability for workers' compensation in its financial statements based on annual actuarial valuations. As of June 30, 2013 and 2012, the accrued workers' compensation liability totaled approximately \$2,176 and \$1,695, respectively.

The Center's unemployment compensation insurance program is also self-funded. Unemployment benefits that separated employees receive are determined by Oklahoma Statutes and are administered by the Oklahoma Employment Security Commission ("OESC"). As a reimbursing employer, the Center is billed quarterly by the OESC for benefits paid to former employees. The Center's reserve with the OESC is the average claims paid over the past three years. As of June 30, 2013 and 2012, the required reserve was \$439 and \$420, respectively. The minimum cash balance is considered each year during the fringe benefit rate-setting process.

NOTE 15--CONTINGENCIES AND COMMITMENTS

At June 30, 2013 and 2012, the Center had outstanding commitments under construction contracts of \$10,358 and \$5,846, respectively.

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

The Center receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. Management believes that the liability, if any, for reimbursement which may arise as the result of audits, would not be material.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 15--CONTINGENCIES AND COMMITMENTS--Continued

In March 2010, the Internal Revenue Service (IRS) announced that for periods ending before April 1, 2005, medical residents are excepted from the Federal Insurance Contributions Act (FICA) taxes based on the student exception under IRC section 3121 (b)(10). During 2013, the IRS issued a refund to the Center of approximately \$57.5 million for FICA taxes previously paid plus statutory interest. Approximately \$23.7 million of the refund will be returned to residents and has been recorded as deposits held in custody for others at June 30, 2013 in the accompanying statements of net position. The remaining \$33.8 million represents the employer portion of FICA taxes paid by the Center. This amount, plus a receivable of \$1.1 million, has been recorded as non-operating revenue in the accompanying statements of revenues, expenses, and changes in net position.

NOTE 16--AFFILIATES AND RELATED PARTY TRANSACTIONS

HCA Health Services of Oklahoma, Inc. d/b/a OU Medical Center

The Center has contracts with HCA Health Services of Oklahoma, Inc. d/b/a OU Medical Center ("HCA") for the Center's staff to provide in-service education and administrative duties within University Hospital and Children's Hospital of Oklahoma, two of the institutions comprising the OU Medical Center. In addition, the Center provides phone services and steam and chilled water for heating and cooling purposes to the OU Medical Center. Total sales and services under the above transactions were approximately \$33,927 and \$28,713 for 2013 and 2012, respectively. Amounts due from HCA for such transactions was \$6,612 and \$5,925 as of June 30, 2013 and 2012, respectively, and is included in accounts receivable, net of allowances, on the statement of net position.

The Tulsa Foundation for Health Care Services, Inc.

The Tulsa Foundation for Health Care Services, Inc. (the "Tulsa Foundation") is an Oklahoma not-for-profit organization organized for the benefit of, to perform the functions of, or carry out the purposes of, the University of Oklahoma College of Medicine – Tulsa Bedlam Clinic and/or successor clinics. The purposes of the Tulsa Foundation are exclusively charitable, educational and research, specifically to receive funds from various entities to provide compassionate medical and health care services for the underserved community in the greater Tulsa area with an emphasis on caring for children and their families through the Bedlam Clinic, or its successor entities. The economic resources received and held by the Tulsa Foundation for the benefit of the Center are not significant to its overall financial position. As a result, the Tulsa Foundation is not considered a component unit of the Center under the definition of GASB Statement No. 39.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 16--AFFILIATES AND RELATED PARTY TRANSACTIONS--Continued

The Academic Physicians Insurance Company

The Academic Physicians Insurance Company (the "Captive"), formed in 2006, is a not-for-profit insurance company formed and domiciled in the State of Vermont as an Alternative Risk Financing Vehicle for the purpose of financing the medical professional liability insurance for College of Medicine faculty practicing as OU Physicians. Premiums paid by the Center to obtain professional liability coverage from the Captive totaled \$11,020 and \$9,043 for fiscal years 2013 and 2012 respectively, thus eliminating the Center's deductible expense for current and future claims. As of and for the year ended June 30, 2013, the economic resources of the Captive include total assets of \$50,872, total revenue of \$8,353 and total equity of \$24,498. The Captive is not considered a component unit of the Center under the definition of GASB Statement No. 39, as the economic resources received and held by the Captive are not significant to the Center's overall financial position and the Center is not entitled to, or have the ability to otherwise access a majority of the resources received or held by the Captive.

The University of Oklahoma Foundation

The OU Foundation is a public foundation organized to receive and administer gifts for the benefit of the Norman Campus and the Center. At June 30, 2013 and 2012, the OU Foundation had audited net position of approximately \$1,065,299 and \$927,028, respectively. The OU Foundation expended on behalf of the Norman Campus and the Center approximately \$102,981 in 2013 and \$97,648 in 2012 for facilities and equipment, salary supplements, general educational assistance, faculty awards and scholarships. Of these expenditures, \$11,920 in 2013 and \$14,432 in 2012 are reflected in the Center's financial statements as revenue or private gifts and expenditures. The amounts not reflected herein consist of direct OU Foundation expenditures for general university educational purposes and amounts reflected in the Norman Campus financial statements.

As discussed in Note 1, the OU Foundation is not considered a component unit of the Center under the definition of GASB Statement No. 39 because the resources received and held by the OU Foundation are not entirely or almost entirely held for the benefit of the Center.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 and 2012 (in thousands)

NOTE 17--SUBSEQUENT EVENTS

The Center has evaluated events and transactions that occurred subsequent to June 30, 2013 through October 8, 2013, the date these financial statements were available to be issued, for potential recognition or disclosure in the financial statements. On September 26, 2013, the Center closed on the sale of \$64 million in general obligation taxable bonds (Series 2013A). The proceeds of the bonds were used on October 1, 2013 to acquire, for \$85 million, real property which includes the Presbyterian Health Foundation Research Park (Research Park). A cash contribution from the Center was also used in the purchase of the Research Park. The property is in close proximity to the Center and includes more than 700,000 square feet of modern biomedical research lab and office space.

NOTE 18--FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2013 and 2012, the following table represents operating expenses within functional classification:

	<u>2013</u>	<u>2012</u>
Function:		
Instruction	\$ 193,701	\$ 185,732
Research	78,847	78,688
Public service	33,170	36,195
Academic support	39,686	41,746
Student services	5,128	3,981
Institutional support	28,380	25,731
Operations and maintenance of plant	29,134	25,719
Scholarships/Fellowships	1,640	1,901
Clinical operations	397,580	365,971
Agency	6	12
Auxiliary enterprises	3,561	2,745
Service unit	12,314	14,697
Plant	7,986	12,021
Total Operating Expenses	<u>\$ 831,133</u>	<u>\$ 795,139</u>

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2013 (in thousands)

University of Oklahoma Health Sciences Center Retiree Health/Dental Insurance

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) --entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
1/1/2011	\$ -	\$ 154,808	\$ 154,808	\$ -	\$ 290,262	53%
1/1/2012	\$ -	\$ 104,027	\$ 104,027	\$ -	\$ 305,883	34%
1/1/2013	\$ -	\$ 111,512	\$ 111,512	\$ -	\$ 305,292	37%

The Center obtains an actuarial valuation annually.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Annual Required Contributions

See Note 13 for actuarial assumptions and other information used to determine the annual required contributions (ARC) for the plan.

Benefit Provisions

During the year ended June 30, 2012, the University's Board of Regents approved significant changes to the University's retiree health/dental insurance plans. A more complete description of changes are described in Note 13 to the financial statements.