

**UNIVERSITY OF OKLAHOMA  
HEALTH SCIENCES CENTER**

**June 30, 2012**

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011

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

We have audited the accompanying statements of net assets of the University of Oklahoma Health Sciences Center (the "Center"), a component unit of the State of Oklahoma, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2012 and 2011, and the changes in net assets and, cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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.

*Cole & Reed P.C.*

Oklahoma City, Oklahoma  
October 4, 2012

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis**  
**Years Ending June 30, 2012 and 2011**

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, 2012 and 2011. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis.

**FINANCIAL HIGHLIGHTS**

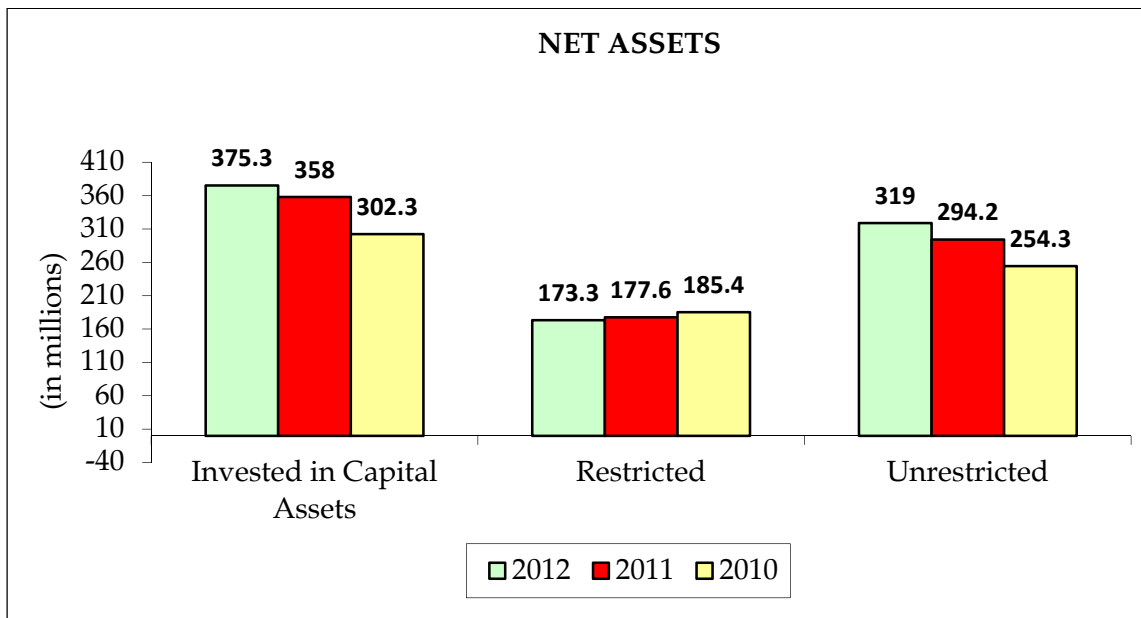
2012

The Center's financial position, as a whole, improved during the fiscal year ending June 30, 2012. Net assets increased approximately \$37.8 million or 4.6% over the previous year. The change resulted from increases in invested in capital assets of \$17.3 million, unrestricted net assets of \$24.8 million, and a decrease in restricted net assets of \$4.3 million.

2011

The Center's financial position, as a whole, improved during the fiscal year ending June 30, 2011. Net assets increased approximately \$87.8 million or 11.8% over the previous year. The change resulted from increases in invested in capital assets of \$55.7 million, unrestricted net assets of \$39.9 million, and a decrease in restricted net assets of \$7.8 million.

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



**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

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

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

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report the Center's net assets and how they have changed. Net assets - the difference between assets and liabilities - is one way to measure the Center's financial health, or position. Over time, increases or decreases in the Center's net assets are 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 and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private-sector institutions. 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, liabilities, and net assets as of June 30, as well as, the Center's revenues, expenses, and changes in net assets for the periods ended June 30:

**CONDENSED STATEMENT OF NET ASSETS**  
**END OF YEAR (in millions)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current Assets	\$ 602.8	\$ 584.7	\$ 528.6
Capital Assets, net	511.5	499.4	450.2
Other Noncurrent Assets	<u>50.0</u>	<u>52.3</u>	<u>51.1</u>
Total Assets	<b>1,164.3</b>	<b>1,136.4</b>	<b>1,029.9</b>
Current Liabilities	86.1	98.6	92.5
Noncurrent Liabilities	<u>210.7</u>	<u>208.0</u>	<u>195.4</u>
Total Liabilities	<b>296.8</b>	<b>306.6</b>	<b>287.9</b>
Net Assets:			
Invested in Capital Assets, net of related debt	375.3	358.0	302.3
Restricted	173.3	177.6	185.4
Unrestricted	<u>319.0</u>	<u>294.2</u>	<u>254.3</u>
Total Net Assets	<u>\$ 867.6</u>	<u>\$ 829.8</u>	<u>\$ 742.0</u>
Increase in Net Assets	<u>\$ 37.8</u>	<u>\$ 87.8</u>	

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

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

**CONDENSED STATEMENT OF REVENUES,  
EXPENSES, AND CHANGES IN NET ASSETS (in millions)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues	\$ 720.0	\$ 695.3	\$ 624.9
Operating Expenses	<u>830.1</u>	<u>788.4</u>	<u>751.0</u>
Operating Income (Loss)	(110.1)	(93.1)	(126.1)
Net Nonoperating Revenues	128.7	145.7	139.9
Other Revenues, Expenses, and Gains or Losses	<u>19.2</u>	<u>35.2</u>	<u>11.2</u>
Net Change in Net Assets	37.8	87.8	25.0
Net Assets at Beginning of year	<u>829.8</u>	<u>742.0</u>	<u>717.0</u>
Net Assets at End of year	<u><u>\$ 867.6</u></u>	<u><u>\$ 829.8</u></u>	<u><u>\$ 742.0</u></u>

**OPERATING REVENUES**

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

**OPERATING REVENUES (in millions)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tuition and Fees	\$ 53.5	\$ 56.3	\$ 56.9
Patient Care	352.7	323.0	278.9
Grants and Contracts	242.9	254.0	231.9
Sales and Services of Educational Activities	1.4	1.4	1.5
Auxiliary Enterprises	21.8	19.5	18.0
Other	<u>47.7</u>	<u>41.1</u>	<u>37.7</u>
Total Operating Revenues	<u><u>\$ 720.0</u></u>	<u><u>\$ 695.3</u></u>	<u><u>\$ 624.9</u></u>

Significant changes in operating revenues included the following:

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 significantly over the past year with additional revenues of \$29.7 million. This was due to increased patient volume in areas such as Cancer Care, Anesthesiology and Otorhinolaryngology.

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**OPERATING REVENUES--Continued**

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.

2011

Student tuition and fees revenue decreased 1.2% or \$.7 million in fiscal year 2011. This was due to phasing out the College of Nursing ORBIS distance education program.

Patient care increased significantly over the past year with additional revenues of \$44.1 million. This was due to increased patient volume in areas such as Neurology, Orthopedic Surgery and Cancer Care.

Federal grants and contracts increased during the year by \$3.6 million. Sponsored program awards funded under the American Recovery and Reinvestment Act (ARRA) comprised the majority of the increase in activity.

Private grants and contracts increased significantly during 2011 with additional revenues of \$17.7 million. The increase was primarily due to additional funding received from the OU Medical Center for mission support.

Sales and services of auxiliary enterprises had an increase in revenues during 2011 of \$1.4 million. This was primarily due to an increase in Steam and Chilled Water sales. The increase in sales was also due to the first full year of service to the new College of Allied Health Building and partial year service for the atrium in the new Childrens' Hospital.

Other revenues increased \$3.4 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, 2012 and 2011**

**OPERATING EXPENSES**

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

<b>OPERATING EXPENSES (in millions)</b>			
	2012	2011	2010
Compensation and Benefits	\$ 560.2	\$ 533.7	\$ 509.8
Contractual Services	58.9	59.9	60.7
Supplies and Materials	73.6	66.4	57.9
Depreciation	24.0	21.6	20.3
Utilities	12.6	12.3	12.0
Communications	6.3	6.2	6.0
Scholarships	2.1	2.7	2.4
Other	92.4	85.6	81.9
Total Operating Expenses	\$ 830.1	\$ 788.4	\$ 751.0

Significant changes in operating expenses were the result of the following:

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.

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 8% or \$6.8 million during the year. This was primarily due to higher bad debts expense and increased matching costs related to the Graduate Medical Education and Enhanced Medicaid Reimbursement programs.



**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**OPERATING EXPENSES--Continued**

2011

Compensation and benefits expense increased 4.7% or \$24.0 million during fiscal year 2011. This was due to an increase in salaries during the year as a result of a merit based salary program, 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 \$.8 million during the past year.

Supplies and materials expense showed a significant increase for the year of \$8.5 million. This was due to increased purchases of merchandise for resale and pharmaceutical drugs for patient care.

Depreciation expense increased 6.8% or \$1.4 million. The increase was due to an overall increase in the capital asset base.

Utilities expense was basically flat for the year showing an increase of only 2.4% or \$.3 million during fiscal year 2011. This was primarily due to relatively stable prices of electricity, natural gas and water.

Other expenses increased 4.4% or \$3.6 million during the year. This was primarily due to significant purchases of non-capital furniture and equipment for the new Peggy and Charles Stephenson Oklahoma Cancer Center.

**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>2012</u>	<u>2011</u>	<u>2010</u>
State Appropriations	\$ 96.3	\$ 96.1	\$ 96.4
State Payments from Federal ARRA Revenue	-	7.1	8.1
On-behalf Payments	11.7	9.6	10.1
Private Gifts	9.7	10.5	9.1
Interest on Indebtedness	(5.7)	(1.6)	(5.1)
Investment Income	6.6	14.9	12.8
Endowment Income	10.1	9.1	8.5
Net Nonoperating Revenue	<u>\$ 128.7</u>	<u>\$ 145.7</u>	<u>\$ 139.9</u>

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**NONOPERATING REVENUES AND EXPENSES--Continued**

Significant changes in nonoperating revenues and expenses were the result of the following:

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.

2011

State appropriations were basically flat for the year showing a small decrease of \$.2 million in fiscal year 2011.

State payments from federal ARRA revenue decreased 13.1% or \$1.1 million during the fiscal year. This was due to the State having less stimulus funds to distribute to agencies.

On-behalf payments decreased 5% or \$.5 million during the year. This was the result of no debt payments being made by OCIA for the year offset by increased payments made by the State to the Teachers Retirement System.

Private gifts increased 15.5% or \$1.4 million for the year.

Interest on indebtedness decreased 67.1% or \$3.4 million in fiscal year 2011. The decrease was primarily due to the capitalization of interest payments made on debt associated with the OU Cancer Center.

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**NONOPERATING REVENUES AND EXPENSES--Continued**

Investment income increased approximately 17% or \$2.2 million during fiscal year 2011. The increase was due to higher market values in the endowed investments which resulted in higher amounts of investment income earned.

Endowment income increased 6.8% or \$.6 million for the year.

**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)**

	2012	2011	2010
Cash Provided (used) by:			
Operating	\$ (90.1)	\$ (30.8)	\$ (73.5)
Noncapital Financing Activities	115.0	122.4	124.5
Capital and Related Financing Activities	(37.2)	(46.0)	(37.5)
Investing Activities	9.5	24.9	35.4
Net Increase in Cash	(2.8)	70.5	48.9
Cash, Beginning of the year	490.3	419.8	370.9
Cash, End of the year	\$ 487.5	\$ 490.3	\$ 419.8

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).

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**THE STATEMENT OF CASH FLOWS--Continued**

2012--Continued

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.

2011

The Center's overall liquidity improved during the year, with a net increase to cash of \$70.5 million. Cash used in operating activities decreased approximately \$42.7 million over the prior year. This was due to higher overall revenues more than offsetting increased compensation, benefit and other operating costs. Lower contractual services had a positive impact on cash used in operating activities for the year. Significant cash flow increases incurred related to changes in patient revenues (\$44.3 million), private grant and contract revenues (\$18.7 million), federal grants and contracts revenues (\$11.8 million), other additions (\$3.3 million), state grants and contracts revenues (\$3.1 million). Lower cash flows were experienced in sales and services of educational activities. An increase in private gifts (\$1.7 million) was offset by decreases in cash flows from endowment income (\$2.5 million) and State payments from federal ARRA revenue (\$1.1 million). State appropriations decreased by a small amount (\$.2 million). Overall, there was a net decrease of approximately \$2 million in cash flows provided by non-capital and related financing activities. Cash flows associated with capital and related financing activities decreased by \$8.5 million. This was a result of decreases in proceeds from bonds payable (\$31.6 million), state appropriations for capital projects (\$1.6 million), and endowment gifts (\$.3 million) partially offset by increases in state grants and contracts for capital projects (\$11.4 million), private gifts for capital projects (\$8.5 million), state school land funds (\$.8 million), federal grants and contracts for capital projects (\$.4 million). A decrease in purchases of capital assets (\$7.2 million) had a positive impact on cash flows associated with capital and related financing activities. Partially offsetting this was a net increase in principal and interest paid on capital debt and lease (\$4.6 million) which negatively impacted the overall cash use during the year. A decrease 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 \$10.5 million.

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**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)**

	2012	2011	2010
Art	\$ 0.7	\$ -	\$ -
Land and Infrastructure	30.2	30.0	30.7
Buildings	431.8	420.5	371.0
Furniture, Fixtures, and Equipment	43.2	42.1	41.6
Library Materials	5.6	6.8	6.9
Totals	\$ 511.5	\$ 499.4	\$ 450.2

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.

2011

At June 30, 2011, the Center had approximately \$499.4 million invested in capital assets, net of accumulated depreciation of \$210.8 million. Depreciation charges for the current year totaled \$21.6 million compared to \$20.3 million in the prior year.

Major capital projects completed during 2012 included construction of the OU Wayman Tisdale Specialty Health Center, Enterprise Tier 2 Data Center, Schusterman Center Founders Student Center, Schusterman Center Data Center, repairs to the Stonewall Parking Garage, and remodel of the O'Donoghue Building for Geriatric Medicine.

Major capital projects initiated during 2012 included the Phase I remodel of the College of Dentistry Building, remodel in the Harold Hamm Diabetes Center, and the Campus Police Station addition. There was also continuing work on improvements to the Steam and Chilled Water Plant. Funding for these projects included general revenue bonds, state appropriations, private gifts and other institutional funds.

The Center has approximately \$10 million in capital projects planned for the fiscal year ending June 30, 2013. Major projects include continuing the Phase I remodel of the College of Dentistry Building, completion of improvements to the Steam and Chilled Water Plant, completion of the remodel in the Harold Hamm Diabetes Center, and completion of the Campus Police Station addition.

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**CAPITAL ASSET AND DEBT ADMINISTRATION--Continued**

**CAPITAL ASSETS--Continued**

The Center is currently in negotiations to purchase, for approximately \$85 million, real property which includes the Presbyterian Health Foundation Research Park. Acquisition is expected to be completed in fiscal year 2014.

**DEBT**

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

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

	2012	2011	2010
General Revenue Bonds	96.9	99.9	101.1
Auxiliary Facility Revenue Bonds	6.0	6.6	11.9
Lease Obligations	31.7	32.5	31.9
Notes Payable	1.6	2.4	3.1
Totals	\$ 136.2	\$ 141.4	\$ 148.0

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 current 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.

2011

At fiscal year-end 2011, the Center had approximately \$141 million in outstanding debt, a decrease of approximately \$7 million over the prior year.

The Center entered into no new long term financing arrangements during the current year. However, the Center's 2005F lease agreement with the Oklahoma Capital Improvement Authority ("OCIA") was restructured through a partial refunding of OCIA's 2005F bond debt. The lease restructuring extended certain principal payments into the future, resulting in a charge or cost on restructuring. Debt repayments and refunding of \$15.5 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.

**UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER**  
**Management's Discussion and Analysis (Continued)**  
**Years Ending June 30, 2012 and 2011**

**ECONOMIC OUTLOOK**

The Center's economic position is closely aligned with its position as the state's primary teaching 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. As the state's economy continues to recover from the recession, support to the Center remains steady resulting in an increase of 1.3% in state appropriations for fiscal year 2013.

While the state continues to show progress economically, the Center's financial position enables it to maintain and grow service levels to its students, patients, the research community, and citizens of Oklahoma. The professional practice plans continue to contribute significantly to the Center's financial position and are expected to remain stable.

STATEMENTS OF NET ASSETS

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	June 30 (in thousands)	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 458,898	\$ 447,146
Restricted cash and cash equivalents	25,526	41,156
Accounts receivable, net of allowances	114,330	92,851
Inventories and supplies	1,679	1,602
Loans to students, net of allowance for uncollectible loans	961	880
Deposits and prepaid expenses	<u>1,408</u>	<u>1,120</u>
TOTAL CURRENT ASSETS	602,802	584,755
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	3,074	1,989
Endowment investments	37,557	40,408
Investments in real estate	175	175
Loans to students, net	5,805	5,501
Deposits and prepaid expenses	3,453	4,211
Capital assets, net	<u>511,482</u>	<u>499,383</u>
TOTAL NONCURRENT ASSETS	561,546	551,667
TOTAL ASSETS	<u>\$ 1,164,348</u>	<u>\$ 1,136,422</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 36,403	\$ 51,328
Deferred revenue	8,868	5,577
Accrued interest payable	2,373	2,423
Deposits held in custody for others	5,832	7,333
Long-term liabilities, current portion:		
Accrued compensated absences	24,632	23,925
Post employment benefits obligation	3,079	3,038
Capital lease payable	510	831
Notes payable	431	562
Revenue bonds payable	<u>3,953</u>	<u>3,588</u>
TOTAL CURRENT LIABILITIES	86,081	98,605
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	7,357	6,360
Post employment benefits obligation	65,073	58,392
Federal loan program contributions refundable	6,944	6,891
Capital lease payable	31,202	31,712
Notes payable	1,154	1,777
Revenue bonds payable	<u>98,943</u>	<u>102,895</u>
TOTAL NONCURRENT LIABILITIES	210,673	208,027
TOTAL LIABILITIES	<u>\$ 296,754</u>	<u>\$ 306,632</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 375,289	\$ 358,018
Restricted for:		
Nonexpendable	28,592	28,592
Expendable:		
Education and general	117,558	106,903
Capital projects	18,910	28,322
Debt service	8,276	13,784
Unrestricted	<u>318,969</u>	<u>294,171</u>
TOTAL NET ASSETS	<u>\$ 867,594</u>	<u>\$ 829,790</u>

See notes to financial statements.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	Years Ended June 30 (in thousands)	
	2012	2011
<b>OPERATING REVENUES</b>		
Student tuition and fees (net of scholarship allowances of \$3,468 and \$3,198 for 2012 and 2011, respectively)	\$ 53,506	\$ 56,243
Patient care (net of provisions for contractual and other adjustments of \$452,196 and \$456,152 for 2012 and 2011, respectively)	352,745	323,001
Federal grants and contracts	78,075	84,224
State grants and contracts	70,661	68,600
Private grants and contracts	94,116	101,184
Sales and services of educational activities	1,407	1,396
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)	6,630	6,809
Other	15,168	12,700
Other revenues (including \$205 and \$196 from interest on student loans for 2012 and 2011 respectively)	47,633	41,133
<b>TOTAL OPERATING REVENUE</b>	<b>719,941</b>	<b>695,290</b>
<b>OPERATING EXPENSES</b>		
Compensation and benefits	560,192	533,723
Contractual services	58,875	59,934
Supplies and materials	73,583	66,376
Depreciation	23,984	21,644
Utilities	12,622	12,333
Communication	6,327	6,230
Scholarships	2,108	2,652
Other	92,368	85,536
<b>TOTAL OPERATING EXPENSES</b>	<b>830,059</b>	<b>788,428</b>
<b>OPERATING LOSS</b>	<b>(110,118)</b>	<b>(93,138)</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
State appropriations	96,309	96,130
State payments from federal ARRA revenue	-	7,087
On-behalf payments	11,658	9,591
Private gifts	9,698	10,496
Interest on indebtedness	(5,698)	(1,667)
Net investment income	6,650	14,929
Endowment income	10,086	9,098
<b>NET NONOPERATING REVENUES AND EXPENSES</b>	<b>128,703</b>	<b>145,664</b>
Income before other revenues, expenses, gains or losses	18,585	52,526
<b>OTHER REVENUE EXPENSES, GAINS OR LOSSES</b>		
Federal grants and contracts for capital projects	6,596	404
State grants and contracts for capital projects	592	12,761
State appropriations for capital projects	6,829	6,445
Private gifts for capital projects	2,662	11,988
State school land funds	2,540	3,503
Additions to permanent endowments	-	113
<b>CHANGE IN NET ASSETS</b>	<b>37,804</b>	<b>87,740</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>829,790</b>	<b>742,050</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 867,594</b>	<b>\$ 829,790</b>

See notes to financial statements.

# STATEMENTS OF CASH FLOWS

## THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	Years Ended June 30 (in thousands)	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 55,291	\$ 57,123
Patient revenues	309,612	296,205
Sales and services of auxiliary enterprises	14,820	12,626
Sales and services of educational activities	1,440	1,413
Steam and Chilled Water Plant revenues	6,686	6,691
Federal grants and contracts	81,612	87,866
State grants and contracts	59,216	69,789
Private grants and contracts	91,961	105,118
Interest on loans receivable	205	196
Other additions	47,260	40,940
Loans issued to students	(1,373)	(660)
Collection of loans	967	972
Compensation and benefits	(539,907)	(507,747)
Contractual services	(64,691)	(58,495)
Supplies and materials, utilities, communications, scholarships and fellowships, other, and deposits held in custody	(153,211)	(142,814)
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(90,112)</b>	<b>(30,777)</b>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State appropriations	96,309	96,130
State payments from federal ARRA revenue	-	7,087
Endowment income	8,991	8,518
Private gifts	9,686	10,569
Direct Loan receipts	68,942	74,487
Direct Loan disbursements	(68,942)	(74,487)
Net increase to Federal loan program contributions refundable	53	166
<b>NET CASH FLOWS PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>115,039</b>	<b>122,470</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State grants and contracts for capital projects	525	12,848
State appropriations for capital projects	6,936	6,796
Federal grants and contracts for capital projects	6,596	404
Private gifts for capital projects	2,362	12,756
Purchases of capital assets	(45,717)	(70,247)
Proceeds from sale of capital assets	-	1,258
Principal paid on capital debt and lease	(5,154)	(8,248)
Interest paid on capital debt and lease	(5,309)	(5,219)
Endowment gifts	-	113
State school land funds	2,540	3,503
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(37,221)</b>	<b>(46,036)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	8,416	8,689
Proceeds from sales and maturities of investments	1,085	16,309
Purchase of investments	-	(113)
<b>NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>	<b>9,501</b>	<b>24,885</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,793)</b>	<b>70,542</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	<b>490,291</b>	<b>419,749</b>
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	<b>\$ 487,498</b>	<b>\$ 490,291</b>

STATEMENTS OF CASH FLOWS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

	Years Ended June 30 (in thousands)	
	2012	2011
RECONCILIATION OF OPERATING LOSS TO CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (110,118)	\$ (93,138)
Depreciation expense	23,984	21,644
Loss on disposal of capital assets	9,755	2,203
OTRS on-behalf contribution	11,359	9,591
Change in assets and liabilities:		
Accounts receivable (does not include endowment)	(20,112)	6,200
Inventories and supplies	(77)	(115)
Loans to students	(385)	297
Deposits and prepaid expenses	191	(2,428)
Accounts payable and accrued expenses	(14,925)	6,681
Deferred revenue	3,291	1,943
Compensated absences	1,704	1,584
Post employment benefits obligation	6,722	13,783
Deposits held in custody for others	(1,501)	978
NET CASH FLOWS USED BY OPERATING ACTIVITIES	\$ (90,112)	\$ (30,777)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
On-behalf interest paid by OCIA	\$ 299	\$ -
On-behalf principal payments made by OCIA	-	-
Deferred cost on OCIA lease restructure	-	1,673
Amortization of bond issuance cost	55	55
Amortization of bond discount/premium	18	16
Amortization of ODFA discount	3	3
Capitalization of interest	121	4,024
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Current Assets		
Cash and cash equivalents	\$ 458,898	\$ 447,146
Restricted cash and cash equivalents	25,526	41,156
Noncurrent assets		
Restricted cash and cash equivalents	3,074	1,989
	\$ 487,498	\$ 490,291

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (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*, 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 or incomplete.

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, 2012 and 2011 (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 assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, 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.

The Center has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Center has elected to not apply FASB pronouncements issued after the applicable date.

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 assets.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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

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.

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 assets.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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

Capital Assets--Continued: 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 2012, total interest incurred was \$5,819, of which \$121 was capitalized. In 2011, total interest incurred was \$5,691, of which \$4,024 was capitalized.

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 assets. There were no events or changes in conditions requiring recognition of an impairment loss in either 2012 or 2011.

Deferred Revenues: Deferred 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 assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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

Net Assets: The Center's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the Center's total investment in capital assets, net of 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 invested in capital assets, net of related debt.

*Restricted net assets - nonexpendable:* Nonexpendable restricted net assets consist 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 assets - expendable:* Expendable restricted net assets include resources in which the Center is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted net assets:* Unrestricted net assets represent 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, 2012 and 2011 (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 assets. 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: The GASB has 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, 2013*

- 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 and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The Center does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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

New Accounting Pronouncements--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 Center does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities 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 will require the Center to make changes in its financial statement presentation.

*Fiscal Year Ended June 30, 2014*

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

GASB 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 not quantified the effects of adoption of GASB No. 65 on its net position.

*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 the Center has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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.

Cash and Cash Equivalents: At June 30, 2012 and 2011, the carrying amount of the Center's deposits with the State Treasurer and other financial institutions were \$487,498 and \$490,291, respectively. These amounts consisted of deposits with the OST (\$460,642 and \$463,754), deposits with financial institutions (\$20,714 and \$20,714), deposits with trustees (\$6,092 and \$5,779), and petty cash and change funds (\$50 and \$44). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$334,654 in 2012 and \$348,590 in 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

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, 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	<u>\$ 334,654</u>	<u>\$ 346,143</u>

At June 30, 2011		
OK INVEST Portfolio	Cost	Market Value
U.S. agency securities	\$ 127,317	\$ 128,338
Money market mutual funds	38,326	38,326
Certificates of deposit	16,460	16,460
Tri-party repurchase agreements	23,523	23,523
Mortgage backed agency securities	126,451	132,036
Municipal bonds	6,948	7,524
Foreign bonds	1,296	1,296
Commercial paper	3,240	3,240
U.S. Treasury obligations	5,029	5,959
TOTAL	<u>\$ 348,590</u>	<u>\$ 356,702</u>

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.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

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.

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

	2012	2011
University of Oklahoma, Norman		
Campus Investment Pool	\$ 37,557	\$ 40,408
Real Property	175	175
	<u>\$ 37,732</u>	<u>\$ 40,583</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

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, 2012 and 2011, the Center's investment in fixed income securities has a credit rating of at least BBB as rated by Standard & Poors Corporation.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 2--DEPOSITS AND INVESTMENTS--Continued

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 an external 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, 2012, 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 \$37,557 and \$40,408 for 2012 and 2011, of which \$34,603 and \$37,542 are endowment funds. These funds are held in the Regent's Fund investments on behalf of the Center.

NOTE 3--ACCOUNTS RECEIVABLE

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

	2012	2011
Accounts receivable	\$ 177,746	\$ 154,515
Less allowance and contractual adjustments	(63,416)	(61,664)
Accounts receivable, net	<u>\$ 114,330</u>	<u>\$ 92,851</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 3--ACCOUNTS RECEIVABLE--Continued

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

	<u>2012</u>	<u>2011</u>
Auxiliary enterprises		
Accounts receivable	\$ 6,051	\$ 2,377
Less allowance	(112)	(106)
Accounts receivable, net	<u>\$ 5,939</u>	<u>\$ 2,271</u>
PPP patient billings		
Accounts receivable	\$ 115,109	\$ 107,193
Less contractual adjustments	(57,341)	(55,984)
Less allowance	(5,963)	(5,574)
Accounts receivable, net	<u>\$ 51,805</u>	<u>\$ 45,635</u>
Due from Federal, State and private grants		
Accounts receivable, no allowance	<u>\$ 55,567</u>	<u>\$ 43,276</u>
Student tuition and fees		
Accounts receivable, no allowance	<u>\$ 1,019</u>	<u>\$ 1,669</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.

*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.



NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 4--NET PATIENT SERVICE REVENUE--Continued

Differences between the Center's established patient care rates and agreed upon rates with third party payors totals \$452,196 and \$456,152 for the years ending June 30, 2012 and 2011, respectively, and are reflected as contractual and other adjustments to patient care revenues in the statements of revenues, expenses, and changes in net assets. The Center's bad debt expenses related to patient care services, which is determined after application of contractual and other adjustments, totals \$34,863 and \$32,397 for the years ending June 30, 2012 and 2011, respectively, and is included in other expenses in the statements of revenues expenses and changes in net assets.

NOTE 5--INVENTORY

Inventories consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Site support	\$ 228	\$ 215
Telecommunications	306	358
Other service units	134	127
Dental supply store	257	204
Other auxiliaries	9	9
Pharmacies	745	689
	<u>\$ 1,679</u>	<u>\$ 1,602</u>

NOTE 6--LOANS TO STUDENTS

The Center had student loans outstanding of \$6,766 and \$6,381 (net of allowance for uncollectible loans of \$357 and \$336) at June 30, 2012 and 2011, respectively. Student loans made under the Health Professions Student Loan Program and the Nursing Student Loan Program represented approximately \$6,705 and \$6,292 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, 2012 and 2011, \$6,944 and \$6,891, respectively, are included as federal loan program contributions refundable in the statements of net assets as these amounts are refundable to the U.S. government upon cessation of the programs.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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 \$11,857 and \$9,804 during the years ended June 30, 2012 and 2011, respectively, which is restricted to acquisition of buildings, equipment or other capital items. Of these amounts, the Center received approximately \$2,540 and \$3,503 in 2012 and 2011, 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 \$148,008 (\$136,656 restricted corpus) and \$147,388 (\$135,631 restricted corpus) at June 30, 2012 and 2011, 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 \$126,434 and \$130,956 at June 30, 2012 and 2011, 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 \$5,292 and \$4,706 at June 30, 2012 and 2011, respectively, have been reflected as assets in the statements of net assets. With regard to the institutional matching funds, approximately \$241,922 and \$235,541, 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, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 8--CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Art	\$ -	\$ 610	\$ 107	\$ -	\$ 717
Land	26,115	-	646	(60)	26,701
Construction in-progress	<u>28,890</u>	<u>33,088</u>	<u>(44,766)</u>	<u>(6,859)</u>	<u>10,353</u>
Total capital assets not being depreciated	<u>55,005</u>	<u>33,698</u>	<u>(44,013)</u>	<u>(6,919)</u>	<u>37,771</u>
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	<u>29,305</u>	<u>96</u>	<u>-</u>	<u>-</u>	<u>29,401</u>
Total capital assets being depreciated	<u>655,215</u>	<u>12,140</u>	<u>44,013</u>	<u>(6,076)</u>	<u>705,292</u>
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	<u>22,512</u>	<u>1,276</u>	<u>-</u>	<u>-</u>	<u>23,788</u>
Total accumulated depreciation	<u>210,837</u>	<u>23,984</u>	<u>-</u>	<u>(3,240)</u>	<u>231,581</u>
Total capital assets being depreciated, net	<u>444,378</u>	<u>(11,844)</u>	<u>44,013</u>	<u>(2,836)</u>	<u>473,711</u>
Capital assets, net	<u>\$ 499,383</u>	<u>\$ 21,854</u>	<u>\$ -</u>	<u>\$ (9,755)</u>	<u>\$ 511,482</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 8--CAPITAL ASSETS--Continued

Capital asset activity for the year ended June 30, 2011, includes the following:

	Beginning Balance	Additions	Transfers	Deductions	Ending Balance
Capital assets not being depreciated:					
Land	\$ 26,115	\$ -	\$ -	\$ -	\$ 26,115
Construction in-progress	<u>100,881</u>	<u>58,139</u>	<u>(128,550)</u>	<u>(1,580)</u>	<u>28,890</u>
Total capital assets not being depreciated	<u>126,996</u>	<u>58,139</u>	<u>(128,550)</u>	<u>(1,580)</u>	<u>55,005</u>
Capital assets being depreciated:					
Improvements	13,165	34	524	-	13,723
Buildings	349,987	2,810	124,756	(2,188)	475,365
Equipment	105,122	10,210	953	(2,906)	113,379
Infrastructure	1,716	28	-	-	1,744
Leasehold improvements	17,524	1,858	2,317	-	21,699
Library materials	<u>28,113</u>	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>29,305</u>
Total capital assets being depreciated	<u>515,627</u>	<u>16,132</u>	<u>128,550</u>	<u>(5,094)</u>	<u>655,215</u>
Less accumulated depreciation					
Improvements	9,643	1,238	-	-	10,881
Buildings	86,089	7,141	-	(716)	92,514
Equipment	63,499	10,277	-	(2,497)	71,279
Infrastructure	663	76	-	-	739
Leasehold improvements	11,300	1,612	-	-	12,912
Library materials	<u>21,212</u>	<u>1,300</u>	<u>-</u>	<u>-</u>	<u>22,512</u>
Total accumulated depreciation	<u>192,406</u>	<u>21,644</u>	<u>-</u>	<u>(3,213)</u>	<u>210,837</u>
Total capital assets being depreciated, net	<u>323,221</u>	<u>(5,512)</u>	<u>128,550</u>	<u>(1,881)</u>	<u>444,378</u>
Capital assets, net	<u>\$ 450,217</u>	<u>\$ 52,627</u>	<u>\$ -</u>	<u>\$ (3,461)</u>	<u>\$ 499,383</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 9--DEFERRED REVENUE

Deferred revenue consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Prepaid tuition and student fees	\$ 1,135	\$ -
Auxiliary enterprises and other activities	113	70
Long-term contracts	<u>7,620</u>	<u>5,507</u>
	<u>\$ 8,868</u>	<u>\$ 5,577</u>

NOTE 10--LONG-TERM LIABILITIES

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

	<u>Issue</u> <u>Dates</u>	<u>Interest</u> <u>Rates</u> <small>(In %)</small>	<u>Maturity</u> <u>Through</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Bonds, notes and capital leases								
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
				<u>106,483</u>	<u>-</u>	<u>(3,587)</u>	<u>102,896</u>	<u>3,953</u>
Notes payable				2,339	-	(754)	1,585	431
ODFA capital leases payable				6,518	-	(831)	5,687	510
OCIA capital leases payable				<u>26,025</u>	<u>-</u>	<u>-</u>	<u>26,025</u>	<u>-</u>
Total bonds, notes, and capital leases				<u>141,365</u>	<u>-</u>	<u>(5,172)</u>	<u>136,193</u>	<u>4,894</u>
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				<u>6,891</u>	<u>53</u>	<u>-</u>	<u>6,944</u>	<u>-</u>
Total other noncurrent liabilities				<u>98,606</u>	<u>11,628</u>	<u>(3,149)</u>	<u>107,085</u>	<u>27,711</u>
Total noncurrent liabilities				<u>\$ 239,971</u>	<u>\$ 11,628</u>	<u>\$ (8,321)</u>	<u>\$ 243,278</u>	<u>\$ 32,605</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 10--LONG-TERM LIABILITIES--Continued

The following is a summary of long-term obligation transactions of the Center for the year ended June 30, 2011:

	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 1998	1998	6.50-7.00	7/1/2018	\$ 4,570	\$ -	\$ (4,570)	\$ -	\$ -
Student Center Series 2001	2001	4.25-5.27	6/1/2026	113	-	(113)	-	-
Utility System Series 2004 A&B	2004	2.61-4.85	11/1/2019	7,175	-	(591)	6,584	616
General Revenue Bonds Series 2008 A&B	2008	3.28-6.63	7/1/2036	69,590	-	(1,191)	68,399	1,231
General Revenue Bonds Series 2010 A&B	2010	1.24-5.00	7/1/2030	31,546	-	(46)	31,500	1,741
				112,994	-	(6,511)	106,483	3,588
Notes payable				3,073	-	(734)	2,339	562
ODFA capital leases payable				7,537	-	(1,019)	6,518	831
OCIA capital leases payable				24,352	8,936	(7,263)	26,025	-
Total bonds, notes, and capital leases				147,956	8,936	(15,527)	141,365	4,981
Other noncurrent liabilities								
Accrued compensated absences				28,701	1,584	-	30,285	23,925
Post employment benefits obligation				47,647	16,951	(3,168)	61,430	3,038
Federal loan program contributions refundable				6,725	166	-	6,891	-
Total other noncurrent liabilities				83,073	18,701	(3,168)	98,606	26,963
Total noncurrent liabilities				\$ 231,029	\$ 27,637	\$ (18,695)	\$ 239,971	\$ 31,944

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.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 10--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

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, 2012 and 2011, the Center had \$473 and \$458 respectively, of cash and investments held in trust for the bond indentures, restricted to the payment of principal and interest.

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. 41<sup>st</sup> 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, 2012 and 2011 was \$1,585 and \$1,999 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 University's statements of net assets as of June 30, 2012. The balance of the 2003 Series Bonds outstanding at June 30, 2012 and 2011 was \$13,105 and \$14,025 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 10--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

During FY10, the Series 2010A/B bonds were used to advance refund \$2,535 of the Series 2001 Student Center bonds. The remaining principal balance of \$113 was paid by the Center according to the bond schedule on June 1, 2011. The Series 2001 bonds were loaned to the Board of Regents of the University of Oklahoma to construct, renovate, remodel, furnish, equip and expand a Student Center, pavilion and intramural playing field on the Center's Oklahoma City campus. The applicable portion of the 2010A bonds is payable over 16 years. The outstanding balance at June 30, 2011 is \$2,655. In accordance with the advanced refunding, the Center deposited \$2,697 into an escrow fund and purchased government securities, bearing interest in amounts sufficient to pay the Series 2001 bonds at December 1, 2011.

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 \$783 and \$992 net of accumulated depreciation of \$1,347 and \$1,138 at June 30, 2012 and 2011. 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 assets.

In May 2006, 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 2006A. The Center financed \$940 to purchase two mammography systems. Assets under this capital lease totaled \$360 and \$454 net of accumulated depreciation of \$580 and \$486 at June 30, 2012 and 2011 respectively. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net assets.



NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (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 \$5,582 and \$5,703 net of accumulated depreciation of \$485 and \$364 as of June 30, 2012 and 2011, respectively. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net assets.

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 \$1,197 and \$1,224 net of accumulated depreciation of \$107 and \$80 at June 30, 2012 and 2011 respectively. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net assets.

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 \$152 and \$220 net of accumulated depreciation of \$181 and \$113 at June 30, 2012 and 2011 respectively. Depreciation expense on these capital lease assets is included in depreciation expense on the statements of revenues, expenses and changes in net assets.

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 and construction in progress under these capital leases totaled \$24,156 and \$24,679, net of accumulated depreciation of \$1,990 and \$1,467 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (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 charge of \$2,295 on restructuring as a deferred cost that will be amortized over a period of 6 years and wrote off \$623 of previously capitalized deferred costs from the refinanced 2005F agreement. During the year ended June 30, 2012, amortization of the deferred charge 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, 2012:

	2013	2014	2015	2016	2017	2018	2023	2028	2033	Total
	2022	2027	2032	2037						
Utility System Series 2004A&B	874	869	874	872	875	2,613	-	-	-	6,977
General Revenue Bond 2008 Series A& B	4,822	4,819	4,806	4,805	4,804	23,945	23,899	23,868	23,745	119,513
General Revenue Bond 2010 Series A& B	3,083	3,083	3,073	3,053	3,049	12,635	9,564	1,030	-	38,570
Total principal and interest	8,779	8,771	8,753	8,730	8,728	39,193	33,463	24,898	23,745	165,060
Less: interest	4,826	4,700	4,545	4,368	4,180	17,608	11,779	7,369	2,789	62,164
Total principal	3,953	4,071	4,208	4,362	4,548	21,585	21,684	17,529	20,956	102,896
Capital leases	1,084	2,518	3,672	3,633	4,094	12,282	10,004	7,784	-	45,071
Less: interest	574	1,291	1,240	1,158	1,183	4,232	2,802	879	-	13,359
Total principal	510	1,227	2,432	2,475	2,911	8,050	7,202	6,905	-	31,712
Notes payable	489	489	489	245	-	-	-	-	-	1,712
Less: interest	58	41	23	5	-	-	-	-	-	127
Total principal	431	448	466	240	-	-	-	-	-	1,585
Total	\$ 4,894	\$ 5,746	\$ 7,106	\$ 7,077	\$ 7,459	\$ 29,635	\$ 28,886	\$ 24,434	\$ 20,956	\$ 136,193

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (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 \$8,939 and \$8,484 for 2012 and 2011, 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.tr.s.state.ok.us](http://www.tr.s.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, 2012 and 2011, 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, 2012 and 2011 (in thousands)

NOTE 12--RETIREMENT PLANS--Continued

Defined Benefit Plan - Oklahoma Teachers Retirement System--Continued

The local employer contribution rate was 8.55% for the years ended June 30, 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, 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 \$11,359 and \$9,591 for the years ended June 30, 2012 and 2011, 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, 2012, 2011, and 2010 were approximately \$13,280, \$12,612, and \$12,399, 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 recordkeeper, 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, 2012, and 2011, were approximately \$16,690 and \$15,061, 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, 2012 and 2011 (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 recordkeeper, 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 \$11,914 and \$6,324, respectively, for the year ended June 30, 2012. Total contributions to Plans 1 and 2 were \$11,680 and \$5,802, respectively, for the year ended June 30, 2011. 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, 2012 and 2011 (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, 2012, 1,297 retirees met the age and service eligibility requirements. For the years ended June 30, 2012 and 2011, the Center contributed \$3,149 and \$3,168, respectively, for current retirees.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (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:

	2012	2011
Annual Required Contribution (ARC)	\$ 9,339	\$ 16,639
Interest on Net OPEB Obligation	3,072	2,382
Adjustment to ARC	<u>(2,540)</u>	<u>(2,070)</u>
Annual OPEB Cost	9,871	16,951
Contributions paid during year	<u>(3,149)</u>	<u>(3,168)</u>
Increase in net OPEB Obligation	6,722	13,783
Net OPEB obligation-beginning of year	<u>61,430</u>	<u>47,647</u>
Net OPEB obligation-end of year	<u>\$ 68,152</u>	<u>\$ 61,430</u>

Funded Status and Funding Progress: The unfunded actuarial accrued liability, totaled \$104,027 as of the January 1, 2012 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 \$305,883 and the ratio of the UAAL to the covered payroll was 34%.

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, 2012 and 2011 (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)
2012	\$ 9,871	32%	\$ 68,152
2011	\$ 16,951	19%	\$ 61,430
2010	\$ 19,366	15%	\$ 47,647

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, 2012 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 8.5% initially, reduced by decrements to 4.5% after seven years, 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 Department of Central Services Risk Management Division ("DCSRMD"). In addition to these basic policies, the Center's Department 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 State Tort Claims Act.

Beyond acceptable retention levels, complete risk transfer is practiced by purchasing conventional insurance coverage either directly from a provider or through DCSRMD. 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, 2012 and 2011 (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 DCSRMD. 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, 2012 and 2011, the accrued workers' compensation liability totaled approximately \$1,695 and \$2,036, 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, 2012 and 2011, the required reserve was \$420 and \$399, respectively. The minimum cash balance is considered each year during the fringe benefit rate-setting process.

NOTE 15--CONTINGENCIES AND COMMITMENTS

At June 30, 2012 and 2011, the Center had outstanding commitments under construction contracts of \$5,846 and \$22,883, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 15--CONTINGENCIES AND COMMITMENTS--Continued

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.

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). The IRS has indicated that they will issue a refund for FICA taxes previously paid plus statutory interest. The University filed a refund claim in November 2010, for the periods January 1994 – March 2005. The employer portion of the refund claim equals \$16,557. The IRS has not indicated when the refund may be issued, and no amounts are reflected in the Center's financial statements due to uncertainties regarding timing and ultimate collection of the balances.

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 \$28,713 and \$30,992 for 2012 and 2011, respectively. Amounts due from HCA for such transactions was \$5,925 and \$4,766 as of June 30, 2012 and 2011, respectively, and is included in accounts receivable, net of allowances, on the statement of net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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

*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.

*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 \$9,043 and \$8,640 for fiscal years 2012 and 2011 respectively, thus eliminating the Center's deductible expense for current and future claims. As of and for the year ended June 30, 2012, the economic resources of the Captive include total assets of \$47,097 total revenue of \$7,678 and total fund balance of \$24,974. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

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

*University of Oklahoma Norman Campus*

As discussed in Note 1, the University of Oklahoma Norman Campus ("Norman Campus") is an agency of the State of Oklahoma governed by The Board of Regents of the University of Oklahoma and the Oklahoma State Regents for Higher Education. The Norman Campus is a distinct operational entity from the Center. However, Norman Parking and Transportation/CART had incurred two bond system obligations, each of which a portion was used to benefit the Center's Parking and Transportation. Although there is no legal note obligation that the Center must reimburse Norman Campus for their portion of the principal and interest payments of the related bond obligations, the Center has agreed to reimburse Norman Campus for their portion of the debt service. This is reflected in the financial statements as a note payable, with current and noncurrent portions separately stated. With respect to the 2004 Parking Refunding bonds, during the years ended 2012 and 2011, the Center made principal and interest payments of \$363 and \$168 to Norman Campus, leaving a balance due of \$0 and \$340 at June 30, 2012 and 2011, respectively.

*The University of Oklahoma Foundation*

The OU Foundation is a private foundation organized to receive and administer gifts for the benefit of the Norman Campus and the Center. At June 30, 2012 and 2011, the OU Foundation had audited net assets of approximately \$927,028 and \$941,933, respectively. The OU Foundation expended on behalf of the Norman Campus and the Center approximately \$97,648 in 2012 and \$91,764 in 2011 for facilities and equipment, salary supplements, general educational assistance, faculty awards and scholarships. Of these expenditures, \$14,432 in 2012 and \$23,771 in 2011 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, 2012 and 2011 (in thousands)

NOTE 17--SEGMENT INFORMATION

The following financial information represents identifiable activities for which one or more revenue bonds are outstanding. These activities provide student facilities and utilities for the Center.

CONDENSED STATEMENTS OF NET ASSETS

	Utility System Revenue Bonds Series 1998, 2004A, 2004B	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets	\$ 4,360	\$ 4,397
Non-current assets	31	41
Capital assets	<u>23,436</u>	<u>24,003</u>
TOTAL ASSETS	<u>27,827</u>	<u>28,441</u>
<b>LIABILITIES</b>		
Current liabilities	716	677
Long-term liabilities	<u>5,322</u>	<u>5,968</u>
TOTAL LIABILITIES	6,038	6,645
<b>NET ASSETS</b>		
Invested in capital assets net of related debt	17,468	17,420
Restricted:		
Expendable:		
Capital projects	-	605
Debt service	475	464
Unrestricted	<u>3,846</u>	<u>3,307</u>
TOTAL NET ASSETS	<u>\$ 21,789</u>	<u>\$ 21,796</u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 17--SEGMENT INFORMATION--Continued

CONDENSED STATEMENTS OF REVENUES  
EXPENSES AND CHANGES IN NET ASSETS

	Utility System Revenue Bonds Series 1998, 2004A, 2004B	
	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 12,839	\$ 12,595
Operating expenses:		
Depreciation expense	(869)	(856)
Other expenses	<u>(10,216)</u>	<u>(9,925)</u>
Net operating income	1,754	1,814
Nonoperating expenses	<u>(1,761)</u>	<u>(2,459)</u>
CHANGE IN NET ASSETS	(7)	(645)
NET ASSETS AT BEGINNING OF YEAR	<u>21,796</u>	<u>22,441</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 21,789</u></u>	<u><u>\$ 21,796</u></u>

CONDENSED STATEMENTS OF CASH FLOWS

	Utility System Revenue Bonds Series 1998, 2004A, 2004B	
	<u>2012</u>	<u>2011</u>
Net cash flows from operating activities	\$ 1,856	\$ 1,672
Net cash flows from capital and related activities	(1,848)	(7,069)
Net cash flows from investing activities	<u>44</u>	<u>49</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	52	(5,348)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,712</u>	<u>9,060</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,764</u></u>	<u><u>\$ 3,712</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 and 2011 (in thousands)

NOTE 18--SUBSEQUENT EVENTS

The Center has evaluated events and transactions that occurred subsequent to June 30, 2012 through October 4, 2012, the date these financial statements were available to be issued, for potential recognition or disclosure in the financial statements. On September 19, 2012, the Board of Regents gave the Center the authority to enter into an agreement to acquire, for \$85 million, real property which includes the Presbyterian Health Foundation 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. The agreement is subject to due diligence procedures and financing approval. The financing arrangements and purchase are anticipated to be completed in fiscal year 2014.

NOTE 19--FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2012 and 2011, the following table represents operating expenses within functional classification:

Function	<u>2012</u>	<u>2011</u>
Instruction	\$ 185,732	\$ 182,655
Research	78,688	84,986
Public service	36,195	31,630
Academic support	41,746	42,888
Student services	3,981	3,738
Institutional support	25,731	29,872
Operations and maintenance of plant	25,719	24,830
Scholarships/Fellowships	1,901	2,303
Clinical operations	400,841	356,516
Agency	12	10
Auxiliary enterprises	2,745	3,182
Service unit	14,747	15,752
Plant	12,021	10,066
Total Operating Expenses	<u>\$ 830,059</u>	<u>\$ 788,428</u>

REQUIRED SUPPLEMENTARY  
INFORMATION



REQUIRED SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF OKLAHOMA HEALTH SCIENCES CENTER

June 30, 2012 (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)
1/1/2010	\$ -	\$ 152,003	\$ 152,003	\$ -	\$ 195,857	78%
1/1/2011	\$ -	\$ 154,808	\$ 154,808	\$ -	\$ 290,262	53%
1/1/2012	\$ -	\$ 104,027	\$ 104,027	\$ -	\$ 305,883	34%

The Center obtains an actuarial valuation biannually in accordance with the provisions of GASB No. 45.

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.